A SURVEY OF FACTORS INFLUENCING CREDIT CONTROL ON PERFORMANCE OF FIRMS
A CASE STUDY OF PHARMACEUTICAL INDUSTRY IN KENYA

BY

JULIUS WAMBUA MBUVI
D53/RI/11718/04

A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF THE DEGREE OF MASTERS IN BUSINESS ADMINISTRATION SCHOOL OF BUSINESS KENYATTA UNIVERSITY

MAY, 2011

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A survey of factors influencing credit
DECLARATION

This research is my original work which has never been presented to other institutions for the award of any degree, diploma or certificate whatsoever.

Signature ........................................... Date ...........................................

Mr. Julius Wambua Mbuvi student:

This research project is being submitted to Kenyatta University for examination with my approval as the university supervisor.

Signature; ........................................... Date ...........................................

Mr. Shadrack Bett Supervisor:

Signature ........................................... Date ...........................................

Mr. Julius Murungi Supervisor:

This research project is being submitted to Kenyatta University for examination with my approval as Chairman Business Administration.

Signature; ........................................... Date ...........................................

Chairman:
Acknowledgement

I would like to thank God for giving me good health to carry out this research. I would also like to thank all those people who made this research possible in any way. Special thanks and mention should go to all the credit managers /controllers and operational staff in the pharmaceutical firms who responded to the questioners and the interviews for taking their time off to give their contributions.

I would not forget to pay special tribute to my supervisors Mr. Shandrack Bett and Mr. Julius Murungi whose able guidance saw me through this research project within the stipulated time frame.

I am greatly indebted to my family, colleagues and friends for their encouragement and support.
DEDICATION

I dedicate this project to my children Jorum, Angel and Leon. May it be an inspiration for them in their pursuit of knowledge.
LIST OF ACRONYMS

BCI; Business Information Sharing
GDP; Gross Domestic Product
ICT: Information Communication Technology
KAPI; Kenya Association of Pharmaceutical Industries
SPSS: Statistical Package for Social Science
TQM: Total Quality Management
DEFINITION OF TERMS

Business Information Sharing – Exchanging information across pharmaceutical firms especially on customers past behavior and current debt exposure as well as sharing information on credit policies

Credit Control – Strategies employed by pharmaceutical companies to promote good credit among the credit worthy and deny it to delinquent borrowers. This is aimed at increasing sales and decreasing bad debts, thus improving a company’s cash flow.

Strategic Alliances – is a formal relationship between two or more parties to pursue a set of agreed upon goals or to meet a critical business need while remaining independent organizations. Partners may provide the strategic alliance with resources such as products, distribution channels, manufacturing capability, project funding, capital equipment, knowledge, expertise, or intellectual property.
ABSTRACT

The pharmaceutical industry is highly complex. The technologies leading to drug discovery and development are at the limits of human knowledge. The huge size of the companies and the complexities of their processes and technologies present many organizational and management challenges such as credit control, cash flow and cash management. The study investigated the factors influencing credit control and performance of the selected Pharmaceutical Companies in Nairobi.

The study used descriptive survey design. The population of this study comprised of pharmaceutical firms involved in importation and distribution of generic pharmaceutical products. These distributors and representatives were based in Nairobi. The data collection instrument used was a questionnaire designed specifically for the study. The study applied a quantitative approach through the use of frequency of distribution, mean scores and standard deviations to analyze the data. With the help of Statistical package for Social Science (SPPS) and Microsoft Excel the findings were then presented in the form of frequency distribution tables, bar charts and pie charts.

The findings shows that information sharing on credit availability and credit rationing improve access to finance. ICT allows electronic servicing and administration of loans within the firm. The study concluded that sharing influences credit control policies. Credit availability and credit rationing improves access to finance. Strategic alliances have led to the improvement of credit operations and competiveness of the firm. The study recommended that that the pharmaceuticals should be encouraged to exercise business information sharing with other institutions. By exchanging information about their customers, pharmaceuticals can improve their knowledge of applicants’ characteristics, past behavior and current debt exposure. ICT within the pharmaceuticals would reduce transaction costs within the organization and allow the realization of economies of scale. Further it would enable the implementation of a risk-adjusted pricing throughout the organization.
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CHAPTER ONE

1.0 INTRODUCTION

Credit control is a vital component in the process of controlling cash flow. Many companies have failed in the past because management did not distinguish between profitability and cash flow. An otherwise profitable enterprise can fail if it runs out of readily available funds with which to meet its commitments and failure to control credit is a frequent cause of this situation. The supplier's funds are being used to finance customers' or clients' businesses rather than the business of the supplier. The granting of excessive credit, whether in terms of amount or of duration, can also have an impact on profit, even if funds are readily available. Credit control policy is therefore the general guideline governing the process of giving credit to the firm's customers. The policy sets rules on who should get what credit and when and why. In addition the policy defines the repayment arrangements, necessary collaterals and chattels as an obligation by the borrower. The method of assessment and evaluation of risk for each prospective applicant are part of a credit control policy (Thygerson, 1995). There is need for an effective credit control policy at all times to manage credit risk in order to ensure a fairly healthy credit management program, with minimal expensive bad debts and minimized credit risk.

1.1 Background of the study

Trade industry and commerce have three sorts of capital requirements with reference to Time; long-term investment needed for acquiring basic infrastructural assets including land, buildings, plant and machinery that usually last for a number of years and determine the production capacity of a firm; Medium-term requirements that relate to fixtures and furniture, lighting arrangements, communications and the like which may not need replacement for a few years, and; money needed to hold inventories comprising raw materials, spares and stores, work in progress, and finished goods for short periods of 3-4 months to ensure smooth running of business (Bias et al, 1994). The relative proportions of funds to meet these requirements vary with the nature of business. However, financial capitalization principles suggest that in general requirement and a major part of must be
financed by equity in the first place but can be supplemented by long-term debt, if unavoidable. The remaining part constitutes the working capital of a firm for which it may resort to debt financing (Chee et al, 1999).

The pharmaceutical industry is highly complex. The technologies leading to drug discovery and development are at the limits of human knowledge. The huge size of the companies and the complexities of their processes and technologies presents many organizational and management challenges. The development and management of the distribution system is highly costly (Cante et al, 2003).

As key economies stagnated in 2002, challenges in funding healthcare advances remained. Ageing populations created further pressures, since the "over-65s" consume four times as much healthcare per head as those below 65. This combined with more expensive high technology solutions and increasing patient expectations created an unsustainable situation. On the one hand, universal coverage systems (such as those in Spain and the UK) were slow or unable to introduce the latest treatments. On the other, insurance-funded systems (such as that in the US) were able to afford the latest innovations but were unable to share those benefits with an increasing part of the population. In 2002 the number of US citizens without health insurance rose by 5.7 per cent to 43.6 million, the biggest single annual increase in a decade (Judge et al, 2004).

In response to these pressures, payers used a wide variety of methods to control spending on pharmaceuticals. Some put the emphasis on the supply side - the manufacturer and distributor. Some emphasized the demand side - the prescriber and the patient. Other methods affected both (Judge and Ryan, 2004). No country relied on a single approach. Types of control reflected deep-rooted cultural differences with supply-side measures were favored by more centralized, less market-oriented economies. The choice of strategy was also affected by the importance or otherwise of the national pharmaceutical industry as a contributor to GDP, balance of trade and employment.
Cash flow and cash management are essential to business success and survival (Anderson and Dekker, 2005). A business which is profitable but does not collect money from customers efficiently or effectively may run out of cash itself and hence fall into debt problems or insolvency. Additionally, without an effective system of credit control, the business increases its risk of suffering bad debts from customers. To maintain cash flow and to protect your business interests, you will need to pursue your debts, through the courts if necessary. Credit Control is about the systems, procedures and methods that a business has in relation to providing credit, and the collection of money from customers on an ongoing trading basis. Effective credit control is very important and it does not take too much time or expense to set up simple but effective procedures (Miller et al, 2008).

