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Accounts Receivable Management Practices and Financial Performance of Small and Medium Enterprises in Kisii County

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ABSTRACT

Purpose: The study focused on assessing the relationship between accounts receivable management practices and financial performance of small and medium enterprises in Kisii County.

Methodology: Descriptive was used because it allows for contextual interpretation and understanding of the subject under consideration. The study's population consisted of small and medium-sized enterprises in Kisii County. The estimated target population was 240 SMEs. The research used appropriate data collection instruments and procedures.

Findings: The findings reveal that all four practices significantly influence financial performance, with collection practices and risk assessment practices having the strongest impact. Specifically, SMEs that adopted effective collection strategies, such as using aging reports and regular follow-ups, as well as those that formalized credit risk assessment processes, reported better financial outcomes. Financing practices like factoring and using receivables as collateral also enhanced financial performance, while extension practices such as credit scoring models and internal rating systems contributed to improved profitability, albeit to a lesser extent.

Unique Contribution to Theory, Policy and Practice: The study recommends that SMEs invest in improving their accounts receivable management practices and explore modern financing and risk assessment tools. This research contributes to the understanding of accounts receivable management in the SME sector, particularly in Kisii County, and offers insights for both practitioners and policymakers seeking to enhance financial outcomes for SMEs in the region.

Keywords: *Accounts Receivable, Management, Collection Practices, Financing, Risk Assessment, Extension Practices, Financial Performance, SMEs*

INTRODUCTION

Background of the Study

One of a business's most valuable assets, accounts receivable is also one of its largest and most liquid (Kimutai, & Muigai, 2018). Accounts receivable are seen as a source and an end use of financing by Pike and Neale (1999). In instances when the credit period is extended, however, it might be counterproductive since it ties up finite financial resources and exposes businesses to the danger of default (Pike & Neale, 1999). Due of the negative impact that excessive AR can have on a company's valuation, adopting AR best practices is essential. Accounts receivable are a part of working capital, as stated by Mbula, Memba, and Njeru (2016). Because both an abundance of current assets and a scarcity of current assets can have a detrimental impact on a company's profitability and cause challenges in mediating smooth operation, managing receivables is a crucial part of financial management (Duru, Ekwe, & Okpe, 2014).

A company's willingness to take on risk when extending credit to a customer because the customer could default when payment is due and the investment in debt collection are all factors that should be considered when formulating a policy for determining the optimal amount of accounts receivable, according to Berry and Jarvis (2006). The ultimate goal of accounts receivable, according to Gill *et al* (2011), is to strike a healthy equilibrium between various aspects of cash flow management. Management of a company's incoming and outgoing cash flows, as well as the cash on hand at any one time, is referred to as cash flow management. If a company is able to effectively manage its accounts receivable, it can increase its profits by lowering the transaction costs associated with borrowing capital during times of liquidity stress (Ahmet, 2012). Effective businesses always have sufficient cash flow to increase their value.

Accounts receivable management is heavily impacted by a company's credit policy and collection process. Rate of collection from clients is reflected in accounts receivable, according to Sharma and Kumar (2011). An excessive accounts receivable ratio might have a detrimental impact on a company's capacity to turn a profit. This is because it might be difficult for a company to meet its short-term financial responsibilities if it has a large number of Debtors to pay. Deloof (2013) argues that cash, receivables, inventory, and payables management, which aims to maintain an optimal balance between each of the accounts receivables components, is a crucial part of any company's overall strategy to create value and a significant source of competitive advantage.

Statement of the Problem

Small and Medium Enterprises (SMEs) play a critical role in Kenya’s economic development, contributing approximately 33.8% of the country’s GDP and accounting for over 80% of employment in the country (Kenya National Bureau of Statistics [KNBS], 2023). Despite their importance, a significant number of SMEs in Kenya continue to face financial instability, with over 75% of them shutting down within their first three years of operation (KNBS, 2023). One of

the major contributors to this high failure rate is poor financial management, particularly in the area of accounts receivable management.

