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CREDIT MANAGEMENT PRACTICES AND FINANCIAL PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN KISII COUNTY

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ABSTRACT

The study sought to find out the effect of credit management practices on financial performance of SMEs in Kisii County. This study adopted a descriptive survey research design. In this study the target population comprised of 1500 SMEs. According to the Kisii County Government Revenue office the SMEs operating were 1500. For this study a 10% sample size was used. Random stratified sampling was used to sample the SMEs. The study sample size was 150 respondents. The study collected primary data through the aid of questionnaires. Piloting was done on SMEs operating at Nyamira Town. The data obtained during pre-testing was analyzed and the results were used to develop dummy tables. The data was presented in form of tables and figures to increase the accuracy of the results. The results indicated that collection policy had positive and significant effect (p-value of 0.000) on financial performance. Credit terms had a p-value of 0.000 which meant it had a positive and significant effect on financial performance. Credit policy had a p-value of 0.000 which implied it had a positive and significant effect on performance. Credit appraisal techniques had a p-value of 0.000 which implied it had a positive and significant effect on performance. On the other hand, the regression analysis revealed that the credit management practices explained up to 69.8% change in financial performance of small and medium enterprises in Kisii County. The study concluded that credit management practices significantly influence financial performance of small and medium enterprises in Kisii County. For improved financial performance, SMEs should develop and implement comprehensive credit policies that assess customer creditworthiness, set appropriate credit limits, and consider market conditions when offering credit terms. SMEs are recommended to consider incentivizing faster repayments through early payment discounts and negotiate repayment schedules that accommodate customer cash flow needs while ensuring timely collections. SMEs should develop and implement proactive collection measures, including clear communication with customers regarding outstanding balances.

Key Words: *credit policy, credit terms, collection policy, credit appraisal techniques, SMEs*

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INTRODUCTION

According to Abdulaziz and Andrew (2013) Majority of the formal financial institutions consider small and medium business enterprises as highly risky and commercially unviable, thus hindering them from accessing credit and worse case is in the rural areas where smallest and medium business enterprises are located. According to Memba (2011) small and medium businesses in Africa and Kenya in particular require long term source of finance for them to grow. It is hard for the small and medium business enterprises to access finances from the financial institutions since they lack proper financial records as a requirement (Njagi *et al.,* 2017). Banks do not provide enough support to small and medium business enterprises (Chimaleni *et al.,* 2015). Most banks in Kenya require small and medium businesses to provide collateral that includes land title deeds, motor vehicle log books, guarantees, listed shares, as well as cash in the form of deposits since these collateral is limited to most businesses use of bank loans is difficult with these business enterprises (FSD Kenya & Growth Cap, 2016). In Kenya about 70% of the small and medium business enterprises get their initial capital by borrowing from family, friends and relatives (Njeru, 2013). According to Kamau (2011) in Kenya mostly small and medium business enterprises rely on borrowing from family, friends and relatives or self-financing as their main source of finance.

Promotion of the wholesale and retail trade sector in Kenya is very important for attaining the national goals and vision 2030 (Wambui, 2015). According to Sitharam and Hoque (2016) a very strong small and medium business enterprises contributes highly to the country's economy, contributing to the gross domestic product (GDP) by reducing the level of unemployment, reduction in poverty levels and promotion of entrepreneurship activities. Any business enterprise is very important engine for job creation, innovation, poverty eradication hence main driver for economic growth and development (Katua, 2014; Emad, Suhail & Jabbar, 2014). Small and medium business enterprises are important for rapid technological development and provision of job opportunities in any country (Njeru, 2013).

According to Ombongi and Wei (2018) business enterprises in Kenya do not only have a share in the GDP but also provide a large portion of the employment openings where they provide 85% of the Kenyan employment. Even though small and medium business enterprises are big contributor of the Kenyan economy they face challenges that hinder their growth and some of the challenges are unfavorable government policies, weak financial institutions and access to finances as a major problem (Wangui *et al.,* 2014). The small and medium business enterprises in Kenya are faced with problems like lack of sufficient collateral, regulatory rigidity, gaps in legal framework, lack of information from both the businesses and banks with the major challenge being identified as lack of access to finance (Onyiengo, Namusonge & Waiganjo, 2017).

Wholesale and retail trade sector as outlined in vision 2030 is one of the powerful sectors to improve the Kenyan economy through provision of products and creation of employment. Small and medium business enterprises have been recognized as a greater contributor to the Kenyan economy offering both employment and platform for innovative ideas (Wambui, 2015). The small and medium business enterprises offer about 75% of the general employment and contributing about 18% of the GDP in the Kenyan economy (Kangala, 2016). Businesses in Kenya serve as live blood to the poor; create employment opportunities, generate income and contribute to economic growth (Mukoma & Masini, 2015). According to Wangui et al., (2014) small and medium business enterprises play the role of job creation, alleviating poverty and promoting industrialization.

Statement of the Problem

In Kisii County, the impact of credit management practices on the financial performance of SMEs is not yet fully understood due to two primary reasons. Firstly, there is a lack of comprehensive understanding regarding the nature of certain credit management practices implemented by SMEs. Secondly, the effects of these policies on the financial performance of SMEs have not been extensively tested and remain largely unexplored (Ngumi, 2013).

Despite the critical role played by the SMEs and retail trade sector in the Kenyan economy in terms of growth and development through creation of employment, contribution to GDP, alleviation of poverty and provision of tax revenue among many other importance there are many factors that challenge the business growth and survival in the sector. Finance has been cited by many researchers as the major constraint which limit the ability to drive the economy growth and development as expected (Njeru, 2013, Wangui *et al.*, 2014, Muriithi, 2017 and Ombongi & Wei, 2018).

According to Ombongi & Wei (2018) business enterprises do not have enough internal finances for re-investment in their business and then they have to seek external sources of finance to supplement the internal finances. This clearly shows that for effective growth and development of any business enterprise use of both internal and external finances must be witnessed. However, it is not clear which source of finance contribute to a better performance of the SMEs and retail businesses hence the need for this study. An important question then arises on what sources of finance significantly contribute to the best performance of the SMEs and retail businesses in Kenya.

The presence of conflicting conclusions has prompted the need for a comprehensive study involving a broader range of policies in order to determine the impact of Financial Sector Policies on the performance of small and medium enterprises. It is in this regard therefore that this study broadly attempted to address the gaps left in the previous studies elsewhere and extend it more specifically to SMEs. This study focused on assessing the effect of credit management practices on financial performance of small and medium enterprises in Kisii County.

Objective of the Study

The study examined the effect of credit management practices on financial performance of SMEs in Kisii County. This study was guided by the following specific objectives; -

- To examine the effect of credit policy on financial performance of small and medium enterprises in Kisii County.
- To establish the effect of credit terms on financial performance of small and medium enterprises in Kisii County.
- To determine the effect of collection policy on financial performance of small and medium enterprises in Kisii County.
- To determine the effect of credit appraisal techniques on financial performance of small and medium enterprises in Kisii County.

This study was guided by the following research questions; -

- What is the effect of credit policy on financial performance of small and medium enterprises in Kisii County?
- What is the effect of credit terms on financial performance of small and medium enterprises in Kisii County?
- What is the effect of collection policy on financial performance of small and medium enterprises in Kisii County?
- What is the effect of credit appraisal techniques on financial performance of small and medium enterprises in Kisii County?

LITERATURE REVIEW

Theoretical Review

Pecking Order Theory

Donaldson in 1961 suggested Pecking order theory and it was modified by Stewart Myers and Nicolas Majluf (1984). According to this theory firms are financially constrained due to the information asymmetry between managers/ owners and investors and then firms adopt a hierarchy in selecting sources of finance. According to this theory firms have to rank their sources of finances

(Njagi *et al.,* 2017). Depending on this theory firms have three main sources to fund the financial needs which are internal funds, debt and new equity. The theory claims that mostly firms prefer to use firstly internal finances such as excess liquid assets or retained earnings (Abdulaziz & Andrew, 2013). If it is necessary to turn to external finance firms use debt with little or no risk, which usually corresponds to short term debt and in the last place, firms will select external equity (Njagi *et al.,* 2017).

