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Introduction

In Modern business, selling of goods and services has become an art such that if not managed carefully the Organisation sales are likely to be low while competitors could be making good sales. One of the way of increasing Organisation sales is selling on credit where cash collection can be done at future date. While Organisation sales are likely to increase due to selling goods on credit, there is also a possibility that Organisation cash flows can be affected if debtors are not paying back their debts. The management need to understand that inability to collect debts affect Organisation cash flows and profitability. This could lead to many problems to the Organisation such as inability to pay the daily operational costs and meet other financial obligations which could lead to possibility of insolvency, (Yona, 2008).

A credit policy is a set of guidelines that, are used to determine which customers are extended credit and billed, set the payment terms for parties to whom credit is extended, define the limits to be set on outstanding credit accounts and outline the steps or procedures used to deal with delinquent accounts. When it's broken down into its component parts, a credit policy seems to be an encapsulation of how risk averse organisation is to extensions of credit and other monetary policies with respect to accounts receivable, (Drury, 2010).

Credit Policy Guidelines also spell out how to decide which customers are sold on open account, the exact payment terms, the limits set on outstanding balances and how to deal with delinquent accounts. Though most consumers expect to pay cash or use a credit card when making a purchase, commercial customers typically want to be billed for any products and services they buy. There is a need to decide how much credit the business is willing to extend them and under what circumstances. There's no one size fits all credit policy the policy will be based on the particular business and cash-flow circumstances, industry standards, current economic conditions, and the degree of risk involved, (Weygandt, 2009).

Credit policy is a subject for numerous dilemmas. The aim is to identify such dilemmas based on the sequence of activities that should be conducted while defining credit policy of an Organisation. In order to achieve this, a universal model of credit policy management must be constructed with

the implication of the possible areas of concern. Following, each area of concern there must be examined and supported with analytical parameters, if applicable. Also in each of identified areas of concern the core dilemmas were identified. In order to highlight the leading problems, a set of question was provided in each case. The presented model was developed with an application of conceptual analysis of the leading corporate finance literature in the field of recommended activities within credit policy management, (Hilton, 2011).

The goals of a credit policy are to reduce the outstanding invoice amounts and the bad debt expenses. Companies could set different performance metrics, such as the average number of days an account is overdue and the total dollar value of outstanding invoices. For example, an Organisation could set limits on the maximum number of days an account can remain overdue before the Organisation writes it off and removes the customer's credit privileges. Setting organizational responsibilities is also important because it establishes an accountability chain and avoids duplication and confusion, (Green, 2005).

Credit management policy this is an operational document defining a number of operating rules for the sales process that must be followed by the entire Organisation including of course the credit team. It defines the standard conditions of sale like standard payment terms, early payment discount rate and the processes to apply the rules how to open an account, how to set a credit limit, how to recover the bills. These rules are intended to do good sales and to converge business strategy, commercial stakes and financial issues (credit risk, cash, profitability, working capital improvement).

The purpose of the Credit Policy is to define the Credit Management function and to outline its objectives, scope and responsibilities. The policy needs to be clear and concise to ensure that the concept, the importance of efficient management of credit within the Organisation and the reasons for it are understood by those inside and outside the credit function. The details are aimed at covering the procedures of the policy document but should be considered as a guide only as each Organisation needs to understand their own requirements for a policy as one size does not fit all, (Warren, 2009).

The function of Credit policy Management is the protection of the investment in the debtors of the Organisation as well as maintaining the lowest levels of receivables, balancing risks inherent in

achieving sales objectives. This is probably the most important statement within a credit policy management document. A good Credit Policy should be subject to continual change, and such revisions and changes are usually the responsibility of the Credit Manager to issue revisions and individual department heads to ensure the use of the latest version. With organisations increasingly using internal Organisation intranets or shared network drive folders, the need for printed copies is becoming less important and revising the documents becomes easier with one amendment being made and an emailed link to the new document circulated, (Drury, 2010).

The consequences of trade credit are visible in numerous areas of corporate finance as they influence liquidity, profitability and the level of funds needed. Therefore, an effective management of accounts receivable, mirrored in corporate credit policy management, represents an essential element of financial management practice. Whenever the credit sale is made, inventories are reduced by the cost of goods sold, and accounts receivable are increased by the sales price.

