



**ST. MARY'S UNIVERISYT**

**SCHOOL OF GRADUATE STUDENTS**

**MASTERS OF BUSINESS ADMINISTRATION**

**PRACTICES AND CHALLENGES OF UNCONTROLLED  
CREDIT SALES MANAGEMENT IN THE PETROELUM  
INDUSTRY IN ETHIOPIA**

**CASE OF; NILE PETROLEUM CO.LTD**

**BY**

**BEHAILLU MEKURIA**

**JANUARY15, 2020**

**ADDIS ABABA, ETHIOPIA**

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THE REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS  
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**JANUARY15, 2020**

**ADDIS ABABA, ETHIOPIA**

## **ENDORSEMENT**

This thesis has been submitted to St.Mary's University College School of Graduate Studies for examination with my approval as a university advisor.

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Advisor

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**St.Mary's University College, Addis Ababa**

**January 2020**

## **DECLARATION**

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of **Simon Tarekegn (Asst.Prof.)**. All sources of materials used for the thesis have been duly acknowledged. I further confirm that the thesis not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

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Signature

**St.Mary's University College, Addis Ababa**

**January 2020**

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**APPROVED BY BOARD OF EXAMINERS**

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## **Abbreviations**

NPCLTDEB:- Nile Petroleum Company Ltd Ethiopia Branch

EPSE: -Ethiopian Petroleum Supply Enterprise

MoMPNG:-Ministry of Mines, Petroleum and Natural Gas

JICA :-Japan International Cooperation Agency

ESA:-Ethiopia Standard Agency

LPG:-Liquefied Petroleum Gas

NPC :-Nile Petroleum Company

NOC:-National Oil Company

YBP:-YetebaberutBeharawi Petroleum

CR :- Credit Risk

## ABSTRACT

*This descriptive study is done on the practices and challenges of uncontrolled Credit Sales Management as a Major challenge in the Petroleum Industry in Ethiopia considering the case of Nile Petroleum Co. Ltd. The purpose of the research study steams from the current problem of the uncollected proceeds of the company. Such organizational crises are observed all over the oil companies in general and specifically Nile petroleum Co. Ltd. due to practices and challenges of credit sales mismanagement. Although credit sales is a major means of business transaction in the industry but when it is not guided by strong policies and procedural system, it affects the organization adversely. A descriptive type of research method used in conducting the study. This study is a descriptive survey because it adopts the use of questionnaire and secondary data aimed at finding the practices and challenges of uncontrolled credit sales management is a major challenge the overall organizational performance. The result of this study indicated that out of the major challenges of Nile Petroleum Co. Ltd proved to be its uncollected proceeds created by its uncontrolled credit sales transactions. Therefore, the research came up with some suggestions to tackle such uncontrolled credit sales practices and challenges in the industry out of which are: proactive collections of credit sales proceeds, sticking on credit sales management policy such as having credit sales limit and credit period frames, encouraging cash base sales transactions and safeguarding credit sales transactions by having strong third party guarantees.*

**Key Words:** *Uncontrolled credit sales, Uncollected Proceeds, organizational crises, Petroleum Industry, Guarantee, Petroleum products, etc*

# CHAPTER ONE: INTRODUCTION

## 1.1 Background of the study

Credit or credit sales is one of the factors that can be used by an organization to influence demand for its products. According to Horne and Wachowicz (1998), firms can only benefit from credit if the profitability generated from increased sales exceeds the added costs of receivables. Myers and Brealey (2003) define credit as a process whereby possession of goods or services is allowed without spot payment upon a contractual agreement for later payment.

The concept of credit management cannot be overlooked by any economic enterprise engaged in credit irrespective of its business nature. Myers and Brealey (2003) describe credit management as methods and strategies adopted by a firm to ensure that they maintain an optimal level of credit and its effective management. It is an aspect of financial management involving credit analysis, credit rating, credit classification and credit reporting. Nelson (2002) views credit management as simply the means by which an entity manages its credit sales. It is a prerequisite for any entity dealing with credit transactions since it is impossible to have a zero credit or default risk. The higher the amount of accounts receivables and their age, the higher the finance costs incurred to maintain them. If these receivables are not collectable on time and urgent cash needs arise, a firm may result to borrowing and the opportunity cost is the interest expense paid.

Effective management of accounts receivables involves designing and documenting a credit policy. Many entities face liquidity and inadequate working capital problems due to negligent credit standards and inappropriate credit policies. According to Pike and Neale (1999), a sound credit policy is the blueprint for how the company communicates with and treats its most valuable asset, the customers. Scheufler (2002), proposes that a credit policy creates a common set of goals for the organization and recognizes the credit and collection department as an important contributor to the organization's strategies. Nevertheless, it is an unthinkable business to conduct the trade of the Petroleum Industry in Ethiopia without considering credit sales transactions. Since the petroleum industry is decisively led by the government and no sustainable supply is secured so far, credit sales transaction is a major means of practice in the day to day business interaction among the stakeholders.

The Ethiopian petroleum Supply Enterprise /EPSE/ ,the sole importer of petroleum product in Ethiopia ,and sales those products to the domestic petroleum distributing companies engaged in this business on the twenty one days open credit basis. And the same time the companies give seventeen days open limited credit for retail sales owners .In General the Petroleum Industry in Ethiopia is comprises of 26 marketers such as (Total Ethiopia, NOC, Oil Libya, and Nile Petroleum) etc and all the companies are garneted by twenty one days credit period by the seller EPSE. By now companies increased the marketers by new private industries. It is governed by the Ethiopian law which covers operations from exploration, sales and marketing of Petroleum products. There are about 3 companies that are operating in finding crude petroleum and exploring natural gas. About 26 companies are operating in selling and distribution of petroleum products such as Fuel, Lubricants and Liquefied Petroleum Gas (LPG). As this research is intended to find out the gaps in credit sales and management system of Nile Petroleum Company limited Ethiopia There are three major players in Ethiopia for sales and marketing of Petroleum Products. The three players control more than 60% of the market share as at December 2017 according to EPSE (Ethiopian Petroleum Supply Enterprise Report only fuel distribution summary report (Total Ethiopia 17.58 %, National Oil Ethiopia 31.78% and Libya Oil Ethiopia 23.22%). The sector is very competitive characterized by price controls, common non-differentiable products and strict taxation structure within a mixed economy.

Hence, besides price and its related results as a competitive strategy, it required adoption of other strategies. Amongst the strategies is use of credit sales and therefore its management cannot be overlooked.

Thus this study is intended to identify the challenges on the credit sales management system and provide possible realistic recommendations in bringing a solution for those factors that imposed uncontrolled credit sales transaction in Nile Petroleum Co. Ltd Ethiopia and the other companies operating in the petroleum industry.

## 1.2 Statement of the Problem

Sound credit management is a prerequisite for organizations' stability and continued profitability, while deteriorating credit quality is the most frequent cause of poor financial performance for a given organization. The biggest risk in Petroleum Industry is buying products' of the company like Fuel and other petroleum products and not paying back. (Rosemary Nduta Gatuhun D61/63145/2011)

The mainly the company engaged by receiving hundred percent credit petroleum product like (Benzene, Gasoline and Kerosene) Form EPSE by twenty one days credit period and similarly distribute for retails service station or commercial customers at the same standard by credit seventeen days grace period.

Such practice led companies like Nile to be dragged to an uncontrolled credit sales transaction practice. Moreover, the insignificant profit margin of the products in the industry is also another driving reason for the uncontrolled credit sales transaction. Such strategy is the only means for the time being which helps the government to secure sustainable product supply all over the country as there are no retail fuel stations owned by government/EPSE.

Ethiopian petroleum Supply Enterprise (EPSE) deals with such sensitive operation of petroleum product importation and sales the whole of its imparted products on the 21 days credit period by 100% without considering any guaranty and analysis.

Business organizations in their attempts to make profit adopt several strategies and one of which is allowing credit to customers. Pandey,(2004).Submitted that credit is marketing tool for expanding sales. Credit sales to customers however must be well monitored because regardless of an organizations share of the market and demand for its products, if there are no measures put in place to regulate sales made to customers on credit, there could be problems especially those related to liquidity and cash flow so most of the time happen the in balance of credit sales and collection period.

As it is obvious that a company's performance is affected by several factors among which the major ones are: its sales, supply chain and financial performances. In Nile Petroleum's context, the uncontrolled credit sales performance shares a lion stack in degrading the company's overall operation. Hence, the company was forced to be engaged in the petroleum industry with an understated capacity.