According to Abdulaziz and Andrew (2013) puts it that finances contributed internally are preferred by business enterprises since they are usually very cheap and easier to arrange for by giving a short notification. If internal financing is not sufficient to fund investment projects, external funding may be sourced and if they do, in order to minimize costs, the managers have to choose debt before using equity. According to Nero (2013) internal finances are preferred to firms because they are cheaper and easy to get at a short notice. This theory observes that businesses follow a hierarchy of financing and prefer internal financing first; debt is preferred over equity as equity would mean bringing external ownership into the company. The POT may fail Pecking order theory is that it does not explain the influence of taxes and financial distress. The theory assumes that there is no target capital structure. The firms choose capital according to the following preference order; internal finance, debt finance and then equity finance. This may not be the case for most business enterprises as they may lack retained earnings (Abdulaziz & Andrew, 2013).

Trade Off Theory

According to the research conducted by Modigliani and Miller in 1963, they put forth the argument that the tax code exhibits a bias towards debt financing as compared to equity financing. This bias arises from the provision in the tax code that permits firms to deduct their interest expenses from their gross income for the purpose of calculating corporate taxes. However, the tax code does not allow for the deduction of payments made to equity holders, such as dividends, on the personal tax account. In this approach, it is observed that the utilization of debt to finance business investment decisions maximizes firm value due to the marginal gain of a tax deduction generated by each extra dollar of debt, without any corresponding cost. Additional financial economists, such as Kraus and Litzenberger (1973), have proposed that the expenses associated with financial distress could potentially explain the apparent constraints on loan utilization, so aligning with the expectations of the tax-adjusted Modigliani-Miller analysis of financial policy.

According to Eckbo (2008), an escalation in the expenses associated with financial hardship has the effect of diminishing the ideal level of debt. Similarly, an augmentation in non-debt tax shields leads to a reduction in the optimal debt level. Conversely, an elevation in the personal tax rate on equity results in an increase in the optimal debt level. According to Eckbo (2008), when the capital structure is at its optimal level, an escalation in the marginal tax rate for bondholders leads to a reduction in the ideal amount of debt. The impact of risk remains unpredictable, even when assuming a normal distribution of uncertainty. According to Eckbo (2008), it may be inferred that there is generally an inverse relationship between the debt ratio and volatility. The rationale presented for the presence of a finite, optimal capital structure is clear and logical. The insufficiency of debt capacity arises from the trade-off made by firms between the tax savings resulting from the deductibility of interest payments and the anticipated costs associated with bankruptcy (Kraus & Litzenberger, 1973).

Financial Intermediation Theory

The theory in question was proposed by Akerlof, Benson, and Diamond (1980), along with other advocates. These scholars perceive financial intermediation as a blend of institutional mechanisms and market dynamics that cater to the diverse economic entities' requirements. The primary objective of financial intermediation is to amass funds from the general public and legal

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entities, and subsequently provide them to borrowers under commercial terms, thereby exposing themselves to financial risks (Rayberg, 2002). The approach was developed with the aim of reducing expenses required to incentivize borrowers to act in the best interest of creditors (Sharp et al., 2011).

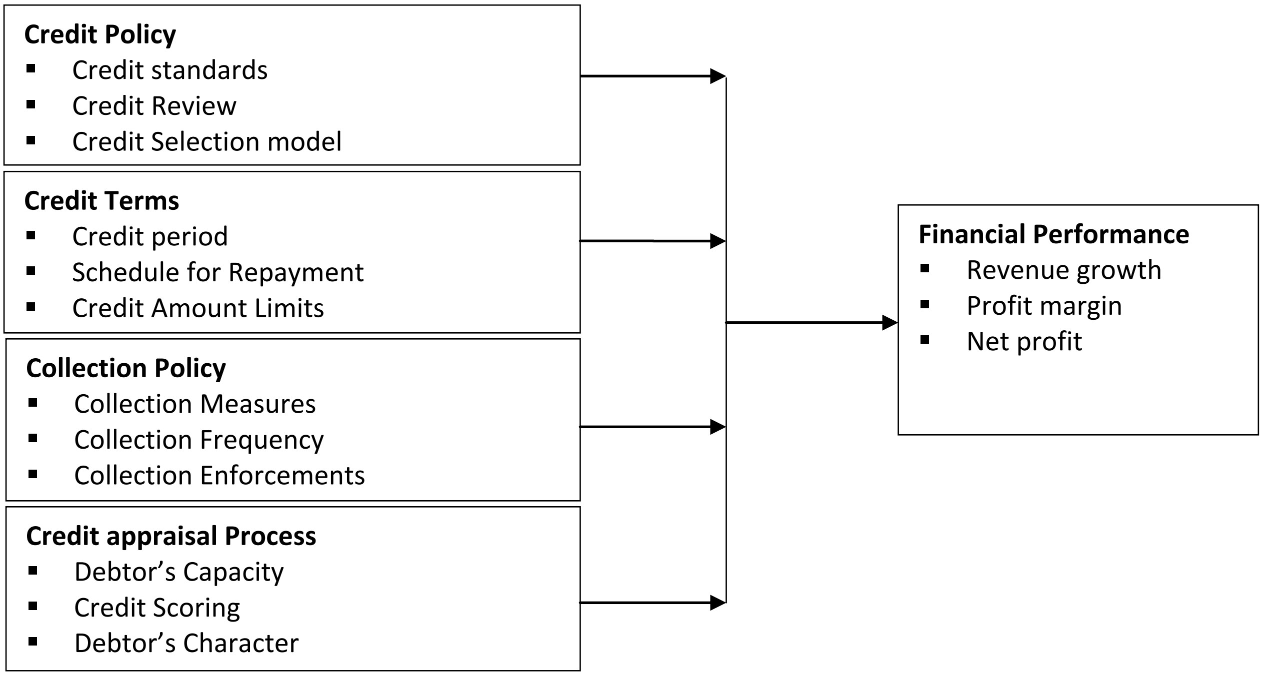
The conventional framework of financial intermediation was founded on the principles of transactional and informational perspectives. Financial intermediation relies heavily on the concept of information asymmetry, which encompasses moral hazard and adverse selection. These phenomena need the implementation of expensive verification and auditing methods. The presence of information asymmetry leads to market imperfections. According to the neoclassical theory, ideal financial markets are characterized by the absence of individual price manipulation, negligible transaction costs, uniform borrowing circumstances, and the presence of investors with homogeneous expectations (Rayberg, 2002). Research on information asymmetry has focused on the complex dynamics between banks and depositors, with particular emphasis on the reasons that prompt depositors to withdraw their funds from banks. This, in turn, gives rise to liquidity concerns and the associated liquidity risk. The subsequent approach was founded on the strategy of controlling the monetary generation of savings and funding the economy. This regulatory method affects the solvency and liquidity of intermediaries, hence impacting their capacity to refine and recover loans (Diamond & Rajan, 2000).

Liquidity Preference Theory

According to Keynes (1935), the concept of retaining money can be attributed to three distinct incentives, including the transactional drive, the cautious motive, and the speculative motive. According to the speculative motive, there exists a negative relationship between money demand and the interest rate, which in turn affects leverage. One method of mitigating uncertainty was to retain monetary resources. Therefore, the liquidity preference framework is utilized to ascertain the equilibrium interest rate based on the interplay between the supply and demand for money. The model was established by Keynes (1936) on the basis of many assumptions. To begin with, it is important to note that money does not accrue any interest. Additionally, it was posited that there existed solely two categories of assets for the purpose of wealth preservation: currency and bonds.

The present study was based on liquidity theory, which places significant focus on liquidity, as well as the other variables being examined, namely leverage, efficiency, and capital adequacy. The idea explicitly states that success cannot be solely attributed to liquidity. As of December 31, 2015, several financial institutions in Kenya, including Daima Bank, Trade Finance, Allied Credit Ltd, International Finance Ltd, Nairobi Finance Ltd, Inter Africa Credit and Finance Ltd, and Dubai Bank, experienced collapse and liquidation. Additionally, Imperial Bank was placed under receivership, while Chase Bank underwent temporary statutory management. The liquidity of these institutions was observed to be significantly elevated during the year in which their operations underwent liquidation or were placed under statutory management. The theory elucidates the significance of maintaining capital adequacy and liquidity requirements in order to effectively manage any future financial crises, as it incorporates the notion of storing money as a precautionary motivation.

