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Analysing The Effects of Credit Management Practices On the Growth SMES: Case Study of MFI in Lusaka District

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Abstract - Credit management is an essential process for any firm that engages in the business of credit. The process when done in the right manner ensures that the customer pays on services delivered. This study therefore aimed at assessing the effects of credit management on the growth of SMEs. The study adopted a descriptive case study research design and targeted SMEs with a total sample size of 100 participants. The study revealed that credit management is key to SMEs and any other organization, credit management enables the firm to repay the debt and still remain viable. Concerning the factors that influence credit management, the findings revealed that the nature of business has bearing on credit management, others include size of the business, level of financial literacy for those running the business and management commitment. With regards the effects of credit management, the findings have revealed that credit management determines the future of the business, credit management indicates the profitability level of the business and affects the credit rating of the business and determines the creditor-debtor relationship as well as affecting the performance of the business. The study has revealed that credit management practices adopted by SMEs firms include credit examination, credit assessment, credit scoring, credit reports and the use payment plan. SMEs face numerous challenges in their quest to effectively manage their credits and the study has revealed that SMEs they are faced with high interest rate, they are sometimes given short period for servicing the loan, some lenders provide unclear conditions, other companies experienced poor customer service, unethical approach and loss of the items pledged as collateral after defaulting the payment. Based on the findings, it has been recommended that there is need for business owners to be equipped with financial skills in order for them to fully understand the processes and financial transactions involved in credit management.

Key words – effect, credit, management, growth, MSMEs

1.1 Background

Edwin & Omagwa (2018) revealed that credit management is an essential process for any firm that engages in the business of credit. The process when done in the right manner ensures that the customer pays on services delivered. According to Myers and Berkley (2013) credit management practices are the strategies used by an organization to ensure that the level of credit in the firm is acceptable and it is managed effectively. It is part of financial management that comprises of the analysis of credit, rating of credit, classification and reporting of credit.

Nelson (2012) defines credit management as the practices used by an organization to manage the sales they make on credit. It is an essential practice for all the organizations that have credit transactions since some have managed their credit activities so well that they have zero credit risk. Credit management is the strategies one uses to collect and control credit payments from clients.

Credit availability refers to a given time a borrower has access to the amount of credit he/she requires. The determinant of credit availability for enterprises is the length of cooperation between the enterprise and the bank, especially if the cooperation gets to the relational character. As Petersen and Rajan (1994) argue, long-term relationship strengthens the bank's inclination for financing the familiar enterprises. However, the cooperation itself does not have to relate to crediting. This is because a lot of information about the condition of the enterprise is supplied through the observation of changes in the current (trading volume, quality, and number of contractors, etc.) or deposit accounts (Włodarczyk et al., 2018). Studies on Small and Medium Enterprises (SMEs) reveal that access to credit is an impediment to SMEs' contributions to national economic development (Onyimba and Muturi, 2016). However, sometimes credit to SMEs has caused trauma and self-pity of perpetuating a vicious cycle of financial problems to majority of borrowers (Mutalemwa, 2021).

As Gichana and Barasa (2013) observe, repayment of credit/loans affect performance of rural enterprises. This is because outstanding loan balances advanced to SMEs kept on growing 16 in the subsequent years depicting a problem with performance of these enterprises. However, availing credit to SMEs does not necessarily lead to additional assets; expand market share nor increase in the ability to purchase additional stock. Instead, it determines SMEs' competitive readiness and ability to fully exploit and participate in the global economy and business opportunities stemming from economic integration (Eton et al., 2019; Emad et al., 2014). Small and Medium Enterprises (SMEs) cover non-farm economic activities mainly manufacturing, mining, commerce, and service sub sectors (Turuka, 2013). However, there is no universally accepted definition of SME.

Coleman and Chon (2001) observe that credit has the ability to cause the non-performance of small scale enterprises. Most empirical studies on the impact of credit management on the performance of businesses have focused basically on large scale businesses in developed countries (Coleman and Cohn, 2001; Eriotis et al., 2002). Yet, of recent, there has been an increase in the recognition of the role played by small scale firms in national economies. The contribution of small scale enterprises to job creation, revenue mobilization and poverty alleviation has been recognized by many governments in developing countries to the extent that small scale enterprises are now included in their development plans (Coleman and Cohn, 2001). Through such plans, support structures are provided for the growth of the small scale firms' including funding and concessional loans, usually at concessionary rates. Meanwhile, Abor and Biekpe (2006) questions whether the use of such debt improve businesses' performance and hence enhancing sustainability (Shamutete, 2020).

SME loans constitute about 60 percent of EFC's loan portfolio. This means that for SMEs to thrive in the country there is need for more funding as literary, what institutions like EFC are providing is not enough to encourage players in the sector. Once there is not investment in the SMEs sub-sector, then jobs will not be created and this will affect the economy adversely. The 1996 Zambia baseline survey on SMEs showed that the Zambian SMEs employ less than 10 employees and that 52 percent of all SME business activities are in rural areas of the country. In SMEs sector, trading majorly account for 49 percent, manufacturing account for

41 percent while Services accounted for only 10 percent. These SMEs do help people to afford a descent livelihood. Most of the manufactured products in the SME sector include wood products, textile products, metal fabrication, food processing, light engineering leather products, handicrafts and ceramics etc. The service sector includes simple building construction, passenger and goods transport restaurants, cleaning services, hair salons and barbershops, telecommunication services, services and business centre. The trading sector is concentrated in agricultural inputs and produce, industrial products and consumable products (Mutalemwa, 2021).

