International Journal of Economics, Commerce and Management
United Kingdom Vol. III, Issue 6, June 2015
http://ijecm.co.uk/ ISSN 2348 0386

EFFECTS OF THE APPOINTMENT OF RECEIVERS ON COMPANY PERFORMANCE: A CASE STUDY OF KENYA PLANTERS' CO-OPERATIVE UNION LIMITED

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Abstract

KPCU was placed under receivership in October 2009 following their failure to honour a bank loan of Kshs 620 million due to KCB. Prior to this, KPCU was mired in debts and complaints from creditors of non-payment of dues. This study sought to evaluate the performance of KPCU before and after the appointment of receivers. It aimed to evaluate how KPCU was performing and how that changed after the appointment of receivers. The study adopted a descriptive research design and used the management staff at KPCU as the target population. Respondents indicated that KPCU's high costs of operations, creditor pressure and poor debt management practices were significant contributors to its insolvency. The company also delayed salaries leading to low staff productivity. Respondents felt that the appointment of receivers and their actions thereafter saved the company and improved performance. The study concludes that receivers' actions are geared to preserve the value of the business and improve its performance. It recommends that secured lenders be more proactive to monitor the performance of their borrowers and that a professional body of insolvency practitioners be formulated to allow competent receivers to share lessons, best practice and maintain professional standards in the profession.

Keywords: KPCU, insolvency, receivership, costs of operations, creditor pressure, debt management, preservation of business value

INTRODUCTION

In 2002, the coffee market was liberalised allowing other players to enter the market and compete with KPCU on the milling of coffee which it had monopolised. The years of mismanagement came back to haunt KPCU as they were unable to match the performance of the other players in the market and since they had taken advantage of their monopoly status to withhold some proceeds from the sales of coffee due to the small farmers to finance their own expanding operations, their creditors continued to escalate. Cut throat competition coupled with poor strategies and huge costs of operations led to KPCU losing their market dominance.

As at 2007, KPCU controlled less than 10% of the market with their total sales for the coffee season 2006/2007 accounting for only 8% of the total coffee sales in the market with revenues from milling and marketing services reducing from Kshs 0.9 billion in 2003 to Kshs 75 million in 2009 according to audited accounts. The diminished cash flows, high costs of running the business and increased pressure from creditors who included many farmers compelled KCB to move in to secure its position by appointing receivers.

The receivers are charged with taking actions that will revive the company and preserve its value. It is these actions that are trivialised and scrutinised by the general public to establish how they affect the performance of the company. It is however not clear whether the appointment of the receivers has achieved the desired results. This study sought to assess the effects of appointment of receivers on the performance of KPCU.

Objectives

The general objective of this research was to establish the effects of the appointment of receivers on company performance.

The research sought to satisfy the following specific objectives:

1. To assess the effects of appointment of receivers on costs of operations of the company.
2. To find out how appointment of receivers affects payment of company employee salaries.
3. To determine how appointment or receivers affects payment of creditors of the company.
4. To determine the effect of appointment of receivers on collection of debts owed to the company.

Research Questions

1. What are the effects of appointment of receivers on costs of operations of the company?
2. How does the appointment of receivers affect payment of the company employee salaries?
3. How does the appointment of receivers affect payment of creditors of the company?
4. What is effect of appointment of receivers on collection of debts owed to the company?

Justification of the Study

This research was conducted to educate the general public on the conduct of receiverships and what effects the appointment of receivers has on the company in general.

It was also meant for use by insolvency practitioners as a reference on the multifaceted challenges faced by receivers in the conduct of high public interest receiverships. It serves to indicate what aspects of company performance to look out for before and after the appointment of receivers and how one can take steps to ensure a receivership is handled with due care to all stakeholders.

This research also highlight the challenges Kenya's civil procedures expose financial institutions and companies to when considering either borrowing or lending money.

Scope of the Study

This study was restricted to Kenya Planters' Co-operatives Union Limited. It reviews the performance of the company prior to the appointment of receivers and during the receivership period. Other companies handled by the same receivership team at KPCU have been reviewed to offer a comparative perspective.

LITERATURE REVIEW

Costs of Operations

Companies should always be able to manage their costs of operations in order to meet their primary objective of shareholder wealth maximisation. They should be able to make adjustments to increases in such costs in order to maintain their profits and support the operations of the company. Often times, companies find themselves mired in a battle to reduce costs in order to stay afloat.

However, with the global economic recession accompanying the credit crunch, many companies especially in the manufacturing sector found it impossible to manage the ever increasing costs of fuel and raw materials. The fall in customer demand that resulted from the recession and the crunch tightened the noose around these companies thus putting a train on the bottom line of many businesses. Kwama (2010) indicates that business owners and managers should be able to know what it means to be insolvent even though detecting the signs of impending insolvency has always been difficult.

The most affected companies are in the manufacturing sector comprising of the large manufacturing industries that have to import raw materials as well as machinery and spare parts at increasingly exorbitant rates. In order to finance this expenditure, these companies have had to borrow heavily from lending institutions which pledging their assets as security for the loans.

The high purchase and running cost of these resources continue to be a drain on cash flows without necessary increasing the bottom line thus leaving the companies teetering on insolvency.