Conceptual Framework



Independent Variables **Dependent Variable**

Figure 1: Conceptual Framework

Empirical Review

Ahmed (2010) describes credit policy as a managerial philosophy that brings out the decision variables of credit standards, collection efforts and credit terms by which managers in microfinance institutions have an influence on their operations. According to Schueffer (2002), in today's environment of business management of risk and improvement of cash flows are very challenging. With the rise of bankruptcy rates, the probability of incurring losses has increased. Business practices and economic pressures are forcing organizations to slow payments while on the other hand resources for credit management are reduced despite the higher expectations.

Management to incorporate changes in strategic direction and risk tolerance periodically revises credit policies or market conditions (Elliot 2009). The reviewing is done to allow incorporation of customer preferences so their needs can be met according to their expectations. The reviews are also to evaluate the performance of the policy in terms of achieving desired objectives that range from profitability to customer growth and outreach. The credit policy also addresses the procedure of lending and recovering loans from customers (Zeller 2010). On time loan payments encourages customer loyalty due to the limited inconveniencies, which leads to an improvement of financial performance.

A Credit terms is a contractual stipulation under which a firm grants credit to customers (Wamasembe, 2016), furthermore these terms give the credit terms and the credit limit. The firm should make terms more attractive to act as an incentive to clients without incurring unnecessary high levels of bad debts and increasing organizations risk. Credit terms normally stipulate the credit terms, interest rate, method of calculating interest and frequency of loan installments. Discounts are offered to induce clients to pay up within the stipulated period or before the end of the credit terms.

Scheers (2016) examined the challenges facing family-owned SACCOs dealing in groceries in South Africa to understand the extent to which the

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business owners or managers felt that a number of selected problems affected the success of their businesses. One of the significant findings was that credit terms set affected business success. The results also showed that an inadequate credit term was a problem experienced by about a third of the businesses. This is directly reflective of the lack of credit terms within the businesses. Gaitho (2016) carried out a study on credit terms by SACCOs in Nairobi where findings established that many SACCOs used credit terms management practices to reduce risks. She further found out that majority of them depended a lot on the discretion of portfolio managers for better credit terms management standards contrary to set principles and credit risk formulae rather than decisions to some extent limiting efficient financial performance.

There are various policies that an SMEs should put in place so as to ensure that credit management is done effectively. One of these policies is collection policy which is needed because all customers do not pay the firm's bills in time. Some customers are slow payers while some are non-payers. The collection effort should therefore aim at accelerating collections from slow payers and reducing bad debt losses (Taneta-Skwiercz, 2018).

A collection policy should ensure prompt and regular collection. It is needed for fast turnover of working capital while keeping collection costs and bad debts within acceptable limits and maintaining collection efficiency. The collection policy should lay down clear-cut collection procedures. The collection procedures for fast dues should be established in an unambiguous term. The slow paying customers should be handled very tactfully. The other policy should be the analysis of business and its management. Besides appraising the financial strength of the applicant, the firm should also consider the quality of management and the nature of the customer's business. The firm should conduct a management audit to identify the management weaknesses of the customer's business. A centralized structure of the customer's business without proper management systems can degenerate into mismanagement over trading and business failure. If the nature of the customer's business is highly fluctuating or he has financially weak buyers or his business depends on a few buyers, then it is relating risky to extend credit.

El-Rashidy and Al-Hosni (2015) aimed to compare three credit risk assessment models for their effectiveness in predicting the probability of default for SME loans. The study was conducted in Oman, using a dataset of 650 SME loan applications from a local bank. Three credit risk assessment models were used: logistic regression, artificial neural networks, and support vector machines. The target population consisted of SME borrowers, while the sample population included all approved and rejected loan applicants during the period of January 2011 to December 2013. Data was collected through secondary sources such as financial statements and credit reports. The results showed that artificial neural networks outperformed both logistic regression and support vector machines in predicting the probability of default. The model's accuracy rate reached up to 86%.

Prakash and Kumar (2018) examined the impact of credit scoring models on the financial performance of micro, small, and medium enterprises (MSMEs) in India. The study was carried out in India, focusing on MSMEs operating in the manufacturing sector. A total of 150 MSMEs were selected randomly for the survey. Data was collected through structured questionnaires administered to CEOs or CFOs of these firms. Descriptive statistics, correlation analysis, and multiple linear regressions were employed to analyze the data. The results indicated that there is a significant positive relationship between credit scoring models and financial performance of MSMEs. Specifically, credit scoring models improved access to finance, reduced interest rates, and increased profitability.

METHODOLOGY

The study adopted a descriptive survey research design. The target population comprised of 1500

SMEs. This study will apply stratified random sampling technique. The study applied questionnaires, key informant interviews, observation and document analysis as the main tools for collecting data. To uphold content validity, the researcher discussed the contents of the questionnaires with the supervisors before going to the field. Piloting was done on SMEs operating at Nyamira Town. The researcher's method of gathering data was through the use of questionnaires. Data gathering involved the use of closed-ended questionnaires. To analyze the data collected for this study, descriptive statistics was used. The statistical package for social science (SPSS Version, 26) for Windows was used to analyze the data on a PC computer.

FINDINGS AND DISCUSSIONS

Descriptive Statistics

Credit policy

The first objective of this study was to find out the effect of credit policy on financial performance of small and medium enterprises in Kisii County. In order to achieve this objective, the study therefore sought to find out the extent to which credit policy affects financial performance of small and medium enterprises in Kisii County. The results are presented in Table 1.

Table 1: Credit Policy

	5	4	3	2	1	Mean	S.D
SMEs in Kisii County use comprehensive and relevant criteria to evaluate the creditworthiness of their customers	48.4% (61)	11.9% (15)	27.8% (35)	5.6% (7)	6.3% (8)	3.90	1.25
The credit evaluation criteria employed by SMEs in Kisii County effectively assess the risk of non-payment and support informed credit decisions	11.9% (15)	35.7% (45)	31.7% (40)	14.3% (18)	6.3% (8)	3.33	1.06
SMEs in Kisii County set appropriate credit limits for their customers based on their creditworthiness and financial capacity	26.2% (33)	37.3% (47)	15.1% (19)	15.1% (19)	6.3% (8)	3.62	1.21
The credit limits established by SMEs in Kisii County strike a balance between supporting sales growth and minimizing the risk of bad debts	33.3% (42)	37.3% (47)	18.3% (23)	7.9% (10)	3.2% (4)	3.90	1.06
SMEs in Kisii County have clear and well-defined credit standards to evaluate the creditworthiness of their customers	32.5% (41)	25.4% (32)	21.4% (27)	14.3% (18)	6.3% (8)	3.63	1.25
The credit standards set by SMEs in Kisii County effectively balance the need to minimize credit risk while also supporting sales and revenue growth	34.1% (43)	20.6% (26)	27% (34)	11.9% (15)	6.3% (8)	3.64	1.24
Overall Mean						**3.67**	

N=126; KEY: 1= Strongly Disagree; 2= Disagree; 3=Neutral; 4= Agree; 5=Strongly Agree; SD= Standard Deviation.

From Table 1 in regard to SMEs in Kisii County use comprehensive and relevant criteria to evaluate the creditworthiness of their customers, 48.4 % (61) of the respondents strongly agreed and a further 11.9% (15) agreed. On the other hand, 27.8% (35) of the respondents were neutral that SMEs in Kisii County use comprehensive and relevant criteria to evaluate the creditworthiness of their customers. However, 5.6% (7) disagreed that SMEs in Kisii County use comprehensive and relevant criteria to evaluate the creditworthiness of their customers while 6.3(8) % strongly disagreed on the same affirmation. With a mean of 3.90 and a standard deviation of 1.25, the respondents significantly agreed that SMEs in Kisii County use comprehensive and relevant criteria to evaluate the creditworthiness of their customers.

