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Control Management and Family Business Performances

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ABSTRACT

This study examined the relationship between control management and family business performances in the Malaysian context. It has two objectives, firstly was to determine the relationship between organizational credit control policy and procedures, employee development and motivation, and an intelligence collection system and the subsequent collection reports in Malaysian family SMEs. The second objective was to investigate the moderating effect of participation in decision making and work effort concerning innovation and business performances. This is a descriptive study based on 90 senior executives employed in the 90 Malaysian family SMEs firms surveyed. A correlation analysis from this study confirmed previous researchers' observations that a high-level organizational credit control management commitment was linked with higher business performance. The results suggest that three components, credit policy, employee development, and intelligence collection systems were the most important predictor used by credit control management

KEYWORDS: - ***Family Business Performance, credit control, employee development, motivation and credit system*.**

Introduction

It is widely believed that the impact of credit control management can create a strong cash flow for a company. The purpose of this study is to determine the factors to influence an effective and efficient credit control management for Malaysian family SMEs business. It will further explain the reasons of how some family businesses firms can achieve the higher performance and obtain higher profits through better profit sources, while others failed to achieve neither the higher performance nor better sources of profit. Data were collected from 90 Malaysian family SMEs firms. There are four independent variables (1) standard credit control policy and procedures, (2) employee development and motivation, (3) an intelligence collection system and (4) a comprehensive debtor collection report as tested in this study. We have used SPSS system to test all the independent variables in order to determine whether all these variables are significant and support the effectiveness and efficiency of credit control management. The result from the survey of 90 firms shows that all independent variables supported the positive relationship between independent variables and the dependent variable. This study also proposes several important suggestions to improve and enhance the credit control management of Malaysian family SMEs firms.

Although both Family businesses and non-family businesses are concerned with credit control management and business performance, what differentiates family businesses from non-family businesses is the variation in the relative importance of factors affecting each decision. Family business, as a strategically distinct entity, is unique in the strategy making processes of tax planning, business continuation, founder transition and owner/manager life cycles. They have different goals, traditions, life-cycle stages and values from a non-family business. Indeed, family business decisions are more complex due to non-monetary motivations such as preserving and transferring family assets, both tangible and intangible, to the next generation and all of these factors influence management decisions.

Moreover, the varying degree of the owning family involvement should show that a family business is a continuum rather than as a direct comparison between family and non-family business

Credit control and debtor management is important for a successful company. However, there are some family SMEs businesses still unable to monitor their debtor receivables and bad debts effectively, and it causes cash flow problems and finally the business may necessarily cease operations.

This study examined the factors affecting the effectiveness and efficiency of credit control and debtor management of Malaysian family SMEs firms. It will further seek to explain the reasons of why some family firms achieve higher performance and obtain higher profit and better sources of profits, while others failed to achieve either or both.

This study seeks to answer the following research questions:

- The effects of credit control policy and procedures upon effective and efficient credit control and debtor management.
- The effects of employee development and motivation upon effective and efficient credit control and debtor management.
- The effects of an intelligence collection system upon effective and efficient credit control and debtor management.
- The effects of comprehensive collection report upon effective and efficient credit control and debtor management.

Literature Review

The objective of the literature review is to elaborate more about the definition of credit, why business extend credit, the importance of credit control management, the organization of the credit control department, how to maintain prevention credit losses, the methods used to collect payment on time, the responsibilities of the credit control manager, duties of tomorrow's credit control manager, and credit policies and procedures in relation to business performances.

Credit Control defined: According to the Dictionary of Business Dictionary, to "offering credit" means to defer payment terms offered by a seller to a buyer as a standard trade practice or to encourage sales. In some trades such as jewelry business, the credit may extend to 180 days or even longer (Michael J. P., Nicholas W. & Carole H., 2000).

According to the Dictionary of Financial Dictionary, credit is a term used for many financial services that involve the borrowing of money. In its basic form credit refers to a legally binding agreement between a borrower and lender where the borrower receives money or assets and agrees to pay for the goods or services at a later date, sometimes with added interest. A lender is referred to as a creditor and a borrower is referred to as a debtor.

In business term, the supplier's and producer's credit is commonly referred to as trade credit. To extend trade credit to a customer means a company will give time to customer to pay or settle the full payment for goods and services supplied. The credit terms may vary depending on the nature of the business.

Credit Control Policy and Procedures defined: Shelly Hart (2011) stated that the purpose of the

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credit control policy and procedures is to define the credit control department function and its responsibility as well as to set down credits objectives and the operation manual of the credit control department. The function of the credit control policy and procedures are to protect the investment of the accounts receivable of the company, as well as to maintain the lowest level of receivables. It is commensurate with the inherent risks of achieving sales objectives and to increase the company profit as well.

Pursuant to the credit control policy, the information gathered could be summarized in a credit evaluation report that includes the potential debtor's corporate summary financial statement, financial ratios, cash flow analysis and payment trend analysis. Besides, the collection of more information may need to be necessary for decision making such as a credit history showing payment timing, credit limits and any action that have been necessary to secure payment, a precise identification and a description of the company's operation and background, description of the owners, their backgrounds and strengths and pertinent detailers such as lawsuits and bankruptcies and a summary credit scores rating (Shelly Hart 2011).