Accounts receivable constitute a significant portion of a firm's current assets, and mismanagement in this area can lead to liquidity problems, bad debts, and ultimately, poor financial performance. A study by Muthoni and Muturi (2022) found that inefficient credit policies, lack of debt collection strategies, and inadequate monitoring of receivables significantly affect SMEs' profitability in Kenya. Moreover, many SMEs in Kisii County extend credit to customers without clear collection timelines or risk assessments, increasing the likelihood of cash flow challenges and delayed payments.

While prior research has explored general financial practices among SMEs in Kenya, there exists limited empirical evidence on how specific accounts receivable management practices influence financial performance, particularly within the context of Kisii County. Given the growing competition and dynamic economic conditions, it is critical to investigate whether the practices adopted by SMEs in managing their receivables support or hinder their financial stability and growth. This study, therefore, sought to fill this gap by assessing the relationship between accounts receivable management practices and the financial performance of SMEs in Kisii County, providing valuable insights that can inform policy, training, and practice in the SME sector.

General Objective

The study focused on assessing the relationship between accounts receivable management practices and financial performance of small and medium enterprises in Kisii County.

Specific Objectives

The study was based on the following specific objectives; -

i. To determine the influence of accounts receivable collection practices on financial performance of small and medium enterprises in Kisii County.
ii. To find out the influence of accounts receivable financing practices on financial performance of small and medium enterprises in Kisii County.
iii. To establish the influence of accounts receivable risk assessment on financial performance of small and medium enterprises in Kisii County.
iv. To assess the influence of accounts receivable extension practices on financial performance of small and medium enterprises in Kisii County.

LITERATURE REVIEW

Theoretical Review

Pecking order Theory

The Pecking order theory was introduced by Myers and Majluf, in 1984. In an environment of incomplete or inconsistent data, Pecking Order theory can help fill an immediate financing need.

It gives a reasonable justification for corporate finance decision-making on the basis of the presence of a pecking order. Companies would rather rely on their own resources than on the capital markets. Accounts receivable amounts collected would be internal sources of revenue that contribute to earnings. According to the hierarchy of cash flow, debt, and share issuance (Myers and Majluf, 1984), internal financing should be prioritized over external financing. Since most financial institutions are hesitant to lend money to SMEs due to a lack of collateral, SME's have an easier and cheaper time obtaining funding from within the company. The pecking order theory applied to this study because accounts receivable are SMEs assets that can be utilized to fund other activities. A reduction in expenses and an increase in wealth creation could result from unlocking the cash held in AR through factoring, securitization, or accounts receivable discounting.

Modern Portfolio Theory

Harry Markowitz points out the ideas that would become the Modern Portfolio Theory. It was created between the 1950s and the early 1970s, and it's considered a major step forward in the field of mathematically modeling AR management. The theory provides insight into the factors that influence the accounts receivable risk management decisions made by businesses. The theory provides a numerical representation of the dissimilarity between the combined risk of a portfolio and the risk of its component assets (Amenc & Le Sourd, 2003).

According to the notion, if a portfolio's assets provide high returns or low risks of exposure, then such portfolio can be termed efficient. Negative returns can be mitigated by accurately estimating the associated risks. As a result, you can diversify your holdings to reduce your exposure to loss (Brealey & Myers, 2003). Markowitz (1952) proposed a formula for calculating expected returns that weighted expected production over utilized resources and exposure to risk.

The theory's implications for the research are that businesses of all sizes, but especially SMEs, should diversify their investments over a wide range of financial instruments and take into account the risks associated with doing so. This highlights the significance of accounts receivable risk management in providing redundancy in the event of a failure in any one aspect of accounts receivable management. The idea serves as a framework for improving the consistency of small and medium-sized enterprises' (SMEs') accounts receivable management processes, which in turn has a beneficial effect on the businesses' financial performance.

Portfolio Theory

Markowitz, (1959) is the founder of modern portfolio theory. Risk and reward are at the heart of portfolio theory. Investing is all about making the most out of the benefits you get from taking risks. The analysis and risk assessment of accounts receivable investments are two aspects of AR management practice that have been affected by portfolio theory. Markowitz's research is cited by

both fields to assess the balance between risk and return on accounts receivable investments. The research treats AR as an investment that can be managed like a portfolio, balancing risk and return to get the most out of AR. This theory helps finance decide which kinds of customers to extend credit to and which to cut off, and it also helps find the optimal balance between the risks and rewards of different kinds of customers.

