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# FACTORS AFFECTING ACCOUNTS RECEIVABLES MANAGEMENT: A CASE STUDY OF SELECTED PHARMACEUTICAL DISTRIBUTORS IN NAIROBI COUNTY

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**Abstract:** Accounts receivables management is a vital corporate finance component as it directly influences the firm's liquidity, profitability and growth of an organization. It should be given due considerations by the business managers not only because costs and risks are associated with this investment but because by freeing up cash held in accounts receivables gives the company added liquidity to finance growth. Poor Accounts receivables management has been cited as one of the pharmaceutical challenges and risks in Kenya leading to bad debts and delays in collection. This study therefore sought to establish factors affecting accounts receivable management in selected pharmaceutical distributors in Nairobi County. The study also sought to determine the effect of credit policies, technology, staff competency and company characteristics on accounts receivables management among pharmaceutical distributors in Nairobi County. The study employed a descriptive research design. The target population of this study was all pharmaceutical distributors in Nairobi County and their senior finance staff as the respondents. Stratified random sampling was used to select a sample size of 129 distributors. The study used primary data which was collected by use of semi structured questionnaires and analyzed through SPSS. Descriptive statistics was used such as mean, standard deviation and frequency to establish the extent to which credit policies, technology, staff competency and company characteristics affect accounts receivables management. Further, inferential statistics such as multivariate regression analysis and correlation coefficient were utilized in establishing the effect of the independent variables on the dependent variable. The study found that all the four independent variables have significant influence on accounts receivables management in pharmaceutical distributors in Nairobi County with credit policies having the highest influence followed by company characteristics, staff competence and technology. The study also found that credit policies affect financing policy, sales and growth and ensure good flow of capital and thus growing the company. In addition, the study revealed that technology helps in effective tracking of debts, ensuring invoice accuracy, enhances follow-up, improves credit management and helps in keeping track on polite reminders therefore prompt payments. Also the study established that competent staff enhances customer relations and makes it easier for staff to handle accounts in a professional way. Since credit policies help in ensuring customers discipline in making payments, the study recommends that all pharmaceutical distributors should develop a credit policies that declare their credit terms and consequences of default. The study also recommends that all pharmaceutical distributors should adopt information technology in processing of invoices. In addition, pharmaceutical distributors with many branches should adopt one information system so as to ensure central management of account receivables.

**Key Words:** Credit Policies, Technology, Competence, Company Characteristics, Receivables

## Introduction

Account receivable is the amount of money owed to a company or business enterprise by customers. The management of account receivables comprises of five steps (Wu, Olson & Luo, 2014). The first step involves the determination of who to extend trade credit to. The second step involves the establishment of a payment period while the third step is about monitoring of collections. The fourth step involves the evaluation of receivables liquidity while the fifth step involves the issuance of receipts to the accounts receivables holders (García-Teruel & Martínez-Solano, 2010). Most companies globally increase their sales by offering trade credits to their customers, but by being too generous with trade credits, they may extend trade credit to risky customer who may fail to pay. On the other hand, if company's trade credit policy is too tight it may lose sales.

The management of account receivables is a global problem, with many manufacturing firms and distributors showing high levels of account receivables as compared to their total assets. According to Sawers (2012) Spanish and Italian companies are the worst in managing their account receivables in Europe. In Italy, the average days' sales outstanding (DSO) was 76 days in the year 2011. In the same year Spanish companies had an average days' sales outstanding (DSO) of 69 days. In China, Enzhu (2008) indicates that most companies in China do not manage their account receivables properly and some of the factor contributing to poor management include the use of manual ways of monitoring trade credit, poor trade credit policy, poor management structures and staff incompetence.

In the United States, Sanders, Wold and Sullivan (2009) indicate that the process of billing and account receivable management in healthcare facilities has in the recent past undergone evolution multifaceted function that necessitate an improvement in efficiency and appropriate coordination from the time a patient gets to the health facility by aggressively following up on delinquent payments for healthcare services provided. Organizations without management systems for billing and accounts receivables, most of the times experience challenges in collection rations. This subsequently leads to poor cash flow and unnecessary overhead costs (Mian & Smith, 2011). In Ghana, Akoto, Awunyo and Angmor (2013) indicate that account receivables management plays an important role in the success of businesses as it significantly influences both profitability and liquidity. In addition, the authors found that accounts receivable days negatively influences profitability.

In Kenya, Waweru (2013) found that manufacturing firms in Thika Municipality were experiencing poor control and management of account receivables, which led to an increase in cash-flow problems thus disrupting the daily operations of the firms. In addition, this led to inability to pay employees, pay for supplied goods and services and meet other statutory obligations. In addition, Mumias Sugar Company Limited had account receivables of 59% of the total current assets in the year 2011. Further, Kenya Ochards Limited had account receivables of 44% of the total current assets. According to Makori and Aagongo (2013), number of day's accounts receivable and cash conversion cycle negatively influence the profitability of manufacturing and construction firms listed on Nairobi Securities Exchange. However, the number of inventory days and number of payable days were positively influencing the profitability of manufacturing firms.

Recently, suppliers through the Kenya Association of manufacturers wrote to the three leading supermarkets; Nakumatt, Naivas and Tuskys demanding outstanding amount of over kshs 8 billion which had forced their members, who included pharmaceutical companies to borrow heavily putting them at risk( Ciuri & Mutegi, 2015). Ben Onkundi, a partner at Omaera Pharmaceuticals distributors in the book entitled 'profile of Kenyan entrepreneurs' said that delay in payments by their debtors has been a permanent problem in Pharmaceutical distributors in Kenya affecting their cash flow (Waithaka

and Majeni, 2012). He adds that the pharmaceutical distributors formed the Kenya Pharmaceutical Distributors Association with the main aim of sharing customer credit status to curb the late payments but this has not been successful. Meds, one of the pharmaceutical distributors have held several press conferences concerning payment delays by their customers specifically the county government as reported by The Standard in August 2015. These firms can gain sustainable competitive advantage by effectively and efficiently utilizing their resources through a careful cash conversion cycle reduction.

