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Impact of Credit Management on the Performance of Small-Scale Enterprises in Kogi State, Nigeria

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Abstract
This study examines the impact of credit management on the performance of small-scale enterprise in Kogi State, Nigeria. The objectives of this study were to examine the relationship between loan deposit ratio and performance of small-scale enterprise and to determine the relationship between capital adequacy and the performance of small-scale enterprise in Kogi State. The researcher elicited data from respondents using a structured questionnaire and hypotheses tested using simple linear regression. The findings revealed that there is a significant relationship between loan deposit ratio and performance of small-scale enterprise in Kogi State, and that there is a significant positive relationship between capital adequacy and performance of small-scale enterprise in Kogi State. From the findings the research recommends that the small and medium scale enterprises should maintain adequate and effective credit management in order to enhance the organizational growth and accountability.
Keywords: *Credit, Management, Performance, Business.*

Introduction

Credit is one of the many factors that can be used by firms to influence demand for its products. According to Sollenberg (2017), organisations can only benfit from credit if the profitability made from increased sales surpasses the added costs of receivables. Myers and Brealey (2015), maintained that credit is a contractual agreement where goods or services are obtained without immediate payment, but for later payment. According to Scheufler (2016), Uchenna and Audu (2021), Uchenna and Audu (2022), in today's business world and environment, risk management and enhancement of cash flows are very challenging.

Managing credit is a vital aspect of business planning, control, decision making, and performance evaluation. It is widely believed that effective credit management is essential in a financial system where markets are unpredictable, contract enforcement is insecure, and information is scarce and unreliable. As per Duuu (2019), proper credit management is of utmost importance in manufacturing firms as it has a significant impact on their financial performance, survival, growth, and sustainability. According to Dunn (2017, 2019), effective credit management involves smart and efficient management of customer credit lines. Financial performance, as defined by Stoner (2013) and cited in Misker (2019), refers to a company's ability to operate efficiently, make profits, survive, grow, and respond to environmental opportunities and threats. Pyle (2015) suggests that poor asset performance is often the cause of low performance in many companies.

Small businesses can be defined in various ways, but one of the most common measures is the number of employees. In Australia, a small business has less than fifteen employees under the Fair Work Act 2009, while in the European Union it is defined as having less than fifty employees. To qualify for Small Business Administration programs, a business must have fewer than five hundred employees. Other methods of classification include annual revenues, shipments, sales, assets, gross or net revenue, or net profits. (Pyle, 2015; Malik & Audu, 2023). Small businesses in several nations include service or retail operations which are characterized by few numbers of employees, little amount of initial capital outlay, owner management control and so on. Small scale enterprises range

in terms regulations, size, and revenues as well as according to environments. Effective management of credit is critical for a business enterprises stability and profitability, thus reduced credit quality is the most eminent cause of adverse financial performance. Gitman (2017) argued that likelihood of bad debts increases as credit standards are reviewed. But there are several other challenges firms encounter as a result of inefficient credit management. Thus, the constraints inherent in this research are poor rate of trade credit management as reflected in the liquidity as well as profitability status of the firm. The inability of policy makers to ascertain how credit management is measured in terms of performance. Therefore, the thrust of this research is to explore how credit management enhances the performance of small-scale enterprise in Idah, Kogi State.

Research Questions

1. What is the relationship between loan deposit ratio and performance of small-scale enterprise in Kogi State?
2. What is the relationship between capital adequacy and the performance of small-scale enterprise in Kogi State?

Objectives of the Study

The main objective of this study is to explore the credit management policies and the performance of small-scale enterprise in Kogi State.

Specifically, this work tends:

1. To examine the relationship between loan deposit ratio and performance of small-scale enterprise in Kogi State.
2. To determine the relationship between capital adequacy and the performance of small-scale enterprise in Kogi State.

Statement of Hypotheses

H_{01}: There is no significance relationship between loan deposit ratio and performance of small-scale enterprise in Kogi State.

H_{02}: There is no significance relationship between capital adequacy and the performance of small-scale enterprise in Kogi State.

