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Pharmaceutical Manufacturing Companies in Kenya and Their Credit Risk Management Practices

Elizabeth Kalunda[1*], Beatrice Nduku[2], John Kabiru[2]

1. School of Business, Kimathi University College of Technology, P. O. Box 657-10100 Nyeri, Kenya
2. School of Business, University of Nairobi, Kenya, P.O Box 30197, Nairobi, Kenya

*E-mail of corresponding author elizabeth.kalunda@kuct.ac.ke

Abstract

The pharmaceutical industry in Kenya consists of manufacturers, distributors and retailers, who all actively support the Ministry of Health and other key players in developing the health sector. Kenya spends about 8% of its GDP on health. Trade credit is created whenever a supplier offers terms that allow the buyer to delay payment. This study aimed at to identifying the credit risk management practices adopted by pharmaceutical manufacturing firms in Kenya. The study found out that the two most important factors considered in establishing a credit policy are the financial stability of the customer and the existing credit policy. Majority of the firms do not have a credit policy manual. The most widely used credit risk management practices are use of debt collectors letters of credit, credit insurance and factoring of debt in that order. In dealing with difficult to pay customers nearly all firms put the account on hold and stopped future sales till the account was settled, (80%) engaged services of debt collectors, (43%) resorted to selling on cash basis. The 6C's model of credit appraisal was widely used.

Key words: credit risk, credit risk management, pharmaceutical firms

1. Introduction

In today's environment of intense competitive pressures, volatile economic conditions, rising bankruptcies and defaults, and increasing levels of consumer and commercial debt, an organisation's ability to effectively monitor and manage its credit risk could mean the difference between its success and collapse. Credit risk covers risks due to promotion or demotion of a borrower's credit worthiness and businesses are devoting a considerable amount of time and thoughts to defining and managing credit risk (Duffie & Singleton, 2003: Basel, 1999). From identifying and correctly pricing risk in the customer acquisition process to measuring risk throughout the customer lifecycle, to determining capital allocations and regulatory requirements and finally to the timely and effective collection process; credit risk management is a continuous cycle that is at the heart of an organisation's ability to stay competitive (Altman, 2002).

Credit risk can be defined as the potential that a borrower or counter party will fail to meet its obligations in accordance with agreed terms. Credit risk management is the process of evaluating risk in an investment. When the risk has been identified, investment decisions can be made and the risk vis a vis return balance considered from a better position. Credit risk can be reduced by monitoring the behaviour of clients who intend to apply for credit in the business (Altman, 2002). According to Clarke (1999) awarding credit is a journey, the success of which depends on the methodology applied to evaluate and to award the credit. This journey starts from the application for credit through acquisition of credit sales and ends at the time the debt is fully paid. The study focuses on credit risk management practices adopted by pharmaceutical manufacturers from who are at the top of the supply chain of the pharmaceutical industry.

The pharmaceutical industry in Kenya consists of three segments namely the manufacturers, distributors and retailers who play a major role in supporting the country's health sector. Various activities are conducted by these firms to finally produce the final product. The industry compounds and packages medicines, repacking formulated drugs and processing bulk drugs into doses using predominantly imported active ingredients and excipients. The bulk of locally manufactured preparations are non-sterile, over-the counter (OTC) products. The number of companies engaged in manufacturing and distribution of pharmaceutical products in Kenya continue to expand, driven by the Government's efforts to promote local and foreign investment in the sector (Economic Survey, 2004). This has resulted in Kenya being currently the largest producer of pharmaceutical products in the Common Market for Eastern and Southern Africa (COMESA) region, supplying about 50% of the regions' market. Out of the region's estimated fifty recognised pharmaceutical manufacturers approximately thirty are based in Kenya. These firms collectively employ over 2,000 people with about 65% working directly in the

production sector. Kenya exports pharmaceutical products worth Kenya shillings 2,274 million (CBS, 2004).

