Innovations

An Exploratory Study on Trade Credit Management and Firm's Profitability

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Abstract
Small and Medium Enterprises play a vital role in the growth of an economy by providing employment, contributing to GDP, and promoting entrepreneurship and innovation. Trade credit, in the form of extended payment terms offered by suppliers, can help SMEs access necessary goods and services to run their operations, improve cash flow, and increase profitability. However, there is currently a dearth of empirical research on the connection between Trade credit and SMEs' profitability, highlighting the need for more research in this field. The purpose of the study is to analyze the approach taken by SME businesses to managing their customer receivables and to look into the connection between Trade credit and business profitability. Secondary data from Scopus was reviewed and findings show that trade credit can positively impact the organization's profitability, but poor management can result in decreased profitability. Credit management technique that balances liquidity and profitability is needed for high-level account receivables management.
Keywords: *credit management, trade credit, SMEs, performance, profitability, credit management strategies.*

1.0 Introduction

Small and medium-sized businesses (SMEs) are becoming increasingly popular since they contribute significantly to the economic expansion of both developed and developing nations. The degree to which its small and medium-sized firms are organized greatly influences an economy's capacity to expand and flourish. This has to do with recommended methods for strategic management like credit management, recovering bad debts, the organization's hiring

policy, the commitment of business owners in determining the creditworthiness of their clients, liquidity, profitability, growth, and the sustainability of SMEs in Nigeria.

Regardless of size or location, financial management procedures are essential in all company businesses, according to Okyere (2018). The financial health of the nation is seen to depend heavily on small companies.Credit management is a fundamental and critical component of planning, controlling, making decisions, and assessing the performance of businesses. The credit management policies of organizations vary, and their impact can either positively contribute to growth and earnings, or negatively result in losses. This is because each manager aims to efficiently collect payments and improve cash flow, while avoiding losses. (Seyoum, 2021).

One way SMEs can increase their profits is through trade credit which is a financing arrangement in which a seller allows a buyer to make purchases on credit terms, meaning the buyer can pay the seller later without incurring interest charges. This zero-interest financing enables buyers to sell the products they purchase and generate enough revenue to pay back the seller. One of the most important aspects of corporate financial policy is trade credit management since it impacts the risk and performance of the business, according to studies. (Otuya & Eginiwin, 2017).

The significance of managing trade credit in determining a company's profitability is supported by empirical data. According to research, there is a direct correlation between profitability and trade credit although this relationship has been debated, with some studies finding that increased trade credit investment leads to improved profitability, while others argue that increased trade credit results in decreased profitability due to the higherrisk of reduced income or increased expenses. There must be an optimum level of company credit that increases profitability, as the relationship between trade credit and firm profitability is not linear (Lui, 2020).

Typically, a buyer and a seller will establish account receivables, or trade credit. so that the seller can accept delayed payment for goods or services rather than immediate cash payment. According to Lui, (2020), effective credit management in small and medium-sized businesses is crucial and cannot be overemphasized because it has the potential to impact the financial performance, overall expansion, and sustainability of the businesses. Trade credits are essential for the expansion and survival of enterprises; corporate managers have realized. Trade credits

result in accounts receivable that the business expects to eventually collect. One of a business's major assets is its accounts receivable, which are carried out by the issuance of credit invoices.