The Organisation has to offer credit terms which are at least as generous as the competitor's terms. Also, companies may offer trade credit if they gain a competitive advantage in financing. Some companies have an access to cheaper funds and this may give them an opportunity to expand trade credit offerings. Regardless to the reason for offering trade credit, the Organisation should apply wise and mature credit policy management. A model of issues that require a closer consideration is presented, (Weygandt, 2009).

Working capital is money available to Organisation for day-to-day operations. Simply put, working capital measures Organisation's liquidity, efficiency, and overall health. Because it includes cash, inventory, accounts receivable, accounts payable, the portion of debt due within one year, and other short-term accounts, Organisation's working capital reflects the results of a host of Organisation activities, which include inventory management, creditors management, debt management, revenue collection, and payments to suppliers, (Green, 2005).

Working capital, also known as net working capital (NWC), is the difference between Organisation's current assets, such as cash, accounts receivable (customers' unpaid bills) and inventories of raw materials and finished goods, and its current liabilities, such as accounts payable. Working capital is a measure of Organisation's liquidity, operational efficiency and its

short-term financial health. If Organisation has substantial positive working capital, then it should have the potential to invest and grow. If Organisation's current assets do not exceed its current liabilities, then it may have trouble growing or paying back creditors, or even go bankrupt, (Wood and Sangster, 2008).

Background of Good Neighbors International (Malawi Branch)

Good Neighbors International is a non- profit making humanitarian and development non-governmental organisation in General Consultative Status with the United Nation Economic and Social Council (UN ECOSOC). Since its founding in Soul, Korea in 1991, it focus on providing child education, community development, health, sanitation and disaster relief projects in 32 countries around the world. Good Neighbors aims to bring fundamental social changes through Community Development Projects (CDPs) in order to empower families and local communities to become self-reliance. Good Neighbors provides vocational training, helps to develop agriculture skills, and establishes infrastructure (www.goodneighbors.org)

Good Neighbors opened his door in Malawi in 2008, whereby it established six Community Development Projects (CDPs) namely Chimutu, Chiwoza, Chaseta, Chambwe Chinguwo and Katsumwa and its head office located in Lilongwe. It has two branches one in Lilongwe and another in Kasungu.

Good Neighbors exists to make the world a place without hunger, where people live together in harmony. Good Neighbors respects the human rights of our neighbors suffering from poverty, disasters and oppression, and helps them to achieve self-reliance and enable them to rebuild their hope. Vision Statement is to work in any place where there is a need, regardless of race, religion, ideology, and beyond geographical constraints, to promote self-reliance and the sustainable development of individuals, families and communities, to prioritize the rights of children to work in cooperation with our local partners who share our community development goals and to strive to encourage more people to join our work as members, (www.goodneighbors.org)

Good Neighbors has a department that is involve in the micro finance whereby they provide loans to the community that they are working. They provide loan in farming sector for example they provide livestock (Pigs, goat, cattle) also they provide farm inputs like fertilizer and seeds to farmers.

In additional they prove loans to small scale enterprise so that they can start up small business in their communities. This help the local people to have access to capital that they can start up business or they can do farming. In so doing this help the community that they are working so that they can be self-reliance and be able for them to have basic needs for their respective families. Good Neighbors International face challenges to collect some of the loans that they distribute to the communities due to lack of credit policy.

Challenges faced by the Organisation due lack of credit policy

The Organisation is struggling to collect some of the credit that they offered to the community due to lack of credit policy, some of them are; Firstly, no clear responsibility to who will be follow up the credit. There was no clear responsibilities whereby the loan to be followed up it take sometime this create a room of defaulter. When there is credit policy it will outline who will be responsible to follow up or who will be giving reminder so that the people can be aware and get prepaid when due date come for them repay. But the organisation everyone leave the responsibility to one another which result for the loan not to be followed and increase number of defaulter.

