# MIDLANDS STATE UNIVERSITY

## FACULTY OF COMMERCE

## DEPARTMENT OF BUSINESS MANAGEMENT

**ALTERNATIVE DEBT MANAGEMENT STRATEGIES THAT CAN BE EMPLOYED BY LOBELS BREAD BULAWAYO.**

**BY**

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**SUBMITTED IN PARTIAL FULFILLENT OF THE REQUIREMENTS OF THE FACULTY OF COMMERCE BUSINESS MANAGEMENT HONOURS DEGREE (HMAN)**

**GWERU, ZIMBABWE**

**YEAR 2014**

## RELEASE FORM

**AUTHOUR** **; RUDO ZHOU**

**TITLE OF DISSERTATION** **;** an evaluation of the debt management strategies employed at Lobels; the case of Lobels bread

**DEGREE TITTLE** ; Bachelor of Commerce Business Management (Hons)

**YEAR DEGREE WAS GRANTED** **;** 2014

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## APPROVAL FORM

The undersigned certifies that they she has supervised this student's dissertation titled An evaluation of the debt management strategies employed at Lobels; the case of Lobels Bread Bulawayo, submitted in partial fulfillment of the requirements of the Bachelor of Commerce in Business Management Honors Degree at Midlands State University

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# DEDICATION

I dedicate this piece of work to my mother, Gloria Zhou and brother, Darlington Zhou for their valued support. Your love and your strength have been, and will always be a source of inspiration to me.

## ABSTRACT

Lobels Bread Bulawayo faces problem of rising debt, reduction in operational efficiency and increase credit sales due to mismanagement of debtors. This has motivated the researcher to evaluate the debt management strategies employed at Lobels Bread and how they can be harnessed to decrease bad debts. This study sought to look at the applicability of debt management strategies at Lobels, to identify risks associated with debt management and to determine factors affecting implementation of debt collection policies.Debt management strategies employed in bakeries included cash discounts, use of ageing analysis schedules, credit information evaluation. Alternatives strategies that could be used to do away with bad debtors included cutting supply, use of credit policies, taking legal action and monitoring payments. The risks affecting implementation of debt strategies included credit risk, inflation risk, taking bribes by employees and unintentional errors in recording or processing data. The researcher used descriptive research design in a population of 50 respondents and a census was conducted. Questionnaires and interviews were the main data collection techniques used to collect data and graphs and tables were used to present the data.The researcher concluded that the strategies currently implemented at Lobels Bread were not effective and the company was under staffed discouraging segregation of duties. The researcher therefore recommends that they improve on the timing of dispatching of invoices, enhance segregation of duties and lastly authorization approval of transactions to be done by appropriate personnel.

**ACKNOWLEDGEMENTS**

Firstly, I would like to express my sincere gratitude to my supervisor, for her understanding, patience and guidance to ensure maintenance of objectivity of the project. I would also like to acknowledge the whole of the finance department and the management at Lobels Bread for being friendly, corporative and for granting me permission to conduct the research in their company. Heartfelt gratitude goes to my family for their encouragement in all I do, thank you for your love that made me the person that I am today.  Not forgetting my colleagues Miss Sophia and Miss Duduzile. Finally, to the one and only Almighty God, the God of impossibilities, be my thanks both now and forevermore.

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# CHAPTER ONE

# GENERAL INTRODUCTION

## 1.0 Introduction

The study sought to address the challenges faced by Lobels bread Pvt Ltd in a quest for minimization of risk and profit maximization. A further analysis of internal control measures is of essence in the study as a mitigation technique for the respective challenge faced. This chapter is inclusive of the background of the study, the statement of the problem, the objectives of the study, the delimitations, limitations and assumptions of the study. Definitions and the significance of the study are also in this study.

## 1.1 Background of the study

Matthew Leitch, (2008) stresses out the importance of detective controls (discovering small errors before became big problems) and preventive controls (minimizing the opportunity of unintentional errors or intentional fraud. According to him the way to deal with financial problems is to admit to them and take control before they get out of hand.

This study focuses on Lobels Bread Pvt Ltd in Zimbabwe, a large organization in the confectionery and bread industry. Over the years the Bakery has seen the issue of debtors controlling as a threat to the company's financial system. It was in July 2011 when it announced that debtors will be closely monitored and will fall under direct supervision of the Harare auditors with effect from August 5, 2011.On the topic of internal controls the 2010 policy statement of the company stated that mismanagement of debtors were generally reported to be the source of problems faced by the finance department and indirectly the meltdown of the company. This was one of the reasons why Harare branch announced total control of debtors of the company.

Poor documentation of invoices and receipts was one of the factors which contributed to the failure of management of debtors. Thus they was too much paper work and filling system was poor leading to some of the documents being misplaced and some even getting lost. This gave problems to the company as it did not have the physical receipts for reconciliation with the debtors resulting in increased bad debts which were an expense to the company. The case is that of OK which owed about $4 600 according to Lobels books but it claimed it owed $2 800 and Lobels without having the receipts was forced to write off the $1 800 as bad debt. *(Lobels monthly report August 20)*

Failure to segregate properly in the invoicing office also gave a gap for fraudulent activities in the company. Having the same person initiating, approving and also recording transactions gave rise to erroneous and inappropriate actions. The invoicing office was responsible for invoicing (debiting) the driver when he went out to deliver the bread and when the driver came back the same invoicing clerk was responsible for crediting the driver and debiting the account customers (debtors) and also recording the transaction. This was a loophole in the company as drivers started making agreements with the clerks to over credit their accounts and debiting the debtors more as they was no one to do the cross checks and later share the money. This resulted in a case where the debtors according to system owed more but in actual fact they owed less.

In doing away with too much paper work the company introduced the new system which was to capture every detail and help in reconciliation of debtors. This instead of becoming a remedy it however turned out to be a cost to the company as too many errors were now witnessed. These mistakes included omission of some documents, error of commission, and fraudulent documentation as employees tempered with the system. Inadequate training of employees in key positions of responsibility constituted a weakness in internal financial management. Lack of training was also a major cause for mismanagement of debtors as after the implementation of the new Sage system the IT team did not give adequate training to all the floor workers as it was denoted by many error cases and mistakes.

Also as a way of curbing these problems Lobels Bread came up with internal policies on management of debt of which some of these included screening of potential credit customers by using a credit application form. This act was done to reduce cases of dealing with problem credit customers. By this the company will then check reference and do follow ups or investigations so as to know the character of the credit customer to avoid dealing with bad payers. Carrying out of an aging analysis of debtors on a regular basis so as to spot deterioration in quality of debtors was also another policy implemented by Lobels Bread. Keeping a close eye on existing customers made it easy for one to spot sudden changes in trading patterns. This policy was mainly intended to serve as an indicator or red flag of potential bad debts and address them with urgency.

Rebuilding of relationships with credit customers was also another internal control measure that the company opted for in order to do away with fraudulent activities that the drivers were doing. The Lobels team started visiting all boarding schools, Barracks (armies) and mining towns on regular bases to reconcile their statements. This then meant that the management would spot any anomalies before they got out of hand.

The company also increased the credit customer base in avoidance of being exposed to one single major debtor. It started offering bread at a breakeven price to account customers so as to attract more credit customers. It also offered discount to customers who paid within a short period of time to encourage early payment. For example, 2/10 net 30 allows customer to deduct 2% of the net amount owed if the customers pays within 10 days of the invoice date. If customer does not pay within discount period of 10days, the net purchase amount is due 30days after the invoice date.

Despite these strategies being introduced in 2010, bad debts written off have been on the increase. This is illustrated in table 1.1 where they have been a five percent, seven percent, and eleven percent increase in bad debts written off for the years 2011, 2012, and 2013 respectively.

