

**CREDIT MANAGEMENT MECHANISM AND FINANCIAL PERFORMANCE IN
UTILITY COMPANIES IN UGANDA: A CASE OF UMEME LIMITED**

WILSON EGESSA

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**A DISSERTATION REPORT SUBMITTED TO THE SCHOOL OF BUSINESS IN PARTIAL
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**UGANDA CHRISTIAN
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DECLARATION

I, Wilson Egessa, do declare that the work contained in this research report titled, Credit Management Mechanism and Financial Performance in Utility Companies in Uganda (A Case of Umeme Limited), which is submitted in partial fulfilment for a master's degree in business administration in the school of Business at Uganda Christian University, is my own work. I declare that this research report has not been submitted at any other institutions of higher learning for academic purposes. All information was sourced during the time to file this report and is duly authorized

I understand the consequences of academic dishonesty and plagiarism and I upheld the highest standards of integrity throughout the research process.

Date:

19/12/2024

Signature: _____



APPROVAL

I hereby certify that the research report titled "Credit Management Mechanism and Financial Performance in Utility Companies in Uganda: A Case of Umeme Limited" by Wilson Egessa was prepared under my supervision. The report has been reviewed and approved.

Date: ...19/12/2024.....

Signature:  _____

Dr. Aketch Everline (PhD.)

Research Supervisor

DEDICATION

Dedicated to the loving memory of my late mother Ms. Anyango Lydia. Her unshakeable faith in the importance of education and her tireless dedication to giving me a chance to learn has been the foundation on which I began my academic career. I think of her every day, inheriting a legacy of valuing knowledge.

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I would like to thank first and foremost our Almighty God who is the source of all, the giver of life who blessed me so much and gave me the strength and determination to pursue this research.

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All the Blessed of Almighty God bless you abundantly

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ABSTRACT

This research sought to analyze the effect of credit management mechanisms on the financial performance of utility companies in Uganda with specific reference to Umeme Limited. This research utilized the Information Asymmetry Theory to discuss potential information gaps between utility providers and their customers in credit terms, standards, and collection processes. The new enhanced financial evaluation process bifurcates the information asymmetry which refers to the inequality that arises from the differences in knowledge between the managers in business and the lenders. The investigation is based on earlier evidence which shows that a lack of equality in information results in problems like moral risk and adverse selection.

The study was aimed at assessing the impact of credit terms, credit standard and credit collection procedures on Umeme's financial performance. Details of the research finding also indicated that credit terms do not significantly influence ($R^2 = 0.045$; $p > 0.05$) on financial performance. Compared to the credit standards ($R^2 = 0.0768$; $p < 0.05$) and the credit collection ($R^2 = 0.2139$; $p < 0.0001$), the credit standards and credit collection are the most effective factors in influencing financial outcomes. The most significant influence of credit collection procedures showed effective credit management practices on financial performance.

As a result of those findings, the study advised that Umeme re-design its credit collection processes to include tighter monitoring and follow-up procedures which could include automated reminders and increased interaction with customers. Topics for future research include: exploring alternative credit management practices, as well as regulatory effects on utility companies. It is also recommended that the organization has a well-established training program for credit personnel that outlines appropriate and clear flexible credit terms according to the needs of the customers and ensures on-time payment of dues without worst atmosphere from either of the organizations which would improve both financial performance and customer satisfaction.

Establishing this relationship provides understanding of credit management practices and their impact on financial performance of utility companies and thus would be useful for Umeme (and other utility companies) to manage credit-related risks for improving their overall financial stability.

CHAPTER 1: INTRODUCTION

1.0 Introduction

This chapter deals with the background of the study, problem statement, aims, study questions, study hypotheses, significance of the study, study scope, and definition of the key terms.

1.1 Background to the study

It contains historical, conceptual, contextual, and theoretical background to the study.

1.1.1 Historical Background

People have treated credit management as an important matter in organizations for many years. Credit has always been a vital part of how businesses operate, especially in sectors where customers don't pay immediately for goods or services. For utility companies those that supply essentials like electricity, water, and gas offering services on credit isn't just common; it's often necessary. Many customers depend on these services daily, and flexible payment options help them manage their finances. But for the providers, especially in environments with financial instability, this flexibility can come at a cost. If payments are delayed or never made, companies can face serious financial strain. That's why sound credit management is not just helpful it's essential (Muturi, 2016).

All over the world, utility companies grapple with this balance. They serve a broad customer base, including individuals and small businesses, some of whom may struggle to pay their bills on time. When these payments don't come through, companies experience bad debts, strained cash flows, and overall reduced financial performance (Addae-Korankye, 2014). To avoid this, organizations rely on credit management tools like clear credit policies, accurate risk assessments, well segmented customer management, and robust debt collection strategies.

In Uganda, the story of electricity distribution goes back more than a century. Electricity was first introduced in 1906, mainly to serve colonial and industrial interests (Monitor, 2021). A major turning point came in 1954 with the completion of the Owen Falls Dam in Jinja, which introduced hydroelectric power generation to the country. As Uganda continued to grow, so did the demand for electricity, pushing the government to restructure the entire electricity sector. The

Electricity Act of 1999 laid the foundation for this transformation by separating generation, transmission, and distribution services (Electricity Regulatory Authority, 2020).

Out of this reform came Umeme Limited, which was awarded a 20-year concession in 2004 to manage Uganda's electricity distribution system. By March 2005, Umeme officially took over operations from Uganda Electricity Distribution Company Limited (UEDCL) (Busharizi, 2016). Since then, the company has invested in upgrading infrastructure, installing new technologies, and improving service delivery. Yet, despite these efforts, challenges remain especially when it comes to customers failing to pay for the power they consume, illegal connections, and vandalism, all of which have a direct impact on the company's financial well-being.

Take 2015, for example. That year, Umeme reported total power losses of 19.2%. Of this, 13% came from technical faults, while 6.2% stemmed from commercial issues such as theft and unpaid bills (Anyanzwa, 2015). While there was some progress losses were reduced to 17.2% by 2017—the financial burden was still heavy. In 2016 alone, Umeme estimated losses of around UGX 106 billion due to non-payment, illegal connections, and system vandalism, with Bugisu in Eastern Uganda being one of the worst-hit areas (Adengo, 2016). In response, the company launched massive crackdowns disconnecting illegal users and arresting offenders in areas like Kampala, Mbale, Jinja, and Masaka (Benon, 2021).

But even with these efforts, the core challenges in credit management have persisted. Inadequate credit policies, weak enforcement, and limited customer screening continue to hinder progress. The situation points to a deeper, structural issue in how credit is managed raising the question: are current credit management mechanisms truly effective?

This research is therefore timely and important. By focusing on Umeme Limited, the study seeks to examine how credit management strategies are influencing financial performance. The aim is not only to highlight what's working and what's not but also to offer evidence-based recommendations that could strengthen credit control, improve revenue collection, and ensure the long-term sustainability of Uganda's electricity sector.

1.1.2 Conceptual Background

Credit management

In today's business landscape, effective credit management has become a cornerstone of financial health, especially for service-based organizations like utility companies. Credit management refers to the policies, procedures, and practices that organizations put in place to control how credit is extended to customers, minimize defaults, and ensure consistent cash flow (Abiola, 2014). It includes activities like credit analysis, rating, classification, and reporting, all designed to strike a balance between enabling sales and safeguarding revenue collection. As Nelson (2002) explains, managing credit is essentially about regulating credit sales in a way that reduces financial risk while still supporting profitability.

This is particularly important in utility companies such as Umeme Limited, where services like electricity are often delivered before payment is made, especially in the case of postpaid customers. In these scenarios, sound credit management is vital for maintaining financial stability. Nzotta (2004) points out that the quality of credit decisions an organization makes can significantly influence its performance, especially in sectors like energy distribution where operational expenses are high and depend on timely payment from customers.

Kipkoech (2015) emphasizes that managing credit lines well is key to avoiding bad debts and ensuring that enough cash is flowing through the business to keep things running. An effective credit management framework helps set the terms under which credit is granted, how it is monitored, and how it is eventually recovered. Without these systems in place, organizations face the risk of mounting arrears, cash flow shortages, and even service disruptions. Moti et al. (2012) note that not every customer will pay on time or at all which is why having strong credit policies and enforcement tools is essential.

Globally, many utility companies use a combination of prepaid and postpaid billing systems to manage their revenues. Prepaid systems, like Uganda's Yaka, require customers to pay upfront before consuming electricity, making it easier to manage revenue collection and reduce defaults. On the other hand, postpaid systems common among industrial and large commercial users mean that customers use power first and are billed later, adding a credit component to the transaction

(Aduda & Gitonga, 2011). This creates room for delayed payments, disputes, or even defaults, all of which must be carefully managed.

Umeme Limited, Uganda's largest electricity distributor, operates under this hybrid billing model. While the majority of its customers, about 80% as of 2021 have migrated to the prepaid Yaka system, a significant 20% remain on postpaid billing (Umeme, 2021). Notably, these postpaid customers, mostly large power consumers, contribute more than 60% of the company's total revenue (Electricity Regulatory Authority [ERA], 2021). This means that despite being fewer in number, postpaid clients carry substantial weight in Umeme's financial ecosystem.

The challenge, however, lies in ensuring that these revenues are actually collected. Delays or non-payment by postpaid clients can severely disrupt cash flows, hinder infrastructure investment, and reduce operational efficiency. Diagne and Zeller (2001) highlight a key truth in financial management: the sale isn't truly complete until the money is in the bank. For Umeme, this underscores the need for strong credit collection procedures, clear credit terms, and accurate customer assessments. Tools like the 5Cs of credit character, capacity, capital, collateral, and conditions can help ensure that only creditworthy customers are granted postpaid privileges (Abedi, 2000).

Chikamai and Mutua (2018) also stress that every organization, particularly those in service delivery, must design credit frameworks that anticipate potential defaults and mitigate financial risk. In essence, credit management in utility companies is more than a routine financial task it is a strategic lever that can either drive or derail performance.

For Umeme, the presence of both prepaid and postpaid customers adds complexity to its credit management process. This study seeks to explore how the company's credit management mechanism specifically credit terms, credit standards, and collection procedures affect its overall financial performance. Understanding and improving these mechanisms could help the company reduce losses, enhance revenue collection, and sustain long-term operational success.

Financial Performance

Financial performance measures the results of a firm's policies and operations in monetary terms Business dictionary, (2015). These results are mirrored in the firm's return on investment (ROI), return on assets (ROA), and value added. Financial performance, according to Turyahebya

(2013), is the actual outcome of an entity that is achieved over a period of time, the ultimate requirement of all organizations, and the ability of an organization in performance efficiency, profitability, resilience, growth, and balancing adverse environmental opportunities and threats. One of the prime goals of any enterprise is to achieve higher levels of performance, as improved performance is a key performance indicator (KPI) for any enterprise. Financial performance is a company's ability to generate new resources, from day-to-day operations, over a given period; performance is gauged by net income and cash from operations. Ochieng, (2012). Financial performance refers to the monetary result of an organization's policies/procedures. Thus, Organizations' financial performance is a by-product of various activities carried out by the management, guided by the set guidelines of the loan policies. Operating income, return on assets and earnings before interest and taxes are calculated by comparing various items in the financial position statement and the statement of comprehensive income. Nancy, (2011).

Financial performance measures the results achieved by a financial institution's policies and operations in monetary terms. This has been done through computing, either the firm return on investment or return on assets. This lies within the domain of performance measures on the capacity to earn income based on the organization's assets. Gatuhu, (2013)

According to the business dictionary financial performance involves measuring the results of a firm's policies and operations in monetary terms. These results are reflected in the firm's return on investment, return on assets and value added. Turyahebya (2013), defines financial performance as the ability to operate efficiently, profitably, survive, grow, and react to environmental opportunities and threats. Achieving better performance is one of the major objectives of any enterprise given that high performance is an indicator of success for an enterprise. Financial performance is the company's ability to generate new resources, from day-to-day operations, over a given period; performance is gauged by net income and cash from operations (Ochieng, 2012). Financial performance is the outcome of an organization's policies and procedures in monetary terms. Therefore, Organizations' financial performance is a result of several activities undertaken by the management guided by the laid down loan policies. This is indicated by operating income, return on assets and earnings before interest and taxes, which are computed by comparing different items in financial position statement and the statement of comprehensive income (Nancy, 2011).

Financial performance involves gauging the results of a financial institution's policies and operations in financial terms. This has been done by calculating the firm's return on investment and return on assets (ROA). This falls within the realm of performance measures on the ability to generate income based on the organization's assets (Gatuhu, 2013).

1.1.3 Theoretical background

Information Asymmetry Theory

As this has been shown in essays by Binks and Eunew (1997), there is information asymmetry when evaluating bank lending uses. Information irregularly expresses the state at which appropriate certainties are not well known to everybody associated with an endeavor. Ekumah and Essel, (2003). Research over undertaking costs has demonstrated that undertaking costs happen "when a good or a duty is moved across a technologically breakable connect". So, every time a product or service is transferred from one stage to another, transaction costs are high. So, it might indeed be cheaper to maintain the activity within, from fear that the association will exhaust resources on model contacts attending providers, junctions and undertaking. Thus, managers need to weigh the undertaking costs against the external undertaking costs.

Information asymmetry is about a scenario where business owners or managers have much better information than lenders about prospects for, and risks to their business. PWHC, (2002). It describes a state in which all participants in an undertaking are ignorant of relevant information. In the debt market, because the borrower who takes a loan generally has superior information about the likely risks and returns of the investment projects to which the funds are allocated, information asymmetry arises. On the other hand, the lender has as little information about borrowers. Edwards and Turnbull, (1994). According to Binks et al (1992), perceived information asymmetry between the Banks and Entrepreneurs creates two problems for Banks; moral hazard (monitoring of entrepreneurial behavior) and adverse selection (errors in loan selection).