1.2 Statement of the Problem

Despite the recognition and support given to small scale enterprises by governments, Abanis et al. (2013) asserts that small scale enterprises face several constraints including lack of power supply, capacity underutilization, insufficient research and development, poor access to credit facility, price controls, shortage of foreign currency and fuel. Therefore, servicing debt has become imperative due to insufficient capital in the running of many small scale enterprises in any country (Akorsu and Agyapong, 2012). The issue of credit management becomes imperative in small scale enterprises in developing countries such as Zambia. Small scale enterprises are faced with various challenges when it comes to managing debt, this is as a result of SMEs not being able to strike a balance on the challenges affecting their businesses. Some SMEs do not have proper documented policies on both credit and debt management; proper documentation of policies on credit/debt management would enable SMEs to have a systematic way of managing a particular type of credit based on the policies documented. Some SMEs do not have adequate knowledge and skills on the choice of business they engaged, this maybe as a result of circumstances hence they wouldn't manage debt efficiently due to lack of knowledge and skill. Some SMEs are not familiar with writing skills hence it becomes a challenge for them to write maintain book keeping records, hence it makes it hard for them to manage debt on their end as only the lender may have a record this might not be the case for the initial borrower if they are not surrounded by competed people.

Shamutete (2020) added that another problem faced by Small scale enterprise would arise from a lack of debt and credit management skills, this means some SMEs would acquire debt and not use it for the intended purpose. Some SMEs that manage credit well such that their business grow in the long run while other SMEs cry foul due to mismanagement of the credit. Other Small scale enterprises lack diversity implying they focus on one source of income even as they acquire debt it would be reinvested in the existing business instead of engaging diversity, this leads to some SMEs not having adequate financial investments and business sustenance. A part of SMEs run their businesses on a hand to mouth basis hence this, makes it hard for them to adequate capital base, this pushes them to engage more debt. It is against this background that this study is conducted to analyse credit management practices among SMEs.

1.3.2 Specific Objectives

i. To examine factors that influence credit management among SMEs
ii. To determine the effects of credit management on profitability of SMEs
iii. To establish credit management practices among SMEs
iv. To assess the challenges faced by SMEs in ensuring effective credit management

1.4 Research Questions

i. What factors influence credit management among SMEs?
ii. What are the effects of credit management on profitability of SMEs?

iii. How are the credit management practices among SMEs?
iv. What Challenges are faced by SMEs in ensuring effective credit management?

1.5 Theoretical Framework

There are two theories that are guiding this study. The theory of asymmetric information and transaction costs economies theory (TCE)

Asymmetric information theory: Information asymmetry is a situation where by business owners or managers know more about the prospects for, and the risks facing their business, than do lenders (Eppy, 2005; PWHC, 2002). When all parties involved in the undertaking (lenders and borrowers) do not know relevant information, this is where information asymmetric occurs. In a debt market, information asymmetric tends to rise when a borrower who takes a loan has better information about the potential risks and returns associated with investment projects for which the funds are earmarked. On the other hand, the lender does not have sufficient information concerning the borrower (Edwards and Turnbull, 1994). Thus, knowing credit management practices by borrowers (women owning SMEs), will help them minimise risks and effects of information asymmetry.

Transaction Cost Economics: Theory (TCE) According to Williamson (1981), a transaction is a basic unit of analysis. Transaction cost broadly refers to the cost involved in an exchange. Transaction costs in the credit markets therefore are indirect financial costs generated by various processes. They occur both on the lenders' side as well as on the borrowers' side (Simba and Mugo, 2018). On the lender's side, transaction costs involve the costs of searching, loan administration, and collecting relevant information. On the other hand, transaction costs of borrowing refer to the time used to negotiate and repay the loan, travelling back and forth trips and security cost which sometimes causes friction in the flow of credit funds, preventing credit markets from reaching efficient market equilibrium (Sseggujja, 2010). The theory is relevant to the 21 current study because for women who have applied for loans, the transaction costs might be too high to promote growth of their businesses. On the other hand, some women will not apply for the loan for fear of transaction costs such as opportunity cost of time, and costs involved in processing and negotiating the loans.

2.0 Literature Review

The study by Edwin & Omagwa (2018) found that client appraisal was statistically significant in explaining financial performance of the MFIs. This indicates that client appraisal had a positive relationship with financial performance. The study concludes that a unit increase in client appraisal would lead to an increase in financial performance. In addition, Credit risk control was statistically significant in explaining financial performance of the MFIs. This is an indication that credit risk control has a positive relationship with financial performance of the MFIs. The study concludes that increase in credit risk control leads to increased financial performance the MFIs studied. In addition, collection policy was statistically significant in explaining financial performance of the MFIs. This indicates that collection policy had significant positive relationship with financial performance of MFIs. The study concludes that positive increase in collection policy would result to an increase in financial performance of micro financial institutions. Finally, the study established that terms of credit were statistically significant in explaining financial performance. This shows that terms of credit had significant positive relationship with financial performance of the MFIs. The study concludes that positive increase in terms of credit will result to an increase in financial performance of micro financial institutions (Edwin & Omagwa, 2018).