Concept of Credit Management

Credit management is seen as a guideline adopted to regulate the conditions for sale of products and provision of services on credit basis, defining customer qualification indices for offering of credits, procedure for making collections and steps to be taken in the event of customer delinquency (Pandey, 2017). Long (2018) also stressed that absence of an effective credit management to regulate sales to clients on credit, there could be liquidity challenges that could pose an adverse effect on firms' growth and survival. Thus, credit management is an essential part in any enterprise, considering the fact that business transactions are based on stipulated credit terms by both parties (Agu & Basil, 2013). The fact is, without a proper management of credit components, unhindered and effective operation of the firms could be affected. Brigham and Houston (2016) found that business managers spend almost 60 percent of their time managing credit affairs and allocations. Efficient allocation of

resources can positively affect a firm's profit margin, leading to enhanced growth. According to Agu and Basil (2013), a good credit management policy reduces the risk of doubtful and bad debts. Conversely, poor management of trade debt can result in large sums of funds being allocated to doubtful and bad debts, leading to losses (Pandey, 2017). Credit management aims to reduce costs associated with trade credits or accounts receivables while maximizing benefits. Nicholas (2017) noted that credit can either be lenient or stringent. The lenient credit tends to give credit to clients on very liberal conditions and standards such that credit is granted for longer tenure even to clients whose credit worthiness is not established. A stringent credit on the other hand is limited and allows credit only to those clients whose credit worthiness has been established.

Concept of Small-Scale Enterprise

A small-scale enterprise is a business that is not large, in terms of its size, scope of operation, financial involvement and the workforce involved. In general, we should recognize that a small-scale business must have few employees, limited capital investment and small-scale operation (Nicholas, 2017, Edna & Samson, 2021).

According to Ekhator (2016), the major problems of small-scale enterprises sometimes arise from the nature and characteristics of the enterprise. He therefore classifies their problems into two main categories: Problems inherent in the small enterprise and Problems arising from weak official sustenance.

Babajide (2015) strongly opined that small-scale enterprises major problem does not primarily depend on avenues of sourcing funds but its accessibility. Even after 1970, when the government diverted from the industrialized to focus and lay pre-eminence to small and medium scale enterprises from import substitution and large-scale industrialization, it has been series of promotions, financial incentives by successive governments to promote small-scale enterprises. The capitalists are also well-known and her exploits recorded cannot be equated with the drive and energy ventured into it.

Mordi (2014) argued that funding is not the fundamental challenges of small-scale enterprises. He prefers to view the situation from two perspectives. According to him, most small-scale enterprises find it difficult to differentiate between the owner of the business and the business itself. He said that many small business managers run the business without some shape of financial duty and show off gross lack of knowledge about the need to seek equity participation that is capable of lifting the enterprise to more heights but this is grossly neglected.

Loan to Deposit Ratio

Loans to deposit ratio is seen as ratio of total bank loans and advance to total deposits (Misker, 2019). This ratio shows the extent of banks to withstand deposit withdrawals and willingness of banks to meet loan request by reducing their cash assets (Gizaw et. al, 2018). Where the ratio is lower than 1, it suggests that the bank relied on its own deposits to make loans to its clients, without any external borrowing. And where the ratio is greater than 1, the bank borrowed money which it relined at higher rates, rather than relying completely on its own deposits. Banks could not be earning an optimal return if the ratio is small. If the ratio is high, the banks might not have adequate liquidity to cover any unexpected funding requirements. It is a commonly utilized statistic for measuring bank's liquidity because when the banks are more liquid, they could assuage risk of insolvency.

Capital Adequacy Ratio

Capital adequacy ratio is seen as a benchmark of credit risk (Radivojevic & Jovovic, 2017). Gizaw et al (2018) noted that Capital Adequacy Ratio (CAR) for judgment of asset quality and adequate credit risk is measured as the ratio of total capital inflow to risk adjusted assets. Again, Akotey (2018) utilizes Capital Adequacy Ratio as a measure for credit risk management. Capital adequacy ratio as noted by Gizaw et al, 2015 is seen as the rate of equity and other reserves which the bank holds against risky assets to protect the depositors from unanticipated losses. Akotey (2019) and Bizuayehu (2018) measured Capital adequacy ratio as shareholders fund by total assets utilizes as regulatory capital requirement as a main measure of financial strength from a regulator's view. This is measured by total equity to total assets ratio (Makri, 2018).

More so, Habtamu (2018) revealed that capital adequacy is a measure of financial strength given that it is the capacity to withstand operational and unexpected losses. Capital adequacy ratio assist the regulators in protecting depositors from banks who lend aggressively and in doing so do not get back most of the funds. This is due to the fact that when a bank makes large loan losses it wiped out its total equity, this could result to an immediate bankruptcy therefore making depositors lose funds. The higher the ratio is the signal of improved assets quality and bank Capital Adequacy and low credit risk. This consists of the types of financial capital considered the most reliable fundamental shareholders' equity. Therefore, capital adequacy ratio determines the risk behavior of banks and evaluates the banks solvency and ability to absorb risk (Makri, 2019). This study adopts capital adequacy ratio as total capital to risk adjusted assets of a bank.