Secondly, no collateral is attached to the loan that the organisation distribute to the community, hence result to people to be reluctant to pay back the loan. When the loan is attached to collaterals the one who borrows take much responsibility to pay back the loan so that he cannot loss the collateral he offered due to the non-repayment of the loan. Collateral that can be given will be used as assurance in case of default the organisation can recover some amount of money through the sale of the collaterals. With this will help the organisation to have strong rules when collect the debt that they are issuing to the community but in absence the collateral people will be reluctant hence the organisation liquidity will be affected, (Drury, 2010)

Thirdly, long collection period of debt, this will result too many people defaulting the debt as they cannot be able to pay back as the period is too long. Long period of the debt collection affect the organisation cash flows and profitability. Having a higher average collection period is an indicator of a few possible problems for the Organisation. From a logistic standpoint, it may mean that the organisation business needs better communication with customers regarding their debts and the expectations of payment. Stricter bill collection steps may need to be taken. Additionally, this high

number may indicate that the customers may no longer intend to pay or may be unable to pay which will result into serious problems for the organisation business.

Importance of written credit policy of the organisation

A written credit policy provides a consistent framework for the entire Organisation to work from in the accounts receivable realm. By detailing, in writing, the Organisation's policy on extending and managing credit, all arms of the Organisation have a common goal, whether it is the sales, marketing, distribution or debt collection departments. In addition to this benefit, the written policy can stipulate credit-related responsibilities for particular departments, which may ultimately streamline operations and eliminate duplicate functions that independent departments may not even be aware of, (Green, 2005).

Secondly, a written credit policy also provides the Organisation with a way of treating every customer exactly the same way when it comes to credit and payment terms. With pre-determined parameters clearly spelled out in the credit policy, decision making becomes very straight forward relating to customer relations. This can empower employees across multiple departments to act fairly and with confidence when dealing with customers, especially if there is a credit problem. It is important to create a thorough credit policy which all of the organisation employees should be familiar with, (Drury, 2010)

Finally, by clearly making the written credit policy a priority within the Organisation, this enables the debt collection department to enforce the terms to which each customer agreed when the original relationship began. If the entire organization is upholding the terms of the credit policy when conducting business, this makes the debt collector's job much easier, because there is no "wiggle room" for the customer to use to slow payments or stop payments altogether. If either of these actions occurs, the credit policy will provide the debt collector with the tools he needs to take action, usually putting a stop to any further product shipments or services provided.

It is important for the organisation to have credit policy because, it serve as an internal document that I identifies all sets and agreed procedures that govern the organisation credit function. It also provide guides to organisation staff responsible for the debt management in their day to day

activities. It gives standards framework that will achieve organisation transparency, where by limiting bad debts and improve organisation cash flows in so doing the credit policy assures a degree of consistency among the organisation departments, (Yona, 2008).

The end goal of all credit policies is to maximize the company revenue or business while minimizing the risk generated by extending credit. Credit policies are generally not off-the-shelf or grab-and-go products. While it's true that the end goal of all credit policies is to maximize the company revenue business while minimizing the risk generated by extending credit the ways to get there can vary depending on many factors.

However, credit policy are to reduce the outstanding invoice amounts and the bad debt expenses. Companies could set different performance metrics, such as the average number of days an account is overdue and the total dollar value of outstanding invoices. For example, a company could set limits on the maximum number of days an account can remain overdue before the company writes it off and removes the customer's credit privileges. Setting organizational responsibilities is also important because it establishes an accountability chain and avoids duplication and confusion, (Hilton, 2011).

The bottom line is that developing a clear, written credit policy is more than a necessity. It is an opportunity to improve the efficiency and productivity within the entire organization, and to ultimately positively impact the Organisation's profitability and liquidity. Sometimes the word "policy" can bring forth negative connotations relating to increased bureaucracy or inflexibility. Of course, some policies lead to these things.

However, when developing the Organisation's written credit policy, it is important to realize that the document is a work in progress. The original credit policy, once put into practice, will most likely require revisions. If the entire organization is simultaneously implementing the credit policy, even more ways to improve efficiency and productivity will probably come to light. View these as opportunities for the Organisation to become even more streamlined. The written credit policy truly can be a foundation for the Organisation, a way to empower the organisation employees, particularly the debt collectors, and provide a basis for exemplary customer relations, (Warren, 2009).