The management of accounts receivables is a vital corporate finance component as it directly influences the firm's liquidity, profitability and growth (Giaccotto, 2013). In the current business environment, the management of accounts receivables can be considered to be a practical problem. Organizations may experience considerable constraints in their liquidity if their account receivables' levels are not properly and appropriately regulated (Kung'u, 2015). The management of receivables is a serious duty that involves improvement of cash flow and reduction of bad debts.

The Credit Research Foundation, CRF (2006) report found that about 17 per cent of customers in business fail to adhere to the set supplier credit terms. In addition, another CRF report indicated that about 61 per cent of all late payments in businesses result from administrative of compliance problems like late receiving of invoices thus negatively affect processing of payments or receiving of incorrect invoices (CRF, 2008). Riungu (2011) cites poor receivables management as one of the pharmaceutical challenges and risks in Kenya leading to bad debts and delays in collection. Ernst and Young (2013), in their study affirm that a culture of late payment has evolved with payment periods unjustifiably long in many cases significantly affecting small businesses.

Despite the importance of accounts receivables management in the ensuring liquidity, profitability and growth, there are limited research studies and empirical evidence on account receivables management in Pharmaceutical industry particularly in Kenya. Studies by Kalunda, Nduku and Kabiru (2012) on credit risk management practices in pharmaceutical manufacturing firms and a study by Mumbiko (2015) on factors affecting access of finance by pharmaceutical distributors were the only specific studies on accounts receivables management in the pharmaceutical sector but did not determine the factors affecting accounts receivables management in the sector. Other studies include Waweru (2013), a study on practices and principles of effective management of account receivables in manufacturing companies in Thika Municipality; and Mukhoma (2014) researched on the influence of the management of account receivables on the financial performance of manufacturing firms located in Nakuru County, Kenya. However, these studies were done in manufacturing sectors specific for Nakuru and Thika, and their findings cannot be generalized to Kenya as a country. The studies also did not outline the factors affecting account receivables management. Ngugi (2014) carried out a study on determinants of the management if accounts receivables in the hotel sector in Kenya, though this outlined the factors affecting accounts receivables management cannot be generalized in the pharmaceutical sector since the study was done in the service sector.

Given the challenges discussed in the background supported by the research studies done by Riungu (2011), and Mumbiko (2015) outlining Account receivables management challenges faced by Pharmaceutical distributors and the limited research in this area, the researcher is of the opinion that there is need to conduct a study on the factors affecting accounts receivables management in pharmaceutical distributors with a view to recommend management focus on the most significant factors to enable pharmaceutical distributors to remain competitive in this vibrant industry. This will contribute to both the economic and the social pillar of the Kenya Vision 2030. This study therefore seeks to establish the factors affecting account receivables management among pharmaceutical

distributors in Nairobi County specifically looking at credit policies, technology, staff competence and company characteristics as factors affecting accounts receivables management.

The specific objectives of the study were:

i. To determine the effect of credit policies on accounts receivables management among pharmaceutical distributors in Nairobi County.

ii. To establish how technology affects accounts receivables management among pharmaceutical distributors in Nairobi County.

iii. To determine how staff competence affects accounts receivables management among pharmaceutical distributors in Nairobi County.

iv. To find out the effect of company characteristics on accounts receivables management among Pharmaceutical distributors in Nairobi County.

**Theoretical Review**

A theory is an idea that has been tested over a period of time and explains how various concepts and ideas are related to each other (Creswell, 2006). It has its supporters and opposers. Theories are also defined as a group of independent principles and concepts that form a framework of how they are tied to each other. Large amount of knowledge exist as scattered data and no information unless the relationship between them is explained. This study made use of operating cycle theory, human capital theory, innovation diffusion theory and the agency theory.

**Operating Cycle Theory**

The operating cycle theory is derived from 'the natural business year' concept of Collin Park and John .W. Gladson who referred to 'natural business year' as the time within which an activity cycle is completed. This 'natural business year' was later translated into the operating cycle theory by Chakraborty in India. Operating cycle refers to the time period starting from the time of purchasing inventory to the time cash is received. I also refers to the period of time taken (in days) in converting cash to inventory by converting accounts receivables to cash. Each shilling put into business on the first day of the year would start again in the cycle of operations immediately after the lapse of operating cycle days. Park and Gladson did not agree with the one year temporal standard to determine the current of an asset and held that what was current depended on the nature of the core business activity influenced by the technological requirements and the trading practices, while Chakraborty was of the view that any item liquidating itself within the operating cycle is a current item (Sharan, 2009).

Operating cycle theorists claim that the money is first blocked in raw materials, labor and other conversion costs come later; selling and distribution costs come in the end. Selling and distribution costs will be blocked in inventory and sales will be blocked in accounts receivables. The operating cycle is about the liquidity of the firm and influences a company's need for extra financing, the longer the operating cycle the higher the need for financing. The incorporation of inventory turnover and accounts receivable measures into an operating cycle offers a better liquidity management view as compared to relying on the current and acid-test ratio solvency indicators (Singhania, Sharma & Yagnesh, 2014). Inventory turnovers in an organization show the frequency with which it converts its cumulative raw material stock, work-in-process as well as finished goods into sales. The utilization of production scheduling, distribution strategies and purchasing that necessitate widespread inventory commitments of expected sales leads to a lower turnover ratio (Anagnostopoulou, 2012). This,

consequently, leads to a longer and possibly less liquid inventory holding period. If a company fails to modify the payment agreements established with trade creditors, decisions that lead to longer or less liquid holding periods will lead to a higher current ratio solvency indicator (Anagnostopoulou, 2012). The operating cycle concept is often considered lacking as a measure of cash flow because it does not put into consideration the requirements of liquidity imposed on an organization by its current liability commitments time dimension (Singhania, Sharma & Yagnesh, 2014).