Business Performance

Business performance is seen as the ability of enterprise to execute business strategy to accomplish organizational objectives and is considered as a critical tool for businesses to analyze how effective management is in pursuing business goals. Thus, firm performance involves analyzing performance against set objectives. Therefore, firm performance entails real outputs compared with intended outputs. The analysis focuses on three major outcomes, shareholder value performance; the financial performance; and the market performance. It is important to evaluate business performance to comprehend whether a business is achieving its goals in form of key performance indicators (KPIs). Some indices of KPIs could be: workforce productivity, Net sales growth, Monthly traffic generated from the business's website, Customer satisfaction ratings, order delivery and fulfillment speed (Babajide, 2015, Nzewi & Audu, 2023).

Theoretical Framework

Trade-off theory

Under perfect capital market speculation, holding cash do not create nor reduce value. The firm can consistently raise fun through capital markets the moment funds are required, this is due to the fact that capital market is assumed to be fully aware about the prospects of the business. The trade-off theory argued that firms target an optimal level of liquidity to balance the gain and cost of holding cash. These benefits save transaction costs to raise funds and do not need to liquidate assets to make payments thus the firm can utilize liquid assets to fund its investment if other source of funding is not viable. Considering account receivables, it argued that a flexible trade credit policy with an interest on receivables could increase sales (Deloof & Jegers, 1996). This theory explains that, firms with high management of accounts receivables should hold an efficient credit management technique

which balances the trade- off between liquidity and profitability. From the exposition of this theory, the research is anchored on this theory because of its practical application and relevance.

Research Methodology

Research design

This part of the study describes the procedures used in conducting this research; in order to have meaningful interpretations of the research findings the study reveals the blue-print and structure of the investigation carried out by the researcher so as to obtain reliable responses to the research questions raised and hypotheses stated. This study is survey research thus; it collects data from respondents through a structured questionnaire. The population and derivative sample size to be used is restricted to the study area.

In this study, the population of the study comprises all the small and medium-scale enterprises in the area of which is considered as infinite population considering the fact that most of the target respondents are not registered while in certain instances mobile. Therefore, the study adopted Godden' statistical formula which is statistical technique for determination of sample size therefore, in using the Godden statistical formula for an infinite population we have:

The Godden (2004) formula denoted as.:

$$SS = \frac{Z^2 (P)(1-P)}{C^2} \quad \text{-- equ (1)}$$

$$\text{New SS} = \frac{SS}{1 + \frac{(SS-1)}{\text{Population}}} \quad \text{equ (2)}$$

Where SS = Sample size
Z = Confidence level 95 %
P = Percentage of population (50%)
C= Confidence interval = 5 % (0.05)

$$SS = \frac{1.96^2 (0.5)(1-0.5)}{0.05^2} \quad \text{equ (1)}$$

$$SS = \frac{3.8416 (0.5)(1-0.5)}{0.0025}$$

$$SS = \frac{0.9604}{0.0025}$$

$$SS = 384$$

Hence, the sample size for the infinite population = 384

However, out of the total questionnaire distributed only 267 were duly completed and returned giving a retrieval rate of 70%. The research collected data using the primary sources; the study designed a structured questionnaire numbering eight (8) items. The questionnaire was close ended while a five-point Likert-scale responses of strongly agree, Agree, Undecided, Disagree and strongly disagree was used.

Method of Data Collection

A questionnaire was the research instrument used to elicit data from the respondents. The 8 items questionnaire is designed in a five points Likert scale of Strongly Agreed (5), Agreed (4), Undecided (3), Disagreed (2) and strongly disagreed (1) may have on any questions.

Method of Data Analysis

The questionnaire soughed for the opinion of the respondents as regard to credit management as indices of independent variable and performance as indices of dependent variable. The questionnaire adopted a five-point response scale of Strongly Agreed (SA) 5, Agreed (A) 4, Undecided (U) 3, Disagreed (DA) 2 and Strongly Disagreed (SA) 1. The interpretation of each item on the questionnaire was determined based on the mean and standard deviation. The hypotheses were tested in other to make valid inference for this research. Therefore, the hypotheses earlier formulated were tested using simple linear regression with the aid of Statistical Package for Social Sciences SPSS version 23.