The above mentioned core problem led the company to be indebted by over Birr 700,000,000 (Seven hundred million birr)EPSE to the Ethiopian Petroleum Supply Enterprise/EPSE. In the same manner part of its debts are the Birr400,000.000 (Four hundred million birr).credit sales revenue being uncollected from its debtors (The retail fuel sellers/Fuel Station owners). Moreover, such uncontrolled credit sales proceeds caused disputes with the debtors and incurred the company additional court and lawyers fees in addition the EPSE higher officials and few company's owners also under court case process by corruption suspicions by 500,000,00 (Million Birr. Solving the problem caused by the uncontrolled credit sales performance, in a short period of time is very difficult as it is well known that the profit/income generated from the petroleum industry is highly marginalized. Therefore, looking for external backup solutions for the problem seems to be so inevitable. That is why; it is observed that the company tries to evaluate its assets so that looking for a partner in the business could be part of a solution.

The problem of credit sales management in the industry includes: managing credit sales payment periods, credit sales limits, setting secured third party credit sales guarantees and encouraging customs to deal in cash base sales transactions.

Thus this study is intended to identify the practices and challenges of credit sales management system and provide possible realistic recommendations in bringing a solution for those factors that imposed uncontrolled credit sales transaction in Nile Petroleum Co. Ltd Ethiopia and the other companies operating in the petroleum industry.

Timely identification of potential credit default is important as high default rates lead to decreased cash flows, lower liquidity levels and financial distress. In contrast, lower credit exposure means an optimal debtors level with reduced chances of bad debts and therefore financial health. According to Scheufler (2002), into day's business environment risk management and improvement of cash flows are very challenging.

With the rise in bankruptcy rates, the probability of incurring losses has risen. Economic pressures and business practices are forcing organizations to slow payments while on the other hand resources for credit management are reduced despite the higher expectations. Therefore it is a necessity for credit professionals to search for opportunities to implement proven best practices. By upgrading your practices five common pitfalls can be avoided. Scheufler (2002).

### 1.3 Research Questions

The researches address the main questions of the research such as:

- What are the driving factors that lead to the uncontrolled credit sales transaction systems?
- What are the challenges of the uncontrolled credit sales practice in: - the oil companies, the government, the public and the industry at large?
- What are the relationship between credit management system and organization's overall performance?
- What are the constraints of uncontrolled credit sales management of Nile Petroleum Company Ltd?
- What are the setbacks of uncontrolled credit sales management on Nile petroleum company Ltd?

### 1.4 Research Objectives

#### 1.4.1 General objective

To identify the challenges of the practices and challenges of uncontrolled credit sales management is major challenges on the petroleum industries.

#### 1.4.2 Specific objectives

The specific objectives of the planned study are:

- To identify the existing credit sales management system in the Nile Petroleum Co.Ltd.
- To identify the challenge of the uncontrolled credit sales management of Nile Petroleum Co. Ltd.
- Looking past practice of credit sales and collection or receivables managements.
- To identify the relationship between credit sales management and the Company overall setbacks on the expansion, new investment and current operation.

### 1.5 Significance of The study

The finding of this research is assumed to be beneficial to the company to thoroughly look in to its credit sales system, analyze and understand its weak points, and resolve the problem related to the topic. This study can help the company to revise its past sales practices alongside setting a



proper credit sales management system to design and implement sound credit sales and collection policy. The research is also beneficial to other similar companies in the industry to have significant understanding of the importance of a strong credit sales management system and its positive outcome for their companies.

## **1.6 Scope of the Study**

Assuming the similarity of most of the oil companies in the petroleum industry, the study was concentrated on the top and middle level management staff, employees which are involved in the professional sales processes of Nile Petroleum Co. Ltd and the company's selected dealers/customers. Thus the population size of the research constitutes the company's employees in the Head Office in Addis Ababa and its main Depot in Sululta town as well as its dealers/customers who are situated across the different towns in the country. Although the establishment of the company goes back to 2003 but its operation period which involved major challenges in the practice of uncontrolled credit sales, predominantly covers 2014, 2015, 2016 and 2017. Issues for investigation are once related to the use of the resource-based theory in taking competitive advantage, enhancing overall organizational performance and improve credit sales management system of the company. The belief that the most key resource in the company is skilled man power that could reduce uncontrolled credit sales, transparently well-established credit sales management system such as Credit limit, Credit period and credit sales against Bank guarantee as well as thorough sales collection system.

## **1.7 Limitation of The study**

The research considered this study as a model to display the challenges and practices of uncontrolled credit sale in Nile Petroleum Co. Ltd. However, it would have been a comprehensive study if the study had included all of the oil companies in the Petroleum Industry. Therefore, although it is assumed that the challenges and practices of the uncontrolled credit sale could be an indication of a problem to be tackled in the petroleum industry but the limitation of the study lays on exactly stating the impact of the subject matter on each and every company engaged in the petroleum industry.

## **1.8 Organization of the study**

This research paper is organized in the following manner. Chapter one deal with introduction, background of the study with under consideration of the company statement of the problem, research question, general and specific objectives then significant of the study, scope of the study and limitation. Chapter two literatures review on the subject matter all the credit, uncontrolled credits sales and related issues in details. Chapter Three shows methodology of the study. Chapter four intended to data analysis, presentation and interpretation and finally Chapter five conclusions and recommendation of the research paper.

## **CHAPTER TWO: LETTERATURE RIVEWS**

### **2.1. Credit Sales**

Credit is created when organizations trade with others on specific agreed terms and negotiate for delayed payments rather than cash on delivery. Generally this is trade credit where goods and services are extended by suppliers to their customers for later payments. According to Patsula (2001), the main advantage of trade credit is the attraction of additional customers and increased sales volume. Myers and Brealey (2003) suggest that it is imperative for almost all business entities, irrespective of industry, to offer credit in order to survive. However they contend that though this increased sale is advantageous to growth and expansion of market share, it is associated with direct and indirect costs including extensive book keeping, invoicing and collection procedures. These costs affect cash transactions to a lesser extent. Moreover, a portion of credit granted may never be honored resulting in bad debts.

### **2.2 Variables of Credit Policy**

#### **2.2.1 Credit Standards**

Credit policy has a significant influence on sales in that if an entity's competitors extend credit more liberally than themselves then their credit policy has a dampening effect on the firm's marketing effort in comparable terms. Credit is one of the many factors that drive demand but its degree of applicability depends upon many other factors being employed. Granting credit in any business set up is a marketing exercise aimed at increasing sales levels but of importance is that it must be accompanied by vigorous credit assessment and underlying control exercise because of its associated risks (Pike and Neale, 1999). Home and Wachowicz, (1998) suggest that a firm may lower its quality standard for accounts accepted as long as the profitability generated from sales exceeds the added costs of receivables. Additional costs related to relaxation of credit standards are from e.g. enlargement of credit department, clerical work in checking additional accounts and servicing more receivables or even increased probability of bad debts losses. There is also an opportunity cost of committing funds to additional receivable investment instead of some other investments which are forgone (Home and Wachowicz, 1998). Increased receivable is as a result of increased sales volume and the lengthening of average collection period as

relaxed credit standards prompts slower payments. Therefore effective credit standard is achieved at a point whereby the trade-off between the increased profitability from additional sales and the corresponding additional costs of carrying increased receivables is optimal.

### **2.2.2 Credit Period**

According to Home and Wachowicz (1998), credit period is the total length of time over which credit is extended to a customer. This variable too determines the kind of a credit policy an organization maintains. If it is very short, credit is stringent and if lengthy credit policy is relaxed. Just like credit standards the trade-off between profitability and increased receivable costs should be the basic consideration. Pike and Neale (1999) highlight the main factors influencing credit period granted to customers as; the normal terms of trade for that particular industry, use of trade credit as a marketing tool (the higher the consideration as a market tool the longer the credit period) and credit ratings for customers (High risk customers shorter credit period and vice versa for low risk customers).

### **2.2.3 Credit Limits**

In determination of credit limit for a customer, his account review is very basic. The main objective of this review is to determine whether or not a customer is to receive credit and if so how much. Credit limit also referred to as a line of credit is the maximum limit on the amount an organization will permit to be owed at any one time by a particular customer. It represents the maximum risk exposure an organization will allow itself to absorb for an account (Home and Wachowicz, 1998). Credit limits must be re-evaluated regularly in face of new developments and economic changes affecting existing accounts in that risk exposures can never be constant. In the face of these changes they either move to higher or lower levels and therefore the credit limits must be adjusted accordingly.