In addition, 11.9% (15) of the respondents strongly agreed that the credit evaluation criteria employed by SMEs in Kisii County effectively assess the risk of non-payment and support informed credit decisions, while 35.7 % (45) agreed on the same statement. Moreover, 3.7 % (40) were neutral that the credit evaluation criteria employed by SMEs in Kisii County effectively assess the risk of non-payment and support informed credit decisions. Also 14.3% (18) disagree and 6.3% (8) strongly disagreed that the credit evaluation criteria employed by SMEs in Kisii County effectively assess the risk of non-payment and support informed credit decisions with a mean of 3.33 and a standard deviation of 1.06 which indicates that the respondents significantly agreed. However, 26.2% (33) of the participants strongly agreed that SMEs in Kisii County set appropriate credit limits for their customers based on their creditworthiness and financial capacity and a further 37.3 % (47) agreed on the same assertion. In regard to SMEs in Kisii County set appropriate credit limits for their customers based on their creditworthiness and financial capacity, 15.1% (19) of the participants fairly agreed, 15.1 % (19) disagree while 6.3% (8) strongly disagree on the same statement. With a mean of 3.62 and a standard deviation of 1.21 the participants significantly agreed that SMEs in Kisii County set appropriate credit limits for their customers based on their creditworthiness and financial capacity.

Moreover, 33.3% (42) of the participants strongly agreed that the credit limits established by SMEs in Kisii County strike a balance between supporting sales growth and minimizing the risk of bad debts while another 37.3% (47) agreed on the same. Additionally, 18.3% (23) were neutral that the credit limits established by SMEs in Kisii County strike a balance between supporting sales growth and minimizing the risk of bad debts. However, 7.9% (10) disagreed and 3.2% (4) strongly that the credit limits established by SMEs in Kisii County strike a balance between supporting sales growth and minimizing the risk of bad debts. With a mean of 3.90 and a standard deviation of 1.06 indicating that the participants significantly agreed that the credit limits established by SMEs in Kisii County strike a balance between supporting sales growth and minimizing the risk of bad debts.

From the study findings, 32.5 % (41) strongly agreed that SMEs in Kisii County have clear and well-defined credit standards to evaluate the creditworthiness of their customers while 25.4% (32) agreed on the same assertion. Also 21.4% (27) of the respondents were neutral, 14.3% (18) disagreed and 6.3 (8) strongly disagreed that SMEs in Kisii County have clear and well-defined credit standards to evaluate the creditworthiness of their customers. With a mean of 3.63 and a standard deviation of 1.25 indicating that the respondents significantly agreed that SMEs in Kisii County have clear and well-defined credit standards to evaluate the creditworthiness of their customers. According to the research findings, 34.1% (43) of the respondents strongly agreed that the credit standards set by SMEs in Kisii County effectively balance the need to minimize credit risk while also supporting sales and revenue growth while 20.6% (26) agreed on the same. Additionally, 27% (34) were neutral that the credit standards set by SMEs in Kisii County effectively balance the need to minimize credit risk while also supporting sales and revenue growth. However, 11.9% (15) disagreed and 6.3% (8) strongly disagreed that

Averagely, the level of collection policy was at 73.4% mean response (mean=3.67) rated high as shown in Table 1 an implication that collection policy such as credit standards, Credit Limits and Credit Evaluation Criteria influence financial performance of small and medium enterprises in Kisii County. The results suggest that the level of collection policy among small and medium enterprises (SMEs) in Kisii County is relatively high, with a mean response of 3.67 out of 5, indicating a positive perception of collection policy effectiveness. This finding aligns with previous research emphasizing the impact of collection policy on financial performance.

Credit terms

The second objective of this study was to establish the effect of credit terms on financial performance of small and medium enterprises in Kisii County. So as to achieve this objective, the study sought to establish the degree to which credit terms influenced financial performance of small and medium enterprises in Kisii County. The findings are as shown in table 2.

Table 2: Credit Terms

	5	4	3	2	1	Mean	S.D
SMEs in Kisii County periodically review and adjust their credit terms to adapt to changing market conditions and customer demands	24.6% (31)	38.1% (48)	21.4% (27)	3.2% (4)	12.7% (16)	3.59	1.25
We offer flexible options for down payments, which can improve customer access to credit	27.8% (35)	23% (29)	28.6% (36)	11.9% (15)	8.7% (11)	3.49	1.26
We offer a discount for early payment of invoices, which incentivizes faster customer repayments and improves our cash flow	16.7% (21)	34.9% (44)	33.3% (42)	8.7% (11)	6.3% (8)	3.47	1.07
The repayment schedule offered by SMEs in Kisii County aligns well with the cash flow needs and payment capabilities of their customers	13.5% (17)	41.3% (52)	26.2% (33)	12.7% (16)	6.3% (8)	3.43	1.08
SMEs in Kisii County actively communicate and negotiate repayment schedules with customers to accommodate unforeseen circumstances or financial difficulties	30.2% (38)	38.9% (49)	15.9% (20)	8.7% (11)	6.3% (8)	3.78	1.16
The enforcement of repayment schedules by SMEs in Kisii County strikes a balance between maintaining good customer relationships and ensuring timely cash inflows	30.2% (38)	33.3% (42)	18.3% (23)	8.7% (11)	9.5% (12)	3.66	1.26
Overall Score						**3.57**	

From Table 2 24.6% (31) of the respondents strongly agreed that SMEs in Kisii County periodically review and adjust their credit terms to adapt to changing market conditions and customer demands and a further 38.1% (48) agreed on the same statement. Also 21.4% (27) were neutral, 3.2% (4) disagreed and 12.7% (16) strongly agreed that SMEs in Kisii County periodically review and adjust their credit terms to adapt to changing market conditions and customer demands. With a mean of 3.59 and a standard deviation of 1.25 suggesting that the respondents significantly agreed that SMEs in Kisii County periodically review and adjust their credit terms to adapt to changing market conditions and customer demands.

According to the research findings, 27.8% (38) strongly agreed while 23 % (29) agreed that they offer flexible options for down payments, which can improve customer access to credit. On the other hand, 28.6% (36) were neutral that they offer flexible options for down payments, which can improve customer access to credit while 11.9% (15) disagreed and 8.7% (11) strongly disagreed on the same assertion. With a mean of 3.49 and a standard deviation of 1.26 indicating that they offer flexible options for down payments, which can improve customer access to credit.

In regards to SMEs offer a discount for early payment of invoices, which incentivizes faster customer repayments and improves our cash flow, 16.7% (21) of the respondents strongly agreed and a further 34.9% (44) agreed on the same. Furthermore, 33.3% (42) were neutral that they offer a discount for early payment of invoices, which incentivizes faster customer repayments and improves our cash flow. Also, 8.7 %(11) disagreed and 6.3% (8) strongly disagreed that they offer a discount for early payment of invoices, which incentivizes faster customer repayments and improves our cash flow with a mean of 3.47 and a standard deviation of 1.07 suggesting that the respondents significantly agreed on the assertion.

In addition, 13.5% (17) of the participants strongly agreed that the repayment schedule offered by SMEs in Kisii County aligns well with the cash flow needs and payment capabilities of their customers while 41.3% (52) agreed on the same. Moreover, 26.2% (33) were neutral, 12.7% (16) disagreed and a further 6.3% (8) strongly disagreed the repayment schedule offered by SMEs in Kisii County aligns well with the cash flow needs and payment capabilities of their customers. With a mean of 3.43 and a standard deviation of 1.08 suggesting that the repayment schedule offered by SMEs in Kisii County aligns well with the cash flow needs and payment capabilities of their customers.

Furthermore, 30.2% (38) of the participants strongly agreed that SMEs in Kisii County actively communicate and negotiate repayment schedules with customers to accommodate unforeseen circumstances or financial difficulties and a further 38.9% (49) agreed on the same affirmation. However, 15.9% (20) were neutral that SMEs in Kisii County actively communicate and negotiate repayment schedules with customers to accommodate unforeseen circumstances or financial difficulties. Moreover 8.7% (11) disagreed and 6.3% (8) strongly disagreed that SMEs in Kisii County actively communicate and negotiate repayment schedules with customers to accommodate unforeseen circumstances or financial difficulties with a mean of 3.78 and a standard deviation of 1.16 suggesting that the participants significantly agreed on the statement.