It is difficult for utility companies to get over those problems because it is not cost-effective to allocate resources for appraisal and monitoring because lending is for reasonably small amounts. The data that would be necessary for screen service usage and to monitor service users, are not available to utility companies like UMEME free of charge. Binks and Ennew, (1996). It is either not available, uneconomic to obtain or difficult to interpret the information needed to assess the

competence and level of commitment of the service users and the prospects of the business for those who use power in business. This gives rise to two types of risk to UMEME, first an adverse selection risk when UMEME issues power and the user does not repay (type II error), or when it does not supply to the users who can afford purchasing power. First, there was information asymmetry in the credit relationship between UMEME and the customers of which leads to two main problems: adverse selection and moral hazard. The pre-signing of service usage agreement is dominated by a phenomenon of adverse selection or anti-selection, due to the existing information asymmetry. Information asymmetry becomes a cause of moral hazard after the contract signing and consumption of electricity. TUPANGIU, (2017).

1.2 Statement of the problem

Managing credit effectively is not just a technical requirement, it's at the heart of keeping any organization financially healthy and sustainable. This is especially true for businesses that operate in high-risk environments, where income depends on customers making timely payments. As Gatuhu (2011) rightly points out, strong credit management is a pillar of long-term profitability and institutional stability, while poor credit practices often lead to financial struggles. Psillaki, Tsolas, and Margaritis (2010) further explain that when companies take credit policy seriously, they're more likely to stay afloat, grow stronger, and use their resources more wisely. This approach, they argue, leads to better profits especially when compared to sectors like telecom and banking, where credit risk tends to be more widespread and managed with more advanced tools.

In Uganda, Umeme Limited plays a vital role as the country's main electricity distributor. Because it has to provide power to all customers, regardless of their payment patterns, the company carries a heavy credit burden. Over time, this has created some serious challenges. A look at Umeme's recent financial records tells a troubling story, bad debts have been on the rise. In 2020, the company had to write off UGX 3.85 billion in unpaid bills, and by 2021, that number had more than doubled to UGX 9.304 billion (Umeme Annual Report, 2021). This spike in bad debt is a clear sign that something isn't working right in the way credit is being handled and it's having a direct impact on the company's bottom line.

Recognizing the growing problem, Umeme took several steps to fix it. They introduced new positions such as Key Accounts Officers, a Head of Revenue Cycle, and a Credit Control

Supervisor to better manage high-risk accounts. They also encouraged customers with large unpaid bills to enter into payment plans, hoping this would help reduce the debts piling up. But even with these well-intended changes, the problem hasn't gone away. In fact, the 2021 annual report warned that bad debts could rise even further in 2022. That's a serious concern not just for profits, but for the confidence of shareholders who are starting to question how well the company is managing its financial risks.

1.3 The Purpose of the Study

The study aimed at establishing the effect of credit management on financial performance of Umeme.

1.4 Objectives of the study

The study sought to determine the influence of credit management on the financial performance of Umeme

- i. To examine the effect of credit terms on the financial performance of UMEME.
- ii. To assess the effect of credit standards on the financial performance of UMEME.
- iii. To explore the effect of credit collection procedures on the financial performance of UMEME.

1.5 Research Questions

The following research questions guided the study

- i. What is the effect of credit terms on the financial performance of UMEME?
- ii. What is the effect of credit standards on the financial performance of UMEME?
- iii. What is the effect of credit procedures on the financial performance of UMEME?

1.6 Significance of the Study

The results of this study were expected to be beneficial not only to Umeme Limited but to other utility companies also. It is hoped that Umeme Limited would make a pragmatic appraisal of its credit policies that would facilitate a more objective review of its operations and a more result-based dealing with its credit facilities.

Furthermore, the study adds to the already existing literature, which is of great importance to the institutions of higher learning.

1.7 Scope of study.

The scope of this study concerns

Content scope

Conceptually, the study identified the influence of credit management practice on financial performance of UMEME. Through credit terms, credit standards and credit collection process, the study analyzed credit policy. Likewise, working capital and inventory turnover are the dimensions of the financial performance investigated in this study.

Geographical scope

It was focused only on Umeme Limited which is the largest energy distributor in Uganda. It Specifically examined UMEME Branches of Kampala Metropolitan Area, Jinja Metropolitan Area, Mbale District, Masaka District and Mityana District which areas are hit hardest by energy thieves

1.8 Conceptual Framework

Figure 1. Conceptual Framework

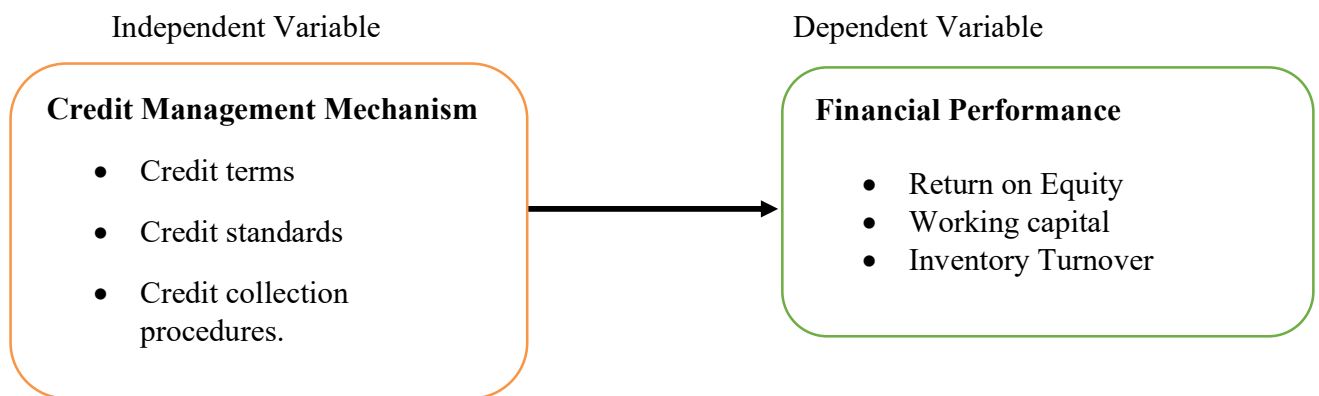


Figure 1:

As per Kotler (2000), The conceptual framework is the simple structure constituted by some abstract boxes, which represent the independent variables and the dependent variable of the phenomenon that is being studied, the interrelation between these boxes completes the framework for certain expected results.

In this dissertation, there were two variables, where credit policy was the independent variable and financial performance was the dependent variable. Also, the independent variable had three dimensions: credit terms, credit standards and credit collection procure. However, there were three dependent variables i.e. return on equity, working capital and inventory turnover. The arrow from independent variable to dependent variable assumed a positive relationship between credit policy and financial performance.

CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

In the last chapter, we learned about the background of this study. This chapter provides a review of literature as proposed by various scholars on the major study variables for credit policy and financial performance.

2.2 Theoretical review

This study is grounded on the theory of Information asymmetry by the work of Akerlof (1970), Spence (1973), Rothschild, and Stiglitz (1975). This theory explains a state in which business owners or managers know more about the prospects for, and hazards confronting their business than do lenders. PWHC, (2002) cited in Eppy. I (2005). It refers to defined situations where all individuals who are participating in an endeavor and lack relevant data. Regarding a debt market, information asymmetry can be present because the borrower who takes a loan usually knows more regarding the potential risks and returns of the investment projects for which the funds are destined. With the loan officer, however, there is too little information about the borrower. Edwards and Turnball, (1994) According to Binks et al (1992) information asymmetry leads the banks into two problems, moral hazard (in monitoring the behavior of the entrepreneurs) and adverse selection (making lending mistakes).

Akerlof (1970) argues that the parties involved in all streams of links between business and stakeholders do not possess the same information, at the same point of time. So, people will differ in behaviors and take different decisions and affect company performance. So, in the theory of information asymmetry what individuals have is important and the decisions they might take with the information they possess. Then, a natural and legitimate question for the company's stakeholders arises: How to measure information asymmetry and its effects on the company's performance?

Diamond and Dybvig (1983) study banks' provision of liquidity (the transformation of illiquid assets into liquid liabilities). The Diamond and Dybvig model assumes that investors (depositors) care about risk and have uncertainty regarding the timing of their future consumption needs. With no middlemen in between, all investors are stuck with illiquid long-term investments that pay out great dividends to those who consume late (i.e. lexicographically) payoff only. And those who are forced to consume early get low payoffs, because consuming early entails liquidating long-term investments for which the payoff has not yet materialized.

DeMarzo and Duffie (1999) construct a dynamic model of asymmetric information in which originators sell pooled assets to uninformed investors in pass-through instruments or to informed intermediaries that repackage the assets (pooling with other assets) and issue tranches backed by the resulting pools of assets. When the originators pool and tranche their assets, the informed asymmetry might also have an incentive to pool the tranches and to sell the repackaged assets to the uninformed shareholders. Finally, asset pooling and trenching over individual sale is a flow method which allows the origination (or arrangement) of growth. A higher growth rate for the originator (or arranger) through an increase of the quantity of assets originated (or arranged/sold) that may acquire better (i.e., more profitable) overall assets in the long run.

The first asymmetric information problem in the context of securitization by a financial intermediary (that wants to raise cash say, to invest in more profitable assets simply in the sale of a security backed by an asset) was studied in DeMarzo and Duffie (1999). When the originator sells the asset-backed security, it will have private information about expected cash flow of the portfolio; as a result, there will be a classic adverse selection problem. Leland and Pylev, (1997). More technically, the DeMarzo and Duffie model is more general than that of Leland and Pyle in that whereas the issuer simply issuing equity (the Leland and Pyle assumption), the issuer actually chooses the security design that maximizes its welfare.

Gorton and Pennacchi (1990) study focus on the second problem of the theory, which is asymmetric information. They analysed financial markets in which some investors are informed, and others are uninformed and show that there is in this environment room to "split" the cash flows from an asset to issue different classes of securities. Specifically, these authors analyse an economy with capital good and consumption good. There are informed and uninformed investors: informed investors are assumed to observe returns to capital while uninformed ones cannot do so. Without financial information, "informed" investors can collude and engage in "insider" trading in the financial market (of the capital for the consumption good). The coalition chooses its trading strategy so that prices do not completely inform uninformed investors of the state of nature, so that the informed investors can profit from their information

2.3 Conceptual Review

2.3.1 Credit policy

According to Pandey, (2000) credit policy is a set of three decision variables. These decision variables decide who gets the loan. These are: credit standards, credit terms and collection efforts to which the financial manager has influence.

Ahmed (2010) elaborates that credit policy is one form of a managerial philosophy that manifests the keystones of credit standards, collection efforts and credit terms through which managers impact their respective microfinance institutions. The MFIs outreach is affected by the credit policy impact due to the lending approaches that employ to assess the clients who are qualified for a credit facility either liberal or stringent. The strategies will work if the managers are capable and well-equipped with the necessary skills, experience, and knowledge of how to reach the target. Frey (2010).

According to Schueffer, 2002, in the present scenario management of risk and enhancement of cash flows are extremely daunting. As bankruptcy rates have risen, so also has the likelihood of a loss. On the one hand, business practices and economic pressures are driving organizations to slow down payments, while the purse strings are tightened in the other direction, even as higher expectations are placed on credit management resources. Thus, it is the responsibility of credit professionals to seek credit opportunities to carry out the established best practices. However, by improving the organization's practices, five traps can be amended. The key challenges include underestimating the impact of current customer contributions to bad debts, overlooking potentially fraudulent activities, underutilizing available technology, being unprepared for bankruptcies, and allocating excessive time and resources to credit evaluations that do not effectively mitigate credit risks. Credit risk is a condition in which debtors never fulfill their contractual responsibilities on the debts they owe an organization. Modigliani, Fabozzi, and Jones (2002)

Credit risk assessment involves three components, credit exposure, default probability and recovery rate. The credit exposure is the amount of total remaining due debt during default while the recovery rate is the percentage of that exposure during default recoverable during bankruptcy proceedings or through some other form of settlement, Fabozzi et al, (2002). The default probability is the risk that the counterparty will default on payment or transactions over the lifetime of that obligation or over a defined time horizon. What are the objectives and purposes

of conducting the study of credit risk and the way to assess and analyze its effect on polytechnic and the banks so as to control credit risk and financing in the context of longevity and risk analysis, evaluation and assessment before starting to grant credit to the clients.

Documenting a credit policy will enable effective management of credit risk and accounts receivables. Improve credit policy. Credit policy serves as the blueprint to communicate the company and manner to deal customers, their most valuable asset, inappropriate credit policies and poor credit standards cause a lot of organizations facing liquidity and inadequate working capital problems. For this reason, Scheufer (2002), suggests that a credit policy establishes a uniform set of objectives for the organization and promotes the collection and credit department as a prominent factor in appreciation of organizations objectives.

2.3.2 Credit Terms

Credit terms refer to the conditions under which the firm extends credit to its customers. Wamasembe (2002), credit terms outline the credit period and the amount of credit permissible. Companies can make credit terms attractive to serve as incentives to their customers so that they do not incur high bad debt levels that increase the risk. A typical credit term specifies credit period, interest rate, method of calculating interest and frequency of loan installments. According to Kakuru (1998), discounts form an important aspect of the terms of credit. The clients are offered discounts so that they are motivated to pay within the specified time frame group or before the due date of the credit period. This discount is typically a percentage of the loan. So, the logic is that discounts should speed up timely collection which should reduce doubtful debts and costs.

Similarly, Tanvier et.al, (2011) argues that for utility companies to manage credit term, they should focus on smart postpaid which are cost friendly rather than prepaid meters. They state in their findings that the postpaid system is far better than the prepaid system. Wi-Max technology based automatic meter reading is a very good concept in Bangladesh context. They proposed an Automatic Meter Reading (AMR) system that is cost effective. If it is applied, it can decrease the corruption of the delectate range and will also reduce the losses. Bangladesh government should take the initiatives to implement Automatic meter reading system. Tanvier et. al, (2011). On the contrary, Tewari and Shah (2003) believes that the most effective metering systems are Adding a prepaid system benefits both the energy provider and customers, they believe. Prepaid

mechanisms have an important impact on metering, on billing systems and on disconnection and reconnection fees to power distributors, for example. They also believe that revenue should improve, as consumption comes after payment. From the consumer perspective, it provides consumers with the power of consuming electricity thereby inducing more control over energy usage and control over the budget. On the point of Umeme, revenue collection has increased following the conversion of 55% of customers as they pay up front. Umeme annual report, (2015)

As noted by Ringtho (1998) the terms of credit are usually broken down into the credit period of terms of discount and the amount of the credit and choice of instrument employed to evidence credit. Credit terms could be Approval Duration, that is the time taken from both applicants as well as loan disbursement or receipt. It is determined by the quality of evidence of the client as even shown from the ratio assessment, patterns in cash stream and dollar position, Loan Maturity, Maturity of a loan is the period within which loan matures with the interest there on, Cost of loan. This is the interest charged on loans where various micro finance institutions' charges differ depending on what their competitors are charging. The chartered institute of bankers and lending text (1993), states that lending institutions should analyze the amount given to borrowers. According to Robinson (1994), the loan amount per cycle is decided based on the nature of the loan and the client's repayment capacity (guarantee).

