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Tapping the Business -Business Credit Management Strategies. A study on Performance of Small and Medium Enterprises in Kenya

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Abstract SMEs in Kenya face challenges such as limited access to financing, high compliance cost and cash flow management challenges. This study examines the effect of Business-to-Business credit management strategies on the performance of Small and Medium Enterprises in Nairobi City County, Kenya, to address cash flow management challenges. It focused on four key strategies: credit assessment, credit terms, monitoring of accounts receivable, and debt collection. The study is grounded on four theoretical frameworks: Resource based view, Transaction cost theory, the contingency Theory, and dynamic Capabilities Theory. Descriptive research design was used, using Yamane's algorithm and stratified random sampling, 187 companies were chosen. Structured questionnaires were used to collect data. To confirm the reliability of the questionnaires, a pilot test comprising of 19 participants (10% of the total sample) was carried out prior to the main study. The content validity was established by evaluating the questions, and reliability was established by carrying out a Cronbach's Alpha test, resulting in a score above 0.7, thus indicating its suitability. Data analysis was done using both descriptive and inferential statistics. From the study, it is clear that credit assessment has a positive and significant impact on the financial performance of SMEs.

Keywords: *Small and Medium Enterprises, economy growth, job creation, credit management, cash flow, credit assessment, credit terms*

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1. Introduction

SMEs play a major role in the growth of an economy through creating jobs and innovation particularly in emerging nations like Kenya. Effective SMEs usually have excellent financial practices and robust internal systems that adapt well to shifting market situations. However, due to inadequate funding for expansion and bad financial management, many SMEs still face difficulties. These problems make it difficult for companies to grow, make investments, or penetrate new markets.

B2B credit management practices are gaining significant attention in the East African region in the wake of regional integration. According to [1], digital credit scoring has improved the SMEs performance financially in the wake of enhanced digital payment services. Many SMEs in the East African region are currently utilizing credit to retain business customers and enter new markets. However, they currently have low credit management structures to handle credit risks. It has been established that proper credit management practices such as credit tracking, customer evaluation, and proper credit collection are positively related to the growth of SMEs in physical assets and market size.

1.1. Statement of the Problem

Kenya's economy still depends on small and medium enterprises. They employ around 80% of the private sector workforce and contribute more than 30% of the nation's GDP. However, Nairobi's SMEs have been struggling between 2020 and 2025, particularly those in the manufacturing sector. 24% of Nairobi's SMEs experienced cash flow issues in 2020. By the end of 2023, that percentage had increased to 43% from 31% in 2021 and 36% in 2022. Customers' late payments, an increase in non-payment of debts, and subpar credit systems were the causes of this. By 2024, 39% of SMEs recorded default in collection of receivables within stipulated timelines as their greatest fear, hence slowing growth and stagnating their assets. Net profits have since fallen significantly, such that their average net margin for SMEs in the automobile manufacturing industries decreased from 14.2% in 2020 to 8.6% in 2025. Research carried out by [2] reveals that SMEs with proper credit management strategies would be better suited in ensuring proper cash flow and lowering default cases. Similarly, research carried out by [3] reveals that proper credit management strategies would enable business stability, facilitate better access to trade finance, and also provide for better customer retention. There has not been direct quantitative study of B2B research on credit strategies and their outcome-performance metrics such as profitability, liquidity ratios, and business growth measured in terms of increased business value. Lastly, specifically in theory and concept, the dynamics of direct linkages between B2B Credit Management Strategies and the associated business performances of such SMES specifically during the era characterized by economic disruptions and higher business failure [4] had not received meaningful attention. This research study bridged such research gaps specifically targeting the potential effect of Specific B2B Credit Management Strategies on the overall business performances of automotive parts SMES of Nairobi.

1.2. Objectives of the Study

The research was informed by these objectives:

I. Determine the effect of credit assessment on the performance of SMEs in Nairobi.
II. Determine the effect of credit terms on the performance of SMEs in Nairobi.
III. Analyse the influence of monitoring the accounts receivable on SMEs performance in Nairobi.
IV. Analyse debt collection and dispute resolution influence on the performance of SMEs in Nairobi.

2. Review of Literature

This chapter provides an overview of the information found in the literature that is currently available in the same field. It involved a study of many traditional theoretical issues and how they relate to the performance of SMEs and related empirical investigations, as well as identifying gaps in the research.

2.1. Theoretical Review

This study makes use of four strategic management theories: Resource-Based View, Transaction Cost Theory, Theory of Contingency, and Dynamic Capabilities Theory. The theories of strategic management offer insight into how Nairobi's SMEs' performance may be impacted by controlling credit risk in business-to-business markets. SMEs can employ credit management methods to gain a competitive edge and boost performance.

2.1.1. Resource Based View Theory

[5] proposed the Resource-Based View Theory, which [6] modified. According to this theory, a company's internal resources serve as the foundation for gaining a sustained competitive edge. The RBV framework states that when an organization's resources are deemed "uncommon", that is, of considerable value, relatively rare, difficult for other businesses to anticipate and plan for, and not readily replicated, it can sustain a competitive advantage over its rivals.

RBV does not take into account the external factors that affect an organization's success because it focuses on an organization's internal capabilities. SMEs in Nairobi, for example, use internal resources to obtain a financial competitive edge. These resources include credit access, client databases, customer trust, and negotiation abilities. Additionally, using b2b credit as an internal resource can help SMEs better manage their cash flow, retain customers, build enduring connections, and ultimately improve the organization's overall operational performance. These SMEs will therefore have a higher probability of success than their rivals who do not effectively manage their credit systems. According to research by [6] RBV can be used to improve the performance of SMEs, mainly through the efficient management of trade credit systems.

Furthermore, based on the application of Resource Based View theory to competitive advantage, one of the main criticisms of RBV is that it ignores the dynamic brought about by external factors (credit policies) in economies with constantly shifting environments because it assumes that resources by themselves provide competitive advantage regardless of how the resources are used. The RBV theory's' failure to address the problem of how an organization can best manage resources to overcome external forces, such as inflation, which can affect any organization regardless of the strength of its internal resources, is the second significant criticism leveled at its application. It might be wise to combine the RBV with a theory that takes into account the possible external environment because of the significant impact that external influences have on an organization.

Despite the RBV's drawbacks, this theory is nonetheless often used in the literature on SMEs' performance and strategy decisions. Making use of the information found in previously done research shows that SMEs' performance is greatly improved by making the best use of their capabilities, especially with regard to credit. With an emphasis on elements like management experience, trust-based networks, and supply chain-related networks.