According to the Portfolio Theory, an individual's propensity to make investment decisions is influenced by the degree of economic uncertainty they face. The idea implies that picking and combining options/assets that carry less risk and give greater expected return is crucial for minimizing losses and maximizing rewards. Growth of SMEs is more likely to be affected by factors like accounts receivable risk assessment procedure and accounts receivable analysis.

Conceptual Framework

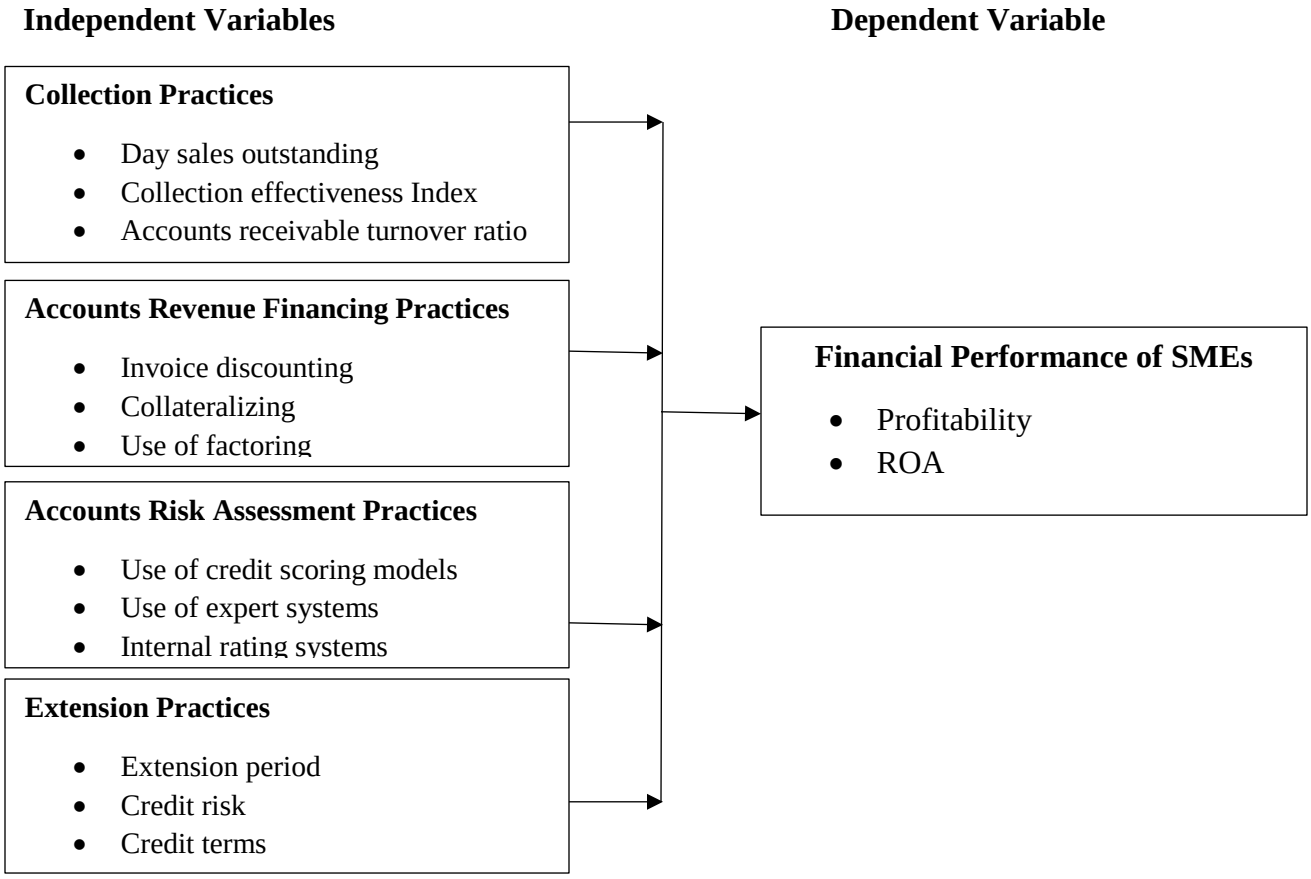

Figure 1: Conceptual Framework

Critique of the Existing Literature

Recent studies have underscored the significance of accounts receivable management in enhancing the financial performance of SMEs. For instance, Osoro *et al*. (2024) conducted a study in Kisii County, revealing that credit management practices specifically credit policy, credit terms,

collection policy, and credit appraisal techniques had a significant positive effect on the financial performance of SMEs. Their regression analysis indicated that these practices explained up to 69.8% of the variance in financial performance, highlighting the critical role of effective receivables management in SME success

Similarly, Onyari (2023) examined working capital management practices among manufacturing SMEs in Nyamira County and found that receivables management, alongside inventory and cash management, significantly influenced financial performance. The study reported that 71.5% of the variation in financial performance could be attributed to these practices, emphasizing the interconnectedness of working capital components in driving SME profitability.

However, despite these insights, several gaps persist in the existing literature. Firstly, while studies like those by Osoro *et al.*, (2024) and Onyari (2023) provide valuable quantitative data, there is a paucity of qualitative research exploring the contextual challenges SMEs face in implementing effective accounts receivable management practices. Factors such as limited financial literacy, inadequate access to credit information, and informal business operations prevalent in regions like Kisii County are often underexplored.

Much of the existing research tends to generalize accounts receivable management without delving into its specific components. There is a need for studies that dissect elements such as credit policy formulation, customer creditworthiness assessment, and collection strategies to understand their individual and combined effects on financial performance. Furthermore, while the impact of accounts receivable management on financial performance is well-documented, there is limited