Good Neighbors credit policy

A credit plan will have a dramatic impact on the overall financial health of the organisation. It provides a documented roadmap that aligns corporate goals with organisation procedures. The credit plan will help the organization accomplish many goals, including reduction in bad debt and write-offs, as well as improvements in sales to cash payment cycles and improved profitability. The plan will include a mission statement or well-defined company goal. It will also identify all employee roles and systems in the organization that are directly or indirectly related to the credit and collections process. Each role will be defined in relation to credit and collections authority and responsibility.

Credit Policy and procedures for the organisation is an accessible document, used as part of the induction process to the Credit Management Team. This does not have to be an extensive document that details every procedure in minute detail, in fact given that the policy needs to be circulated and read not only by the credit management team but also sales and customer services it is preferable that the policy summarizes the key points and a separate document is produced providing the details and work instructions to key stroke levels on the major processes, (Drury, 2010).

While setting the credit policy, the Organisation must consider numerous issues related to the key elements of credit policy. The aim of this stage is to produce a clear system of credit terms policy for the organisation related to the risk-class of a particular organisation. This is further developed in the stage of credit policy implementation. However, clearly defined credit policy rules will be developed within the settlement of organisation credit issues. The core elements of credit policy are; the credit period, credit standards and collection policy.

The credit period is the length of time the customers are given to pay for their loan debt. Among the main factors influencing the period of credit granted to customers the Organisation must recognised usual terms of trade for the industry. The importance of trade credit as a marketing tool, as the more vital the perception of credit as a marketing tool, the longer the likely period of credit offered. The individual credit ratings of customers with regard to good-quality customers or high-risk customers. Cash discounts are related to financial inducements for customers to pay accounts quickly. Offering discounts may be costly for companies.

However, some established customers may pay more promptly to take an advantage from the discounts. Also, new customers may be attracted, as the discounts act as reduction in price. These problems should be taken into account while setting the cash discounts In particular, the discount policy and credit period policy correspond directly with the main goal of credit policy. If the Organisation aims at extending the trade credit, the credit policy may be relaxed due to lower discounts and longer credit periods, (Weygandt, 2009).

Furthermore, it may result in higher bad debts losses. In such circumstances, the cost of discounts is lowered, and the customers will be interested in taking the trade credit rather than paying cash, as the cost of trade credit decreases and may be even comparable to the cost of short-term bank loans. And quite the opposite, higher discounts and shorter credit periods within restrictive credit policy may discourage customers from taking credit (they will prefer to pay in cash as the cost of trade credit rises, (Warren, 2009).

Credit standards refer to the minimum financial strength of acceptable credit customers and the amount of credit available to different customers. Also, such standards refer to the strength and creditworthiness a customer must exhibit in order to being qualified for credit. The Organisation's credit standards would be applied to determine which customers qualified for the regular credit terms. Credit terms are here associated with setting the credit period and granting discounts. Also, the Organisation needs to specify the trade credit limits. These limits may apply either a maximum amount of receivables balance admitted to a particular customer, or a maximum order account. Trade credit limits may be assigned to all or only selected buyers. An advantage of trade credit limits is the simplicity. That is probably why these are the most common tool in credit policy management, (Scherr, 2009).

Major facts that require a closer consideration when setting credit standards are related to the probability that the customer will pay with delay or even fail to pay. Therefore, a careful assessment of customer's credit quality is required (Brigham, 2012). With the assessment of customer's creditworthiness, the Organisation may establish appropriate credit rules, concerning the maximum period of granting the credit, the trade credit limits, and the payment terms, including any discounts for early payment and interest charges on overdue accounts.

Collection policy refers to the procedures the Organisation follows to collect accounts, in particular these past-due (Brigham, 2012). A good credit collection policy clearly defines the procedures and ensures that the customers know the rules. It is more likely that the customer will pay in full and on time if prepared to cut off supplies or take action to recover overdue debts (Pike and Neale, 2003). The procedures usually define the actions against customers whose payments are overdue. The organisation will be doing the following procedure when doing collection of the debts like sending delinquency letter informing of the past-due account, telephone call to the customer to remind them, employment of professional collection agency, legal action against the customer, which is the ultimate step.