## **2.3. Uncontrolled credit**

Uncontrolled credit means appear unable to stop it or to make it less extreme. Regarding to all the movement of the business looking clear balance of buying and selling business transaction specially in our case the loading report should come from EPSE (Ethiopian Petroleum Supply Enterprise) taken by 17(Seventeen days) regarding to the business the company's all big

company's collect have different outlet or different retail station. In the case of Nile have 120 retail station NOC (National Oil Ethiopia also 370 retail station and Total Ethiopia have also 390 retail service station. All company's takes to form the main supplier of EPSE by 17 working days and company's also delivered to the retails station by 15 days collect and paid on time unless it might be appear shortage of the financial problem and all business activity clearly affects.

## **2.4. Types of Trade Credit**

Patsula (2001) suggests that organizations can classify trade credit into three broad categories depending on its characteristics and properties.

- The first category is open credit which is open account or regular credit. This is where organizations extend short term credit to its customers without any requirement for a down payment and without charging any interest or carrying charges. It is the most common type of credit and is usually payable within thirty days or at the end of the month.
- The second category is option-terms credit. This is where organizations allow credit to their customers up to a certain limit and payments due within thirty days of billing without a penalty. However, the company can assign a carrying charge to amounts due and not paid within that time period and release additional credit up to the preset agreed limit.
- The last category is the revolving charge credit. It is a situation where organizations continuously release credit subject to a certain preset ceiling as payments are being made. It is the common type of business credit in the corporate world where organizations have a long term relationship with their customers.

## **1.9 Credit Management**

Before an organization extends any credit to its customers a policy or a list of rules must be established to prevent any potential credit risks (Horne and Wachowicz, 1998). According to Pike and Neale (1999), credit management entails a design process starting all the way from a credit sale to the very end when the payment relating to that sale is fully collected. Many organizations have gotten into pitfalls of credit such as cash flow problems or constrained

working capital because they have not established good systems to be able to collect debts in a pace consistent with the way sales are made. This has led to inevitable financing of accounts receivables and at times costly borrowing to be able to meet short term working capital requirements.

Organizations can avoid cash flow problems if they administer and manage credit with financial prudence by ensuring that all goods and services rendered are promptly paid for (Grover, 2002). Accounts receivables account for a big proportion of assets in businesses averaging 15% to 20% of the total assets of a typical business. Accounts receivables for oil firms in Kenya form about 25% to 30% of the total assets (Kimutai, 2006). To control credit sales it is necessary to specify clear responsibilities for the credit department in its credit management functions. This function should be instilled with specific goals and objectives (Knox, 2004). This corroborates the fact that no matter the size of any business operation the focus should be on managing and collecting accounts receivables efficiently and effectively to maximize essential cash inflows.

Credit management decisions involve a trade-off between credit risks and profit margins. A common mistake is the assumption that a credit sale is a ‘one off’ ignoring potential repeat business (Pike and Neale, 1999). Pike and

Neale (1999) assert that the credit management process involves a number of stages starting with drafting of credit mission and goals, formulation of a credit policy, implementation of the credit policy and critical assessment of the credit management performance.

## **2.5. Bank Guarantee**

The bank guarantee is an instrument which business partners can use to strengthen and/or secure an obligation in their contract. The Principal - the party who requests that the guarantee is issued - applies to his bank for a bank guarantee to be issued in favor of the Beneficiary – the party who will receive the guarantee. After examining and approving the Principal’s application, the bank draws up a contract with the Principal - the Counter-Indemnity. The Counter-Indemnity states, among other things, the rights and obligations of the Principal and the bank in relation to possible payment for claims under the guarantee. Once all of this is in place, the bank then issues

the guarantee. By issuing the guarantee the bank offers a security to the Beneficiary that is separate from the Principals ability or will to fulfill his part of the contract. For example, a guarantee can be issued to secure the repayment of an advance payment if delivery does not take place. Bank guarantees can also be used to secure performance under a contract. Such a guarantee does not however mean that the bank completes the project in the event of non-performance. Instead the bank's undertaking is a payment obligation. Funds are then available to the Beneficiary to enable him to, for example, complete the project with another party.

### **2.5.1. Type of guarantees**

- **Tender/Bid Guarantee** Supports the Principal/Applicant's obligation to execute a contract if the Principal/Applicant is awarded a bid.
- **Advance Payment Guarantee** supports an obligation to account for an advance payment made by the Beneficiary to the Principal/Applicant. SEB recommends that an Advance Payment Guarantee contain a clause that the guarantee is inoperative until the Advance Payment has been received by the Principal/Applicant, as well as a clause allowing for reductions of the guarantee amount.
- **Performance Guarantee** Supports an obligation to pay for losses which may arise as a consequence of the Principal/Applicant failing to fulfill his obligations under the contract.
- **Retention Guarantee** Supports an obligation to account for retention money paid by the beneficiary to the Principal/ Applicant. SEB advises that the Retention Guarantee explicitly stipulates that it does not come into effect until the retention money has been received by the Principal/Applicant.
- **Warranty Guarantee** Supports the Beneficiary's costs should the Principal/Applicant fail to meet his warranty obligations as per the contract terms.
- **Payment Guarantee** Supports the payment obligation of the Beneficiary for goods/services delivered by the Principal/Applicant.
- **Loan Guarantee** Supports the repayment of a credit or credit facility including amortization and interest the guarantee applies from the date the loan is made until it has been repaid.

## **2.6. Pledged Collateral**

Pledged collateral refers to assets that are used to secure a loan. The borrower pledges assets or property to the lender to guarantee or secure the loan

## **2.7. Credit Risk Exposure**

The credit risk exposure (CR) is measured by the sum of level of loans past due 21 days or more and still accruing interest.

### **2.7.1. Risk**

Risk refers to the potential that some unfavorable event will occur. This is deviation from the desired outcome (Brigham et al, 1999). Risk is determined by the probability of occurrence and the magnitude of deviation, that is, the higher the chances of occurrence and the variability, the higher the risk levels.

### **2.7.2. Credit Risk**

Credit risk in business is the risk that a buyer will fail to satisfy the obligation terms in regards to timely payment and eventual payment of the whole amount of debt (Fabozzi et al, 2002). Many organizations have experienced liquidity problems as a result of their customers' failure to honor their part of trade credit obligations on time. Fabozzi et al (2002), describe this as the probability that counterparty may fail to meet his part of obligations in accordance with agreed terms. In case of default the credit exposure should be established, which is the size of the total outstanding balance of the obligation at the time of default (Arnold, 2003). It is also basic to determine the recovery rate so as to make decisions on the usefulness of committing resources towards the recovery process. Arnold (2003) describes the recovery rate as the fraction of the exposure during default which can be collected through any other form of settlement other than direct payments.

Firms facing default risks are sometimes forced to seek alternative sources and in extreme liquidity needs they engage costly borrowing from financial institutions to satisfy their working capital requirements. If these debts are not collectable at all in the long run, the resulting bad debts depending on magnitude may trigger financial distress and hence bankruptcy. It is important therefore for any organization to critically assess credit risk as regards any single customer it interacts with and strategize on the best methods for credit risk minimization.



## **2.8. Overview of Ethiopian Petroleum Product supply operation**

The growth of industry is highly dependent on ensuring that petroleum products at the downstream sector of the industry are distributed consistently and timely to consumers through an effective and efficient supply chain system. Distribution of fuels through effective and efficient way includes the concept of quality or keeping the fuel standard of the country. The fuel distribution is expanded to 26 companies though still very young and small in numbers as compared other countries. However, the growth and expansion of the fuel distribution should also consider. The fuel retail markets, which lead to an increased 32 number of fuel stations, a stronger competition with ensuing great quality is highly important.

## **2.9. Regulatory bodies**

The council of ministers pursuant to **Article 5** of the definition of power an dustiest of the executive organ of the federal Democratic Republic of Ethiopia proclamation No 691/210 and Article 47(1)(a) of the public Enterprises proclamation **No 25/1992**.

### **2.9.1. Supervision Authorities**

A body to be designed to by the government shall be the supervising authority of the Enterprise.

### **2.9.2. Objectives**

- On the basis of assessment of the country's demand to supply petroleum to distribution companies by importing clean product and by importing and processing crude oil.
- Forecast, maintain and administer the required national petroleum reserve.

### **Petroleum Downstream Operations Regulatory Directorate:**

Proclamation No 838/2014 is issued Petroleum Downstream Operations proclamation to regulate petroleum and petroleum products supply operation. It is stated in the proclamation that ensuring the petroleum products supply operation carried out in the

Countries comply with accepted international safety and quality standards to safeguard human health, property and the environment. It is also clearly indicated to ascertain, through follow up and supervision, the require competency, in accordance with the prevailing international practice,

of facilities and experts engaged in refining, storing, transporting, distributing and retailing petroleum and petroleum products and related activities.