The key players in the industry include multinational corporations (MNC's) like GlaxoSmithKline, Bayer, Aventis, Pfizer and local establishments like Dawa Pharmaceuticals Ltd, Cosmos Pharmaceuticals among others. The pharmaceutical industry is very competitive and is characterised by price wars. This is because returns are in excess of 20% of investment which is lucrative. Government policies dictate the price structure. The price structure is not sustainable and favours those who produce at reasonable prices. To remain competitive in the market the firms have adopted credit sales as a survival strategy. Thus sound credit risk management practices are of vital importance in the industry.

Despite the high Turnover in the pharmaceutical industry, bad-debts are also prevalent, and this reality that needs to be addressed to keep the firms going. Owing to the increasing variety in the types of counterparties and the ever expanding variety in the form of obligations, credit risk management has jumped to the forefront of risk management activities carried out by firms in the non-financial services industry (Fatemi and Fooladi, 2006).

The legislation that regulates the pharmaceutical and health sector in Kenya is complicated. One of the most important effects in the sector is control by the Ministry of Health, over the pricing and product licensing. In most of the situations, the State is not only the control mechanism but also the most important customer through Kenya Medical Supplies Agency (KEMSA). KEMSA buys 30% of the drugs in the Kenyan market through an open-tender system and distributes to government medical institutions.

The main objective of the study was to identify the credit risk management practices adopted by pharmaceutical firms in Kenya. It specifically seeks to understand if the firms have a credit policy document, who is responsible for credit appraisal and approval and the model used in credit appraisal.

This paper is organized as follows: section one is on the introduction and objectives of the study, section two contains literature review on credit risk management, pharmaceutical companies and credit provision and credit appraisal criteria in pharmaceutical companies. Section three details the research design while section four discusses the results. Section five finishes off with the conclusion and recommendations.

2. Literature Review

2.1 Credit Risk Management

It is the responsibility of management to set up a credit administration team to ensure that once credit is granted it is properly maintained and administered. One of the key functions of this team should be risk management. Risk management contains identification, measurement, aggregation, planning and management as well as monitoring of the risk (OeNB, 2006). Procedures for measuring a firm's overall exposure to credit risk as well as stringent internal rating system should be adequate. Basically, credit granting exists to facilitate sales but credit sales are pointless without due payment, therefore the sales and credit functions must work together to achieve the well known objective of maximum sales unpaid for the minimum length of time (Morgan, 2002). A firm's exposure to a concentration of credit risk in respect of credit sales could materially and adversely affect the firm's financial results (Schnitzer and Pryde, 2006). This thus calls for a need to come up with effective, innovative, sustainable and feasible ways of managing credit risk.

The importance of credit risk management has never been more important with the current high default rates and bankruptcies; though, there was heightened interest even before the current scenario. Indeed in 1999, at the end of the benign credit cycle, banks, regulators and financial market practitioners were spending considerable time on this subject. This was due to increased emphasis on sophisticated risk management techniques in a challenging environment, refinements in credit scoring techniques, establishment of relatively large databases of defaults, recoveries and credit mitigations, development of offensive credit risk mitigation techniques such as securitisations, credit derivatives and credit insurance products (Altman, 2002).

An interesting development in the corporate world over the past decade has been credit risk, specifically the mechanisms for transferring and managing credit risk such as credit default swaps, credit linked notes and collateralized loan obligations. Two of the pioneers of research in this area, Duffie and Singleton (1999) have provided us with an integrated analysis aimed at pricing, measurement and management of credit risk.

An important element of credit risk management is stress testing. This involves identification of possible events or future changes that could have a negative impact on the firm's credit portfolio and the firm's ability to withstand the changes. The areas to examine critically are economic or industry changes, market risk events and liquidity conditions. Credit quality problems, in the worst case, can result in a firm's insolvency. They can also result in such a significant drain on capital and net worth that they adversely affect a firm's growth prospects and

ability to compete with other firms (Saunders, 2002).