Fletcher (2004) indicates that the kneejerk reaction to rising operations costs for most companies in the United Kingdom has been to seek working capital funding from lending institution. These debt obligations, rather than easing cash flow constraints, increase the haemorrhage of cash from the company as operations are maintained at the same level. The same applies in Kenya where companies approach financial institutions for short term overdrafts. Overdrafts in nature are supposed to be short term with the company covering the over drawn amount. However, most companies will always maintain a huge overdraft which is eventually turned to a loan increasing the debt obligations (Kwama, 2010).

According to the Insolvency Journal of 1 October 2010, more than 300 companies have become insolvent between January and September 2010. Out of these companies, approximately 35% of were bedevilled by unsustainable cost structures that were unable to sustain operations and continued business.

On appointment, the primary responsibility of a receiver is to protect and preserve the assets of the company. The first step to achieving this is to stop the haemorrhage of cash by eliminating unnecessary costs. Rationalising costs of operations with respect to the revenues has always provided a good starting point for any insolvency or corporate turnaround professional in implementing recovery strategies. Kwama (2010) again indicates that most receivers will put a freeze on all company expenditure as soon as they are appointed to try and stabilise the company before making the decision either to continue trading or to close shop and sell.

Payment of Employees' Salaries

Maslow (1943) identified safety needs as one of the five basic needs of an employee within an organisation. This safety needs comprise of compensation, job security, pensions, medical covers, life covers and others which satisfy the employee' need for security, protection and stability in the organisation. When any of these components of needs are lacking, the morale of the employees will fall and they will not have freedom to perform their duties to their full potential.

Companies do not become insolvent overnight. There is always a lead-up of circumstances that drive the company towards receivership e.g. high costs of operations coupled with reduced sales/revenues, excessive leveraging and poor management. Hertzberg (1959) came up with factors that cause satisfaction and dissatisfaction in the working environment of employees. One of those factors that lead to either satisfaction or dissatisfaction is compensation. Snell and Bohlander (2007) define compensation as paying employees such salaries as will enhance motivation and growth, while at the same time aligning their efforts with the objectives, philosophies and culture of the organisation.

Mbiyu (2009) states that the employees at Uchumi Supermarkets Limited were very demoralised and disillusioned by the management as a result of among others, late payment of salaries and huge salary arrears. The effect of this was manifested in the poor customer services the staff accorded to shoppers at the former retail giant which in turn encouraged would be loyal Uchumi customers to seek better service from the competitors. This, as highlighted by Mbiyu (2009), was one of the major causes of Uchumi's demise.

Once a receiver is appointed, he has an obligation to pay all expenses incurred in the conduct of his duties as the receiver. One of these expenses, and usually the most critical, is employee salaries. The receiver is also mandated to pay the salaries out of the assets coming into his hands before distributing such proceeds for the benefit of the debenture holder. Once the employees are assured of their salaries, their motivation and productivity sees an improvement. Mbiyu (2009) states that employee productivity and morale improved markedly following the appointment of receivers for Uchumi Supermarkets Limited after the receivers assured the employees that they would receive their compensation on time every month. This is attributed to the sense of calm assurance the appointment of receivers brought against the backdrop of the uncertainty of a company in cash flow turmoil. The employees were assured a timely salary at the end of every month unlike previously when salaries would be late.

It is worth noting as well that in instances where a company has defaulted on payment of employees' salaries, as provided in the Finance Bill 2007, the maximum amount that can be paid to each employee on account of salary arrears is Kshs 20,000/- at the end of the receivership. The converse of this is for the employees to wait until such a time that the company has enough funds to settle the outstanding arrears. This would suggest that employees have a reason to be glad when a receiver is appointed as they are assured at least part payment of their arrears.

Payment of Creditors

All businesses have trading relationships with both debtors and creditors. As such, notwithstanding such relationships, the survival of any company is a major issue for both its debtors and creditors (Pond, 1997). This is because in the event of a company becoming insolvent, any obligations the debtors and creditors have with the company suddenly become due and invite the scrutiny of the receiver.

Creditors especially have a great interest in the financial well being of the companies with which they have a relationship. Kwama (2010) indicates that creditors normally get jittery when payments that fall due are not honoured in time and end up exerting pressure on the company. In the extreme, creditors end up stopping supplies to the company and demanding upfront payment or prepayments for their wares.

Vos and Webber (2000) conducted a survey of 43 companies that went into receivership. The survey showed that the normal (i.e. unsecured) creditors of the companies almost always suffered 100% losses as indicated by the following representation:

Table1: Losses Suffered by Creditors

Category of creditors	**Mean losses**
Preferential creditors	8%
Debenture holders	53%
Unsecured creditors	100%

Unsecured creditors have limited courses of action in the event a company becomes bankrupt. The Companies Act (Cap 46) allows a creditor to apply for a winding-up cause in the court to realise the assets of the company and apply the proceeds thereof to settle their outstanding accounts. However this is usually a tedious process and has been noted to take quite a long time to resolve. For example, Winding-Up Cause 44 of 2003, In the matter of Alvik Prestige Limited, a creditor succeeded in obtaining a judgement against an appointed receiver. However, the case took 3 years to resolve by which time the creditor had spent more than he was owed, thereby in effect eroding the commercial value of pursuing the debt.