### **2.9.3. Ethiopian fuel supply chain**

It is known that the goal of any supply chain management is to provide maximum customer service and satisfaction at the lowest cost possible. In Ethiopia the supply chains of coordination activities range from selecting and procuring quality fuel from supply source to product distribution at retail outlets. It is advisable to examine the fuel supply chain of the country because of a number of reasons. Fuels that are produced by the refineries and imported to the country at port usually comply with legislation,

### **2.9.4. Importation & Storage**

All imports of products are made via Djibouti and Sudanese port by Ethiopian Petroleum Supplies Enterprise. Ethiopian Petroleum Supplies Enterprise (EPSE) is government body and has the authority and responsibility of supply management of petroleum or fuel products; procure based on the standard and quality set by Ethiopian Standard Agency (ESA), control quality and temporarily store at depot in Djibouti and Sudan. Fuel is imported into Ethiopia for general use and all issues in relation to quantity and quality and price are dealt by EPSE. After the fuel is procured by EPSE, then it will be sold to Oil companies and the subsequently sold to consumer and to public via the network of branded fuel stations.

### **2.9.5. Bulk Distribution & Transportation**

Major oil companies have been licensed as bulk distributors. In other countries these companies themselves import or procure crude or refined petroleum products, store, distribute and sell. But in Ethiopia the major oil marketing companies procure refined petroleum products from the sole supplier EPSE, transport it in bulk and retail nationwide. The players are Total Ethiopia S.C, National Oil Companies (NOC), Olilibya S.C, Yetebaberut Oil S.C (YBP), Nile Petroleum S.C., Kobil Oil, TAF oil, Dalol Oil and AllwayOil. Currently road transportation is the only means used to transport fuel from ports. Previously trains were used to transport fuels and government has a plan to resume transporting fuel by train again

### 2.9.6. Marketing, Fuel stations and the Customers

Fuel stations in Ethiopia are owned either by the petroleum companies or individuals; stations can be owned by petroleum companies but operated by individual dealers or stations can be owned by individual dealers and operated by dealers themselves. However, in both cases fuel stations are working with a specific or branded oil companies to distribute its products. In 2017, there are about seven hundred seventy two fuel stations

No	Companies	Number of Stations
1	Total Ethiopia	173
2	Oil Libya	158
3	National Oil Ethiopia	180
4	YBP	104
5	Kobil	50
6	Nile Petroleum	66
7	TAF Oil	24
8	WAS	10
9	Dalol	7
<b>Total</b>		<b>772</b>

(According to KebedeDebele) study ; In situation where a company engaged in importing strategic commodities like petroleum product such as (Gasoline, Benzene, Kerosene, Jet fuel, light fuel oil, and heavy fuel oil) by paying huge amount of money in foreign currency and undertake its sales fully on credit basis, the management of credit sales and risks becomes mandatory.

The consequence any failure in management of credit sales can seriously affect on only the earnings of the enterprise but also the economy of nation as a whole. According to the study made by the Japan International cooperation Agency (JICA) conducted on May, 2010, Ninety percent (90%) of the Ethiopia transport sector uses petroleum product. The Ethiopian Petroleum Enterprise (EPSE)a state owned enterprise deals with such sensitive operation of petroleum products importation and sales the whole of its imported products on a thirty days credit period .EPSE is earning 100% of its revenue from the sales of petroleum products to each firm entered

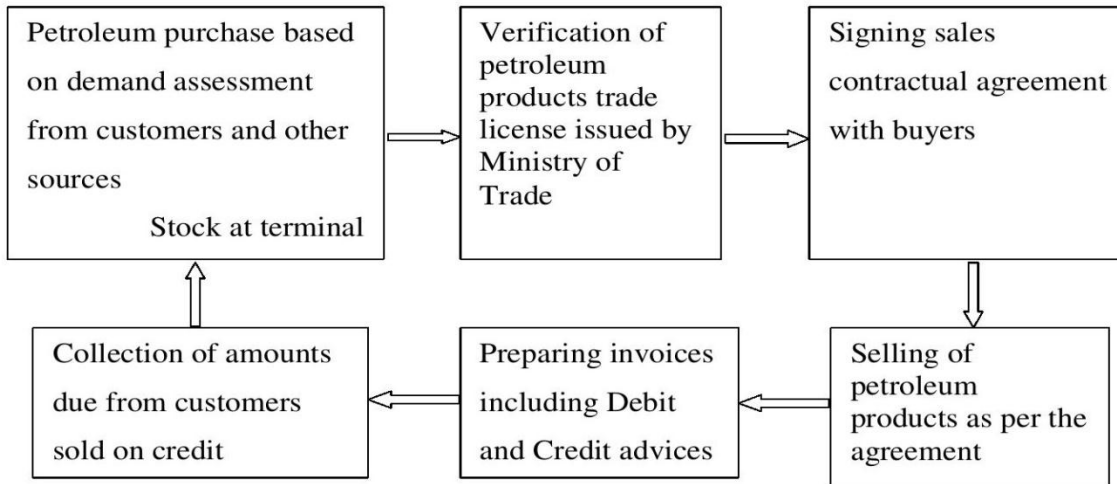
to and dealing with the business. The enterprise grants a thirty day credit period to every buyer with a 100% of credit sales uniformly without making customers' credit worthiness analysis and setting credit limit. These expose the enterprise to financial losses created due to the credit sales attributed to non-payment of the trade debt or bankruptcy .of the total amount sold with a seven year time Birr 13,099,125,572 .(14% x Birr 91,636,839,917) was found to be uncollected timely. These are the issues demanding for credit sales risk management. Hence, the study will investigate the level and extent of the issue and suggest possible solutions that may address the problem.

**Table 11: Seven Years (2005-2011) Sales and Collection Summary**

<b>Years</b>	<b>Sold (1)</b>	<b>Collected (2)</b>	<b>Remaining (3)=(1)-(2)</b>	<b>Percent (3/1)</b>
2005	4,770,528,462	4,197,725,821	572,802,641	12%
2006	6,167,917,423	5,448,150,182	719,767,241	12%
2007	8,848,528,412	7,914,316,874	934,211,538	11%
2008	12,050,139,461	10,667,333,471	1,382,805,990	11%
2009	13,032,050,802	10,349,737,067	2,682,313,735	21%
2010	19,192,021,608	16,415,482,493	2,776,539,115	14%
2011	27,575,653,749	23,544,968,437	4,030,685,312	15%
<b>TOTAL</b>	<b>91,636,839,917</b>	<b>78,537,714,345</b>	<b>13,099,125,572</b>	<b>14%</b>

Source: EPSE annual financial report

# Credit Sales Management Process in EPSE



The petroleum supply and sales sector of the EPSE operations manual contains the outline of procedures for the petroleum purchase, verification of petroleum products trade license issued by MOT (Ministry of Trade), signing sales contractual agreement between seller and buyers, selling of petroleum products as per the agreement, preparing invoices including Debit and Credit advices and Collection of amounts due from customers used across the enterprise. However, the existence of such procedures does not necessarily mean, that credit sales risk is being managed. Consequently, there is a need to ensure that the management of financial risks with emphasis on credit sales.

On the last three months also the higher official of EPSE (Ethiopian Petroleum Supply Enterprise) and estimated few company's managers also under detention center do you to the suspect ions of highly amount corruption issues around 500,000,000.00 Birr according to (Addis Maleda newspaper magazine Tahesase 11/2012)

## 2.10. Summary of Literature Review

According to the study, the practices and challenges of the uncontrolled credit sales transactions in Nile Petroleum Co. Ltd the overall performance of the company is severely affected, most of its customers dishonored their commitments to pay their debts in due time. This in its turn contributed negatively in the total performance of the company and distorted the sustainability of

the supply in the petroleum products. The uncontrolled credit sales of the company raised the credit risk in its business. The uncollected credit sales of the company are increasing its operational costs. If credit sales are not proactively collected in time, they could not be considered to be receivables. There is the possibility of losing such uncollected credit sales and consider them as bad debts. Moreover, the loose credit sales policy of the company and its unorganized system of records has its own challenges on fueling its uncontrolled credit sales. Nevertheless, there is no regulatory body which could assist the company in tackling its problems in the business.

## **CHAPTER THREE: RESEARCH DESIGN AND METHODOLOGY**

Methodology is as system of explicit rules and procedures in which research is based and against which claims of knowledge are evaluated.

### **3.1. Research Design**

In this study descriptive type of research method is adopted with the help of quantitative survey used. The purpose of using descriptive research is to describe phenomenon and its characteristics. Descriptive research is more concerned with what rather than how or why something has happened. Therefore, observation and survey tools are often to gather data (Gall, Gall and Borg, 2007). This study is a descriptive survey because it adopts the use of questionnaire and secondary data aimed at finding the practices and challenges of uncontrollable credit sales management in the organizational overall performance.