**Table 1.1 Amount owed to Lobels Bread Bulawayo (2010 -2013)**

| **Years** | **Amount Owed** | **Amount Paid** | **Outstanding Amount** | **BAD DEBTS WRITTEN OFF %** |
|---|---|---|---|---|
| 2010 | 17 699 093 | 4 799 567 | 12 899 517 | 4 |
| 2011 | 23 544 376 | 9 987 356 | 17 557 020 | 5 |
| 2012 | 10 245 343 | 2 154 318 | 8 910 025 | 7 |
| 2013 | 32 202 340 | 11 325 67 | 20 876 665 | 11 |

*Source; Lobels Bread modified debtors ageing analysis*

This has led the organization to be taken over by five local banks, FBC Bank, CBZ Bank, NMB Bank, Metbank and Capital Bank, who were owed an estimated $14 million by the bread-maker. These banks took over the company to settle its debts and save it from collapse yet the company is owed millions of dollars and is still having an increase in bad debts. This continual and ever escalating of bad debts raises concern hence the need to evaluate the debt management policies put in place.

## 1.2 Statement of the problem

Lobels bread faces problems of rising debt due to mismanagement of debtors. As a way of improving the bad debt situation the company introduced debt management policies which included carrying out ageing analysis, setting collection procedure and checking reference and doing constant follow ups on debtors. These strategies were put in place to decrease the number of bad debtors and increase revenue but the current situation is that the bad debts are on the increase, there is reduction in operational efficiency and increased credit sales despite these measures being in place. This has therefore motivated the researcher to come up with alternative debt management strategies that can be employed at Lobels

## 1.3 Objectives of the study

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- To identify the risks associated with debt management policies at Lobels Bread
- To determine the factors affecting the implementation of debtors control at Lobels bread.
- To determine the reasons for the increase of bad debts written off at Lobels

### 1.4 Research questions

- What internal controls are available in as far as the management of debt is concerned?
- What challenges have been faced by Lobels bread in its attempt to come up with effective internal debt controls?
- Are the employees aware of the organization policies and procedures and do they have access to such?
- Is the approach currently used by Lobels Bread Pvt Ltd relevant to its financial situation or not?
- What measures are put in place to do away with risks affecting internal debt management controls at Lobels Bread?

### 1.5 Justification of the study

- **The organization;**

This research is of importance to Lobels Bread and local bakeries at large as it is going to address real problems being faced by local bakeries in Zimbabwe in enforcement of controls on management of debt. This evaluation of debt management will ensure efficiency of debtors as well as safe guarding the organization assets. The researcher is also going to offer sound recommendations on best strategies that can be employed.

- **The researcher;**

The study will enable the researcher to have in-depth knowledge in internal control policies and debtors management. It will also help the researcher understand and appreciate the complexities involved in the running of the business. This study will also help the researcher link theory learnt at school with what really happens in the industries.

- **The university**

The study is of benefit to all the academic board who find it useful as a point of reference for further researches. The research will also add literature of management of debtors and internal control enforcement all over the world, at the same time adding value to the image of the university through practical recommendations.

**1.6Assumptions**

- Fraud, mismanagement of debt is a result of weak internal controls
- There was cooperation as all respondents provided information free from bias resulting in accurate findings
- The chosen sample represents the whole population
- The organization remains in operation till the study's completion

**1.7 Delimitations**

The study covers the period from 2011 to 2014 since it's the period the company started experiencing escalating bad debts. The research was conducted at Lobels Bread Bulawayo because that's the branch that has problems in managing their debtors. The respondents were both management and employees at Lobels Bread.

**1.8Limitations**

- Financial constraints to pursue the study, the researcher ended up opting for cheaper and affordable data collection.

- Company policies restricting the release of some of the company information, the researcher assured them that information got will be confidential and for academics purposes only.
- Probabilities of biased information as some of the mangers are most likely to mislead the researcher just to protect their company or paint the good image about the entity.

## 1.9 Chapter summary

The chapter looked at the background of the study which is the problem of rising debt due to mismanagement of debtors. As a remedy the company implemented policies which included setting collection procedures, checking reference list and carrying out ageing analysis. The researcher came up with objectives which were related to the problem understudy for example to identify the risks associated with debt management policies and research questions which were intended to be answered during the course of the research. More information on the research and what other researchers and authors say concerning the area under study is discussed in the next chapter.

# CHAPTER TWO

# LITERATURE REVIEW

## 2.0 Introduction

This chapter focuses on what current literature says about internal controls on debt management. This chapter is set fully comprehend the concept of debt management policies and the strategies encompassing its background and definitions and identify gaps in knowledge as well as weaknesses. This chapter will also introduce broad issues on debtors management, thus the important concepts and principles that should help determine internal debt management policies or strategies.

## 2.1 Internal controls system

Pricewaterhousecoopes (2011) and McNealy (2003:45) define internal control as a set of procedures and policy measures designed towards profitability goals and achievement of set objectives. They (internal controls) help promote efficiency, reduce risk of asset loss and help ensure the reliability of financial statements and compliance with laws and regulations. Alan G. Hassive defines internal control policies as a process or way of safeguarding interests of investors, affected by management and other personnel. Internal control can be further defined as a process responsible for effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations.

## 2.2 Debt management system

Debt management according to Vinod Kumar (2010) is a strategy that involves designing policies, procedures and monitoring those policies that governs how a company extends credit to its customers. The main idea behind debt management process is to minimize the amount of bad debt that the company incurs because of failure by debtors to pay or to honor their commitment and repay for the amount owed. Randall (1993) states that debt management is an urgent need to refocus, thus the creditor must put in place credit controls and credit management systems to do away with bad debts. Osmond Vitez (2009) states that being leanest to credit customers and increasing credit base help gain sales and revenue in the long run but poor management of these debts can be a significant cost to the business. (sa.gov.au). Bad debts are like cancer, thus they are less explosive but every bit is traumatic and eventually destructive.

If trade is to be encouraged, credit customers are an essential part of the business. Richard et al (2001) states that one way or the other the company will have to pay the costs of getting money from debtors and also some risk of loss due to bad debts. To minimize the loss of not receiving money from debtors' debt management strategies are essential. Osmond Vitez (2009) also argues that the principle of debt management control will eliminate some but not all of the risk. He went on to say that internal debt management policies are there to raise red flags not to assure or guarantee anything on effectiveness.

Miller (2003) states that debt control policies are preventive and detective in nature. Thus, they are designed to discourage errors or irregulanties and also to identify an error irrugulatory after it has occurred. Detective measures are usually carried out by senior management for example, aged analysis at the end of the month. When performance indicators are not in line with expectations they then alert management. Examples of preventive measures include; accounting all transactions by use of documents control numbers, getting approvals before a transaction is processed and testing clerical accuracy.

Weak debt management system and weak audit committee of a company fuels up fraudulent activities and gives room for embezzlement and pilferage. Amudo and Inanga (2009) claims that another testimony to failure of achievement of set goals and effective financial reporting is the poor debt control systems. He goes on to stress that poor management of these policies lead to asset misappropriation and fraudulent financial statements. Hence it is vital to implement internal controls basing on the nature of the business to ensure their adequacy and also to do regular audits.

Mayward. E. Rafuse (2001) however claims that reducing debtor's level with a value system will not produce any net benefit

**2.3 Elements of internal controls in relation to debt management**

Willis and Lightie (2010) describes internal control policies consisting of the following essential components

- Control environment
- Risk assessment
- Control activities
- Information and communication
- Monitoring

This can be diagrammatized and explained as follows;


**Fig 2.1 coso model of internal control**

**2.3.1Control Environment**

This lays foundation for all other internal control components. COSO (2011). Thus, they lay the ground work and they are the first line of defense against financial reporting and fraud. The board of directors and the top management sets the "tone at the top". Thus they lead by example on how debt can be managed and also how to reduce level of bad debts. According Cohen et al (2002) the tone-at-the-top refers to attitudes of integrity, control consciousness, ethical values, management philosophy, reporting system and operating styles reflected by the company's code of ethics. Thus management sets the pace or demonstrates the expected standards and relevance of debt management and the whole organization follows.

According to Ramos (2008) ethics and integrity are important to the structure of corporate culture. In order for debt management controls to be effective the top management must set standards, communicate them to company personnel and then reinforce them. Reporting system is also essential as without feedback management would not know of the irregularities and areas of improvement actions.