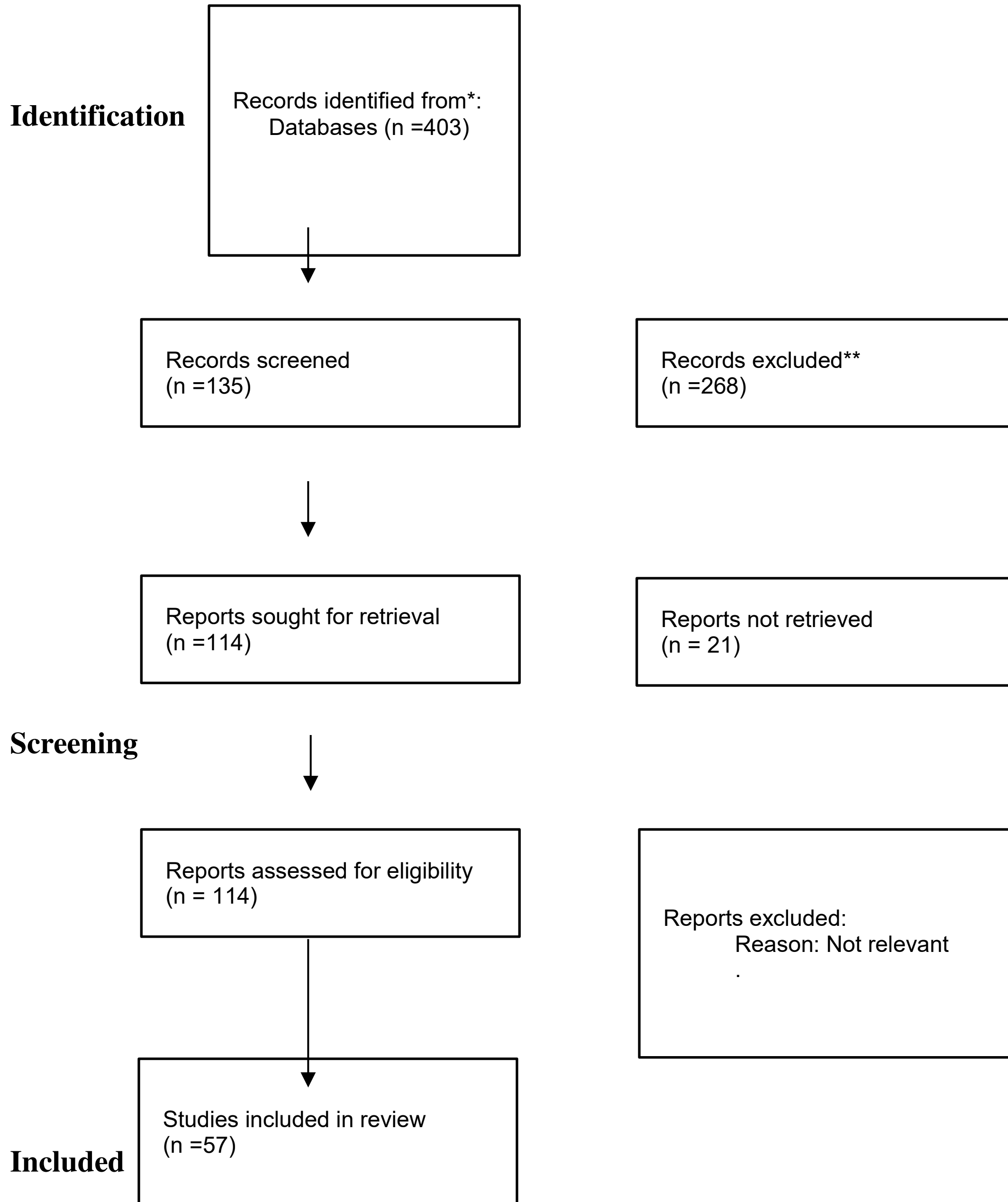
Credit is one of the strategies used by a business to increase the volume of sales, according to marketing professionals who have known this for a long time. It offers a crucial marketing connection for the transportation of goods from the production through the distribution stages to a sizable client base who lacks the ability to make an immediate payment. Customers are given credit by businesses for a variety of objectives, such as to boost sales volume, get a larger market share, make the anticipated profit, win over customers' loyalty, and keep them as clients. (Kaitibi1, Ganawah, Yokie1, Jalloh1, & Koroma, 2018).

Credit sales therefore entail both current and upcoming transactions, creating a receivable risk that needs to be carefully assessed and effectively handled. Although credit is inescapable in the business world, it nonetheless poses a threat to any company's financial health and performance (Nwanna & Oguezue, 2017). Corporate companies have a wide range of credit management practices. Nonetheless, regardless of how big or small an entity is, and regardless of how their operations or products differ, the effects of credit policies typically have comparable effects (Otuya & Eginiwin, 2017). Consequences of a credit policy can either be favorable enough to spur growth and profits or unfavorable enough to result in decline and losses.

In essence, a trade credit arrangement offers purchasers no-interest financing. With this agreement, the buyer can sell the goods and generate the necessary revenue to pay the seller's obligation. The effectiveness of trade credit management has a significant impact on the risk and performance of the company, and as a result, it is an important component of the corporate finance policy, according to earlier research (Seyoum, 2021).

2.0 Methodology

The impact of credit management on the profitability of small and medium-sized businesses was examined through a systematic review utilizing the Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA) criteria. The following is a comprehensive methodology for conducting a PRISMA systematic review in credit management.


Identification of studies via databases
Identification
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(n = 114)
Reports excluded:
Reason: Not relevant
Studies included in review
(n =57)
Included

2.1 Literature search

The process of finding suitable literature for this study involved scouring through academic and peer-reviewed sources in the SCOPUS database. This database was selected for its comprehensive collection of peer-reviewed articles and access to top-rated management journals. This approach aligns with the systematic literature reviews by Lui (2020) Understanding the Shift in Trade Credit in Covid 19 Pandemic and Grzegorz Zimon & Robert Dankiewicz (2020) on Trade Credit Management and Strategies in SMEs.

The search was conducted using the following relevant terms: "Credit management,""Trade credit management,". These terms are frequently used interchangeably in academic and practical literature to refer to the field of Trade Credit. The preliminary investigation produced 403 articles and studies.