Mulyungi and Mulyungi (2020) studied how client appraisal influences the performance of financial institutions. A descriptive research design was applied in this assessment based on Guaranty Trust Bank Rwanda and the findings showed client appraisal and financial performance relate positively. It can be inferred from the results that client appraisal based on business finance and individuals as well as physical characteristics contained within the credit scoring models as well as credit reference bureau utilisation and analysis of credit risk is crucial for establishing appropriately reliable clients to advance loans. The identification of the right strategies to ascertain the suitability of borrowers reduces the chances of loan defaults and overall loan performance. Njeru, Mohhamed, and Wachira (2018) conducted a census study to assess how credit appraisal affects commercial banks' effectiveness in the Kenyan context. The assessment result showed that credit appraisal significantly determines the banking sector's performance.

Using descriptive research design, Wairagu (2016) assessed the influence of credit terms on loans performance among Commercial Banks. Moreover, researcher looked at licensed commercial banks with headquarters in Nairobi. Credit manager and analyst from every bank were chosen upon giving a study sample of 82. Purposeful sampling was used because the selected respondents are more knowledgeable on the subjects of the research. Structured questionnaire was employed to obtain primary data. According to the findings, credit terms specify the credit period and credit limit, as well as the credit period.
A study by Rukundo (2018) assessed whether credit management influences Commercial Banks" loan performance in Bujumbura. Moreover, the researcher employed descriptive survey approach with fifty-eight personnel from 3 commercial banks forming the target population. Questionnaires were utilized to obtain data, which was then analysed by use of descriptive as well as regression analysis. The study established that credit terms have significant and positive impact on commercial banks" loan performance in Bujumbura, Burundi. Using descriptive survey design, Kipkirui and Omagwa (2018) conducted a research with an aim of assessing the association between credit terms and MFIs financial performance in Nairobi CBD. A total of 165 MFI employees were included in the target population. Questionnaires were used to collect primary data. A total of 165 people were chosen via purposive sampling. Data obtained was then analyzed by employing multiple regression and descriptive analysis. The credit terms were found to be statistically important in explaining the MFIs financial performance.
Edwin & Omagwa (2018) revealed that credit management is an essential process for any firm that engages in the business of credit. The process when done in the right manner ensures that the customer pays on services delivered. According to Myers and Berkley (2013) credit management practices are the strategies used by an organization to ensure that the level of credit in the firm is acceptable and it is managed effectively. It is part of financial management that comprises of the analysis of credit, rating of credit, classification and reporting of credit. Nelson (2012) defines credit management as the practices used by an organization to manage the sales they make on credit. It is an essential practice for all the organizations that have credit transactions since some have managed their credit activities so well that they have zero credit risk. Credit management is the strategies one uses to collect and control credit payments from clients. Myers and Berkley (2013) define these practices as the strategies that organizations use to have an acceptable level of credit and to manage this level effectively. It is part of financial management that comprises of the analysis of credit, rating of credit, classification and reporting of credit. When credit management is done right, then the capital with debtors reduces and the possibility of bad debts is

also reduced. Edwards (2013) contends that if you are a business and you have not included into your selling price any costs associated with late payment or you have a way of recovering the costs by charging an interest, then your profits is bound to be affected by such costs. Some firms are tempted to provide credit when they think of the possibility of increased business operations. However, businesses have to be certain that there will be more revenue from the high sales that will outweigh the cost of credit to avoid losses (Edwin & Omagwa, 2018).

According to Asiedu-Mante (2011) credit management involves the setting up of legal and formal systems and policies that will guarantee that the appropriately designated staff are well-positioned to grant credit, the facility goes to the people with the right credit history, the loan is given out for profitable activities or for businesses which have a strong financial and technical viability, the correct amount of credit is disbursed, the credit can be recovered and the flow of management information is sufficient within the organization to allow for effective monitoring of credit activity. He therefore viewed it as the putting in place of systems that act as a check right from the credit granting process to the point of collection. Credit Management likewise alludes to the proficient mix of four noteworthy credit approach parameters to ensure convenient collection of advances conceded to clients and in the meantime build their trust in and devotion to the financial organization (Van Horne, 2007).

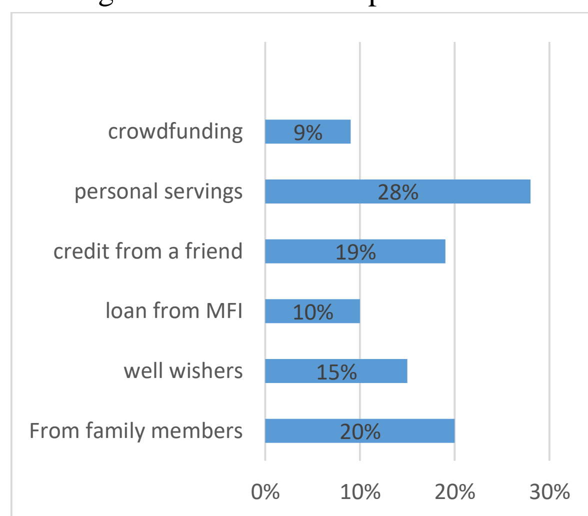
The results from Otto et al., (2022) reveal the importance of FI to SMEs' management of trade credit effectiveness, which helps to mitigate SMEs' FI supply gap (Palazuelos, Crespo & Del Corte 2018). Information asymmetry is the cause of financial problems for SMEs, while the availability of concrete FI reduces information asymmetry (Nguyen et al. 2022). Therefore, the article results reveal that for creditors, a decrease in asymmetric information received from debtors is of pivotal importance towards increasing SMEs' effectiveness in managing trade credit, as FI provision would equip creditors to make informed trade credit supply decisions, positively impacting SMEs' management of trade credit.