The Kenyan Pharmaceutical Industry

The Kenyan pharmaceutical industry has faced major challenges that have led to the restructure and redesign of strategic processes (Radjou, 2001). These challenges include government bureaucracy which has impeded more players to move in (Atebe, 2004). For instance, it takes more than six months to test and register a new drug in the country as compared to countries like America where it takes at most one month to register a new product (FDA, 2007). This coupled with corruption in the government laboratories are issues that industry players are trying to work on especially with the Kenya anti-corruption authority in place (Atebe, 2004). The enforcement of regulations governing the pharmaceutical industry has been poor even though the government has boosted the allocation of resources for regulatory enforcement (Bonyo, 2009). Another challenge is high registration costs, for example, it costs a company US$ 1000 to register one drug (Pharmacy and Poisons Board, 2009).

Another challenge is compliance issues when it comes to the users of these drugs. According to the Kenya Association of Pharmaceutical Industries (KAPI) this has resulted in high resistance cases especially when it comes to treatment of Malaria and use of antibiotics among other diseases (Mwai, 2009). Increased competition is also another challenge facing the industry. This has negatively affected the nature of the competitive forces making it increasingly difficult for the existing players to survive. According to
Atebe (2004), rivalry among pharmaceutical companies in Kenya has intensified coupled with increased availability of substitute products within the industry.

The competitiveness of the Kenyan pharmaceutical industry has seen major changes in the last ten years. Vinayak (2001) observed that there were more than 750 medical representatives employed in the industry. The number of registered products has increased from 7,000 in 1998 to over 10,000 in 2008. This represents a growth of 43% of registered products (Matraves, 1998, Bonyo, 2009). This has increased competition among existing products. At the same time, the generic subsector has also seen an increase in the number of distributors and importers in the country. According to the 2008/2009 issue of the Drug Index there are 56 registered companies in Kenya dealing with distribution or importation of generic drugs. These companies are usually involved in the distribution and importation of generic pharmaceutical products from the international market. These firms represent different pharmaceutical firms in the country. This has resulted in intense rivalry among the companies and unpredictable competitive forces surrounding these firms within the industry. This has created a challenge for the companies to address the competitive forces faced as they try to outsmart each other in order to improve their competitive edge.

Although competitors have increased, the generic pharmaceutical subsector has seen unprecedented reduction in earnings with turnover for the years 2006, 2007 and 2008 being Ksh 14.4 Billion, Ksh 13.3 Billion and Ksh 12.7 Billion respectively (Bonyo, 2009; Frost and Sullivan, 2009). According to Rao (2008), this decline has been attributed to poor planning, choice and implementation of strategies.

1.2 Statement of the problem.

In recent years, credit risk management has attracted a lot of attention from the academic community (Miller, et al, 2008). The approaches to managing credit risk share a common feature: They can be used to optimize a credit exposure on a mid-term or a long-term basis. Therefore, for all institutions which did not foresee the recent turbulent times in the credit markets, these instruments were not of much use. When risk cannot be transferred, the focus naturally changes to controlling the current risk exposure on a short-term basis.
by managing credit limits. During a stock market downturn, the relevance of such a strategy becomes even more accentuated, since heavy losses in stock market values usually lead to pronounced liquidity problems for the bank’s credit clients. Credit control is a vital part of running any business — and especially any new business with limited cash resources.

Several authors have investigated the effects of trade credit on an organization. Meltzer (1960) examined whether firms increase their use of trade credit under adverse circumstances while Calomiris et al., 1995 said that trade credit works to mitigate the effects of firms’ financial constraints. Kashyap et al., 1993 also studied the relationship between trade credit and bank loan.

In Kenya, Kimang’a, 1981 did a study on planning and controlling mercantile credit by firms in Kenya while Muturia, 1995 did a study on factors influencing credit delivery systems to small scale enterprises. To the researcher’s knowledge, there is no study that has focused on credit control performance in Kenya. This study seeks to fill this gap by looking at the factors that influence credit control and performance of firms, a case study of pharmaceutical industry in Kenya.

1.3 Objectives

1.3.1 General Objective

The general objective of the study was to investigate the factors influencing credit control on performance of selected Pharmaceutical Companies in Nairobi.

1.3.2 Specific objectives

The specific objectives of the study included;

i. To establish how Business Information Sharing influence credit control in selected pharmaceutical companies in Nairobi

ii. To examine the effects of ICT on credit control in selected pharmaceutical companies in Nairobi

iii. To establish whether strategic alliances with selected dealers influence credit control in selected pharmaceutical companies in Nairobi
1.4 Research Questions

i. How does Business Information Sharing influence credit control in selected pharmaceutical companies in Nairobi?

ii. What are the effects of ICT on credit control in selected pharmaceutical companies in Nairobi?

iii. Do strategic alliances with selected dealers influence credit control in selected pharmaceutical companies in Nairobi?

1.5 Significance of the Study

This study would be of importance to the management of pharmaceutical subsector, since today’s turbulent environment requires appropriate choice of credit management. It would be useful as a reference to an appropriate and well informed choice of credit control practices in the pharmaceutical subsector. With this insight the generic pharmaceutical subsector may benefit from the use of this information to make informed decisions about the subsector. It is expected that with this informed decisions firms in the subsector would be able to direct their scarce resources in the best choice of strategy that gives the highest payoffs.

Further, it would assist policy makers in the industry when making policies regarding pharmaceutical practices and the effective trade credit management of the Pharmaceutical industry at large.

The study would provide current information regarding factors affecting credit control. The study would be of importance since it would contribute additional knowledge on credit management especially in the pharmaceutical subsector. The study would make suggestions that would aid pharmaceutical companies to effectively manage their credit therefore enhancing efficiency and productivity. The study would address this by highlighting factors affecting credit control performance.

This study would also be of invaluable benefit to researchers and scholars as it is expected to open up new areas for further research. It would be helpful in refining and validating the findings.
1.6 Scope of the Study

The research concentrated on collecting data from the credit managers of the various pharmaceutical companies in Kenya. The research was carried out for duration of three months, mainly focusing on the mentioned target group. Most of the Pharmaceutical companies were based in Nairobi and therefore the research was restricted to Nairobi (Pharmacy and Poisons Board, 2009).

This study was restricted to finding out the main factors that influence credit control performance. The study covered such topics as; business information sharing, ICT use in credit control, credit worthiness, strategic relationships and alliances and legislation in credit control.

1.7 Limitation

The researcher expected difficulties accessing information from the senior management; some managers may be suspicious of the researcher’s intentions and may not be so cooperative, but the researcher assured confidentiality on information collected and no names would be mentioned. The researcher also promised the respondents that the purpose of the research data would only be for academic use only so as to improve cooperation from clients and create confidence in them to give information more openly.

1.8 Assumption

The study assumed that all the questionnaires would be returned and that the respondents would be sincere in their responses hence making the conclusions authentic and hopefully able to be applied to Pharmaceutical Companies. The researcher also assumed that the population would be representative of the whole population and that the questionnaire as an instrument for data collected would be suitable to collect reliable data.
CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction
This chapter presents the literature review on the factors that influence credit control performance. The study first discusses the different theories that are based on credit control and related to the study. The study further discusses the works of other authors under the section empirical review; this is followed by the conceptualization of dependent and independent variables. Lastly, the researcher presents the research gap.