Debt Collection

On the opposite end of the spectrum is the debtor management exercise which is equally as important. Any business that expects to attract customers must be ready to grapple with the inconvenience of debtors. Prudent financial management principles indicate that creditors should be paid using the proceeds from the debtors, essentially meaning that debts must be collected before creditors are paid to avoid digging into the working capital floats. As a result of poor financial management and managerial incompetence or inaction, companies in financial distress can source the root of their problems to large uncollected debtors. A clear sign of poor debt collection practices is a large variance in the debtors to creditors' ratio. Poor financial management is usually a precursor to poor debt collection practices where debts are allowed to accrue to unmanageable levels (Neely, 2008). These debtors represent a false position when incorporated in company financial statements as they show assets that are more often than not realisable, especially where interest is levied on bad debts.

Okadia (2008) indicates that it is important that secured lenders take interest in the business of their debtors. It is important to manage the debtors to ensure that severe levels of financial distress are averted using recommended debtor management practices. General practice is that interest is levied on the debtors that remain outstanding for more than 120 days. This increases the book debt and ultimately, since debtors are considered as such, the current assets of the business. This however does not mean that the assets of the company increase, rather the provisions for bad debts continue to increase. This usually leads to a cascade of events starting with an increase in uncollectible debts, late payment of creditors when they fall due and finally, the company is unable to honour repayments to secured lenders.

When receivers are appointed, they will more likely than not review the existing terms extend to the debtors and creditors. Neely (2008) indicates that many bad debtors will take advantage of the uncertainty that greets the entry of receivers in a business to escape the debt due. Where commercially viable, receivers try to recover the debts through civil action, especially where the debts are large, and will ease the cost of operations once paid.

To ensure continued business, the receiver may need to negotiate with the customers on credit terms. Some customers demand credits terms as wide as 120 days, but with the receiver needing to collect this money as quickly as possible, the pressure of balancing between the spectra becomes very difficult (Pond, 1997).

Costs of Operations

This is a key parameter to review and to determine the performance of a company. Costs of operations are assumed to decrease to a level that can justify running the business as a going concern after the appointment of receivers. Unnecessary operations expenses are culled all together and non-essentials ones are rationalised appropriately.

Payment of Employee Salaries

Payment of salaries is assumed to contribute to morale and productivity of the employees and directly affects the performance of the company. With the appointment of receivers, it is assumed that paying employees promptly leads to improved productivity and performance.

Payment of Creditors

Creditors are important stakeholders in any business and payment of their dues is assumed to be a key contributor to the performance of the company. With the receivers being appointed by a secured creditor, it is assumed that paying the remaining creditors and keeping them informed of the financial position of the organisation is critical to improving company performance.

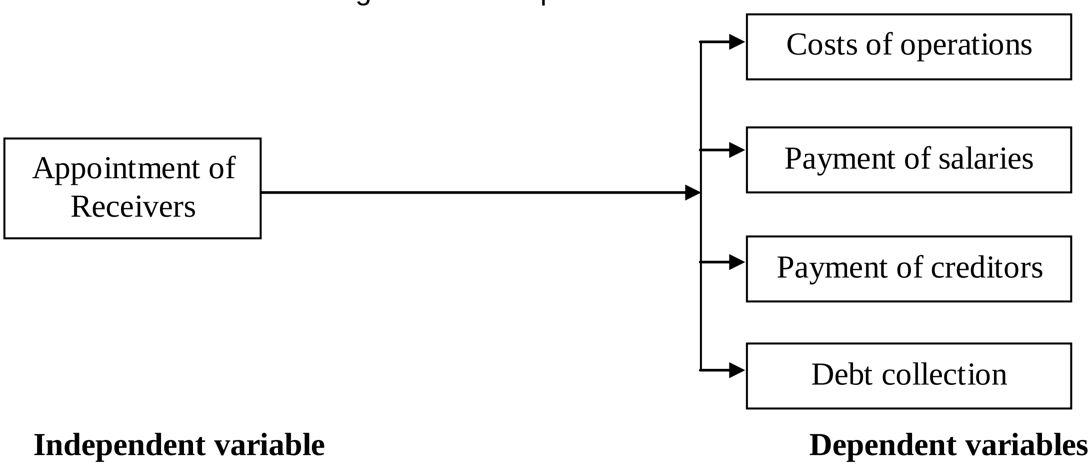
Debt Collection

Debt collection is assumed to improve company performance following the appointment of receivers. The receivers concentrate concerted efforts to normalise the book debt and pursue all debts to the fullest. Large debtors are engaged to explore a settlement acceptable to both parties and doubtful & uncollectible debts are commissioned to debt collection agents.

Conceptual Framework

The dependent variables are the factors of company performance which include costs of operations, payment of salaries, payment of creditors and debt collection. Appointment of receivers has a direct impact on these 4 variables.

Figure 1: Conceptual Framework



RESEARCH METHODOLOGY

Kothari (2004) states that research methodology is the combination of various sequential and rational steps to be adopted by the researcher when studying a problem. This chapter identifies the type of research and gives guidance to how the research will be conducted. It also indicates the methods to be used to collect, describe, analyse and process the data.