Lastly, in regard to the enforcement of repayment schedules by SMEs in Kisii County strikes a balance between maintaining good customer relationships and ensuring timely cash inflows, 30.2% (38) strongly agreed while 33.3 % (42) agreed on the same statement. Also 18.3% (23) of the respondents were neutral that the enforcement of repayment schedules by SMEs in Kisii County strikes a balance between maintaining good customer relationships and ensuring timely cash inflows. However, 8.7% (11) disagreed and 9.5% (12) strongly disagreed that the enforcement of repayment schedules by SMEs in Kisii County strikes a balance between maintaining good customer relationships and ensuring timely cash inflows with a mean of 3.66 and a standard deviation of 1.26 indicating that the respondents agreed with the statement.

Averagely, the level of collection policy was at 71.4% mean response (mean=3.57, std. dev. =1.04) rated high as shown in Table 2 an implication that credit terms such as credit terms, and schedule for repayment influences financial performance of small and medium enterprises in Kisii County. The results indicate that the average level of collection policy among small and medium enterprises (SMEs) in Kisii County is relatively high, with a mean response of 3.57 out of 5, suggesting a positive perception of the effectiveness of credit terms management. This finding underscores the significance of credit terms practices, including credit terms and repayment schedules, in influencing the financial performance of SMEs in the region. Previous research supports the notion that credit terms management plays a crucial role in determining financial outcomes for businesses. For example, studies by Mian and Smith (2022) emphasize the importance of offering flexible credit terms to customers to encourage prompt payments and improve cash flow. Similarly, Jain and Agarwal (2017) highlight the impact of repayment schedules on minimizing credit risk and ensuring timely settlement of accounts.

Collection Policy

The third objective of this study was to determine the effect of collection policy on financial performance of small and medium enterprises in Kisii County. In order to achieve this objective, the study first sought to establish in what ways collection policy influenced financial performance of small and medium enterprises in Kisii County. The findings are in table 3.

Table 3: Collection policy

	5	4	3	2	1	Mean	S.D
The collection measures implemented by SMEs in Kisii County effectively track and manage accounts receivable, minimizing overdue payments	15.1% (19)	41.3% (52)	25.4% (32)	15.1% (19)	3.2% (4)	3.50	1.03
SMEs in Kisii County employ proactive collection measures, such as timely invoicing and reminder notices, to encourage prompt payment from customers.	21.4% (27)	38.1% (48)	25.4% (32)	11.9% (15)	3.2% (4)	3.63	1.05
SMEs in Kisii County maintain a regular and consistent collection frequency, which helps ensure steady cash inflows and reduces the risk of overdue payments.	23.8% (30)	38.9% (49)	22.2% (28)	11.9% (15)	3.2% (4)	3.68	1.06
Regular monitoring and adjustment of collection frequency by SMEs in Kisii County ensure alignment with customer preferences and market dynamics	31.7% (40)	36.5% (46)	19% (24)	9.5% (12)	3.2% (4)	3.84	1.08
SMEs in Kisii County have clear and consistent collection enforcement policies in place to address overdue accounts and minimize bad debts	26.2% (33)	45.2% (57)	16.7% (21)	8.7% (11)	3.2% (4)	3.83	1.02
The use of graduated collection enforcement strategies by SMEs in Kisii County, such as escalation of reminders and penalties for late payments, encourages timely settlement of accounts	28.6% (36)	40.5% (51)	21.4% (27)	6.3% (8)	3.2% (4)	3.85	1.01
Overall Score						**3.72**	

From table 3 in regard to the collection measures implemented by SMEs in Kisii County effectively track and manage accounts receivable, minimizing overdue payments, a sample of 15.1% (19) of the respondents strongly agreed and a further 41.3% (52) agreed on the same statement. Moreover, 25.4% (32) of the respondents were neutral, while 15.1 % (19) disagreed and a further 3.2% (4) strongly agreed that the collection measures implemented by SMEs in Kisii County effectively track and manage accounts receivable, minimizing overdue payments. With a mean of 3.50 and a standard deviation of 1.03 indicating that the respondents significantly agreed that the collection measures implemented by SMEs in Kisii County effectively track and manage accounts receivable, minimizing overdue payments.

From the findings in the table above, 21.4% (27) of the responders strongly agreed that SMEs in Kisii County employ proactive collection measures, such as timely invoicing and reminder notices, to encourage prompt payment from customers, while a further 38.1%(48) disagreed on the same assertion. On the other hand, 25.4% (32) were neutral that SMEs in Kisii County employ proactive collection measures, such as timely invoicing and reminder notices, to encourage prompt payment from customers. However, 11.9% (15) of the responders disagreed and another 3.2 %(4) strongly disagreed that SMEs in Kisii County employ proactive collection measures, such as timely invoicing and reminder notices, to encourage prompt payment from customers with a mean of 3.63 and a standard deviation of 1.05. This suggests that the responders significantly agreed on the statement.

However, 23.8% (30) of the participants strongly agreed that SMEs in Kisii County maintain a regular and consistent collection frequency, which helps ensure steady cash inflows and reduces the risk of overdue payments while 38.9% (49) agreed on the same. Also, 22.2% (28) were neutral that SMEs in Kisii County maintain a regular and consistent collection frequency, which helps ensure steady cash inflows and reduces the risk of overdue payments. Moreover, 11.9% (15) of the participants disagreed and further 3.2% (4) strongly disagreed on the same statement that SMEs in Kisii County maintain a regular and consistent collection frequency, which helps ensure steady cash inflows and reduces the risk of overdue payments with a mean of 3.68 and a standard deviation of 1.06. This indicates that the participants significantly agreed that SMEs in Kisii County maintain a regular and consistent collection frequency, which helps ensure steady cash inflows and reduces the risk of overdue payments.

In regard to the regular monitoring and adjustment of collection frequency by SMEs in Kisii County ensure alignment with customer preferences and market dynamics, 31.7% (40) of the respondents strongly agreed and 36.5% (46) agreed on the same. However, 19%(24) of the respondents were neutral that the regular monitoring and adjustment of collection frequency by SMEs in Kisii County ensure alignment with customer preferences and market dynamics while 9.5%(12) disagreed and a further 3.2% (4) strongly disagreed on the same assertion. With a mean of 3.84 and a standard deviation of 1.08, the respondents significantly agreed the regular monitoring and adjustment of collection frequency by SMEs in Kisii County ensure alignment with customer preferences and market dynamics.

In addition, 26.2% (33) of the participants strongly agreed that the SMEs in Kisii County have clear and consistent collection enforcement policies in place to address overdue accounts and minimize bad debts and a further 45.2 % (57) agreed on the same affirmation. On the other hand, 16.7% (21) of the participants fairly agreed that the SMEs in Kisii County have clear and consistent collection enforcement policies in place to address overdue accounts and minimize bad debts, while 8.7% (11) disagreed and a further 3.2% (4) disagreed on the same assertion. With a mean of 3.83 and a standard deviation of 1.02 the participants significantly agreed that the SMEs in Kisii County have clear and consistent collection enforcement policies in place to address overdue accounts and minimize bad debts.

According to the study findings from table above, 28.6% (36) of the participants strongly agreed that the use of graduated collection enforcement strategies by SMEs in Kisii County, such as escalation of reminders and penalties for late payments, encourages timely settlement of accounts and a further 40.5% (51) agreed on the same statement. Also 21.4% (27) of the participants fairly agreed that the use of graduated collection enforcement strategies by SMEs in Kisii County, such as escalation of reminders and penalties for late payments, encourages timely settlement of accounts. Similarly, 6.3 % (8) of the participants disagreed while 3.2% (4) strongly disagreed that the use of graduated collection enforcement strategies by SMEs in Kisii County, such as escalation of reminders and penalties for late payments, encourages timely settlement of accounts. With a mean of 3.85 and a standard deviation of 1.01 suggesting that the participants significantly agreed that the use of graduated collection enforcement strategies by SMEs in Kisii County, such as escalation of reminders and penalties for late payments, encourages timely settlement of accounts. Averagely, the level of collection policy was at 74.4% mean response (mean=3.72) rated high as shown in Table 3 an implication that collection policy such as collection Measures, Collection Frequency and Collection Enforcements influences financial performance of small and medium enterprises in Kisii County.