2.2 Theoretical Orientations

2.2.1 Financing Theory
The concept of finance theory involves studying the various ways by which businesses and individuals raise money, as well as how money is allocated to projects while considering the risk factors associated with them. The concept of finance also includes the study of money and other assets, managing and profiling project risks, control and management of assets, and the science of managing money. In simple terms, 'financing' also means provision and allocation of funds for a particular business module or project. In this particular study; the theory is important to give us a better understanding on the factors influencing credit control performance in Pharmaceutical Companies.

According this theory, suppliers have several advantages over financing institutions in offering trade credit to buyers. One such advantage is that the suppliers being in close contact with the buyer is in a superior position not only to evaluate credit worthiness of their customers but also to monitor them almost on a day-to-day basis. Such an advantage is not available with a financial institution. The second advantage is that supplies have more effective and quicker ways of liquidating assets of defaulting buyer-firms than institutional financiers. If the goods supplied are durables in nature, it is easier for the supplier to repossess them through their network and sell the repossessed goods quickly with or without additional processing. It has been observed that if the goods have more
value as collateral to sellers than the financial institution, the seller considers this as reduction of credit risk and therefore, can offer better credit terms than the financial institutions (Ng. et al, 1999). Suppliers can also threaten the buyers to stop supplies if the payment is delayed. Ng et al. (1999) reveals that to minimize the risks of giving credit; organizations should give new customers a modest credit limit to begin with; one can raise the limit when the strength of your relationship justifies it. Consider using a monitoring service, offered by most credit reference agencies, to keep track of the financial status of the customers and they should also consider the cash flow and credit control advantages of factoring.

The financing theory does explain why the sellers would offer trade credit but it does not explain why the buyers will accept the trade credit vis-à-vis institutional finance. Several empirical investigations are made to answer this question. The theoretical foundation of such investigations is that trade credit exists because of inefficiency of financial market. All firms do not have equal access to institutional finance because perceived risks of some firms (may be, due to asymmetry of information) might be greater than the risk-tolerance limit of the financial institutions. Hence, these firms (which are mostly small businesses) would resort to trade credit. For this reason they are also prepared to bear high cost of trade credit. Wilner, 2000 found that firms with greater probability of default prefer trade credit to a loan from financial institution and consequently, trade credit interest rates exceed the credit market rate. Earlier, Petersen and Rajan found that a creditor reduces the rates it charges more rapidly as a customer’s likelihood of default decreases.

2.2.2 Liquidity Theory

This theory is an extension of financing theory discussed above. It holds that credit constrained firms are likely to use more trade credit than those having access to institutional finance. As large firms are more liquid and/or have lower cost of holding liquidity, they do not have the same incentive to use trade credit as others. It follows therefore, that liquid firms are more likely to be providers of trade credit. This is more pronounced during a period of monetary restrictions when institutional credit is rationed.
Nielson, 2002 using a sample of small firms found that such credit-rationed firms typically demand more trade credit from large companies.

Liquidity risk - driven by cash management and collections, cash flow shortages and credit control - was ranked as the most serious risk. According to Balduino (2000), there is need to have a credit appraisal- the process of selecting the customers who will be granted credit and determining their individual credit limits; this is the initial stage in the operation of an effective credit management system. Usually, a set of criteria or checklists will be available to perform the initial credit screening. The process of credit selection and analysis is essentially an exercise in risk assessment that is, in assessing the probability of customer non-payment. Sound credit selection procedures help to reduce customer default risk by eliminating unsuitable applicants at the outset, thus avoiding the costly process of chasing slow payments and incurring bad debts later.

Detweiler (2004) also revealed that collection policy is a critical part of the overall credit management process. An effective collection policy is essential to control investment in debtors and also to reduce the risk of financial loss and illiquidity through slow payment. Yet if the collection policy is too stringent, it may antagonize customers and they may seek alternative suppliers Detweiler (2004). It is a business reality that there will be late payers in every customer base. When a payment is regarded as late, a range of procedures and tactics can be adopted to obtain payment.

2.2.3 Financial Distress Theory

This theory is based on "buyer opportunism" which was first noted by Petersen and Rajan, 1997 and further evidenced by Wilner, 2000. When a supplier cannot credibly threat to stop supplies e.g., when he is in financial distress, the buyer is found to pay less promptly. This opportunistic behaviour is more manifest when the buyer is one of the principal customers; the supplier simply cannot afford to make such threats. Indeed, as Wilner observed, majority of suppliers cannot even charge late payment penalty and even those firms which invoice the penalty half of them could not collect it. This is true across
countries belonging to both the developed and developing world. Besides delaying payment, buyers also extract several other concessions, e.g., larger discounts, from the suppliers in financial distress.

Panel regression analysis on U.S. manufacturing firms in Compustat during the period of 1979–1998 shows that the provision of trade credit (i.e., accounts receivable as a fraction of sales) decreases in the proportion of sales to principal customers. However, this relationship is highly non-linear; initially insignificant or even weakly positive and then turning to strong negative. Given that principal customers are usually much bigger and financially stronger than the supplying firms, this finding helps discriminate among competing theories of trade credit. These results are more consistent with theories that stress a financing role for trade credit. The “financing advantage” and “price-discrimination” theories belong to this category. Both these theories imply that trade credit will decrease as the quality of the customer pool improves. However, neither of these theories – by themselves – can explain the non-monotonic relationship between trade credit and the proportion of sales to principal customers, or the strong negative relationship at higher levels of sales to principal customers. On the other hand, the initial positive relationship and the subsequent strong negative relationship are consistent with the transactions cost theory of trade credit (Ferris, 1981).

Evans, 1998 found that suppliers (trade creditors) desiring to maintain enduring product market relationships are found to grant more concessions to a customer in financial distress, as compared to similarly positioned lending institutions. Wilner, 2000 also found that if the degree of dependence of the supplier on the customer is high, the customer in financial distress obtains larger concessions in renegotiation of credit terms. On the other hand, Ng et al. (1999) suggest that trade credit terms vary by industry due to differing production cycles as well as differing product and customer characteristics.
2.2.4 Quality Guarantee Theory

This theory is based on asymmetry of information between buyer and seller; in this study, the theory explains the importance of business information sharing in credit control. The buyer does not know the quality of the product he is buying. If he pays cash on delivery and the product turns out to be of poor quality, he ceases to have effective control over an errant supplier—he loses the cash and the product as well. In other words, if the buyer cannot insure himself against malfunctioning of the product, he will discount the value he expects to gain from the purchase with his estimation of the risk factor. Hence the more risky the product, the lower is the expected value of the purchase (Horen, 2007).

Firms do offer warranties or even money-back guarantees. But enforcement of such warranties or even money-back guarantees often takes a long time during which period the buyer is deprived of the service of the product while his money is blocked. The seller may also be out of business by the time the defect in the product gets ascertained. If the buyer is a reseller, he may not get payment against such sale; most likely goods will be returned to him. Guarantee theory is valid for some types of manufacturers, for some category of products and for some time only.

Figure 2.1: Theoretical Framework

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<td>Financing Theory</td>
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<td>Financial Distress Theory</td>
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<td>Quality Guarantee Theory</td>
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2.3 Empirical Review

Early studies on trade credit linked the effects of government monetary policy with the utilization of trade credit (Meltzer, 1960; Brechling and Lipsey, 1963; Nadiri, 1969), and more recent works have followed a similar approach (Ramey, 1992; Norrbin and Reffett, 1995; Nilsen, 2002). In a similar vein, other studies have treated trade credit as a financial intermediation device – whereby sellers with greater access to credit markets act as financial providers to their customers through deferred payments (Schwartz, 1974; Emery, 1984).