### 2.3.2 Risk Assessment

This is the possibility of an event happening and hindering the achievement of set goals. COSO (2011) defines risk as the likelihood of an event occurring and adversely affecting set objectives. Risk assessment involves identifying what can go wrong and trying to come up with remedies to mitigate the risk. Cendrowski (2008) defines risk assessment as a process of risk identification, risk evaluation and risk prioritization. Thus, it first identifies in principle the type of risk then it assess its likelihood of occurring and then examine these risks in terms of costs and benefits and ranges the risks in order of importance. For risk assessment to be effective the involvement of the top management is very crucial. Collier et al,.( 2007) states that they are six steps to risk assessment and these include;

- Developing loss scenarios – these can be developed by individuals with experience in organization's finance and they will be relying on historical precedent
- Identify exposures and control - these scenarios of loss help identify control measures and determine exposure
- Define risk categories
- Assess frequency and severity of possible losses
- Develop risk control costs
- Rank exposures

Risk assessment is an ongoing process and should be integrated with the planning process

### 2.3.3 Control activities

These are policies, measures or policies that help in the reliability of financial reporting. Miller (2007) defines internal control activities as techniques and mechanisms put in place to ensure that management's directives and organizational set objectives are achieved. After the controllable risk has been identified the control measures or activities can be put into place to reduce or simple eliminate the risk. Basically these control activities are there for the working of organizational objectives. Control activities according to committee of sponsors' organization of chartered accountant include; authorization, verifications, reconciliation and segregation of duties of which these can be further explained as follows;

- **Authorization**

Only one with the scope of authority should approve the procedures. Millichamp (1993) states that all the transactions must be initiated authorized and recorded by an appropriate person. These procedures should be clearly communicated to the management and employees stating the terms and conditions in which authorization can be made. Leitch (1996:98) also suggests that for authorization to be effective hoc reviews should be carried out to check for any alterations after authorization.

- **Verification**

Transactions should be verified before and after processing to protect the assets of the organization, errors in account can be corrected early. According to Millichamp (2000) verification reduces the risk of intentional manipulation and errors. For example, goods supplied should be verified with goods ordered and goods received should be verified with the invoices.

Thus verification confirms price, quantity and quality to match supplier invoice and the delivery note.

- **Reconciliation**

Processes should be reconciled on regular basis using the appropriate documentation. For example, debtors' statement should be reconciled with the accounting records or statement of the company.

- **Segregation of duties**

Spinelli Corporation (2002) cited that an individual should not have more than one of the three transactions components which are authorization, verification and recording. To reduce risks of fraud and risks of errors duties and responsibilities should be assigned to different individuals. To be risk free no single or team should do all the key stages and rotation of employees to avoid one dealing with key aspects of a transaction for too long also helps. In concurrence the international journal of government Auditing (1997) highlighted that separation of duties not only helps ensure accurate compilation of data but it also limits the chances for fraud by collision of two or more people on an activity completion. This act will make it difficult for fraudulent activities to occur and if it does occur it will be detected early.

### 2.3.4 Information and communication

According to Intosai (2004) internal information and communication is essential for the achievement of set goals as information from control environment, control activities, risk assessment and monitoring will be communicated. Appropriate channels of communication should be set at all levels of the organization and the information should be current, timely and exact. Relevant information either from external or internal should also be communicated clearly to all the employees. If all personnel understands what ought to be done thus, understands their role in the debt management system it becomes easy for management to evaluate the effectiveness of implemented debt management strategies. (DiNapoli, 2007)

### 2.3.5 Monitoring

This is the assessment of the quality of internal controls from time to time. It is a process which enables location of weaknesses and improves the effectiveness of the control system. Puttick (2006) defines monitoring as a process of assessing the actual performance against the bench mark thus the anticipated. He goes on to state that monitoring provides an assurance that set goals will be met. This can be accomplished by establishment of either ongoing monitoring activities (regular management and supervisory activities) or separate evaluation (assessment triggered by changes in strategic plans).

Warren (2007) defines monitoring as a process which involves observing employee's actions or behavior for example, close relationship with suppliers, sudden change in lifestyle and account system for indicators of control problems. These account indicators include;

- Backlog in recording of transactions
- Sudden increase in slow payments
- Missing documents
- Differences between cash receipts and bank deposits

## 2.4 Debt management strategies employed in bakeries

### 2.4.1 Cash discounts

Schall (2002) defined cash discounts as the cost of investment in credit sales. Thus, he went on to say that it can be considered an incentive for credit customers for early payment. Cash discounts are viewed as a form of price reduction and it attracts new customers and also reduces the payback period. Richard et al (2001) also defined cash discounts as a technique which encourages early payment at a pre specific discount. Terms of cash discounts vary from organization to organization and an example may be that of 2/10 net 30. This statement means that the customer is to deduct 2% of the net amount owed if the customer pays within 10 days of the invoice date. If customer does not pay within the discount period of 10 days, the purchase amount without thee discount is due in 30 days.

### 2.4.2 Ageing analysis

This is a time based approach which determines how much time has passed since due date, thus it helps identify invoices that are past due date. Woolf (2011) defined ageing analysis as a schedule which outlines. This help the company make prudent decision on whether to continue doing business with late payers or not as it indicates customers who are potential bad debtors. Sample of an ageing schedule is shown below;

**Table 2.1 Ageing schedule**

| **Outstanding period** | **Outstanding amount** | **Percentage of debtors** |
|---|---|---|
| 0 -30 days | 200 000 | 75 |
| 31-60 days | 66 000 | 25 |

*Source; Primary data.*

### 2.4.3 Credit information evaluation

This is a process of screening potential customers by undertaking credit investigations thus, deciding whether to grant credit or not and if so how much. According to Gitman (2000) granting credit is usually based on the 5Cs. These 5Cs include; collateral, capital, character, condition and capacity.

- **Collateral –**this is the security provided by the potential customer for the credit facility. J Houston (2011) defined collateral security as the secondary protection intended to guarantee the debt obligation.
- **Capacity** –Gitman (2000) defines capacity as firms 'capabilities in terms of physical and human capitals. Bart baesens (2008) also define capacity as the ability to manage payment thus the business is looked at to determine sufficient liquidity to make scheduled payments.
- **Condition** –refers to overall economic, market sensitivity and environment climate surrounding the business. Kaen (1995). It also looks at what other players in the same line of industry or market are offering. For example it asks questions like what are the normal credit terms. What competitors are offering?
- **Character** - Persaude and Ramadhin (2011) defines character as one's reputation. Thus, personal integrity and honesty of the client. The company can judge character basing on the experience reference or background of previous dealing and past litigations.
- **Capital** – according to Bordie K.M (2003) capital refers to the value of paid up business. Thus, it takes into consideration the net worth of the business. Storey (1994) also seconds him (Bordie) when he defines capital as

## 2.5 Alternative strategies that can be used

### 2.5.1 Legal action

This involves taking matters to legal practitioners. This can be done by use of collection agencies. According to David (2009) a collection agency is a business that operates as credit collector, thus they collect debts owed by individuals or business on behalf of their client at a fee.

### 2.5.2 Credit policies

This involves specifying the payback periods as a way of guiding management on how to control debtor. The payback period should however not be too strict but should be at an optimum level where profitability and liquidity are equal. Lobels bread can offer cash discounts, thus cost of investment in credit sales. This is a technique of getting money fastly from debtors.

### 2.5.3 Cutting supply

If a customer does not payment they are not worth having. Many business owners are afraid to lose customers hence they are reluctant to take action on late payment. This strategy applies to debtors who have an outstanding balance which has exceeded the credit limit. Thus goods will not be delivered until the debts have been settled. Cutting supply should however be regarded as last resort when other strategies have failed

### 2.5.4 Monitoring payments

This involvesestablishing a pattern of payment of invoices by customers, thus check customer's reliability. The creditor's controller should review credit rating in any changes in buying habits.

Old customers are high credit risk as they are hardly checked on. If the payment is about to be due the debtor is to be immediately alerted so that they don't get into habits payments because once a routine is established it becomes difficult to break.