The theory will be important to this study because receivables are directly affected by the operating cycle activities, for example they are influenced by the credit collection policy of the company and the frequency of converting the outstanding amount into cash affects the accounts receivable management. An organizations' changes in collection and credit policy directly impacts on the average outstanding balances of account receivables maintained relative to the annual sales of a firm. Developing of more liberal credit terms leads to a larger, current investment in receivables and less liquidity leading to a longer operating cycle. Unless sales in an organization increase proportionately to the increase in accounts receivables, this probable deterioration in liquidity will be portrayed in a lower receivables turnover and a more extended collection period of receivables. A company's decision to maintain large average receivables investment over a long period of time will most of the time lead to high current and acid-test ratios (Park, 2012). Therefore the length of the operating cycle will determine the achievement of management objectives in terms of accounts receivables.

**Human Capital Theory**

Human Capital theory was proposed by Theodore Schultz in 1960s. Schultz argues that both knowledge and skill are a form of capital, and that this capital is a product of deliberate organizational growth (Tan, 2014). The concept of human capital implies an investment in people through education and training. Schultz compares the acquisition of knowledge and skills to acquiring the means of production. Schultz argues that investment in education and training leads to an increase in human productivity, which in turn leads to a positive rate of return and hence an improvement in project implementation and success (Korpi & Clark, 2015). The theory is associated with the resource based view of strategy which proposes that sustainable competitive advantage is attained when the firm as a human resource pool cannot be imitated or substituted by its rival. For the employer investments in training and developing people is a means of attracting and retaining people (Smith & Murillo, 2015). Previous empirical research have emphasized that human capital is one of the key factor in explaining achievement of organizational objectives (Coff & Raffiee, 2015; Smith & Murillo, 2015). In that highly educated staffs leverage their knowledge and the social contacts generated through the education system to acquire resources required to perform effectively. The specific human capital can be attained through precise trainings and previous experience. More focused staff training can provide staff with specific knowledge, compared to a formal education (Korpi & Clark, 2015).

The human capital theory, will be important in this study, in relating the staff competency to accounts receivables management of the firm. When the staff are more trained and well educated, they will increase returns to the firm. These returns are expected to be improvements in performance, productivity, flexibility and the capacity to innovate that should results from enlarging the skills base and increasing levels of knowledge and competence. Tan (2014) suggest that the general message in persuasive skills, knowledge and competences are key factors in determining whether organizations and firms will prosper.

**Innovation Diffusion Theory**

Innovation of diffusion theory was put forth by Everett Rogers in his book diffusion of innovations first published in 1962. This theory indicates that the users of innovations decide to reject or adopt an innovated depending on their beliefs on the innovation. According to diffusion of innovation theory, the main factors that influence the diffusion of innovation include its relative advantage, trialability and compatibility. Relative advantage refers to the extent to which a technology offers improvements as compared to the currently available tools. In addition, compatibility refers to the consistency of technology with social norms and practices. Further, trialability refers to the degree to which an innovation can be tested on limited basis. In the year 2003, Rogers expanded the fourth characteristic, which is ease of use (Santacreu, 2015). Rogers describes five stages that are integral in the process of innovation diffusion: knowledge, persuasion, decision, implementation and confirmation in his later editions.

The theory links technology to accounts receivables management because through adoption of technology by pharmaceutical distributors, depending on ease of use and its relative advantage will affect the accounts receivables management either positively or negatively. Organizations are considered to be social systems, but within these organizations, departments or teams can also serve as components of a social systems. One of the most important factors in a social system is communication. According to Weigel et al. (2014), the advantages of technology among the distributors include enhanced information sharing among various departments, instant monitoring of trade credit, notifications on due trade credits and monitoring of the levels of account receivables. This information sharing between departments and customers through technology affects the accounts receivables management of a firm.

**Agency theory**

Agency theory dates back to 18$^{th}$ Century by Adam Smith, but it was not until the 1970s when Barry Mitnick and Stephen Ross and working independently each presented the agency theory. Agency theory refers to relationship where an individual or individuals, the principal engages another, the agent to conduct activities on his or their behalf. It involves principals entrusting some decision making authorities and responsibilities to agents. The theory points out that each of the two parties, the principal and the agent have their own interest which brings conflicts and thus the theory tries to align these interests. In 1976, Michael C. Jensen and William. H. Meckling, through their seminal paper explored agency costs and its resources. They identified monitoring the agent's actions as a source of agency costs. They also identified two other sources of costs which include bonding costs incurred by the agent and wealth loss incurred by the principal when the agent's actions do not maximize the principals wealth (Jensen, 2000). Jensen (2000) further explored, the separation of ownership, ratification and monitoring of decisions from the initiation to implementation of decisions.

The theory contributes to management of accounts receivable in relation to monitoring managers' actions or credit policies that may affect accounts receivables management either positively or negatively. In this study the agency relationship exist between the employees who are managers entrusted with decision making as far as receivables are concerned and the distribution firms' owners or employers whose objectives are to improve liquidity and increase profitability. The shareholders decisions concerning profitability or liquidity will also affect the accounts receivables management.

## Empirical Literature Review

Various studies have been conducted in relation to accounts receivables management both globally and locally. This section presents a review of empirical studies conducted on the effect of credit policies, technology, staff competence and company characteristics on accounts receivable management.

## Credit Policies

Policies and procedures of each of the functions within receivables management are very important. Policy documents outline the formal posture on each function (credit policy addresses risk tolerance) (Love et al., 2007). Procedures in an organization delineate the steps and actions to be taken for each operation. Clear policies are required as part of strong internal controls. They also provide guidance to employees charged with performing the functions. Detailed procedures serve as a reference for experienced employees in performing their job functions and procedures are excellent tools for initial and refresher training of newer employees (Mathuva, 2010).

Michalski (2012) carried out a study on the determinants of accounts receivable level: portfolio approach in firm's trade credit policy. The study found that accounts receivable management decisions are very complex. On one hand, too much money is tied up in accounts receivables, because of an extreme liberal policy of giving trade credit. This burdens the business with higher costs of accounts receivable service with additional high alternative costs. Additional costs are further generated by bad debts from risky customers. On the other hand, the liberal trade credit policy could help enlarge income from sales. This problem is linked to the operational risk of purchasers interested in receiving trade credit who, as separately considered groups, may characterize too high risk level.