Research Design

This study adopted a descriptive research design. It was the appropriate design for this research as it sought to describe the state of affairs as it presently exists. It involved gathering data that describes the events leading up to the problem and then organising, tabulating, depicting and describing the data.

Target Population

The target population for the study was the management staff of KPCU who were with the company before and during the receivership. Their input provided comparative and correlation data to the study.

At the time of conducting the research, there were 38 managerial staff with access to management information needed to provided appropriate data for this study. One staff member was used during the pilot testing of the questionnaire and has therefore not been sampled.

Census Study

This included a complete enumeration of all the members of the population for the purpose of analysing their views on the performance of the company prior to and after the appointment of receivers.

Table 2: Sampling Method

Cluster	Sample number	Sample Size	Percentage
Management staff of the company	34	34	100

Data Collection Instruments

In this study, semi-structured questionnaires were used. The questionnaires were structured such that the respondents' complete the questionnaire form by writing down responses to questionnaires geared at establishing the situation (Cooper and Schindler, 2007). The same questionnaires were used as interview guides for some of the respondents.

Data Collection Procedure

The questionnaires were hand-delivered to the respondents to reduce the potential incidences of delay via posted mail. A timeframe of one week was allowed before collecting the questionnaires. The researcher also conducted face to face interviews using the questionnaire as a guide.

Pilot Testing of Instruments

Monette et al (1994) describe pilot testing, also known as pre-testing, as the preliminary application of the data collection technique in order to determine its adequacy. Some of the reasons for pre-testing include discovering question content, wording and sequencing problems, exploring ways to improve the overall quality of survey data and discovering target question groups where researcher training is required (Cooper and Schindler, 2007).

In this study, pilot testing was done by having one member of the target population fill the questionnaire. This allowed the researcher to confirm clarity in the questions and remove bias and ambiguity in the data collection instrument. The member involved in the pre-test was not sampled in the census.

Data Processing and Analysis

Data processing and analysis started in the field with administering the pilot questionnaire to the selected members of the target population. The respondents were requested to complete the instrument based on the understanding of the questions asked. Where required, the researcher provided clarification. The research also arranged face to face interviews with several other members of the target population.

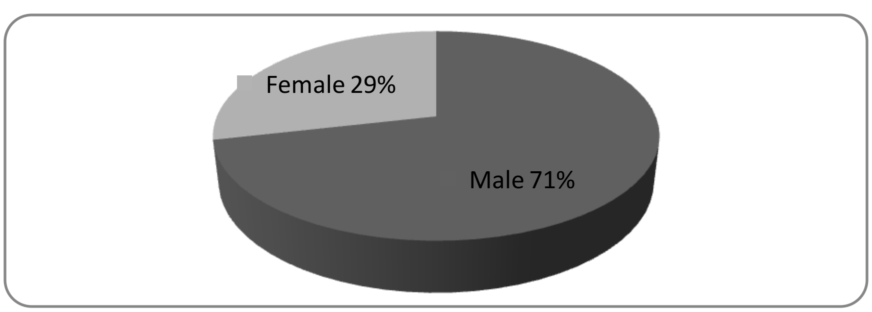
The data collected was qualitative with the respondents asked to describe the extent to which they agree or disagree with the statements made in the questionnaire. The data was analysed by measuring the number of respondents who agreed or disagreed and then described using frequencies and percentages using Ms Excel.

FINDINGS AND ANALYSIS

General Information of the Respondents

The study sought to find out the gender distribution of the respondents. The findings were as shown in the figure 2 below:

Figure 2: Gender Distribution



From the findings of the study, 71% (22) of the respondents were male while 29% (9) were female. This shows that the respondents included both genders although the male were more than double the number of female.

Results and Discussion Objective-wise

Costs of Operations and Company Performance

The first objective sought to assess effects of costs of operations on company performance. The responses are analyzed below.

Costs of Operations being too High Prior to the Appointment of Receivers

The question was whether costs of operations were too high prior to the appointment of receivers.

Table 3: Costs of Operations too High

	Frequency	**Percentage**
Very unlikely	-	0
Unlikely	-	0
Possibly	5	16
Strongly	14	45
Very strongly	12	39
Totals	31	100

From the study findings, 39% of the respondents very strongly agreed that the costs of operations were too high prior to the appointment of receivers, another 45% of the respondents strongly agreed that the costs of operations were too high prior to the appointment of receivers and 16% of the respondents indicated that there was a possibility that the costs of operations were too high prior to the appointment of receivers.

High Costs of Operations Contributing to Insolvency of the Company

Did the high costs of operations of the company contribute greatly to the company becoming insolvent?

Table 4: High Costs of Operations caused Insolvency

	Frequency	**Percentage**
Very unlikely	-	0
Unlikely	-	0
Possibly	8	26
Strongly	16	52
Very strongly	7	22
Totals	31	100

From the study findings, 22% of the respondents very strongly agreed that the high costs of operations of the company contributed greatly to the company becoming insolvent,52% of the respondents strongly agreed that the high costs of operations of the company contributed greatly to the company becoming insolvent and 26% of the respondents indicated that there was a possibility that the high costs of operations of the company contributed greatly to the company becoming insolvent.