3.0 RESEARCH METHODOLOGY

The research design used in this research was a descriptive case study and a sample size of 50 respondents were chosen randomly which comprised officers from Unifi, extender and FINCA in Lusaka district. The instruments used in this study were questionnaires. The questionnaires were distributed randomly. The data were analyzed using Statistical Package for Social Scientists (SPSS) version 20.

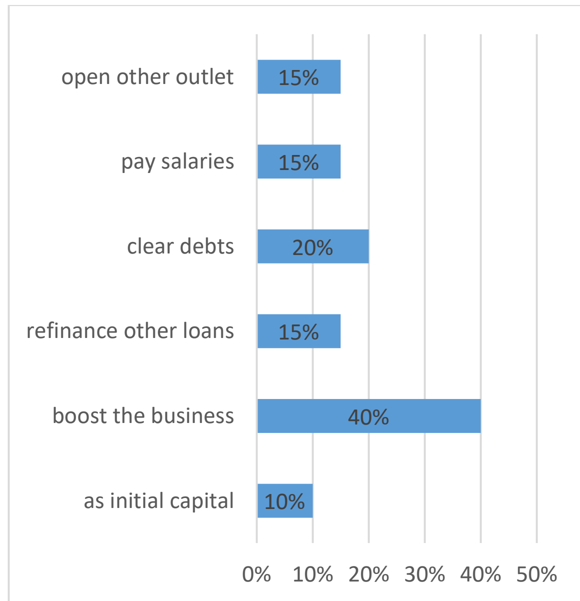
4.0 RESULTS/FINDINGS

a) Figure 1: Sources of capital



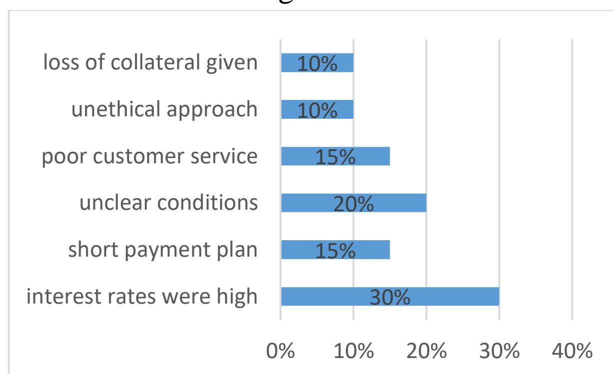
Regarding the sources of business financing only 9% used bootstrapping, 15 % stated that well wishes were a source of capital, 10% indicated that loan from MFI, 19% indicated that they used credit from friends, while those that were financed by family members comprised 20%, those that used crowd funding represented 7% and the rest used personal savings and these represent 28% of the total participants.

b) Figure 2: Uses of the money obtained



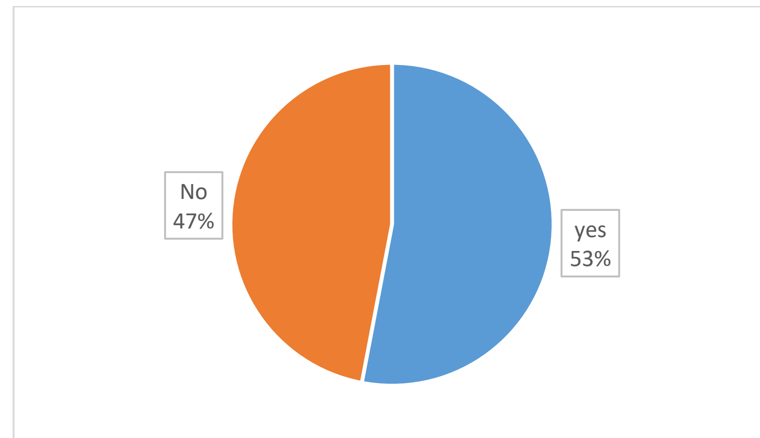
When asked the uses of the credit obtained, 10% indicated that they used the money to set up business, 40% used it to boost the business, 15% used it to refinance their already running business, 20% used the money to clear the debts, 15% used it to pay salaries and arears while 15% indicated that they used the money to open other outlet for the business.

c) Figure 3: Challenges faced in ensuring effective credit management



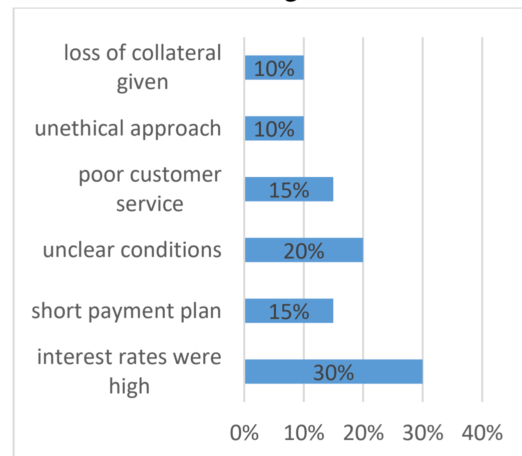
When asked about the challenges faced by those who obtained loans from various lenders, 30% indicated that high interest rates, 15% said short payment period, 20% said unclear conditions, 15% mentioned poor customer service, 10% said unethical approach while 10% indicated that they lost the items pledged as collateral after defaulting the payment.

d) Figure 4: Have you ever taken a loan from any financial or non-financial institution?