One aspect of financial risk that has proven difficult to hedge, however, has been that of credit risk facing firms. Financial and industrial corporations have every incentive to improve their modelling and trading of credit risk. The explosive growth of credit derivatives market has distributed credit risk through the financial system, packaged in new forms. An expanding credit risk market raises possibilities for corporate treasurers wishing to minimise exposure to credit risk (Freeman, Cox & Wright, 2006).

Pharmaceutical firms use various techniques of mitigating credit risk .The most common are collateral, guarantees, netting off of loans against deposits of the same counter-party; this is especially used by large multinational pharmaceutical corporations which engage in intercompany trade. The payments are netted off against the receipts and the balance is paid thus reducing the credit risk. Credit insurance, factoring, debt collection, surety bonds, and letter of credit are others techniques widely used. While use of these techniques will reduce or transfer credit risk, other risks may arise which include legal, operational, liquidity and market risks (Smith and Stultz, 1985).

Corporates face a number of credit risk exposure. For pharmaceutical companies a larger or more strategic exposure to this risk comes in the form of longer-term supply contracts. Consider the risk involved in manufacturing large stocks of a certain drug for a distributor or a large hospital and the potential effects of a credit down grade of such large customers on their suppliers (Smith and Stultz, 1985). These risks could be managed or mitigated in different ways such as use of credit derivatives (Stanley, 2006), credit insurance, surety bonds and securitization and netting off (Smith and Stultz, 1985) factoring, letters of credit and use of debt collectors (Singleton and Duffie, 2003).

Of these credit mitigation practices credit derivatives are rapidly developing despite the fact that the market still lacks, the transparency and liquidity of more traditional, exchange-traded instruments (Freeman & Cox, 2006). Smithson and Mengle (2000), defines a credit derivative as a contract to transfer credit risk from one counter party to another. Early forms of credit derivative were financial guarantees with current forms including credit default swap and total return swap. Since they are traded over-the-counter, credit derivatives can be tailored to suit the particular needs of the purchaser (Smithson and Mengle, 2000). The market for credit derivatives has been, and still is, dominated by banks and insurance companies, who trade credit risk among themselves with incentives to distribute and diversify risk, gain additional yield and to manage their capital requirements under Basel accords. To use whichever instrument correctly a credit policy must be instituted.

A credit policy is the blueprint used by a business in making its decision to extend credit to a customer. The primary goal of a credit policy is to avoid extending credit to customers who are unable to pay their accounts. The credit policy for larger businesses can be quite formal while that of small businesses tends to be quite informal with a number of small business owners relying on their instincts (Miller, 2002). The credit policy can also be lenient or stringent. A good credit policy should help attract and retain good customers, without having a negative impact on the cash flow. Miller (2002) advocates that there are at least four reasons to have a written credit policy, and they each add to the productivity of the entire organization. These reasons are seriousness of this undertaking, need for consistency among departments, need for consistent treatment toward customers and finally it provides recognition to the credit department as a separate entity.

The credit approval process must be designed to avoid substantive and procedural errors. Substantive errors comprise the erroneous assessment of a credit exposure despite comprehensive and transparent presentation. Procedural errors on the other side may take one of two forms, where the procedural-structural design of the credit approval process itself may be marked by procedural errors thus lead to an incomplete or wrong presentation of the credit exposure. On the other hand, procedural errors can result from an incorrect performance of the credit approval process caused by negligent or intentional misconduct by the persons in charge of executing the credit approval process (OeNB, 2006).

To evaluate the credit risk, credit managers in any industry should consider the six C's of credit which are character, capacity, capital, collateral, condition and contribution (Weston & Copeland, 1995).The six C's can help the pharmaceutical firms to decrease the risk of default, as they get to know their customers. The six C's of credit represent the factors by which credit risk is judged. Information on these items is obtained from a number of sources, including the firm's prior experience with the customer, audited financial statements for previous years, credit reporting agencies or the customer's commercial bank. Statistical techniques, especially regression analysis and discriminant analysis, have been used with some success in judging creditworthiness. These methods work best when individual credits are relatively small and a large number of borrowers are involved, as in retail credit, consumer loans and mortgage lending.