In Kenya, Waweru (2013) conducted a study on the principles and Practice of Effective Accounts Receivable Management in Selected Manufacturing Firms in Thika Municipality and found that factors that affected the management of accounts receivable such as lack of a formal credit policy, delayed or non-review of the credit policy manual, inconsistency on credit risk analysis procedures and haphazard variation of credit terms. The study also found that there was erratic fluctuation in the average collection period and significant amounts of bad debts written off.

## Technology

Advances in information technology have allowed firms to structure information sharing process with varying degree of customized reporting, real time access, data access frequency, access levels and software integration. Softwares enable automated, integrated and collaborative processes for receivables management (Makori & Aagongo, 2013). Accounting departments can then better manage collections and disputes, streamline billing, and lower customer credit risk. As a result, accounting decreases the amount of cash and effort tied up in disputes and collections, days sales outstanding and bad debts write offs, helping to ensure that cash is on hand to fund business operations and new growth opportunities (Akoto, Awunyo & Angmor, 2013). Technology ensures real time insights, credit limits could be set in the system and risks monitored. On the other hand, if something goes wrong with technology and an error is made, then receivables may be incorrect.

Ramaswamy et al. (2011) carried out a study on the impact of information technology innovations on financial transaction processing including account receivables management. The study found that with information technology innovations there was movement of information without hindrance across corporate boundaries, time zones, and systems. The study also found that automating all processes beginning with when a purchase order is generated to when payment is ultimately received creates

both new efficiencies and reduced costs by providing better visibility of all aspects of financial transaction processing.

In Kenya, Ngugi (2014) conducted a study on the determinants of Accounts Receivables Management in the Hotel Industry in Kenya and found that technology was playing a great role in determining accounts receivables management in Kenya's hotel industry. The technology facilities quality embraced in the hotels is important as it influences accounts receivables management and therefore improves the hotel performance at large. The results also indicated that hotels keep receivable accounts records, and utilize technology to advance invoices and Electronic processing through electronic data interchange (EDI), of accounting data.

**Staff Competence**

Managers usually fail to adequately anticipate the required training and instructions for the employees in order to equip their employees with the skills required for the implementation of strategy (Sanders, Wold & Sullivan, 2009). Competency is measured in terms of academic level, experience, skill and the effort of staffs for continues professional development and determines the efficiency of the staff in setting a systematic and disciplined approach to evaluate and improve the effectiveness of accounts management, control, and governance processes (Enzhu, 2008). Distribution Companies must be able to effectively recruit, retain, and manage highly skilled staff. One of the main factors affecting account receivables management is the accuracy of the staff working in the accounts receivable department. Staffs that make errors in ledgers, invoices and other accounts receivable paperwork make it more difficult to plan and control the company's financial information (Akoto, Awunyo & Angmor, 2013). Invoices sent out with incorrect information force the company to either accept the incorrect information or ask the customers for more money. To keep accurate records, the staffs should be trained to follow exact procedures in the accounts receivable department (Makori & Aagongo, 2013).

Ismail and Abidin (2010) carried out a study on the impact of workers' competence on their performance in the Malaysian private service sector. The study was based on a sample of 1136 workers who are either executive, manager or professional from three service sub-sectors, namely, education, health and information and communication technology (ICT) in Selangor, Federal Territory of Kuala Lumpur, Penang and Johor collected in 2007/2008. The study found that the competence of the workers has a positive and significant influence on their performance. Besides, human capital and workers' characteristics also determine workers' performance in the service sector.

**Company characteristics**

Valipour, Moradi and Farsi (2012) conducted a study on the impact of company characteristics on working capital management including account receivables management. The company characteristics included were company size, current ratio, quick ratio, operating cash flow, profitability, sale growth, and debt ratio. The sample of the study was 83 firms listed in Tehran Stock Exchange between the year 2001 and 2010. Pearson's correlation analysis and multivariate regression analysis were used to test the hypothesis. The results indicated that the effective factors in great companies were profitability, operating cash flow, debt ratio and sale growth. The effective factors in average level companies were profitability, company size, sale growth and debt ratio. The effective factors in small companies were profitability, sale growth, current ratio, quick ratio and debt ratio.

In Sweden, Rimo, Panbunyuen and Nilsson (2010) conducted a study on the effect of company characteristics on working capital management including account receivables. The sample of the study was 40 companies in the large cap investment segment listed on Nasdaq Omx Stockholm Exchange.

Using a multiple regression analysis, the results indicated that profitability, operating cash flow, company size and sale growth affect the company's accounts receivables management ad cash conversion cycle. The study also found that cash conversion cycle has significant negative relationship with operating cash flow, company size and sale growth. In Kenya, Ngugi et al. (2014) did a study to evaluate the influence of size of organization on trade accounts receivables management and found that size of the organization had a positive and significant influence on trade account receivables management in the hotel industry in Kenya.

**Conceptual Framework**

The general objective of the study was to examine factors affecting accounts receivables management among pharmaceutical distributors in Kenya. The framework below tries to explain the relationship that exists between independent variables: credit policies, technology, staff competency and company characteristics on the dependent variable.