Prepaid billing system enables power divisibility and power use control to the consumer in exchange relations, Baptista, (2013). According to Baptista (2013), the prepaid system is a method of billing that assists consumers in managing and forecasting their expenses. The researcher covered only the prepaid system and did not reveal the benefits of the postpaid system. By controlling, customers can purchase power with comfort than getting disconnected or pestered by utility employees which results in good financial viability to the company.

2.3.3 Credit Standards

According to Mehta (1972) in making loans, the credit standard is the basis that must be emphasized so that the credit supplier can obtain a certain level of confidence so that he can obtain the maximum amount of credit at the lowest cost in meeting credit standards. Credit standards could be tight or loose, Van Vorne (1994). It is a fact that loose credit standards gives

an increased number of clients to a firm at the risk of loss through bad debts and a firm loses a vast number of customers when it tightens credit standards.

A slack credit policy does not also guarantee an increase in profit because the increased volume of customers may also translate into increased costs in terms of loan administration and bad debts recovery. Together with other scholars Van Horne, (1994), supported an optimal credit policy, which helps breaking down of both the shortcomings of a stringent credit norms and a loose credit norm so, as the firm can earn profits. As a result, a criterion for determining the type of client to whom loans should be entrusted is performed. Kakuru (1998) Mentioned that credit standard based on the review of each individual credit application, character assessment, (capacity condition collateral security capital) should all be taken into consideration.

Character assessment is a measure of a customer's readiness to pay his debts Kakuru, (2000) which largely includes all the assessments of moral factors. Members of the social collateral group can vouch for the loan members who are familiar with each client's character; if in doubt about their character, the client is likely to default. The saving habit entails determining the frequency with which the customer realizes own funds, the saving helps to promote the continuity of the enterprise credit once the credit is paid. Alternative sources must be identified to play off the loan in time. This prevents micro finance institutions only restricting loans to short term projects. Such qualities have a bearing of the borrower's repayment willingness. It was seen that there should be strong proof of this information that point to the consumers temperament, Katende, (1998).

Frequent meter readings are essential to produce accurate bills for consumers who expect their bills to reflect the energy they have consumed, Pennsylvania public utility, (2013). Accurate bills are delivered by meter readers who visit the meters and use their naked eyes and gadgets to capture actual readings. The commission also recognized that a lack of real reading adds to complaints raised by customers. Hence, the commission recommended that actual reading must be taken seriously because it has a strong impact on the utility company.

According to Pennsylvania public utility, (2013), a utility company must provide a bill at the end of each billing period because a bill is the only way a utility company can communicate with a customer. So, the organization needs to present this document at the end of each billing cycle.

Undelivered bills to the customer often lead to complaints, which hampers and affects collections of the firm. It is in the same breath Umeme deserves a committed set of meter readers, and an enthusiastic set of bill deliverers to the customers.

An evaluation of an individual is, according to Campsey and Brigham (1995), entailing the collection of relevant information pertaining to the applicant, the analysis of the information to ascertain credit worthiness and the decision on whether to extend credit and to what extent. They recommended the 5Cs of lending.

The 5Cs of lending Character, Capacity, Capital, Collateral, and Conditions form the foundation of credit standards and are commonly used by lenders to assess how trustworthy and capable a borrower is (Fatoki, 2014; Musyoki, 2020). In practice, however, applying this framework in a utility company like Umeme Limited where electricity is supplied in advance and payments follow later is far from straightforward. For example, assessing a customer's character, or their past behavior in settling bills, is crucial when dealing with large-scale or long-term clients. Umeme has tried to manage this by assigning Key Account Officers, who stay in touch with high-volume customers and help maintain a relationship built on trust and consistent payments.

However, evaluating capacity, which relates to a customer's actual ability to pay, is often tricky especially in rural or low-income areas where financial records are scarce. This can make it hard for Umeme to predict payment behavior, often leading to late payments or defaults (Umeme Annual Report, 2021; Mugume & Obwona, 2001). Similarly, judging a customer's capital or financial strength is nearly impossible for residential or small business users who may not keep formal books of accounts. Without reliable financial data, Umeme finds it difficult to make informed credit decisions.

When it comes to collateral, which banks often rely on to secure loans, utility providers are at a disadvantage. Electricity, once consumed, cannot be recovered like a repossessed asset, leaving Umeme with few options when customers default (Mbabazi & Katamba, 2018). Finally, the conditions surrounding credit decisions including economic trends, government regulations, and social dynamics play a big role in shaping credit risk. For instance, Umeme is legally obligated to supply power to all customers, regardless of their ability to pay, which limits the company's ability to screen or exclude risky clients (ERA, 2022). On top of that, challenges like political

interference, poverty, and economic instability in Uganda make credit assessment even more complex (Wamala, 2021).

Altogether, while the 5Cs offer a strong conceptual framework for understanding creditworthiness, applying them in the context of a utility company requires adaptation. In Umeme's case, combining these principles with technology-driven solutions system and tailoring strategies for different customer types could significantly strengthen credit management practices and, in turn, boost financial performance

On the other hand, collateral is what customers offer as saving so that failure to honor his obligation the creditor can sell it to recover the loan. It is also a type of security which the client provides as a pledge to take loans and to surrender in defaults, if borrowers are not in full compliance, the creditor may take over their asset (Girma, 1996). But to facilitate more financial success over utility companies Misra and kingdom (2012) argue that billing information and his own readings faults should be eliminated by restricting human mail data via automatic payment systems. However, they are of the opinion that clients do not like the system of prepaid billing because of its sprite and health and safety issue. Thus, the researcher wanted to study the postpaid billing system to see if the customers suffer the problems as stated above.

Chan and Thakor (1987) identify that security must be safe and liquid securities in the market. Other than ground, building ceaselessly loses value as to globalization where new innovation keeps creating, so loan specialists ought to focus more on it. Capital is the word for financial strength, mostly within the net worth and dealing capital perspective, the assessment of capital can be done by analyzing the accounting and analyzing a steady ratio. Condition applies to the overall economic environment and how it affects the client's ability to pay. Condition, the current economic trends have an impact on the business conditions that affect the company's power to recover its money. This incorporates the evaluation of existing financial and different variables that may decide the customer capacity to pay (Kakuru, 2000).

Such reasoning is same with utility companies where Ontomwa (2014), in his study addressed the effect of prepaid billing system on revenue collection in Kenya, explained that certain meter

readers do not follow through all the meters in the itinerary as homes are locked or they are just lazy, and hence end up guessing the consumer's bills to meet targets. Activities like this challenge customer satisfaction and that is why customer satisfaction does play a positive role in an organization's net profit. However, the fundamental of any successful company is satisfied customers; satisfied customers result in repeat purchases Hoyer & MacInnis (2001). So, if Umeme delivers exceptional customer experience through the billing system, revenues will go up with repeated purchases

2.3.4 Credit procedures policy

According to McNaughton (1996), a collection effort is described as the method an institution takes to retrieve overdue account. Collection policy is a policy of procedures micro finance institutions employ to collect on past due accounts. The collection process may be very costly in respect of the product cost and loss of goodwill, Brighan, (1997). These collection efforts may include compulsory savings, required payments by guarantors, collateral asset attachment, and litigation, Myers, (1998). Microfinance Institutions Can Send Letters, Demand Letters, Make Phone Calls, Send Staff Members for in-Person Reminders to Pay and Enforce Legally

The over collection of 100%, energy theft & technical losses of the power network have long been challenges for the Uganda power system. There is awareness that meter related problems are among the challenges facing power companies in Uganda, which must improve if the revenue collections are to increase, Nwaoko, (2006). In recent times, to tackle the challenges of huge customer debt portfolio and lapses in revenue collection, Power Holding Company of Nigeria as well as National Power Authority of Sierra Leone launched pre-paid electric meters in 2006 and 2007 respectively. At the clashing sound of Ogujor, (2007) it states that a prepaid billing system was introduced to enhance revenue collection for effective control of defaulters. Adopting these Findings by Umeme Since Umeme is still on a learning curve to collect 100% revenues, the researcher anticipated to find out whether these findings can be adopted by Umeme.

In the same vein, Omijeh and Ighalo (2012), while discussing a robust prepaid energy metering and billing infrastructure in Nigeria also suggested an automatic rather than a manual and human

handling system because it can be more economical. According to Omijeh and Ighalo, automated billing systems results in saving time and money.

In addition, it was claimed that Prepayment in electricity is an innovative approach to support affordability and reduce the cost of power, Davila et al, (2006). Hence, this means that when cost minimization occurs, then it implies that the financial performance of the utility firm also increases since in Umeme the users are pre-paid, they only hold credit that they dip into when utilizing the service until the units run out. With regard to the Yaka meter, a client should purchase credit and stack the units to the Yaka meter. The client can use power up to the number of the purchased units by using the Yaka meter, Tewari & Shah, (2003).

Collection Policy is a guide to ensure collection is timely and that collections are made regularly, Dickerson et al., (1995). The logic being that not every client fulfills his end of the deal, some simply write the thing off while others would rather find it on the floor when the time comes for it to be paid for and still some others have no culture around, you know, paying for things until a door tremble holding the hand of a man who will ask you for money comes knocking. Myers (1998) states that many micro finance institutions may send a letter to such borrowers when approximately ten days pass or phone calls and if repayment is not gotten after thirty days, it may hand over the record to a collection organization.

Some clients do not pay the loan on time, some are slower than others and some never pay, and for this, the collection procedure is required. Hence collection endeavors are geared towards speedier collections from slow payers to prevent delinquencies. Retention of low and bad debts within limits causes an increase in turnover due to prompt payments, Pandey, (1995). Care should be taken not to implement strict measures, particularly on steady customers for arduous actions could result in their migration to other producers, Van Horn (1995). According to Ssemukono, (1996) collection efforts are directed towards fast tracking recovery from slow payers and reducing bad debts losses. This in turn necessitates aggressive collection efforts. The measure of systems of measurement of the performance of the collection policy is the looseness of it in mobilizing slow paying customers

2.4 Financial Performance Measures.

Financial performance is a management initiative to upgrade the accuracy and timeliness of information provided to the financial institution to meet the required minimum standard, whilst supporting day to day operation, Bessis (1998). There are three concerning issues that drive the key measures of financial performance; the profit; the size of the business; the growth of the business overtime. Thus, financial performance indicators, such as Profitability, size and growth, are critical for measuring overall financial performance and progress (Ronald, 2011).

Similarly, financial performance is how well financial goals are being achieved in an organization, Alexandra, (2008). More specifically, it is the measurement of the impact in dollar terms of an organization's operations and policies. This depicts the firm's financial performance over a specific period either across the firm or versus other industries carrying out similar activity.

Many studies have found that high total capital, credits and deposits from the operations of an organization does not necessarily mean that the bank is making a profit. Organisational asset management and the effectiveness of operations have an impact on financial performance, Tarawneh, (2006)? Profitability can be evaluated using different ratios such as Return on Asset, Return on Equity, Net profit margin etc. Alexandra, (2008)

A significant number of studies have been conducted which specifically focus on the financial performance of these commercial banks in regard to the content of this research. Many factors can influence their occupation, which can be divided into external and internal factors, Tarawneh, (2006). Internal factors are bank specific which affect the performance of the bank whereas external factors are sector wide which are not controlled by the company to affect all sector profitability. These can be internal factors and vary from organization to organization and the firm in hand can play any of these at any point in time for the benefit best suited. The aspects of such are capital size, management efficiency, agency banking. Whereas the external factors are inflation rate, political instability etc.

In terms of financial performance, profitability is considered an essential metric, Brigham & Gapenski, (1997). The debate between return on assets (ROA) versus return on equity (ROE) as the better measure of financial performance continues to this day. According to Hagel et al. (2010) identifies that Wall Street analysts and investors pay the most attention to ROE as the driving force behind the performance of the company, and as a result, many executives focus on

the important KPI of ROE to deliver shareholder value. However, Hagel et al. (2010) warn that ROE, at times, can prove misleading and distract from the core business performance. Financial engineering can help maintain a favorable ROE for a given time, which might mean that companies use it to disguise reality. In contrast, they promote ROA as a more accurate performance metric; it accounts for all assets used to support business operations. ROA guides management in a better way to improve the necessary assets to run the business.

As Brigham and Gapenski (1997) argue the primary objective of management is to maximize and maintain shareholders' wealth. Bank management hence needs to act for the positive result of shareholders, and pursue goals that, sensitive comments, contribute to maximizing the shareholder wealth. Theoretical implication to this is that since the financial industry is one of the major components of GDP, profitability of the industry becomes very important to the financial sector to perform its role in the financial intermediation process properly. Ongore and Kusa, (2012).

The financial statistics reveal a strong growth in profitability, assets base, returns on assets, and returns on equity but overall performance among banks is still patchy, Central Bank of Kenya, (2015). Wide gaps exist between the top 5 commercial banks and bottom five commercial banks vis-a-vis the key performance indicators. By 2014, some of the bottom five banks were negative in ROA and ROE compared to the top five banks who had good overall positive ratios Central Bank of Kenya, (2015)

Therefore, this implies that Umeme needs to ensure sound credit management mechanisms if it is achieved financial performance and it upon this background that the researcher anticipated to conduct the study.