The purpose of the collections policy is to reduce the bad debt exposure of a company. The probability of a collection drops rapidly as an account ages. In other words, the longer an account is overdue, the more difficult it is to collect the outstanding balance. Collection procedures typically depend on the size and dollar value of the overdue account. A small business with a limited number of accounts may take a personalized approach to collections with phone calls or even personal visits. A large business with hundreds of accounts may adopt a gradual system of escalations. For example, it may send an email reminder when an account is seven days overdue and initiate telephone contact after an account is overdue for two weeks or more, (Hilton, 2011).

The statements or age analysis is to be printed and the credit controllers are to separate statements which have a credit balance and these must be reviewed as to whether they are to be sent to the client or not. The balance of the statements is to be prepared for faxing, mailing or delivery. The credit controllers are to contact the clients early in the month to confirm the client has received the statement and the supporting documents to enable timeously payment. Clients are to be phoned at least four days before payment is due, to confirm payment or deal with any problems that have arisen. The Credit Controllers responsibility to follow up with the division/branches on a weekly basis to ensure that queries are being dealt with and resolved as soon as possible, (Wood and Sangster, 2008).

However, any query not being dealt with should be brought to the attention of the department head or the country Director. The Credit Controllers are to ensure that all invoices overdue are recorded on the query list, that the division/branches concerned have been notified of the client's queries on

the invoices. The Credit Controllers are to assist the branches in any way possible in resolving the outstanding queries. The Credit Controllers are to liaise with the divisional managers on a weekly basis to discuss outstanding queries. The Credit Controller is to build relationships with the clients and where necessary visit the clients with the area or department managers.

Benefit of credit policy to the organisation.

It provide Customer information that should go without saying that before the extend of any credit to a customer, the organisation should know as much as possible about the person or group of people and their financial situation before granting the credit. Some of the most typical things that the organisation want to know are years in business, length of time at present location, financial data, credit rating with other vendors and credit-reporting agencies, information about the individual principals of the company, and how much they expect to gain from the business from the credit, (Warren, 2009).

It help in documenting information which is one of important piece of a strict credit policy is the aforementioned paper trail that the organisation will generate, which includes credit applications, sales agreements, contracts, purchase orders, bills of lading, delivery receipts, invoices and any other correspondence. This shows proof of the transactions with the customer, as well as any promises to pay credit back at a predetermined time and pace.

The credit department policy shall be consistent with the overall company policy and objectives, to maximize the return on investment for the shareholders as they are the one responsible for it. In phases of its activities, the credit department shall maintain a positive approach and constructive attitude to foster goodwill promote profitable sales and help build customer relationships. The credit department will at all times be aware of and recognize company sales and marketing objectives and shall maintain co-operative attitude towards the sales department and endeavor to promote sales. The credit department practices shall be designed to permit the maximum number of shipments to flow without interruption and without exposing the company to any unnecessary risk, (Weygandt, 2009).

the credit department will make provision for interception when necessary as a means of protecting credit extensions and account balances in the accounts receivable.

However they are some area of concern is the settlement of credit policy. The company will be able to define the appropriate length of trade credit, level of cash discounts, credit limits with regard to the credit risk, and finally courses of action against bad debts occurrence in the credit policy. Errors and omissions within these fields may result in higher costs of trade credit. The implementation of credit policy is also a subject of dilemmas. The company is exposed to the risk of granting credit to the unreliable customers and thus the bad debts losses may occur. Also, the management of receivables raises numerous problems, especially within the field of proper receivables tools analysis, (Wood and Sangster, 2008).

Conclusion

The most obvious benefit of a credit policy and procedures is that it will ensure that the customers will be paying on time due to an effective credit policy and procedures that will have an effective way of managing the customers. The credit policies and procedures also guarantee customers that they are to be given appropriate credit terms. The credit policy is a tool that is use to increase sales, but credit policy has to have a clear framework. Whether the advantages of such a policy outweigh the disadvantages depends on whether the organisation develop the appropriate terms and conditions and apply them to the customer base in a positive way.

The nature of the business influences whether a credit policy can help the company to perform better. A business credit policy outlines the credit department's clearly stated governing principles involving trade credit. An effective credit policy should align the corporate goals with business procedures and help the company to reduce bad debt and write-offs. It also serve to strengthen company's payment cycles and lead to increased profitability. It needs to be updated periodically. By explicitly documenting processes and procedures, a sound credit policy will ensure consistency across the account portfolio and help lead to stable and predictable cash flow.

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