research on the moderating effects of external factors such as economic conditions, regulatory frameworks, and technological advancements. Understanding how these factors influence the efficacy of receivables management practices could provide a more comprehensive view of SME financial performance dynamics. While existing literature affirms the importance of accounts receivable management in enhancing SME financial performance, there is a clear need for more nuanced, context-specific research. Future studies should adopt mixed-method approaches to capture both quantitative outcomes and qualitative insights, thereby providing a more holistic understanding of the challenges and opportunities in accounts receivable management among SMEs in Kisii County and similar contexts.

Research Gaps

Despite the growing body of literature on financial management practices among SMEs, several research gaps remain unaddressed, particularly in the context of accounts receivable management and its effect on financial performance. Firstly, while numerous studies have established a positive correlation between effective accounts receivable practices and financial performance (Osoro, Otinga, & Juma, 2024; Onyari, 2023), most of this research has concentrated on urban or more economically vibrant regions such as Nairobi, Mombasa, and Kisumu. As such, there is limited empirical data focusing on semi-urban or rural counties like Kisii, where SMEs face unique

operational and financial constraints. The contextual differences in infrastructure, access to financial services, and business support mechanisms in these regions warrant localized investigations.

Secondly, existing studies tend to treat accounts receivable management as a monolithic concept, failing to explore the distinct components such as credit policy, collection practices, risk assessment, and extension terms in isolation. This limits the understanding of how each component individually contributes to financial outcomes. For example, while Osoro et al. (2024) touched on credit policies and collection efforts, their study did not isolate and measure the specific impact of receivable financing or risk assessment on SME financial performance. Thirdly, many studies employ purely quantitative approaches, relying on financial statements or structured questionnaires to derive insights (Ng'ang'a & Mwirigi, 2022). While useful, this method often overlooks qualitative aspects such as the decision-making behavior of SME managers, informal practices, and cultural attitudes toward credit and debt factors that may significantly influence the effectiveness of accounts receivable management in practice.