Costs of Sales Increasing at an Unsustainable Rate

Was the rate at which costs of operations were increasing unsustainable in the company's future?

Table 5: Costs of Sales Unsustainable

	Frequency	**Percentage**
Very unlikely	-	0
Unlikely	-	0
Possibly	7	23
Strongly	9	29
Very strongly	15	48
Totals	31	100

From the study findings, 48% of the respondents very strongly agreed that the rate at which costs of operations were increasing was unsustainable in the company's future, 29% of the respondents strongly agreed that the rate at which costs of operations were increasing was unsustainable in the company's future and 23% of the respondents indicated that there was a possibility that the the rate at which costs of operations were increasing was unsustainable in the company's future.

Actions taken by Receivers after Appointment have Reduced Operations Costs

Were the actions taken by the receivers after their appointment reduce the costs of operations to a manageable level?

Table 6: Actions taken by Receivers

	Frequency	**Percentage**
Very unlikely	-	0
Unlikely	-	0
Possibly	8	26
Strongly	6	19
Very strongly	17	55
Totals	31	100

From the study findings, 55% of the respondents very strongly agreed that actions were taken by the receivers after their appointment have reduced the costs of operations to a manageable level, 19% of the respondents strongly agreed that actions were taken by the receivers after their appointment have reduced the costs of operations to a manageable level and 26% of the respondents indicated that there was a possibility that actions were taken by the receivers after their appointment have reduced the costs of operations to a manageable level.Kwama (2010) indicates that business owners and managers should be able to know what it means to be insolvent even though detecting the signs of impending insolvency has always been difficult.

Appointment of receivers being premature

Was the appointment of receivers premature? Would the company have broken even if given time?

Table 7: Appointment of Receivers Premature

	Frequency	Percentage
Very unlikely	15	48
Unlikely	8	26
Possibly	4	13
Strongly	4	13
Very strongly	-	0
Totals	31	100

From the study findings, 13% of the respondents strongly agreed that the appointment of receivers was premature and the company would have broken even if given time, another 13% of the respondents were of the view that there was a possibility that the appointment of receivers was premature and the company would have broken even if given time, 26% of the respondents indicated that that it was unlikely that the appointment of receivers was premature and the company would have broken even if given time.The majority of the respondents (48%) indicated that it was very unlikely that the appointment of receivers was premature and the company would have broken even if given time.Kwama (2010) again indicates that most receivers will put a freeze on all company expenditure as soon as they are appointed to try and stabilise the company before making the decision either to continue trading or to close shop and sell.

Payment of employee salaries and company performance

The second objective sought to assess effects of payment of employee salaries on company performance. The responses are analysed below.

Responses to challenges in payment of salaries

Has the payment of salaries been a challenge for the company for the period the respondents have been with the company?

Table 8: Challenges in Payment of Salaries

	Frequency	**Percentage**
Very unlikely	-	0
Unlikely	-	0
Possibly	5	16
Strongly	6	19
Very strongly	20	65
Totals	31	100

From the study findings, 65% of the respondents very strongly agreed that payment of salaries has been a challenge for the company for the period theywere with the company, 19% of the respondents strongly agreed that payment of salaries has been a challenge for the company for the period were with the company and 16% of the respondents indicated that there was a possibility that payment of salaries has been a challenge for the company for the period were with the company.

Responses to Departures of Employees being as a Result of Salary Delays

Have any former colleagues left the company solely for the reason that salaries were delayed?

Table 9: Departures of Employees due to Salary Delays

	Frequency	Percentage
Very unlikely	7	23
Unlikely	15	48
Possibly	9	29
Strongly	-	0
Very strongly	-	0
Totals	31	100

From the study findings, 29% of the respondents were of the view that there was a possibility that many former colleagues have left the company solely for the reason that salaries were delayed, majority (48%) of the respondents indicated that that it was unlikely that many former colleagues have left the company solely for the reason that salaries were delayedwhereas 23% of the respondents indicated that it was very unlikely that many former colleagues have left the company solely for the reason that salaries were delayed.

Responses to Delays or Unpaid Salaries causing Productivity and Morale to be Low

Have delayed or unpaid salaries caused the productivity and morale of the employees to be at a low?

Table 10: Reduced Productivity and Morale to be Low

	Frequency	Percentage
Very unlikely	-	0
Unlikely	8	26
Possibly	4	13
Strongly	9	29
Very strongly	10	32
Totals	31	100

From the study findings, 32% of the respondents very strongly agreed that delayed or unpaid salaries have caused the productivity and morale of the employees to be at a low, 29% of the respondents strongly agreed that delayed or unpaid salaries have caused the productivity and morale of the employees to be at a low. 13% of the respondents said that it was possible that delayed or unpaid salaries affect productivity and morale and 26% of the respondents indicated that that it was unlikely that delayed or unpaid salaries have caused the productivity and morale of the employees to be at a low. Snell and Bohlander (2007) define compensation as paying employees such salaries as will enhance motivation and growth, while at the same time aligning their efforts with the objectives, philosophies and culture of the organisation.

Appointment of Receivers caused Concern but brought a Sense of Relief when Assurances of Prompt Payment of Salaries were made

Did the appointment of receivers cause concern, but bring a sense of relief when assurances on prompt payment of salaries were made?