2.5 Empirical Review

This section covers what other scholars have reviewed in relation to credit management mechanisms and financial performance

2.5.1 The effect of credit policy on financial performance.

Byusa and Nkusi (2012) studied the impact of credit policy on bank performance in selected Rwandan Commercial banks. The aim of the study was to examine the impact of credit policy on the financial performance of selected commercial banks. The results showed banks had positive

growth in accounts and account base which improved their financial indices and which improved the profitability. In-house competition from other banks widened spreads. Kipkirui and Omagwa, (2018) also argue that the high spreads and a high-interest rate margin was evidence of inefficiency and poor competition.

Muturi (2016) examined the influence of credit management practices on loan performance among deposit taking microfinance banks in Kenya. Thus, this study aimed to know how credit management influence loan repayment. A descriptive research method has been used. Based on the study, it was concluded that the credit terms, credit standards and collection policy indeed influenced the performance of firms. According to Kipkirui and Omagwa, (2018) a credit management system is a fundamental component of any firm and no firm dealing with credit services can afford to ignore it. Proper Credit management makes increasing the profitability and stability of a firm.

Moti (2012) conducted research to evaluate the impact of credit management systems on microfinance institutions performance in loans. The objective of the research was to reflect on the impact of effective credit management practices on the loan performance in MFIs. The study specifically aimed to determine the influence of credit terms, client appraisal, credit risk control measures and policies of credit collection on performance of loans. It utilized a descriptive research design. Results revealed that collection policy significantly affects loan repayment ($t=12.74, P=0.000$) at 5% level of significance.

Pyle (2013) reviewed the bank risk management by determining that banks as one of the financial institutions are required to meet the needs of their risk and capital management. But it was not the only key requirement for these institutions to develop an appropriate mechanism for risk management. Urgently managers had to provide the right insights in the right place to direct the firm's resources to get the most return. Managers had to project the actual possible losses of each of the risk to keep themselves within the confines of the firm's capital.

A study by Lavinah and Mbithi, (2018) whose objective was to establish the effect of credit policy on financial performance of SACCO in Kakamega County in Kenya found that credit policy has a significant positive influence on financial performance. In addition, in order to

reclaim any cash which is lost, the management of SACCO must focus on the aspect of customer assessment and evaluation.

Owizy (2013) studied credit impact management on Nigerian banks financial performance, using UBA Plc as example. Secondary data was collected through banks' annual reports from sampled and accounts covering a period of three years (2004 to 2008). Descriptive and correlation methods were used for regression data analysis. The outcome indicated that profit-ability of Nigerian banks was influenced by credit management.

Addae-Korankye (2014) conducted the study to identify causes of loan delinquency and control of loan delinquency in microfinance institutions in Ghana. A random sampling technique was employed to select twenty-five (25) microfinance institutions and two hundred and fifty (250) clients for the study. Data was collected through questionnaire and interview guide. Among the causes of loan delinquency identified by the study, were high interest rate, inadequate loan sizes, poor appraisal, lack of monitoring, and improper client selection. Before and after disbursement training, interest rate, monitoring of clients, and proper loan appraisal, were found to be measures of control of default. It was recommended that SACCOs must have clear and effective credit policies, and procedures that must be regularly reviewed Addae-Korankye (2014).

Djankov, McLiesh and Shleifer (2007) examined the impact of credit management practices on loan repayment in private credit for 129 Eastern European countries and conducted interviews with managers in the finance department and analyzed the data using descriptive statistics. The results of the study concluded that the credit management practices contributed to the payment of loans. In Tanzania, Makorere (2014) conducted a study and discovered that most financial institutions usually provide one month grace period only which was viewed not sufficient for the owners of small business enterprise to begin harvesting enough revenue for the start payment of their loans. According to Makorere (2014) any business that gets the grace period is having cost he pays. According to Woolcock (1999), a short loan term would result in the borrower not generating revenues to pay back the loan whilst a longer loan term would make the client extravagant which may with time results in the client failing to pay back. Kakuru (2008) states

that if Small and Medium Enterprises feel the repayment period is not flexible, they will not apply for the loans at all.

The loan terms, in turn, must be synchronized with the cash patterns to allow the client to better budget cash flows for successful outcomes (Stiglitz and Weiss, 1981). Findings from a study by Atieno (2001) suggest that stiff lending terms deter potential borrowers from making any truthful applications for bank debt, even when they are searching for finance to pursue profitable investment projects. This is because by pledging business collateral it limits the firms' ability to take out future loans from other lenders and creates a position of power for the lending bank Mann (1997). As Zeller (1994) argued, the demand for collateral value hinders SME borrowers searching for credit.

Stiglitz and Weiss (1981) discovered that SMEs do not come forward for credit on the grounds that they do not know why requirements like collateral are imposed on them. But borrowers with collateral are the ones banks favor. For example, Safavian et al. (2006) identified that if collateral is provided, commercial banks tend to offer a larger loan size, longer-term and lower interest rates to borrowers. This means that a borrower lacking the kind of assets lenders want to seize as collateral typically suffers poorer loan terms than they otherwise would. Indeed, Lehmann and Neuberger (2001) show that borrowers providing more collateral receive a higher score.

According to (Ozdemir, 2004) credit terms of financial institutions from a study conducted in Turkey show a moderate positive correlation between borrower's loan size and repayment period. The study further notes that the borrower's income level influences the amount of loan provided. Understandably, he proclaimed the terms of any sound lending must begin with the identification of the potential borrower's legitimate need bypassing the balance sheet of the lending institution. As growth, stability and economic wellbeing of the institution at large will depend on the terms on which it lends money so it will have to keep updating it always. His paper, however, does not address how these lending conditions impact financial outcomes.

In Nigeria, Chigozie et al., (2013) centered on the SACCO industry regard lending, though risky, as the business of all financial institutions. They believe that lending is evil and therefore are advised by micro-finance management to put in place sound loan administration policy; an

efficient mechanism to monitor loan repayments with established guidelines. However, no more than they provide general information on these loan parameters.

2.6 Alternative Perspectives and Criticisms of Information Asymmetry Theory

Information asymmetry, a concept popularized by Akerlof (1970), suggests that in many economic transactions, one party often has access to more or better information than the other. This imbalance can lead to problems such as adverse selection, moral hazard, and inefficiencies in credit markets. While this theory has been highly influential, particularly in finance and economics, it is not without its criticisms and several alternative perspectives that challenge its assumptions and relevance in today's context.

One such critique comes from the behavioral economics perspective, which argues that the theory assumes all actors behave rationally. However, research by Kahneman and Tversky (1979) under Prospect Theory shows that decision-making under uncertainty is often driven by emotions, biases, and cognitive limitations. This means that even with perfect information, individuals may still make poor credit decisions challenging the idea that better information alone can solve credit-related issues.

Another important challenge comes from technological advancements. Innovations in data analytics, smart metering, and digital credit scoring have helped bridge traditional information gaps between service providers and consumers. For example, Umeme's adoption of the IT system allows real-time monitoring of customer usage and billing data, significantly reducing the degree of information asymmetry previously experienced. As such, the theory's applicability in environments with advanced information systems is being re-evaluated (Jagtiani & Lemieux, 2019).

Additionally, relational lending and trust-based models provide a more human-centered alternative to purely information-based theories. Scholars like Boot (2000) argue that long-term relationships and trust between service providers and clients can help mitigate information gaps. In Umeme's case, the deployment of Key Account Officers to directly manage relationships with industrial and large-scale customers has the potential to build trust, reduce default risk, and address credit issues in ways that pure data cannot.

When examined within the context of this study, credit management and financial performance at Umeme Limited information asymmetry theory presents both strengths and limitations.

On the one hand, the theory helps explain why utility companies like Umeme often struggle with unpaid bills. Unlike banks that conduct thorough credit assessments, utility companies typically supply services upfront without fully understanding a customer's willingness or ability to pay (Binks & Ennew, 1992). This makes the argument for stronger credit management practices, such as appointing Credit Control Supervisors and creating repayment plans much more compelling. It also sheds light on why postpaid customers are more likely to default than prepaid ones, as prepaid systems make a customer's payment capacity immediately clear.

On the other hand, the theory falls short in fully explaining the challenges faced by utilities operating in complex environments like Uganda. In reality, most of the customer information Umeme needs such as addresses, historical consumption, and payment history is readily available. The problem often lies not in the absence of information but in how effectively that information is used or enforced. Moreover, external factors like poverty, political interference, and regulatory limitations (Mugume & Obwona, 2001) are also at play, making the situation more complicated than the theory allows. Importantly, Umeme operates under a universal service obligation, meaning it must provide electricity to all customers regardless of their creditworthiness, something banks or telecoms are not obligated to do. This limits the company's ability to use credit information in a restrictive or selective manner.

In conclusion, while information asymmetry theory remains relevant particularly in emphasizing the importance of improved customer data and credit screening it does not capture the full picture. It should therefore be used alongside other frameworks that consider behavioral factors, technological interventions, and institutional realities to better understand and improve credit management and financial performance in utility companies like Umeme.

2.7 Conclusion of Literature Review

The concept of credit management mechanisms in Umeme is basically done through two models of billing: post-paid and pre-paid billing models. There have been several studies on effects of credit management. Yet no studies have been conducted on credit management mechanisms in public utilities on financial performance. Most of the studies focused on financial performance mainly in banks and SACCOs and most claim that financial performance is measured on Return on Investment, liquidity and profitability. However, this study will focus on analysing return on equity and inventory turnover; hence, the study opts to examine the effect of credit management mechanisms and financial performance in utility companies a case of Umeme Limited.

CHAPTER 3: METHODOLOGY

3.1 Introduction

This section describes the research methodologies applied to conduct this study. It includes research design, target population, sample size determination, sources of data, data collection, data analysis and limitations of the study.

3.2 Research Design

Research design is a framework of plan or scheme used in obtaining answers to research problems Mugenda and Mugenda, (1999). The research design used for the study was correlational design. Correlation design refers to collecting data to establish whether a relationship exists between two or more variables and to what extent does this relationship exist? Amin, (2005).

This was important because the study aimed to determine the correlation between credit policy and financial performance of Umeme Limited.

Because of the qualitative and quantitative nature of the research and that this design allows for profiling and examining associative relationships and somewhat helps different researchers to observe similar phenomenon and arrive at different conclusion, McCombes, (2019) this design was selected.

3.3 Study Population

Mugenda and Mugenda (1999) define a population as a clear collection of people, services, elements and events, hence a collection of specific things being studied. The study population included operational staff from Kampala Metropolitan Area, Jinja Metropolitan Area, Mbale District, Masaka District and Mityana District branches, as these areas are most violated by energy thieves, Benon, (2021). Similarly, the population also included 30 employees from the finance department and 21 supervisors and managers from the supply chain department.

This study considered a total population of 186 operational staff from the five (5) branches, finance staff and supply chain staff already mentioned.

The table below the population of study.

Table 1. Source: Umeme Annual report, 2021

NO	CATEGORY	POPULATION SIZE
	KEY RESPONDENTS	
1	Operations managers	5
2	Commercial supervisors	10
3	Credit control officers	10
4	Finance department staff	30
5	Supply chain managers/supervisors	21
	OTHER RESPONDENTS	
4	Key accounts officers	15
5	Customer service advisors	15
6	Revenue/debt collectors	80
	TOTAL	186

Table 1.1: Source: Umeme Annual report, 2021

This population is selected because it is responsible for revenue collection at the various branches and it is responsible for effecting credit policies at the branches.

3.4 Sample Size and Sampling Techniques

3.4.1 Sample Size

Mugenda & Mugenda (2003) describes sampling as the process of selecting a number of individuals for a study in such a way that the individuals selected represent the large group from

which they were selected. The study utilized Krejcie & Morgan (1970) table to determine the sample size. Hence the sample size for this research was 166 respondents from the study population of 186, Five (5) representatives of firms participated in the study for qualitative data

NO	CATEGORY	POPULATION SIZE	SAMPLE SIZE	SAMPLING TECHNIQUE
	KEY RESPONDENTS			
1	Operations managers	5	5	Purposive sampling
2	Commercial supervisors	10	10	Purposive sampling
3	Credit control officers	10	10	Purposive sampling
4	Finance department staff	30	28	Purposive sampling
5	Supply chain supervisors/managers	21	19	Purposive sampling
	OTHER RESPONDENTS			
6	Key accounts officers	15	14	Simple random sampling
7	Customer service advisors	15	14	Simple random sampling
8	Revenue/debt collectors	80	66	Simple random sampling
	TOTAL	186	166	

Source: Umeme Annual Report, 2021: Krejcie and Morgan 1970.

Table 2: Sample by Krejcie and Morgan 1970 Amin, (2005)

As adopted by Amin (2005), determining the sample size using the table of Krejcie and Morgan

(1970) greatly simplified size decisions by providing a table that is of good decision model.

Therefore, the researcher sampled five (5) operational managers, ten (10) commercial supervisors, ten (10) credit control officers, twenty-eight (28) finance department staff, nineteen (19) supply chain managers/ supervisors, fourteen (14) key accounts officers, fourteen (14) customer service advisors and sixty-six (66) debt collectors. This implies that the study comprised 166 respondents from a sample size of 186.

3.5. Sampling technique

This researcher used purposive sampling technique and simple random sampling technique.

3.5.1 Purposive sampling technique

A purposive sampling technique is one in which the researcher uses his/her own judgment or common sense regarding the participant in which he/she collects information, Amin, (2005).

This was implemented in order to sample experienced and knowledgeable respondents regarding the issue in question. Purposive sampling was using for operation managers, commercial supervisors and credit control supervisors

3.5.2 Simple Random Sampling Technique

A simple random sample is one drawn from the population so that samples of equal size, have the same probability of selection, Amin, (2005). The researcher employed this technique for a minimal degree of information about the participants in the domain of the study. In heterogeneous population, simple random sampling is found to be the best method to obtain a representative sample compared to other methods, Amin, (2005). The general employees namely, key accounts officers, customer service advisors and debt collectors were considered using this technique.

3.6 Sources of data

The study utilized both secondary and primary data; the secondary data refers to information gathered from articles, books, newspapers, internet and magazines, Amin, (2005). Secondary data was gathered from Umeme branches, financial statements and financial reports of the institutions. From the financial report, total assets and net profit were extracted. Bad debt and cost ratio were obtained from the financial statements.

