

**A Study of the Trade Credit Over-use in the Chemical
Industry in Sri Lanka**

By

H.U.Daminda Siriwardana

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SUPERVISORS' DECLARATION STATEMENT

This is to certify that the statement made by the candidate is true and this thesis has been accepted by the faculty of Graduate Studies, University of Sri Jayawardanapura in partial fulfillment of the requirements of the degree of Master of Science in Management.



.....
Dr. Sampath Amaratunga

Thesis Supervisor,
Head of Business Economics,
Faculty of Management Studies,
University of Sri Jayawardenepura,
Gangodawila,
Nugegoda.

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Abbreviations

A.C	After Christ
B-B	Business to Business
CPC	Ceylon Petroleum Corporation
CEO	Chief Executive officer
Ex-Stock	Locally available stocks
F	Accounts
FMCG	Fast Moving Consumer Goods
Four P's	Price, Product, Place, Promotions
HS Code	Universal Tariff Code
Mkting	Marketing
M	Marketing
PLC	Public Listed Company
PD	Post Dated
PR	Personnel Relationship
SL	Sri Lanka
SPSS	Statistical Package
SD	Strongly Disagree
UK	United Kingdom
USA	United States of America
US	United States
Ven	Venerable

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**Study of the Trade Credit Over-use in the Chemical Industry
in Sri Lanka by H.U.D.Siriwardana**

ABSTRACT

The trade credit is an important economic phenomenon, and it is used as a strategic and marketing tool in any industry to achieve their marketing aims. However, the trade credit granting has a set of subtle and complex motivations, over and above those predicted by the standard theory. Results of the study suggest that, due to these reasons, the trade credit has become an important tool and it has become difficult for a firm to survive in the market without it.

Particularly in Sri Lanka, thirty years after the economic transformation in 1977, now the economy has been settled into an industrial and trading economy. Therefore, the requirement of trade credit has become increasingly important. However, the findings of this study prove that the legislation and the regulations have not transformed in line with the economic transformation. Further, to extract the maximum output from a study, it should carry the generalising power without reducing the accuracy of the results. Therefore, the industry got selected, which is linked to most of the industries in the current context in order to maximize the generalisation ability. According to the findings of the current context in the chemical industry, more than 75 per cent of the payments have been delayed due to various reasons. With the economic downturn of the country, along with high inflation rates more and more buyers have got used to trade credit extensions (overuse).

Major rationales pointed out by the study were political instability, terrorist attacks, tight competition, market shrinking, weaknesses of legislation and weak customer supplier relationship. The trade credit overuse has become more critical, since most of the organisations does not have proper credit investigation and credit control methods. Finally, the study has covered the payment defaults, post dated cheques and return cheques with regard to the transactions of the chemical industry. Findings confirmed that the banks also partially responsible for return cheque dilemma. However, there were some more factors that effected the trade credit overuse, which have been discussed deeply in the study.