### **3.2. Population and study area**

The population of the study intended to fulfill the main objectives in identifying the practices and challenges of the uncontrolled credit sales transaction in the company's overall performance.

Population size of the research constitutes the company's employees in the Head Office in Addis Ababa and its main Depot in Sululta town (which is 26 km far from the head office) as well as its dealers/customers who are situated across the different towns in the country working on under sales, finance, operation and distribution of the product.

The selected departments and managers members stem from the fact that these employees and management members know the practices challenges of credit sales and collection of overall the operation activities in the organization.

For the purpose of this study the total population is divided in to three stratum according to their based on status and responsibility.

- Top and middle level managers
- Professional sales related employees.
- Selected retail sales dealers and commercial customers.

Table that shows the employee of Nile petroleum co. Ltd Ethiopia Branch

S/N	Name of Department	Number of employees
1	Marketing & seals	20
2	Finance	8
3	Legal department	5
4	Logistics & Operation	25
5	Administration	16
6	Human Recourse	36
7	Engineering	4
	<b>Total</b>	<b>114</b>
	<b>Dealers</b>	
1	<b>Retail sales Dealers</b>	<b>120</b>
2	<b>Commercial Customers</b>	<b>30</b>
	<b>Total</b>	<b>150</b>
	<b>Therefore population size</b>	<b>264</b>

*Source: Nile HR department March 2019 quarterly report*

### 3.3. Instrument for data collection

The data collection instrument to be used both primary data (structured questionnaire) and secondary data (Dealership contract and MOU, credit information of customers). Structured questionnaires are extremely flexible and could be used to gather information concerning the topic. The questionnaires are intended to be divided into four sections.

- **Section A** shall collect basic demographic information regarding the respondents such as gender, age, academic qualification, and position.
- **Section B** should determine the extent of Credit Sales practice in the company.
- **Section C** will capture information on the variables or factors that lead to uncontrolled credit sales practice.
- **Section D** will capture information on the relationship between uncontrolled credit management and overall organizational performance; while section A consists of closed-ended questions. Section B to D used a structured 5 points modified likert scale battery of Strongly Agree (5) Agree (4) Indifferent (3) Disagree (2) and Strongly Disagree (1) in line with Atiku, Genty and Akinlabi (2011).



### **3.4. Source of data collection**

The research to accomplish the motioned objective the study use Purposive survey design in order to achieve the research. The research method allows for both qualitative and quantitative data gathering techniques. The analysis for this research be individuals who have relation with practices and challenges of uncontrolled credit sales management for the overall performance of the petroleum industry in Ethiopia specially Nile Petroleum Company .Ltd.

Primary data source is the most valuable to address this specific research collected directly from the employees by a questionnaire and interview the mangers and secondary date. The self-administrative questionnaire includes list of closed needed questions while the interview includes list of open ended questions to be answered by the managers.

Secondary data source useful for this research to make the data more valuable and credible. It will issue raised question on the study question. The collection of secondary data will be from Dealership contract, MOU and credit information of customers and different books, articles, the internet, journals and reports all which are related to effect of uncontrolled credit sales .

### **3.5. Data presentation and Analysis**

The researcher will attempt to analyze the different challenges faced by Nile Petroleum Company Ltd in its overall performance due to uncontrolled credit sales practices and challenges. The data collected from primary sources will be presented using tables and descriptive statement. The data that will be collected using questionnaires be analyzed using SPSS (statistical package for social science) a computer program. In order to reach to a stronger conclusion the researcher will analyze a considerable sample out of the population size.

## CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATION

In this chapter, the study sought to examine the data collected in detail categorizing it according to its relationship with the objectives and research questions. The study used qualitative and quantitative techniques in data analysis and presented in a format easy to be understood.

### 4.1. Data Collection and Analysis

Data collected from Nile Petroleum Co. LTD - Ethiopia branch. A company engaged in the distribution of Fuel, lubricant and LPG gas all over Ethiopia. Primary data was collected from office staff, through questionnaires distributed to professional sales representatives, selected retail sales dealers and commercial customers and interviews conducted on top and middle level managers. Out of the 120 questionnaires, 100 were fully completed, and therefore the response rate was 83.3%. This is significant enough to provide valid and reliable conclusions from the data collected towards satisfying the study's research objectives. This is depicted in the table below:

**Table:-1 Gender Distribution Respondent**

		<b>Frequency</b>	<b>%</b>
	Female	14	14%
	Male	86	86%
	<b>Total</b>	<b>100</b>	<b>100%</b>

Table 1 shows the rate of the respondents:- 86% Male and 14% Female respondents. This information was sought to indicate about gender distribution of the respondents and also gives relevant data the contribution of genders under the organizations.

**Table: 2 Ages of Respondents**

		<b>Frequency</b>	<b>Percent</b>
	20-30	20	20%
	Above 31	80	80%
	<b>Total</b>	<b>100</b>	<b>100%</b>

As shown in table 2 the majority of employees are above 31 years old which contribute 80% of the total respondents. This shows that majority of the employees are well experienced and enough to discharge their assignment on time.

**Table: 3 Education Level**

		<b>Frequency</b>	<b>Percent</b>
	Degree	94	94%
	Masters & above	6	6%
	<b>Total</b>	<b>100</b>	<b>100%</b>

As shown in table 3 almost all the employees have first degree which constitute 94% and remaining 6% of the employees have second degree or above. This information was collected to know the academic qualification of the respondents engaged on the industry.

**Table: 4 Positions of Respondents**

	<b>Scales</b>	<b>Frequency</b>	<b>Percent</b>
	Marketing	38	38%
	Finance	10	10%
	Operation	20	20%
	Selected Dealers	32	32%
	<b>Total</b>	<b>100</b>	<b>100.0</b>

As stipulated in table 4 the total distribution of the departments show that 38% marketing, 10% Finance, 20% of the total employees Operation and 32% selected dealers and customers. This helps to know about the respondents' departmental category and responsibility and plus they are directly related with the sales practices and operations also.

**Response of respondents to the questionnaires**

**Table: 5 :- I am aware the company has a credit sales manual policy**

	<b>Scales</b>	<b>Frequency</b>	<b>%</b>
	Strongly Agree	20	20%
	Agree	30	30%
	Neutral	24	24%
	Disagree	26	26%
	<b>Total</b>	<b>100</b>	<b>100.0</b>

Table 5 shows most of the employees are aware of the fact that the company has credit sales policy. This fact constitutes about 50% of the total respondents (20% strongly agree and 30% Agree). Only 26% of the total employees disagree and 24% are neutral. This indicates the importance of the awareness for having credit sales policy in the company because almost half of the employees are ignorant on the subject matter.

**Table: 6:- The Company has a centralized credit limit and credit period management**

	<b>Scales</b>	<b>Frequency</b>	<b>%</b>
	Strongly Agree	50	50%
	Agree	12	12%
	Neutral	18	18%
	Disagree	20	20%
	<b>Total</b>	100	100%

As it is shown in table 6 - 62% of the employees strongly agree that the company has a centralized credit limit and credit period management policy (Strongly Agree 50% and Agree 12%) while 20% of the employees disagree and 18% are neutral.

This is also shows even if the centralized policy available but still shows intervention of the policy. These kinds of intervention leading the company unnecessary credit sales and receivables issues.

**Table: 7:- Uncontrolled credit sales transaction creates monopoly of market in the industry thus harming the public in service quality and sustainable supply**

	<b>Scales</b>	<b>Frequency</b>	<b>%</b>
	Strongly Agree	84	84%
	Agree	10	10%
	Strongly Disagree	6	6%
	<b>Total</b>	100	100%

As it is indicated in table 7 - 94% of the respondents strongly agree that uncontrolled credit sales transaction creates monopoly of the market in the industry and thus harming the public in service quality and sustainable supply (Strong Agree 84% and Agree 10%). The 6% of the respondents disagree on the issue. This implies that the effect of the uncontrolled credit sales on the expected company performance and activities.

**Table: 8:- The company record and accounting systems are organized in modern systematic mechanism backed by evidences**

	<b>Scales</b>	<b>Frequency</b>	<b>%</b>
	Strongly Agree	36	36%
	Agree	24	24%
	Disagree	30	30%
	Strongly Disagree	10	10%
	<b>Total</b>	100	100%

As it is stated in table 8 - 60% of the respondent agreed that the company record and accounting systems are organized in a modern and systematic mechanism backed by evidences (36% strongly agree and 24% Agree).The 30% of respondent disagreed and 10% strongly disagree. Here a significant loop hole is visible in the company's records and this implies weak evidence availability.

