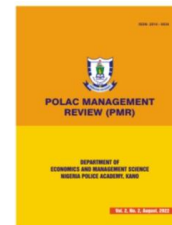




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EFFECT OF CREDIT MANAGEMENT POLICY ON CUSTOMER PERFORMANCE IN NIGERIA

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Abstract

This study examined the effect of credit management policies on the performance of customers in the poultry feed production companies in Nigeria. The aim was to establish empirically the credit management policy that may lead to better customers' performance in the industry. The choice of the industry was born out the competitive and substitutedness nature of the feeds they produce and stiff nature and sensitivity of the customers to price changes. Two models were used to test our hypotheses where Customer Performance (CP) was used in the two models as the dependent variable but for differentiation, figure 1 was added to become CP1 in model 2. Pay-Per-Invoice and Cash-On-Delivery as independent variables respectively in models 1 and 2 respectively. Secondary data sourced from the database containing the details of customers' transactions for a period of five years was used. The study was both exploratory and explanatory as we explored and explained the relationship between the variables of the study. Various statistical analysis such as multicollinearity test, descriptive statistics, normality test were used for purposes of authenticating the soundness and reliability of variables and the outcomes were in line with the rules of acceptance. Linear regression was finally conducted to test the study hypotheses. The results indicated a significant negative relationship at 5% between CP and PPI (model 1) and 1% level between CP1 and COD in model 2.

Keywords: Credit Management Policy, Cash-On-Delivery, Pay-Per-Invoice,

1. Introduction

Operations of business enterprises relate with making goods and services available for needs of individuals, organizations and governments alike. Thus, going-concerns exist primarily to maximize gains for themselves and secondarily to cater and satisfy the needs of the populace both in their immediate and far environments. A carefully conducted feasibility study of what appeals to the teeming populace in a business environment before embarking on production is a prerequisite to acceptability.

Businesses operate in a competitive environment because to a very great extent, none has monopoly of any products or services. Nigerian government in her strive to be a producing state as against consuming through various policies such as the "ease of doing business" is luring her teeming youths to go into production especially agriculture for self-dependence and reliance. Thus, no monopoly of business, products or services and therefore competitions for the businesses to win more and more populace (customers) to their side for patronage and survival.

Customers are individuals, organizations and governments that identify product of an enterprise, use such for their needs, satisfy with the use and willing to keep using such. Enterprises take pride in their customer base. This is due to the fact no firm can survive in the absence of customers and the reason why they are being treated as kings. Fighting for the souls of the customers coupled with the financial and economic challenges for corporate survivals lead enterprises to devising and developing strategies and methodologies in managing these esteemed customers.

One of the strategies of luring and retaining customers is credit facility. What is a credit facility? A credit facility may be regarded as a privilege customers enjoy to take possession of certain products but make the payments for it at a later date. This is against the traditional idea of paying before benefiting from a product or service. Managing credit facility is therefore very essential to avoid excessive irrecoverable debts, bankruptcy and ensuring corporate survival.

According to Alice and Jaya (2016), credit management is one of the most important activities in any company and cannot be overlooked by any economic enterprise engaging in credit irrespective of its business nature. It

is the process to ensure that customers pay for the products delivered or the services rendered. No business enterprise granting credit facilities to her customers should handle credit management with levity hand. No matter the nature in respect to size, financial strength, age of operations, industry it operates, failure to recognize the essentiality of managing credit to customers may fold it up. It ensures that no customers granted credit go away without paying at the due date. Thus, credit management is a disciplined attempt by a corporate being to ensure that no kobo is lost to credit defaulters as a results of credit facility.

Credit management according to Myers and Brealey (2003) describe credit management as methods and strategies adopted by a firm to ensure that they maintain an optimal level of credit and its effective management. It is an aspect of financial management involving credit analysis, credit rating, credit classification and credit reporting. Nelson (2002) views credit management as simply the means by which an entity manages its credit sales. It is a prerequisite for any entity dealing with credit transactions since it is impossible to have a zero credit or default risk. Thus, the first thing a serious enterprise willing to grant credit does is to develop credit management policies before granting such.