2.1.2. Dynamic Capabilities Theory

The dynamic capabilities theory was first presented by [7]. In order to secure competitive survival, the idea focuses on developing strategies for senior management of successful businesses to adjust to disruptive developments while maintaining basic competence levels. The DC hypothesis describes a set of procedures that help businesses develop, integrate, and reorganize their portfolio of resources and skills in order to respond to quickly shifting circumstances. According to the DC, a company's ability to integrate, build, and reconfigure resources to satisfy the demands of a dynamic market is just as important to its sustained competitive advantage as having rare and precious resources. In this instance, their dynamic capabilities can be significantly enhanced by their capacity to modify their credit approaches, implement technology for credit management, and change the way they communicate with their clients. Small firms may be able to improve their market, consumer, and financial performance with this strategy.

Despite this, there have been some recent challenges to this hypothesis. In research, for example, the concepts of sensing, seizing, and transforming are hard to describe and quantify [8]. Second, the resources and capabilities that small enterprises possess (especially in developing nations) that can prevent them from acquiring dynamic capacities are not taken into account by this approach. Furthermore, the theory places too much emphasis on the necessity of fast-moving industries like technology, which may not be applicable to small enterprise or in underdeveloped nations. These arguments make it abundantly evident that while the theory has promise, its practical application may not produce the optimal outcomes, especially when it comes to small enterprises without robust innovation systems.

According to this study, Nairobi's SMEs may modify their credit management strategies in response to shifting consumer preferences, governmental policies, and economic shifts. The key takeaway is that SMEs must modify their credit strategy in response to practical experiences if they hope to improve their performance. Changing credit levels, using better tools to assess client credit, or improving cash recovery procedures are examples of how to modify the credit strategy. Notably, in order to guarantee easier operations execution and enhanced customer performance, which has a beneficial impact on enterprise performance, it is imperative to adjust to the demands of consumer behavior as well as changes in the business environment.

2.1.3. Transaction Cost Theory

According to the Theory [9], the primary purpose of firms in the market is to reduce the cost of economic transaction. Organisations in the Theory take an optimised decision to use the market or governance structure for an economic transaction, which requires the lowest cost. For SMEs in Nairobi, the best B2B credit policies form part of the strategies which reduce the risk of economic transaction. By offering credit term policies to customers, the need to negotiate often also decreases, thus lowering the cost of time. With TCT, SMEs are able to manage their operations in a smooth flow. Thus, the process of managing credits even becomes a form of management, which enhances performance.

TCT, however, has been under criticism on different fronts in current years despite its broad adoption. First, it has been under criticism for its assumption concerning the opportunistic nature of all business actors, which is too negative, particularly for societies in which trust plays a fundamental role, just like Kenya. Secondly, it underestimates the role played by social factors in transacting, which makes it not so ideal in an informal or semi-informal SMEs transacting context [10] Thirdly, it adopts a simplistic approach in understanding transacting actors, especially businesses, by considering them too rigid in their cost reaction, even when their cost might change or reduce through innovative or relational mechanisms. This indicates its limited suitability in understanding all or most strategic actions, especially for businesses in dynamic or trust economies, such as in the case of some small businesses in Nairobi where social networks play a pivotal role in their transacting operations; thus, TCT might be too simplistic in understanding their operations or relationships, especially concerning access to credits.

Theories, specifically TCT, have been used in this study because they help us comprehend the challenges Nairobi's SMEs face when it comes to managing credit in business-to-business transactions. Eliminating clear-cut and complex payment methods, closely monitoring each client, and keeping an eye on them all help to reduce the already high transaction costs that SMEs must pay. Additionally, TCT notes that poor credit management may be one of the least dangerous financial hazards. From a theoretical standpoint, TCT suggests that the understanding of SME success will be shaped by the time-consuming and costly application of credit that results in better business performance and lower financial risks.

2.1.4. The Contingency Theory

Scholars like [11] were the main contributors to the popularity of this idea. According to the principle, there is no one-size-fits-all solution for managing or structuring organizations. Rather, successful management and organizing vary depending on the internal dynamics and the environmental elements. One aspect of the theory: the effectiveness of organizations is attained by ensuring management practices match the conditions of the organizations. The fundamental aspect of the theory is: Organisational effectiveness is attained by ensuring the alignment of organisational strategies, structures, and processes with the context in which the business operates. For SMEs in Nairobi, the theory means that the management of credits in the B2B marketplace should be done in a manner that is contextually dependent. A good example is the length of the credit payment period in the construction and FMCG sectors. This differences in the length of the credit payment periods, depending on the context of the contingency approach, would have a significant bearing on the retention levels and profitability of the organizations. The contingency approach forms the basis of the theory to the effect that credits in their different forms provide performance-enancing mechanisms [12].

Notwithstanding the utility of this theory, it has also experienced criticisms over the past few years. First, this theory has experienced criticism due to the absence of predictive attributes, where the theory has ended up describing past phenomena instead of predicting the future [13]. Second, this theory has experienced criticism due to the absence of clarity and the use of inaccurate measures that would enable management to identify appropriate fit for different situations. Third, this theory is difficult to apply, particularly where SMEs are required to scan the external environment continuously, unlike larger companies that enjoy higher resource capabilities. By virtue of these limitations, SMEs would not apply this theory fully, particularly where the external environment is informal, such as in Nairobi, Kenya.

However, there have been recent findings indicating that the Contingency Theory has potential uses in SME research [14] used the Contingency Theory to examine the effect that Nairobi-based SME marketing strategies had during the Covid-19 outbreak and indicated a subsequent positive influence on their performance based on the fit with the environment. [15] used the Contingency Theory to examine the supply chain management that occurs in SMEs. By matching sourcing policies to the conditions in the demand strategy, there was a subsequent positive effect on inventory turns. [16] used the Contingency Theory to examine financial management in SMEs. By matching credit terms to the risk associated with the clientele, the defaulting risks were low. The theory verifies the concept that B2B companies should implement credit periods and recovery efforts on the basis of situational variables such as the customer's repayment behavior and the prevailing economic cycles.

2.2. Empirical Literature Review

This research looked at existing researches on credit management practices in SMEs and their effect on business performance. It focused on how these issues have been addressed in prior research.

2.2.1. Credit Assessment and Performance of SMEs

The impact of credit evaluation on the financial performance of Micro Finance Institutions (MFIs) in Mombasa County, Kenya, was examined by [17]. The MFIs in Mombasa County were the focus of a correlational study design. Return on Assets (ROA), a metric for profitability, was used in the study, which was based on secondary data taken from financial records. The panel regression technique was used. According to the study, credit evaluation has an effect on MFIs' financial performance.