**Table: 9:- The uncontrolled credit seals transaction could distort the fair distribution of the product across the country and harm the quota distribution.**

	<b>Scales</b>	<b>Frequency</b>	<b>%</b>
	Strongly Agree	94	94%
	Disagree	6	6%
	<b>Total</b>	100	100%

Table 9 – shows that 94% of the respondents strongly agree that the uncontrolled credit sales transaction could distort the fair distribution of the product across the country and harm the quota distribution. Only 6% disagreed.

Also between the company and its customers also create negative relationship create this kinds of impact directly related with retailers and direct consumers as well.

**Table: 10:- Uncontrolled credit sales decrease the liquidity of the company and hence harm its financial performance.**

	<b>Scales</b>	<b>Frequency</b>	<b>%</b>
	Strongly Agree	98	98%
	Agree	2	2%
	<b>Total</b>	100	100%

As it is shown in table 10 - 100% of the respondent strongly agree that uncontrolled credit sales decrease the liquidity of the company and hence harm its financial performance (Strongly Agree 98% and Agree 2% of the total respondent).The working capital shortage happen and The Company forced to reduce the employ and pay debts and interest to the government.

The management of the firma liquidity is necessary for all the businesses, small, medium or large. When a business does not mange it liquidity well, it will have cash shortages and a result experience problems paying its obligation when they fall due. Account receivables management is important because of its affect on the firm profitability and risk, and consequently its value (Smith, 1980)

**Table: 11:- The Company has equal credit sales right for all of its customers/dealers.**

	<b>Scales</b>	<b>Frequency</b>	<b>%</b>
	Strongly Agree	28	28%
	Agree	22	22%
	Disagree	30	30%
	Strongly Disagree	20	20%
	<b>Total</b>	100	100%

As it is stated in Table 11 - 50% of the respondents agreed on the company's status in having equal credit sales right for all of its customers/dealers (Strongly Agree 28% and 22% Agree). 50% of the respondents disagreed on the issue.

**Table: 12 :-The company has defined periodic review of customers/dealers' credit limits and periods.**

	<b>Scales</b>	<b>Frequency</b>	<b>%</b>
	Strongly Agree	22	22%
	Agree	22	32%
	Neutral	10	10%
	Disagree	36	36%
	<b>Total</b>	100	100%

As shown in table 12 - 54% of the respondents agreed that the company has defined periodic review of customers'/dealers' credit limits and periods (Strong Agree 22% and Agree 32%) while only 10% of the respondents are neutral and 36% of them disagreed on the issue.

**Table: 13:- There are special terms of payments which apply to particular customers/  
dealers of the company.**

	<b>Scales</b>	<b>Frequency</b>	<b>%</b>
	Strongly Agree	42	42%
	Agree	42	42%
	Neutral	10	10%
	Disagree	6	6%
	<b>Total</b>	100	100%

Table 13 show - 84% of the respondents agreed on the statement that confirms that there are special terms of payments which apply to particular customers/dealers' of the company (Strong agree 42% Agree 42%) while 10% of the respondents are neutral and 6% of them disagreed.

**Table 14:-Non-professionals intervention in authorization credit limits/period.**

	<b>Scales</b>	<b>Frequency</b>	<b>%</b>
	Strongly Agree	20	20%
	Agree	26	26%
	Neutral	12	12%
	Disagree	32	32%
	Strongly Disagree	10	10%
	<b>Total</b>	100	100%

As stated in table 14 - 46% of the respondents agreed on the intervention of the non-professionals in authorizing credit limits/periods (Strongly Agree 20% and Agree 26%) while 12% of the respondents are neutral and 42% disagreed on the idea (Disagreed 32% and strongly Disagree 10% of the total respondent). This shows that there is a significant unprofessional intervention which in its turn leads to a mismanagement of the business.

**Table: 15:-The Company has a pro-active system of collection of credits sales from its  
customers /dealers.**

	<b>Scales</b>	<b>Frequency</b>	<b>%</b>
	Strongly Agree	22	22%
	Agree	28	28%
	Disagree	30	30%
	Strongly Disagree	20	20%
	<b>Total</b>	100	100%

As it is indicated in table 15 - 50% of the respondents agreed that the company has a pro-active system of collection of the credits sales from its customers/dealers (Strongly Agree 22% and Agree 28%) and 50% of the respondents disagreed on the subject matter (Disagree 30% and Strongly Disagree 20%). This indicates that the efforts exerted to collect its credit sales are not enough.

**Table: 16:- The unavailability of government retails seals outlets (fuel retails sales station) is a factor which led to the existence of uncontrolled credit sales**

	<b>Scales</b>	<b>Frequency</b>	<b>%</b>
	Strongly Agree	2	2%
	Agree	40	40%
	Neutral	32	32%
	Disagree	20	20%
	Strongly Disagree	6	6%
	<b>Total</b>	100	100%

As table 16 shows - 42% of the respondents agreed on the unavailability of government retail sales outlets (fuel retails sales stations )is a factor which led to the existence of uncontrolled credit sales transactions (Strongly Agree 2% Agree 40%) while the 32% are neutral and 26% of the respondents disagreed (Strongly Disagree 6% and Disagree 20%) on the issue.

**Table: 17:-The low profit margin on the industry is a driving factor for the uncontrolled credit sales transaction.**

	<b>Scales</b>	<b>Frequency</b>	<b>%</b>
	Strongly Agree	32	32%
	Agree	48	48%
	Disagree	20	20%
	<b>Total</b>	100	100%

Table 17 – shows that 80% of the respondents agree on the unavailability or the low profit margin on the industry is a driving factor of the uncontrolled credit sales transaction (Strongly agree 32% and Agree 48%) while only 20% of respondents disagreed on the issue.



Ethiopian fuel margin left to station dealers were only four cents per liter and it is in January 2015 improved to seven cents for average cost of birr seventeen. It is common sense that most stations especially up country could not survive with this margin after covering their operating costs unless adulteration contributes major portion of their earning; of course adulteration could not be the only means of major factor of the earning and further analysis needed specifically to assess the adulteration impact alone. (Tegegne Mekuria October 2015)

**Table: 18:- Huge need of investments in the petroleum industry discourages investors to engage in it and hence hinders its expansion.**

	<b>Scales</b>	<b>Frequency</b>	<b>%</b>
	Strongly Agree	32	32%
	Agree	48	48%
	Neutral	10	10%
	Disagree	10	10%
	<b>Total</b>	100	100%

Table 18 shows– that 80% of the respondents agree the need of huge investments in the petroleum industry which discourages investors to engage in it and hence hinders its expansion (Strongly Agree 32% and Agree 48%). However, 10% of them were neutral and 10% of the respondents disagree on the issue.

**Table: 19:- Easy money collected by retail sellers (dealers) due to uncontrolled credit sales transaction will encourage them to abuse the money in diverting it to other legal or/and illegal businesses.**

	<b>Scales</b>	<b>Frequency</b>	<b>%</b>
	Strongly Agree	42	42%
	Agree	58	58%
	<b>Total</b>	100	100%

Table 19 shows - that 100% of the respondents agreed on the easy money collected by retail sellers (Dealers) due to uncontrolled credit sales transaction would be abused by diverting it to other legal or /and illegal business.(Strongly Agree 42% and Agree 58%).

By refereeing Addis magazine the higher official of the EPSE by suspecting the huge amount of corruption they are under court case process. This also shows how the uncontrolled sale gives exposure for different stake holders.

**Table: 20:- The decision in setting and adjusting the credit limits and credit period is taken transparently by an authorized person/s.**

	<b>Scales</b>	<b>Frequency</b>	<b>%</b>
	Strongly Agree	42	42%
	Agree	18	18%
	Neutral	10	10%
	Disagree	20	20%
	Strongly Disagree	10	10%
	<b>Total</b>	100	100%

Table 20 shows – that 50% of the respondents agreed on the decision in setting and adjusting the credit limits and credit period is taken transparently by an authorized person (Strongly Agree 42% and Agree 18%). However, 30% of the respondents disagreed on the idea (Disagree 20% Strongly Disagree 10%) and 10% of them were neutral.

**Table: 21:- Any decision taken on the credit sales by authorized person could be overruled in the company**

	<b>Scales</b>	<b>Frequency</b>	<b>%</b>
	Strongly Agree	10	10%
	Agree	40	40%
	Neutral	10	10%
	Disagree	38	38%
	Strongly Disagree	2	2%
	<b>Total</b>	100	100%

In table 21 - 50% of the employees agreed on the fact that any decision taken on the credit sales by authorized person could be overruled in the company (Strongly Agree 10% and Agree 40%).The 40% of the respondents disagreed and 10% of them were neutral.