Given the nature, essentiality and the critical role credit management plays in the life of a business enterprise, accounting and financial scholars locally and internationally have empirically searched the effect it has on different phenomena such as firm performance and profitability, corporate survival, enterprise liquidity and leverage. Some of these studies include; effect of credit management policy on financial performance of listed consumer goods companies in Nigeria by Akporien and Nsima (2020), effect of credit management on performance of commercial banks in Rwanda (A case study of Equity Bank Rwanda Ltd. by Alice and Jaya (2016), Akinleye and Olanrewaju (2019) on credit management and profitability growth in Nigerian manufacturing firms, Ifurueze (2016) on impact of effective management on credit sales on profitability and liquidity of food and beverage industry in Nigeria, to mention but a few. Most of the studies focused on the phenomena mentioned earlier with emphasis on either Money Deposit Banks or manufacturing companies. Less or no attention was made so far on the effects credit management policy has on the performance of these esteemed customers. This study therefore aims at bridging this gap to the best of its ability.

The major objective of this study is to examine the effect credit management policy has on the performance of customers in Nigeria by focusing on the customers in the Agro feed production industry in the country. The choice of the customers in this industry is based on the

volatility and sensitivity they have to both price changes and credit facility leading to a stiff competition among the industry players.

Two major credit management policies are in use in the poultry feed production industry in Nigeria. These are (i) Cash-On-Delivery and (ii) Pay-Per-Invoice. In order to help achieving the objective of this study, the following null hypotheses are put forth:

H₀₁: Cash-On-Delivery (COD) credit policy does not have any significant effect on the performance of customers in the poultry feeds production industry in Nigeria.

H₀₂: Pay-Per-Invoice (PPI) credit policy does not have any significant effect on the performance of customers in the poultry feeds production industry in Nigeria.

The policy of 100% cash transactions i.e. business activities without involving credit is difficult in the contemporaries we live now but on agreed cash and credit terms between the sellers and the buyers (Otuya and Akporien, 2017). Big enterprises are employing the use of “Other Peoples’ Money” (OPM) in running their activities. Since they have to pay interest on such loans and keep the business moving, this study shall be of great help to such entities in order to know how their customers on credit shall be giving a close watch to refund or payback what they were given on credit at a stipulated time to avoid too much bad debts, struggle for survival and eventual close-down. It would also contribute to the existing literatures on the credit policy and management so that young researchers can have enough to tap from in order to help their ministries.

2. Literature review and theoretical framework

In Akoprien and Nsima (2020), Pandey (2004) stated that credit management policy is adopted to regulate terms and conditions for the sale of goods and services on credit basis, customer qualification criteria, procedure for making collections and steps to be taken in case of customer delinquency. Long (1993) further notes that absence of an effective credit management policy to regulate sales made to customers on credit may lead to liquidity problems that can posse negative effect on firms’ growth and survival. Credit management is an essential part in any business organization, due to the fact that contemporary business transactions are based on agreed credit terms by both sellers and buyers (Otuya and Akporien, 2017). The fact is, without a proper management of firm’s credit components, smooth and effective operation of the firms will be hindered. This is the basis for which managers of typical financial managers devote around 60% of time in managing the credit affairs and allocations (Brigham and Houston, 2003).Therefore, a

proper allocation of resources may influence firm profitability favorably and enhance growth.

Agu and Basil (2013) contended that a good credit management policy reduces the risk of doubtful and bad debts while a poor management of trade debt can lead to the provision of a large sum of funds for doubtful and bad debts and losses (Pandey, 2010). Thus, credit management policy is designed to minimize costs associated with trade credits or accounts receivables while maximizing the benefits from it. A sound credit policy is the blueprint for how the company communicates with and treats its most valuable asset which are the customers (Pike and Neale, 1999). Scheufler (2002) proposes that a credit policy creates a common set of goals for the organization and recognizes the credit and collection department as an important contributor to the organization's strategies.