For the six C's and any other evaluation method to be effectively implemented an independent credit management department is vital. For many years, credit control or credit management was regarded in many firms as simply collecting debts. In recent years the role of credit management has become significantly more extensive.

For many years, credit control or credit management was regarded in many firms as simply collecting debts. In recent years the role of credit management has become significantly more extensive. The aim of good credit management is the maximisation of profitable sales over the shortest acceptable period and with the minimum of bad debts losses.

The core functions of a credit department as depicted by many scholars are as follows:

a) Establishment of credit terms and limits: taking into account the risk involved and liaising closely with sales.

b) Assessment of credit risk: trying to find ways of accepting and controlling all business, including high risk opportunities.

c) Monitoring and control of debt: ensuring that agreed terms are adhered to, all high risk customers are kept under control, and action is taken promptly to resolve any queries or disputes.

d) Maintenance of the sales ledger: ensuring that the customer master file is up-to-date and accurate, and that payments and other adjustments have been applied promptly and accurately.

e) Collection of payment: in a manner which creates the optimum cash inflow while at the same time ensuring continuity of business

2.2 Pharmaceutical Companies and Credit Provision

A pharmaceutical company is a commercial business licensed to research, develop, market and/or distribute drugs, most commonly in the context of healthcare. They can deal in generic and/or brand medications. They are subject to a variety of laws and regulations regarding the patenting, testing and marketing of drugs, particularly prescription drugs. From its beginnings at the start of the 19th Century, the pharmaceutical industry is now one of the most successful and influential, attracting both praise and controversy. Most of today's major pharmaceutical companies were founded in the late 19th and early 20th centuries (Duffie and Singleton, 2003).

Trade credit is created whenever a supplier offers terms that allow the buyer to delay payment. Chee & Smith (1999) assert that unless transactions between firms occur instantaneously, payment arrangements are, in effect, credit terms. This arrangement happens every day within the pharmaceutical industry where the high cost of drugs cannot allow for cash payments. Sales growth of existing products and launch of new products are key drivers of a pharmaceutical firm's business performance.

Credit-constrained firms have no more access to bank funding and are forced to restrain their activity. However firms may switch to another form of external finance known as trade credit. Research shows that, in both US and Europe, trade credit represents a significant part of a firms' external funding and that the use of trade credit is much increased during periods of monetary contractions (Mateut, 2005). Credit provision plays a vital role in the operations of a pharmaceutical firm by acting as a cash management tool (Ferris, 1999 and Nilsen, 2002). By delaying the payments for purchases, a firm may be able to better match the timing of cash receipts from sales with the cash outlays for the costs of the goods purchased.

The transactions motive theories of trade credit suggest that providing trade credit by pharmaceutical firms reduces the costs of administering invoices between suppliers and buyers undertaking regular exchanges of goods and services (Nilsen, 2002). Pharmaceutical firms face strong seasonalites or uncertainities in the demand for their products and may have to build large inventories in order to maintain their production levels. By offering trade credit, firms may be able to manage their inventory positions better and reduce warehousing costs.

The financing advantage theories suggest that the firm providing credit has an advantage over other credit providers in assessing the creditworthiness of his clients, can better monitor his clients and can enforce repayment of the credit (Chee and Smith 1999 ; Nilsen, 2002).This gives the firm a three fold advantage with respect to financial institutions in extending credit to a buyer.

Credit management and policy are the basis for making decisions on extending credit. Such decisions involve credit standards, credit limit, credit terms and the determination of who shall receive credit. A framework should exist for evaluating decisions on changing credit policies (Weston & Copeland, 1995). Credit policy formulation also considers the organisation structure of the credit function for example, whether to decentralise or create a separate credit subsidiary and other corporate contextual variables such as age of the buyer firm, frequency of transactions, product quality, selling channel and industry sector (Pike and Cheng, 2001).