Additionally, the impact of digital financial technologies on receivable management remains under-researched in most local contexts. With the increasing adoption of mobile money, accounting software, and automated billing systems among Kenyan SMEs, there is a pressing need to understand how these tools affect accounts receivable processes and whether they contribute to improved financial performance (Wanjiru & Kariuki, 2023). Lastly, studies often fail to incorporate the influence of external moderating factors such as macroeconomic conditions, access to credit bureaus, and policy regulations. These variables can greatly affect how SMEs implement and benefit from receivable management strategies, particularly in regions with limited formal financial infrastructure. In light of these gaps, this study aims to provide a nuanced, context-specific analysis of the relationship between the various components of accounts receivable management and the financial performance of SMEs in Kisii County. By integrating both qualitative and quantitative data, the study will offer a more holistic understanding of the practical realities and performance implications for SMEs in this region.

RESEARCH METHODOLOGY

The descriptive research design was used in this investigation. The study's population consisted of small and medium-sized enterprises in Kisii County. The target population was 240 SMEs. The study used a simple random sampling technique in which the target population was divided into clusters or sub-groups from which the researcher gathered 150 respondents. The study used Yamane's (2011) formula to determine the sample size of 150 participants from SMEs operating in Kisii County. The majority of primary data was gathered through questionnaires. Data analysis included both quantitative and qualitative analysis. The quantitative data from the questionnaire was cleansed first to remove any inconsistent or incomplete responses. Tables were used to present the collected data. Regression analysis was done to determine the extent of that relationship

between the independent variables and the dependent variable. Presentation of results was done through tables and graphs. Cross tabulation and triangulation was done to ensure bias and misrepresentation of facts is put on check.

RESEARCH FINDINGS & DISCUSSION

Response Rate

Table 1: Response Rate

Response	Frequency	Percentages (%)
Response	133	89
Non- Response	17	11
Total	**150**	**100**

From the analysis in the table 1; it indicates the response rate for the actual representation of the population. The researcher prepared 150 questionnaires from which 89% of the sampled population was acceptable of which were 133 questionnaires while 17 questionnaires were not returned which is a representation of 11% of the sampled population. From the study it was clear that there was adequate respondent rate hence showing that there was concern about the study carried out.

Descriptive Statistics

Descriptive Statistics of Accounts Receivable Collection Practices

The respondents were asked to indicate their levels of agreement or disagreement with specific statements drawn from measures of collection practices. A five-points Likert's scale was used where 1 was Strongly Disagree, 2 was Disagree, 3 = Neutral, 4 = Agree, and 5 = Strongly Agree. Table 2 shows the findings.

Table 2: Descriptive Statistics of Accounts Receivable Collection Practices

Statements	SD (1)	D (2)	N (3)	A (4)	SA (5)	Mean	Std. Dev.
SME owners regularly use ageing sheet and make regular follow-ups	5	10	20	40	58	4.05	1.15
SME owners embrace calling customers prior to due date	3	8	18	55	49	4.15	1.07
SME owners embrace the use of collection agencies	12	22	30	40	29	3.49	1.23
SMEs adopt the use of average collection period technique	6	15	25	45	42	4.02	1.13

SME owners in Kisii County show strong proactive receivables management, with high mean scores for using ageing sheets (4.05, SD=1.15) and calling customers before due dates (4.15, SD=1.07). There's moderate agreement on using the average collection period technique (mean=4.02, SD=1.13), while opinions on collection agencies are mixed (mean=3.49, SD=1.23). The findings suggest consistent proactive strategies, though adoption of some methods varies. Enhancing awareness of ACP and collection agencies may improve overall cash flow and reduce overdue debts.

Descriptive Statistics for Accounts Receivable Financing Practices

Descriptive statistics for the analysis are shown in Table 3 below.