Kalunda, et. al, (2012) assert that credit policy can either be lenient or stringent. According to them, a lenient credit policy tends to give credit to customers on very liberal terms and standards such that credit is granted for longer periods even to those customers whose credit worthiness is not well known. A stringent credit policy on the other hand is restrictive and allows credit only to those customers whose credit worthiness have been ascertained and are financially strong.

Asymmetric Information Theory

PWHC (2002) as cited in Eppy (2005), referred to information asymmetry as a situation where owner or manager is more knowledgeable of the prospects and risks of the business than the lenders. Information asymmetry arises when a borrower who takes a loan usually has better information about the potential risks and returns associated with investment projects for which the funds are earmarked whereas the lender does not have sufficient information concerning the borrower (Edwards and Turnbull, 1994) as contained in Rosemary (2013). Binks et., al (1992) cited in Rosemary (2013) pointed out that perceived information asymmetry poses two problems for the banks, moral hazard (monitoring entrepreneurial behavior) and adverse selection (making errors in lending decisions). Banks will find it difficult to overcome these problems because it is not economical to devote resources to appraisal and monitoring where lending is for relatively small amounts. This is because data needed to screen credit applications and to monitor borrowers are not freely available to banks. Bankers face a situation of information asymmetry when assessing lending applications (Binks and Ennew, 1996, 1997). The information required to assess the competence and commitment of the entrepreneur, and the prospects of the business is either not available, uneconomic to obtain or difficult to interpret. This creates two types of risks for the Banker (Deakins,

1999). The risk of adverse selection which occurs when banks lend to businesses which subsequently fail (type II error) or when they do not lend to businesses which go on to become "successful, or have the potential to do so (type I error) Altman (1971).

Transactions Costs Theory

First developed by Schwartz (1974), this theory conjectures that suppliers may have an advantage over traditional lenders in checking the real financial situation or the credit worthiness of their clients. Suppliers also have a better ability to monitor and force repayment of the credit. All these superiorities may give suppliers a cost advantage when compared with financial institutions. Three sources of cost advantage were classified by Petersen and Rajan (1997) as follows: information acquisition, controlling the buyer and salvaging value from existing assets. The first source of cost advantage can be explained by the fact that sellers can get information about buyers faster and at lower cost because it is obtained in the normal course of business. That is, the frequency and the amount of the buyer's orders give suppliers an idea of the client's situation; the buyer's rejection of discounts for early payment may serve to alert the supplier of a weakening in the credit-worthiness of the buyer, and sellers usually visit customers more often than financial institutions do (Rosemary, 2013).

Credit Management Policies

Credit Management is a set of processes the company employs to ensure that customers pay for the goods supplied or services rendered to them on credit. This is in line with Nelson (2002) who regarded credit management as simply the means by which an entity manages its credit sales. It is thus an activity any entity giving credit facilities to customers cannot toy with regardless of the nature of its engagement and therefore a prerequisite for such an entity since it finds it difficult to have zero credit or default risk.

Entities devise and employ most suitable credit management policies they deem satisfactory which can minimize their risk exposure. Two of these are Cash-On-Delivery and Pay-Per-Invoice.

Cash-On-Delivery

A cash on delivery policy is an arrangement whereby customers pay only when delivery is made. In other words, when customers order for a supply, they are not obliged to pay until the order is delivered to them at an agreed destination. It is a policy that enables customers to pay (in cash or other means) at the time the product is delivered at the location agreed upon. This policy is one of the stringent credit management policies in that customers do not enjoy much liberty to delay payment. The only grace is until delivery of the orders is made. Once that happens, payments must follow.

According to Mohanad, H. (2017), since the appearance of the first e-commerce website in 1995, various methods of online payment for e-commerce purchases have been used, including credit cards, debit cards, smart cards, e-cash, e-checks, e-wallet, and micropayment. However, during the past few years, a new method of payment called cash on delivery (COD) has been increasingly used. COD is different from all other methods of payment in terms of its processing, the time and place that the payment is made, the parties involved, and many other issues, including its security and privacy assurance (Reference removed). COD enables customers to make a payment in cash at the time a product is delivered to any location the customers choose.