### 2.5.5 Set collection procedures

Woolf (2011) states that when credit is given to customers collection policies have to be set to ensure that customers honor up to their commitments in repaying amount of the credit purchase. According to him (Woolf) procedure for effective debt collection include;

- Raising and posting invoices promptly. Thus as soon as the goods are delivered to the customer invoices should be sent
- Updating debtors' statements clearly indicating how much they owe and how much is due.
- Ensuring a clear credit policy, thus making sure that the credit limits are maintained. The company should also collect debtor's information so as to know its financial position through bank reports, information given to credit rating agencies.

The debtor can also be alerted by setting collection techniques Montana (2005) which may include;

- Personal visits by credit controller if payments are not made to remind them of the debt owed. The credit controller should not leave the premises without them committing on a date to pay.
- Follow up calls also to remind of outstanding amount and also to establish a relationship with the debtors.
- Sending reminding letters, emails or fax for payment of debt

### 2.5.6 Factoring

Booth and Clery, (2007) defined factoring as a form of assets based financing where ownership of the receivables shifts from the seller to the factor. For example if a business has large number of due invoices issued at the same time having amounts due to its creditors it can liaise with a reputable factoring company and the factoring company helps the company pay balance outstanding and in return the funder will then seek to collect the outstanding amounts directly from customers. Barker et al, (2004) states that factoring is an effective strategy in collection of debts from debtors and it also reduce the cost of bad debts at the same time improves the liquidity of the company as cash flow will be instantly improved by the payment of outstanding invoices.

## 2.6 Risks associated with debtmanagement

Ross (2003) states that risks are inevitable but one can try to coming up with strategies to reduce the levels of risks.

### 2.6.1 Credit risk

This refers to the risk that borrower defaults on any type of debt by falling to pay required payment. Morris (2010). Thus, it’s either the payment will be delayed or not made at all. Christopher (2005) also defined credit risk as the possibility of the debtor not honoring up the debt as per agreed.

### 2.6.2 Inflation risk

This is the possibility that when debt is paid the amount will be eroded by inflation. Thus, because of inflation the value of tomorrow's money decreases with regards to today's money.

Debtors like inflation because the pay back is always in cheap dollars. (Thus same number of dollars but they buy less)

### 2.6.3 Taking of bribes by employees

Carlos Ayres (2014) states that employees take bribes because they don't know what to do or who to report to when they are confronted with a bribe request. He goes on to say that it is therefore a mandate or a duty of the company to train their employees who are likely to be exposed to those areas which demand bribes.

Johg-Sung and Khagram (2005) went on to state that when one's package is a good package they are no reasons for taking bribes. According to them, employees take bribes because of income inequality. As long as the gap exists between the rich and the poor bribery will always be inevitable.

On the contrary Michael Philip (2005) stated that bribe is a crime offence and should never be justified. He defines bribery as money or item of value given to entice someone to do what one wants. It is a result of a person's misuse of authority and is unethical. He argues Individuals involved in this act should be punished and sent to prison.

### 2.6.4 Unintentional errors in recording or processing data

David (2005) defines these errors as basically the mistakes of general misappropriation of General Accepted Accounting Principles (GAAP). He goes on to say that unintentional errors can also be due to negligence thus failure for one to exercise care. Gitman (2000) however states that a mistake is sometimes not a mistake for mistake is just a pacifying word. He states that an error can be intentional and is regarded as fraud, thus, it's usually an error to hide or alter data for personal gain.

In trying to do away with this type of risk were one falsifies records to cover up an inaccurate or false transactions that was inappropriately authorized (Collier et al. 2007) states that close supervision and having restricted storages is greatly encouraged.

### 2.7 Factors affecting the implementation of debt management strategies

According to Vargo (2004; 122) and Christopher (1980; 130) factors affecting the effectiveness of debt control enforcement include

- Lack of administrative capacity to implement- the management may not have the now how on the strategies in the management of bad debts.
- Fear to loose credit customers – according to Miller (2008) some firms feel that when they implement debt controls their customers will shift to competitors. Thus, the customers will feel the heat of tight credit policies and end up looking for alternatives. Many companies end up opting to deal with bad debts rather than not having those customers at all.
- Lack of financial resources- states that finances are every company's blood. Without financial resources it is difficult for companies to implement some of the debt control measures as some will result in the company not receiving any cash flows. Many companies feel that debt management policies are to be implemented by those companies who are enjoying the economies of scale. Thus for those companies that are able to

sustain for a long period of time breaking even. For example even if the company wants to stop supply to its bad debtors it will think twice as this will mean a decrease in the production level, decrease in the profit margin and the company will end up not able to sustain its expenses with the inflow it gets.

- Contradicting of finance team and marketing team- the finance team and the sales team are always at odds because the sales team just want to" sell, sell and sell" to anybody and everybody and the finance team wants to screen its customers before selling. Osmond Vitez (2009) states that a sale is never a sale until it has been paid for and the finance team seconds this and when debts have not been paid may decide to cut supply but the sales team may worry about their sales level at the end resulting to the company being reluctant to implement the debt management controls.

**2.7 Limitation of internal debt management policies**

Internal debt management policies need to be stressed out to avoid over exaggerated expectations. Internal controls nonetheless do not guarantee anything on the effectiveness but instead it identifies red flags that signal fraudulent activities or need for concern. According to COSO framework (1992; 2011) these controls are there to provide a reasonable not absolute assurance that set objectives or goals will be met. Thus, it will eliminate some but not all risk

Vallabhaneni (2005 states thatdebt management involves human actions hence possibility of errors in processing are very high. These errors can be due to fatigue, mistakes in judgment, distraction, carelessness, simple a mistake, misunderstanding of instructions by the employees or due to new technologies and the complexity of computed information system. The effectiveness of these policies will be limited as decisions made with human judgment under pressure.

Implementation of these controls is also time consuming. The process of creating these debt management techniques is time consuming, training of the employees and as well as communicating  the strategies to all personnel requires more resources and time which in turn turns to be a cost rather than advantage the company.

Beavers (2003) said 'even effective internal debt management controls can only help an entity to achieve its progress, or lack of it, towards their achievement'. Establishment of internal controls is not evidence that organizational goals will be achieved. There are possibilities that the procedures may become in adequate due to changes in conditions and compliance with procedures may deteriorate.

Garry (2009) states that segregation of duties is a great input in preventing collusion of employees, but no internal control system can ensure that it does not happen. He goes on to say that its good for one to count the money and the other to record it but if two act in concert to steal from the company thus segregation of duties can be defeated through collusion of the employees secretly.

### 2.8 Chapter summary

The chapter provides insight of what other authors say about debt management policies and these included cutting supplies, cash discounts, take legal action and monitoring payments. It examined strategies that can be implemented to boast revenue collection, do away with bad debts as well as effective service delivery. The next chapter looks at the research methodology that was used in the study.

# CHAPTER THREE

# RESEARCH METHODOLOGY

## 3.0 Introduction

This chapter gives an outline of the varied technique used to collect analyses and interpret data pertaining to this dissertation. This chapter will show how both primary (field) and secondary (desk) research have been undertaken in pursuit of the fulfilment of the aims and objectives of the research project. The data collection and analysis technique are outlined. The chapter concludes with the validity and reliability issues encountered during the research.

## 3.1 Research design

Cooper and Schindler (2003) noted that research design is the overall plan, the blueprint that forms essential framework for a research to be carried out. He went on to say that research design does not only specify the methods to be used in the collection of information but it also fulfills the objectives and also answers the research questions .For this research, the researcher used descriptive research design which describes phenomena as they exist.