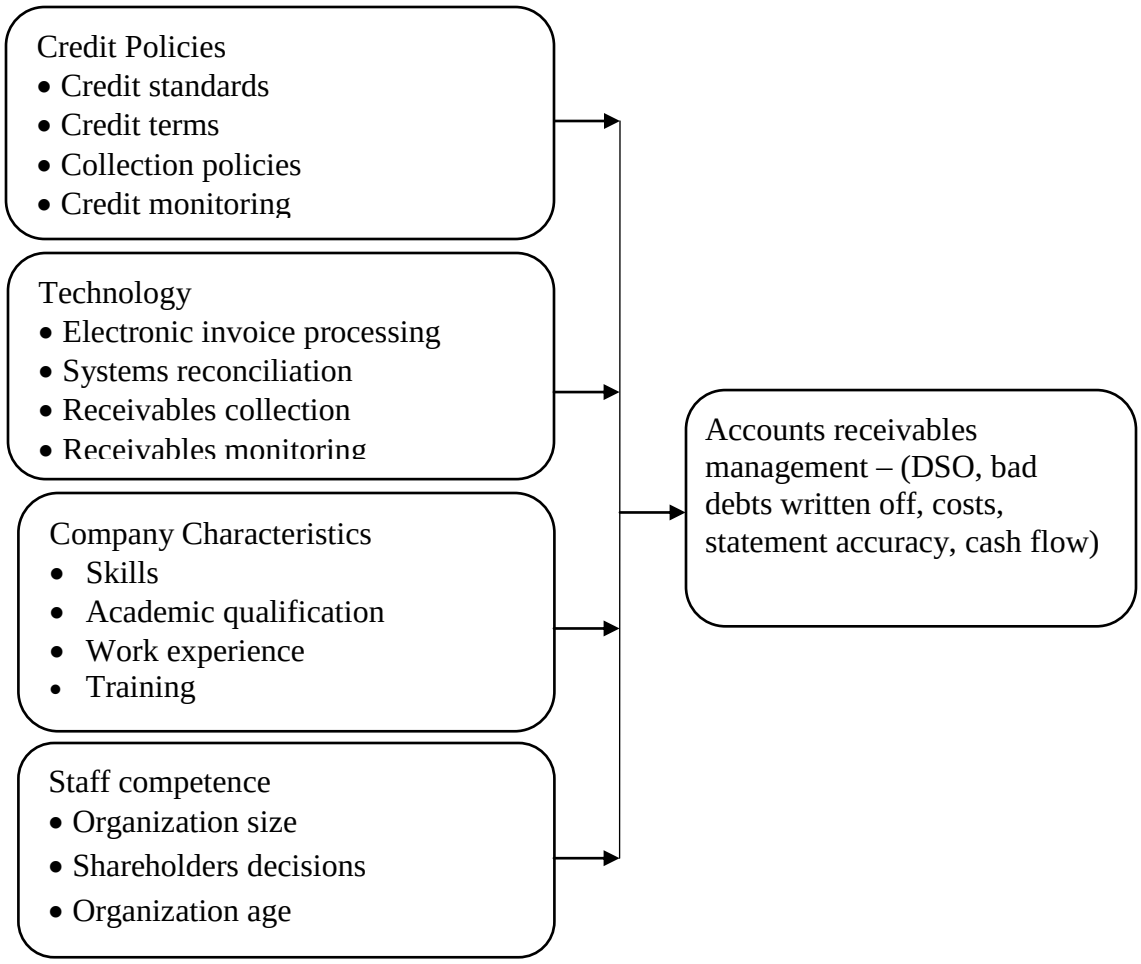


**Figure 1: Conceptual Framework**

**Research Methodology**

The study employed a descriptive research design. Descriptive research was used to describe the general characteristic of the study population and show the relationship between the dependent and independent variables. The target population of this study was all the 258 pharmaceutical distributors

in the two leading medical directories used in Kenya, the Kenya Medical Directory and the Medpages all located in Nairobi County.

**Table 1: Target Population**

| Region | No. of distributors | Target population | Sample Size | Per cent |
|---|---|---|---|---|
| Nairobi central | 199 | 199 | 99 | 77 |
| Westlands | 28 | 28 | 14 | 11 |
| Rest of Nairobi | 31 | 31 | 16 | 12 |
| **Total** | **258** | **258** | **129** | **100** |

Stratified random sampling was used to select 50% of the target population in this study. According to Greener (2008), for a population for between 100 and 500 (100<N<500) a 50% sample size should be selected. In this study, the strata comprised of three based on the area in which the distributor is situated in Nairobi County as categorized in the Medpages directory. The three regions were Nairobi central, Westland and the other areas in Nairobi combined. The sample size of this study was 129 respondents, who were a senior finance manager in each of the sampled distribution company.

The study used primary data which was collected by use of semi structured questionnaires. The questionnaires encompassed both closed ended or open ended questions so as to enable the respondent to express their view without being affected by the researcher.

The questionnaires in this study generated both qualitative and quantitative data. Qualitative data was analysed by use of thematic content analysis presented in a prose form. On the other hand, quantitative data was analysed by use of descriptive and inferential statistics through the help of Statistical Package for Social Sciences (SPSS) version 22. Descriptive statistics included percentages, frequencies, measures of central tendencies (mean) and measures of dispersion (standard deviation) presented in graphs and tables while inferential statistics used regression analysis to establish the relationship between the dependent and the independent variables. The researcher used SPSS to test the following model:

$$\mathbf{Y=\beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon}$$

Whereby; Y= Accounts receivable management; β0 = Constant; β1- β4=Regression Coefficients representing the independent contributions of each independent variable, X to the prediction of dependent variable, Y; $X_{1=}$ Credit policies; $X_{2=}$ Technology; $X_3$= Staff competence; $X_4$= Company characteristics; ε = Error term

**Results And Discussions**

The sample size of this study was 129 senior finance managers in pharmaceutical distributors in Nairobi County. Out of a sample size of 129, 96 responses were obtained, which gives a response rate of 74.41%. According to Creswell (2006), a response of 50% and above is adequate for analysis. Since the response rate in this study (74.41%) was greater than 50%, the responses obtained can be used in the analysis and in making inferenes about the target popultion.

**Effect of credit policies on Accounts Receivables management**

The finance managers were asked to indicate whether their businesses were offering trade credit to its customers. From the findings, 84.4% of the finance managers indicated that their businesses were offering trade credit to its customers while 15.6% disagreed. This implies that pharmaceutical distributors in Nairobi County offer trade credit to their customers.