It needs to be mentioned that, the application of COD is limited to online transactions. Since its one of the credit management strategies, most of the business entities find it appropriate to use to manage their credit disbursement. It allocates zero credit to customers by inference. It is cash and carry policy in disguise. The only difference is that in the former, cash is paid only on delivery while cash is paid before the delivery in the later.

Pay-Per-Invoice

A Pay-Per-Invoice (PPI) or Pay-By-Invoice is an arrangement whereby company bills its customers according to the invoice value for them to get a fresh credit or invoice. An invoice is a document that is issued by the seller at the end of every transaction to the buyer containing vital information such as transaction value, seller's name and address and so on. As a way of managing credits given to the customers, using the PPI policy, customers are allowed to take an first invoice on credit but required to settle the amount on that invoice before being entitled to get another one. PPI is a kind of post-delivery-payment method system whereby customers are allowed to take delivery and possession of the items while payment of the invoice value qualifies him to get another credit facility.

3. Research design and methodology

In line with the hypotheses developed earlier, this section shall bring forth, how we intend to achieve them in relations to designs and methodology. The study is

intended to be both exploratory and explanatory by exploring and explaining the interrelationship between the variables of the study.

We used a quantitative research method so as to give rooms for data collection and facts as well as testing of hypotheses. Besides, it is an objective and reliable research method as the outcome or findings cannot be subjectively interpreted.

Five (5) years (2016 to 2020) secondary data was used sourced from the database which contained the account details and transactions of customers of the two (2) poultry feed companies that formed the study size. The study size was chosen randomly from a population of five (5) which are the leading poultry feed production companies in Nigeria. These include: Chukum Feeds by Olam Nig. Ltd., Top Feeds by Premier Feed Mills Ltd., Hybrid Feeds by Hybrid Nig. Ltd., Vital Feeds by Grand Cereal Nig. Ltd. and Animal Care Feeds by Animal Care Services Konsult Nig. Ltd.

It may need to be mentioned that the companies that formed our sample size just like any others in the industry have three (3) selling strategies which are cash-and-carry, cash-on-delivery and pay-per-invoice. This study however focused only the cash-on-delivery and pay-per-invoice.

The study variables and their measurements are specified thus:

CP as customer performance measured in terms of respective customers' sales volume for a period of 5 years 2016 to 2020.

COD as cash-on-delivery measured in terms of total number of invoices by a customer for a period of 5 years 2016 to 2020.

PPI as pay-per-invoice measured in relation to the total number of invoices by a customer for a period of 5 years 2016 to 2020.

Two models were used. One measured the effect of cash-on-delivery policy on customers' performance while the other measured the effect of pay-per-invoice on customers' performance in the poultry feed production industry in Nigeria.

The models are specified thus:

$$CP_{it} = \beta_0 + \beta_1 COD_{it} + e_{it} \dots \dots \dots \text{Model 1}$$

$$CP1_{it} = \beta_0 + \beta_1 PPI_{it} + e_{it} \dots \dots \dots \text{Model 2}$$

Where:

CP = Customer Performance (1 is added to model 2 just to differentiate it from model 1)

COD = Cash-On-Delivery

PPI = Pay-Per-Invoice

e = Stochastic or disturbance term

i = Companies

t = Time dimension of the Variables

β_0 = Constant or intercept

β_{1-2} = Coefficients to be estimated or the Coefficient of slope parameters.

To analyze our data, we conducted a linear regression using SPSS to establish the interrelationship between the variables of the study and to aid the understanding and the interpretations of the effect our dependent and the independent variables have on each other.

4. Data presentation and analysis

This section of the study was devoted to present and analyze the data used in the study for the purpose of deriving an objective interpretation of the results there from.

Normality Test

There was a need to confirm if our dependent variables are approximately normally distributed for each category of the independent variable. Hence, the normality test. It is expected that the z-value measured by Skewness and Kurtosis should be somewhere in the span of +1.96 to -1.96 while the p-value indicated by Shapiro-Wilk test be above 0.05 and Histogram, Normal Q-Q plots and Box plots visualize that our data are approximately normally distributed.