Credit appraisal techniques

The fourth objective of this study was to determine the effect of credit appraisal techniques on financial performance of small and medium enterprises in Kisii County. So as to achieve this objective, the researcher sought to find out how credit appraisal techniques influence the financial performance of small and medium enterprises in Kisii County. The results are presented in Table 4.

Table 4: Credit appraisal techniques

Questions	5	4	3	2	1	Mean	S.D
The credit appraisal process adequately considers the debtor's ability to meet financial obligations.	11.9% (15)	61.1% (77)	12.7% (16)	0% (0)	14.3% (18)	3.56	1.16
The credit appraisal process provides a comprehensive understanding of the debtor's capacity to repay debts	36.5% (46)	34.1% (43)	11.9% (15)	3.2% (4)	14.3% (18)	3.75	1.36
The credit appraisal process examines the debtor's reliability in meeting financial commitments	18.3% (23)	42.9% (54)	19% (24)	3.2% (4)	16.7% (21)	3.43	1.30
The credit scoring system accurately predicts the likelihood of default by debtors	26.2% (33)	32.5% (41)	24.6% (31)	2.4% (3)	14.3% (18)	3.54	1.30
The credit approval process ensures thorough review and scrutiny of credit applications	20.6% (26)	34.1% (43)	22.2% (28)	6.3% (8)	16.7% (21)	3.36	1.34
The credit scoring system provides consistent results across different debtors	20.6% (26)	38.1% (48)	24.6% (31)	0% (0)	16.7% (21)	3.46	1.29
Mean Score						**3.52**	

From Table 4 in regard to the credit appraisal process adequately considers the debtor's ability to meet financial obligations, 11.9% (15) of the respondents strongly agreed and a further 61.1% (77) agreed. On the other hand, 12.7% (16) of the respondents were neutral that the credit appraisal process adequately considers the debtor's ability to meet financial obligations. However, 14.3% (18) disagreed that the credit appraisal process adequately considers the debtor's ability to meet financial obligations. With a mean of 3.56 and a standard deviation of 1.16, the respondents significantly agreed that the credit appraisal process adequately considers the debtor's ability to meet financial obligations.

In addition, 36.5% (46) of the respondents strongly agreed that the credit appraisal process provides a comprehensive understanding of the debtor's capacity to repay debts, while 34.1 % (43) agreed on the same statement. Moreover, 11.9% (15) were neutral that the credit appraisal process provides a comprehensive understanding of the debtor's capacity to repay debts. Also 3.2% (4) disagree and 14.3% (18) strongly disagreed that the credit appraisal process provides a comprehensive understanding of the debtor's capacity to repay debts with a mean of 3.75 and a standard deviation of 1.36 which indicates that the respondents significantly agreed on the statement.

However, 18.3% (23) of the participants strongly agreed that the credit appraisal process examines the debtor's reliability in meeting financial commitments and a further 42.9 % (54) agreed on the same assertion. In regard to the credit appraisal process examines the debtor's reliability in meeting financial commitments, 19% (24) of the participants' fairy agreed, 3.2 % (4) disagree while 16.7% (21) strongly disagree. With a mean of 3.43 and a standard deviation of 1.30 suggesting that, the participants significantly agreed that the credit appraisal process examines the debtor's reliability in meeting financial commitments.

Moreover, 20.6% (26) of the participants strongly agreed that the credit scoring system accurately predicts the likelihood of default by debtors while another 38.1% (48) agreed on the same. Additionally, 24.6% (31) were neutral that the credit scoring system accurately predicts the likelihood of default by debtors. However, 16.7% (21) strongly the credit scoring system accurately predicts the likelihood of default by debtors. With a mean of 3.46 and a standard deviation of 1.29 indicating that the participants agreed that the credit scoring system accurately predicts the likelihood of default by debtors.

From the study findings, 20.6% (26) strongly agreed that the credit approval process ensures thorough review and scrutiny of credit applications while 34.1% (43) agreed on the same assertion. Also 22.2% (28) of the respondents were neutral, 6.3% (8) disagreed and 16.7% (21) strongly disagreed that the credit approval process ensures thorough review and scrutiny of credit applications. With a mean of 3.36 and a standard deviation of 1.34 indicating that the respondents significantly agreed that the credit approval process ensures thorough review and scrutiny of credit applications.

According to the research findings, 20.6% (26) of the respondents strongly agreed that the credit scoring system provides consistent results across different debtors while 38.1% (48) agreed on the same. Additionally, 24.6% (31 were neutral that the credit scoring system provides consistent results across different debtors, however, 16.7% (21) strongly disagreed on the same. With a mean of 2.54 and a standard deviation of 1.30 suggesting that the respondents significantly agreed that the credit scoring system provides consistent results across different debtors.

Averagely, the level of product development strategy was at 70.2% mean response (mean=3.52) rated high as shown in Table 4 El-Rashidy and Al-Hosni (2015) showed that artificial neural networks outperformed both logistic regression and support vector machines in predicting the probability of default. The model's accuracy rate reached up to 86%. Prakash and Kumar (2018) indicated that there is a significant positive relationship between credit scoring models and financial performance of MSMEs. Specifically, credit scoring models improved access to finance, reduced interest rates, and increased profitability.

Financial performance of small and medium enterprises in Kisii County

The general objective of the study was to examine effect credit management practices on financial performance of small and medium enterprises in Kisii County. The results are presented in Table 5 in which percentage are presented inside brackets while frequency outside brackets.

Table 5: Financial performance of small and medium enterprises in Kisii County

	5	4	3	2	1	Mean	S.D
Effective credit management practices implemented by SMEs in Kisii County positively contribute to sustained revenue growth	11.9% (15)	34.1% (43)	35.7% (45)	15.1% (19)	3.2% (4)	3.37	0.98
Regular evaluation and adjustment of credit management practices by SMEs in Kisii County enable them to identify and capitalize on revenue-generating opportunities while mitigating credit risks	11.9% (15)	46% (58)	27% (34)	11.9% (15)	3.2% (4)	3.52	0.96
Offering credit with different limits caters to a wider range of customers, potentially increasing our overall sales	34.1% (43)	50% (63)	12.7% (16)	0% ()	3.2% (4)	4.12	0.86
Our credit approval process is efficient and timely, allowing us to quickly convert credit applications into sales	42.1% (53)	36.5% (46)	15.1% (19)	3.2% (4)	3.2% (4)	4.11	0.99
Our efficient collection process minimizes administrative costs associated with credit management, contributing to a better profit margin	39.7% (50)	35.7% (45)	9.5% (12)	6.3% (8)	8.7% (11)	3.91	1.24
Tighter credit controls (e.g., stricter creditworthiness assessment) have helped us reduce bad debt and improve our profit margin	19.8% (25)	32.5% (41)	27% (34)	11.1% (14)	9.5% (12)	3.42	1.20
Mean Score						**3.74**	

From Table 5 in regard to the effective credit management practices implemented by SMEs in Kisii County positively contribute to sustained revenue growth, 11.9 % (15) of the respondents strongly agreed and a further 34.1% (43) agreed. On the other hand, 35.7% (45) of the respondents were neutral that the effective credit management practices implemented by SMEs in Kisii County positively contribute to sustained revenue growth. However, 15.1% (19) disagreed that the Effective credit management practices implemented by SMEs in Kisii County positively contribute to sustained revenue growth while 3.2% strongly disagreed on the same affirmation. With a mean of 3.37 and a standard deviation of 0.98, the respondents insignificantly agreed that the effective credit management practices implemented by SMEs in Kisii County positively contribute to sustained revenue growth.

In addition, 11.9% (15) of the respondents strongly agreed that the regular evaluation and adjustment of credit management practices by SMEs in Kisii County enable them to identify and capitalize on revenue-generating opportunities while mitigating credit risks, while 46 % (58) agreed on the same statement. Moreover, 27 % (34) were neutral that the regular evaluation and adjustment of credit management practices by SMEs in Kisii County enable them to identify and capitalize on revenue-generating opportunities while mitigating credit risks. Also 11.9% (15) disagree and 3.2% (4) strongly disagreed that the regular evaluation and adjustment of credit management practices by SMEs in Kisii County enable them to identify and capitalize on revenue-generating opportunities while mitigating credit risks with a mean of 3.37 and a standard deviation of 0.96 which indicates that the respondents insignificantly agreed.