Small Medium Enterprises credit evaluation and its impact on sustainability and financial performance are the subjects of a study conducted by [18]. The study uses a mixed-methods framework to combine qualitative information gathered from structured interviews with managers and owners of businesses with quantitative information gathered from surveys and financial records of 100 SMEs. The study showed that better financial performance and credit evaluation were favourably linked, with both open and closed enterprises showing higher cash profitability and a lower default risk. Incorporating cost-effective technologies and creative ideas that can improve credit management procedures was the conclusion drawn from these studies. While the prior study was based on Profitability of Top 100 Medium Enterprises in Kenya, the present investigation will base on all SMEs in Nairobi.

2.2.2. Credit Terms and Performance of SMEs

[19] assessed the connection between MFIs Kericho's financial performance and their credit terms. The study used cross-sectional and correlational research designs. The primary tool for gathering data was a structured questionnaire. Two hundred employees of the MFI made up the study's population. Out of the 133 respondents in the sample, 119 individuals provided data. The outcomes unearthed that credit terms and financial performance were significantly positively correlated. The study came to the conclusion that credit terms are associated to variance in financial performance. Although [19] focused on performance of MFIs Kericho in Kenya, the present investigation focused on performance of SMEs in Nairobi.

Borrowing terms effect on the financial performance of SMEs in Bamenda was evaluated by [20]. A sample of 185 SMEs in Bamenda was chosen using a multistage sampling strategy, and data was gathered and analyzed using a mixed methods approach. Primary data was gathered from key informants, while quantitative information was gathered utilising a structured, pretested questionnaire. The OLS estimation approach was used in the study. The results showed that credit terms had a noteworthy and advantageous effect on financial performance. The inquiry established that SMEs' financial performance often improves when credit costs rise, highlighting the significance of carefully weighing credit costs when choosing a financing option. The investigation was based on SMEs financial performance in Bamenda while the present study will base on supply performance of Nairobi's SMEs.

2.2.3. Monitoring Accounts Receivable and Performance of SMEs

The impact of account receivables management on the financial performance of mentioned consumer products companies in Nigeria was investigated by [21]. The entire Nigerian consumer products industry is included in the research population. There are 23 consumer goods companies in all. Using census sampling approaches, only companies with comprehensive financial data for the years 2013 2022 were chosen, yielding a sample of 13 businesses. A multiple regression estimation technique was used in the study. Findings noted that average receivable turnover has a negligible and detrimental effect on financial performance. In conclusion, listed consumer goods companies should maintain an ideal debt-to-assets ratio because excessive debt can lead to subpar financial performance, which in turn lowers returns for shareholders on their capital investment in the business. The aforesaid study focused on Nigerian consumer goods firms. The present investigation will base on performance of SMEs in Nairobi City county.

[22] investigated how the performance of companies in the soft drink sector is affected by accounts receivable monitoring. The inquiry utilized correlation design and a correlational technique. 552 Almasi Bottlers Ltd. employees made up the study audience. A sample size of 307 respondents was chosen from the target population after it was divided into clusters using a basic random selection approach. An estimation of correlational regression was made. The results demonstrated a strong and favorable correlation between the success of soft drink companies and their accounts receivable. The analysis came to the conclusion that Almasi Beverages Company's performance increased as accounts receivable increased. Soft drink industry in western Kenya served as the primary focus for the aforementioned analysis. Hence, the latest investigation will focus on profitability of SMEs in Nairobi, Kenya. The previous investigation design was a correlational survey while the present investigation design is descriptive.

2.2.4. Debt Collection, Dispute Resolution, and Performance of SMEs

The impact of debt collection tactics on the long-term viability of mobile lending companies was investigated by [23]. The research was carried out using survey designs that were cross-sectional, descriptive, and correlational. Although 269 respondents were chosen as the study's sample size, the study's target population was 900 respondents. Both descriptive and inferential statistics were used to assess the primary and secondary data that was gathered. The study's variables were found to be negatively correlated. The study came to the conclusion that in order to increase the firm's revenue and reduce losses, credit recovery efforts must be improved. It also found that inefficient financial management practices can eventually lead to inefficiencies in financial services, and that credit collection tactics should motivate borrowers to pay back their debt rather than provoking them. While financial sustainability of Uganda's mobile lending firms were adopted for the research, expansion of SMEs in Kenya's Nairobi's County will be used for the current study.

[24] investigated the relationship between employee performance and conflict resolution procedures in a subset of Lagos State industrial companies. A descriptive study design was used. Adopting a stratified random technique sampling, 357 employees from a selection of manufacturing organizations made up the respondents. A verified structured questionnaire was used to generate the data. Spearman correlation analysis was employed as a technique tool in the study. As indicated, a positive strong correlation involving organizational goal attainment and dispute resolution procedures was realised. In conclusion, employees' performance in a subset of Lagos State manufacturing enterprises is improved by dispute resolution techniques such collective bargaining, accommodation, confrontation, and avoidance. The latest inquiry will be done for the year 2023, whereas the previous investigation was completed for the year 2020-2024.

3. Research Methodology

This chapter outlines the research methodology that was applied to explore the effect of B2B credit management practices on the performance of SMEs in Nairobi. This chapter provided an overview of the methodology for the research that was applied to collect the findings on the effect that credit management practices have on the performance of SMEs. It will cover research methodology, the population under the research, sampling procedures and techniques, as well as the tools applied to gather the research findings.

3.1. Research Design

Design of descriptive research was adopted. This design is most suitable when trying to investigate and describe the features of B2B Credit Management Strategies implemented in small-medium enterprises in Nairobi and how the strategies effect business performances. The research collects data on the status of the situation and therefore enables the researcher to describe an exact situation of how things stand [25]. The research design is suitable as it has fully helped to detect trends and relationships and how different variables can affect business performances of small-medium enterprises through B2B Credit Management Strategies [26]. This research study has followed the research design and therefore helped small-medium scale enterprises to plan and implement B2B Credit Management Strategies and how the strategies effect their business performances [27]. The descriptive research study has helped the research to conduct the study and remain in an exact and naturalistic setting [28].

3.2. Target Population, Sampling and Sample Size

The target population were the SMEs in Nairobi city county. The SME sector as a whole is quite diverse and cuts across all industries like agriculture, manufacturing, retail, services, and tech [29]. Due to the high number of SMEs in Nairobi, the target population is infinite. Therefore, choosing a representative sample of SMEs to conduct the research will provide generalization of the results [30]. According to KNBS, (2024), the micro-enterprises (less than 10 employees) and larger SMEs (up to 250 employees) are estimated to be 84000 and are spread across the 10 Nairobi Districts. By virtue of being the target population, the study chose 350 of those. This margin will allow the results to adequately represent the diverse SMEs in Nairobi [31].

The below table indicates the estimated SME population in Nairobi.