Table 11: Assurances by Receivers

	Frequency	Percentage
Very unlikely	-	0
Unlikely	-	0
Possibly	3	10
Strongly	4	13
Very strongly	24	77
Totals	31	100

From the study findings, 77% of the respondents very strongly agreed that the appointment of receivers caused concern, but brought a sense of relief when assurances on prompt payment of salaries were made, whereas 13% of the respondents strongly agreed and 10% said it was possible that the appointment of receivers caused concern, but brought a sense of relief when assurances on prompt payment of salaries were made.

Situation would have normalized sooner rather than later without the Appointment of Receivers

Would the situation have normalized sooner rather than later had the receivers not been appointed?

Table 12: Normalised Situation without Receivers

	Frequency	Percentage
Very unlikely	18	58
Unlikely	13	42
Possibly	-	0
Strongly	-	0
Very strongly	-	0
Totals	31	100

From the study findings, 42% of the respondents indicated that it was unlikely that the situation would have normalized sooner rather than later had the receivers not been appointed whereas 58% of the respondents indicated that it was very unlikely that the situation would have normalized sooner rather than later had the receivers not been appointed. Mbiyu (2009) states that employee productivity and morale improved markedly following the appointment of receivers for Uchumi Supermarkets Limited after the receivers assured the employees that they would receive their compensation on time every month.

Payment of Creditors and Company Performance

The third objective sought to assess effects of payment of creditors on company performance. The responses are analysed below.

Actions to recover their debt

All the respondents agreed that indeed many of the creditors had taken a variety of actions to recover their debts. The actions stated were:

- Court action e.g. winding up causes;
- Enforcement of lien and holding of assets/chattels they had lien over; and
- Unorthodox debt collection methods such as sending auctioneers.

Whether the Pressure from Creditor would have eased if the receivers had not been appointed

Would the pressure from the creditors of the company have subsided had the receivers not been appointed?

Table 13: Reduced Creditor Pressure

	Frequency	Percentage
Very unlikely	25	81
Unlikely	6	19
Possibly	-	0
Strongly	-	0
Very strongly	-	0
Totals	31	100

From the study findings, 19% of the respondents indicated that it was unlikely that the pressure from the creditors of the company would have subsided had the receivers not been appointed.whereas 81% of the respondents indicated that it was very unlikely that the pressure from the creditors of the company would have subsided had the receivers not been appointed. Kwama (2010) indicates that creditors normally get jittery when payments that fall due are not honoured in time and end up exerting pressure on the company. In the extreme, creditors end up stopping supplies to the company and demanding upfront payment or prepayments for their wares.

Whether the Unsecured Creditors would have taken more Adverse Action were it not for the Appointment of Receivers.

Would the unsecured creditors have taken more adverse action against the company were it not for the appointment of the receivers?

Table 14: Actions of Unsecured Creditors without Receivers

	Frequency	Percentage
Very strongly	20	65
Strongly	6	19
Possibly	5	16
Unlikely	-	0
Very unlikely	-	0
Totals	31	100

From the study findings, 65% of the respondents indicated that that it was very unlikely that the unsecured creditors would have taken more adverse action against the company was it not for the appointment of the receivers, 19% of the respondents indicated that it was unlikely that the unsecured creditors would have taken more adverse action against the company was it not for the appointment of the receivers whereas the remaining 16% of the respondents indicated that there was a possibility that very unlikely that many former colleagues have left the company solely for the reason that salaries were delayed.

Responses to whether the Suppliers were more Amenable to Conducting Business with KPCU following Appointment of Receivers

Following the appointment of receivers, were the suppliers more amenable to dealing with the company?

Table 15: Suppliers and Receivers

	Frequency	Percentage
Very unlikely	-	0
Unlikely	-	0
Possibly	8	26
Strongly	14	45
Very strongly	9	29
Totals	31	100

From the study findings, 29% of the respondents very strongly agreed that following the appointment of receivers, the suppliers were more amenable to dealing with the company, 45%

of the respondents strongly agreed that following the appointment of receivers, the suppliers were more amenable to dealing with the company, and the remaining 26% of the respondents felt that there was a possibility that following the appointment of receivers, the suppliers were more amenable to dealing with the company.

Debt Collection and Company Performance

The last objective sought to determine the extent to which debt collection affects company performance. The responses are analysed below.

Responses to whether the Large Book Debt was a result of Poor Financial Management. Was the large debt book as a result of poor financial management?

Table 16: Book debt due to poor financial management

	Frequency	Percentage
Very unlikely	-	0
Unlikely	-	0
Possibly	-	0
Strongly	7	23
Very strongly	24	77
Totals	31	100

From the study findings, 77% of the respondents very strongly agreed that the large debt book was as a result of poor financial management, whereas only 23% of the respondents strongly agreed the large debt book was as a result of poor financial management.

Responses to whether the outstanding debtors were collectible but were not adequately pursued

Were most of the outstanding balances on debtors collectible but was not adequately pursued?