2.2 Process of selection

The study was limited from 2018 to 2023. Year 2020 to 2022 had most of the publications. This flow chart describes the process of selecting relevant literature for a research study using the PRISMA methodology. The search was conducted on the SCOPUS database using specified keywords and resulted in 403 articles. The articles were filtered based on year, area, and language to arrive at 135 documents. Only articles, conference papers, and review papers were included, reducing the number of documents to 114. After downloading and screening the documents, duplicates were removed, and unnecessary articles were discarded, resulting in 57 relevant documents.

2.3. Bibliometric analysis

The diagram in Figure 2 represents all the papers published on scopus about the subject matter. while the diagram in Figure 3 represents the distribution of papers by type, most of them been articles. In Figure 4, we see China has published the most in this topic on Scopus. Finally, figure 4 shows the distribution by authors. Almost havFinally, *Boden, Howorth and Weber pushlished*

the most articles on this topic in scopus.

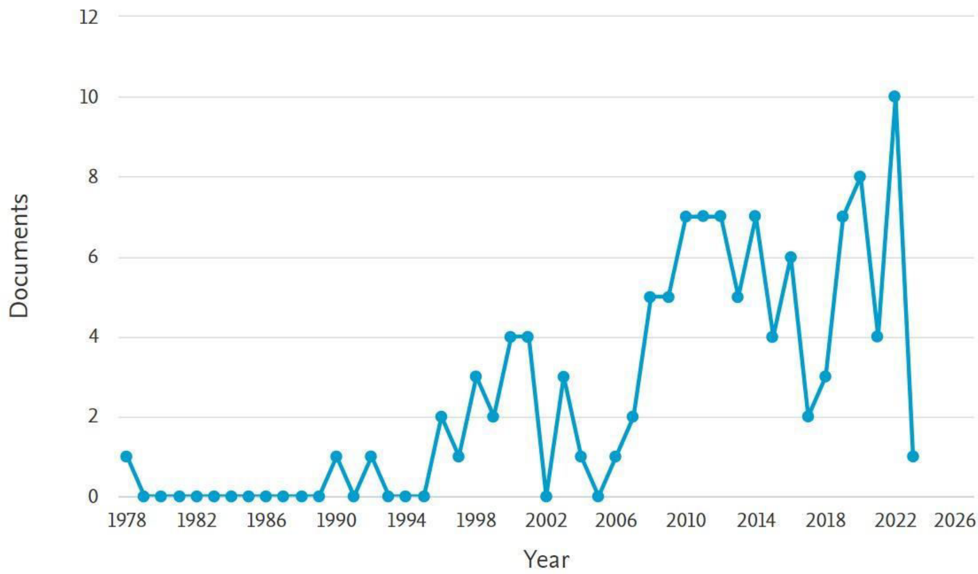

Figure 2: *Documents by year*

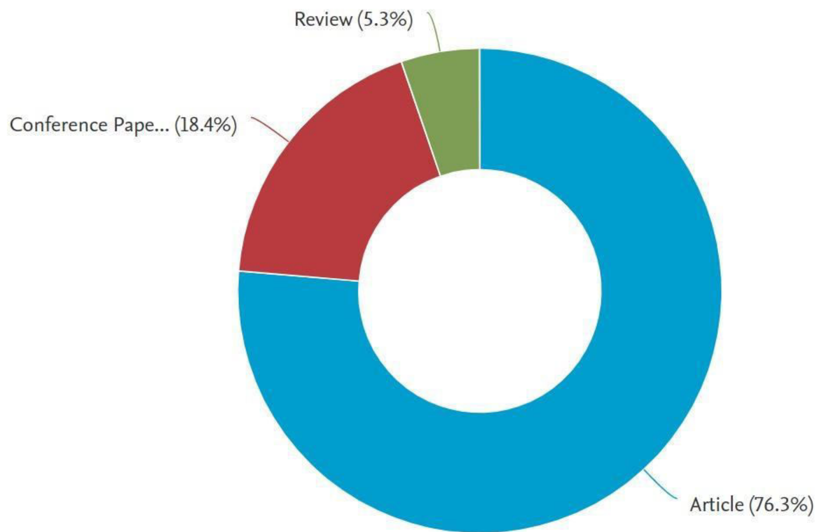

Figure 3: *Documents by type*

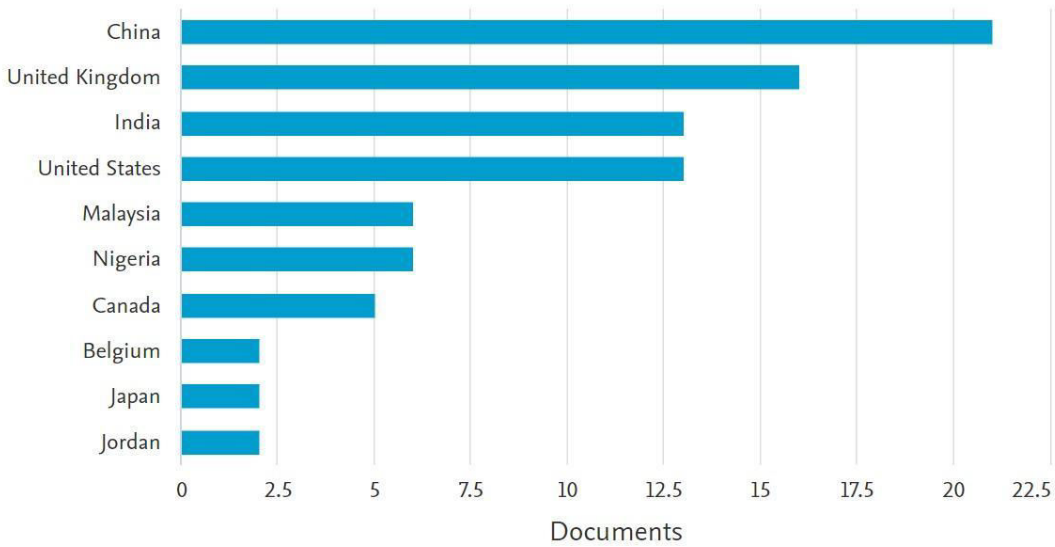

Figure 4: *Documents by country*

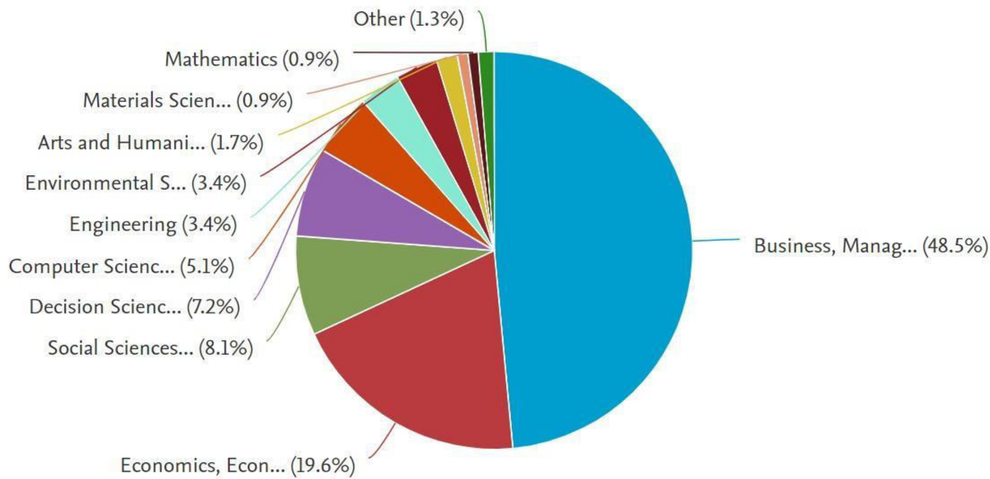

Figure 5: *Documents by subject area*

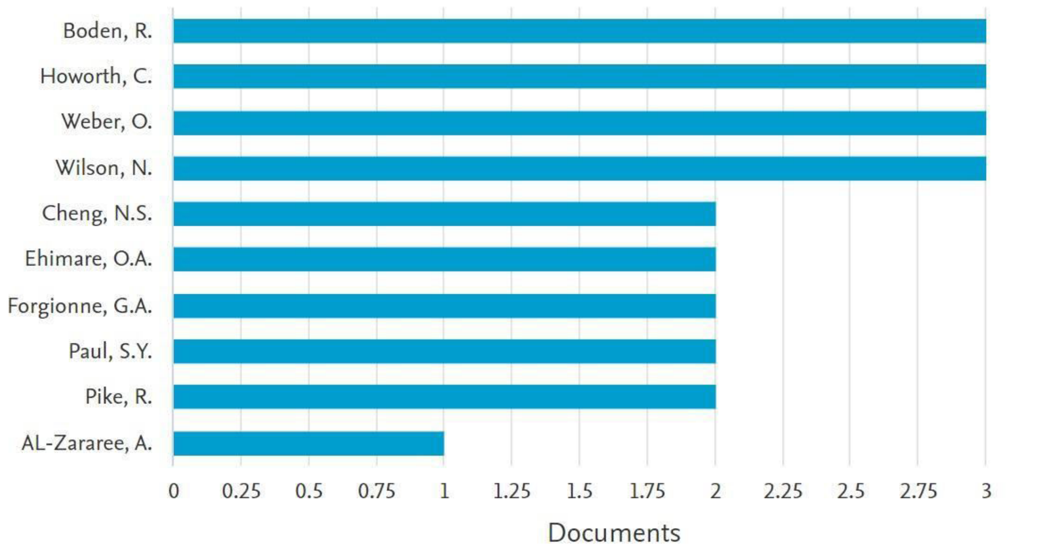

Figure 6: *Documents by author*

3.0 Discussion

3.1 Credit management

Credit management involves a range of activities aimed at managing credit risk and ensuring timely payment of invoices by customers. This process includes assessing creditworthiness, setting payment terms, monitoring payments, and enforcing company credit policies. Late payment or non-payment of invoices by customers can lead to financial distress and business failure, particularly for small and medium-sized enterprises (SMEs) (Scott & Fraser, 2018). Research indicates that approximately one in five SME bankruptcies result from customer defaults on payments (Adetunji & Adekunjo,2021).

