

Employed Credit Risk Management by Motorcycle Dealers in Batangas City, Philippines

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Abstract - The researchers focused on this topic for the reason that only few people have been introduced and exposed to credit risk management and intend to evaluate the importance of credit management in financial institutions. It also aims to assess the credit management employed by the motorcycle dealers in Batangas City, Philippines. It intends to describe the demographic profile of motorcycle dealers in terms of nature of business, initial capital investment, length of business operation and product brand offered; to know how they manage their accounts receivables in terms of billing process, collection policies, types of credit policies and penalties imposed; to know the problems and the proposed solutions to those problems in relation to credit risk management. To obtain accurate data, come up with concrete facts and eventually come up with adequate interpretation concerning the study the researchers use a descriptive method of research design. After the significant findings thoroughly assessed and facts have been presented, several invaluable conclusions were drawn. First, that majority of Motorcycle Business in Batangas City are corporation, with investment that range from Php 5,000,001.00 and above and operated for more than 15 years. Second that the customers prefer to be personally informed for billing process while the dealers want to receive in advance cash payment. Also motorcycle dealers engaged strict analysis of the risk and its strict collection for credit policy and the repossession of motorcycle is the top priority in imposing penalties. Moreover, the top problem encountered by motorcycle dealers was that customer does not pay on time.

Keywords: Credit, risk management, motorcycle dealers

INTRODUCTION

Strong. Innovative. Loyalty. Businesses of today must have these things beside them as they go through the process of being number one and on top, not only in the business world but in the hearts of their consumers. Satisfying customer needs are the most precious thing a management can do for his society and of course, his people. Having strong perceptions about own ideas for innovations may help the management to grow bigger as it goes along the rough roads of business, which can be a factor to achieve loyalty from consumers. But not all people can afford something from a large company considering the price of the product versus the daily needs versus the monthly/weekly salary. That is why in present times,

discount promos and credit is given by most companies.

most business transactions of today are in credit. Firm face a modest competition they use credit as an important tool in sales. Granting credit sales enable the firms' revenue to upsurge and in a long run pushes up the profitability. While providing credit as a main source of generating income in most firms, they take into account of credit management which helps them to minimize the risk, to avoid in financial distress and bankruptcy. This is due to the reason that while firms providing credit they are exposed to risk of default (risk of interest and principal repayment) which need to be managed effectively to acquire the required level of loan growth and performance [1].

Batangas City, specifically in Motorcycle dealership, demonstrated that unsound credit decisions had been made and lessons as to how to manage credit risk effectively had been either ignored.

Many sought for adaptive procedures that the motorcycle dealers use in order for them to manage their accounts receivable. But after conducting such business transaction the actual collection of cash may be delayed and these late payments may cause substantial drop in a company's profit margin. The firm must evaluate the extension of credit to determine the effect of credit sales. The researchers focused on this topic for the reason that only a few people have been introduced and exposed to accounts receivable management. This research study is aimed at informing students of informative facts about the topic. The researchers hope that not only the students, but the industry would learn and apply the proper management of accounts receivable in their respective businesses.

Accepting the fact that in business world, not all transactions are done through cash basis instead most of the transactions are made through instalment. The researchers hope that through this study, the motorcycle dealers and other related businesses would learn the importance of appropriate management of credit risk. Also, this research would serve as a guide to those students who opt to conduct the same study.

OBJECTIVES OF THE STUDY

The present study aims to assess the credit management employed by the motorcycle dealers in Batangas City.

Specifically the study intends to describe the demographic profile of motorcycle dealers in terms of nature of business, initial capital investment, length of business operation and product brand offered; to determine how motorcycle dealers manage their accounts receivables in terms of billing process, collection policies, types of credit policies and penalties imposed; to identify the problems encountered by motorcycle dealers and the proposed solutions to those problems in relation to credit risk management.

METHODS

Research Design

The main purpose of the study was to analyze credit risk management employed by motorcycle dealers in Batangas City. To obtain accurate data, come up with concrete facts and eventually come up with adequate

interpretation concerning the study. The researchers use a descriptive method of research design.

The descriptive method involves the collection of data. It is generally considered as an all-embracing and all the comprehensive method of research using library, questionnaire and other data gathering tools. It is the most appropriate method to use fully acquires sufficient data and information to discuss credit risk management employed by motorcycle dealers in Batangas City.