Table 17: Outstanding Debtors Collectible

	Frequency	Percentage
Very unlikely	-	0
Unlikely	-	0
Possibly	4	13
Strongly	17	55
Very strongly	10	32
Totals	31	100

From the study findings, 32% of the respondents very strongly agreed that most of the outstanding balances on debtors were collectible but was not adequately pursued, 55% of the respondents strongly agreed that most of the outstanding balances on debtors were collectible but was not adequately pursued and 13% of the respondents indicated that there was a possibility that most of the outstanding balances on debtors were collectible but was not adequately pursued.

Responses to whether the Receivers' Attention to Collection of Debts Eased Cash Flow Problems and Helped to Reduce the Book Debt

The study sought to find out whether the receivers' action to focus attention on collection of debts eased the cash flow problems and helped to reduce the debt book.

Table 18: Receivers' Action Eased Cash Flow Problems

	Frequency	Percentage
Very unlikely	-	0
Unlikely	6	19
Possibly	19	62
Strongly	6	19
Very strongly	-	0
Totals	31	100

From the study findings, 19% of the respondents strongly agreed the receivers' action to focus attention on collection of debts eased the cash flow problems and helped to reduce the debt book,62% of the respondents indicated that there was a possibility that the receivers' action to focus attention on collection of debts eased the cash flow problems and helped to reduce the debt book and 19% of the respondents indicated that it was unlikely that the receivers' action to focus attention on collection of debts eased the cash flow problems and helped to reduce the debt book.

Responses to whether the debtor balances would have reduced if the company had been given more time

The study sought to find out if the company had been given more time, the debtor balances would have reduced sooner rather than later.

Table 19: Reduced Debtor Balances

	Frequency	Percentage
Very unlikely	6	19
Unlikely	17	55
Possibly	8	24
Strongly	-	0
Very strongly	-	0
Totals	31	100

From the study findings, 19% of the respondents indicated that that it was very unlikely that if the company had been given more time, the debtor balances would have reduced sooner rather than later. 55% of the respondents indicated that that it was unlikely that if the company had been given more time, the debtor balances would have reduced sooner rather than later whereas 24% of the respondents indicated that there was a possibility that if the company had been given more time, the debtor balances would have reduced sooner rather than later.

SUMMARY

On cost of operations the study findings established a majority84% of the respondents strongly agreed that the costs of operations were too high prior to the appointment of receivers. Further, 74% of the respondents strongly agreed that the high costs of operations of the company contributed greatly to the company becoming insolvent. 77% of the respondents agreed that the costs were increasing at an unsustainable rate, with 74% indicating that the actions taken by receivers after appointment contributed to reducing costs of operations. A total of 26% of the respondents thought that the appointment of receivers was premature while the remaining 74% thought that it was unlikely that the appointment was premature.

On employee salaries majority 85% of the respondents strongly agreed that payment of salaries had been a challenge for the company during their tenure with the company. 71% of the respondents indicated that it was unlikely that employees have left the company solely because of salary delays, while 74% of the respondents said that delays in payment of salaries reduce morale and productivity. All the respondents agreed that assurances of prompt payment of salaries by the receivers improved morale and productivity. All respondents indicated that it was unlikely that the situation would have normalized had the receivers not been appointed.

On payment of creditors, the respondents indicated that creditors other than the secured lender had taken a variety of actions to recover their dues from the company. These actions include court action e.g. winding up causes, enforcement of lien and holding of assets/chattels they had lien over and unorthodox debt collection methods such as use of auctioneers. All the respondents indicated that it was unlikely that creditor pressure would have eased had the receivers not been appointed. All the respondents also indicated that there was a possibility of the unsecured creditors taking more adverse action against the company were it not for the appointment of receivers. 74% felt strongly that suppliers were more amenable to dealing with the company following the appointment of the receivers.

On debt collection all the respondents strongly agreed that the large debt book was as a result of poor financial management.87% of the respondents strongly agreed that most of the outstanding balances on debtors were collectible but not adequately pursued. 81% of the respondents indicated that there was a possibility that the receivers' action to focus attention on collection of debts eased the cash flow problems and helped to reduce the book debt of the company. 74% felt that it was unlikely that the debtor balances would have reduced were the company to be given more time before appointing the receivers.

CONCLUSIONS

On cost of operations, the findings show that the costs of operations were too high and increasing at an unsustainable rate prior to the appointment of receivers. This contributed greatly to the company becoming insolvent. It also shows that the actions taken by the receivers immediately after appointment served to reduce the costs of operations to a manageable level. The conclusion to be drawn from these findings is that company performance is significantly affected by the efficient management of the costs of running the operations of the company. Poor management of these costs leads to insolvency prompting the secured lenders to appoint receivers to rescue the business and protects its value.

On payment of employee salaries the findings show that payment of salaries had been a challenge for the company, but nonetheless not many former employees left the company because of delayed salaries. However, it shows that the delays in payment salaries adversely affected morale and productivity, which improved after promises of prompt payments were made by the receivers. The conclusion to be drawn here is that the morale and productivity of the employees is a significant contributor to the performance or otherwise of the company. It is therefore critical to improve the morale and subsequently productivity of the employees to improve the performance of the company.