Efficient credit management involves a proactive and continuous process of identifying potential risks and implementing strategies to mitigate them. It also includes establishing clear credit policies and procedures, such as credit checks and credit limits, to minimize the risk of late payment or default. By implementing effective credit management practices, businesses can safeguard their financial stability and improve their chances of long-term success

In addition, businesses must be aware of the potential risks associated with credit management, such as fraud and default. It is essential to take steps to mitigate these risks by implementing proper credit control procedures and regularly monitoring the creditworthiness of customers (Trompeter & Weber, 2019). The use of credit insurance and guarantees can also help businesses manage risk and protect themselves against potential losses (Liu et al., 2020). Credit management is a critical aspect of financial management that requires careful planning, control, and risk mitigation to ensure the financial stability and success of any business. With the right credit policies, procedures, and technology in place, businesses can minimize the risk of bad debts, maintain cash flow, and maximize profitability.

Modern commercial strategy must include good credit management, which involves maximizing cash flow to assure stability and maximize growth potential. It involves some risk and ought to be a proactive effort that starts prior to the commencement of sales. Grzegorz (2020) contends that companies can practice good credit management by getting to know their clients, establishing payment terms, sending out invoices on time, and not being hesitant to request payment when it is due. Cheaper risk for suppliers, lower storage costs for suppliers, increased income through the stimulation of implicit interest rates, and improved financial performance of buyers are only a few benefits of good credit management. According to the study, rising trade credit receivables will lead to manufacturing companies being more profitable. Additionally, essential to firm cash flow and operations is good credit management. ACP members Otto (2022), Botha (2022), and Els (2022) concurred that maximizing profits and ensuring client happiness are key components of good credit management. If income is the fuel that keeps a business going, credit management serves as the vehicle that propels it, growing more effective and productive over time. A credit policy is a set of guidelines that outline the terms and conditions for extending credit to customers, the criteria for evaluating a customer's creditworthiness, and the procedures for collecting payments and dealing with delinquent accounts. The objective of managing accounts receivable is to collect payments while avoiding loss of sales due to aggressive collection techniques. This involves evaluating the customer's creditworthiness, setting credit standards, and monitoring the firm's accounts receivable to ensure customers are paying according to the agreed credit terms. Effective credit management helps a firm avoid the costs associated with slow payments. According to Jibrin et al. (2013), the trade-

off model posits that companies must strike a balance between liquidity and profitability in their account receivable management. Effective credit management is considered essential in achieving this balance, as it can have a major impact on a company's financial performance, growth, and sustainability. Almasria et al. (2021) highlight that trade credit is becoming a popular technique in the field of financial management as the landscape of corporate organizations evolves. To ensure accurate financial reporting, companies are implementing control measures.

3.1.1 Advantages of Credit Management

credit management provides several other benefits, such as safeguarding cash flow by ensuring that cash inflows exceed outflows, minimizing late payments by identifying them earlier and preventing bad debts, reducing the chance of defaults negatively impacting the business, increasing business liquidity, recovering debts faster and more comprehensively, facilitating performance analysis and planning, and reassuring potential lenders who may be interested in financing business expansion plans (Adedeji, 2019).

3.2 Credit Policy

The credit policy is a document that describes the process for giving credit and repeating credit operations, according to Benard (2019). It must be shared with all pertinent parties, including consumers, salespeople, and credit personnel. In order to take into account shifting market conditions, corporate strategy, rivalry, and financial demands, the credit policy needs to be evaluated and monitored on a regular basis. Sound credit management practices depend on a well-documented credit policy that outlines the goals for credit extensions, sets and varies credit terms and collection procedures, provides staff with procedures, outlines the training requirements for credit staff, establishes performance goals, and instills a "one company - one customer" mentality across the entire organization.

3.2.1 Setting Credit Policy

According to Paul (2018), there may be three different levels to set credit policies which are; the strategic level, which concerns the overall goals and direction of the organization; the tactical level, which focuses on the implementation of specific strategies and objectives; and the operational level, which deals with day-to-day activities and procedures. The organization's credit policy should be properly communicated to all pertinent stakeholders and should be in line with its overall strategic goals. To make sure the policy stays applicable and helpful in attaining the objectives of the company, it should also be reviewed and updated on a regular basis.