**Table: 22:- Failure of collecting debts created due to uncontrolled credit sales transaction, forces the company not to fulfill its commitment towards the government (EPSE).**

	<b>Scales</b>	<b>Frequency</b>	<b>%</b>
	Strongly Agree	62	62%
	Agree	18	18%
	Neutral	10	10%
	Strongly Disagree	10	10%
	<b>Total</b>	100	100%

In table 22 - 80% of the respondents agreed on the failure of collecting debts created due to uncontrolled credit sales transaction, forces the company not to fulfill its commitment towards the government /EPSE (Strongly Agree 62% and Agree 18%) while 10% of them were neutral and 10% of the respondents strongly disagreed.

**Table: 23:- Failure in collecting debts created due to the uncontrolled credits sales stops the company's expansion.**

	<b>Scales</b>	<b>Frequency</b>	<b>%</b>
	Strongly Agree	78	78%
	Agree	22	22%
	<b>Total</b>	100	100%

As it is shown in Table 23 - 100% of the respondent agreed that failure in collecting debts created due to uncontrolled credits sales stops the company's expansion (Strongly Agree 78% and Agree 22%).

**Table: 24:- The Company's failure to collect the debts of its dealers could be a factor for stopping employees' benefits.**

	<b>Scales</b>	<b>Frequency</b>	<b>%</b>
	Strongly Agree	62	62%
	Agree	28	28%
	Neutral	10	10%
	<b>Total</b>	100	100%

Table 24 shows - 90% of the respondent's agreement on the fact that the company's failure to collect the debts of its dealers could be a factor for stopping employees' benefits (Strongly Agree 62% and Agree 28%) while the remaining 10% of the respondents were neutral.

**Table: 25:- Low regulatory mechanisms in backing companies with uncollected debts due to uncontrolled credit sales transaction could lead to unfair competitiveness and thus discourages long term investments in the industry.**

	<b>Scales</b>	<b>Frequency</b>	<b>%</b>
	Strongly Agree	52	52%
	Agree	38	38%
	Neutral	10	10%
	<b>Total</b>	100	100%

Table 25 shows – which 90% of the employees agreed on the low regulatory mechanisms in backing companies with uncollected debts due to uncontrolled credit sales transaction, could lead to unfair competitiveness and thus discourages long term investments in the industry (Strongly Agree 52% and Agree 38%) and 10% of them were neutral for the subject matter.

**Table: 26:- Uncontrolled credit sales transaction may lead companies to a closure or bankruptcy thus harming the petroleum industrial at large.**

	<b>Scales</b>	<b>Frequency</b>	<b>%</b>
	Strongly Agree	62	62%
	Agree	38	38%
	<b>Total</b>	100	100%

As indicated in table 26 - 100% of the employees agreed that uncontrolled credit sales transaction may lead the companies to closure or bankruptcy thus harming the petroleum industry at large (Strong Agree 62% and Agree 38%)

**Table: 27:-Ignorance and poor attention of the regulatory body towards the uncontrolled credit sales transaction in the industry may lead players to several malfunctioned acts.**

	<b>Scales</b>	<b>Frequency</b>	<b>%</b>
	Strongly Agree	62	62%
	Agree	38	38%
	<b>Total</b>	100	100%

Table 27 shows - 100% of the respondents agreed on the fact that the ignorance and poor attention of regulatory body towards the uncontrolled credit sales transaction in the industry may lead players to several malfunctioned act (Strongly Agree 62% and Agree 38%).According to Tegegen study shows :-

The Ethiopian Ministry of Water and Energy, established a regulatory body to control fuel adulteration practice. However , the consumers face challenges while making decision in identifying and buy good fuel quality or fuel is within the set standard or not. Kerosene being an important domestic fuel for the society it receives the government’s attention in terms of subsidies and enjoys lesser levies of tax. As compared to Kerosene, the current subsidies and the tax structure have created a gap in the pricing of fuel products in the country and resulted in higher prices for Regular Gasoline (benzene) relative to kerosene. Therefore, this study will try to answer some of the issues and problems by assessing regular gasoline (commonly called Benzene in Ethiopia) adulteration and whether the regular gasoline sold at Addis Ababa fuel stations are within the standard set by the Ethiopian Standard Authority.

**Table: 28:- The company bargaining legal power in reclaiming its uncontrolled credit sales proceeds is safe.**

	<b>Scales</b>	<b>Frequency</b>	<b>%</b>
	Agree	36	36%
	Neutral	24	24%
	Disagree	20	20%
	Strongly Disagree	20	20%
	<b>Total</b>	100	100%

As shown in table 28 - 36% of the respondents agreed that the company bargaining legal power in reclaiming its uncontrolled credit sales proceeds is safe. The 40% of the employees disagreed (Strongly Disagree 20% and Disagree 20%) on the issue while the rest of 24% were neutral.

Based on the above data analysis, the following facts were drawn out from the results presented:-

- The uncontrolled credit sales transaction creates monopoly of market in the industry thus harming the public in service quality and sustainable supply which is serious negative impact on the industry

- Credit sales without making creditworthiness analysis or/and a strong guarantee can have a serious negative impact on sales decrease, liquidity of the company and hence harm its financial performance.
- The existing policies, procedures, managerial intervention and objectives for managing the credit sales are not effective and adequate.
- Low regulatory mechanisms in backing oil companies with uncollected debts due to uncontrolled credit sales transaction lead to unfair competitiveness and discourages long term investments in the industry
- Supplying products on credit basis without limit or bank guaranty exposed the company to high financial costs.
- The company has problems in considering internal and external impacts affecting its credit sales management.
- The policies, procedures, and objectives for managing the credit sales do not consider the most important aspects to safeguard the collection of credit sales/receivables.
- This indicates the importance of the awareness for having credit sales policy in the company because almost half of the employees are ignorant on the subject matter.
- The ignorance of the awareness for the importance of having strong credit sales policy in the company aggravated the uncontrolled credit sales practice.
- The significant loop hole in the company's records had an implication in availing strong evidences for its credit sales claims.
- The company's employees were focusing on increasing the sales volume while giving low attention to the collection side of its credit sales proceeds.

## **4.2. DISCUSSION AND INTERVIEWS**

The overall organizational performance with emphasis on credit sales is one of the dominant themes for business organizations. The ability to manage credit sales is a source of competitive advantages, the existence of the company and a way to add values for the industry (company), government and individuals (Retailers) station owners .This study demonstrated that the practices and challenges uncontrolled credit sales management impact on overall organizational performance in the industry as well specially Nile Petroleum Company LTD Ethiopia branch.

The main objectives of the study assess practices and challenges of uncontrolled credit sales management in the overall organizational performance of the petroleum industry in Ethiopia and in specific on the organization of Nile Petroleum Company Ltd.

The mainly company suffered on the ignorance of credit policy thought on the employees like credit policy and understated related issues such as credit policy, credit period and credit limit should be aware like the back bone of the business. This lack of awareness leads the company to pay a lot of problems such as:-

- The company forced to reduce the employees more than 20%
- Burden of the company to pay the debts and interests to the government .Such situation could lead to a continuous loss and bankruptcy or closure of the business.
- Continual annual loss due to the cost of finance of the huge debts, interests which is credit by the uncontrolled credit sales transactions.
- Limitation of expansion and suspend benefits of the employees
- Image and the value of the company are affected negatively due to the huge debts.

#### **4.2.1. General the overall activity**

Practices and challenges of uncontrolled credit sales management is critical for success of the oil industries in Ethiopia in face of stuff prevailing completion and to maintain financial stability oil firm must clearly understand the adverse of effect of uncontrolled credit sales management .This is because uncontrolled credit sales adversely affect the cash inflows, constraints, working capital and may be lead to eventually financial stress critical points.

#### **4.2.2. Generally in the industry**

The main problem of the industry as per the interviewer says poor attention of the governance regulatory body, a smaller amount of profit margin and huge many investments are the main discouraging to sustain on the industry.

In some case also ignorance and poor attention of the regulatory body towards the uncontrolled credit sales transaction in the industry may lead players to several malfunctioned acts.

- Hectic legal asepses in the court (Not fast and decisiveness).
- Less barging power with the government and the dealers.
- Less cooperativeness with federal and local municipalities.
- Playground inequalities for all companies.

With all this mentioned issues spoiled the business ethics in the industry.

The practice and challenges of the uncontrolled credit sales transaction in Nile Petroleum Co. Ltd proved to have a major challenges on the organizational performance of the company, led its customers to dishonor their commitments to their debts distorted the sustainability of the supply in the petroleum products.