The credit terms and period offered to the customer must be clearly defined and stated in the credit control policy as it will affect the cash flow of the company. The credit terms/period is a length of time granted to the customer for payment on the goods received and it is normally established according to an industry standard. However, the credit terms and period have a direct impact on the cost of financing receivables and involves a collection risk. As such, the credit terms and period must be well considered by the management before submission and inclusion in the credit control policy. The credit terms and period is influenced by the strength of the creditor company's market position. The company must post a strong cash flow because the payment will be only collected after the credit term is due. Besides, the attitude of the competitors to their setting of credit terms will also affect the debtor company to set their credit terms as customers will looking for the supplier who offer longer credit terms for them or lower account keeping charges or both (Pedro Juan García-Teruel & Pedro Martínez-Solano, 2010).

Research Method

This study was conducted to determine the effectiveness and efficiency of credit control management for Malaysian family SMEs business. A regression model of effectiveness and efficiency of credit control management was proposed in order to investigate the factors that influence the effectiveness and efficiency of credit control management for Malaysian family SMEs business. There are four independent variables were included in the model.

Furthermore, previous research showed that the effectiveness and efficiency of credit control management is successful and offers real benefits for SMEs businesses if credit policies have the following characteristics:

1) The company has a standard credit control policy and procedures to provide clear guidance and procedures to the staff.
2) The employee collection performance will be enhance and improve by focusing more on employee development and motivation.
3) The company must have an intelligence collection system used by the managers and staff for collection purposes.
4) The managers and credit control staff must analyze the comprehensive collection report for prevention of doubtful debt and policy determines the next step of action to be taken against slow payers.

SPSS was used to analyze the data gathered from the respondents and the standard multiple regression was applied to study the relationships between each other.

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Sampling design and data collection procedure: This research employed a descriptive design to support the study of the hypotheses presented above. The survey instrument used involved a combination of questionnaires specifically for each of the areas of organizational commitment, intention to leave current employment, selected moderating variables - power, experience and culture as well as various demographic variables.

Self-administered questionnaires were distributed to a convenience sample of 90 senior executives who employed at 90 Malaysian SMEs family business, as a non-probability sampling method was adopted.

Data analysis techniques: The data was analyzed using the Statistical Package for Social Sciences (SPSS) version 16.0 program.

Prior to input into the program, a defined unique code established each variable.

The accumulation of all Likert Scale points for all questions under a particular measure produced a new variable.

The following derived measures from the sum of the Likert Scale results support the following issues:

- Credit control policy and procedures
- Experience commitment of employee development and motivation
- Intelligence collection system
- Comprehensive Collection Report

The data analysis consisted of the following:

- Tests of normality for each variable. Descriptive numerical method of skewness and kurtosis statistics were used.
- Test of scale reliability. Cronbach's coefficient alpha was used for this purpose.
- Determination of the relationship between each dimension with credit control management and performances using the Pearson correlation coefficient analysis.
- Determination of the linear composite relationship between the participation of the above four variables in credit control management and performances, using multivariate statistical technique using all variables regression.

Result and Discussion

Normality test: The normality of all the variables was tested by assessing the skewness and kurtosis values. When data is normally distributed, the value of skewness and kurtosis are zero, as values outside the range of +2 or -2 demonstrate considerable degrees of non-normality (George and Mallery, 2003). In this study, most of the variables were inside the range of +2 or -2.

Reliability test: Cronbach's Coefficient Alpha was used to measure the internal consistency of scale. Its value ranges from 0-1. The tests of reliability were performed on all the measures used. Table 1 below, summarizes the Cronbach's Coefficient Alpha for each measure. A scale is reliable if the coefficient value is more than 0.600 (Hair et al., 1998).

All the measures in this study were found to be reliable with the intention to leave employment scale having the highest coefficient alpha value of 0.884. The measure having reliability coefficients lower than 0.700 was a normative commitment.

Table 1: Reliability of measures

Measure	No. of items	Cronbach's Coefficient Alpha
Credit control policy & procedure	7	0.800
Employee development & motivation	5	0.666
Intelligence Collection System	5	0.874
Comprehensive Collection Report	5	0.699

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H1: There is a significant relationship between organizational commitment and intention to leave.
H2: There is a significant relationship between effective commitment and intention to leave.
H3: There is a significant relationship between effectiveness and efficiency of credit control and debtor management.
H4: There is a significant relationship between comprehensive collection report on effective and efficiency of credit control and debtor management.

The Pearson Correlation Coefficient analysis was used to determine the relationship between credit control management and performances. The Pearson Correlation coefficient, indicates the strength of relationship between the variables. A correlation coefficient between 0.10 and 0.29 indicate a small correlation, while a coefficient between 0.30 and 0.49 indicate a medium correlation and a coefficient between 0.50 and 1.0 indicate a large correlation (Sidin and Zawawi, 2002).