According to Chee & Smith, (1999), credit policy is multi-faceted. There are two basic forms of trade credit: the simpler form, net terms, specifies that full payment is due within a certain period after delivery. For example, 'net 30' means full payment is due 30 days after invoice; after that the buyer is in default. Invoicing normally occurs either around the date of delivery or at the end of a billing cycle. The more complex form of credit, two part terms has three basic elements: the discount percentage, the discount period and the effective interest rate. The most common two-part terms are '2/10 net 30'. This means a 2% discount for payment within 10 days and a net period ending on day 30. As with net terms; the buyer is in default if payment is not made by the end of the net period.

2.3 Credit Appraisal Criteria in Pharmaceutical Companies

To calibrate the default risk exposure of its credit and investment decisions, a corporate manager needs to measure the probability of borrower default. The ability to do this largely depends on the amount of information the manager has about the borrower. The availability of more information along with the lower average cost of collecting such information, allows corporate managers to use more sophisticated and usually more quantitative methods in assessing default probabilities. Different models have been employed to assess the default risk on trade credit: these vary from the relatively qualitative to the highly quantitative. Further, these models are not mutually exclusive in that a corporate manager may use more than one to reach a credit pricing decision. Saunders (2002) analysed the credit risk models in three broad groups namely qualitative models, credit scoring models and newer models.

Qualitative Models are subjective in nature and are used in the absence of publicly available information on the quality of borrowers. Credit scoring models use data on observed borrower characteristics either to calculate the probability of default or to sort borrowers into different default risk classes. To employ credit scoring models in this manner, the manager must identify objective economic and financial measures of risk for any particular class of borrower. Newer Models are market based method of assessing credit risk exposure and default probabilities by analyzing the risk premium inherent in the current structure of yields on corporate debt or loans to similar risk-rated borrowers (Saunders, 2002).

3. Research Design

A cross sectional survey design was employed. This is because among other advantages it enables gathering of information not available from other sources, same information is collected from every respondent and the survey data can be used to complement existing data from secondary sources. The target population was the twenty pharmaceutical manufacturing firms operating in Kenya in the study period of 2006. The population of registered pharmaceutical manufacturing firms in Kenya was provided by the pharmaceutical industry regulator in Kenya, Pharmacy and Poisons Board. The Board regulates the Practice of Pharmacy and the Manufacture and Trade in drugs and poisons.The list comprises firms engaged in the production of propriety /original products as well as those engaged in the manufacture of generic drugs.

The questionnaire was distributed to the Finance Manager or Credit Controller of the selected firm. The Finance Manager was selected because he is involved in the process of formulating the credit policy of the firm and also ensuring that the credit policies are implemented. The credit controller is charged with the actual implementation of credit policies.

Primary data was collected using a semi-structured questionnaire, administered to the Finance Managers or Credit controller. The drop and pick later approach was used in this study and thus considered an appropriate method because it gives respondents time to complete the questionnaire and gives the researcher an opportunity to review the questionnaire before picking to ensure completeness of the responses. Secondary data was collected from brochures, supplements, newspapers and other relevant publications of Pharmaceutical firms.

4. Results

Out of the 20 targeted firms, 14 (70 %.) responded. In response to the ranking of factors to consider in establishing a credit control policy, majority indicated that they mostly considered financial stability of the customer (100%), the existing credit policy (100%), state of the economy (75%), general trend of credit extended by the firm (72%) and lastly considered was the overhead costs (50%).

Majority of the firms studied (78%) do not have credit policy manuals and various reasons were given for not having one in place. This is not a good trend because a credit policy manual is the blueprint used by a business in making its decision to extend credit to customers. The primary goal of a credit policy manual is to avoid extending credit to customers who are unable to pay their accounts.

The firms that have a credit manual listed establishment of credit limits, establishment of credit period, and

credit rating of customers as the most important contents of the manual. Those without the credit manual considered it as not necessary, too rigid, too complicated and too costly to develop.

When asked to rank the credit policy objectives of the firm, majority of the respondents considered minimising credit costs as the most important objective (100%), elimination of bad customers was ranked at (90%), tool to gain competitive advantage was ranked at 21%. Most respondents did not consider earning interest as a major credit policy objective and it ranked (8%).