In contrast, the term primary refers to data which has been produced by the researcher himself particularly with the aim of analyzing and addressing the research problem you have, Amin, (2005). Following the approval of data collection tools, data was collected from all 5 branches using interview guides.

3.7 Data Collection Methods

Data was collected using questionnaire, interview guide and documentary checklist.

3.7.1 Questionnaire

A questionnaire is a self- report instrument employed for gathering data on variables pertinent to a consideration, Amin, (2005). A questionnaire was chosen because it is a cost friendly, convenient for the respondent and offers greater promise of privacy to the respondents. The questionnaire was designed based on the objective and variables of the study. Afterward, the questionnaire was given to the general employees among the five branches included in the study.

3.7.2 Interview guide

An interview guide is a data collection tool in which the investigator collects data through face-to-face oral communication with respondents in the form of questions, Amin, (2005). Using this contraption, the investigator interviewed key respondents to obtain in-depth evidence about the topic under investigation.

The semi-structured interview was used to interview key respondents; Because these kinds of discussions allowed for so much plasticity, it allowed the researcher to complement the study. Key respondents were interviewed and cross-examined using open-ended questions. Open ended questions aimed to elicit an involved and music-making response using the subject's own experience. These types of questions were able to give the investigator access to the respondents' true feelings.

3.7.3 Secondary data checklist

The researcher reviewed data from organizational strategic plan, Electricity Regulatory Authority policy documents, some minutes of staff meetings to get the information required for finding out whether there is a relationship between credit risk policy and financial performance. This instrument was used to add information from questionnaire, interview guide and establish the truth of the data particularly from questionnaire and interview.

3.8 Measurement of research variable.

For this reason, the researcher used the Likert scale to measure the different variables under study on a five-scale continuum of (Strongly Agree, Agree, Neutral, Disagree, Strongly Disagree), (1 = Strongly Disagree & 5 = Strongly Agree). Respondents were asked to indicate the level of agreement with each of items of interest on a 5-point Likert scale, where 1 is “strongly disagree” and 5 is “strongly agree”. A nominal scale was applied to measure the demographic characteristics of the participants while ordinal scale measures was used to measure opinions and attitudes of the respondents about variables under study

The researcher used the Likert scale to measure the variables under study on a five-scale continuum of “Strongly Agree, Agree, Neutral, Disagree, Strongly Disagree”, where 1 = Strongly Disagree and 5 = Strongly Agree. Respondents will be tasked to show the extent to which they agree with the different items under study on a 5-point scale ranging from 1 as “strongly disagree” to 5 as “strongly agree”. A nominal scale was applied to measure the demographic characteristics of the participants while ordinal scale measures was used to measure opinions and attitudes of the respondents about variables under study.

3.9 Reliability and validity of the instrument.

Credibility is a criterion for how authenticity and truthfulness of qualitative data and findings are demonstrated and evaluated. It is imperative that the concept of validity focuses on the strength and trustworthiness of qualitative data and research findings; in particular, whether participants do respond and perceive their experiences in such a way that they accurately and adequately represent participant responses (Lincoln & Guba, 1985; Connell, 2003; Bowen, 2005; Maree, 2012). Data accuracy and findings were verified by the researcher.

Validity was determined using content validity index (C.V.I) thus C.V.I is determined by items rated relevant by both judges divided by the total number of items in a questionnaire as shown

$$CVI = \frac{\text{No. of items rated relevant}}{\text{Total no. of items}}$$

Amin, (2005) asserts that a C.V.I of higher than 0.7 is considered as valid.

3.10 Data processing and analysis

The researcher analyzed both qualitative and quantitative data.

3.10.1 Quantitative data

Before entering on to the system, completed data was verified and checked for errors by the researcher. Data was fed into SPSS version 2022 for cleaning and analysis; data was prepared for analysis by recoding them as per the requirement for the analysis.

Data analysis was conducted using both correlation and regression analysis techniques to examine the relationship between credit management mechanisms and the financial performance of utility companies. These methods were chosen to assess the strength and direction of associations between variables and to determine the predictive influence of credit management practices on financial performance

The association and effect of credit management mechanism on financial performance of Utility Companies were established using multiple regression analysis. We applied a multivariate regression model of financial performance against credit policies to evaluate the relationship between the variables. The relationship model is given in the following linear equation:

$$Y = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \epsilon$$

Where, Y= Financial Performance, α = Constant Term, β_1, \dots, β_3 = Beta coefficients, X_1 = Credit Standards, X_2 = Credit terms Policy, X_3 = Credit Procedures and ϵ = Error Term

3.10.2 Qualitative data analysis

Qualitative data were collected from the field, and the investigator illustrated the findings using an investigator's descriptive narrative, Amin, (2005).

The qualitative data were initially reviewed and thematically coded based on topics of interest specific to the objectives of this study. For this initial data coding, the author used content as well as thematic analysis in order to facilitate the codification. Coding began as soon as transcripts of the interviews were available. The first coding helped to break the data network by defining categories from what we had collected. All data analysis was carried out using de-identified responses to protect the anonymity of respondents. Lastly, segments of verbatim individual responses that articulated the respondent 's reasoning and captured their voices were identified and presented in the respondents' own words to provide greater depth into the issues considered.

3.11.1 Ethical Issues

Before proceeding to data collection, the researcher sought the University approval. Approval was acquired alongside the introductory letter to the various entities that the researcher was required to meet and conduct data collection. The main activities that lead to the final approval of the dissertation included submission of the data collection tools to the supervisor for approval, submission of the final dissertation to Uganda Christian University. A letter of permission was obtained for the researcher to carry out the study. Verbal consent was obtained from the participants to enhance confidentiality of the research this increased their participation in the study.

Sommer and Sommer, (2007) explain that ethical issues in social research like confidentiality, anonymity, and avoidance of deception are very important issues. Thus, the researcher sought an approval letter before proceeding with the Utility Company to review their documents. The utility companies' rights were respected and as such the research objectives were explained to the managers. Documents accessed were treated with confidence and only used for the reason needed.

3.11.2 Consent

Eligible participants received an information sheet detailing the purpose and nature of the study and containing contact details of the researcher, and eligible participants were invited to participate in the study after ensuring that the information was comprehended. The information was in the form of a preamble. The researcher addressed this by discussing the opening and introductory remarks made on the questionnaire. Participants must read the information prior to fully taking part in the study.

3.12 Limitations of the study

Labaree (2009) posits that research limitations are those characteristics of design or methodology that impact research. Limitations include sample size that could be small or big to obtain sufficient results, lack of available or reliable data can limit scope of analysis data.

Therefore, the researcher faced challenges arising from the questionnaires distributed, since some respondents did not understand the asked question. However, the researcher explained very carefully to the participants to ensure that they understood and provided meaningfully responses.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF RESULTS

4.1 Introduction

This chapter presents results that established the effect of Credit Management Mechanism on the financial performance of UMEME. It includes response rate, demographic characteristics of respondents, empirical findings, and their interpretation against the objectives of the study and research questions. The quantitative empirical results were derived from descriptive and inferential statistics derived using the Statistical Package for Social Scientists (SPSS version 2022) and Microsoft Excel 2019. The numerical outcomes were duly related to the qualitative input gained from key informant interviews.

4.2 Response rate

This shows the proportion of respondents that participated in the study as compared to target respondents that were in the sample. In this study, it is expressed as a percentage and presented in Table 4.1 below according to categories of respondents with the respective research instrument administered.

Table 3: Response rate

Respondents	Sample targeted	Actual response	Response rate (%)
Operations Managers	5	5	100.00
Commercial Supervisors	10	9	90.00
Credit Control Officers	10	9	90.00
Finance Department Staff	28	20	71.43
Supply Chain Supervisors	19	15	78.95
Key Accounts Officers	14	14	100.00
Customer Service Advisors	14	13	92.86
Revenue/Debt Collectors	66	62	93.94
Overall	166	147	88.55

Source: *Primary data (2024)*

Table 4: Response rate

Results from Table 3 revealed that out of the 166 copies of the research instruments (questionnaire and interview guides) that were distributed for response, only 147 were returned for data entry which represented a response rate of 88.55%. Such a rate was deemed good enough and significant to validate the study for purposes of coming up with an unbiased report, since it is over and above the threshold of 50% provided by Bacon (2022). Therefore, the researcher interprets that the study attained a reasonable and acceptable sample to collect sufficient and vital information to establish the effect of Credit Management Mechanism on the financial performance of UMEME.

4.3 Results on demographic characteristics of respondents

Demographics of the respondents including, gender, age, length of service within UMEME, academic qualification, and department were catered for by the study. According to *Sunders & Bristow (2023)*, it is essential for a researcher to provide an account and discussion of the demographic makeup of a study sample as it allows to take a holistic mental and physical view of one. The results of demographic aspects are provided by means of statistical data (pie graphs and bar charts) and frequency tables as follows.

4.3.1 Gender of respondents

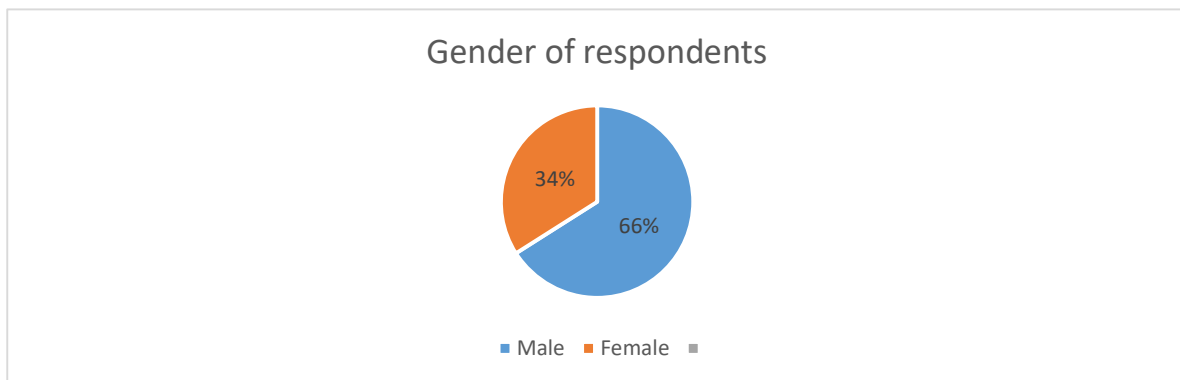


Figure 2: Gender of respondents

Source: Primary data (2024)

The gender of respondents was observed in the study and findings are presented in Figure

4.1 above as a pie chart based on percentages. Results revealed that the majority of respondents were of the male gender 97(66.0%). This may be attributed to the nature of Uganda’s working force where in most institutions the males contribute a bigger percentage of workers as compared to the females and UMEME is not exceptional. It is also important to note that although there were gender disparities in favour of the males, it is evident that the study was ultimately gender representative since 50(34.0%) for the female gender is also a significant representation of the sample and the population at large. Therefore, the researcher interprets that the views of both female and male employees at UMEME were represented adequately in this study.

4.3.2 Age group findings

The age brackets of respondents were observed, and results were tabulated in Table 4.2 below using frequencies and percentages per age group.

Table 5: Age group of respondents

Age group (Years)	Frequency	Percentage
23 – 35	19	12.9
36 – 45	77	52.4
46 – 55	51	34.7
Total	147	100

Source: Primary data (2024)

Table 6: Age group of respondents

Results from Table 4 revealed that majority of the respondents were aged between 36 and 45 years representing the most common age group of employees at UMEME with a substantial percentage of 52.4. Out of the 147 respondents, only 19 were in the age bracket of 23 – 35 years which gives a 0.1293 probability of randomly selecting an employee in this age group from the population of UMEME employees. Overall, the above findings reveal a well-balanced workforce since all age brackets of Uganda’s working population were represented. Additionally, several respondents being above 40 years is an indicator of how UMEME values experience and this could have a bearing on the level of employee

performance in the organization. Such findings reveal that to a greater extent, respondents were mature enough to understand contents of the research instruments and responded accurately.

4.3.3 Department of respondents

Figure 4.2 below shows findings on the different UMEME departments based on percentages represented by bars.

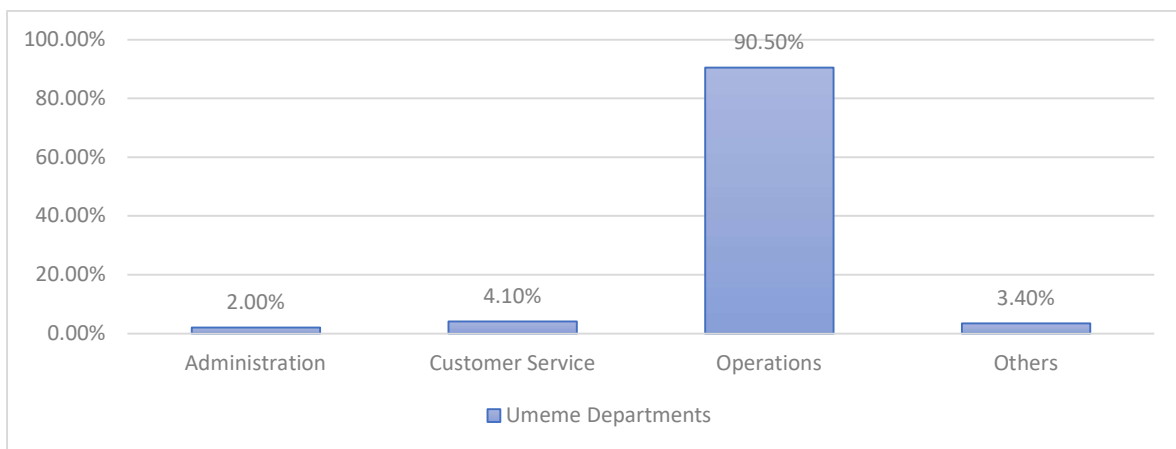


Figure 3: Departments of Respondents

Source: Primary data (2024)

Results from figure 4.2 revealed that 133(90.5%) of the respondents belonged to the Operations Department, 6(4.1%) were under customer service, 3(2.0%) under administration. The remaining 5(3.4%) represented other UMEME departments such as the Finance department. From the researcher’s perspective, this is a clear indicator of how the organization of UMEME is structured for proper management, especially when it comes to assigning job tasks and reporting.