Table 3.1. Research Population

Sub-County	Estimated Number of SMEs	Percentage of Total SMEs in Nairobi
Central Nairobi	63	18%
Westlands	49	14%
Starehe	38	11%
Lang'ata	31	9%
Kasarani	32	9%
Embakasi	39	11%
Kamukunji	24	7%
Njiru	21	6%
Makadara	28	8%
Dagoreti	25	7%
Total	350	100%

Source: KNBS, (2024)

In conducting the study, to get a representation of SMEs across sectors and within regions of Nairobi, the study divided the sample into several strata (sub-counties). A Stratified sampling technique is applicable where the population is not homogenous. This ensures representation of the sub-groups/strata within the population [32]. The strata were built from sectors like manufacturing, retail, and services. These are major areas where SMEs operate in Nairobi [33]. The participating SMEs were chosen by random sampling within each sector following stratum identification. By guaranteeing that each sector is represented in accordance with the total number of SMEs in Nairobi, this approach lessens prejudice [34]. A smaller sample of 187 enterprises was chosen because Nairobi's SMEs are dispersed and difficult to access. This scale is realistic in terms of time and resources while guaranteeing precise outcomes. It enables in-depth study without putting too much strain on the group. This strategy is supported by [35].

The sample was dispersed throughout the chosen regions according to the approximate proportion of SMEs in each area.

Table 3.2. Sample Size

Sub-County	Sample Size	Percentage of Total SMEs in Nairobi
Central Nairobi	34	18%
Westlands	26	14%
Starehe	21	11%
Lang'ata	18	9%
Kasarani	17	9%
Embakasi	21	11%
Kamukunji	14	7%
Njiru	11	6%
Makadara	15	8%
Dagoreti	13	7%
Total	187	100%

Source: Researcher, (2025)

3.3. Data Collection and Analysis

A questionnaire that is structured served as the primary instrument for gathering data for this study. With regard to B2B credit management strategies and their impact on small and medium-sized businesses (SMEs), this tool collected both descriptive and numerical data. In order to assess how various B2B credit management techniques affect company performance, the survey included both fixed-answer and Likert scale questions [36]. It was divided into two sections: one on SME performance and the other on B2B credit management strategies [37].

The data collection was done using the drop-and-pick-later method. After acquiring the required permits and consent from the SMEs. The method used in this study has advantages in that the researcher can ensure that the questionnaires reach the targeted respondents in the correct context [38]. Participants had one week to complete the questionnaires. The researcher then gathered the filled-out forms. Furthermore, any misconceptions that might have arisen during data collection were resolved because the researcher collected the data in person [39].

To verify the validity and reliability of the data collection tool, a pilot investigation comprising 19 respondents comprised 10% of the total study sample, in accordance with [30] that 10% of the population used in a pilot inquiry. The pilot was carried out in the Industrial Area of Makadara Constituency, which is known for having a large number of SMEs in the automotive industry. The criteria required SMEs to have between 10 and 250 employees, and a respondent was selected from each of the 19 randomly selected SMEs to guarantee accurate representation for the main study

The Content Validity Index (CVI) method was used in the pilot study to evaluate the tool's content validity. Three experts evaluated the tool and rated it on a four-point scale for relevance to the study's questionnaires. The majority of the items had an Item-Level Content Validity Index (I-CVI) of 1.00, indicating high relevance; a few items had an I-CVI of 0.67 and required adjustments; and the Scale Content Validity Index (S-CVI) was 0.89, above the acceptable threshold of 0.80, confirming strong content validity [40], As a result, minor adjustments were made to items one through four to improve the objectivity of the study constructs

Table 3.3. Validity Test Results

Section	Number of Items	CVI scores	Comment
Demographic Information	4	0.88	Valid
Credit Assessment	6	0.89	Valid
Credit Terms	6	0.90	Valid
Monitoring Accounts Receivable	6	0.89	Valid
Debt Collection and Dispute Resolution	6	0.88	Valid
Financial Performance	6	0.89	Valid

Source: Pilot Study Data (2025)

Table 3.4. Reliability Test Results

Section	Number of Items	Cronbach's Alpha	Comment
Demographic Information	4	0.73	Reliable
Credit Assessment	6	0.85	Reliable
Credit Terms	6	0.88	Reliable
Monitoring Accounts Receivable	6	0.82	Reliable
Debt Collection and Dispute Resolution	6	0.80	Reliable
Financial Performance	6	0.84	Reliable

Source: Pilot Study Data (2025)

All the sections exhibited values above the acceptable S-CVI threshold. The credit terms section exhibited the highest S-CVI value of 0.90. This indicates an extremely strong link and relationship with the research objectives. Both the demographics section and the debt collection and dispute resolution section exhibited the lowest S-CVI value of 0.88. This value is highly acceptable. This implies that the items selected to be used in the research had relevant and appropriate content that was precisely measured. According to the literature, high content validity ensures the findings and results are credible and have a high potential to be generalizable. The stable values from I-CVi ranging from 0.67 to 1.00 clearly depict that although the majority of the items were universally accepted as highly relevant, slight amendment to clear some items would be appropriate. Hence, the findings clearly and strongly indicated that the research had high content validity and thus highly suitable for the main research.

The reliability of the questionnaire was tested using Cronbach's alpha in the pilot study to show the level of consistency in the instrument. Reliability analysis was conducted on 19 SME participants in the automotive industry at Industrial Area, Makadara Constituency. Cronbach's alpha was performed per section in the study to show the level of correlation between items in each section, as each item was presumed to reflect the same thing. A level above 0.70 was accepted, which was acceptable for social sciences studies, according to [41]. From the pilot study, the result showed that all sections in the questionnaire reported alphas measuring 0.73 to 0.88, which passed the 0.70 level acceptable in social sciences studies. The researcher normalized two items that showed a slightly low level between items, with changes informed by SME participant response. Thus, the study observed that reliability analysis was important, as it addressed whether the instrument was stable, consistent, practical, and suitable for the study, according to [42]. Reliability analysis also aids in the decision to accept or reject a hypothesis in studies, by ensuring consistency in corrective measures, hence reliability, on individual items.

4. Findings and Discussion

The chapter provides an in-depth analysis of the data gathered to investigate how B2B credit management factors affects the performance of small and medium enterprises in the Nairobi City County, Kenya. The analysis started with an evaluation of the response rates and demographic features of the study participants and an analytical examination of the significant variables of the study. The results of these findings give the empirical basis of the conceptualisation of credit management practices of SMEs and their relation to financial performance.