When respondents were asked about the practices they adopted to manage credit risk exposure, a majority of debt collection services (72%), while 50% used letters of credit. Credit insurance was used by 25% of the respondents. Netting off and use of Surety bonds and securitisation were unpopular among the respondents because none used these methods (0%). This trend is an indication that services of debt collectors are relied upon by pharmaceutical manufacturing firms.

Majority of the respondents (72%) indicated that credit control activities are organised as a unit within a department whereas only (28%) have separate credit departments. This is an indication that lending is not a key function of the pharmaceutical firms as compared to the financial institutions. Departmental heads and the credit managers were (100%) fully involved whereas the Chairman and the Credit committee were least involved.

50% of the respondents indicated that the credit policy is reviewed yearly whereas the remaining 50% indicated that the review is carried out quarterly. This shows the importance attached to the process of credit policy review in the pharmaceutical industry. Majority of the respondents (71%) indicated the credit appraisal process is objective while only (29%) assert that the process is rather subjective.

95% of the respondents indicated that regular meetings was the most widely used method of creating credit risk awareness to employees, followed by both regular training and use of line managers (80%). The credit manual was least used as a means of creating credit risk awareness to the employees and it scored a mere 10%.It was established that the 6C'S model of credit appraisal is widely used by the pharmaceutical firms. It emerged that collateral whose usage was 50%, was the least preferred factor. Character was preferred by all (100%) the respondents followed by contribution which scored 86%. Capacity, conditions and capital all ranked at 72% in usage. This is an indication that the 6C's is widely used to reduce risk of default.

The pharmaceutical firms studied being privately owned did not want to provide information on their financial performance. However they attributed various factors as the key drivers to their performance. Majority of the firms (95%) attributed improved debt collection methods as the most contributors to performance followed by improved credit appraisal (95%). All the firms studied (100%) indicated that their organisations have a long term strategy to continue extending trade credit to customers. This shows that credit sales despite the default rate, increase sales volumes.

All the respondents (100%) indicated that the environment in which pharmaceutical firms operate in is highly turbulent and that the firms react to the environment very proactively.

Most of the firms studied (95%) put the accounts of difficult to pay customers on hold and stop future sales till the accounts are settled. (80%) of the respondents prefer to engage the services of debt collectors in dealing with difficult to pay customers. None of the respondents will leave the difficult to pay customer alone to decide when to pay. Institution of court proceedings and writing off the debt were least done and they ranked 21% and 20 % respectively.

Among the firms studied the function of approving credit limits is done by various managers within the organisation. However 72% of the respondents indicated that the Finance Director has to be involved regardless of the credit amount. When asked to state the importance of the various risks, credit risk emerged as the most important (88%), followed by liquidity risk (86%), then by market risk (79%), technology risk (78%) and lastly by interest rate risk (72%).

All the respondents indicated that they did not use credit derivatives to manage credit risks. This shows that the market for credit derivatives namely credit default swaps and total return swaps is not fully developed in Kenya. Some firms (28%) prefer to use bank guarantees to manage credit risk.

5. Conclusions and Recommendations

The research findings indicate that the two most important factors considered in establishing a credit control policy are the financial stability of the customer and the existing credit policy. Majority of the firms do not have a credit policy manual the main reason as it being too rigid and unnecessary. A significant number of the respondents indicated the most important credit policy objective as being minimising credit costs whereas

indicated eliminating bad customers as a major objective of credit policy. Earning interest from the overdue accounts did not feature as a credit policy objective.

Most firms studied considered debt collection services as the widely used practice in managing credit risk exposure in their firms. Letters of credit was used by some firms, whereas netting off and use of surety bonds were not used by any of the respondents. Most firms have the credit control activities organised as a unit within a department whereas the rest indicated that they had separate credit departments. This is an indication that credit control as a department has not been given the importance it deserves since having it as a separate department give it independence and reduces reliance on subjectivity. The departmental heads and credit managers were fully involved in credit risk assessment as indicated by all the firms. Majority of the respondents indicated that the credit appraisal process is objective while only a few found it rather subjective.