Participants of the Study

The researchers surveyed 20 motorcycle dealers in Batangas City. The participants of the study from whom the researchers obtained were the managers of the business establishments. All of them were actively operating in Batangas City at the time of the study. The Batangas City Licenses Office, upon request of the researchers, provided a list of motorcycle dealers in Batangas City, including the names of the owner, trade names and addresses of the business.

Data Gathering Instrument

The researchers used the self-structured questionnaire as the primary data gathering instrument in determining credit risk management employed by motorcycle dealers in Batangas City. The researcher conducted a sampling for 2 managers of motorcycle dealers to know if they could understand the contents of the instrument. The questionnaire was chosen due to its feasibility, convenience and speed in terms of gathering information necessary for the accomplishment of the study. The questionnaire had been validated by an expert in loan and currently working in Bank of the Philippine Island.

The questionnaire is composed of three parts: the personal profile of the participants second is the personal profile of the dealers and lastly the main problem, which are divided in several parts. The researchers used the checklist type wherein the participants answered a single question with one or more options. The part 1 of the questionnaire intended to gather data about the personal profile of the participant. Part 2 was designated to determine the profile of the business such as product brand being sold and years of business operation. The last part of the questionnaire contained the questions that indicate how they can manage credit risk. As well as course of actions applied by motorcycle dealers that may discourage the customer to default of payment. The part 3 also includes the credit limit and policy that the dealers imposed.

In order to arrive at a reliable and understandable instrument, the researcher did much reading after which the questionnaire was drawn up. Aside from this, they studied some of the previous investigations relative to this study.

Data Gathering Procedure

To arrive at essential data for the accomplishment of this study, the researchers gathered information from books, journals, articles and other research materials about the problem being investigated. The researchers also went to visit and seek information from other libraries as well. The researchers also referred to undergraduate thesis, which served as guide for the construction of the research. Then submitted their proposed topic to their adviser for the approval, the topic entitled “Credit Risk management employed by motorcycle dealers in Batangas City”, after approval of the topic, the researchers immediately conducted their work. The researchers requested for the list of motorcycle dealers from the local government of Batangas City. The researchers then concluded their work by browsing different materials, especially book and internet to obtain information that will serve as their guide in forming a valid questionnaire. The questionnaire was drafted and submitted for the approval. After several revisions and consultations, the questionnaire was checked, and the final draft was made. Information about the dealers of motorcycle was also secured through the help of the dealer’s agent of such establishment in Batangas City. The researchers then prepared a letter of request that would be presented to the managers or owners of motorcycle dealers in Batangas City asking permission for them to conduct the research.

The survey was conducted within Batangas City. The researchers have asked the managers to answer the questionnaire. The distribution and collection of questionnaires was time consuming because of the schedule given by the participants of the study.

Data Analysis

The data gathered were collated, tabulated and presented in tabular form. Responses to the questionnaire were analyzed, summarized and interpreted. Descriptive statistics was used such as frequency distribution, weighted mean as well as composite mean. The abovementioned statistical tools were used according to the objectives of the study. Frequency distribution was utilized to describe the profile of the respondents, weighted mean to measure

how motorcycle dealers manage their credit risk. The data were supported by software, SPSS version 21.

RESULTS AND DISCUSSIONS

Table 1 shows that 80 percent of motorcycle dealers are owned by corporation while 15 percent are sole proprietorship oriented and only 5 percent is owned by partnership. In terms of initial capital investment 45 percent has a capital of Php 5,000,001 and above and 25 percent has Php 2, 500.001 – Php 5, 000, 000; 20 percent of motorcycle dealers has a capital of Php 1,000,001 – Php 2,500,000 and only 10 percent of them has Php 1,000,000 and below capital. In terms of their business operation 45 percent of the dealers are in the field of more than 15 years and above; 30 percent of them are operating for 1 year up to five years; 15 percent are in the business for 6 to 10 years and 10 percent of them are in the field for 11 to 15 years.