Table 4.1. Response Rate

Action	Frequency	Percentage
Questionnaires Issued	187	100.0
Questionnaires Returned	132	70.6
Non-Response	55	29.4
Total	187	100.0

Source: Research Data (2025)

As revealed in Table 4.1, out of the 187 questionnaires sent to small-and-medium-sized enterprises (SMEs), 132 questionnaires were duly filled and submitted, which gave a response rate of 70.6%, and 29.4% of the questionnaires were not submitted. This respondent rate is considered strong and respectable in social science research, representing a high degree of interest and participation of respondents in sharing knowledge about the business-to-business credit management techniques and their effects on firm performance

4.1. Descriptive Analysis of Study Variables

The descriptive statistics were utilized to present findings of the investigation variables of the study, such as credit evaluation, credit conditions, accounts receivable tracking, debt collection and dispute resolution, and financial performance. This discussion helps to have insight into the trends and the degree to which these strategies are implemented by SMEs. It also gives a ground on which future inferential analysis and testing of the research hypotheses can be based.

4.1.1. Credit Assessment

Credit assessment refers to the analysis of the financial position and ability to repay clients in advance before they are given credit. The research indicated that most of the SMEs in Nairobi unanimously evaluate client creditworthiness based on formal and informal indicators. These are common practices of sound financial management, which have a direct effect in impacting the reduction of default risk and general performance improvement. In view of this, the responses of the respondents are summarized in Table 4.7.

Table 4.2. Credit Assessment

Statement	Mean	Std Deviation
A clear B2B credit management strategy improves firm performance.	4.21	0.79
Managing credit sales has enhanced our business performance.	4.15	0.84
Credit management practices lower the financial risks faced by the business.	4.09	0.88
Credit management has improved our profitability.	4.12	0.81
Effective credit strategies are linked to higher business growth.	4.19	0.76
Overall Mean	4.15	

Source: Research Data (2025)

Table 4.2 reveals that the statement that a clear B2B credit management strategy improves firm performance reached the maximum average of 4.21 (S.D=0.79), which shows that the respondents highly scored the establishment of formal credit assessment systems as a direct booster of both operational and financial performance. The discovery highlights the importance of well-structured appraisal systems in determining customers who can be credited and avoiding the risks that may arise. Similarly, the fact that the business performance has been improved because of managing credit sales (mean = 4.15, SD = 0.84) demonstrates the opinion that ensuring business transactions are properly managed in terms of credit transactions will guarantee on-time payments, decreased defaults, and a positive effect on revenue generation. Companies that keep track of credit sales are in a better position to keep afloat and enhance profitability.

The fact that credit management practices reduce the financial risks that the business is exposed to (mean = 4.09, SD = .88) highlights the fact that credit evaluation decreases the financial risks related to bad debts and operational uncertainty. Through a thorough assessment of the creditworthiness of customers, SMEs would reduce the number of lost finances and protect their resources. Also, the statement that credit management has strengthened our profitability (mean = 4.12, SD = 0.81) proves that structured credit examination helps to increase the profits of the company by making sure that the sales made on credit can be recovered and managed.

The aim of the effective credit strategies is the increased business growth (mean = 4.19, SD = 0.76), which shows that companies have acknowledged the strategic quality of credit evaluation in promoting the sustainability of growth. SMEs can take growth opportunities with confidence by extending credit in the most judicious ways and handling the risks that are associated with it. The total average of 4.15 validates the high consensus that credit evaluation, as part of a B2B credit management strategy, has a strong performance improvement in firms, economic benefit, management of risk, and expansion. These results support the theoretical hypothesis that intensive credit risk assessment is a pillar to financial prosperity and business success among SMEs in the emerging economies. In a similar direction, [43] found that SMEs that adopted structured procedures for evaluating credits experienced improved predictability of cash flows.

4.1.2. Credit Terms

Credit terms include the terms on which credit is provided, such as the period of repayment, interest rates and incentives provided when credit is repaid on time. Findings have shown that SMEs implement various flexible terms of credit in efforts to regulate client relationships and liquidity requirements of the business. Properly designed credit conditions play a significant role in ensuring that the client pays on time, and this relationship continues to be positive. These views of the participants are displayed in Table 4.3.

Table 4.3. Credit Terms

Statement	Mean	Std Deviation
Credit strategies help shorten the payment collection time.	4.08	0.86
Overdue payments have reduced due to our credit strategy.	4.03	0.90
Debt collection periods have improved under current credit terms.	3.98	0.87
Accounts receivable are closely monitored to avoid delays.	4.11	0.85
Structured credit terms make customer payment timelines clearer.	4.14	0.79
Overall Mean	4.07	

Source: Research Data (2025)

Table 4.3 shows that the highest mean was 4.14 (SD=.79) in the statement Structured credit terms make customer payment timelines clearer, so it is possible to suppose that the respondents are strongly agreeing with the idea that clear credit terms improve better adherence to payment schedules and reduce ambiguity. Clearly defined credit facilities promote responsibility, reduce time wastage and favourable cash flow. Equally, the fact that the operation of structured credit terms is closely monitored to prevent delays (mean = 4.11, SD = 0.85) shows that perpetual monitoring of payment terms is perceived to cause optimal liquidity and operational efficiency.

The assertion that the credit strategies will result in a shorter collection period on credit (mean = 4.08, SD = 0.86) shows that the rate at which the credit sales are collected into cash will be quicker with the introduction of clear and enforceable terms. Effective collection period management will enable the SMEs to alleviate the constraints on working capital as well as enhance financial stability. Also, the overdue payments have decreased due to our credit strategy (mean=4.03, SD=0.90), indicating that structured terms help to decrease the default rates and increase the cash flow reliability. Not only do reducing overdue accounts help to preserve revenue, but it also helps in building customer relationships due to clear expectations.

The fact that the debt collection periods have become shorter when compared to previous credit terms (mean = 3.98, SD = 0.87) shows that the time lag between sales and collection is reduced due to systematic credit-term management, thus enhancing the working efficiency and contributing to the improvement of financial performance. The general average of 4.07 suggests that there is great consensus among the respondents that credit terms with proper structuring and proactive monitoring increase payment discipline and curtail financial risk and the SMEs performance financially. These findings support the theoretical and practical significance of putting clear, enforceable, and monitored credit agreements in place in the context of strategies of B2B credit management. Results supported [44] outcomes which concluded that SMEs that adopted clear procedures for setting up credit periods and discount rates improved their profitability due to improved turnover of accounts receivable. However, the findings of this study differ from those of [16], which concluded that SMEs that adopted lenient procedures for granting credits risked reduced profitability despite increased sales volume.

4.1.3. Monitoring of Accounts Receivables

Monitoring accounts receivable involves keeping a close check on the outstanding debts at all times so as to collect the debt on time and avoid accumulating bad debts. The descriptive analysis demonstrates that SMEs utilise many means of monitoring, such as periodic reviews and follow-up communications. Proper monitoring leads to the maintenance of the cash flow and increases the chances of SMEs covering the operational requirements. The outcomes are detailed in Table 4.4.