On payment of creditors, the findings show that the company was experiencing significant creditor pressure prior to the appointment of receivers with some unsecured creditor taking recovery actions for their dues. The findings also show that suppliers of the company are happier to deal with receivers of the company. The conclusion drawn from these findings is that it is important to ensure that creditors are paid promptly to prevent them from taking adverse action against the company to recover their dues. The creditors who are still suppliers to the company need to be kept informed of the financial situation of the company so as to maintain the crucial relationship already in existence. This ensures that the company is able to perform its core functions uninterrupted.

On debt collection the findings show that the large debt book was as a result of poor financial management and that most of the outstanding balances on debtors were collectible but not adequately pursued. The findings also show that there was a possibility that the receivers' action to focus attention on collection of debts eased the cash flow problems and helped to reduce the debt book and that it was unlikely that debtor balances would reduce.

The conclusion is that debt collection and debt management is a key company performance parameter that shows the health of the business. Poor debt management leads to cash flow constraints which contribute to high costs of operations, delayed salary and creditor payments which all contribute to insolvency of the business and subsequently appointment of receivers.

RECOMMENDATIONS

This study found that the company was experienced cash flow challenges with high cost of operations, delayed salary payments, delayed payment to creditors and a high book debt. The recommendation to be drawn from these findings is that secured lenders need to keep a close eye on the performance of their borrowers to as to intervene at the appropriate time to secure their exposure. It recommends that receiver managers with high levels of competence be appoint for organization facing operational challenges especially as regards their ability to meet operational expenses as and when they fall due. The appointment of competent receiver managers in important as they will help the organization improve its efficiency levels hence bounce back into health financial status.

The study recommends that receiver managers be appointed for organizations facing operational and financial challenges in meeting their financial obligations as and when they fall due. Receive managers develop a plan on how the creditors should be paid considering the circumstances they are faced with. This ensures that an agreement is reached and observed in as far as payment to creditors is concerned.

The study finally recommends that a professional body of insolvency practitioners be formed to allow sharing of ideas, maintenance of professional standards and cooperation in development of industry best practice and benchmarks.

AREA FOR FURTHER RESEARCH

This study sought to establish the effects of the appointment of receivers and managers on company performance. It concentrated on one organization yet there have been several organizations that have been placed under receivership in Kenya including Uchumi Supermarket, United Insurance Company and Blue Shield insurance Company. To allow for generalization of the findings to the whole receivership management, this study recommends that another study be carried out covering all organizations that have undergone receivership in Kenya.

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The Insolvency Act, 1986 of the United Kingdom Chapter 11 Bankruptcy Code of the United States

The Companies Act, Cap 486

The Finance Bill 2007, Laws of Kenya

Winding-up Cause Number 44 of 2003: Shah Timber Limited vs Alvik Prestige Limited

APPENDICES

Appendix 1 – Research Questionnaire

GENERAL INFORMATION

Name (Optional) ....

Gender ( ) Male ( ) Female

Position held in organisation ....

No of years worked with organisation ....

Section One: Costs of operations

Indicate how much you agree with the following statements using the scale below

5. Very Strongly 4. Strongly 3. Possibly 2. Unlikely 1. Very Unlikely

1 The company's costs of operations were too high prior to the appointment of receivers.
2 The high costs of operations of the company contributed greatly to the company becoming insolvent.
3 The rate at which costs of operations were increasing was unsustainable in the company's future.
4 The actions taken by the receivers after their appointment have reduced the costs of operations to a manageable level.
5 The appointment of receivers was premature and the company would have broken even if given time.

Section Two: Employees' Salaries

Indicate how much you agree with the following statements using the scale below

5. Very Strongly 4. Strongly 3. Possibly 2. Unlikely 1. Very Unlikely

1 Payment of salaries has been a challenge for the company for the period I have been with the company.
2 Many former colleagues have left the company solely for the reason that salaries were delayed
3 Delayed or unpaid salaries have caused the productivity and morale of the employees to be at a low.
4 The appointment of receivers caused concern, but brought a sense of relief when assurances on prompt payment of salaries were made.
5 The situation would have normalised sooner rather than later had the receivers not been appointed.

Section Three: Creditors

Indicate how much you agree with the following statements using the scale below

5. Very Strongly 4. Strongly 3. Possibly 2. Unlikely 1. Very Unlikely

1 Had any of the creditors, other than the secured lender, taken any action to recover their debt? If so, what action?
2 The pressure from the creditors of the company would have subsided had the receivers not been appointed.
3 The unsecured creditors would have taken more adverse action against the company were it not for the appointment of the receivers.
4 Following the appointment of receivers, the suppliers were more amenable to dealing with the company.

Section Four: Debt collection

Indicate how much you agree with the following statements using the scale below

5. Very Strongly 4. Strongly 3. Possibly 2. Unlikely 1. Very Unlikely

1 The large debt book was as a result of poor financial management.
2 Most of the outstanding balances on debtors were collectible but were not adequately pursued.
3 The receivers' action to focus attention on collection of debts eased the cash flow problems and helped to reduce the debt book.
4 If the company had been given more time, the debtor balances would have reduced sooner rather than later.

Appendix 2: Abbreviations and acronyms

KPCU	-	Kenya Planters' Co-operative Union
KCB	-	Kenya Commercial Bank Limited
ICU	-	Intensive Care Unit
FSD	-	Financial Sector Deepening Kenya