Table 1. Distribution of Respondents According to Profile (N = 20)

Nature of Business	Frequency	Percentage	Rank
Sole Proprietorship	3	15.0	2
Partnership	1	5.0	3
Corporation	16	80.0	1
Initial Capital Investment			
Php 1,000,000 and below	2	10.0	4
Php 1,000,001 – Php 2,500,000	4	20.0	3
Php 2, 500.001 – Php 5, 000, 000	5	25.0	2
Php 5, 000, 001 and above	9	45.0	1
Length of Business Operation			
1 – 5	6	30.0	2
6 – 10	3	15.0	3
11 – 15	2	10.0	4
15 and above	9	45.0	1

Being the highest in the forms of business operations in Batangas City, it is said that a corporation is a legal entity created by operation of law, has separate and distinct existence from individuals who created it and those who control its operations. A business is considered a corporation if it has a capital investment of Php 5 000 001 and above. This amount is due to bigger management, higher inventory rates, and of course higher maintenance costs. Also, a corporation should have 11-15 persons in its operations

which will stand as the stockholders or the financiers in the business operations. Aside from giving the business it budgets and additional investments, they also involve themselves with the decision making in every step it takes. Operating a corporate business gives a limited liability to stockholders, forms a large capital, transfers ownership easier, and most of all, it has continuity in existence.

Owner intends to build a corporation business due to its longest standing business structure leading the pack in the amount of protection and flexibility for shareholders. This aspect of the business structure makes corporations attractive to businesses with big plans for growing through raising capital.

Capital is the money you personally have invested in the business and is an indication of how much you have at risk should the business fail. Interested lenders and investors will expect you to have contributed from your own assets and to have undertaken personal financial risk to establish the business before asking them to commit any funding [2].

Table 2. Distribution of Respondents According to Product's Brand Offered

Indicators	Frequency	Percentage	Rank
1. Honda	14	70	2
2. Kawasaki	14	70	2
3. Kymco	12	60	4
4. Yamaha	14	70	2
5. Rusi	10	50	5

*Multiple Answers

Table 2 illustrates the distribution of the preferred product brands offered by the motorcycle dealers. The respondents have multiple answers in this question. The result shows that customer's preferred brands are mostly Honda, Kawasaki and Yamaha with frequency of 14 and a percentage of 70%. The customers choose popular brands that are well trusted in the industry. Moreover, these brands offer a lot of advantages like low cost, high fuel efficiency and undeniable power, and high products more than the others that was patronized by the customers. Next to the list is Kymco, people patronize this brand because of its affordable cost and great quality with excessive features. Rusi came last in the survey, even though it is known for its very affordable cost, people still choose to purchase those brands that are first be known to the public like Honda, Kawasaki and Yamaha.

Branding turns a commodity into something much more valuable. It helps foster preference, and loyalty, leading to patronize the product, and often increased

profit margins. At its most basic level, it is a practical identification mark that allows the customer to quickly distinguish one product to another [3].

Table 3. Credit Risk Management Employed by Motorcycle Dealers in Batangas City in terms of Billing Process

Indicators	WM	VI	Rank
1. Give advance collection notice to customer	3.40	A	2.5
2. Call the customer to discuss the account	3.30	A	4
3. Send email to customer	2.65	A	5
4. Send SMS to customer	3.40	A	2.5
5. Personally, inform the customer	3.55	SA	1

Legend: 3.50 – 4.00 – Strongly Agree (SA); 2.50 – 3.49 – Agree (A); 1.50 – 2.49 – Disagree (D); 1.00 – 1.49 – Strongly Disagree (SD)

Table 3 displays the Credit Risk Management Employed by Motorcycle Dealers in Batangas City in terms of Billing Process. All of the billing process mentioned such as giving advance collection notice to customer, calling the customer to discuss the account, sending email to customers and sending sms to customer reflect to agree. Ranked 1st is motorcycle dealers personally informed their customers reflect to strongly agree with a 3.55 percent weighted mean 2nd are giving advance collection notice to customer and sending SMS to customer with a 3.40 percent weighted mean. The 3rd is calling the customer to discuss the account with a 3.30 percent of weighted mean. Sending a clear message to customers about when and how you expect to be paid will help you manage cash flow and maintain good customer relationships.

According to study [4], the business will warn the customer how much money they will take from them or their account by sending an advice before taking the amount due. The business will either take this over the phone, online or personal. Ranked last is by sending email to the customer with 2.65 percent weighted mean. Most customers prefer to receive prior notice of bill payments directly by personally informing them about the amount to be due. This ensures that they will not really forget to pay on time while the others prefer the other ways depending on their individual circumstances.