Table 4.4. Monitoring of Accounts Receivable

Statement	Mean	Std Deviation
Credit strategies have increased business turnover.	4.06	0.91
Effective credit control improved our firm’s turnover.	4.10	0.86
Credit systems have expanded our sales volume.	4.04	0.88
Our revenue streams are now more predictable.	4.07	0.83
Bad debts have reduced, positively affecting our turnover.	4.12	0.79
Overall Mean	4.08	

Source: Research Data (2025)

Table 4.4 unveiled that the connection statement that credit strategies have led to higher business turnover had mean of 4.06 (SD= 0.91) which means that respondents believe that systematic monitoring of receivables has the effect of increasing sales and revenue generation. The direct connection between operational performance and effective receivables monitoring comes out clearly. Regarding the notion that effective control of credit improved our firms’ turnover, a mean of 4.10 and a corresponding deviation of 0.86 standards was found. This affirmed that idea that closely controlled monitoring customer payments cut down delayed payments, thus guaranteeing regular cash flows that support the growth of businesses. Through the maintenance of stringent mechanisms for monitoring, SMEs are able to consistently change credit sales into tangible revenue.

The quote credit systems have increased our sales volume (mean = 4.04, SD = 0.88) shows that organised receivables management allows companies to make credit facility access to the existing and new customers with ease in order to provide them with opportunities of growing without sacrificing their financial health. Moreover, our revenue streams are now more predictable (mean = 4.07, SD = 0.83), which depicts that forecasting and planning of finances become more precise owing to systematic control of the accounts receivable, which allows allocating the resources efficiently and making informed decisions on the functioning of the business.

The variable that achieved the most individual mean of 4.12 (SD=0.79), which is the most important, is the statement that the bad debts have been decreased, and this has had a positive impact on our turnover. Through reducing defaults, not only is the profit secured by the SMEs, but also the liquidity, which is a prime financial metric driving long-term growth. The mean score of 4.08 indicates a high agreement by the respondents that tracking the accounts receivable as an aspect of B2B credit-management practices has a positive effect on the turnover and stability in revenues, as well as the financial performance of SMEs. What such findings confirm is the theoretical assumption that operational and financial performance in emerging-market SMEs is strengthened by disciplined receivables management. Outcomes supported [45], which concluded that SMEs that adopted structured procedures for tracking accounts receivable reported reduced instances of bad debts, thus supporting the findings of this study. Further, [46] concluded that SMEs that adopted procedures for reviewing debtor ageing schedules improved their financial discipline.

4.1.4. Debt Collection and Dispute Resolution

The practices of debt collection and dispute resolution evaluate the way SMEs are dealing with overdue debts and resolving conflicts with customers in a peaceful manner. The results show that proactive involvement in debt recovery and the use of dispute resolution systems enhances relationships with clients and protects the flow of revenues. These are practices that contribute to the continuity of the business and enhance financial performance. The outcomes are documented in Table 4.5.

Table 4.5. Debt Collection and Dispute Resolution

Statement	Mean	Std Deviation
Credit strategies have strengthened our relationships with clients.	4.09	0.80
Structured credit systems improve trust with customers.	4.06	0.85
Clear terms help avoid misunderstandings with clients.	4.11	0.76
Credit structures improve satisfaction by clarifying expectations.	4.08	0.83
The business retains more creditworthy customers using structured practices.	4.13	0.78
Overall Mean	4.09	

Source: Research Data (2025)

Table 4.5 shows that the sentence, 'credit strategies have helped us with the clients create stronger relationships', yielded a mean of 4.09 (SD = 0.80), which means that there is a high degree of agreement by the respondents that the systematic credit strategy has helped us create more reliable and stronger ties with the customers. This fact shows the critical importance of regulated debt collection and dispute management in maintaining trust and continuity in B2B. Pertaining to the statement that structured credit systems improve trust with customers, an average value of 4.06 and an S.D of 0.85 was arrived at. This demonstrates that a well-structured framework of credit enhances reliability and transparency that are key in nurturing clients long term confidence.

The maximum mean of 4.13 (SD=.78) was attributed to the statement the business maintains more creditworthy customers through structured practices, which shows that SMEs view structured credit management as the tool of client retention. Underlying trusted customers and ranking them helps the firms to focus resources on valuable relationships; this way, they improve their financial performance and operational efficiency. Notably among the statement was that terms that are clear assist in avoiding client misunderstandings which revealed a mean = 4.11 and SD = 0.76. This outcome signifies that significance of documented and precise credit agreements. As such, credit clarity obligations curtail conflicts thus, supporting efficient operations of business and client satisfaction.

A statement which mentions how structured credit management enhances satisfaction by setting out expectations recorded a mean and standard deviation as follows (mean=4.08, SD=0.83): the management of credit structure is therefore translated into positive client experience. Through formulation of predictable and enforceable credit policies, the SMEs protect financial interests besides creating a mutual understanding and satisfaction with the clientele. The general mean of 4.09 supports a high level of consensus on the fact that debt-collection and dispute-resolution practices, which form part of systematic B2B credit-management strategies, improve the relationship with the clients, reduce conflicts, and make sustainable business operations among SMEs. Findings also supported by [47], which found that organisations with a clear policy for debt collection tend to have lower default rates, which is in line with the outcome of this investigation. On the other hand, [47] found that debt recovery strategies, if taken to extremes, may compromise business relationships, which could impact the stability of business revenues, thus providing a contrasting perspective to the positive relationship between debt management strategies and business revenues.

4.1.5. Financial Performance

Financial performance is the capability that SMEs have the capacity to perform in terms of revenue generation, cost, and liquidity. Descriptive statistics indicate that there is variance in profitability, growth of the revenue, and the general financial health of the sampled enterprises. The variable is the most important outcome measure to assess how the credit management strategies influence the performance of the SME as revealed in Table 4.6.

Table 4.6 outputs indicate that the statement 'Profitability improved as a result of improved credit management' attained the largest mean of 4.17 (SD 0.77) and thus shows strong consensus among companies that structured and monitored credit practices directly increase profit margins. This finding supports the theoretical claim that the B2B credit management allows the safe issuance of credit and the reduction of defaults that eventually promotes the growth of revenue and profitability. Similarly, the mean score of 4.10 (SD = 0.84) of liquidity and stability has improved under new credit practices, indicating that SMEs accept the task performed by credit management in the maintenance of healthy cash flows and financial stability. Through formalised credit evaluation, terms and conditions, and methodical monitoring of receivables, companies can have a better command of their working capital, reduce the risk of temporary liquidity crises, and maintain business flow.