### 3.1.1 Descriptive research design

This is a research design where the research describes in detail the results got in the field. Descriptive design as a study that describes, records, analyses and interpret the conditions that exist. The researcher opted for this design because it provided accurate and reliable information as it did not rely on historical data or what other authors said but it relied on first-hand information. It also enabled in-depth analysis and it added strength and helped explain complex issues. Bush et al (2002) also describes descriptive design as a process of collecting questions and answers

### 3.2 Population

Shaugenessy (2003) defined population as asset of cases of interest. Thus, a group to whom the researcher would like to generalize the results. Chitura et al (2006; 3) concur, "Population refers to a set of all objects or totality of items or things under consideration". The population in this study comprised of permanent employees in the finance department, sales department and the production department. The population was fifty in total and was subdivided to five senior managers, six middle level employees and thirty nine low level employees from the mentioned departments. This information is illustrated in table 3.1

**Table 3.1 Population**

| | |
|---|---|
| Senior management | 5 |
| Middle level employees | 6 |
| Low level employees | 39 |
| Population size | 50 |

In this study the research conducted a census. According to Morris (2003), a census involves every unit and elements of certain population getting an equal probability in consideration. The researcher opted for this because it involved the whole population unlike sampling which does not present the whole population and makes it difficult to universalize the findings. It also gathered the relevant information associated with the respondents in question.

### 3.4 Sources of Data

In this case, the researcher used primary and secondary data to come up with best findings. Below, it is shown how data was collected.

#### 3.4.1 Primary research

This is raw information. Thus, its data captured at the point where it is generated. Korter (2000) defines primary research as data collected specifically for the project. The researcher opted for this source because it allowed the researcher to observe the phenomenon as it took place, it was relevant to the problem and allowed valid conclusions to be drawn. The sources of primary data were interviews and questionnaires. The questionnaire was mainly composed of closed and partially opened questions and this was used to corroborate data captured by interviews.

#### 3.4.2 Secondary data

This research focused on examining the literature and covered the area of debt management policies. Stewart and Kamins (1993) defined secondary data as extraction of existing data. This data can be collected from both internal and external sources. The researcher used internal data sources, thus financial sources within Lobels Bread and these included; month end reports, internal audit reports and annual reports. The external sources used were documentary reviews, textbooks, journals and internet. The researcher used this method of collecting data because it had strength of accuracy and convenience and also it represented a well balanced view of the subject understudy as it was from different sources and it helped in comparisons. This method also helped the researcher in that it was easy to obtain as it was readily available and this was less costly and time effective.

### 3.5 Data collection techniques

#### 3.5.1 Questionnaires

De vans (2002) states that questionnaires are a techniques of data collection in which the questions are designed to accomplish the objectives of the research project. This is an instrument for collecting data through the use of systematically compiled questions. The researcher used both open ended and closed ended questions to provide qualitative data. The questionnaires were self-administered and were collected after two days. This proved to be effective and useful because it gave respondents time to think about the questions and was most favorable to staff who did not want their responses to be known.

This technique facilitated the obtaining of opinions and attitudes and also information about past and current experiences and also allowed greater uniformity in the way the questions were asked which facilitated greater comparability of the answers. It provided high degree of objectivity on the research topic by also allowing respondents' freedom from pressure usually associated with the pressure of the researcher.  It also proved to be more economical and efficient as few well-chosen questions managed to yield much information

#### 3.5.2 Interviews

Cooper and Schindler (2003) define interviews as a conversation in which one asks questions and the other answers. This was also supported by Thakur (2003) when he said an interview is a two way face to face communication between the interviewer and the interviewee to obtain information. The researcher used face to face interviews and she found them more probing by the use of follow up questions to the answers. The researcher set appointments for the next day the day she was to collect the questionnaires. The researcher also found the interviews effective as they permitted open ended exploration of topics and elicits responses that were couched in the unique words of the respondents.

Also to justify the use of interviews, the researcher could observe the facial expression and body language of the interviewee which in turn showed whether the candidate was telling the truth or not. The interviewer also could ask questions, probe for answers and gather information by observation and also illiterate and functionally illiterate respondents were reached.

### 3.6 Data presentation and analysis

The researcher used tables and bar graphs to present data. According to Common Wealth of Australia Style Manual (2002; 46) “tables can be a boon for readers”. Thus, they acted as a quick point of reference. Tables proved to be easy to use and they acted as a quick point of reference. Chicharito (2000) states that graphs displayed data in the simplest way without too many numbers that confused the researcher. The researcher opted for graphs because it made one visually see the trends by just taking a glance.

#### 3.6.1 Data analysis techniques

The information collected was analyzed using the deductive method

- **The deductive approach**

This is a process where conclusions are drawn from the stated premises, inference by reason from the general to the specific. The researcher used this technique because it helped move from a more general level to specific one. It also saved served the checking roe as it gave the researcher some idea of confidence that can be placed in descriptive results.

### 3.7 Chapter summary

This preceding discussion of the research methodology has provided a thorough framework for the gathering, processing and analyzing of data. The researcher used descriptive research design in a population of 50 .questionnaires and interviews were the main techniques used in collection of data. A detailed discussion and interpretation of the results of the analysis will be provided in the next chapter where the evaluation of the success of the methodology discussed is also done therein.

# CHAPTER FOUR

# DATA PRESENTATION AND ANASLYIS

### 4.0 Introduction

Having discussed the basis of this research, the literature review and the research methodology, it is the intention of the researcher to utilize this chapter to present and analyses the findings on the evaluation of internal control policies on debtor's management. The findings are then discussed in the line with the research questions, published literature presented in chapter two; they are also linked to the research objectives and summarized to capture the essence of this research study.

## 4.1 Response rate

### 4.1.1 Questionnaire response rate

Of the 45 questionnaires sent through physical deliveries 41 were returned with response which represents 88% of the response. The researcher did not manage to get back the other 4 questionnaires representing 9% who cited lack of enough time to complete the questionnaire as they were busy with their work. From the middle level management 6 questionnaires were dispatched and 100% response rate was obtained and from the 39 questionnaires sent to low level employees 35 were administered and returned to the researcher representing 90% of the response rate. For the employees and management an average response rate of 95%. A research was done by Pape (2002) in Uganda on debt management strategies employed by local authorities and from the15 questionnaires sent 9 were return with response representing 60% of the response. Based on this, 95% response rate was considered sufficient to warrant the results given. This information can be displayed as follows;

**Table 4.1 QuestionnaireResponse Rate**

| Respondents | Questionnaires issued | Responses | Non responses | Response Rate % |
|---|---|---|---|---|
| Middle level employees | 6 | 6 | - | 100 |
| Low level employees | 39 | 35 | 4 | 90 |
| **Total** | **45** | **41** | **4** | **95** |

*Source: Primary data*

### 4.1.2 Interview response rate

A total of 5 interviews where scheduled for top management, however a total of 4 where conducted constituting 80% of the respondents. The other interview constituting 20% could not be conducted as the interviewees said to be busy or not in their offices. Peterson (2006) did a research on strategies to enhance effective internal controls and out of the 10 scheduled interviews he managed to hold 8 showing a response rate of 80%. Based on this, the current response rate of 80% is therefore acceptable. Table 4.2 shows a summary of interviews that were conducted and their response rate.

**Table 4.2 Interview response rate**

| Category | Scheduled interviews | Interviews held | Interview response rate |
|---|---|---|---|
| Top management | 5 | 4 | 80% |
| **Total** | **5** | **4** | **80%** |

*Source: Primary data*

### 4.2 Demographic data

From the table below it can be deduced that majority of the employees hold o level certificates (18), followed by certificates (15), diploma (12) and degree holders at (5). These represent 36%, 30%, 24% and 10% respectively. It was also revealed that majority of the respondent have worked for Lobels for 1-5 years (20), less than a year (16) followed by 5-10 years (12) and lastly those more than 10 years (8).  These represent 40%, 24%, 20% and 16% respectively. This implied that debt management strategies can be imposed and the employees are in a position to comprehend them as all of them are persons of sound academic. . From this it can also be deduced that most of the employees have been employed for a long period hence they have vital information about the company that will be of importance to this study. This can be illustrated as follows;

**Table 4.3**

| Demographics | Category | Frequency | Percentage |
|---|---|---|---|
| **Qualification** | **'O LEVEL** | **15/41** | **36** |
| | **CERTIFICATES** | **12/41** | **30** |
| | **DIPLOMA** | **10/41** | **24** |
| | **DEGREE+** | **4/41** | **10** |
| **Duration** | **LESS THAN A YEAR** | **8/41** | **20** |
| | **1-5 YEARS** | **16/41** | **40** |
| | **5-10 YEARS** | **10/41** | **24** |
| | **MORE THAN 10 YEARS** | **5741** | **16** |