Billing processes play a critical role in revenue for a number of public sector organizations, including municipalities. In the delivery of services, for example, billing drives cash flow and is the key source of information for customers using these services. In

many countries, reforming billing processes, coupled with strengthening collection processes, has improved revenue collection [5].

Table 4. Credit Risk Management Employed by Motorcycle Dealers in Batangas City in terms of Collection Policies

Modes of Payment	WM	VI	Rank
The company prefer to receive:			
1. Cash	3.85	SA	1
2. Cheques/ Manager's Check	2.60	A	2
3. Credit Cards	1.70	D	5
4. Automatic Debit Management	1.90	D	3.5
5. Standing orders	1.65	D	6
6. Debit Card-EPS	1.90	D	3.5
Terms of Payment			
The company prefer to receive payment on the following terms:			
1. Payment in advance	3.75	SA	1
2. Payment <i>n</i> days after invoice date	3.05	A	3
3. End of month	2.85	A	4
4. Cash upon purchase/ delivery	3.50	SA	2

Legend: 3.50 – 4.00 – Strongly Agree (SA); 2.50 – 3.49 – Agree (A); 1.50 – 2.49 – Disagree (D); 1.00 – 1.49 – Strongly Disagree (SD)

Table 4 demonstrates about the Credit Risk Management Employed by Motorcycle Dealers in Batangas City in terms of collection policies which indicate modes and terms of payment. Under modes of payments, the company prefers to receive cash which ranked 1st in the survey. This is because of the liquidity of cash and it is the most convenient way to pay for the product. All modes of payment mentioned such as credit cards, automatic debit management, standing orders and debit card EPS reflect to disagree because it is seldom used by the consumers.

Under terms of payment, the company prefers to receive payment through payment in advance which ranked 1st. That is because the business can have assurance that the customer will purchase the product. Payment *n* days after invoice date, end of month and cash upon purchase/ delivery are also terms of payment employed by the businesses, but they are not commonly used by the customers.

Stated by study [6], payment terms are the way you let your customers pay for your goods and services and the details for when you expect to receive payment. Payment terms define what credit facilities you will offer customers. Setting clear payment terms gives your customers a clear understanding of the payments you accept and when payment is due. Setting payment

terms is also important because it affects your cash flow. Standard terms for credit include payment within 7, 14 or 30 days after the invoice date. Payment methods are the ways in which customers pay for their subscription goods or services. The party selling the product or service declares the acceptable method of payment. A customer can choose a payment method based on company's list of preferred payment methods.

Table 5. Credit Risk Management Employed by Motorcycle Dealers in Batangas City in terms of Types of Credit Policies

Indicators	f	%	Rank
1. Strict analysis of risk and strict collections	12	60%	1
2. Strict analysis of risk and liberal collections	5	25%	2
3. Liberal analysis of risk and liberal collections	3	15%	3

Table 5 confirms that strict analysis and strict collections is what does motorcycle dealers are implementing to their customers with 60 percent compared by a 25 percent and 15 percent. Strict analysis because dealers want to make sure that the person, they are going to approved can pay the monthly fee through its assets and has a good character like free from any cases that is related to such payables.

According to study [7], under this type of policy, only high credit-rated accounts are accepted, and very little variation from terms is allowed. The analysis of risk is thorough. Collection efforts require a fairly large staff, and the selling effort may be restricted. However, the increased staff costs may pay sizable dividends in the form of improved accounts receivable turnover and minimal bad debt losses.

Table 6 indicates the penalties imposed employed by the motorcycle dealers. It can be seen here that when the customer fails to pay payments or violates the agreed terms and conditions motorcycle dealers can have imposed penalties like they can sue the unpaid customer, can make additional interest for undue payment, can forfeit collateral security, can repossessed the motorcycle unit or cannot apply in any installment sales offered. With the weighted mean of 3.60 majority of motorcycle dealers repossessed the motorcycle from the customer as one of the penalties they implement. This is because this serves as their collateral for their payment which the party having right of ownership of the property in question takes the property back from the party having right of possession

without invoking court proceedings. 2nd is that they sue unpaid customer with 3.30 weighted mean followed by making them to pay additional interest for the undue payment. It may come to the point where all the situations become to worst the motorcycle dealers may conduct legal proceedings and sue the unpaid customers and to collect additional interest for the imbursement of the amount.