Participants were asked whether they have ever taken a loan from financial institution for their business operation, 53% indicated that they obtained a loan at some point while 47% stated that they have not taken a loan for business purposes.

e) Figure 5: Challenges faced in ensuring effective credit management



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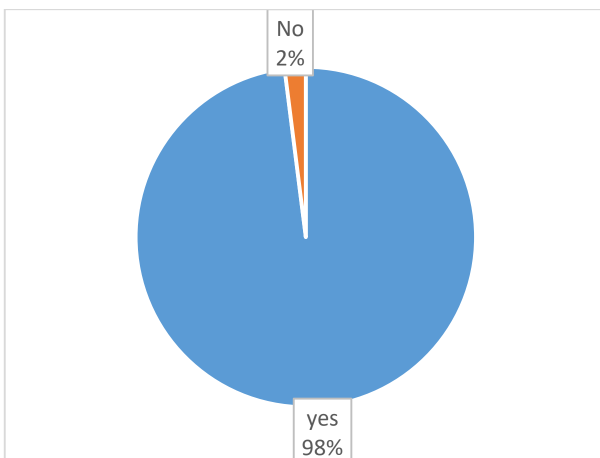
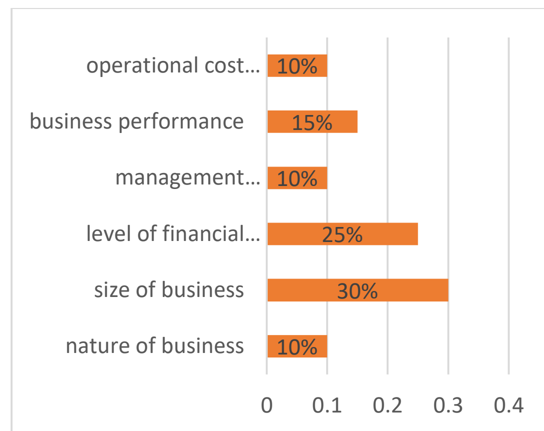
f) Figure 6: Do you think credit management is key to business performance?



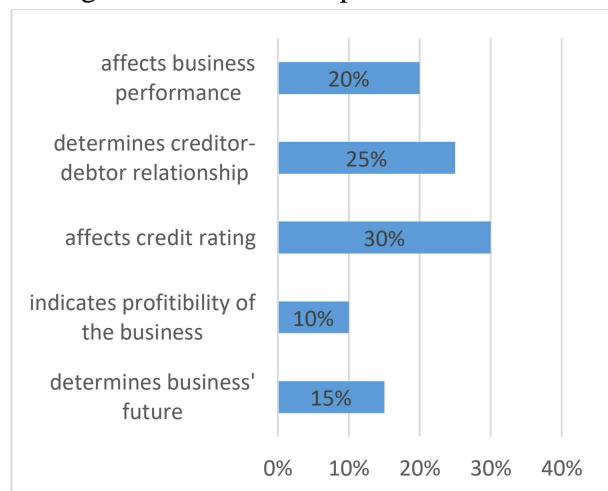
Participants were asked whether credit management is key to business performance, 98% stated that it is important while 2% said it is not. The findings show that majority of the participants agreed that credit management is key to business performance.

g) Figure 7: Factors influencing credit management among SMEs



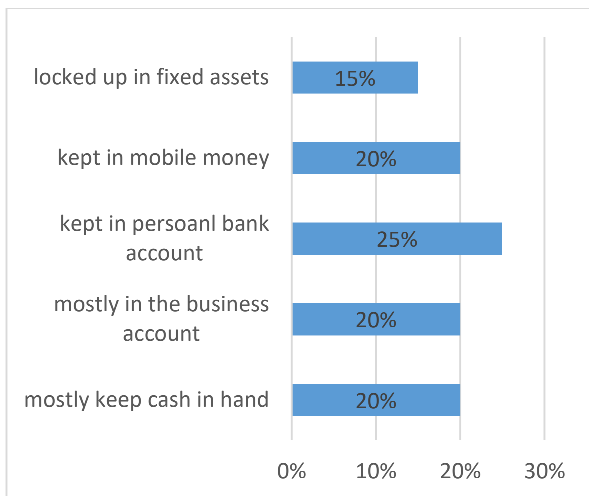
Concerning the factors that influence credit management, 10% indicated that nature of business, 30% said size of the business, 25% said level of financial literacy, 10% mentioned management commitment while 15% said business performance and the rest representing 10% mentioned operational cost management.