3.2.2 Credit Management Policy

A set of rules known as credit management policy governs the terms and conditions for selling products and services on credit, client qualifying standards, collection practices, and actions to be taken in the event that a customer is in default on their payments. A firm's growth and survival may be significantly impacted by liquidity issues caused by a lack of an efficient credit management program. Given that modern business transactions frequently depend on credit terms agreed upon by both buyers and sellers, Otuya & Akporien (2017) emphasize further that credit management is essential for the successful operation of any firm. When resources are allocated effectively, financial managers can have a positive impact on profitability and growth by managing a company's credit affairs and allocations, which normally take up around 60% of their work.

According to Agu & Basil (2013), inadequate management of trade debt can cause large losses while a well-designed credit management program can lower the risk of questionable and bad debts. As a result, the goal of credit management policy is to maximize the advantages of trade credits and accounts receivable while minimizing their disadvantages. Credit policies can be lax or strict, with lax policies offering credit to clients on favorable conditions and strict policies permitting credit only to financially stable customers with established creditworthiness.

3.2.3 Establish Client Creditworthiness

To efficiently manage credit, it is important to take a proactive approach and assess the creditworthiness of both new and existing customers. This can be achieved by creating a credit

risk mitigation plan that identifies and analyzes the risk of defaulting on payments. Regular reviews of existing customers are also essential; as even good relationships do not guarantee immunity to default. Information from various sources such as Chambers of Commerce, credit bureaus, bank and trade references, etc. can be utilized to assess a customer's financial status and cash flow. Additionally, it is important to consider the customer's industry and market and compare it with the economic performance of related industries.

3.2.4 Credit Risk Management

Due to the persistent issue of risk, small and medium-sized firms (SMEs) are frequently thought to be undesirable to investors (Ogundele, 2021). Risks are described as the likelihood of an event occurring that will have an influence on business objectives. They can be of many different forms, from predictable to unpredictable, and have various effects on the firm. The nature of risks that SMEs face varies according to their industry, and it is the owner's responsibility to identify and manage these risks using good management techniques, which is a part of good business governance. Protecting the company from unfavorable events while also identifying and seizing prospective opportunities are all parts of effective risk management (Kayode, 2020). Effective risk management and enhancing cash flows are important problems in the present company environment. Credit risk is the possibility that a borrower may be unable to make payments on their debts, which would result in the loss of principal and interest payments, disruption of cash flow, and higher collection expenses for the supplier or seller. This risk may occur in a variety of situations and may be either partial or total. Credit risk management is crucial for suppliers since it allows them to assess their exposure to counterparties in comparison to the counterparty's exposure to the contracts. Therefore, it is essential to assess counterparty risk and create mitigation plans in order to reduce potential losses. Orang'I, (2018).

3.3 Firm’s Profitability

Profit is a key metric for assessing a company's financial health and short-term viability. It is determined by deducting costs from receipts over a specific time period, typically a year. Profit maximizing is a typical goal for businesses, but management choices shouldn't be solely based on it because that could have a detrimental impact on wealth maximization. The Return on Total Assets (ROA) metric is used in this study to examine financial performance and provides a broad

assessment of a company's efficacy and viability. A profitability ratio called ROA shows how effectively a business produces income from its assets.Profitability is the ability of a corporation, organization, firm, or enterprise to make money from its commercial operations. It also refers to how successfully management uses organizational resources to enhance the value of the company. Profit is a relative metric that may be compared to other variables that have a direct impact on it to determine profitability (Pandy,2014). Corporate profitability measures management's capacity to make profits from revenue-generating sources within an organization. It is defined as the margin by which a company's revenues exceed its pertinent expenses. As a result, a critical component of assessing operating performance is profitability. Ineffective management is indicated by a low profit margin, which may discourage potential investors from funding the company. Every firm cares a lot about profitability because it shows how well management can turn a profit by employing all of the resources available in the market. A common financial performance metric is profitability, which is also known as the rate of return on investment. The rate of return on investment may be negatively impacted by excessive, unjustified investment in current assets. The main goal of credit management is to control an organization's present financial resources in order to strike a balance between the firm's profitability and the risk connected to that profitability. Ifuruze, (2013).

3.3.0 Findings

3.3.1 Impact of trade credit on profitability

The way trade credit agreements are handled varies a lot across and within businesses. It is an uncontrolled, continuously changing industry that can be managed internally or by a third party. A distinct credit firm, a subsidiary, a central credit department, or a division of other departments like sales, marketing, or finance can all manage trade credit. Trade credit management may be based on historical, strategic, market-based, or solely financial considerations. The primary determinant of trade credit structure and administration is thought to be the firm size, with larger enterprises more likely to establish specialized credit subsidiariesMeasures of customer satisfaction are also quite important. Late payments are frequently linked to consumer concentration, market power, competitiveness, and technological advancements. Late payment issues can be avoided through proactive trade credit management, with the creation and

implementation of credit policies being of utmost importance. Lower bad debts and improved control over credit procedures are two benefits of effective credit management, according to Grzegorz (2020).