Table 4.6. Financial Performance

Statement	Mean	Std Deviation
Profitability improved through better credit management.	4.17	0.77
Liquidity and stability have improved under new credit practices.	4.10	0.84
Our firm's financial health is better due to structured credit policies.	4.12	0.82
Operational efficiency improved, and risk was reduced.	4.06	0.86
Financial distress has reduced, improving our performance.	4.15	0.78
Overall Mean	4.12	

Source: Research Data (2025)

The idea that our firm has increased its financial strength through systematic credit policies (mean =4.12, SD= 0.82) highlights the importance of formalised credit procedures. Formulated policies create predictable cash flows, improve the effectiveness of collecting cash, and increase the confidence of the stakeholders, all of which strengthen the financial position of SMEs. In the case of "Operational efficiency improved, and risk was reduced (mean= 4.06, SD=0.86), it appears that the effective management of the B2B credit does not only reduce the financial risk but also streamlines operations. The systematic credit monitoring and debt-resolution procedures reduce the overdue accounts and administration burdens, allowing the SMEs to invest in the normal running of the business.

Financial distress has reduced, and it has improved our performance, which had a mean of 4.15 (SD = 0.78), and this means that effective credit-management policies have a significant impact on reducing the number of cases of bad debts and financial strain. Through effective management of credit exposures and prompt payments, SMEs are able to maintain stability, reduce the strain on resources and improve the overall performance of their operations. The average result of 4.12 also evidences the fact that there is an overall agreement among the respondents that B2B credit-management strategies positively affect the financial performance of the SMEs. The findings of this study also support the study by [23], which found a statistically significant relationship between the use of integrated systems for credit management and the profitability of SMEs. Additionally, [48], found that organisations using comprehensive systems for credit management tend to have higher returns on assets, thus providing further support for the overarching findings of this study, which concluded that B2B debt management strategies are essential for SMEs.

4.2. Inferential Statistics

The inferential statistics is utilized in estimating the interactions of the variables of interest as well as making inference on group of SMEs operating in NCC from the sampled SMEs. This enables empirical testing of theoretical relationship between business to business credit-management practices and financial performance. Application of both correlation and regression methods were utilized to establish the existence of relevant associations in addition to determining their strength and determining whether they are statistically significant.

4.2.1. Correlation Analysis

Correlation analysis was performed in view of identifying the direction and strength of the linear link amongst the independent variables and financial performance of SMEs. The outcomes linked to these findings are depicted in Table 4.7.

The output revealed that credit assessment had favourable and strong significant link with the performance of SMEs as noted by the coefficient 0.642. This implies that credit assessment increase is associated by an increase in SMEs performance. This means that improvement in the evaluation of credit is related with better business outcomes. The finding aligns with [33], who concluded that the application of stringent procedures for evaluating credits significantly associated with the stability of SMEs financially.

The result also shows that credit terms significant associate with financial performance of SME strongly in a positive manner with a coefficient reported as 0.588. This demonstrates that an increment in the financial performance of SMEs in connected to the terms of the credit increment. This suggests that better conditions of credit add positively to business profitability and growth. The outcome is consistent with the findings of [44], who discovered that SMEs that adopted clear credit terms significantly relate to their profitability.

Table 4.7. Correlation Analysis

Variable	Credit Assessment	Credit Terms	Monitoring Accounts Receivable	Debt Collection and Dispute Resolution	Financial Performance
Credit Assessment	1.000	.534**	.569**	.587**	.642**
Credit Terms	.534**	1.000	.497**	.522**	.588**
Monitoring Accounts Receivable	.569**	.497**	1.000	.544**	.609**
Debt Collection and Dispute Resolution	.587**	.522**	.544**	1.000	.671**
Financial Performance	.642**	.588**	.609**	.671**	1.000

Source: Research Data (2025)

As demonstrated by the analysis, monitoring accounts receivable strongly connects with the financial performance of the SMEs positively. This connection is significant implying that monitoring accounts receivable highly associated with the SMEs financial performance. This implies that appropriate payments follow-up enhances cash flow and the overall stability of business. The outcome of the investigation is in line with [49] Waweru who concluded monitoring accounts receivable strongly connects with the financial performance.

The debt collection and dispute resolution has a positive (0.671) and strong correlation which is also significantly associated with SMEs financial performance. This outcome demonstrates that debt collection and dispute resolution move in the same direction as the SMEs financial performance. This suggests that recovery that is better with appropriate management of conflict practices lead to improved results financially. The finding is in agreement with [23], who found that debt collection and dispute resolution significantly associate with performance.

4.2.2. Regression Analysis

Regression was used to examine the predictive power of business to business credit-management practices on the financial performance of the SMEs and, at the same time, adjust the overall effect of the various covariates. This provides a more rigorous test of causal confounding because it separates the exclusive effect of each explanatory variable. The regression model provides the empirical result on the portion of the financial performance variance that can be accounted for by the chosen dimensions of credit management.

4.2.2.1. Model Summary

Model summary outlines the indicators of R, R-squared and adjusted R-squared values that fall jointly to evaluate the explanatory strength of the regression model. The R-squared is used to represent the fraction of the variability in the SMEs financial performance which is clarified by credit-management practices. This also takes into account the strength of the model in explaining the financial performance beyond sample-specific effects that is captured sufficiently by adjusted R-squared.

Table 4.8. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.751	.564	.547	.511

Source: Research Data (2025)

The outcome of the model summary demonstrates that the relationship involving business to business credit management strategies and SMEs financial performance is positively and strongly correlated, as revealed by the R-value of 0.751. The R-square of 0.564 signifies that 56.4% of the changes in the SMEs financial performance is attributed to the business to business credit management strategies (credit assessment, credit terms, monitoring accounts receivable and debt collection and dispute resolution). Put together, significant changes in the financial performance of the SMEs are tie to the components of business to business credit management strategies. This implies that other fraction of the changes in the SMEs performance financially is linked to other factors exclude in the model.

4.2.2.2. Analysis of Variance (ANOVA)

This analyses the whole regression equation significance by investigating if or not the independent variables, collectively, predict the financial performance. The result of this demonstrates how aggregate credit-management practice has a substantive influence on the SMEs financial performance. Table 4.9 contained the outcomes.

Table 4.9. Model Summary

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	28.306	4	7.077	41.145	.000**
Residual	21.894	127	0.172		
Total	50.200	131			

Source: Research Data (2025)

As presented in Table 4.9 the analysis of variable results shows whether or not the regressors put together significantly affect SMEs financial performance. F statistical value of 41.145 with a corresponding p-value of 0.000 at the significant level of 5% was indicated. This signifies that SMEs financial performance is considerably influenced by the combination of credit assessment, credit terms, monitoring accounts receivable and debt collection and dispute resolution. This indicates that the entire explanatory factors put together have a significant effect on the financial performance of SMEs in NCC, Kenya.