Despite the prevalence of studies that posit trade credit as a financial device, it should be noted that trade credit offers benefits apart from liquidity and risk distribution. In particular, one of the most important advantages of trade credit is a reduction in the transaction costs that are incurred with a system of immediate payment on delivery of merchandise (Nadiri, 1969; Ferris, 1981; Emery, 1987). Trade credit can substantially reduce transaction costs by separating the exchange of goods from the exchange of money, and by enabling the payment of bills to be performed periodically. This so-called "transaction motive" is believed to underlie a substantial proportion of all trade credit, even in studies that focus on financial motives (Schwartz, 1974; Nilsen, 2002).

Trade credit can also be an effective means of discriminating prices for firms in situations in which other forms of price discrimination are either too costly or illegal (Schwartz and Whitcomb, 1979; Brennan et al., 1988; Mian and Smith, 1992; Petersen and Rajan, 1994). This price discrimination takes the form of discounts for prompt payment to specific customers who would otherwise willingly pay a higher price.

It is likely that trade credit would be replaced by other sources of finance if goods markets and financial markets were perfect. However, given the imperfections of virtually all markets, trade credit provides other specific advantages; indeed, it can be argued that trade credit is a more efficient mechanism for resolving market imperfections than other forms of financial intermediation, such as banking. For example, the cycle of order, delivery, and (postponed) payment can generate available information that would
otherwise remain hidden from (or would be costly to obtain by) parties not involved in the transaction. Similarly, trade credit can also play a role in identifying information about product quality. The role of trade credit in such conditions of information asymmetry has been the focus of many studies, including those of Smith (1987), Lee and Stowe (1993), Long et al. (1993), Freixas (1993), Biais et al. (1994), Biais and Gollier (1997), Burkart and Ellingsen (2004), DeLoof and Jegers (1996), Petersen and Rajan (1997), and Ng et al. (1999).

A more recent stream in the theoretical literature has linked trade credit with financial difficulties and failure — including default payments, debt rescheduling, and the liquidation of firms (Frank and Maksimovic, 1998; Wilner, 2000; Cuñat, 2002). Two of these studies (Frank and Maksimovic, 1998; Wilner, 2000) concluded that some suppliers specialize in financing buyers who have low creditworthiness in situations in which liquidation is likely to occur. In these cases, the high interest rates associated with some forms of trade credit are accepted by low-quality firms who choose to accept this form of financing from their suppliers.

Another stream of research has adopted a fundamentally empirical perspective in analyzing the different policies and terms that have characterized trade credit in various time periods, industries, and countries (Perotti, 1998; Chee et al. 1999; McMillan and Woodruff, 1999; Fafchamps, 1997, 2000; Fafchamps and Minten, 1999; Denisova, 2000; Hege and Ambrus-Lakatos, 2000; Fisman, 1999, 2001; Buduru and Colonescu, 2002; Van Der Wijst and Hol, 2002; Summers and Wilson, 2002, 2003; Cheng and Pike, 2003; Berlin, 2003; Marotta, 2005). Relatively little evidence is available on trade credit for Spanish firms, although some authors (Chulia, 1991, 1992, 1993; García-Vaquero and Maza, 1996; Martínez de Guereñu, 1996; Hernández de Cos and Hernando, 1999) have analysed trade credit using the database of the Central de Balances del Banco de España (in English, the “Commercial Performance Information Bureau of the Bank of Spain”). These studies revealed that smaller firms are more likely to resort to supplier finance because they are faced with more restrictions in the credit markets. In contrast, larger firms, which have easier access to external finance, transfer this advantage to their customers.
For effective credit control performance, Baldoni, (2008) proposes that the credit policy which establishes the authority, rules and framework for the effective operation and administration of the credit portfolio should be communicated throughout the organization in a timely manner and effectively implemented through the use of appropriate procedures. It is critical that the policy be reviewed periodically (at least annually) to ensure that it remains effective and flexible, and continues to meet the institution’s objectives. Changes in statutory and regulatory requirements should also be incorporated in the policy. A comprehensive credit policy that is effectively implemented enables the financial institution to: Maintain sound credit-underwriting standards; Assess, monitor and control credit risk; properly evaluate new business opportunities; and Identify, administer and collect problem credits (Baldoni, 2008). The credit policy should specify, inter alia: A credit risk philosophy governing the extent to which the institution is willing to accept credit risk; Levels of authority to approve credits.

2.4 Conceptualization

2.4.1 Business Credit Information Sharing

In the past decade, we experienced a tremendous expansion of information sharing institutions (World Bank (2006)). Information sharing is deemed to be crucial to improve credit market performance (Djankov et al. (2007) and Brown et. al. (2009)). While the impact of information sharing on reducing default rates is less debated (see e.g. Jappelli and Pagano (2002), and Brown and Zehnder (2007)), the impact of information sharing on credit availability and credit rationing is not clear. Brown et al. (2009) report firm-level evidence showing improved access to finance in countries with information sharing institutions. Others find that private credit bureaus, rather than public credit registries, are associated with lower perceived financing constraints and a higher share of bank financing (Love and Mylenko (2003)), or that the lowering of reporting thresholds of a public credit registry results in lower lending to firms that had multiple lending relationships (Hertzberg et. al (2008)).

By exchanging information about their customers, organizations can improve their knowledge of applicants’ characteristics, past behavior and current debt exposure. In
principle, this reduction of informational asymmetries can reduce adverse selection problems in lending, as well as change borrowers’ incentives to repay, both directly and by changing the competitiveness of the credit market. It can also reduce each organization’s uncertainty about the total exposure of the borrower, in the context of multiple-bank lending.

A growing body of empirical evidence supports the hypothesis that information sharing enhances credit market performance. Analyses of credit bureau data confirm that credit reporting reduces the selection costs of lenders by allowing them to more accurately predict individual loan defaults (Barron and Staten, 2003; Kallberg and Udell, 2003; Powell, Miller, Mylenko, and Majnoni 2004; Luoto, McIntosh, and Wydick, 2007). Experimental evidence by Brown and Zehnder (2007) shows that a public credit registry can motivate borrowers to repay loans, when they would otherwise default.

The impact of information sharing on aggregate credit market performance has been tested by two cross-country studies. Based on their own survey of credit reporting in 43 countries, Jappelli and Pagano (2002) show that bank lending to the private sector is larger and default rates are lower in countries where information sharing is more solidly established and extensive. These cross-sectional relations persist also controlling for other economic and institutional determinants of bank lending, such as country size, GDP, growth rate, and variables capturing respect for the law and protection of creditor rights. Djankov et al. (2007) confirm that private sector credit relative to GDP is positively correlated with information sharing in their recent study of credit market performance and institutional arrangements in 129 countries for the period 1978-2003.

2.4.2 Impact of ICT on Credit Control Performance

Credit risk can be defined according to (Gastineau, 1992) and (Evans et al, 1999) as the possibility of losing the outstanding loan partially or totally, due to credit events (default risk). In a very wide interpretation, it also includes the risk of an upgrade or downgrade in a counter party’s credit rating, resulting in adjusted credit spreads (migration risk) (Kiesel et al, 2000). Credit events usually include events such as bankruptcy, failure to pay and restructuring (ISDA, 1999).
principle, this reduction of informational asymmetries can reduce adverse selection problems in lending, as well as change borrowers' incentives to repay, both directly and by changing the competitiveness of the credit market. It can also reduce each organization’s uncertainty about the total exposure of the borrower, in the context of multiple-bank lending.