Table 3: Descriptive Statistics for Accounts Receivable Financing Practices

Statements	SD (1)	D (2)	N (3)	A (4)	SA (5)	Mean	Std. Dev.
SME owners often use Discounting/selling overdue invoices	10	20	25	40	38	3.88	1.16
SME owners often use accounts receivable as collateral for a loan	15	25	30	40	23	3.53	1.21
SME owners securitize accounts receivables	18	22	40	30	23	3.34	1.24
SMEs check factoring firms to factor accounts receivables	14	18	36	45	20	3.72	1.17

In Kisii County, SMEs moderately adopt accounts receivable financing methods. Discounting/selling overdue invoices has the highest mean (3.88, SD=1.16), followed by factoring (mean=3.72, SD=1.17), and using receivables as collateral (mean=3.53, SD=1.21). Securitization is least used (mean=3.34, SD=1.24). High standard deviations across practices reflect varied adoption levels. While many SMEs use these methods to enhance liquidity, complexity and costs deter universal use. Increased education on these tools could boost their effective adoption.

Descriptive Statistics for Accounts Receivable Risk Assessment Practices

Descriptive statistics for the analysis are shown in Table 4 below.

Table 4: Descriptive Statistics for Accounts Receivable Risk Assessment Practices

Statements	SD (1)	D (2)	N (3)	A (4)	SA (5)	Mean	Std. Dev.
SMEs often use formalized credit processes (documentation of agreement)	12	15	35	50	21	3.72	1.11
SMEs often use third-party provided intelligence	20	30	33	40	10	3.37	1.23
SMEs often review data of regular customers who have had good records	8	18	40	50	17	3.74	1.03
SMEs often use portfolio strategy to segment categories of customers	10	20	30	50	23	3.68	1.12

SMEs in Kisii County show strong adoption of credit risk management practices: formalized credit processes (mean = 3.72, SD = 1.11), regular customer reviews (mean = 3.74, SD = 1.03), and portfolio strategies (mean = 3.68, SD = 1.12). These reflect widespread efforts to reduce disputes and enhance receivables. Use of third-party intelligence is moderate (mean = 3.37, SD = 1.23), indicating variability in its adoption. Overall, SMEs prioritize internal credit practices, though external data usage remains limited.

Descriptive Statistics for Accounts Receivable Extension Practices

Descriptive statistics for the analysis are shown in Table 5 below.

Table 5: Descriptive Statistics for Extension Practices

Statements	SD (1)	D (2)	N (3)	A (4)	SA (5)	Mean	Std. Dev.
SME owners have adopted expert systems	10	22	35	40	26	3.77	1.12
SME owners often adopt credit scoring models	15	18	30	45	25	3.82	1.10
SME owners often make use of Internal Rating Systems	8	20	33	47	25	3.81	1.08

SMEs in Kisii County show strong adoption of credit management tools: expert systems (mean = 3.77, SD = 1.12), credit scoring models (mean = 3.82, SD = 1.10), and internal rating systems (mean = 3.81, SD = 1.08). These systems help automate decisions, assess credit risk, and reduce defaults, enhancing financial performance. While usage is generally high, moderate variability indicates some SMEs still rely on less advanced methods. Overall, adoption trends reflect a shift toward improved accounts receivable management.

Descriptive Statistics for Financial Performance

Descriptive statistics for the analysis are shown in Table 6 below.

Table 6: Descriptive Statistics for Financial Performance

Statements	SD (1)	D (2)	N (3)	A (4)	SA (5)	Mean	Std. Dev.
Sales have increased over the last three years	5	10	20	55	43	4.18	0.98
The total current asset represented by accounts receivable has gone down	8	22	33	45	25	3.78	1.12
The business percentage of bad and delinquent debts is less than 10% of sales	10	20	35	40	28	3.75	1.18
The business has been able to generate profits for the last three years	7	13	25	55	33	4.07	1.01

SMEs in Kisii County show strong financial performance with a sales growth mean of 4.18 (SD=0.98) and profitability mean of 4.07 (SD=1.01), indicating consistent growth and profits. Effective credit management is suggested by a low bad debts mean of 3.75 (SD=1.18) and a moderate decline in receivables mean of 3.78 (SD=1.12). These results imply improved liquidity, better cash flow, and efficient receivables control, aligning with literature on financial health and credit management.

Inferential Statistics

Correlational Results of Study Variables

The correlational analysis of study variables aims to determine the strength and direction of relationships between key factors influencing accounts receivable management practices and the financial performance of small and medium enterprises (SMEs).