However, 50% (63) of the participants strongly agreed that offering credit with different limits caters to a wider range of customers, potentially increasing our overall sales volume and a further 34.1 % (43) agreed on the same assertion. In regard to offering credit with different limits caters to a wider range of customers, potentially increasing our overall sales volume, 50% (63) of the participant's fairy agreed, 12.7% (16) disagree while 3.2% (4) strongly disagree. With a mean of 4.12 and a standard deviation of 0.86 the participants insignificantly agreed that offering credit with different limits caters to a wider range of customers, potentially increasing our overall sales volume.

From the study findings, 39.7% (50) strongly agreed that their efficient collection process minimizes administrative costs associated with credit management, contributing to a better profit margin while 35.7% (45) agreed on the same assertion. Also 9.5% (12) of the respondents were neutral, 6.3% (8) disagreed and 8.7% (11) strongly disagreed that the same. With a mean of 3.91 and a standard deviation of 1.24 indicating that the respondents significantly agreed that their efficient collection process minimizes administrative costs associated with credit management, contributing to a better profit margin.

According to the research findings, 19.8% (25) of the respondents strongly agreed that the tighter credit controls (e.g., stricter creditworthiness assessment) have helped them reduce bad debt and improve their profit margin while 32.5% (41) agreed on the same. Additionally, 27% (34) were neutral that the tighter credit controls (e.g., stricter creditworthiness assessment) have helped them reduce bad debt and improve their profit margin. However, 11.1% (14) disagreed and 9.5% (12) strongly disagreed on the same. With a mean of 3.42 and a standard deviation of 1.20 suggesting that the respondents significantly agreed on the statement.

Inferential Statistics

Multicollinearity

This tests whether two or more conceptualized independent variables that are highly correlated with each other. This leads to problems with understanding which independent variable contributes to the variance explained in the dependent variable, as well as technical issues in calculating a multiple regression model. Multi-collinearity was tested using variance inflation factors (VIF) or tolerance values. If VIF values are below 10 then rule of the thumb is there is no multi-collinearity problem or when the tolerance values have a value of one or less hence no multi-collinearity as indicated in Table 6.

Table 6: Multi-collinearity

Variables	Tolerance	VIF
Credit policy	.218	4.594
Credit terms	.458	2.181
Collection policy	.300	3.330
Credit appraisal techniques	.465	2.152

Pearson Correlation Analysis

Linear regression analysis assumes there is linear relationship between independent and dependent variables. The linearity is as a result of significance level being less than 0.05 which was evident for all study variables. All linear relationships were significant at 0.01 (99.0% confidence level). The results are as shown in Table 7.

Table 7: Pearson Correlation Analysis

		Credit policy	Credit terms	Collection policy	Credit Appraisal
Credit policy	Pearson Correlation	1	.349**	-.009	.071
	Sig. (2-tailed)		.000	.921	.432
	N	126	126	126	126
Credit terms	Pearson Correlation	.349**	1	.084	.214*
	Sig. (2-tailed)	.000		.348	.016
	N	126	126	126	126
Collection policy	Pearson Correlation	-.009	.084	1	.433**
	Sig. (2-tailed)	.921	.348		.000
	N	126	126	126	126
Credit appraisal techniques	Pearson Correlation	.071	.214*	.433**	1
	Sig. (2-tailed)	.432	.016	.000	
	N	126	126	126	126
Performance	Pearson Correlation	.470**	.491**	.482**	.584**
	Sig. (2-tailed)	.000	.000	.000	.000
	N	126	126	126	126

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).

The results indicate that credit policy has a moderate positive Pearson correlation (r=0.470) influence on financial performance of small and medium enterprises in Kisii County. This indicates that credit policy plays a major role in ensuring financial performance of small and medium enterprises in Kisii County. Ondiek and Nyangau (2019) supports the positive correlation between credit policy and financial performance of SMEs in Kisii County, emphasizing the significant role of credit policy in ensuring financial success. Obonyo and Ong'ayo (2016) found no significant correlation between credit policy and financial performance of SMEs in Kisii County, suggesting that other factors may play a more substantial role in financial outcomes.

The results also indicated that there is strong relationship between credit terms and financial performance of small and medium enterprises in Kisii County (Pearson correlation coefficient= 0.491). Credit terms therefore has a very great influence on the financial performance of small and medium enterprises in Kisii County. Omolo and Marwanga (2018) supports the strong relationship between credit terms and financial performance of SMEs in Kisii County, highlighting the considerable influence of credit terms on financial outcomes. Mokaya and Nyaora (2019) found a weak relationship between credit terms and financial performance of SMEs in Kisii County, indicating that other factors may have a more significant influence on financial outcomes. The analysis in table 7 show that collection policy has a strong positive Pearson correlation coefficient (r= 0.482) influence on financial performance of small and medium enterprises in Kisii County.

Multiple Regression Analysis

Objective of this study sought objective of the study was to determine the effect of credit management practices on financial performance of SMEs in Kisii County. This was achieved by carrying out standard multiple regression. The study was interested in knowing the effect of each of the credit management practices constructs on financial performance of small and medium enterprises in Kisii County when all these constructs were entered as a block on the model. The results of multiple linear regression analysis were presented in Table 8 which contained model summary (R, R^2, Adj R^2) results, Table 8which contained ANOVA (goodness of fit; F Ratio, Sig Value) while Table 9: contained regression coefficient (Unstandardized & standardized), t-value and Sig. value results.

Table 8: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.811[a]	.698	.667	.483374	.698	58.234	4	121	.000

a. Predictors: (Constant), Collection policy, Credit terms, Credit policy

b. Dependent Variable: Financial performance of small and medium enterprises in Kisii County

The results from the model summary in Table 8 give us information on the overall summary of the model. Looking at the R square column, it is evident that credit management practices accounted for 69.8% significant variance in financial performance of small and medium enterprises in Kisii County (R square =.698, P=0.000) implying that 30.2% of the variance in financial performance of small and medium enterprises in Kisii County is accounted for by other variables not captured in this model.

Table 9: Model of Fit (ANOVA Table)

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	54.426	4	13.606	58.234	.000[b]
Residual	28.272	121	.234		
Total	82.698	125			

a. Dependent Variable: Financial performance of small and medium enterprises in Kisii County

b. Predictors: (Constant), Collection policy, Credit appraisal techniques. Credit terms, Credit policy

In order to assess the significance of the model, simply whether the study model is a better significant predictor of the financial performance of small and medium enterprises in Kisii County the study resorted to F Ratio. From the findings, the F value is more than one, as indicated by a value of 58.234, which means that enhancement as a result of model fitting is much larger than the model errors/inaccuracies that were not used in the model (F (4,121) = 58.234, P=0.000). The large F value is very unlikely to exist by chance (99.0%), thus implying that the final study model has significant improvement in it is prediction ability of financial performance of small and medium enterprises in Kisii County.

Table 10: **Regression Coefficients**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.056	.256		.217	.828
Credit policy	.282	.045	.355	6.247	.000
Credit terms	.219	.048	.263	4.535	.000
Collection policy	.259	.051	.301	5.104	.000
Credit appraisal techniques	.258	.042	.372	6.185	.000
a. Dependent Variable: Performance					

A regression of the four predictor variables against financial performance of small and medium enterprises in Kisii County established the multiple linear regression model as below as indicated in Table 10.

$$\mathbf{Y = 0.056 + 0.282X_1 + 0.219X_2 + 0.259X_3 + 0.258X_4}$$

Where;

Y= Financial performance of small and medium enterprises in Kisii County

$\mathbf{X_1}$ is representing credit policy

$\mathbf{X_2}$ is representing credit terms

$\mathbf{X_3}$ is representing collection policy

$\mathbf{X_4}$ is representing Credit Appraisal techniques

From the findings presented in Table 10 all credit management practices constructs had significant effect on the financial performance of small and medium enterprises in Kisii County as indicated by unstandardized coefficients. If credit management practices are held at zero or it is absent, the financial performance of small and medium enterprises in Kisii County would decrease by 0.056units, but not significant since p -value is 0.828.