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Organizations’ business model for credit risk management currently undergoes a change of paradigm mainly driven by ICT as it deconstructs the traditional business model. Traditionally, a buy-and-hold business model is applied where banks, mainly in Europe, originate the loan keeping it on the balance sheet until it either defaults or reaches maturity as expected. Risk management in this integrated business model is performed on a decentralized basis (it often even lacks the separation between origination and credit control) and only on individual loan level. Loans are highly illiquid and are meant to remain on the bank’s balance sheet without being traded or hedged.

Lately, this model of passive risk taking was challenged and had to be changed into active risk management because the application of ICT throughout the entire value chain of credit offers the required options. “The deconstruction of the value chain in banking is not as distant and futuristic as many think. In fact, it has already happened.” Evans, et al, 1999) said that ICT mainly drives the development in credit risk management as it enables for example, electronic servicing and administration of loans. Thus, reducing transaction costs within the bank and allowing the realization of economies of scale. From a risk management perspective, data-warehousing of credit and loss data and its accessibility on aggregated portfolio level is crucial. This data is important in analyzing the risk and return of a loan portfolio and sub portfolios.

By offering the possibility to calculate risk measures on portfolio level and run simulations of the loan loss distribution within a reasonable time frame due to highly effective computing power, ICT enables the implementation of a risk-adjusted pricing throughout the bank. Risk-adjusted prices can be provided via online applications to the origination units and credit risk management can be transformed into an active risk management approach. Accordingly, this new dynamic approach can be described as an originate-and-distribute business model. Credit is now considered an asset class of its own, requiring management and trading at the portfolio level. On the one hand, this innovation requires new processes and structures (former integrated divisions, e.g. origination and credit risk control, must be separated and credit portfolio management must be initiated). After reorganization, the deconstruction of the bank's internal value
chain permits make-or-buy decisions for every division that does not add value on a risk-adjusted performance basis (Van den Berghe et al., 2001). On the other hand, functional and liquid secondary markets for trading and hedging credit risk are required, as this is crucial for a flexible and centralized credit risk management on the portfolio level.

2.4.3 Strategic Relationships and Alliances

The concept of the Strategic Alliance has been known since the 1980's. It is an element in the "Just-In-Time" platform of Total Quality Management (TQM). Despite this longevity, the open literature does not abound with articles about these topics for specific industries. Rather, any information is of a general nature. Some research in strategic alliances has been published, but this has been limited to a few industries. These include the biomedical/healthcare industry – Yeheskel et al., 2001; Judge and Ryman, 2001; the technology industry – Cyr, 1999; and the food industry – Whipple and Frankel, 2000 and Cante et al., 2003. The Financial Services Industry and the Chemical Industry have participated in such alliances in ways that have not been well reported in the literature.

Strategic alliances are typically described in relation to a spectrum of organizational forms that has at one end, arms-length market exchange, and at the other end, vertical integration or "hierarchy." In the vast middle ground are strategic alliances, "hybrid" organizational forms that have some properties of market exchange between self-interested firms and some properties of transactions between business units of a firm (Williamson, 1991; Menard, 1995). Gulati (1998) defines a strategic alliance as a voluntary exchange of products, technologies (i.e., processes) or services between firms that seek to obtain access to resources that would be unobtainable acting alone in a given period of time. Alliances include organizational forms that are similar to "hierarchy" in aligning interests through equity (i.e., joint ventures, minority equity stakes), forms that use contracts and other controls to facilitate extensive bilateral exchange (i.e., joint activities such as R&D, manufacturing or marketing) and forms that are similar to "market exchange" in employing more standardized, unilateral contracts (i.e., technology and brand licensing) (Das and Teng, 2001).
Research in economics and business strategy has focused on explaining the emergence of hybrid organizational forms (e.g., Menard, 1995; Williamson, 1985, 1991), the type of hybrid organizational form (e.g., Gulati, 1995; Gulati and Singh, 1998; Osborn and Baughn, 1990; Pisano, 1989, 1990) and determinants of alliance success (e.g., Lorenzoni and Lipparini, 1999; Anderson and Dekker, 2005). The literature examines whether alliance strategy and structure are aligned (i.e., selection fit) as well as whether alignment is associated with alliance performance (i.e., interaction fit) (Drazin and Van de Ven, 1985).

**Figure 2.2: Conceptual Framework**

![Conceptual Framework Diagram](image)

**Independent Variables**

- Business Information Sharing
- ICT
- Strategic Relationships and Alliance

**Dependent Variable**

- Credit Control Performance

### 2.5 Operationalization

**Business Information Sharing** in this study has been taken as the integration of information systems, decision systems, and business processes used to conduct information searches, manage business operations, monitor business details and perform other business activities. It is considered to include the factors that bind firms and that can drive the effectiveness of the firm. Information sharing will offer offers supply chain members’ three major advantages: information is distributed throughout the supply chain,
information senders and receivers become closer, and supply chain members can act on new information in a timely manner.

Kenyan pharmaceutical companies’ use of BCI will positively and directly affect their buyer-supplier relationship, which itself directly and positively affects their performance. The study will seek to determine how BCI will impact on credit control performance of these companies.

ICT as a variable in this study will involve computer hardware and software and telecommunications technology. Since most businesses have dropped the traditional model of doing business to adopting ICT, this study will look at the influence of ICT on credit control performance in Kenyan pharmaceutical companies.

Strategic alliances are taken as partnerships of two or more corporations or business units that work together to achieve strategically significant objectives that are mutually beneficial. The potential of strategic alliances strategy is enormous. If implemented correctly, some authors claim it can dramatically improve an organization’s operations and competitiveness. Companies are forming alliances to obtain technology, to gain access to specific markets, to reduce financial risk, to reduce political risk, to achieve or ensure competitive advantage. This study will seek to investigate the strategic alliance in pharmaceutical firms in Kenya and how these alliances influence credit control performance in these organizations.

2.6 Research Gap

Firms use trade credit relatively more when credit from financial institutions is not available. Thus while short term trade credit may be routinely used to minimize transactions costs, medium term borrowing against trade credit is a form of financing of last resort. Suppliers lend to firms no one else lends to because they may have a comparative advantage in getting information about buyers cheaply, they may have a better ability to liquidate goods, and they may have a greater implicit equity stake in the firm’s long term survival. In addition to borrowing from financial institutions, firms may
be financed by their suppliers. Although there are many theories explaining why non-financial firms lend money, there are few comprehensive empirical tests of these theories. This study attempts to fill this gap.
3.1 Introduction

This chapter dealt with the methods the researcher intended to use in carrying out the study. It was organized along the following sub sections: research design, target population, sample size and sampling procedures, research instruments, data collection procedure’s data analysis and ethical issues that were considered in the study.

3.2 Research Design

The study used descriptive survey design. Welman and Kruger (2001) define survey as an attempt to collect data from an identified population in order to establish the current status of the population in respect to one or more variables. A survey was chosen because of its appropriateness to produce a representative sample from the large population of consumers. Descriptive statistics was used to discover and measure relationships among variables including who, what, when and how of a topic (Cooper and Schindler, 2003).

According to Babbie and Mouton (2001) a survey research is probably the best method available to social scientists interested in collecting original data for describing a population too large to observe directly. They further state that descriptive statistics provide a method of reducing large data matrices to manageable summaries to permit easy understanding and interpretation. Single variables can be summarized by descriptive statistics and so can association among variables. Specifically, surveys are excellent vehicles for measuring attitudes and orientations in a large population. Analysis of large data has been made even easier through advances in computer technology. Welman and Kruger (2001) also assert that survey designs involve investigations on whether there is a relationship between variables. There are often many variables that correlate with each other and mutually influence one another.