Table 7: Correlational Results of Study Variables

Variables	Accounts Receivable Collection Practices	Accounts Receivable Financing Practices	Accounts Receivable Risk Assessment Practices	Accounts Receivable Extension Practices	Financial Performance
Accounts Receivable Collection Practices	1	0.52*	0.63*	0.58*	0.74*
Accounts Receivable Financing Practices	0.52*	1	0.60*	0.64*	0.68*
Accounts Receivable Risk Assessment Practices	0.63*	0.60*	1	0.62*	0.71*
Accounts Receivable Extension Practices	0.58*	0.64*	0.62*	1	0.66*
Financial Performance	0.74*	0.68*	0.71*	0.66*	1

Accounts Receivable Collection Practices and Financial Performance was indicated with a strong positive Correlation of 0.74. A strong positive correlation exists between accounts receivable collection practices and financial performance. SMEs that effectively manage their collections tend to see improved financial outcomes. Accounts Receivable Financing Practices and Financial Performance had a moderate positive Correlation of 0.68. There is a moderate positive correlation between accounts receivable financing practices and financial performance.

Accounts Receivable Risk Assessment Practices and Financial Performance had strong positive Correlation of 0.71. A strong positive correlation between accounts receivable risk assessment practices and financial performance indicates that SMEs that implement credit risk assessment practices such as evaluating customer creditworthiness are likely to achieve better financial performance. Accounts Receivable Extension Practices and Financial Performance was represented a moderated positive correlation of 0.66. A moderate positive correlation between accounts receivable extension practices and financial performance shows that SMEs adopting

extension practices, such as credit scoring models or internal rating systems, tend to perform better financially.

Table 8 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.85[a]	.72	.70	0.42

a. Predictors: (Constant), Accounts Receivable Collection Practices, Accounts Receivable Financing Practices, and Risk Assessment Practices
b. Dependent Variable: Financial Performance

The regression model provides a strong fit to the data, with an R square of 0.72 indicating that the accounts receivable management practices explain a significant portion of the variation in financial performance. The adjusted R square of 0.70 further supports the robustness of the model, and the relatively low standard error suggests that the model's predictions are fairly accurate.

Table 9: ANOVA Results

Source of Variation	Sum of Squares (SS)	df	Mean Square (MS)	F	Sig.
Regression	25.63	4	6.41	12.98	0.000
Residual (Error)	9.95	129	0.078		
Total	35.58	133			

The ANOVA results indicate that the regression model is statistically significant, as evidenced by the F-statistic of 12.98 and the p-value of 0.000. The model explains a significant portion of the variation in financial performance, and the independent variables (accounts receivable collection practices, financing practices, risk assessment practices, and extension practices) collectively contribute to improving financial performance.

Table 10: Regression Coefficients

Model	Unstandardized Coefficients (B)	Std. Error	Standardized Coefficients (Beta)	t	Sig.
Constant	1.25	0.256		4.89	0.000
Accounts Receivable Collection Practices	0.45	0.120	0.32	3.74	0.001
Accounts Receivable Financing Practices	0.30	0.116	0.27	2.59	0.010
Accounts Receivable Risk Assessment Practices	0.35	0.115	0.31	3.03	0.003
Accounts Receivable Extension Practices	0.25	0.115	0.22	2.17	0.031

The regression analysis was conducted to assess the influence of accounts receivable management practices specifically collection practices, financing practices, risk assessment practices, and extension practices on the financial performance of small and medium enterprises (SMEs) in Kisii County. The findings revealed that the constant term was statistically significant ($B = 1.25$, $p < 0.05$), suggesting that even in the absence of all the studied accounts receivable practices, SMEs maintain a baseline financial performance level.

Accounts Receivable Collection Practices had a positive and statistically significant influence on financial performance ($B = 0.45$, $p = 0.001$). This indicates that a one-unit improvement in collection practices leads to a 0.45 unit increase in financial performance. This result supports findings by Gitman *et al.* (2015), who noted that effective credit collection strategies significantly enhance cash flows and profitability among SMEs.