4.3.4 Duration of service by respondents at UMEME

The quest on the distribution of respondents according to the different employment tenure periods as categorized by the researcher was sought. Findings on the duration of service at UMEME were tabulated in Table 5 below using frequencies and the respective percentages.

Table 7: Duration of service at UMEME

Duration (Years)	Frequency	Percentage
3 – 5	8	5.4
6 – 9	16	10.9
10 – 12	42	28.6
13 and above	81	55.1
Total	147	100

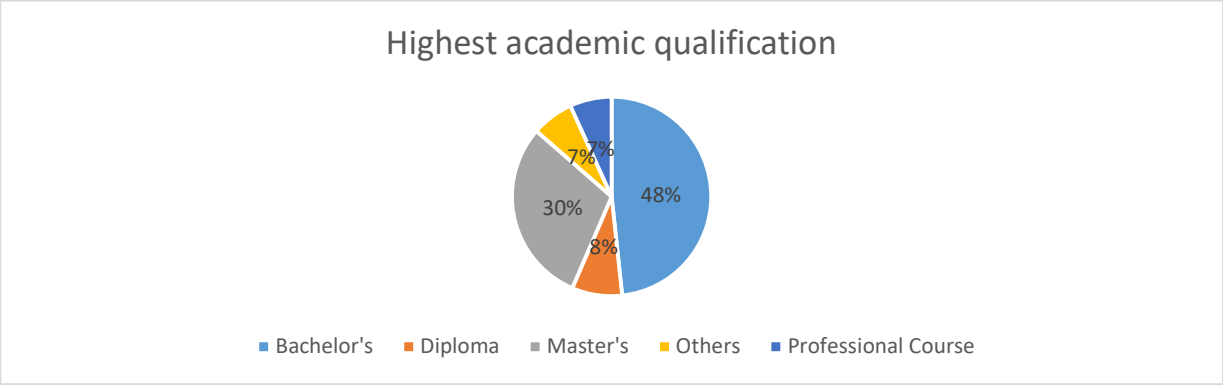
Source: Primary data (2024)

Results from Table 4.3 revealed that 8(5.4%) of the respondents had worked for UMEME for a period of 3 to 5 years, 16(10.9%) had spent between 6 and 9 years, 42(28.6%) declared 10 to 12 years while 81(55.1%) had worked at UMEME for 13 years and above. Several employees at UMEME with duration of service above 13 years indicates that UMEME values staff stability as this positively influences both individual and organizational performance. In that regard, the researcher is convinced that respondents provided significant information for the success of this study, since majority had worked at UMEME for a good number of years.

4.3.5 Highest academic qualification of respondents

To determine the respondent’s capability of providing the required and accurate information on credit management mechanism and the financial performance of UMEME, the researcher categorized their level of education, and the computations are showed below in a pie chart based on the five categories of Diploma, bachelor’s degree, master’s degree, Professional courses and others.

Figure 4: Highest academic qualification of respondents



Source: Primary data (2024)

Results from the figure above revealed that 71(48.3%) were bachelor’s degree holders, 10(6.8%) belonged to other qualifications like certificates, 44(29.9%) had master’s degree, 12(8.2%) were Diploma holders, while 10(6.8%) had professional courses. This implies that at least each respondent had an academic qualification making them educated enough to make good and informed decisions in relation to the research study.

4.4 Empirical findings

This section presents findings on how the Credit Management Mechanism affects the financial performance of UMEME according the three (3) research objectives. These findings were obtained through the use of questionnaire survey, interviews and documents reviews conducted by the researcher. Quantitative data were obtained by providing respondents with copies of the questionnaire having statements about the variables under study and their dimensions. Respondents were requested to indicate the extent to which they agreed or disagreed with the statements provided, following a 5-point Likert scale (SD – Strongly Disagree, D – Disagree, N – Neutral, A – Agree and SA – Strongly Agree). Descriptive statistics from the respondents who returned copies of the questionnaire for analysis were used to show the percentage responses regarding the items in the questionnaire. Qualitatively data was obtained through interviews conducted and responses were incorporated for a better interpretation of all data, and where necessary direct quotations from respondents were captured as evidenced in the subsequent interpretation sub-sections of section 4.4. Secondary data from the reviewed UMEME archived documents was used to ascertain the effect of UMEME’s credit policy on its financial performance. In order to establish the effect of UMEME’s credit policy on its financial

performance, a regression analysis was carried out.

Table 6: Descriptive Statistics Summary

	N	Minimum	Maximum	Mean	Std. Deviation
Credit terms	147	2.00	4.80	3.2707	.71723
Credit standards	147	1.50	4.75	3.9558	.56412
Credit collection procedure	147	1.00	5.00	4.2211	.59108
Financial performance	147	2.36	4.83	3.6552	.52863
Valid N (listwise)	147				

Source: *Primary data (2024)*

Table 6 above reveals that on average, respondents were neutral when it came to opinions on credit terms statements, but agreed with credit standards, credit collection procedures and financial performance statements on the questionnaire. All the above standard deviations were between 0.5 and 0.8, which indicates a small extent to which various responses were deviating from the average response. This kind of consistency implies that the study findings are valid and reliable to support the subsequent sections of the report.

4.4.1 Responses on UMEME’s financial performance

The researcher was interested in establishing how this financial performance is affected by the credit policy. The researcher used a questionnaire and an interview guide to track sentiments of respondents on the status of financial performance at UMEME. Quantitative results about this performance are presented in Table 7 below. For better interpretation of results, the researcher made an integration of quantitative and qualitative findings, and where necessary direct quotations from respondents were captured. Secondary data from the documents reviewed was also used to establish the status of UMEME’s financial performance.

Table 7: Descriptive Statistics on financial performance at UMEME

Responses	1 (SD)	2 (D)	3 (N)	4 (A)	5 (SA)
Net profits have increased for the last three years	0(0%)	10(7%)	21(14%)	72(49%)	44(30%)
Dividend pay-out has increased in the last three years	0(0%)	13(9%)	26(18%)	54(37%)	54(37%)
Share price has increased over the last three years	13(9%)	23(16%)	36(25%)	41(28%)	34(23%)
Umeme has been operating within its budget for the past three years.	5(4%)	10(7%)	49(33%)	62(42%)	21(14%)
Inventory can easily be converted into cash	8(5%)	31(21%)	46(32%)	39(26%)	23(16%)
The company's liquidity has increased in the last three years	5(4%)	5(4%)	34(23%)	80(54%)	23(16%)
The company debt days have reduced over the last three year	0(0%)	3(2%)	28(19%)	83(56%)	34(23%)
Umeme's cash inflows have increased in the last three years	0(0%)	8(5%)	15(11%)	75(51%)	49(33%)
The company current liabilities have reduced over the last three years	0(0%)	10(7%)	44(30%)	62(42%)	31(21%)
Stock outs have steadily reduced over the last three years	3(2%)	10(7%)	52(35%)	64(44%)	18(12%)
Stock replenishment is much easier at UMEME	5(4%)	13(9%)	49(33%)	72(49%)	8(5%)
Some stock items have not been used for the last 12months	8(5%)	26(18%)	59(40%)	36(25%)	18(12%)

Source: *Primary data (2024)*

Financial performance was studied from dimensions of return on equity, working capital and inventory turnover. The above descriptive statistics cater for the quantitative side regarding

respondents' opinion about employee performance. Qualitative findings from the open-ended questions of the interview guide, and the different documents reviewed were also incorporated for better support to and comparison with the descriptive statistics.

When respondents were asked their opinions on the increase of net profits in the last years 0(0%) strongly disagreed, 10(7%) disagreed, 21(14%) were unsure, 72(49%) agreed and 44(30%) strongly agreed. The majority of the respondents agreed with this statement which implies that an improvement in profitability impacts financial performance at Umeme. However, during one of the interviews, a key respondent noted that.

‘‘It’s true that profitability before and after tax has greatly improved over the last years, even during covid times, we were able to register profits and therefore, profits have and are greatly increasing’’

When asked whether dividend pay-out has increased in the last three years; 0(0%) strongly disagreed, 13(9%) disagreed, 26(18%) were neutral, 54(37%) agreed and 54(37%) strongly agreed. When asked whether share price has increased over the last three years; 13(9%) strongly disagreed, 23(16%) disagreed, 36(25%) were unsure, 41(28%) agreed and 34(23%) strongly agreed. This implies that there is a positive connection between share price and financial performance. When asked whether Umeme has been operating within its budget for the past three years; 5(4%) strongly agreed, 10(7%) disagreed, 49(33%) were unsure, 62(42%) agreed and 21(14%) strongly agreed. This implies that the majority of the respondents agreed with the question. During the interviews, one of the respondents said that.

‘‘Umeme has generated more revenues over the years and so, they usually operate at a big budget and therefore, Umeme always operate within the budget actually over the last five years.’’

When asked whether Inventory can easily be converted into cash; 8(5%) strongly disagreed, 31(21%) disagreed, 46(32%) were neutral, 39(26%) agreed and 23(16%) strongly agreed. This implies that most of the respondent did not agree with this statement. Furthermore, when asked whether the company's liquidity has increased in the last three years; 5(4%) strongly disagreed,

5(4%) disagreed, 34(23%) were neutral, 80(54%) agreed and 23(16%) strongly agreed. During the interviews, one of the respondents said that

“The company’s strong liquidity base has helped a lot in driving the business, since it became clear that the concession would not be extended, financial institutions started declining loans to the organization. This intensified revenue collection so that the company would be more sustainable. Therefore, Umeme is among the top five revenue collecting organizations in the country.”

This implies that most of the respondents strongly agreed. When asked whether the company debtor days have reduced over the last three year; 0(0%) strongly disagreed, 3(2%) disagreed, 28(19%) were unsure, 83(56%) agreed and 34(23%) strongly agreed implying that financial performance has improved and is related to debtor days. When asked whether Umeme’s cash inflows have increased in the last three years; 0(0%)strongly disagreed, 8(5%) disagreed, 15(11%) were neutral 75(51%), agreed and 49(33%) strongly agreed. When asked whether the company current liabilities have reduced over the last three years; 0(0%) strongly disagreed, 10(7%) disagreed, 44(30%) were neutral, 62(42%) agreed and strongly agreed 31(21%). This implies that the majority of the respondents agreed with the question. Similarly, when asked whether stock outs have steadily reduced over the last three years; 3(2%) strongly disagreed, 10(7%) disagreed, 52(35%) were unsure, 64(44%) agreed and 18(12%) strongly agreed. This implies that most of the respondents agreed that stock outs have reduced. One of the interviewee’s had this to say

“Supply chain is doing a great work in availing meters for new connection and other materials at large, today we source some of our Yaka meters locally so that we can reduce on the lead times. This is why our average connection days have also greatly reduced.”

Furthermore, when asked whether stock replenishment is much easier at UMEME; 5(4%) strongly disagreed, 13(9%) disagreed, 49(33%) were unsure, 72(49%) agreed and 8(5%) disagreed. This that most the respondents agreed however, there were significant number who were neutral about this question. Finally, when asked whether some stock items have not been used for the last 12months; 8(5%) strongly disagreed, 26(18%) disagreed, 59(40%) were neutral,

36(25%) agreed and 18(12%) strongly agreed. This implies that most the respondents were neutral on this question.

4.4.2 Findings on Umeme’s credit terms

The first objective of the study was to examine the effect of credit terms on financial performance of UMEME. The quantitative results are presented as frequencies and percentages in Table 4.5 below for easy understandability of the effect each construct of credit terms has on Umeme’s financial performance. On the qualitative side, key informants were interviewed following structured questions on the interview guide about the effect of credit terms on financial performance of Umeme. These enabled the researcher to get more relative views of financial performance in relation to credit terms in this organization and these views have been used to support the quantitative findings. Secondary data from the documents reviewed was also used to ascertain the status of credit terms at Umeme and how they affect its financial performance.

Table 8: Descriptive Statistics on credit terms at Umeme

Responses	1 (SD)	2 (D)	3 (N)	4 (A)	5 (SA)
Customers being aware of their due date has enhanced on-time payments	10(7%)	21(14%)	21(14%)	49(33%)	46(32%)
Customers pay their bills as per the due date	28(19%)	39(26%)	36(25%)	41(28%)	3(2%)
Prepayment recovery rates are adjusted after full approvals	5(4%)	15(11%)	21(14%)	59(40%)	46(32%)
Customers pay their bills to zero once they fall due	36(25%)	52(35%)	31(21%)	21(14%)	8(5%)
Mean average	19.75	31.75	27.25	42.5	25.75

Source: *Primary data (2024)*

Table 8 above illustrates quantitative opinions of respondents on the constructs of credit terms. Qualitative findings from the structured questions on the interview guide and the different documents reviewed were also incorporated to support the descriptive statistics as presented

and interpreted below.

On the item of whether customers being aware of their due dates has enhanced on-time payments, 10(7%) strongly disagreed, 21(14%) disagreed, 21(14%) were neutral, 49(33%) agreed, while 46(32%) strongly agreed with the statement. One of the respondents said that

“Due dates are communicated in various forms, Umeme uses paper bills, emails, SMS to inform customer about their due dates and a number of them take time to pay before the due dates”

When respondents were asked about whether customers pay their bills as per the due date, 28(19%) strongly disagreed, 39(26%) disagreed, 36(25%) were neutral, 41(28%) agreed and 3(2%) strongly agreed.

When asked about whether prepayment recovery rates are adjusted after full approvals, 5(4%) strongly disagreed, 15(11%) disagreed, 21(14%) were neutral, 59(40%) agreed, and 46(32%) strongly agreed. One respondent had to say this

“Umeme only adjusts the recovery rate after sending SMS to the customers or on the customer request for those who want to clear their debt early. Before this started, customers’ account would be adjusted and for customer to only realize when they are purchasing for more units. This used to increase the complaints from customers, leading to reversals hence debt burden”

On the statement of whether customers pay their bills to zero once they fall due, 36(25%) strongly disagreed, 52(35%) disagreed, 31(21%) were neutral, 21(14%) agreed, while 8(5%) strongly agreed.