Given the results, the z-values for PPI, CP, COD and CP1 are respectively 9.99 and 19.34, 3.46 and 1.05, 7.42 and 8.43 and lastly 4.45 and 3.08. This showed a highly skewed and kurtotic statistics. It therefore indicated that our data are not approximately normally distributed in terms of skewness and kurtosis. Same goes to Shapiro-Wilk test because all the p-values are below the expected 0.05. The data was therefore needed to be corrected via data transformation using SPSS. After the transformation however, the z-values respectively indicated 2.34 and 0.14, -1.96 and -0.06, 2.12 and -0.54 and -2.81 and 0.83 for PPI, CP, COD and CP1 which still indicated that not all were approximately normally distributed. However, those not normally distributed have been taken care of in the Normal Q-Q Plot which requires that data should be visually approximately normally distributed and the results conformed with this

Descriptive statistics

The descriptive statistics for models is presented on Table 1 below:

Table 1: Descriptive statistics

Variable	Mean	Minimum	Maximum	Std. deviation	Skewness	Kurtosis
PPI	1.9986	1.00	3.75	0.7009	0.898	0.107
CP	2.9434	1.00	4.00	0.7691	-0.761	-0.049
COD	2.1155	1.00	3.77	0.7890	0.762	-0.566
CP1	2.8578	1.00	3.96	0.8579	-0.077	0.282

Source: Authors' compilation generated via SPSS: July, 2022.

From Table 2 above, the mean of CP (customer performance) in model 1 indicated 2.9% with a minimum of 1% and a maximum of 4%. This suggested that customers on Pay-Per-Invoice arrangement do come back for another invoice after the previous one in an approximately 3% of a minimum of one invoice and a maximum of four. In the same vein, the mean of CP1 (customer performance) in the model 2 was 2.85% while the minimum and maximum are 1% and 3.9% respectively. It also indicated very close reactions of the customers on the Cash-On-Delivery arrangement to their counterpart in the PPI. Besides, the mean of PPI of approximately 2% suggested the willingness of customers under this arrangement to come for another

invoice in a least of one and maximum of 3.75% of the invoices where the COD customers have a mean of 2.1% and minimum of 1 and a maximum of 3.96% approximately 4% of invoices taken.

Multicollinearity test

We conducted a multicollinearity test to examine the intercorrelation between variables of the study most especially the independent variables. This test was analyzed by employing the following approaches: (i) Tolerance Value, (ii) Variance Inflation Factor (VIF), (iii) Eigen Value and (iv) Condition Index Value of . The results of the test are summarized on Table 2 below.

Table 2: Multicollinearity Test

Variable	Tolerance Value (TV)	VIF	Eigen Value (EV)	Condition Index Value
CP	1.000	1.000	1.945	5.947
CP1	1.000	1.000	1.439	1.947

Source: Authors' compilation generated via SPSS: July, 2022.

Going by Table 2 above, starting with model 1 (CP), both TV and VIF were 1.000, while EV and CIV were 1.945 and 5.946 respectively while CP1 i.e model 2 showed 1.000 just as in model 1 for both TV and VIF but EV and CIV were 1.439 and 1.947 respectively. Determining intercorrelation among variables using

these measures, basic rules stipulate that; Tolerance Value is required to be greater than 0.2, VIF must be greater than 5.0, Eigen Value must not close zero while CIV must be less than 15. Since all conditions are fulfilled, we therefore conclude here that there is absence of multicollinearity among our variables.

Regression results

Table 3 below presents results of the regression for both models 1 and 2.

Table 3: Regression results

	Model 1 (CP)	Model 2 (CP1)
Constant	3.609 (9.793) {0.000}	4.016 (12.286) {0.000}
PPI	-0.333 (-1.911) {0.064}	Nil
COD	Nil	-3.776 (-3.776) {0.000}
R2	0.92	0.25
Adjusted R2	0.067	0.236
Durbin-Watson	2.912	2.246
F-stat	3.651 {0.064}	4.261 {0.000}
No. of observations	37	43

Source: Authors' compilation generated via SPSS: July, 2022.