**Table 2: Offering Trade Credit to Its Customers**

| | Frequency | Percent |
|---|---|---|
| Yes | 81 | 84.4 |
| No | 15 | 15.6 |
| **Total** | **96** | **100.0** |

The managers were asked to list the credit policies used by pharmaceutical distributors. According to the findings, the managers strongly agreed with a mean of 4.82 that monitoring customer's payment habits is an important factor in accounts receivables management. In addition the managers strongly agreed that regular follow-up on customers with due amounts improve collections from the customers as shown by a mean of 4.80. In addition, they strongly agreed 4.77 that accurate and promptly documentation of receipts from customers and formal credit agreements between company and customers affect accounts receivables management. The respondents further agreed with a mean of 4.69 that giving customers discounts for early payments is important for both sales and collections. Also the respondents strongly agreed with a mean of 4.68 that credit approval is the most important factor in receivables management and reviews in customers credit days and limit increase sales. With a mean of 4.65 the managers strongly agreed that outsourcing of credit customers' evaluation and assessments reduce risk of delayed payments and bad debts. In addition, stopping sales to customers with overdue amounts assist in timely accounts receivables collections. The managers also strongly agreed with a mean of 4.61 that review of customers' credit days and limit upwards improve receivables collection. Further, outsourcings of debt collections reduce the outstanding in receivables as shown by a mean of 4.60.

**Table 3: Credit Policies used by Pharmaceutical Distributors**

| | Mean | Std. Deviation |
|---|---|---|
| Credit approval is the most important factor in receivables management | 4.68 | .571 |
| Formal credit agreements between company and customers affect accounts receivables management | 4.77 | .447 |
| Outsourcing of credit customers evaluation and assessments reduce risk of delayed payments and bad debts | 4.65 | .580 |
| Stopping sales to customers with overdue amounts assist in timely accounts receivables collections. | 4.65 | .523 |
| Review of customers' credit days and limit upwards improve receivables collection. | 4.61 | .686 |
| Reviews in customers credit days and limit increase sales | 4.68 | .571 |
| Giving customers discounts for early payments is important for both sales and collections | 4.69 | .568 |
| Outsourcings of debt collections reduce the outstanding in receivables. | 4.60 | .624 |
| Regular follow-up on customers with due amounts improve collections from the customers | 4.80 | .401 |
| Accurate and promptly documentation of receipts from customers affects monitoring of accounts receivables | 4.77 | .423 |
| Monitoring customer's payment habits is an important factor in accounts receivables management. | 4.82 | .384 |

**Effect of Technology on Accounts Receivables management**

The managers were asked to indicate the effect of technology on accounts receivables management of pharmaceutical distributors. From the findings, the managers strongly agreed that the use of technology for maintaining a customer statement ensures balances accuracy and timely collections as shown by a mean of 4.80. The respondents also strongly agreed with a mean of 4.79 that availability of systems data for accounts receivables assist in the process of granting credit to credit worthy customers. With a mean of 4.77 the respondents agreed that systems aging and reconciliation of accounts receivables is important in accounts receivables management and systems data assist in faster accounts receivables dispute resolutions. The respondents further agreed with a mean of 4.75 that accounts receivables management is affected by invoicing accuracy and use of emails and phones improve receivables collections in their businesses.

**Table 4: Technology and Accounts Receivables Management**

| | Mean | Std. Deviation |
|---|---|---|
| Accounts receivables management is affected by invoicing accuracy | 4.75 | .543 |
| Use of technology for maintaining a customer statement ensures balances accuracy and timely collections | 4.80 | .401 |
| Systems aging and reconciliation of accounts receivables is important in accounts receivables management | 4.77 | .423 |
| Availability of systems data for accounts receivables assist in the process of granting credit to credit worthy customers. | 4.79 | .433 |
| Systems data assist in faster accounts receivables dispute resolutions | 4.77 | .470 |
| Use of emails and phones improve receivables collections in your business. | 4.75 | .580 |

**Effect of Staff Competence on Accounts Receivables management**

The managers were asked to indicate their level of agreement with various effects of staff competence on accounts receivables management of pharmaceutical distributors. From the findings, the managers strongly agreed that lack of understanding of credit policies affects accounts receivables management as shown by a mean of 4.86. The managers also strongly agreed with a mean of 4.84 that staff with much experience in customer service are an important part of receivables planning and inadequate training of staff on collection skills affects accounts receivables management. The respondents also strongly agreed with a mean of 4.82 that selling skills are important in accounts receivables management. In addition, the managers strongly agreed with a mean 4.80 that post graduate degree qualifications matters a lot in accounts receivables management. Also, the managers strongly agreed with a mean 4.78 that staff with bachelor's degrees are more effective in managing accounts receivables. Further, the managers strongly agreed with a mean of 4.73 that lack of sufficient experience in accounting working environment affects accuracy of customer reconciliations.

**Table 5: Effect of Staff Competence on Accounts Receivables Management**

| | Mean | Std. Deviation |
|---|---|---|
| Lack of understanding of credit policies affects accounts receivables management | 4.86 | .373 |
| Selling skills are important in accounts receivables management. | 4.82 | .459 |
| Staff with bachelor's degrees are more effective in managing accounts receivables. | 4.78 | .584 |
| Post graduate degree qualifications matters a lot in accounts receivables management. | 4.80 | .515 |
| Lack of sufficient experience in accounting working environment affects accuracy of customer reconciliations | 4.73 | .589 |
| Staffs with much experience in customer service are an important part of receivables planning. | 4.84 | .466 |
| Inadequate training of staff on collection skills affects accounts receivables management | 4.84 | .466 |

**Effect of Company Characteristics on Accounts Receivable Management**

The managers were asked to indicate the effect of company characteristics on accounts receivables management of their business. From the findings, the managers strongly agreed with a mean of 4.90 that shareholders' decisions to add extra financing affect the credit terms of their business. The managers also agreed with a mean of 4.83 that new companies use liberal credit policies to attract and retain customers. With a mean of 4.82 the managers indicated that the older the company, the better their accounts receivables management. The respondents also strongly agreed that variations of credit terms by older companies adversely affect the sales of the company as shown by a mean of 4.81. Further, the managers strongly agreed that a company with high sales growth gives liberal credit terms due to the high discounts they are offered on purchases. This was shown by a mean of 4.77. The respondents agreed with a mean of 4.47 that accounts receivables management is complicated where a company has many branches.