It was revealed that credit policy had unique significant contribution to the model with B=.282, p=.000 suggesting that controlling of other variables (Credit terms, Collection policy) in the model, a unit increase in credit policy would result to significant increase in financial performance of small and medium enterprises in Kisii County by 0.282 units. The results are in line with Nyangoma (2012) who found out that credit terms had significant positive association with the financial performance of microfinance in Kampala. More favorable credit terms had significant relationship with performance of MFIs.

The coefficient of credit terms was 0.219, which was significant (p=.000) and also positive. When the variance explained by all other variables (credit policy, collection policy) in the model is controlled, a unit increase in Credit terms would result to increase in financial performance of small and medium enterprises in Kisii County by 0.219 units. Another variable that also had a unique significant contribution to the model was the value for collection policy (B=.259, p=.000). When other variables in the model are controlled (credit terms, credit policy), a unit increase in collection policy would result to significant increase in financial performance of small and medium enterprises in Kisii County by 0.259 units. The findings concurred with findings concurred with Hu (2016) who indicated that there is a strong link between non-performing loans (NPLs) and collection efforts. Mot, Masinde, Mugenda and Sindani (2018) revealed that collection attempts and non-performing loans have a significant impact. In addition, the research discovered a link between collection attempts and non-performing loan levels.

Lastly, credit appraisal techniques had also unique significant contribution to the model with B=0.258, p=.000 implying that when other variables in the model are controlled, a unit increase in credit appraisal techniques would result to significant increase in financial performance of small and medium enterprises in Kisii County, Kenya by 0.258 units.

SUMMARY

The first objective of the study was to find out the effect of credit policy on financial performance of small and medium enterprises in Kisii County. The study findings reveal that a majority of respondents strongly agree that SMEs in Kisii County employ comprehensive and relevant criteria to evaluate customer creditworthiness. They also indicate agreement that credit evaluation criteria effectively assess non-payment risk and that credit limits strike a balance between sales growth and risk mitigation. Simple linear regression analysis revealed that financial performance of small and medium enterprises in Kisii County is significantly explained by credit policy. Therefore, credit policy is significant predictor of financial performance of small and medium enterprises in Kisii County. Multiple linear regression results using unstandardized beta coefficients showed that there exists a positive and significant influence of credit policy on financial performance of small and medium enterprises in Kisii County.

The second objective of the study was to establish the effect of credit terms on financial performance of small and medium enterprises in Kisii County. The study findings suggest that SMEs in Kisii County demonstrate flexibility in adapting credit terms to market conditions, offering discounts for early payments, and negotiating repayment schedules with customers. Participants largely agree that these practices align with customer needs, enhance cash flow, and balance customer relationships with timely payments. Simple linear regression analysis revealed changes in the financial performance of small and medium enterprises in Kisii County is significantly accounted for by credit terms. Therefore, credit terms are significant predictor of financial performance of small and medium enterprises in Kisii County. Multiple linear regression results using unstandardized beta coefficients showed that credit terms have significant positive influence on financial performance of small and medium enterprises in Kisii County.

The third objective of the study was to determine the effect of collection policy on financial performance of small and medium enterprises in Kisii County. The findings suggest that SMEs in Kisii County effectively manage accounts receivable through proactive collection measures and regular monitoring. Participants largely agree on the importance of maintaining consistent collection frequency and enforcing clear policies to address overdue accounts, which encourages timely settlement and minimizes bad debts. Simple linear regression analysis revealed that changes in the financial performance of small and medium enterprises in Kisii County are significantly accounted for by collection policy. Hence, financial performance of small and medium enterprises in Kisii County is significantly predicted by collection policy. Multiple linear regression results using unstandardized beta coefficients showed that collection policy has significant positive influence on financial performance of small and medium enterprises in Kisii County.

The fourth objective of the study was to determine the influence of credit appraisal techniques in financial performance of small and medium enterprises in Kisii County, Kenya. The study findings suggest a predominant agreement among participants regarding the effectiveness of the credit appraisal process in considering debtors' ability to meet financial obligations and understanding their capacity to repay debts. Respondents also agreed on the examination of debtors' reliability and the accuracy of credit scoring in predicting default likelihood. Moreover, there was notable consensus on the thoroughness of the credit approval process in reviewing credit applications and its consistency across different debtors.

CONCLUSIONS

In the first objective, the study concluded that credit policy affected financial performance of small and medium enterprises in Kisii County. This implies that application of credit policy would results to improvement in financial performance of small and medium enterprises in Kisii County. This suggests that SMEs with well-defined credit policies that assess customer creditworthiness, set appropriate credit limits, and consider market conditions experience better financial performance.

In the second objective of the study, the study concluded that credit terms affected financial performance of small and medium enterprises in Kisii County. This indicated that SMEs that offer flexible credit terms, such as early payment discounts and adaptable repayment schedules, can improve their financial performance. SMEs demonstrate flexibility in adapting credit terms to market conditions, offering incentives for early payments, and negotiating repayment schedules with customers. The results suggest that credit terms serves as a significant predictor of financial performance, with multiple linear regression analysis confirming its positive influence.

In the third objective of the study, the study concluded that collection policy has significant effect on financial performance of small and medium enterprises in Kisii County. Effective management of accounts receivable through proactive collection measures and clear policies contributes to timely settlement and minimization of bad debts. The results suggest that collection policy serves as a crucial predictor of financial performance, with multiple linear regression analysis confirming its positive influence.

The study concludes that credit appraisal techniques significantly influence the financial performance of small and medium enterprises in Kisii County, Kenya. There is widespread agreement amongst participants regarding the effectiveness of credit appraisal processes in assessing debtors' ability and reliability to fulfill financial obligations, and the accuracy of credit scoring in predicting default likelihood. Simple and multiple linear regression analyses confirm that credit appraisal techniques are a critical factor in explaining variations in the financial performance of small and medium enterprises in Kisii County, Kenya, demonstrating a positive and substantial impact.

RECOMMENDATIONS

The study highlights the importance of credit management practices for the financial performance of SMEs in Kisii County. For improved financial performance, SMEs should develop and implement comprehensive credit policies that assess customer creditworthiness, set appropriate credit limits, and consider market conditions when offering credit terms. This can be achieved by establishing clear criteria for evaluating customers' ability to repay, setting credit limits based on individual risk profiles, and regularly reviewing and adjusting credit terms to adapt to a changing market environment.

Furthermore, offering flexible credit terms such as early payment discounts and adaptable repayment schedules can improve financial performance. SMEs are recommended to consider incentivizing faster repayments through early payment discounts and negotiate repayment schedules that accommodate customer cash flow needs while ensuring timely collections.

Finally, the study emphasizes the significance of effective collection policies in achieving better financial performance. To this end, SMEs should develop and implement proactive collection measures, including clear communication with customers regarding outstanding balances. Establishing clear and consistent procedures for collecting overdue payments and enforcing collection policies fairly and promptly helps minimize bad debts and improve cash flow.

There is a clear indication of the effectiveness of the credit appraisal process in evaluating debtors' financial capacity and reliability. To capitalize on this, it is recommended that financial institutions and credit appraisal agencies invest in training and education programs for their personnel. These programs should aim to enhance the skills and knowledge necessary for accurately assessing debtors' ability to meet financial obligations and understanding their capacity to repay debts. By ensuring that credit appraisers are well-equipped, institutions can improve the quality and reliability of their credit assessments.

Areas for Further Research

The general objective of this study was to find out the effect of credit management practices on financial performance of SMEs in Kisii County. Specifically, this study concentrated on the effect that the credit policy, credit terms, credit appraisal technique and collection policy had on the financial performance of small and medium enterprises in Kisii County. The independent variables studied are definitely not exhaustive and hence further research could be carried out to unearth other credit management practices that can be applied to change the fortunes of SMEs such as use of technology.

The results indicated that the four selected credit management practices explained 65.8% of the variation in financial performance of small and medium enterprises in Kisii County. This implies that the remaining 24.2% of the variance can be explained by moderating variables such as organizational culture which can strengthen the effect of credit management practices on financial performance of small and medium enterprises in Kisii County.

Methodologically, the study confines itself only to SMEs in Kisii county meaning some SMEs beyond Kisii County were not include although a justification was provided. The study recommended that a study should be undertaken to cover SMEs in other parts of the county.

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