, * indicate significant at 5% and 1% respectively. The prob values are in parentheses style {} while t-stat values are in ().

The result above for model 1 signified a coefficient of determination (R-square) of 92% (0.92) and Adjusted R-square of 6.7% (0.067) indicate that 0.92% variation in the dependent variable (CP). Durbin-Watson value of 2.912 (which fall within the acceptable region) clearly shows the absence of auto-serial correlation in the successive values of the parameters. F-statistics showed 3.651 and it was significant at 5% level ($p = 0.064$). This affirms that the model as a whole is jointly fit. Hence, the explanatory value is significantly linked with the dependent variable. The relationship between PPI and CP is negative and significant at 5%. It indicated the customer performance is affected negatively by Pay-Per-Invoice policy of managing credit to the customers. It is differ from what should be expected in reality. However, this reaction may be understood from the perspective of reactionary point of view that customers in this category were previously free credit without a sound management control until this policy was put in place as check and balance approach.

The coefficient of determination (R-square) in model 2 was 0.253% (25.3%) and the Adjusted R-square was 23.6% (0.236%) explained 25.3% variation in the

dependent variable. Durbin-Watson of 2.246 value (also fulfill the acceptable standard) also shows that there was no auto-serial correlation. The F-statistic value of 4.261 further indicated that the model as a whole is jointly fit. COD and CP1 showed a negative as well with a very strong significant level of 1%. This indicates that performance of the customers under the Cash-On-Delivery arrangement is negatively affected by such a policy. It is also contrary to what should be obtainable in real life situation. However, same explanation above may still be given as a reactionary approach to sudden changes in the credit facility.

The hypotheses formulated earlier were that both COD and PPI policies have no significant impact on customer performance in the poultry feed production firms in Nigeria. However, as can be seen on the results, the two have strong significant effect on the performance of the customers in the industry. Therefore, we reject the null hypotheses that COD and PPI have no significant effects on the customers in the poultry feed production companies in Nigeria.

5. Conclusion

The study examined the effect of credit management policy of the poultry feed production companies in Nigeria on the performance of their customers. It was an empirical investigation finding out the credit policies customers in the industry preferred which translate to

improved performance. Two models were used to test the major credit policies in use in the industry i.e. Pay-Per-Invoice (PPI) and Cash-On-Delivery (COD). The study was limited to the industry due to the high rate of competition and attempts to lure others' customers by a sister competitor. Customer Performance (CP) was used as the dependent variable in the two models (1 and 2) but figure 1 was added in model 2 as (CP1) for ease of differentiation from model 1 while PPI and COD were the independent variable respectively in models 1 and 2.

Various statistical tests such as normality test to ascertain if the variables and data used were approximately normally distributed or not using Shapiro-Wilk test and Normal Q-Q plot. The results favoured the rules of above 0.05 in Shapiro-Wilk and approximate normal visual distribution in Normal Q-Q plot. The multicollinearity tests and the statistical results were in line with the laid down rules and conditions absence of intercollinearity of the variables. Lastly, a linear regression analysis was conducted to

test the study hypotheses. The results contradicted the expected life situation where both independent variables (PPI and COD) had negative relationships with the two dependent variables (CP and CP1) at strong significant levels of 1% and 5%. We could not lay hand on any similar studies on this, thus we could not establish or related the findings with previous researches.

Going by the findings, it is recommended that credit management policies be lenient by way of studying customers disposition to quick payment of debts. In the same vein, a mix of Cash-On-Delivery and Pay-Per-Invoice is appreciable but diligent steps be taken when converting or migrating from one policy to other to avoid negative reactions as in the findings of this study.

One noted limitation of this study was the inability to introduce some control variables such as price, environment, end-users factors, etc. A further study may therefore be conducted by factoring these and other noted limitations by the readers of this research work.

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