4.4.3 Findings on credit standards at Umeme

The second objective of the study was to evaluate the effect of credit standards on the financial performance of Umeme. Qualitatively, this was achieved by asking the respondents copies of the questionnaire with statements on the credit standards. The respondents were asked to mark the level of agreement on five-point Likert scale (SD – Strongly Disagree, D – Disagree, N – Neutral, A – Agree and SA – Strongly Agree) with the given statement. The quantitative results

are presented as frequencies and percentages in Table 4.7 below for easy assessment of the effect that credit standards have on UMEME’s financial performance. On the qualitative side, key informants were interviewed following structured questions on the interview guide, and the findings have been incorporated.

Table 9: Descriptive Statistics on credit standards at Umeme

Responses	1 (SD)	2 (D)	3 (N)	4 (A)	5 (SA)
Debt discounting has improved revenue collections for past years.	13(9%)	25(17%)	35(24%)	61(41%)	13(9%)
Categorization of Customers has improved collections rates	0(0%)	8(5%)	20(14%)	76(52%)	43(29%)
Billing customers every month has eased bill payment.	5(3%)	0(0%)	10(7%)	58(40%)	74(50%)
Issuing payment plans to customers has improved collection rates.	3(2%)	0(0%)	8(5%)	94(64%)	43(29%)

Source: *Primary data (2024)*

When respondents were asked about their opinions on whether debt discounting has improved revenue collections for the past years, 13(9%) strongly disagreed, 25(17%) disagreed, 35(24%) were neutral, 61(41%) agreed, while 13(9%) strongly agreed.

As regards to whether categorization of customers has improved collection rates, no respondent strongly disagreed, 8(5%) disagreed, 20(14%) were neutral, 76(52%) agreed, while 43(29%) strongly agreed. On this question, one of the respondents said

“Categorization of customers helps us prioritize revenue collection activities, putting more focus on customer with huge balance. These include KVA and TOU customers. The risk would be high if these customers failed to pay”

On the issue of whether billing customers every month has eased bill payment, 5(3%) strongly disagreed, 0(0%) disagreed, 10(7%) were neutral, 58(40%) agreed, while 74(50%) strongly agreed.

As regards to whether issuing payment plans to customers has improved collection rates, 3(2%) strongly disagreed, 0(0%) disagreed, 8(5%) were neutral, 94(64%) agreed while 43(29%) strongly agreed.

4.4.4 Findings on credit collection procedures

The third goal of the research was to investigate the effect of credit collection procedures on Umeme's financial performance. Quantitative results are presented as frequencies and percentages in Table 10 below for easy exploration of the effect that credit collections procedures have on Umeme's financial performance. Qualitative findings from the interviews conducted were included for comparability purposes.

Table 10: Descriptive Statistics on credit collection procedures at Umeme

Responses	1 (SD)	2 (D)	3 (N)	4 (A)	5 (SA)
Prepaid System has enabled Umeme to collect more revenue	5(3%)	0(0%)	3(2%)	61(41%)	79(53%)
Delivery of customer bills on time has improved on collection rates	3(2%)	0(0%)	8(5%)	76(52%)	61(41%)
Sending SMS alerts to customer with debts has improved revenue	3(2%)	3(2%)	15(10%)	68(47%)	58(40%)
Recovery rate for prepaid customers has improved collection of debt	3(2%)	3(3%)	15(10%)	79(53%)	48(33%)
Disconnection of defaulters has improved collection rates	5(3%)	8(5%)	10(7%)	53(36%)	71(48%)
Payment plans to customers with huge debts improved collection rates	5(3%)	3(2%)	5(3%)	94(64%)	41(28%)

Source: *Primary data (2024)*

On the item of whether prepaid system has enabled Umeme to collect more revenue, 5(3%) strongly disagreed, 0(0%) disagreed, 3(2%) were neutral, 61(41%) agreed, while 79(53%) strongly agreed.

When respondents were asked about whether delivery of customer bills on time has improved collection rates, 3(2%) strongly disagreed, 0(0%) disagreed, 8(5%) were neutral, 76(52%) agreed, while 61(41%) strongly agreed. In relation to these findings, one of the key respondents said.

‘‘If customers receive their bills on time, they prepare early than when received late, so this greatly helps in revenue collection. On top of paper bills key customers receive e bill and URA EFRIS bills’’

As regards to whether sending SMS alerts to customers with debts has improved revenue collection, 3(2%) strongly disagreed, 3(2%) disagreed, 15(10%) were neutral, 68(47%) agreed, while 58(40%) strongly agreed. In relation to the findings, one interviewee said

‘‘Customers prefer SMS bills than any other type of bill delivery since these are sent regularly and keeps reminding customers of their bills. When they receive this message, a number of them make the payment promptly’’

When asked about whether recovery rate for prepaid customers has improved collection of debt, 3(2%) strongly disagreed, 3(2%) disagreed, 15(10%) were neutral, 79(53%) agreed, and 48(33%) strongly agreed.

On the statement of whether disconnection of defaulters has improved collection rates, 5(3%) strongly disagreed, 8(5%) disagreed, 10(7%) were neutral, 53(36%) agreed, while 71(48%) strongly agreed.

As regards to whether payment plans to customers with huge debts improved collection rates, 5(3%) strongly disagreed, 3(2%) disagreed, 5(3%) were neutral, 94(64%) agreed while 41(28%) strongly agreed.

4.5. Inferential statistics

In testing the hypothesis on the effect of credit management mechanism on Umeme’s financial performance, inferential statistics based on correlation analysis, regression analysis and Analysis of Variance (ANOVA) were utilized and incorporated in the report as shown in sub-sections 4.5.1 and 4.5.2 below.

4.5.1 Correlation analysis

The Pearson Correlation Model was used for this, and the results are summarised on Table 11 below. The analysis of correlation allowed the researcher to test the relationship between the different dimensions of the independent variables (credit terms, credit standards and credit collection procedures) and the dependent variable (financial performance).

Table 11: Correlations Results

		Credit term	Credit standard	collection procedure	financial performance
Credit term	Pearson Correlation	1	.480**	.232**	.164*
	Sig. (2-tailed)		.000	.005	.047
	N	147	147	147	147
Credit standard	Pearson Correlation	.480**	1	.691**	.322**
	Sig. (2-tailed)	.000		.000	.000
	N	147	147	147	147
Collection procedure	Pearson Correlation	.232**	.691**	1	.540**
	Sig. (2-tailed)	.005	.000		.000
	N	147	147	147	147
Financial performance	Pearson Correlation	.164*	.322**	.540**	1
	Sig. (2-tailed)	.047	.000	.000	
	N	147	147	147	147

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

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

Source: *Primary data (2024)*

Table 11 of results above indicates that there is a positive correlation coefficient of 0.164, and less than 5% significance 0.047 (2-tailed based on 147) It means that at Umeme Limited, credit terms and financial performance are significantly positively related. Hence, any enhancement in credit terms at Umeme Limited will similarly translate into better financial performance.

Additionally, an R-value of 0.322 with a p-value of 0.000 which is less than the set α – value of 0.01 (2-tailed) based on 147 observations revealed a positive significant correlation between credit standards and financial performance at Umeme Limited. Therefore, improving credit standards at Umeme Limited significantly enhances Umeme’s financial performance.

Furthermore, the correlation analysis revealed a positive correlation coefficient of 0.540 with a probability value of 0.000 that is less than the significance level of 0.01 (2-tailed) based on 147 pairs. This implies that there is a positive significant relationship between credit collection procedures and financial performance at Umeme Limited. Therefore, any favourable credit collection procedures greatly improve Umeme’s financial performance.

4.5.2 Regression analysis and ANOVA

To assess the impact of the variations in identified dimensions of the independent variable (credit terms, credit standards and credit collection procedures) on the dependent variable (financial performance), a linear regression analysis was carried out.

4.5.2.1 Effect of credit terms on financial performance

Inferential statistics input from the linear regression analysis conducted on the effect of credit terms on Umeme’s financial performance is shown in the table below.

Table 12: Regression Model Summary for credit terms and financial performance

Model	R	Adjusted R Square	Std. Error of the Estimate	Change Statistics			Sig.	F
				R Square Change	Change df1	Change df2		
1	.164 ^a	.027	.52324	.027	4.026	1	145	.047

a. Predictors: (Constant), Credit term

Source: Primary data (2024)

The above table (Table 12) shows a finding of the construct such as credit terms with an R-square of 0.027, meaning 2.7% of the variance measure for the financial performance of Umeme

is explained by the independent constructs of credit terms whereas the other 97.3% was caused by other factors.

Table 13: ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.102	1	1.102	4.026	.047 ^b
	Residual	39.698	145	.274		
	Total	40.800	146			

a. Predictors: (Constant), Credit term

b. Predictors: (Constant), Credit term

Source: *Primary data (2024)*

Results from Table 13 revealed that credit terms had a significant effect on financial performance based on degrees of freedom, $F(1,145) = 4.026$, $p = 0.047$. This therefore answers the research question of the extent to which credit terms affect financial performance at Umeme Limited.

Table 14: Regression coefficient model for credit term and financial performance

Model		Unstandardized		Standardized		Sig.
		Coefficients		Coefficients		
		B	Std. Error	Beta	T	
1	(Constant)	3.259	.202		16.123	.000
	Credit term 2	.121	.060	.164	2.006	.047

a. Dependent Variable: financial performance

Source: *Primary data (2024)*

The Beta-value of 0.164 with a corresponding p-value of 0.047, which is less than the recommended significance level of 0.05 revealed that credit terms set by Umeme statistically have a significant effect on its financial performance.

4.5.2.2 Effect of credit standards on financial performance

A linear regression analysis about the effect of credit standards on Umeme’s financial performance revealed the inferential statistics below.

Table 15: Regression Model Summary for credit standard and financial performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig.
1	.322 ^a	.103	.097	.50227	.103	16.729	1	145	.000

a. Predictors: (Constant), Credit standards

Source: Primary data (2024)

Results from Table 15 above indicated an R-square value of 0.103 which implies that 10.3% of the variation in financial performance at Umeme is attributed to the independent constructs of credit standards, while the remaining of 89.7% is attributed to other factors.

Table 16: Regression Coefficients model for credit standards and financial performance

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	2.463	.294		8.366	.000
	Credit std	.301	.074	.322	4.090	.000

a. Dependent Variable: financial perform2

Source: Primary data (2024)

The Beta-value of 0.322 with a corresponding p-value of 0.000, which is less than the set significance level of 0.01 revealed that credit standards at Umeme Limited statistically have a significant effect on its financial performance.

4.5.2.3 Effect of credit collection procedure and financial performance

A linear regression analysis about the effect of credit standards on Umeme’s financial performance revealed the inferential statistics below.

Table 17: Regression Model Summary for collection procedure and financial performance

Model	R	Adjusted R Square	Std. Error of the Estimate	Change Statistics			Sig. F Change	
				R Square Change	F			
					df1	df2		
1	.540 ^a	.292	.44640	.292	59.748	1	145	.000

a. Predictors: (Constant), collection procedure

Source: Primary data (2024)

Results from Table 15 above indicated an R-square value of 0.292 which implies that 29.2% of the variation in financial performance at Umeme is attributed to the independent constructs of credit collection procedures, while the remaining of 70.8% is attributed to other factors.

Table 18: Regression model for Coefficients for collection procedure and financial performance

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	1.616	.266		6.066	.000
	Collection procedure	.483	.063	.540	7.730	.000

a. Dependent Variable: financial performance

Source: Primary data (2024)

The Beta-value of 0.540 with a corresponding p-value of 0.000, which is less than the set significance level of 0.01 revealed that credit collection procedures at Umeme Limited statistically have a significant effect on its financial performance.

4.5.2.4 Multiple regression analysis

Table 19: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig.
1	.551 ^a	.304	.289	.44576	.304	20.779	3	143	.000

a. Predictors: (Constant), collection procedure, Credit term, Credit standard

Source: *Primary data (2024)*

Overall, the study revealed a positive correlation coefficient of 0.551 between credit management mechanism and financial performance at Umeme Limited. With a probability value of 0.000 less than the set significance level of 0.01 (2-tailed), this implies a significant effect of credit management mechanism on financial performance. The coefficient of determination (R-square value) of 0.304 revealed a 30.4% effect of credit management mechanism on Umeme's financial performance.

Table 20: Multiple Regression Coefficients model for credit management and financial performance

Model		Unstandardized Coefficients		Standardized Coefficients		Sig.
		B	Std. Error	Beta	T	
1	(Constant)	1.643	.295		5.577	.000
	Credit term	.069	.059	.094	1.168	.245
	Credit standard	-.147	.102	-.157	-1.444	.151
	Collection procedure	.560	.087	.627	6.409	.000

a. Dependent Variable: financial performance

Source: *Primary data (2024)*

4.5 Conclusion

Descriptive and regression analysis results showed that credit management practice significantly influence Umeme Ltd.'s Financial Performance. The researched showed that every item of credit control mechanisms (credit terms, credit standards, credit collection time) would contribute to the company's financial performance.

Meanwhile both descriptive statistics and regression analysis indicated that credit standard and credit collection greatly affect Umeme Ltd financial performance. The findings additionally showed that credits terms are significant but does not have an abated effect on financial performance. The research findings highlighted the significance of credit management practices and their impact on Financial Performance at Umeme. It is recommended that Umeme focuses more on prioritizing credit collection procedures due to its significant impact on financial performance compared to the other two aspects.

CHAPTER FIVE

SUMMARY OF FINDINGS, DISCUSSION, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

Chapter Five presents the summary of findings, discussion, conclusion, and recommendations arising from the study. The purpose of this research was to examine the effect of credit management mechanisms on the financial performance of UMEME Limited. In this study, credit management mechanisms were treated as the independent variable, while financial performance was the dependent variable. The assumption was that UMEME's financial performance is influenced by how effectively it manages credit-related activities.