h) Figure 8: Effects of credit management on business performance



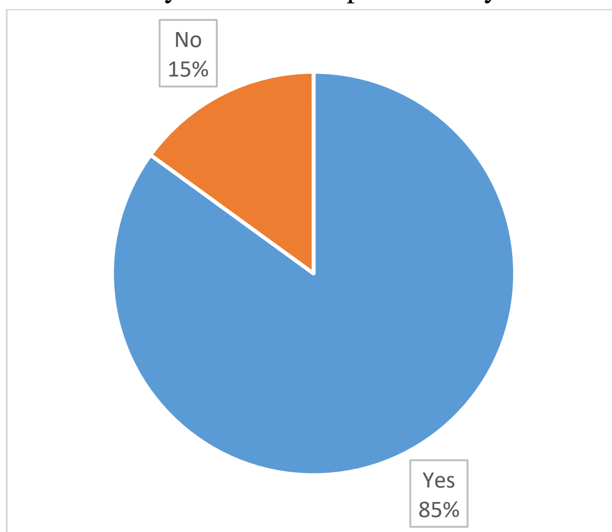
With regards the effects of credit management, 15% said it determines the future of the business, 10% indicated that indicates the profitability level of the business, 30% said it affects the credit rating while 25% indicated that it determines the creditor-debtor relationship and the rest 20% said it affects the performance of the business.

i) Figure 9: Means of managing operating capital



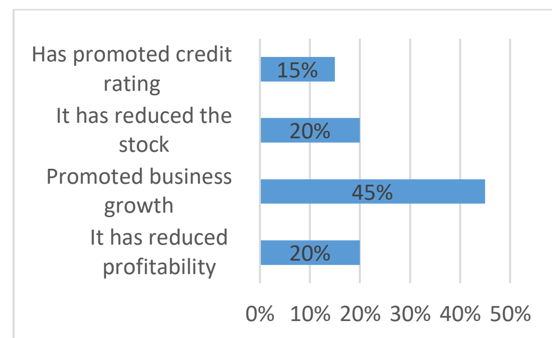
Concerning how capital is managed, 20% said that capital is mostly kept as cash at hand, 20% indicated that mostly the capital is kept in a business bank account, 25% said money is kept in a personal bank account while 20% use mobile money accounts and the rest 15% have locked the capital in a fixed account.

j) Figure 10: Has the credit facility affected your business profitability?



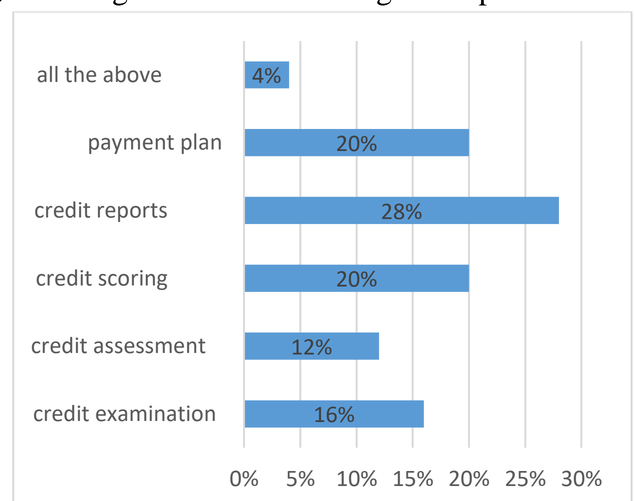
Participants were asked to state whether credit facilities have affected their business and 85% indicated that credit facilities affect business while 15% said credit facilities have no effect on the business.

k) Figure 11: Effects of credit facility on business



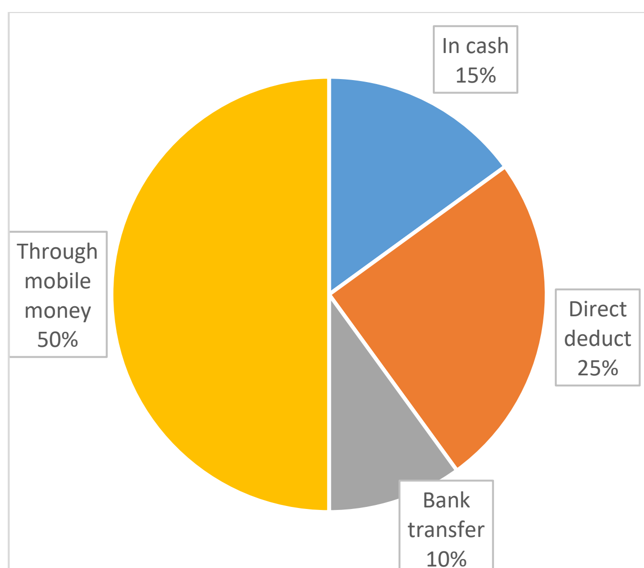
Concerning the effects of credit facilities on business performance, 20% said it has reduced profitability, 43% said it has promoted business growth, 20% indicated that it has reduced the stock and 15% said it has promoted credit rating.

l) Figure 12: credit management practices



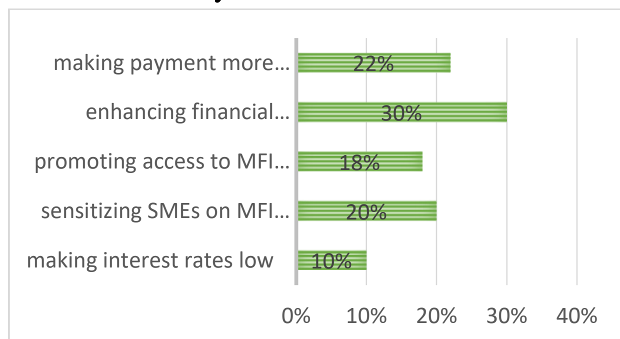
With regards the credit management practices adopted by SMEs firms, 16% said they use credit examination, 20% said credit assessment, the other 20% indicated that credit scoring, 30% mentioned credit reports while 20% said they use payment plan and the remaining 4% said they use all the practices listed above.