Data Analysis and Results
Test of Hypotheses

The data that was collected for this study were analyzed using statistical package for social Sciences (SPSS). Regression analysis is used to test the hypotheses formulated by the researcher

Hypothesis 1
H_{01}: There is no significance relationship between loan deposit ratio and performance of small scale enterprise in Kogi State.

Table 1
Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.877[a]	.769	.764	.32822	2.1216

a. Predictors: (Constant), performance
b. Dependent Variable: loan deposit ratio

The model summary table reports the strength of relationship between the independent and dependent variables. The result of R stood at 0.877 indicating a strong relationship between the dependent variable loan deposit ratio and the explanatory variable performance. The coefficient of multiple determinations R^2 measures the percentage of the total change in the dependent variable that can be explained by the independent or explanatory variable. The result indicates a R^2 of 0.764 showing that 76 percent of the variances in loan deposit ratio is explained by performance while the remaining 24 percent (i.e. 100 – 76) of the variations could be explained by other variables not considered in this model.

The adjusted R-square compensates for the model complexity to provide a fairer comparison of model performance. The result is supported by the value of the adjusted R which is to the tune of 76 percent showing that if the entire population is used, the result will deviate by 11.3 percent (i.e. 87.7 – 76.9), with the linear regression model, the error of the estimate is considerably low at 0.32822. The result of Durbin Watson test shows 2.1216 therefore it shows that there is no auto correlation.

Table 2. ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	212.214	1	212.214	3224.32	.000[b]
	Residual	13.433	266	.128		
	Total	225.647	267			

a. Dependent Variable: loan deposit ratio
b. predictors: (constant), performance

The ANOVA table confirms the results of model summary, analysis of the result revealed that F = 3224.32 which is significant at (0.000) < 0.05. Hence, since the P-value < 0.05 (critical value), the null hypothesis that there is no relationship between loan deposit ratio and performance of small-scale enterprise in Kogi State is rejected.

Hypothesis 2

H_{02}: There is no significance relationship between capital adequacy and the performance of small-scale enterprise in Kogi State.

Table 3. Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.868[a]	.753	.752	.43222	1.223

a. Predictors: (constant), performance

c. Dependent variable: Capital adequacy

The model summary table reports the strength of relationship between the independent and dependent variable. The result of R stood at 0.868 indicating a strong relationship between the dependent variable Capital adequacy and the explanatory variable performance. The coefficient of multiple determinations R^2 measures the percentage of the total change in the dependent variable that can be explained by the independent or explanatory variable. The result indicates a R^2 of .753 showing that 75 percent of the variances in performance is explained by Capital adequacy while the remaining 13 percent (i.e. 100 – 87) of the variations could be explained by other variables not considered in this model. The adjusted R-square compensates for the model complexity to provide a fairer comparison of model performance. The result is supported by the value of the adjusted R which is to the tune of 75 percent showing that if the entire population is used, the result will deviate by 11.5 percent (i.e. 86.8 – 75.3). With the linear regression model, the error of the estimate is considerably low at 0.43222. The result of Durbin Watson test shows 1.223 therefore it shows that there is no auto correlation.

Table 4. ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	124.242	1	124.242	119.113	.000[b]
	Residual	117.15	266	.432		
	Total	241.392	267			

a. Dependent variable: Capital adequacy

b. Predictors: (constant), performance

The ANOVA table confirms the results of model summary, analysis of the result revealed that F = 119.113 which is significant at (0.000) < 0.05. Hence, since the P-value < 0.05 (critical value), the null hypothesis that there is no relationship between capital adequacy and the performance of small-scale enterprise in Kogi State is rejected.

Conclusion

From this research, it has been noted that credit management is critical to the enhancement of small and medium scale enterprises in Kogi state. Again, it is an essential element in enterprise planning, evaluation, control and decision making of business performance. Credit management is seen as the technique through which businesses harness and control the receipts from the clients. Thus, there is a significant positive relationship between credit management and performance of small-scale enterprises in Kogi state.

Recommendations

Base on the findings from this research the following recommendations are made:

i. The small and medium scale enterprises should maintain adequate and effective credit management in order to enhance the organizational growth and accountability.
ii. For there to be profitability in business, adequate credit management should be involved therefore, small and medium scale enterprises in Kogi state should employ the credit management tools for effective management of finance within the organization.

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