*Source; Primary Data*

Infornation on the qualifications of employees can be further diagrammatized as follows;

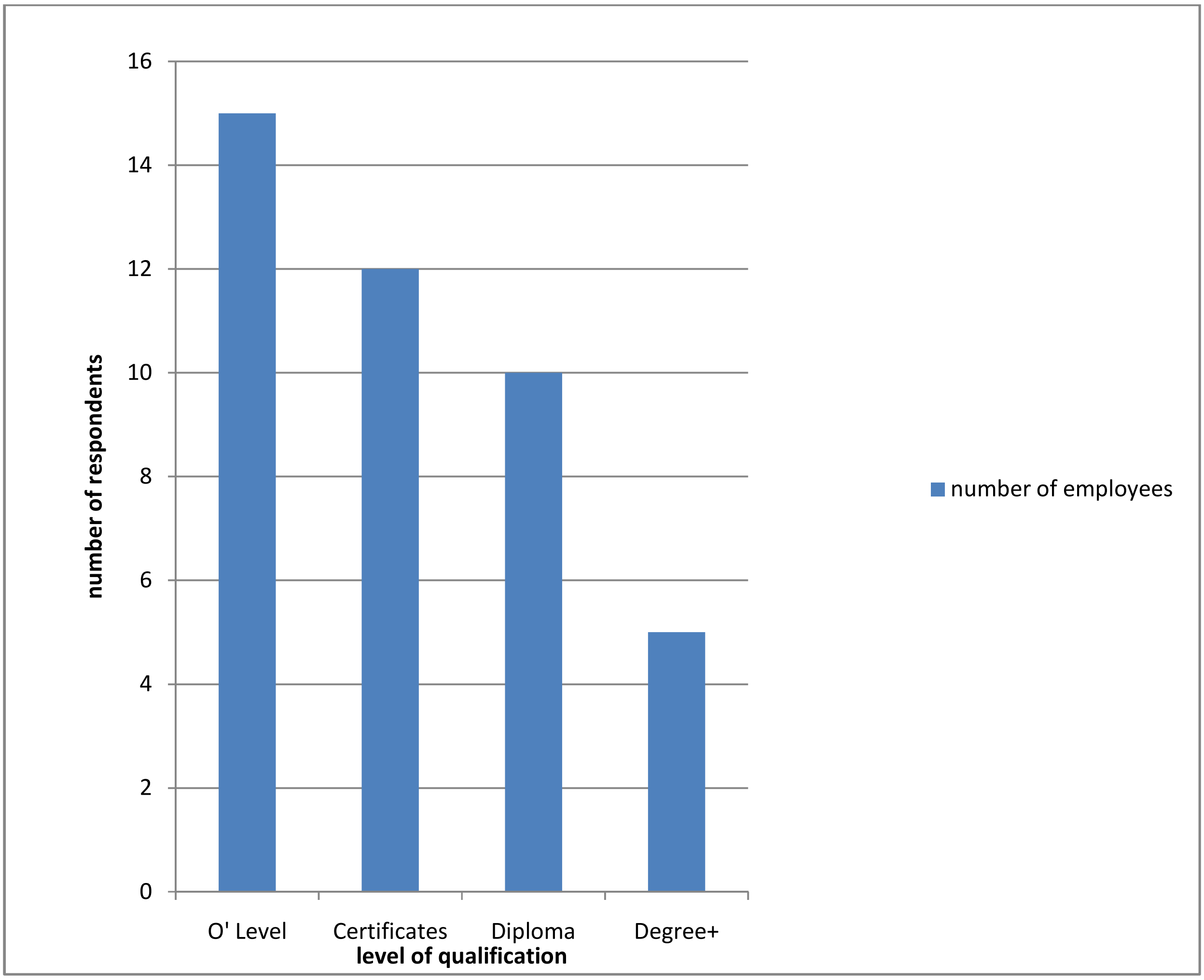


Fig 4.1 Qualification of management and employees

*Source; primary data*

## 4.3 Applicability of debt management policies in current economic environment

### 4.3.1 Awareness of debt management strategies

Evidence from the study shows that 42% of the respondents had knowledge of the debt management strategies and 58% had no idea what debt management strategies were and these were mainly the low level employees. This information is represented in table 4.4.

**Table 4.4 Awareness of debt management strategies**

| Response | Respondents | Response rate |
|---|---|---|
| **Yes** | 17 | 42 |
| **No** | 24 | 58 |
| **Total** | **41** | **100%** |

*Source; questionnaire*

This therefore meant that the subject debt management strategies was not strongly communicated in all levels of employment in the organization or the low level employees could not understand the language used to communicate the information on management of debt . Carlos Ayres (2014) mentioned that it is a mandate or a duty of the company to train and educate their employee of strategies before they are implemented.

### 4.3.2 Effectiveness of current strategies in debt collection

It was noted that 76% of the staff felt that current debt management system did not adequately deal with debt collection as compared to 20% who disagree wiliest 4% were neutral. This information is illustrated in table 4.5

**Table 4.5 effectiveness of current strategies**

| Effectiveness of current policies | Respondents | Response rate |
|---|---|---|
| Yes | 8 | 20% |
| No | 31 | 76% |
| Neutral | 2 | 4% |
| **TOTAL** | **41** | **100%** |

*Source; primary data*

The above data of responses shows that the debt management strategies implemented are not effective represented by 76% of the respondents. They cited that this was mainly due to human factors. According to Vallabhaneni (2005) human factors mainly rise from fatigue, careless distraction, misunderstanding and mistakes in judgments. He went on to state that controls can only be as effective as the management do not override them. At Lobels Bread it was noted that some managers overrule the prescribed policies or procedures for illegitimate purposes with the inherent of personal gain.

Furthermore it was noted that Lobels Bread mainly uses threats as a way of motivating early payment. This strategy however was said to be ineffective as credit customers knew the strategy and they came up with delay tactics. Warren (2007) states that tell-tall signs or delay tactics of bad debtors included not signing the cheque, mistake of date or even wrong figure of amount on the cheques or RTGS.

**4.4 Risks associated with debt management**

### 4.4.1 Measures put in place to curb risk affecting debt management

Different responses were obtained from management and employees. From the responses the researcher noted that 30 respondents representing 60% cited the existence of regular talks about ethics and ethical situations, 5 respondents representing 10% responded positively to the existence of segregation of duties, 7 respondents representing 14% of the respondents felt that authorization and approval of transaction existed, 8 respondents representing 16% agreed to the existence of supervision, 19 respondents representing 38% also felt that collection procedures were put in place to curb fraud and do away with credit risk and 6 respondents representing 12% of the population felt that they were existence of reconciliation of accounts. This can be illustrated in table 4.6.