The justification for choosing the design was that it would enable the researcher to analytically explain the findings of the research on the basis of the variables tested. It also
helps in explaining underlying relationships rather than focusing on prescribing solutions (Saunders et al., 2003). Data collection was carried out using researcher assisted questionnaires.

3.3 Population

A population is defined as the total collection of elements about which we wish to make some inferences (Cooper and Schindler, 2003). According to Cooper and Schindler (2003), a population element is the subject such as a person an organization, customer database, or the amount of quantitative data on which the measurement is being taken. The population of this study comprised of pharmaceutical firms involved in importation and distribution of generic pharmaceutical products. According to the 2008/2009 issue of the Drug Index, Kenya is currently home to over 56 generic pharmaceutical distributors and representatives representing different pharmaceutical firms in the country. These distributors and representatives are based in Nairobi. Since the population was small there would be no need for sampling rather the whole population of 56 would be our target.

<table>
<thead>
<tr>
<th></th>
<th>Target population</th>
<th>Sampling</th>
<th>Sample Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit Managers/ controllers</td>
<td>56</td>
<td>100%</td>
<td>56</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>56</strong></td>
<td></td>
<td><strong>56</strong></td>
</tr>
</tbody>
</table>

3.4 Data Collection Methods

The primary data collection tool was a structured interview. The data collection instrument to be used was a researcher assisted questionnaire designed specifically for the study. The questionnaire was organized into four sections. The first section of the questionnaire dealt with demographic statistics such as name, age, years of service of the employees. This information provided data to be used in analyzing the personnel statistics based on gender, age, years of service of the employees. The second section sought to gain an understanding of the influence of internal capabilities in strategy choice. The third section dealt with the role of competitor activities in competitive
strategy choice. The fourth section analyzed the role of market segment in competitive strategy choice. The questionnaire administered included both closed and open-ended questions. To ensure ease and validity of the questions and question type, the questionnaires were pilot tested. Administration of the questionnaires was done by the researcher.

3.5 Research Procedures

Questionnaires for the study were developed and pilot tested on 10 randomly chosen medical representatives of generic pharmaceutical companies. This aided in offering a critic on the questionnaire hence enabling corrections before the final distribution to the sample population. A letter requesting for participation in the study by the selected companies was sent to the companies. A follow up call was taken after one week to confirm participation and book interview dates. As the data collection instrument was a researcher assisted questionnaire, the researcher distributed the questionnaires to the respondents and assist them to complete these questionnaires on the interview date. To increase the response rate the interviews were conducted at a place that was convenient to the respondent. The interviews were undertaken for a period of three weeks. Evaluation of the data collected was done by the researcher.

The researcher assisted questionnaires included both structured and unstructured questions. The respondents were requested to answer questions asked by the researcher who then completed the questionnaire by either ticking off the response to the multiple choices and likert scale questions or filling the blank spaces for the open-ended questions.

3.6 Data Analysis Methods

The questionnaires were first edited then coded to facilitate statistical analysis. The study applied a quantitative approach through the use of frequency of distribution, mean scores and standard deviations to analyze the data. With the help of Statistical Package for Social Science (SPSS) and Microsoft Excel the findings were then presented in form of frequency distribution tables, bar charts and pie charts. The data was summarized according to the study’s specific objectives. The data analysis facilitated the
identification of the impact of internal capabilities of a company, competitor activities and market segmentation in the choice of a company’s competitive strategy.

3.7 Ethical Issues

The researcher guaranteed the participants confidentiality. The participants were assured that identifying information would not be made available to anyone who is not directly involved in the study. The other stricter standard that the researcher applied was the principle of anonymity which essentially means that the participant remains anonymous throughout the study even to the researchers themselves. The researcher drafted an introduction to accompany the questionnaires explaining the purpose of the study to be purely academic to avoid any misconceptions of its objectives. The respondents were assured that the study seeks to inform relevant study.
CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1 Introduction
This chapter entails the findings of the study based on the data collected from the field. The study sought to establish factors influencing credit control on performance of firms. A sample size of 36 companies was used and the information presented in form of pie charts, bar graphs and tables.

4.2 Demographic information
In order to capture the general information of the respondents issues such capacity, gender, department, period worked in the organization, highest qualification attained, existence of credit policy, effectiveness and challenges in implementing credit policies were captured in the first section of the questionnaire.

4.2.1 Capacity within the Organization
Figure 4.1 shows the capacity that the respondents held within the organization.

Figure 4.1 Capacity within the Organization

According to the findings, 53% were managers while 11% were owners and directors respectively. However 25% did not respond.
4.2.1.1 Others
The respondents further indicated that they held capacity as credit controllers.

4.2.2 Gender of Respondents
The study sought to establish the gender of the respondents under study. Figure 4.2 shows the findings.

**Figure 4.2 Gender of Respondents**

According to the findings, 67% shows that they were female while 33% were female as represented by the figure above.

4.2.3 Department in the Organization
Figure 4.3 shows the department that the respondents belonged to.

**Figure 4.3 Department in the Organization**

The study established that 78% were in the credit department while 22% were in the operations department.
4.2.4 Period Worked in the Organization
The study sought to show the duration that the workers had been in the organization.

Figure 4.4 shows the results of the findings.

Figure 4.4 Period Worked in the Organization

According to the findings, 47% indicated that they had worked for a period of 3-5 years while 31% said that they had worked for duration of 6-9 years. Only 22% had worked for a period of over 10 years.

4.2.5 Highest Qualification Attained
Figure 4.5 shows the highest qualification that the respondents had attained.

Figure 4.5 Highest Qualification Attained

The study established that 78% indicated that they had attained degree while 22% said that they had attained certificate as their highest qualification.
4.2.6 Credit Control Policy
The study sought to find whether the organization had a credit control policy. Figure 4.6 shows the results of the findings.

Figure 4.6 Credit Control Policy

![Credit Control Policy Chart]

Figure 4.6 shows that all the respondents were in agreement that the organization had a credit control policy and they were represented by 100%.

4.2.7 Effectiveness of Credit Control Policies
The study sought to show the extent of the effectiveness of the policies of credit control in the organization. Figure 4.7 shows the findings.

Figure 4.7 Effectiveness of Credit Control Policies

![Credit Control Policy Chart]

According to the findings, 81% indicated that the credit control policies in the organization were effective to large extent while 19% said that the policies were effective to a very large extent.
4.2.8 Whether there are Challenges

Figure 4.8 shows whether the organization experienced any challenges in implementing the credit policies.

**Figure 4.8 Whether there are Challenges**

The study established that 50% indicated that their organization experienced challenges in implementing the credit policies while a similar percentage disagreed that there were challenges experienced in implementing the credit policies.

4.2.9 Challenges experienced

The study established that due to competition the organization was forced to bend rules to established customers or attract customers. On the other hand the organization experienced default payments by the customers. Moreover the top management influenced issuing of credit to the clients.

4.3 Business Information Sharing

This section of the study sought to show the extent the following statements influenced business information sharing on credit control performance.