Trade credit is a sort of business credit in which a vendor offers to sell goods on credit as opposed to demanding payment up front. For a number of reasons, giving clients trade credit can boost a business's sales and profitability. First off, it lessens information asymmetry between suppliers and customers by enabling purchasers to assess product quality prior to payment. Second, trade credit lowers storage costs and provides businesses a flexible approach to pricing. Third, expanding trade credit can be considered a short-term investment that boosts revenue. However, having a big amount of accounts receivable exposes a business to the financial risk of client non-payment or late payment, which can result in expensive administrative costs and even fund lock up. Studies show that an increase in trade credit boosts a company's profitability, but high accounts receivable can also reduce profitability because of the risks and expenses involved. This implies that choosing a trade credit option is not simple and requires weighing the costs and benefits in order to maximize profitability. Stretching out payments has the potential to improve the company's cash flow and liquidity, but it can also have a negative impact on long-term relationships with suppliers and raise the cost of locating other sources. Depending on a firm's unique conditions and a trade-off between short- and long-term costs, the ideal trade credit level would be determined. Businesses must carefully analyze how their trade credit decisions may affect their creditworthiness and ongoing relationships with customers.

Research on the link between trade credit and a company's financial performance has produced a variety of results. While some research (Li et al., 2020; Hoang et al., 2019) have suggested that trade credit may increase a firm's worth, others have found no association (Jory et al., 2020). However, some studies have found the opposite, indicating a bad correlation between a company's profitability and how long it takes to pay its obligations (Orazalin, 2019). To completely comprehend the connection between trade credit and a company's financial success, more investigation is required.

The trade-off theory approach advises businesses to manage their accounts receivable in a way that strikes a balance between maintaining liquidity and optimizing profitability. Effective credit

management is crucial for the financial performance, stability, expansion, and longevity of industrial enterprises, claim Jibrin et al (2013). The knowledge asymmetry between selling businesses and their purchasing clients is also covered in this theoretical vein. It examines the ambiguities surrounding product quality and customer payment, and by using price discrimination, it seeks to shed light on trade credit policies. Understanding the negotiating process between businesses and their customers is the main goal of the research. Small and medium-sized businesses (SMEs) frequently bargain prices with their clients to arrive at the final cost of their goods or services. By establishing loan terms, this enables them to boost sales while lowering the chance of default.

3.3.2 Asymmetries in the market and information

purchasers are forced to pay cash or borrow money to acquire products in the absence of trade credit, and sellers frequently refuse to give purchasers a chance to inspect the goods before payment. Delays, disagreements, and increased expenses may follow (Mendes-Da-Silva, 2019). Trade credit, on the other hand, can increase buyers' bargaining power by allowing them to defer payment until they are pleased with the goods, which is advantageous for suppliers without a well-established track record for high quality. Trade credit can serve as an effective warranty period for suppliers who are having trouble paying their bills and luring customers.

Trade credit offers a chance to indicate product quality and lessen inequalities in product quality awareness during the credit duration.

3.3.4 Trade credit management strategies

In Europe, there is a wide range in the proportion of overall sales that are done using deferred payments, with Western Europe typically having lower percentages than Eastern Europe. In Western Europe in 2018, the ratio varied from 25.4% in Switzerland to 56.2% in Denmark (Atradius, 2018), whereas the average in Eastern Europe was 67.2%. It was 48.5% in Poland. Atradius (2019). In other words, an increase in credit purchases has resulted from the expansion of invoice payment terms, but this also means that a sizable amount of a company's assets is in the form of receivables. To minimize risk and protect the company's interests, a proper strategy for managing trade credit is necessary. Managing trade credit involves various strategies, such as negotiating payment terms with customers, implementing credit control procedures, and

monitoring the creditworthiness of customers. Trade credit insurance can also provide a safety net against the risk of default by customers, helping to reduce the financial impact on the business. Other methods include setting credit limits, offering early payment discounts, and using factoring or invoice financing to manage cash flow. Trade credit, which is the extension of credit by a supplier to a buyer for goods or services, can bring benefits to both parties in terms of increased sales and improved cash flow. However, it also carries a certain degree of risk as the buyer may default on payment, which can result in financial losses for the supplier. Despite this, trade credit remains an important tool for businesses to manage their operations and maintain relationships with their customers. Trade credit is the extension of credit by one business to another for the purchase of goods or services, and it can bring advantages such as improved cash flow, increased sales, and stronger relationships with suppliers. However, it also has disadvantages like opportunity cost (the cost of forgoing the next best alternative) and the need to consider factors like creditworthiness of the recipient, terms of payment, and economic conditions. (Grzegorz, 2020). Business success and stability depend on the efficient handling of trade credit. Ineffective management can cause diminished profitability and financial insecurity. Therefore, putting trade credit management techniques into practice is crucial to ensuring the enterprise's liquidity, profitability, and sustained growth. Small and medium-sized businesses (SMEs) that run their own independent operations in the market typically benefit from conventional trade credit management techniques. Three primary traditional trade credit management solutions are noted by Grzegorz (2020) and Robert (2020).