**Table 4.6 Measures to curb risk**

| Measures | Frequency | Percentage |
|---|---|---|
| Segregation of duties | 5/41 | 10% |
| Authorization and approvals | 7/41 | 14% |
| Reconciliation | 6/41 | 12% |
| Supervision | 8/41 | 16% |
| Ethical conducts | 30/41 | 60% |
| Collection procedures | 19/41 | 38% |

This can also be diagrammatized as follows;

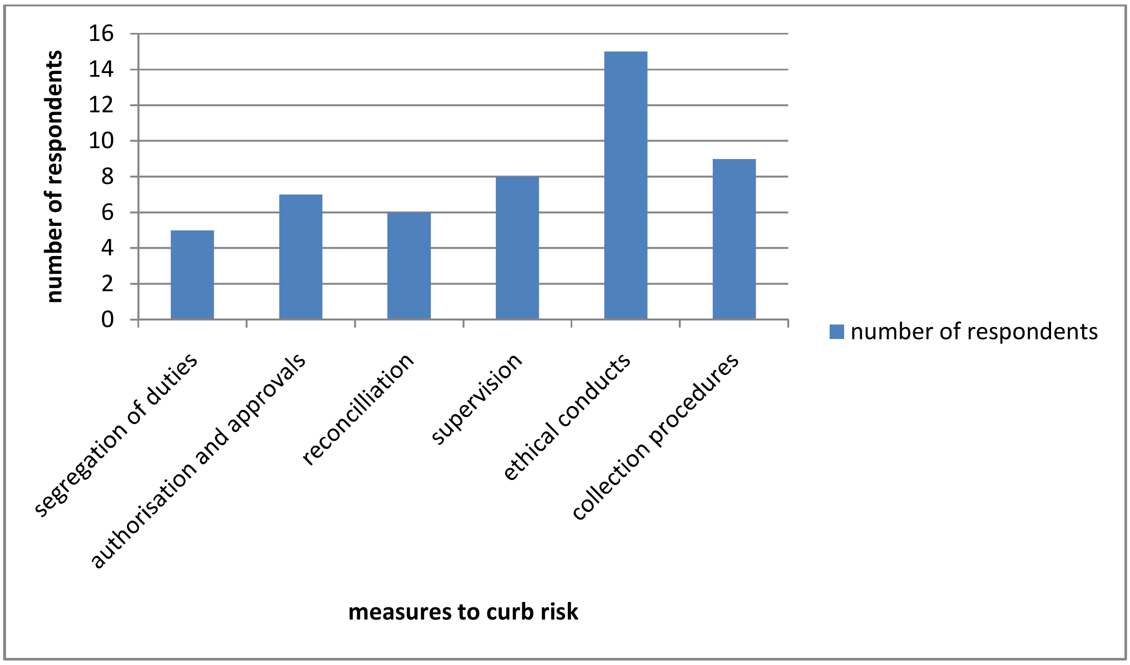


**Fig 4.2 measures to curb risk affecting debt management strategies**

*Source; primary data*

60% of the respondents( depicted in fig 4.2) showed that regular talks about ethics and ethical situations is the main measure that is used to curb risks affecting debt management strategies. They cited that management promotes integrity and ethical values by setting by example and regular seminars on anti-fraud and anti-corruption. According to Thompson (2005) ethics and values are of importance to any organization as they help improve the effectiveness of control measures or policies.

### 4.4.2 Segregation of duties in relation to processing, posting and record keeping

It turned out that 70% of the respondents felt that the duties at Lobels Bread were not segregated while 16% disagreed and responded positively to the existence of segregation of duties. The other 14% were indifferent and they didn't know whether the duties were segregated or not. The interview results showed that the major problem was that the finance department duties were heavily loaded on one individual increasing the level for fraudulent activities. An individual according to the international journal of Government Auditing (1997) is not to have more than one of the three transaction authorization, recording and reconciliation. Segregation of duties reduces of the chance for fraudulent activities and reduces the degree of errors. This can be illustrated in a table as follows;

**Table 4.7 Showing response on segregation of duties**

| Response | Yes | No | I don't now | Total |
|---|---|---|---|---|
| No of respondents | 7 | 29 | 5 | 41 |
| Response rate % | 16 | 70 | 14 | 100% |

*Source: primary data*

**4.5 Factors affecting implementation of debt management strategies**

The results below show that most of the respondents (35) representing 70% of the respondents felt that the major constraint to implementation of debt management strategies was the contradiction of the finance, sales and production. 20 respondents representing 40% felt that these debt control policies were not implemented because of fear by management to lose customer, 4 respondents representing 8% thought that lack of administration capacity was the main factor affecting the implementation of debt management policies. 8 respondents representing 16% however felt that human factors were the ones contributing to the failure to implement strategies whilst 4 respondents representing 8% felt it was due to financial constraints.This can be illustrated as follows;

**Table 4.8 Factors affecting implementation of debt strategies**

| **Factors affecting implementation of debt controls** | **Frequency** | **Response rate %** |
|---|---|---|
| Fear to lose credit customers | 20 | 40 |
| Lack of administration capacity | 4 | 8 |
| Human factors | 8 | 16 |
| Contradiction of objectives | 35 | 70 |
| Financial constraints | 4 | 8 |

*Source; primary data*

The researcher noted that contradiction of objectives (70%) and fear to lose customers (40%) are the major factors affecting implementation of debt strategies. Management also mentioned that they are always reluctant to implement debt management strategies for example cutting supply when debtors don't honor up because of fear to lose customer base. Millichamp (2002) mentioned that the major limitations on the implementation of control measures or policies usually due to differences in the objectives of teams affected by a control to be implemented. Based on this, contradiction of objectives representing 70% is therefore acceptable as the major factor affecting implementation of control measures

**4.3.6 Factors contributing to resistance by debtors to honor up to their debts**

Thirty five respondents representing 70% of the population are of view that the debtors do not receive their invoices on time, 34% of respondents indicated that resistance to honor up is due to relaxed pay back periods and 7 respondents representing 14% felt that lack of credit policies was the major reason for resistance by debtors to pay up their debts. This can be shown in a table as follows;

**Table 4.9 showing response to factors contributing to resistance to pay debts**

| Factors contributing to resistance to honor up debt | Frequency | Percentage |
|---|---|---|
| Relaxed pay bac period | 14/41 | 34 |
| Lack of credit policies | 6/1 | 14 |
| Timing of invoice delivery | 29/41 | 70 |

*Source; primary*

The majority of the respondents cited that the timing of invoice delivery is very poor and it increases the level of bad debts at the end. Even in the interviews conducted, the management also felt that poor timing of invoices was the major reason for increased debt debts. Thus, debtors fail to pay their debts on time as their statements will be sent to them late and bill of current month will be paid in the coming month leading to accumulation of debt. The same research was done in UK by Motte et al (2004) and 62% of the response were of view that late delivery of invoices mainly contribute to resistance by debtors to honor up to their debts. Therefore the researcher deemed the results as acceptable snce they were in line with finding by Monte et al (2004).

### 4.3.7 Alternative strategies that can be implemented to improve debt collection

Thefollowing major recommendations were proposed by the staff.90% of the respondents advocated for cutting of supply as an alternative technique to encourage early payment, 60% suggested that collection procedures to be set, 65% proposed that credit policies be implemented and 50 % suggested the company opt for legal action as an encouragement of early payment. From the interviews conducted the management also suggested that the company opt for cutting of supply when debts are due. Table 4.10 presents the recommendations suggested by the management and employees.

**Table 4.10 Alternatives strategies to improve debt collection**

| **Recommendation** | **Frequency** | **Percentage** |
|---|---|---|
| Credit policies | 27/41 | 65 |
| Cutting supply | 37/41 | 90 |
| Collection procedures | 25/41 | 60 |
| Legal action | 25/41 | 50 |