**4.3.1 influences of business information sharing**

Table 4.1 shows the extent of influence of business information sharing on credit control performance.
### Table 4.1 Influences of Business Information Sharing

<table>
<thead>
<tr>
<th></th>
<th>f</th>
<th>%</th>
<th>f</th>
<th>%</th>
<th>f</th>
<th>%</th>
<th>f</th>
<th>%</th>
<th>f</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business information sharing allows the firm to collaboratively manage credit risk</td>
<td>3</td>
<td>8.3</td>
<td>33</td>
<td>91.7</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Information sharing on credit availability and credit rationing improve access to finance</td>
<td>7</td>
<td>19.4</td>
<td>29</td>
<td>80.6</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Business information sharing allows the firm to access credit information across other firms</td>
<td>7</td>
<td>19.4</td>
<td>29</td>
<td>80.6</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Information sharing on reduces default rates</td>
<td>4</td>
<td>11.1</td>
<td>32</td>
<td>88.9</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Business information sharing allows the firm to determine the credit worthiness of its clients</td>
<td>7</td>
<td>19.4</td>
<td>29</td>
<td>80.6</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Business information sharing helps the firm in the development of a credit policy</td>
<td>4</td>
<td>11.1</td>
<td>32</td>
<td>88.9</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

The study established that 91.7% agreed that business information sharing allows the firm to collaboratively manage credit risk while this was concurred by 8.3% who strongly agreed. On the other hand 91.7% agreed that information sharing on credit availability and credit rationing improve access to finance while a similar percentage agreed that business information sharing allows the firm to access credit information across other firms. Notably 88.9% agreed that information sharing reduces default rates while 80.6% agreed that business information allows the firm to determine the credit worthiness of its clients. In addition 88.9% agreed that business information sharing helps the firm in the development of a credit policy.

#### 4.3.2 Extent of Influence of Business Information Sharing on Credit Control

Figure 4.9 shows the extent of business information sharing influence on credit control performance.
According to the findings, the respondents were in agreement that business information sharing influenced credit control performance in the organization to a great extent and this was represented by 100%.

4.4 ICT
This section of the study shows influences of ICT on credit control performance.

4.4.1 Influences of ICT on Credit Control Performance
Table 4.2 shows the extent of the following statements on the influences of ICT on credit control performance.

Table 4.2 Influences of ICT on Credit Control Performance

<table>
<thead>
<tr>
<th>Statement</th>
<th>strongly agree</th>
<th>agree</th>
<th>neutral</th>
<th>disagree</th>
<th>strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>ICT allows electronic servicing and administration of loans within the firm</td>
<td>17 47.2</td>
<td>19 52.8</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>ICT reduces transaction costs of credit</td>
<td>4 11.1</td>
<td>32 88.9</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>ICT allows storage of crucial data which is essential to analyzing credit risk</td>
<td>4 11.1</td>
<td>32 88.9</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>ICT mainly drives the development in credit risk management</td>
<td>9 25.0</td>
<td>27 75.0</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>
Table 4.2 shows that 52.8% agreed that ICT allows electronic servicing and administration of loans within the firm while 88.9% agreed that ICT reduces transaction costs of credit. On the other hand a similar percentage agreed that ICT allows storage of crucial data which is essential to analyzing credit risk. In addition 75% agreed that ICT mainly drives the development in credit risk.

4.4.2 Extent ICT Influences Credit Control Performance

The study sought to show the extent ICT influences credit control performance in the organization. Figure 4.10 shows the results of the findings.

Figure 4.10 extent ICT Influences Credit Control Performance

Figure 4.10 shows that 89% indicated that ICT influenced credit control performance to a great extent while 11% said that ICT influenced credit control performance to a very great extent.

4.5 Strategic Alliances

This section of the study shows responses on whether the organization has partnership with other corporations or business units that work together to achieve strategically objectives and the extent strategic alliances influences credit control performance.

4.5.1 Existence of a Partnership with other Corporations

The study sought to show responses on whether the organization has a partnership with other corporations or business units. Figure 4.11 shows the responses.
Figure 4.11 Existence of a Partnership with other Corporations

Figure 4.11 shows that the respondents were all in agreement that their organization had a partnership with other corporations or business units that work together to achieve strategically significant objectives. They were represented by 100%.

4.5.1.1 Objective/ main purpose of the Alliance

The respondents outlined that their main purpose of the alliance was to basically share information on bad debts to minimize exposure to risk customers. They further indicated that the purpose of the alliance was to share new developments and achievements of the organization. On the other hand the alliance enabled sharing of challenges in the industry.

4.5.2 Influences of Strategic Alliances on Credit Control Performance

Table 4.3 shows the influences of strategic alliances on credit control performance.

<table>
<thead>
<tr>
<th></th>
<th>strongly agree</th>
<th>agree</th>
<th>neutral</th>
<th>disagree</th>
<th>strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic alliances have led to the improvement of credit operations</td>
<td>3 8.3</td>
<td>33 91.7</td>
<td>- -</td>
<td>- -</td>
<td>- -</td>
</tr>
<tr>
<td>Strategic alliances have led to the firm being more competitive</td>
<td>- -</td>
<td>36 100</td>
<td>- -</td>
<td>- -</td>
<td>- -</td>
</tr>
<tr>
<td>Strategic alliances have led to reduction in credit risk and risk management</td>
<td>- -</td>
<td>36 100</td>
<td>- -</td>
<td>- -</td>
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<tr>
<td>Strategic alliances have led to better repayments of credit</td>
<td>- -</td>
<td>36 100</td>
<td>- -</td>
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</tbody>
</table>
According to the findings, 91.7% agreed that strategic alliances have led to the improvement of credit operations while 100% indicated that strategic alliances have led to the firm being more competitive. On the other hand 100% said that strategic alliances have led to reduction in credit risk and risk management. Notably 100% agreed that strategic alliances have led to better repayments of credit.

4.5.3 Extent Strategic Alliances Influence Credit Control Performance

Figure 4.12 shows the extent that strategic alliances influence credit control performance.

![Pie Chart](image)

According to the findings, 89% indicated that strategic alliances influence credit control performance. On the other hand 11% said that strategic alliances influenced credit control performance to a very great extent.
CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter provides a summary of the findings; the conclusion and the recommendations of the study on the factors influencing credit control on performance of selected Pharmaceutical Companies in Nairobi

5.2 Summary of the Findings

The following were the summary of the research findings upon which the conclusion and recommendations of the study were made. According to the findings, the respondents agreed that the organization had credit control policy and that the policies were effective to a large extent. The respondents cited that they faced challenges during implementation such as bending of rules to incorporate and attract customers. Moreover, the top management influenced issuing of credit to the clients.

5.2.1 Business Information Sharing

The study established that the respondents agreed that business information sharing allows the firm to collaboratively manage credit risk. On the other hand, information sharing on credit availability and credit rationing improve access to finance while business information sharing allows the firm to access credit information across other firms. Notably, information sharing reduces default rates while business information allows the firm to determine the credit worthiness of its clients. In addition, the respondents indicated that business information sharing helps the firm in the development of a credit policy.

5.2.2 ICT

It was evident that ICT allows electronic servicing and administration of loans within the firm while ICT reduces transaction costs of credit. On the other hand, the respondents indicated that ICT allows storage of crucial data which is essential to analyzing credit risk. In addition, the respondents agreed that ICT mainly drives the development in credit risk.
5.2.3 Strategic Alliances

The respondents were all in agreement that their organization had a partnership with other corporations or business units that work together to achieve strategically significant objectives. The respondents outlined that their main purpose of the alliance was to basically share information on bad debts to minimize exposure to risk customers. They further indicated that the purpose of the alliance was to share new developments and achievements of the organization. On the other hand the alliance enabled sharing of challenges in the industry. The study found out strategic alliances have led to the improvement of credit operations and that strategic alliances have led to the firm being more competitive. On the other hand strategic alliances have led to reduction in credit risk and risk management. Notably the respondents agreed that strategic alliances have led to better repayments of credit.