**Table 6: Effect of Company Characteristics on Accounts Receivables Management**

| | Mean | Std. Deviation |
|---|---|---|
| Accounts receivables management is complicated where a company has many branches. | 4.47 | .984 |
| A company with high sales growth gives liberal credit terms due to the high discounts they are offered on purchases. | 4.77 | .447 |
| Shareholders' decisions to add extra financing affect the credit terms of your business | 4.90 | .307 |
| Shareholder' decisions to grow sales increase the number of days of sales outstanding | 4.82 | .384 |
| The older the company, the better their accounts receivables management | 4.82 | .410 |
| Variations of credit terms by older companies adversely affect the sales of the company | 4.81 | .418 |
| New companies use liberal credit policies to attract and retain customers. | 4.83 | .451 |

**Accounts Receivables Management**

The finance managers were asked to rate the accounts receivables management in their businesses. From the findings, the managers indicated that the accounts receivables management in their businesses were good, 25% indicated that they were moderate and 11.5% indicated that they were excellent. This implies that accounts receivables management in Pharmaceutical distributors in Nairobi County was good.

**Table 7: Rating of Accounts Receivables Management**

| | Frequency | Percent |
|---|---|---|
| Excellent | 11 | 11.5 |
| Good | 61 | 63.5 |
| Moderate | 24 | 25.0 |
| Total | 96 | 100.0 |

The managers were requested to indicate how often their companies experienced stated situations. According to the findings, the managers indicated that they were often experiencing costly finance costs on loans to finance account receivables, where M is mean, (M=3.62). The managers also indicated that they were often not able to pay suppliers due to customer delay in payments (M=3.44). In addition, they indicated that they often missed business opportunities due to customers payment delays (M=3.40). The managers also indicated that often customers paying outstanding amount within agreed terms (M=3.29) and customers outstanding more than 66 days of sales (M=3.26). However, the managers indicated that they rarely give incorrect statements to customers (M=2.07) and sue customers for non-payment (M=2.03). Also, the managers indicated that they rarely write off bad debts (M=1.77).

**Table 8: Experiences Related to Accounts Receivables Management**

| | Mean | Std. Deviation |
|---|---|---|
| Customers paying outstanding amount within agreed terms | 3.29 | .648 |
| Customers outstanding more than 66 days of sales | 3.26 | .785 |
| Writing off bad debts | 1.77 | .747 |
| Suing customers for non-payment | 2.03 | .688 |
| Incorrect customer statements | 2.07 | .743 |
| Missed business opportunities due to customers payment delays | 3.40 | .774 |
| Costly finance costs on loans to finance Account receivables | 3.62 | .548 |
| Not able to pay suppliers due to customer delay in payments | 3.44 | .737 |

**Inferential Statistics**

The study used correlation analysis and multivariate regression analysis to assess the influence of the independent variables on the dependent variable.

**Correlation Analysis**

From the findings, credit policies has a positive influence on accounts receivables management among Pharmaceutical distributors in Nairobi County as shown by a correlation coefficient of 0.729 and a p-value of 0.000. In addition, technology has a positive influence on accounts receivables management among Pharmaceutical distributors in Nairobi County as shown by a correlation coefficient of 0.557 and a p-value of 0.000. The results also show that there is a positive significant influence between staff competence and accounts receivables management among Pharmaceutical distributors in Nairobi County. This is shown by a correlation coefficient of 0.751 and a p-value of 0.000. Lastly, the results

show that there is a positive influence between company characteristics and on accounts receivables management among Pharmaceutical distributors in Nairobi County as shown by a correlation coefficient of 0.606 and a p-value of 0.000.

**Table 9: Correlation Coefficients**

| | | **Accounts Receivables Management** | **Credit policies** | **Technology** | **Staff competence** | **Company characteristics** |
|---|---|---|---|---|---|---|
| Accounts Receivables Management | Pearson Correlation | 1 | .729** | .557** | .751** | .606** |
| | Sig. (2-tailed) | | .000 | .000 | .000 | .000 |
| | N | 96 | 96 | 96 | 96 | 96 |
| Credit policies | Pearson Correlation | .729** | 1 | .379** | .593** | .289** |
| | Sig. (2-tailed) | .000 | | .000 | .000 | .004 |
| | N | 96 | 96 | 96 | 96 | 96 |
| Technology | Pearson Correlation | .557** | .379** | 1 | .373** | .259* |
| | Sig. (2-tailed) | .000 | .000 | | .000 | .011 |
| | N | 96 | 96 | 96 | 96 | 96 |
| Staff competence | Pearson Correlation | .751** | .593** | .373** | 1 | .424** |
| | Sig. (2-tailed) | .000 | .000 | .000 | | .000 |
| | N | 96 | 96 | 96 | 96 | 96 |
| Company characteristics | Pearson Correlation | .606** | .289** | .259* | .424** | 1 |
| | Sig. (2-tailed) | .000 | .004 | .011 | .000 | |
| | N | 96 | 96 | 96 | 96 | 96 |

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

From the findings, credit policies has a positive influence on accounts receivables management among Pharmaceutical distributors in Nairobi County as shown by a correlation coefficient of 0.729 and a p-value of 0.000. In addition, technology has a positive influence on accounts receivables management among Pharmaceutical distributors in Nairobi County as shown by a correlation coefficient of 0.557 and a p-value of 0.000. The results also show that there is a positive significant influence between staff competence and accounts receivables management among Pharmaceutical distributors in Nairobi County. This is shown by a correlation coefficient of 0.751 and a p-value of 0.000. Lastly, the results show that there is a positive influence between company characteristics and on accounts receivables management among Pharmaceutical distributors in Nairobi County as shown by a correlation coefficient of 0.606 and a p-value of 0.000.

**Multivariate Regression Analysis**

A multivariate regression analysis was used to assess the influence of the independent variables (credit policies, technology, staff competence and company characteristics) on the dependent variable (accounts receivables management).