*Source;primary data*

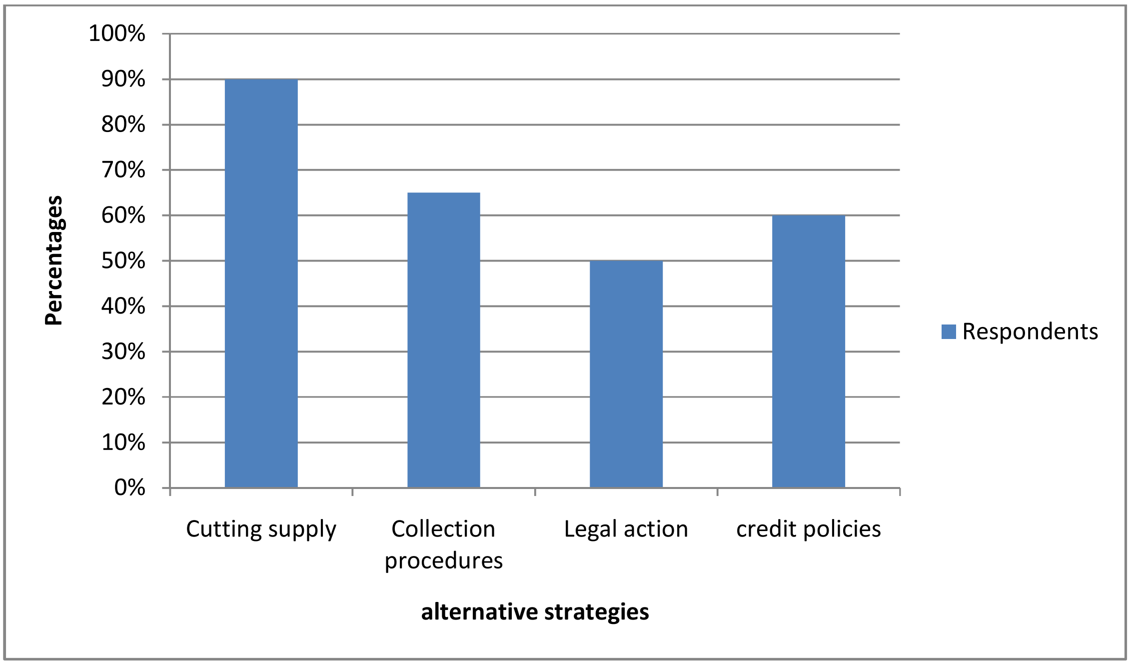


**Fig 4.3 Recommendations by management and staff**

Majority of the respondents (90) opted for cutting of supply as the best alternative strategy that can be adopted to do away with bad debts. Osmond Vitez (2009) states that being leanest to credit customers can be a significant cost to the business hence if the customer fails to pay for due debts supply should be cut with immediate effect.

### 4.4 Chapter summary

This chapter provided results of the findings of the study in quest to evaluate debt management strategies employed at Lobels. Questionnaires were administered and a response rate of 95% was observed making the results reliable and more valuable. Majority of the respondents hold ‘O’level certificates and they have been working for between 1-5 years. 58% of the respondents proved not to have knowledge on debt management strategies and 76% of the population felt that the current debt management strategies were not effective. The staff recommended cutting of supply as the best alternative strategy to be adopted to do away with bad debts. The next chapter summarizes the findings, conclusions and suggests recommendations to be opted.

# CHAPTER FIVE

# SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

## 5.0 Introduction

This chapter will present the conclusions and recommendations of the study. The research findings are summarized in line with the presentation in chapter two and in accordance with research objectives and questions set out in chapter one. In this chapter the research shall start by summarizing the study as a whole, draw some conclusions from the findings and thereby coming up with recommendations on the possible debt management strategies that Lobels Bread can implement as well as ascertain whether the strategies are feasible or not.

## 5.1 Summary of findings

The objectives of the study were to evaluate debt management strategies and to ascertain the feasibility therefore, the main thrust being Lobels Bread. The researcher noted that;

**5.1.1** Of the 45 issued questionnaires 41 were received representing a response of 91% and these were used to represent results of the study.

**5.1.2** Current debt management strategies implemented were not effective and were not applicable with the current economic environment.

**5.1.3** Regular talks about ethics and ethical values was the measure the measure that was mainly used to curb risk of debt management

**5.1.4** Shortage of workforce was witnessed discouraging segregation of duties

**5.1.5** Contradiction of objectives in the key departments was the major reason for failure to implement strategies.

**5.1.6** Use of empty threats as a tool to encourage early payment and to do away with bad debts was not effective.

**5.1.7** Late deliveries of invoices to debtors lead to late payment and at the end lead to increase in the level of bad debts.

## 5.2 Conclusions

### 5.2.1 Main conclusion

The researcher concluded that the debt management strategies being employed at Lobels Bread are poor hence they hinder the achievement of set objectives of the company.

### 5.3Sub conclusion

**5.2.2.1** The approach used by Lobels that is use of threats as a way of encouraging early payments s not relevant to the current economic conditions.

**5.2.2.2** Use of empty threats as a strategy to cultivate early payments was not effective.

**5.2.2.3** Segregation of duties as a form of curbing risks associated with debt management does not exists at Lobels Bread. It is ill enforced in many activities especially in the finance department concerning company funds.

**5.2.2.4** The implementation of debt management strategies is limited by contradiction of objectives of production, sales and finance department.

**5.2.2.5** Failure to dispatch the invoices or statements is a major reason for late payments or no payments at all resulting in accumulation of bad debts.

### 5.3Recommendations

5.3.1 Lobels Bread should try alternative strategies in the management of debt. These strategies may include; cutting supply, taking legal actions and strict monitoring of payments.

5.3.2 For improved segregation of duties in the invoice department, the management can utilize students on attachment to do some of the tasks.

5.3.3 Lobels Bread should improve on the delivery of invoices or statements, thus, they should send invoices within 5 working days after the delivery of the goods to encourage early payment and do away with bad debts.

5.3.4 Reconciliation of debtor statement and the company's statement should be done by accounting personnel and arrangements should also be made that the accounting officer gets the statements directly from the debtors. The previous routine where the driver who delivers bread handles the cash, the receipts and the statements from the debtors fueled up fraudulent activities.

5.3.5 Debtor's payback period can be tightened. This will help increase the cash flows in the company helping to pay creditors.

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**APPENDICES**

**APPENDIX 1: Questionnaires**

MIDLANDS STATE UNIVERSITY

FACUALTY OF COMMERCE

DEPARTMENT OF BUSINESS MANAGEMENT

TO WHOM IT MAY CONCERN;

I am carrying out a study on the implementation of debt management strategies, with particular reference to Lobels Bread Bulawayo. This study is designed for academic purposes only; therefore information collected shall be kept confidential. Kindly, at your discretion, complete the questionnaire as soon as you can and I will collect it personally.

Hoping for a favorable response from you and thanking you in advance for sparing a few minutes of your time to attend to my special request.

Yours sincerely

……………………………….

Rudo Zhou

**QUESTIONNAIRES FOR MANAGEMENT AND EMPLOYEES**

1) Gender of the respondents

   Male ☐ Female ☐

2) Qualification

   O level ☐ Certificate ☐ Diploma ☐ Degree+ ☐

3) Are you aware of debt management strategies?

   Yes ☐ No ☐

4) Are debt management strategies applicable with this current economic environment?

5) What strategies are currently used in debt collection?

   The use of legal action ☐

   Cutting supply ☐

   Use empty threats ☐

   Offer cash discounts ☐

   Carry out an ageing analysis ☐

   Evaluate credit worthiness ☐

   Set collection procedures ☐

   Monitor payments ☐

   Allow debtors to pay when they want ☐

6) Do you think these strategies are effective in the collection of debt?

   Yes ☐ No ☐ I don't now ☐

7) If no what could be the possible reasons?

   ……………………………………………………………………………………………

   ……………………………………………………………………………………………

…………………………………………………………………………………………………

…………………………………………………………………………………………………

8) What could be the possible reason for an increase in bad debts?

9) What are the factors that affect implementation of debt management strategies?

Lack of know-how on the subject

Resources constraints

Human factors

Different objectives of sales and finance team

Others

10) Which factors contribute to resistance by debtors to honor up to their debts?

Relaxed payback period

Lack of credit policies

Timing of invoice delivery

Just don't want to pay

11) What measures have been put in place to curb risks affecting debt management?

Setting of collection procedures

Segregation of duties

Reconciliation of accounts

Supervision

Authorization and approvals

Regular talks about ethics and ethical situations

12) As a way of curbing fraud are duties segregated in relation to processing, posting and recording keeping?

Yes ☐ No ☐ Don't know ☐

13) What alternative strategies can be implemented to improve debt collection?

…………………………………………………………………………………………………

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**APPENDIX 2: Interview Guide**

**INTERVIEW QUESTIONS FOR MANAGEMENT AND EMPLOYEES**

1) What is your understanding of debt management strategies?
2) Describe Lobels Bread current debt management strategies.
3) What measures do you think should be put in place to improve debt management?
4) Do you assess debtor's credit worthiness?
5) What are the major limitations on debt management policies effectiveness at Lobels Bread?
6) How do you feel about the methods being used in curbing fraud and errors?
7) Are duties segregated in all key functions?
8) What other strategies can be implemented to do away with high levels of bad debts?

**Thank you!!!!!**