Accounts Receivable Financing Practices also positively influenced financial performance ($B = 0.30$, $p = 0.010$). The use of financing strategies such as factoring and pledging receivables as collateral allows SMEs to access liquidity and thus improve operational efficiency. This aligns with the research by Demirgüç-Kunt and Maksimovic (2002), who found that alternative financing options, especially receivables financing, are crucial for SME growth and financial stability.

Accounts Receivable Risk Assessment Practices demonstrated a significant positive impact on financial performance ($B = 0.35$, $p = 0.003$). SMEs that engage in thorough customer credit evaluations, including using third-party intelligence and formal credit policies, are better able to minimize defaults, thereby protecting and enhancing their financial outcomes. This supports the work of Smith and Skousen (2011), who emphasized that businesses with strong credit risk management practices consistently report lower bad debt levels and higher profitability.

Lastly, Accounts Receivable Extension Practices showed a positive, though slightly weaker, significant effect (B = 0.25, p = 0.031). The adoption of tools such as expert systems, internal rating mechanisms, and credit scoring models enhances decision-making around extending credit to customers, thereby supporting sustainable financial growth. Empirical studies like that of Berger and Udell (2006) found that SMEs that employed modern credit evaluation techniques enjoyed better portfolio quality and financial returns. The results clearly indicate that all four practices significantly contribute to improving financial performance, although collection practices and risk assessment practices appear to exert the strongest influence among SMEs in Kisii County.

CONCLUSIONS AND RECOMMENDATIONS

Conclusion

The study concluded that collection practices have a significant positive effect on the financial performance of SMEs in Kisii County. SMEs that consistently use aging reports, follow up with customers before due dates, and adopt collection agencies experience improved cash flow and reduced bad debts. Therefore, strengthening collection efforts directly enhances profitability and financial sustainability. This finding is consistent with studies like Gitman et al. (2015), who emphasized the role of effective debt collection in improving organizational liquidity.

Accounts receivable financing practices were also found to positively influence financial performance. SMEs that use strategies like invoice discounting, factoring, and using receivables as loan collateral gain quicker access to funds needed for operations and expansion. The availability of immediate liquidity through receivables financing improves financial stability and growth, supporting findings by Demirgüç-Kunt and Maksimovic (2002) who highlighted receivables financing as essential for SME development.

The study further concluded that risk assessment practices strongly impact financial performance. SMEs that formalize their credit processes, rely on third-party intelligence, and continuously monitor customer creditworthiness are better equipped to minimize defaults and improve debt recovery rates. This aligns with Smith and Skousen (2011), who stressed that robust credit risk assessment leads to fewer bad debts and enhances business resilience.

Lastly, it was concluded that extension practices also positively affect financial performance, although to a slightly lesser extent compared to collection and risk assessment practices. SMEs that implement expert systems, credit scoring models, and internal rating systems are more strategic in granting credit, leading to better customer portfolio quality and lower delinquency rates. This confirms Berger and Udell (2006)'s findings that technological adoption in credit extension supports better financial outcomes.

Recommendations

It is recommended that SMEs intensify their collection efforts by regularly using aging schedules, making timely follow-ups with customers, and adopting professional collection agencies where

necessary. Businesses should also invest in staff training on effective collection techniques to minimize overdue accounts and improve cash flows, thus strengthening overall financial performance.

SMEs should explore and utilize accounts receivable financing options such as factoring, invoice discounting, and using receivables as collateral for short-term financing. Educating SME owners on the benefits and risks of such financing alternatives can help them make better financial decisions, ensuring consistent operational liquidity and boosting growth potential.

The study recommends that SMEs formalize their credit assessment processes by documenting credit agreements, using third-party intelligence, and regularly reviewing the credit history of customers. By adopting a structured credit risk management approach, SMEs can reduce default rates and bad debts, thereby securing stronger and more predictable financial outcomes.

SMEs are encouraged to adopt modern technological tools such as expert systems, credit scoring models, and internal customer rating systems to make more informed decisions regarding credit extension. Using these systems can help SMEs segment their customers better, tailor their credit policies, and ultimately improve customer portfolio quality and financial performance.

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