5.3 Conclusions

The study concluded that business information sharing influences credit control policies. Credit availability and credit rationing improves access to finance. Notably information sharing reduces default rates while business information allows the firm to determine the credit worthiness of its clients. This is in line with brown et al. (2009) report firm-level evidence showing improved access to finance in countries with information sharing institutions.

It was evident that ICT influenced credit control. ICT allows electronic servicing and administration of loans within the firm. ICT allows storage of crucial data which is essential to analyzing credit risk. This is in agreement with Evans, et al, 1999) who said that ICT mainly drives the development in credit risk management. As it enables for example, electronic servicing and administration of loans. Thus, reducing transaction costs within the organization and allowing the realization of economies of scale.

On strategic alliances, organization formed partnership with other corporations or business units that work together to achieve strategically significant objectives. Strategic alliances have led to the improvement of credit operations and competiveness of the firm. It was also evident that strategic alliances led to reduction in credit risk and risk management.
5.4 Recommendations
The study recommends that the pharmaceuticals should be encouraged to exercise business information sharing with other institutions. By exchanging information about their customers, pharmaceuticals can improve their knowledge of applicants’ characteristics, past behavior and current debt exposure. In principle, this reduction of informational asymmetries can reduce adverse selection problems in lending, as well as change borrowers’ incentives to repay, both directly and by changing the competitiveness of the credit market. Nevertheless it can also reduce each organization’s uncertainty about the total exposure of the borrower, in the context of multiple-bank lending. Moreover business information sharing on credit reporting reduces the selection costs of lenders by allowing them to more accurately predict individual loan defaults.

ICT mainly drives the development in credit risk management as it enables electronic servicing and administration of loans. Thus if the pharmaceuticals enhance ICT they will reduce transaction costs within the organization and allow the realization of economies of scale. ICT within the pharmaceuticals will enable the implementation of a risk-adjusted pricing throughout the organization. Risk-adjusted prices can be provided via online applications to the origination units and credit risk management can be transformed into an active risk management approach. Thus the effective computing power will aid in calculating risk measures on portfolio level and run simulations of the loan loss distribution within a reasonable time frame.

Strategic alliances enables market exchange between different business units. Thus the pharmaceuticals should form alliances that will improve on organization’s operations and competitiveness. such strategic alliances will enable the organization obtain technology, gain access to specific markets which they would not have obtained if acted alone, to reduce financial risk, and reduce exposure to political risk.

5.5 Suggestions for Further Studies
The research recommends the following areas for studies. The data collection was based on questionnaires. Further research can be carried by involving the respondents on discussions so as to generate workable solutions so as to find out the factors influencing
credit control on performance of selected pharmaceutical companies in Nairobi. Additional research should be carried out on pharmaceuticals financial management, in particular their working capital practices by extending the sample size so that an industry-wise analysis can help to uncover the factors that explain the better performance for some industries and how these best practices could be extended to the other industries.
REFERENCES


Evans, J.D. *Are Lending Relationships Valuable to Equity Holders in Chapter 11 Bankruptcy?* Working Paper, Georgia State University, 1998.


Kimang'a, A. 1981: Planning and controlling mercantile credit by firms in Kenya; Unpublished MBA Project, University Of Nairobi


Muturia J. M 1995; Factors influencing credit delivery systems to small scale enterprises; Unpublished MBA Project, University Of Nairobi


APPENDICES

Appendix 1: Letter

Julius Wambua Mbuvi
P.O BOX 242-00200
NAIROBI

Dear Respondent

RE: FILLING IN OF QUESTIONNAIRE

This is to request you help fill the attached questionnaire. I am a student of Kenyatta University pursuing Masters of Business Administration Degree. In partial fulfillment of the course requirement, I am undertaking a research project on Survey of factors influencing credit control on performance of firms. A case study of pharmaceutical industry in Kenya.

You have been chosen as parts of the sample hence request you to help in gathering information in the questionnaire to the best of your ability to present useful contribution which may help to improve the performance of credit control in pharmaceutical industry. Your cooperation will be appreciated and information received will be for the purpose of study and will be treated with confidence.

Yours faithfully,

Julius Wambua Mbuvi
Appendix 2: Questionnaire

Part 1: Background Information

1. Kindly indicate your full names  
   ..............................................................................................................................

2. For and on behalf of: (Name of the company)  
   ..............................................................................................................................

3. Capacity within the company:  
   Owner [ ] Director [ ]  
   Manager [ ] Other (specify) [ ]

4. What is your gender?  
   Male [ ] Female [ ]

5. Which department do you work from?  
   Credit department [ ] Operations department [ ]  
   Other (Specify) .................................................................................................

6. How long have worked in this organization  
   0.2 years [ ] 3-5 years [ ] 6-9 years [ ] Over 10 years [ ]

7. Kindly indicate your highest qualification attained.  
   Certificate [ ] Degree [ ] Postgraduate [ ]  
   Other (specify) .................................................................................................

8. Do you a credit control policy in your organization?  
   Yes [ ] No [ ]

9. To what extent are the policies in your organization effective in credit control?  
   To a very large extent [ ] To a large extent [ ] To a moderate extent [ ]  
   To a little extent [ ] To no extent [ ]

10. Do you experience any challenges in implementing the credit policies put in place in your organization.
11. To what extent do you agree with the following statements about influence of business information sharing on credit control performance? Rate using a scale of 1 to 5 where 1 is strongly agree, 2 is Agree, 3 is Neutral, 4 is Disagree and 5 is Strongly disagree.

<table>
<thead>
<tr>
<th>Statement</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
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<td>Information sharing on credit availability and credit rationing improve access to finance</td>
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<td>Business information sharing allows the firm to access credit information across other firms</td>
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<tr>
<td>Information sharing on reduces default rates</td>
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<tr>
<td>Business information sharing allows the firm to determine the credit worthiness of its clients</td>
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<tr>
<td>Business information sharing helps the firm in the development of a credit policy</td>
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</tbody>
</table>

12. In general, to what extent does business information sharing influence credit control performance in your organization?

i) To a very great extent ( )

ii) To great extent ( )

iv) To a moderate extent ( )

v) To a little extent ( )

vi) To a No extent ( )
Section C: ICT

13. To what extent do you agree with the following statements about the influence of ICT on credit control performance? Rate using a scale of 1 to 5 where 1 is strongly agree, 2 is Agree, 3 is Neutral, 4 is Disagree and 5 is Strongly disagree.

<table>
<thead>
<tr>
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</tbody>
</table>

14. In general, to what extent does ICT influence credit control performance in your organization?
   i) To a very great extent ( )   ii) To great extent ( )   iv) To a moderate extent ( )
   v) To a little extent ( )   vi) To a No extent ( )

Section D: Strategic Alliances

15. Does your organization have a partnership with other corporations or business units that work together to achieve strategically significant objectives?
   Yes ( )   No ( )

b) If yes, what is the objective/main purpose of this alliance... ..........................................................
   .................................................................................................................................

16. To what extent do you agree with the following statements about the influence of Strategic alliances on credit control performance? Rate using a scale of 1 to 5 where 1 is strongly agree, 2 is Agree, 3 is Neutral, 4 is Disagree and 5 is Strongly disagree.
<table>
<thead>
<tr>
<th>1</th>
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<td>Strategic alliances have led to the firm being more competitive</td>
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<td>Strategic alliances have led to better repayments of credit</td>
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</tbody>
</table>

14. In general, to what extent do strategic alliances influence credit control performance in your organization?

   i) To a very great extent ( )
   ii) To great extent ( )
   iv) To a moderate extent ( )
   v) To a little extent ( )
   vi) To a No extent ( )

**Thanks You for Your Participation**
Appendix 3: List of Pharmacy

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