Most firms do not use credit manuals in credit risk appraisal. This is trend that needs to change because the manual provides objective guidelines and thus reduce the risk of default. Credit risk is the most critical risk and therefore how well it is managed could greatly affect the performance of the firm.

5.1 Recommendations

The pharmaceutical firms should encourage use of a credit manual as basis for filtering out bad customers. Lack of credit manual probably explains why majority of the respondents indicated the credit appraisal process was objective. The firms should consider use of the more robust practices in managing credit risk like netting off, factoring of debt and credit insurance. Netting off will be especially important to multi-national pharmaceutical firms which are engaged in inter-company trading with the parent company. Pharmaceutical firms are encouraged to practice use of credit derivatives in their bid to reduce credit risk. Credit derivatives present a unique opportunity for corporate managers to add a new dimension to their efforts to manage risks.

There is need to carry out a study on reasons why the pharmaceutical manufacturing firms do not use Credit Derivatives to manage their credit risk. Liquidity risk ranked as 86% among the major risks affecting the pharmaceutical firms. Research could be carried out on the impact of this risk on the operations of the firm. Liquidity risk ranked second in importance after credit risk.

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Table 1.List of Registered Pharmaceutical Manufacturing Firms in Kenya

NO	FIRM	ADDRESS
1.	Beta Healthcare International	Box42569 Nairobi
2	Biodeal Laboratories	Box 32040 Nairobi
3	Bulk Medicals Limited	Box 33331 Nairobi
4	Cosmos Limited	Box 41433 Nairobi
5	Dawa Limited	Box 16633 Nairobi
6	Elys Chemical Industries	Box 40411 Nairobi
7	Galaxy Pharmaceuticals Limited	Box 90134 Mombasa
8	Glaxosmithkline Limited Kenya	Box 78392-005007 Nairobi
9	Infusion Kenya Limited	Box 30467-00100 Nairobi
10	Kam Pharmacy Limited	Box 40374-00100 Nairobi
11	Laboratory & Allied Limited	Box 42875-00100 Nairobi
12	Mac's Pharmaceutical	Box 43912 Nairobi
13	Medisel-K Ltd	Box 540 Thika
14	Norbrook Kenya	Box 1287-00606 Nairobi
15	Pharmaceutical Manufacturing Co (K)	Box47211 Nairobi
16	Piochem Ltd	Box 4367 Eldoret
17	Regal Pharmaceuticals Ltd	Box 44421 Nairobi
18	Sphinx Pharmaceuticals	Box 69512 Nairobi
19	Twiga Chemical Industries	Box 30172-00100 Nairobi
20	Bayer East Africa Ltd	P.O.Box 30321-00100 Nrb.

Table 1.Personnel involved in credit risk assessment

Personnel	Most involved (%)	Least Involved (%)
Chairman	10	90
Managing director/General Manager	57	43
Departmental Head	100	0
Credit/Finance manager	100	0
Credit committee	28	72
Any other	22	78

n=14

Table 2. Application of 6 C's Credit Appraisal Method

	Mostly used		Least used	
Factor	**Frequency**	**Percentage**	**Frequency**	**Percentage**
Character	14	100	0	0
Capacity	10	72	4	28
Collateral	7	50	7	50
Conditions	10	72	4	28
Capital	11	72	3	28
Contribution	12	86	2	14

n=14

Table 3.Dealing with defaulters

Action	**Most Used %**	**Least Used%**
Use of Debt collectors	80	20
Institute court proceeding	21	79
Leave them alone to decide when to pay	0	100
Write off debt	20	80
Put account on hold and stop future sales	95	5
Sell on cash basis only	43	57

n=14

Table 4.Personnel involved in Credit Approval

	Frequency	**Percentage%**
Managing Director	5	38
Credit Manager	7	50
Sales Manager	6	43
Finance director	10	72

n=14

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