m) Figure 13: mode of paying the loan obtained



With regards the mode of servicing the loan, 10% said they use the bank transfer, 25% indicated that they use direct deduct while 15% said they pay in cash and the rest representing 50% indicated that they pay through mobile money.

n) Figure 14: Measures to be taken to promote SMEs accessibility of loans



The figure above shows findings from the participants highlighting possible measures that the government should consider in order to promote SMEs access to MFI. Majority 30% of the respondents indicated that there is need to enhance financial literacy among SMEs, 22% said making the MFI loans payment flexible, and 20% indicated that raising awareness through sensitization while 10% indicated that there is need to lower the interest rates.

4.1 Discussion

Credit management is key to SMEs and any other organization, credit management enables the firm to repay the debt and still remain viable. Concerning the factors that influence credit management, the findings revealed that the nature of business has bearing on credit management, others include size of the business, level of financial literacy for those running the business, management commitment, business performance as well as operational cost management among others. If the firm fails to manage the credit effectively, the business may incur a lot of penalties and eventually lose a lot of money in the process of recovering the loan by the creditors.

The study by Edwin & Omagwa (2018) found that client appraisal was statistically significant in explaining financial performance of the MFIs. This indicates that client appraisal had a positive relationship with financial performance. The study concludes that a unit increase in client appraisal would lead to an increase in financial performance. In addition, Credit risk control was statistically significant in explaining financial performance of the MFIs. This is an indication that credit risk control has a positive relationship with financial performance of the MFIs. The study concludes that increase in credit risk control leads to increased financial performance the MFIs studied. In addition, collection policy was statistically significant in explaining financial performance of the MFIs. This indicates that collection policy had significant positive relationship with financial performance of MFIs. The study concludes that positive increase in collection policy would result to an increase in financial performance of micro financial institutions.

When credits are effectively managed by the firm, it becomes easy for them to manage the flow of income and make profitable moves that improves

business performance and expansion of capital structure. With regards the effects of credit management, the findings have revealed that credit management determines the future of the business, credit management indicates the profitability level of the business, it affects the credit rating of the business and determines the creditor-debtor relationship as well as affecting the performance of the business.

Samson (2016) assessed the impact of credit management on MFIs loan performance, the investigation was carried out using a census study. The study revealed that client appraisal was found influential over AMFs' loan performance according to the research. Using descriptive survey design, Kagoyire and Shukla (2018) performed a research to determine the effect of client appraisal on commercial banks' financial performance. The study indicated that credit management should be done effectively if the firm is to make reasonable profit. Rukundo (2018) examined the association between credit terms and loan performance in selected commercial banks. Findings led to a conclusion that structuring of diverse loan issuance/acquisition terms, such as loan protection or collateral, grace period before beginning repayment, interest rates paid on loans, and repayment period, all has a major impact on loan performance in commercial banks. On the other hand, it was revealed that management of credits helps the company to foresee the operation and make corrective measures, if the credits are poorly managed, companies may lose a lot of money to pay penalties.

A similar study by Dong and Su (2010) concluded that a firm's profitability and liquidity are influenced by its debt management strategies. The study used pooled data between 2006 and 2008 to evaluate the companies listed in the Vietnam Stock Exchange focusing on cash conversion cycle and related elements to measure debt management. It found that the relationships among these variables were strongly negative. This implies that profit is negatively influenced by an increase in cash conversion cycle. It further established that profitability increases as the debtor's collection and inventory conversion periods reduce. The study also assessed debt management strategies in terms of aggressive financing and aggressive investing debt management approaches (Shamutete, 2020).

Moti (2012) studied the effectiveness of credit management system on loan performance: empirical evidence from microfinance sector in Kenya. Sola (2021) investigated the link between credit management techniques and microfinance banks' loan performance. The influence of specified credit management techniques (credit term, client appraisal, and collection strategy) on loan performance of 180 microfinance institutions was studied using primary data. The study showed that financial performance of firms is significantly impacted by their capital structure. Specifically, on the nexus between debt management and performance of small scale enterprises, the findings from the literature analysis show that debt management plays an important role in any business particularly small scale enterprises. Thus prudent debt management ensures that small scale enterprises are able to honour their debt obligations. The importance of keeping debt balances by micro and small scale enterprises cannot be taken for granted. Moyer et al. (2001) argue that effective debt management is particularly important for small scale enterprises. Two dominant alternative strategies to debt management have been offered by contemporary theories. These are the conservative and aggressive debt management strategies. Aggressive working capital strategies are usually associated with higher returns and risk. Conservative working capital strategies offer both lower risk and returns (Shamutete, 2020).
Ifeanyi and Chinedu (2017) researched on credit management and Profitability of Deposit Money

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Banks (DMBs). The research established that sound credit management enhances profitability of DMBs. Asante (2015) investigated credit management practices and performance of First Allied Savings & Loans Ltd. The study recommended management to enforce stringent measures of credit management practices through the credit managers and loan officers. Wasike (2012 researched on factors affecting performance of Sacco societies and identified lack of adequate capital, problems of liquidity and poor quality of assets and non-compliance as the main factors affecting Sacco's. Odhiambo (2013) sought to identify the factors affecting performance of Sacco's and concluded that performance is influenced by size of membership, profitability level and loan default.