## **CHAPTER FIVE: CONCLUSION AND RECOMMENDATION**

### **5.1. Conclusions**

In this study, the researcher tried to look at the practices and challenges of uncontrolled credit sales management in the petroleum industry of Ethiopia on the specific Nile Petroleum co.ltd Ethiopia Branch. The aim of this study was to assess the practices and challenges of uncontrolled credit sales management on the overall organizational performance in detail credit sales, collection and survival of the company's.

From the finding to the study noted that the adverse effect of uncontrolled credit sales affects overall the industries in Ethiopia and therefore, these the company carry out credit sales controlling mechanism should be practice by policies and procedures in such case can traces costs, their effects on the profit margin, credit limit and credit policy of the company and willing undertaken the norms of the operations.

Curnetlly 28 Petroleum Company's in Ethiopia engaged in credit sales base of transaction and by its few profit margins against with huge amount of buying costs.

Generally effective controlled credit sales is very critical for success of the business, face of stiff prevailing competition and to maintain financial stability of the company at the same time for the industries so clear understanding of credit policy and procedure is mandatory to keep the business in the sustainable way.

The company's must engage in controlled credit sales management and employees should strive to incorporate best suitable practice to guide the process. It is critical too regularly review these processes and methods to incorporate strategies in the uncontrolled credit sales exposure levels changes the chain associated prevailing condition and factors.

The monitor these strategies effectively and efficiently the company must have a clear understating of all the factors affecting uncontrolled credit sales practices. This good practice can be instilled by proper training of the responsible credit sales controller person .Timely and accurate uncontrolled credit sales keeps the company from different obstacles such as; working capital constraints ,and financial distress from critical points.

## 5.2. Recommendations

The following recommendation are made to the management and board of directors of the Nile Petroleum company ltd Ethiopia branch to improve the company's overall sales ,receivables/collection/ and general operations in the business.

- Sets and implements clear credit sales policy against credit sales volume and procedures by determining
  - Credit period
  - Credit Limit
  - Credit policy
  - Collection policy

By stating all the details procedural document bases and assigning in charged person.

- All the necessary documentation and accounting procedures need to be well organized. Segregation of authority and responsibility need to be clearly stated. The transaction need to be transparent in the business.
- There should be a clear mechanism of check and balance of the status of debtors in the business.
- The company needs to assess the background of its customers/dealers. By their nature of characters, capital, collateral and conditions.
- Guarantee should be in our context bank guarantee is advisable.  
Bank guarantee is best instrument for the business partners can use the strength then and /or secure the obligation in their contract. This guaranty is the most effective and efficient way to make run the business in our country experiences.
- Should implement strong internal auditing system.

### 5.2.1. Recommendation for Government

To make equal platform for the business the government should be tackled to for the company's

- Regulatory body (The Ministry of Mines, Petroleum and Natural Gas) need to set a network to monitor the business all over the country. It can delegate regional offices such as:-
  - Trade and Industry offices

- Customs and Revenue Authority Offices
- Local municipality to coordinate the monitoring task in the regional towns.

Since the source and the original supplier is the government it needs to set a tracking system the movement of the petroleum product.( From source to destination movement) to eradicate adulteration and diversion of the products.

- Legal issues dispute arises need to be given special attention
  - Should be fast and decisive.
- Action taken against illegal practices in the industry need to be decisive and constrictive.
- The government has to facilitate for a long term solution to the problems of credit sales in the industry such as:-
  - Increasing profit margin
  - Partially privatizing the business
  - Prepare privileges to the business in the industry.

The overall investigation gives information how the industry is spoiled and needed special attention for all against company, public and government aspect.

Keeping controlled credit sales is the only way to prove healthy and reliable business competition in the industry and the company also learns from the pervious and the current bad experiences.

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## Appendix

# St. Mary's UNIVERSITY SCHOOL OF GRADUATE STUDENTS MASTERS OF BUSINESS ADMINISTRATION

Dear respondent,

My name is *BehailluMekuria* am a postgraduate student School of Graduate Masters of Business Administration Program in General Master of Business Administration at St. Mary's University .I am conducting a research with the aim of uncontrolled credit sales management is major challenge for the financial performance of petroleum industry specially in case of Nile Petroleum Ethiopia Branch .This research is required to fulfill the partial requirement for the Masters of Business Administration (GMBA) degree. Hence this questionnaire is designed to solicit your individual feedback on your awareness, perception on the subject

I would like to assure you that this research is only for academic purpose.

### General Instructions

- There is no need of writing your name
- In all cases where answer options are available please put “\_” in the appropriate space.
- For questions that demand your opinion, please try to honestly describe as per the questions the space provided
- If you need further explanation, you can contact me through my

Mobile phone +251966-21-52-62/+251911-67-76-38 or at the email: behailluaddis@gmail.com

**Thank you very much in advance for your generous time, honest, and prompt responses!!!**

### Section A: -Respondent Profile

- |                               |                              |                                   |
|-------------------------------|------------------------------|-----------------------------------|
| 1. Gender                     | Female [ ]                   | Male [ ]                          |
| 2. Age                        | 20-30 [ ]                    | Above 31 [ ]                      |
| 3. Education Level            | 1 <sup>st</sup> Degree [ ]   | Master's Program and above [ ]    |
| 4. Position & work experience | Marketing [ ]<br>Finance [ ] | Operation [ ]<br>HR and Admin [ ] |

**Section B:** - For the next parts please indicate the degree with which you agree, disagree with each Statement by ticking (√) on the space provided.

Note that: SA- Strongly Agree, A- Agree, D- Disagree, N- Neutral, SD- Strongly Disagree

<b>Credit sales Practice in the Company</b>						
No	Description	SA	A	N	D	SD
1	I am aware the company has a credit sales manual policy					
2	The company has a centralized credit limit and credit period management policy					
3	Uncontrolled credit sales transaction creates monopoly of market in the industry thus harming the public in service quality and sustainable supply.					
4	The company record and accounting systems are organized in modern systematic mechanism backed by evidences.					
5	The uncontrolled credit sales transaction could distort the fair distribution of the product across the country and harm the quota distribution.					
6	Uncontrolled credit sales decrease the liquidity of the company and hence harm its financial performance.					
7	The company has equal credit sales right for all of its customers/dealers.					
8	The company has defined periodic review of customers'/dealers' credit limits and periods.					
9	There are special terms of payments which apply to particular customers/dealers of the company.					
10	Nonprofessional intervention in authorizing credit limits/period.					
11	The company has a pro-active system of collection of credits sales from its customers/dealers.					

<b>Factors that leads to credit sales</b>						
No	Description	SA	A	N	D	SD
12	The unavailability of government retail sales outlets (Fuel Retail Sales Station) is a factor which led to the existence of uncontrolled credit sales transaction.					
13	The low profit margin on the industry is a driving factor for the uncontrolled credit sales transaction.					
14	Huge need of investments in the petroleum industry discourages investors to engage in it and hence hinders its expansion.					
15	Easy money collected by trail sellers (dealers) due to uncontrolled credit sales transaction will encourage them to abuse the money in diverting it to other legal or/and illegal businesses.					
16	The decision in setting and adjusting the credit limits and credit period is taken transparently by an authorized person/s.					
17	Any decision taken on the credit sales by authorized person could be overruled in he company.					

<b>Relationship credit management and organizational overall performance</b>						
<b>No</b>	<b>Description</b>	<b>SA</b>	<b>A</b>	<b>N</b>	<b>D</b>	<b>SD</b>
18	Failure of collecting debts created due to uncontrolled credit sales transaction ,forces the company not to fulfill its commitment towards the government (EPSE)					
19	Failure in collecting debts created due to the uncontrolled credit sales stops the company's expansion.					
20	The company's failure to collect the debts of its dealers has could be a factor for stopping employees 'benefits.					
21	Low regulatory mechanisms in backing companies with uncollected debts due to uncontrolled credit sales transaction could lead to unfair competitiveness and thus discourages long term investments in the industry.					
22	Uncontrolled credit sales transaction may lead companies to a closure or bankruptcy thus harming the petroleum industry at large.					
23	Ignorance and poor attention of the regulatory body towards the uncontrolled credit sales transaction in the industry may lead players to several malfunctioned acts.					
24	The company bargaining legal power in reclaiming its uncollected credit sales proceeds is safe.					

### **Section C:-Interviews**

**Note-**In this section only for General Manager, Marketing Manager and Finance Managers.

1. Would you please explain major forces that drive' the company for credit sales transactions?
2. What are the impacts benefits and loses of uncontrolled credit sales transaction in general within the industry?
  - Company side
  - Government
  - Public and brand
  - Industry in General
3. What does the company lose from the uncontrolled credit sales practices?
4. What are the challenges of the uncontrolled credit sales transaction of the company?
5. What are your suggestions in tackling the uncontrolled credit sales of the company?