The regression model was:

$Y=\beta_0 + \beta_1X_1+ \beta_2X_2+ \beta_3X_3 + \beta_4X_4 + \varepsilon$

Whereby; Y= Accounts receivable management; $\beta_0$ = Constant; $\beta_1$- $\beta_4$=Regression Coefficients; $X_{1=}$ Credit policies; $X_{2=}$ Technology; $X_3$= Staff competence; $X_4$= Company characteristics; and $\varepsilon$ = Error term

**Table 10: Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .904[a] | .816 | .808 | .14858 |

In regression analysis, the model summary presents the r-squared, which shows the proportion of variance in the dependent variable that can be explained by the independent variables. In this study, the r-squared was 0.816. This implies that the four independent variables (credit policies, technology, staff competence and company characteristics) explain 81.6% of the accounts receivable management among Pharmaceutical distributors in Nairobi County.

**Table 11: Analysis of Variance**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 8.931 | 4 | 2.233 | 101.140 | .000[b] |
| | Residual | 2.009 | 91 | .022 | | |
| | Total | 10.940 | 95 | | | |

In regression analysis, the analysis of variance is used to assess whether the model is a good fit for the data. According to the findings, the F-calculated (101.140) was greater than the F-critical (2.45) and the p-value (0.000) was less than the significance level (0.05). This implies that the model is a good fit for the data and hence can be used in predicting the influence of four independent variables (credit policies, technology, staff competence and company characteristics) on accounts receivable management among Pharmaceutical distributors in Nairobi County.

**Table 12: Coefficients**

| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|
| | B | Std. Error | Beta | | |
| (Constant) | .227 | .258 | | .882 | .380 |
| Credit policies | .312 | .049 | .366 | 6.403 | .000 |
| Technology | .183 | .042 | .219 | 4.404 | .000 |
| Staff competence | .263 | .049 | .322 | 5.395 | .000 |
| Company characteristics | .288 | .047 | .306 | 6.133 | .000 |

According to the results in table 12, the regression model was;

$Y=0.227 + 0.312X_1 + 0.183X_2 + 0.263X_3 + 0.288X_4 + \varepsilon$

Holding all the independent variables constant, accounts receivables management will have an index of 0.227. In addition, the Beta coefficient for the association between credit policies and accounts receivable management among Pharmaceutical distributors in Nairobi County was 0.312. This shows that a unit improvement in credit policies would lead to a 0.312 improvement in accounts receivable management among Pharmaceutical distributors in Nairobi County. The association was significant as the p-value (0.000) was less than the significance level (0.05).

In addition, the results show that the beta coefficient for the association between technology and accounts receivable management among Pharmaceutical distributors in Nairobi County was 0.183. This shows that a unit improvement in technology adoption would lead to a 0.183 improvement in accounts receivable management among Pharmaceutical distributors in Nairobi County. The association is significant because the p-value (0.000) is less than the significance level (0.05).

Further the results indicate that the beta coefficient for the association between staff competence and accounts receivable management among Pharmaceutical distributors in Nairobi County was 0.263. This implies that a unit improvement in staff competence would lead to a 0.263 improvement in in accounts receivable management among Pharmaceutical distributors in Nairobi County. The association was significant as the p-value (0.000) was less than the significance level (0.05).

Lastly, the results show that the beta coefficient for the association between company characteristics and accounts receivable management among Pharmaceutical distributors in Nairobi County was 0.288. This shows that a unit improvement in company characteristics would lead to a 0.288 improvement in accounts receivable management among Pharmaceutical distributors in Nairobi County. The association is significant because the p-value (0.000) is less than the significance level (0.05).

This infers that credit policies have the highest influence on accounts receivable management among Pharmaceutical distributors in Nairobi County, followed by company characteristics, staff competence and technology.

## Conclusions

The study concludes that credit policies affects accounts receivable management positively and to a great extent among Pharmaceutical distributors in Nairobi County. The study also concludes that technology has a positive effect to a great extent on accounts receivable management among Pharmaceutical distributors in Nairobi County. The study further concludes that staff competence has a positive influence on accounts receivable management among Pharmaceutical distributors in Nairobi County. The study also concludes that company characteristics have a positive influence on accounts receivable management among Pharmaceutical distributors in Nairobi County.

## Recommendations

The study found that more than one sixth of the pharmaceutical distributors had no written credit policy despite the fact that they were offering credit to their customers. Since credit policies help in ensuring customers discipline in making payments, the study recommends that all pharmaceutical distributors should develop a credit policies that declare their credit terms and consequences of default.

The study found that some pharmaceutical distributors were processing invoices using manual systems. The manual system often inefficient is usually characterized by errors that may lead to losses. This study therefore recommends that all pharmaceutical distributors should adopt information technology in processing of involves. This will help dispute resolutions with customers.

The study also found that some pharmaceutical distributors were using personal visits in the collection of debts. Personal visits are tiresome and often inefficient. The study therefore recommends that pharmaceutical distributors should starting using emails and telephones in the making follow-ups on debts. These platforms can be used to send reminders to the customers and inform them when their debts are due.

The study found that more than one fifth of the staff in pharmaceutical distributors had not received training on how to handle accounts receivables issues. This study recommends that the management of pharmaceutical distributors should come up with training programmes on accounts receivables so as to enhance the knowledge and skills of their staff.

The study found that accounts receivables management is complicated where a company has many branches. This study therefore recommends that pharmaceutical distributors with many branches should adopt one information system so as to ensure central management of account receivables.

**Areas for Further Studies**

This study was conducted on pharmaceutical distributors in Nairobi County and hence the findings cannot be generalized to pharmaceutical distributors in other counties in Kenya. The study therefore suggests similar studies in other Counties in Kenya. The study also found that credit policies, technology, staff competence and company characteristics explain 81.6% of accounts receivable management among Pharmaceutical distributors. This study therefore suggests further studies on other factors affecting accounts receivable management among Pharmaceutical distributors in Nairobi County.

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