- Conservative receivables management strategy focuses on minimizing the risk of customer insolvency by limiting credit sales and opting for cash transactions or short-term loans with new clients. This strategy results in a shorter turnover period and greater prudence when hiring new contractors.
- The aggressive strategy in trade credit involves granting loans to high-risk recipients without proper checks and control. This strategy may raise the likelihood of attracting new clients and boosting sales, but it may also make it more challenging to get clients to pay.
- The moderate strategy in trade credit management is a balanced approach, where there is a lack of clear cut-off limits for indicators. Depending on the sector and size of the firm,

threshold values for indicators should be determined. You can make comparisons using the industry average as a benchmark. The performance of distinct businesses is contrasted with the sector average in the literature.

3.4 Theoretical Review

3.4.1 Trade-off theory (Myers, 1984)

The concept of the trade-off theory is well-known in business and finance, describing how companies strive to find the optimal balance between investing in other opportunities and holding cash reserves. In an ideal capital market, where capital is always available, holding cash does not create or destroy value. However, in reality, capital markets are not always perfect, and companies need to be strategic about their cash management to ensure their sustainability. Many companies rely on trade credit management to manage their cash flow. This involves suppliers extending credit to customers to pay for goods and services at a later date. Effective trade credit management can help companies maintain positive relationships with suppliers and customers, reduce financial risks, and manage their cash flow.

According to the trade-off theory, companies should aim for an optimal level of liquidity that balances the benefits and costs of holding cash. Delaying payment to suppliers can provide a benefit by freeing up cash for other activities or opportunities, while early payment can lead to discounts and favorable terms from suppliers, reducing costs.

Effective trade credit management can help companies strike the right balance between these competing factors. By maintaining a flexible trade credit policy, companies can improve their cash flow and reduce the need for external financing. For example, by offering customers credit with interest on receivables, companies can increase sales and improve profitability.

In summary, the trade-off theory highlights the importance of effective credit management techniques that can balance the trade-off between liquidity and profitability. By managing their cash flow effectively, companies can improve their financial sustainability and position. Pandey, (2014). However, the tradeoff theory focuses on maximizing short-term gain through optimal capital structure, but this may not be the best approach for ensuring long-term business sustainability in the supply of consumables in the biomedical industry in Lagos, Nigeria.

According to Akande et al. (2021), businesses in the biomedical industry in Nigeria need to adopt a long-term perspective to enhance their competitiveness and sustainability. Another limitation of this theory is that the tradeoff theory only considers financial factors such as interest rates and tax implications, and does not take into account other important factors such as the political and economic climate in Lagos, Nigeria, which could impact credit management and business sustainability. According to Oyedokun & Oladipupo (2021), the Nigerian government policies and regulations, such as high import duties and unstable exchange rates, negatively affect the profitability and sustainability of businesses in the biomedical industry.

4.0 Managerial implication

Trade credit management and the effect it has on financial performance: A study by Jibrin, Nuhu, and Muhammad (2013) found that credit management significantly affects a company's financial performance. Strategies for managing trade credit well can boost a company's financial performance. Trade credit's function in liquidity management According to Almasria, Alhussain, and Alharthi (2021), trade credit is crucial for a firm's liquidity management. Businesses can increase their liquidity and lessen the requirement for external finance by giving trade credit to consumers. The effect of the business environment on the efficiency of trade credit management: Otto, Botha, and Els (2022) discovered that a key factor influencing how well SMEs use trade credit management procedures is the business environment. As a result, managers must be conscious of the unique difficulties presented by the business environment and modify their trade credit management tactics as necessary. The importance of trade credit in supplier-buyer relationships was discovered by Cunat (2006). Trade credit is crucial in suppliers' evaluations of a buyer's trustworthiness. Effective trade credit management practices can help improve the relationship between suppliers and buyers, which can result in benefits such as reduced costs and improved access to financing.

5.0 Conclusion

Credit management refers to the process of managing the credit granted to customers and clients by an organization. Effective credit management helps organizations balance the trade-off between liquidity and profitability by efficiently collecting payments and improving cash flow, while avoiding losses. The credit management policies of organizations can have a significant

impact on their growth and earnings. Studies have shown that credit management practices can positively contribute to the financial performance of organizations. For example, Seyoum (2021) found that effective credit management policies can lead to improved cash flow, reduced financial risk, and increased profitability. In a study they conducted in Nigeria, Otuya and Eginiwin (2017) found that parameters including loan amount, loan purpose, loan period, and collateral security are extremely important in predicting how well small and medium-sized businesses manage their credit. In conclusion, credit management is an essential aspect of financial management for organizations, and its impact on financial performance cannot be overstated. The implementation of effective credit management policies and practices can result in improved cash flow, reduced financial risk, and increased profitability. (Seyoum, 2021; Otuya & Eginiwin, 2017).

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