Table 6. Credit Risk Management Employed by Motorcycle Dealers in Batangas City in terms of Penalties Imposed

Indicators	WM	VI	Rank
The company...			
1. Can sue unpaid customer	3.30	A	2
2. Can make additional interest for undue payment	3.20	A	3
3. Can forfeit collateral security	2.50	A	5
4. Repossession of motorcycle	3.60	SA	1
5. Cannot apply in any instalment sales offered	2.60	A	4

Legend: 3.50 – 4.00 – Strongly Agree (SA); 2.50 – 3.49 – Agree (A); 1.50 – 2.49 – Disagree (D); 1.00 – 1.49 – Strongly Disagree (SD)

Punishment is the authoritative imposition of an undesirable or unpleasant outcome upon a group or individual, in response to a particular action or behavior, that is deemed unacceptable or threatening to some norm. Motorcycle dealers and other businesses enforce different penalties for the customers to comply with the regulations they agreed upon. These punishments are made to prevent continuous payment failures of customers and to lessen too much loss [8].

Table 7. Problems Encountered Related to Credit Risk Management Employed by Motorcycle Dealers in Batangas City

Indicators	WM	VI	Rank
1. Customers are not paying on time	3.35	A	1
2. An overworked or undertrained personnel handling credit risk	2.85	A	2
3. Bouncing cheques paid by the customers	2.20	D	4
4. Manual recording and trading of accounts (lost receipt and misplaced invoice)	2.30	D	3
5. No procedures in managing credit risk.	1.70	D	5

Legend: 3.50 – 4.00 – Strongly Agree (SA); 2.50 – 3.49 – Agree (A); 1.50 – 2.49 – Disagree (D); 1.00 – 1.49 – Strongly Disagree (SD)

Table 7 expresses the problems encountered related to credit risk management employed by motorcycle dealers in Batangas City. The result shows that motorcycles dealers’ encountered problems such as customers not paying on time and overworked or undertrained personnel handling accounts receivable. Ranked 1st is the customers not paying on time with a weighted mean of 3.35; possible factor why customers’ payments are impaired is because they might have other necessities to pay and they need to prioritize it.

Ranked 2nd is the overworked or undertrained personnel handling accounts receivable with a weighted mean of 2.85; this problem can be cause by the mismatched of the skills of the employees or they lack experiences regarding that field and another cause may be the aging of some of the employees. Ranked 3rd is the manual recording and trading of accounts with a weighted mean of 2.30; ranked 4th is the bouncing cheques paid by the customers with a weighted mean of 2.20 and the last in the list is that no procedures in managing accounts receivable with a weighted mean of 1.70.

This confirms in the study [9], that there are times most customers are paying within a reasonable amount of time. But sooner or later you can deal with a customer who pays very slowly or not at all. Thus they need to keep their eye on receivables. Send out the invoices promptly at regularly scheduled intervals to ensure timely reminder among clients.

CONCLUSIONS AND RECOMMENDATION

Majority of Motorcycle Business in Batangas City are corporation, with investment that range from Php 5 000 001 and above and operated for more than 15 years. The customers preferred to be personally informed for billing process while the dealers want to receive in advance cash payment. Also motorcycle dealers engaged strict analysis of the risk and its strict collection for credit policy. Moreover, the repossession of motorcycle is the top priority in imposing penalties. The top problem encountered by motorcycle dealers was that customer does not pay on time. The propose plan of action was devised to improve the credit risk management.

Consider engaging in a partnership business for this is less complex than the other forms and requires less business requirements or construct strategies on ways to raise capital investments. Develop a management reporting database that measures collecting ratios days in accounts receivable and amounts written off to collections. Thoroughly explain

the modes of payment strict collection policy and adjust the credit limits based on the information they have. Constantly monitor customer portfolio to see if there are any changes on their customer's credit profiles. Follow up regularly and remind the customer for their upcoming payment. The propose action plan hopefully, will help the businesses all over Batangas City to avoid or to lessen losses due to credit risk management. Similar study may be conducted by other researchers using different set of variables.

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