The findings discussed in this chapter are based on data presented in Chapter Four and are aligned with the specific objectives of the study, which were:

- To examine the effect of credit terms on the financial performance of UMEME.
- To assess the effect of credit standards on the financial performance of UMEME.
- To assess the effect of credit collection procedures on the financial performance of UMEME.

This chapter interprets the results in light of these objectives, drawing connections to existing literature and providing conclusions and practical recommendations for improving credit management practices at UMEME Limited.

5.2 Summary of findings

Study findings are summarised below.

5.2.1 To examine the effect of credit terms on the financial performance of UMEME.

The findings showed that Umeme's credit terms had a statistically insignificant effect on the financial performance of Umeme ($r=0.144$, $P=0.082$). The results showed an R-square value of 0.021 indicating that credit terms, which are the independent constructs, accounted for only 2.1% of the variance in the Umeme financial performance whereas 97.9% was attributed to other

factors. The R-value of 0.144 with a corresponding p-value of 0.082, which is above the recommended significance level of 0.05

5.2.2 To assess the effect of credit standards on the financial performance of UMEME

The result indicated that credit standards of Umeme set statistically significantly affected Umeme's financial performance ($r=0.315$, $P=0.001$). The study finding showed that an R-square of 0.099 indicates that: 9.9% of the variance in financial performance at Umeme can be explained by the independent constructs of credit standards, whereas the corresponding 90.1% is explained by other constructs. The R-value of 0.315 with a corresponding p-value of 0.001, which is less than the recommended significance level of 0.05.

5.2.3 To assess the effect of credit collection procedures on the financial performance of UMEME

It was established that statistically, credit collection procedures have a significant effect on Umeme's financial performance (0.532 , $P=0.001$). The results discovered an R-square of 0.283 which means 28.3% of the variation in financial performance at Umeme is due to the independent constructs of credit collection processes, whereas the left of 71.7% is as a result of other factors. The R-value of 0.532 with a corresponding p-value of 0.001, which is less than the recommended significance level of 0.05.

5.3 Discussion of findings

The findings are discussed below, in an objective-by-objective model

5.3.1 To assess the effect of credit terms on the financial performance of UMEME

The results showed an R-square of 0.021, meaning that 2.1% of the dependent variable (financial performance at Umeme) is explained by the independent constructs of credit terms. The study also found that statistically, Umeme credit terms have an insignificant effect on Umeme financial performance ($r=0.144$, $P=0.082$). This agrees with Kakuru (1998) who elaborates on adjustments on credit terms by the importance of discounts. Kakuru (1998) goes on to say that discounts can encourage customers to settle accounts within the due date or before the end date of the credit period, however he argues that discounts cannot be sustained and therefore they cannot achieve sustained performance.

Furthermore, the findings revealed that, credits terms influence financial performance with a P value of $P=0.082$. This implies that despite of higher P value of 0.05. Some elements are still important though not statically significant. This agrees with Robinson (1994) pointed out that the maximum loan amount per cycle is determined basing on the purpose of the loan and the ability of the client to repay (including guarantee). In utility organizations, the nature of credit terms relates to the nature and revenue generated by a customer and when as asked whether categorization of customers has improved collections rates, descriptive statistics indicated that 0(0%) strongly disagreed ,8(5%) disagreed, 20(14%) were neutral, (52%) agreed and ,43(29%) strongly agreed. This implied that understanding customer's potential is critical collecting revenues.

According to Wamasembe (2002) credit terms provide the credit period and the credit limit. The organization should make terms more attractive as an incentive towards clients, not incurring unnecessary higher levels of overall bad debts and a raise in the organizations risk. In utility organizations, this is in this relation with question of whether issuing payment plans to customers has improved collection rates. Descriptive statistics revealed that the majority strongly agreed representing 94(64%).

5.3.2 To assess the effect of credit standards on the financial performance of UMEME

Umeme's financial performance is significantly affected by credit standards statistically, according to study findings ($r=0.315$, $P=0.001$). The results showed an R-square of 0.099 indicating that 9.9% of financial performance at Umeme can be explained by the independent constructs of credit standards. Thus, it is consistent with the views of Van Horne (1994) of credit standards having a tight or loose configuration. Tighter credit standards cause a firm to drop a large volume of clientele and loose credit standards cause the firm to accumulate an increased number of clients while the risk of losing money through bad debts is greater. When asked if they adjust the prepayment recovery rates after full approvals regarding the relaxation policy, credit policy does not mean profitability because the higher number of customers can lead to higher costs in terms of loan administrations and bad debts recovery. Most respondents agree on it with 59(40%) agreeing and 46(32%) strongly agreeing. This aligns well with Van Horne (1994) who showed this is where tight controls are really important.

In the same vein, Kakuru (1998) also argues that the credit standards should apply per individual credit application based on the character estimate, capacity condition guarantee and security capital. Unfortunately, for utility companies, such an assessment is done differently. Some of the ways that can be used is communicating due dates early enough and ensuring collections before the due date. Respondents were asked whether customers are being aware of their due date has enhanced on-time payments, responding to this, the majority agreed as indicated by 49(33%).

The study found that the remaining 90.1% can be attributed to other factors. The R-value is 0.315 and the p-value ($0.001 < 0.05$). These findings are consistent with the works of Campsey and Brigham (1995) who argue that the assessment of an individual requires the; collection of relevant data on the applicant, analysis of the data to assess creditworthiness and the decision to offer credit and to what extent They suggested the use of the 5Cs of lending; Capacity, Character, Collateral, Condition and Capital factors that were not considered for this study

5.3.3 To assess the effect of credit collection procedures on the financial performance of UMEME

The study findings indicate that collecting credit as stipulated by Umeme has a significant influence on Umeme's financial performance ($r=0.532$, $P=0.001$). The results also showed an R-square of 0.283, therefore indicating that out of the independent constructs of credit collection processes, 28.3% leads to variation in the financial performance at Umeme and the remaining 71.7% of variance in financial performance is due to other causes. The outcomes resonated with McNoughthan (1996) who describes collection process as a process followed by the institution to recover overdue account. Collection policy, in relation to Micro-Finance Institutions, describes the polices used by MFI for the recovery of outstanding payments for accounts that have come due. The results indicate that there must be some form of effort to collect revenues, therefore this effort why disconnection of defaulters have discussed as shown by 71(48%) respondents who strongly agreed.

As Dickerson et al., (1995) postulates, collection policy serves as a guide where prompt payment and regular collections are ensured. In relation to this, when asked whether sending SMS alerts to customer with debts has improved revenue, majority of the respondents agreed as indicated in

the descriptive statistic with 68(47%) agreed and 58(40%) strongly agreed. Moreover, consistent with the results Prompt payments are intended to maximize turn over while minimizing excessive and bad debts, Pandey, (1995). This deliberate action has seen Umeme reduce the debt from growing even further. The works of the authors cited above tally with the research finding as indicated in the findings; the R-value of 0.532 with a corresponding p-value of 0.001, which is less than the recommended significance level of 0.05 revealed that credit collection procedures statistically have a significant effect on Umeme's financial performance

5.4 Conclusion

In summary, the study sought to achieve three objectives: these are credit terms, credit standards and credit collection procedures and for each of these how each affects financial performance at Umeme. Credit collection procedures had the highest impact (28.3%) followed by credit standards (9.9%) respectively and credit terms with 2.1% respectively.

5.4.1 Conclusion about Research Objective 1 (To assess the effect of credit terms on the financial performance of UMEME)

The outcomes revealed an R-square worth of 0.021 which means that 2.1% of the variation in financial performance at Umeme is attributed to the independent constructs of credit terms, while the outstanding of 97.9% is due to different factors. With R-value of 0.144 and p-value of 0.082 which was greater than the level of significance of 0.05, it was therefore discovered that credit terms set by Umeme have a statistically non-significant effect on Umeme's financial performance. The findings revealed that credit terms are important but not significant, this implies that Umeme should find other variables (97.9% attributed to other factors) that influence financial performance. It is revealed the other factors will greatly influence financial performance.

5.4.2 Conclusion about Research Objective 2 (To assess the effect of credit standards on the financial performance of UMEME)

The results produced based on the research objective two (2) have a statistic significant. From these findings, the researcher concluded that, the effect of credit standards on financial performance was only 9.9% @ Umeme, while the balance of 90.1% was from other factors not factored to this study. Although quite important, the impact of credit standards was not the

biggest on financial performance. Therefore, the company should pay more attention credit standard and also incorporate new practices to enhance the financial performance

5.4.3 Conclusion about Research Objective 3 (To assess the effect of credit collection procedures on the financial performance of UMEME)

In agreement with the findings of the research objective three, credit collection procedures made the greatest contribution on financial performance (28.3%). This implies that Umeme should pay maximum attention to credit collection procedures and sending SMS alerts to customer and disconnection defaulters early so that they can pay before the due dates.

5.5 Recommendations

Based on the research findings, the following are the recommendations of the study:

1. Umeme should strengthen its existing credit collection procedures, by implementing stricter monitoring and follow-up mechanisms to ensure timely payments. This includes automated reminders, increased communication with its customers, and regular reviews of outstanding debts.
2. Further research on credit mechanisms in utility companies to explore the impact of credit policies on customer payment behaviors and overall financial health of the utility. Investigating successful case studies of utility companies that have implemented innovative credit solutions can provide valuable insights. Additionally, understanding regulatory frameworks and their influence on credit management practices within the utility sector will be crucial for developing effective credit strategies.
3. Umeme can embark on a comprehensive training program for credit staff focused on advanced credit analysis, risk assessment, and customer relationship management across the business. This training can equip staff with the skills needed to make informed credit decisions, mitigate risks effectively, and maintain positive client interaction.
4. Flexible credit terms by Umeme to allow for tailored payment plans that accommodate varying financial situations. These terms can include extended payment periods, adjustable payment amounts, aiming to ease the financial burden on customers while ensuring steady cash flow. This approach fosters improved customer satisfaction and financial stability.

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APPENDICES

APPENDIX :1

QUESTIONNAIRE TO THE RESPONDENTS

Dear respondent, I am Wilson Egesa Reg. No. **S20M15/200** A Graduate student at Uganda Christian University pursuing a master's degree in business administration. This research is purely intended for academic reasons only. I request you to spare time and provide a response to the questionnaire. Please note that your responses to this survey will be kept completely anonymous.

DATA COLLECTION TOOL FOR KEY ACCOUNTS OFFICERS, CUSTOMER SERVICE ADVISORS AND DEBT COLLECTORS

BACKGROUND INFORMATION (Please tick as appropriate)

a) Highest Academic qualification of the respondent

High School	Diploma	Degree	Masters	Professional	Other Specify

b) Age of respondent

Below 23 years	23 – 35 years	36 – 45 years	46 – 55 years	Above 55 years

c) Sex of the respondent

Male	Female

d) Number of years worked in the Umeme limited

0-2	3-5	6-9	10-12	13 and above

e) Respective Department

Customer service	Administration	Operations	Engineering	Others/Specify

f) Number of employees in Department

Below 4 employees	5 – 10 employees	More than 10 employees

SECTION B:

Credit policy and financial performance at Umeme.

		1	2	3	4	5
	Credit terms					
1	Customers being aware of their due date has helped on payments of their bills on time.					
2	Customers pay their bills as per the due date.					
3	Bad debts have been reduced in the last 3 years					
4	Prepayment recovery rates are adjusted after full approvals					
5	Customers pay their bills to zero once they fall due					
	Credit standards					
4	Debt discounting has improved revenue collections over the years					
5	Categorization of Customers has improved collections rates over the past years.					
6	Billing customers every month has helped customers to pay their bills easily.					
7	Issuing payment plans to customers with huge debts has improved collection rates for Umeme					
	Credit collection process					
7	Prepaid System has enabled Umeme to collect more revenue from customers.					
8	Delivery of customer bills on time has improved on collection rates					
9	Sending SMS alerts to customer with debts has improved revenue					
10	Setting up recovery rate for prepaid customers has improved					

	collection of prepayment debt					
11	Disconnection of customers who have not paid by due date has improved collection rates					
12	Issuing payment plans to customers with huge debts has improved collection rates for Umeme					

SECTION C

FINANCIAL PERFORMANCE

S/NO	BUSINESS PERFROMANCE	LIKERT SCALE				
	Return on equity.	SD	D	N	A	SA
		1	2	3	4	5
1	Net profits have increased for the last three years					
2	Dividend payout has increased in the last three years					
3	Share price has increased over the last three years					
4	Umeme has been operating within its budget for the past three years.					
	Working capital					
5	Inventory can easily be converted into cash					
6	The company's liquidity has increased in the last three years					
7	The company debt days have reduced over the last three year					
8	Umeme's cash inflows have increased in the last three years					
9	The company current liabilities have reduced over the last three years					
	Inventory turnover					
10	Stock outs have steadily reduced over the last three years					
11	Stock replenishment is much easier					
12	There are some stocks items that have not been used for the last 12months					

APPENDIX II
INTERVIEW GUIDE FOR UMEME EMPLOYEES

Credit terms

1. Explain how paying before the due date improves revenue collection.
2. Can you elaborate on why debts have reduced over the last three years?
3. Elaborate on the prepayment recovery approval process.
4. Explain how often do customers pay their bills?

Credit standards

5. How does debt discounting improve financial performance at Umeme LTD?
6. Elaborate on how customer categorization improves revenue collection.
7. Explain how the billing process works at Umeme.
8. How does issuing of payment plans support revenue collection?

Credit collection process

9. How do prepayment systems improve revenue collection at Umeme LTD?
10. Examine the existing credit collection process?
11. If given an opportunity, what would you change in the existing credit collection process?

Financial performance

12. What has caused the increase in net profits at Umeme over the last years?
13. Explain how managing working capital improves revenue collection?
14. How does inventory turnover improve financial performance at Umeme LTD?

Your cooperation is highly appreciated.

APPENDIX III:
DOCUMENTARY REVIEW CHECKLIST

The researcher anticipates reviewing related literature available on credit risk management and financial performance. Documents related to credit risk management and financial performance to be reviewed will include.

- Scholarly journals
- Publications
- Articles and papers
- Meeting minutes
- Training manuals for field officers
- Departmental reports
- Annual reports
- Financial reports.
- Internal customer feedback survey records