Table 2 shows the Pearson Correlation coefficient (r) between dimensions of credit control policy and procedure, employee development and motivation, intelligence collection system and comprehensive collection report scale with credit control management and performances. The credit control policy and procedure Pearson Correlation, r = -0.564 indicated a strong positive correlation with credit control management and performances.

The correlation analysis results showed that all three dimensions have significant inverse relationship with credit control management and performances. Employee development and motivation showed large correlation with intention to leave with r = -0.586 ($p<0.01$) while both intelligence collection system and comprehensive collection report demonstrated a medium correlation with r = -0.313 ($p<0.01$) and r = -0.367 ($p<0.01$) respectively. Therefore, hypotheses H1, H2, H3 and H4 were fully supported.

Table2: Pearson correlation between dimensions of Credit control management and performances

	Credit control management and performances
Credit control policy and procedure	0.564**
Employee development and motivation	0.586**
Intelligence collection system	0.313**
Comprehensive collection report	0.367**

The objective of this study is to test the impact of knowledge about the effect of the credit control policy and procedures, employment development and motivation, intelligence collection system and comprehensive collection reports on credit control management and performances of Malaysian SMEs family businesses.

In this research, T-test, Pearson Correlation Analysis and regression analysis have all been used. All of these research methods can help us analyze the credit control operational activity and abilities. In the past, many researchers have studied the impact of credit control and debtor management and non-performing loans for commercial and banking industries (Teh Chee Gee, 2001). In this study, we explain and test the factors of the effectiveness and efficiency of credit control management. These four factors are standard credit control policy and procedures, employee development and motivation, intelligence collection system and comprehensive collection report.

Presented are several important findings from this research in the following paragraphs.

Standard credit control policy and procedures

From results show that we can point out that the standard credit control policy and procedures, employee development and

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motivation, intelligence collection system and comprehensive collection report have contributed to improving and enhancing the credit control management and performances of Malaysian SMEs family businesses. These research findings also tell us that most Malaysian SMEs family business has better credit control management by designing and implementing good and standard credit control policies and procedures.

Employee development and Motivation

Our results show that the credit control management of a company becomes more effective and efficient among firms with an employee development and motivation program. According to our findings, the firms that have implemented employee development and motivation programs enhance the staff receivables collection performance and improve the technical knowledge of their staff as well. Motivation of staff affects the effectiveness and efficiency of credit control management as it motivates their staff to better complete their tasks and improvements can lead to the offering of incentives and promotions.

Intelligence Collection System

The results show that an intelligence collection system has a positive influence on the credit control management and offers better collection performance for most Malaysian family SMEs businesses. Recently advanced technology becomes important in credit control management. The intelligence collection system had assisted most Malaysian SMEs family business for better monitoring their debt receivables and keeping track of their customer's payment records. Besides, the intelligence collection system also can provide a valuable data and information of the debt receivables to the credit control staff for ease of monitoring and in the planning of proactive recovery actions. The intelligence collection system also can save the time and cost of the company as the credit control staff can extract information needed from the system for further analysis.

Comprehensive Collection Report

According to our results, most Malaysian SMEs family business have generated and utilized comprehensive collection reports for monitoring and analysis. The comprehensive collection report provides a very useful and details of customer information to the credit control staff. The credit control staff used the collection report to follow up the payment from the customers and to ensure that all the billings and payments received from customers are recorded in the collection report. The collection report will also save time and costs of most Malaysian SMEs family businesses. At the same time, the credit control manager conducts the collection and cash flow analysis for their customer by analyzing the collection report. They use this analysis to evaluate their cash flow and repayment trend for their customers and are able to initiate any recovery decision to aid in the prevention of doubtful debts.

Conclusion

This research revealed that four of the determine factors which are (1) the company has a standard credit control policy and procedures to provide clear guidance and procedures to the staff, (2) the employee collection performance will be enhance and improve by focusing more on employee development and motivation, (3) the company must have an intelligence collection system and it has been utilized by the managers and staff for collection purposes, (4) the managers and credit control staff have to analyze the comprehensive collection report for prevention of doubtful debt and determine the next course of action to be taken against the bad debtor to explain 85.6 percent of the variance on the effective and efficiency of credit control management. All of these independent variables were supported effective and efficiency of credit control management.

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In this research, all the four independent variables were able to explain the variance on the effective and efficiency of credit control management for family business.

Several important suggestions are presented in the following:
According to a past study (Samuel Greengard, 2005), a company should embark and put more attention and resources in credit control management in order to strengthen their debtors management. The long term survival of a company will depends on the profitability and debt collection. Debt collection is the ultimate form of selling and a credit sale is not a sale unless it has been converted to cash for a company. Secondly, Malaysian family SMEs firms should implement a format credit documentation to ensure that all credit risks are well monitored and controlled by the credit control staff to lower the doubtful debts risk of becoming bad debts.. Finally, at this recent century, Malaysian family SMEs firms should spend more resources in Information Technology based on credit control features in the debt management. The company should always upgrade the collection system in order to provide accurate information and assist the credit control staff on the analysis of non-payment from their customer and choice of next course of action.

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