With regards the credit management practices adopted by SMEs firms, 16% said they use credit examination, 20% said credit assessment, the other 20% indicated that credit scoring, 30% mentioned credit reports while 20% said they use payment plan and the remaining 4% said they use all the practices listed above.

Edwin & Omagwa (2018) revealed that credit management is an essential process for any firm that engages in the business of credit. The process when done in the right manner ensures that the customer pays on services delivered. According to Myers and Berkley (2013) credit management practices are the strategies used by an organization to ensure that the level of credit in the firm is acceptable and it is managed effectively. It is part of financial management that comprises of the analysis of credit, rating of credit, classification and reporting of credit. A study conducted by Nyamao et al. (2012) to investigate the effects of debt management practices on the financial performance of small scale enterprises in the Kisi South District of Kenya found that debt management practices were low amongst small scale enterprises. It also discovered that majority of them had not adopted formal debt management strategies. Similarly, their financial performance was on a low average. The study concluded that debt management practices influence the financial performance of small scale enterprise.

Credit management is one of the most essential activities in any company and cannot be neglected by any entity involved in the supply of credit lines no matter the nature of its business. It is the mechanism to ensure that customers will pay for the products delivered or the services rendered. Myers and Brealey (2003) consider it to be made up of techniques and strategies used by an enterprise to ensure that an optimal level of credit and its effective management are kept. This is one aspect of monetary administration including credit examination, credit assessment, and credit scoring and credit reports. Nelson (2002) considers credit management as apparently the way by which an enterprise superintends over its credit sales in a manner that creates greater opportunities for making higher profits. This is a prerequisite for any business engaged in provision of lines of credit since it is not possible to completely eliminate credit risk default (Ndab, 2018).

Credit risk control is an essential credit management practice that contributes to the wellbeing of organisations. Effective credit management ensures that Sacco' business is conducted in a professional way to minimize the credit risk. The success of Sacco's is depended on how effectively they employ the best credit management practices (Ikua, 2015. According to Essendi (2013) the main source of credit risk to financial institutions is term loans. The characteristics of Loan products include the size of the loan, the interest rate and fees, loan repayment schedule, security required, and terms and conditions (Kipngetich & Muturi, 2015). Secondly establishing a credit committee to provide oversight on policies and management decisions regarding loans issued reduces credit risk. This minimizes abuse of office and coverer up as loans are granted

based on the ability to pay subject to organization policies (Gatuhu, 2013). Although credit officers can be part of the credit committee, at least one member of management should be involved. The role of credit committee is to review and oversee the overall lending policy of the Sacco society, review lending by managing credit risk, ensuring effective procedures are followed and finally reviewing credit policy and risk lending limits (SASRA, 2015).

SMEs face numerous challenges in their quest to effectively manage their credits and the study has revealed that SMEs they are faced with high interest rate, they are sometimes given short period for servicing the loan, some lenders provide unclear conditions, other companies experienced poor customer service, unethical approach and loss of the items pledged as collateral after defaulting the payment.

According to the World Bank Group (2018) it is revealed that lack of credit information is a factor that contributes to the constraints faced by SMEs as assessing their creditworthiness represents a unique challenge. Compared to larger firms, it can be more difficult for an SME to develop a credit history as they have less access to traditional sources of finance such as banks and other financial institutions whose data is typically used in the production of credit reports. At the same time, SMEs do not generally have access to fixed assets, such as land or buildings, which are usually required by banks as collateral to secure loans. Instead, SMEs mainly rely on movable assets to access finance.
The study by Veliu and Manxhari (2017) supports this viewpoint, observing the lack of managerial capabilities as the main contributing reasons why businesses fail. The importance of education and training to new venture success is critical and especially relevant in the case of SMEs suffering from educational system inequalities (Bosma et al. 2020). Furthermore, the study by Malinao and Ebi (2022) observed a positive correlation between relative new venture profits and greater levels of education and experience possessed by the business. Therefore, it could become essential for credit managers to possess the needed managerial capabilities to manage trade credit effectively. In addition, should SMEs fail to meet stipulated lending criteria, it becomes mandatory to provide security as collateral during credit evaluation by trade creditors (Gassiah & Kikula 2022).

4.3 Conclusion

Credit management is key to SMEs and any other organization, credit management enables the firm to repay the debt and still remain viable. Concerning the factors that influence credit management, the findings revealed that the nature of business has bearing on credit management, others include size of the business, level of financial literacy for those running the business, management commitment, business performance as well as operational cost management among others. If the firm fails to manage the credit effectively, the business may incur a lot of penalties and eventually lose a lot of money in the process of recovering the loan by the creditors.
When credits are effectively managed by the firm, it becomes easy for them to manage the flow of income and make profitable moves that improves business performance and expansion of capital structure. With regards the effects of credit management, the findings have revealed that credit management determines the future of the business, credit management indicates the profitability level of the business, it affects the credit rating of the business and determines the creditor-debtor relationship as well as affecting the performance of the business. The study has revealed that credit management practices adopted by SMEs firms include credit examination, credit assessment, credit scoring, credit reports and the use payment plan. SMEs face numerous challenges in their quest

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