4.2.2.3. Regression Coefficients

Regression coefficients express the magnitude and direction of the effect of each variable on the SMEs financial performance. This is demonstrated by the Beta values and the corresponding p-values. These coefficients thus offer an empirical basis for managerial interest in organised credit assessment, terms of credit, effective bill monitoring, and effective debt-recovery enforcement. The findings are revealed in Table 4.10

Table 4.10. Regression Coefficients

Variable	Unstandardised B	Std. Error	Standardised Beta	t	Sig.
(Constant)	1.215	0.278	-	4.370	.000
Credit Assessment	0.296	0.085	.278	3.482	.001**
Credit Terms	0.211	0.078	.202	2.705	.008**
Monitoring of Accounts Receivable	0.183	0.079	.185	2.316	.022*
Debt Collection and Dispute Resolution	0.334	0.092	.311	3.630	.000**

Source: Research Data (2025)

Table 4.10 outcomes reveal that credit assessment has a positive and significant effect on SMEs' financial performance. This is represented by a coefficient of 0.296 and a p-value of 0.000, respectively. This implies that an increase in credit assessment would result in an increase in the SMEs' financial performance. Considering the hypothesis that credit assessment has insignificant effect on the financial performance of SME. The null hypothesis is rejected thus, credit assessment significantly influences on the financial performance of SME. This has been made possible by the adoption of stringent appraisal systems that are used to reduce the default risk and enhance the quality of lending decisions, which in turn strengthens the liquidity and profitability of firms. The findings align with [3], who concluded that the credit assessment significantly affected SMEs financially. In the same vain, [31] found that SMEs that adopted structured procedures for evaluating credits experienced significant predictability of cash flows.

Credit terms further discover a significantly positive effect on the financial performance of SMEs. This is acknowledged by a coefficient of 0.211 and a p-value of 0.008. This depicts a situation of increasing financial performance of the SMEs as credit terms improve in Kenya's Nairobi City County. Regarding the null hypothesis which states that credit terms do not have noteworthy effect on the SMEs financial success, the results demonstrate that credit terms significantly enhance SME financial performance thus leading to the rejection of the null hypothesis. The observation is brought about by the ability of positive and well-designed terms to reduce cash-flow limitations, improve customer relations, and trigger sales increases; all these are beneficial to the financial performance. The findings are in agreement with the findings of [44], which concluded that credit terms significantly affected SMEs performance financially.

Monitoring of accounts receivable shows an effect that is positive and significant on the SMEs' financial performance in Nairobi City, Kenya. The outcome is affirmed by a coefficient of 0.183 and a p-value of 0.022. The outcome implies that, as monitoring of accounts receivable increases, the financial performance of SMEs in Nairobi City in Kenya will increase as well. Given the hypothesis which states that monitoring of accounts receivable has no significant effect on the SMEs financial performance, the results affirmed that monitoring of accounts receivable is important in enhancing financial performance hence, resulting in the null hypothesis rejection. The result obtained can be explained by the increased efficiency of cash conversion and decrease in the percentage of bad debts, which subsequently strengthens working-capital management and, by and large, financial stability. The outcome correspond with the outcome of [3], who noted that SMEs that adopted structured procedures for tracking accounts receivable reported reduced instances of bad debts significantly. Further, [3] concluded that monitoring of accounts receivable significantly affected SMEs financial performance.

The outcome from debt collection and dispute resolution observes a significantly positive effect on the financial performance of SMEs. The result is revealed by the 0.334 coefficient and 0.000 p-value. Accordingly, an increase in debt collection and dispute resolution would amount to rising financial performance amongst SMEs in Nairobi City County, Kenya. Considering the null hypothesis which states that debt collection and dispute resolution has no significant effect on the SMEs financial performance, the findings show that effective debt collection and dispute resolution systems significantly affect the SMEs financial performance. As a result of this, null hypothesis is rejected. This is because of the promptly recovered late debts and the resolution of the credit-related disputes, hence protecting the revenue streams and strengthening the financial performance of the SMEs. The findings are consistent with [31], who established that organisations with a clear policy for debt collection tend to have lower default rates significantly.

5. Conclusion

Based on the findings realized, the study concludes that credit assessment has a positive and significant effect on the financial performance of small and medium-sized businesses that are operating in the Nairobi City County. This supports the argument that intensive credit appraisal mechanisms effectively reduce the risk of default and increase the stability of revenue, which leads to better performance of the business as a whole. It, therefore, passes on to reason that institutionalisation of organised credit assessment systems by SMEs places them in a better position to achieve sustainable financial results.

Regarding the credit terms, the research shows that explicit and well-operating credit agreements significantly enhance the financial results of the SMEs. The finding supports the idea that flexible but responsible terms of credit can lead to the rise in the sales but at the same time maintain the discipline of the cash flow.

Pertaining to the monitoring of accounts receivable, it was found out that regular oversight and careful monitoring of outstanding payments play a significant role towards enhanced financial performance. This variable is statistically significant, which confirms that good receivables management is better at improving liquidity, reducing the bad exposure, and enhancing working-capital management

The research also concludes that debt collection and dispute resolution have the greatest and the most effective positive effect on the financial performance of the SMEs among the variables investigated. This implies that timely recovery of debts and successful settlement of credit-based conflicts are critical towards protecting cash flows and ensuring profitability. Conclusively, the outcome suggests that the strengthening of debt-recovery systems is irreplaceable when enhancing the financial capacity of SMEs and their sustainability in the long-term perspective.

5.1. Policy Recommendations

Regarding credit assessment, the management of SMEs in Nairobi City County should put down and enhance formal credit appraisal policies, such as compulsory credit scoring, checking of financial history of customers and documented approval procedures, before credit facilities are extended.

The SMEs must come up with well-written credit policies which stipulate the payment terms, discounts on early payment, and penalties on late payment and ensure that they are enforced to the latter to ensure an optimal balance is achieved between sales growth and maintenance of stability of the cash flow.

In regard to tracking of accounts receivable, the management of these SMEs are advised to utilise automated accounting and receivables management systems which raise periodic ageing reports and initiate timely follow-up activity on past due accounts.

Also, the SMEs managements are urged to have well-developed systems of debt recovery whereby they have laid down time limits on debt recovery, have personal levers to collect the debt and also use the services of professional mediators or law firms whenever they have a dispute about the debt.

5.2. Limitations and Future Research Direction

Limitations to the study were that the study was only conducted in Nairobi City county, the number of elements put into consideration being: Credit evaluation, credit terms, accounts receivable monitoring and debt collections were also limited. This research can be extended in the future and have additional variables such as financial literacy, availability of external financing and macro-economic factors. To promote generalisability, the researchers can also conduct comparative research studies across counties in Kenya or countries in East Africa. Longitudinal research design may be suggested to study the long-term causal impact of credit management practices on the sustainability and growth patterns of the SMEs.

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