Chapter VI

Summary of Findings and Recommendations

Credit management is one of the most important aspects concerning an enterprise, whether it is an MSMEs or larger size firm. This is because constraint of funds with the buyers makes them to become exceedingly dependent on credit purchases to meet their day to day requirements of goods and services. On the other hand, the firms, particularly the MSMEs too need to sell on credit to promote their sales and thus to compete with the larger firms. It is also important to mention here that a credit sale has a direct relationship with sales as more credit generates more sales. But added doses of credit sales also induce the requirements of working capital for a firm. Needless to mention that most of the MSMEs do not prefer to provide credit to their customers. But they become bound to grant credit facility to their customers for the success of their business, to compete with their counterparts and thus to increase their sales. The present study was undertaken to examine the credit management in micro, small and medium enterprises in Haryana. In the backdrop of problem statement and to explore the most appropriate answers to the research questions, the study has focused on the following research objectives:

1) To bring out important credit policy variables and examine their differences across MSMEs.

2) To hold a gap analysis of average credit period allowed and average collection period.

3) To investigate the preferences of MSMEs with regard to their choice for the bases of credit standards such as credit rating, references, average payment period and ratio analysis.

4) To examine the composition of costs associated with maintaining receivables.

5) To examine procedures and tools of credit evaluation used by MSMEs and their effectiveness.

6) To examine the interrelation between selected credit management variables.

7) To study whether the credit management variables have a significant cross-industry variation.
8) To suggest policy recommendations for effective credit management in micro, small and medium enterprises.

The examination and interpretation of collected data have resulted into various major findings which are mentioned at appropriate places in the text of the thesis. This chapter presents a summary of important research results, followed by policy recommendations. Accordingly the present chapter has been divided into four sections. The first section of this chapter presents the major findings based on the study. While the second section encompasses some suggestions based on the analysis and our experience gained from formal assessment and informal talks with the respondents. The third section presents the limitations circumventing the generalisations of research results and the last section gives the scope for further research on this subject.

6.1 Summary of findings

The findings based on both descriptive and inferential analysis are given according to the research objectives.

6.1.1 Credit policy variables and industry characteristics

The survey results revealed that out of the four credit policy variables (credit standards, credit period allowed, collection procedure and cash discount provided by the company) credit standard of the company’ is the most important variable, followed by ‘credit period allowed by the company ’(2nd rank) and ‘collection procedure followed by the company’ (3rd rank). It is noted that ‘cash discount provided by the company’ is the least important variable of credit policy in so far as the MSMEs in Haryana are concerned. In this regard, no significant differences have been seen across firm sizes, type of activity, form of organization, and number of persons employed in the units. However, the exceptions within independent variables also need to be highlighted. The micro units, partnership firms and units with 0-9 number of people employed have lent more importance to the credit period allowed to their customers, instead of credit standards, while framing their credit policy and thus they deviate from the results obtained on the basis of overall analysis. Further, in case of the units with 200-499 people employed, the collection procedure followed by them has received precedence over the other credit policy variables.
6.1.2 Gap analysis of credit period

The gap analysis was carried out with reference to the customers as well as suppliers. While considering the importance of the difference between the credit periods allowed to the customers and actual time taken by them to repay their dues, the respondents were asked to mention the range of periods involved in these two aspects. The result of Chi-square test shows that, at the overall level, there is a significant difference (at 5 percent level) between the ACP and average credit period granted to the customers. Therefore, the hypothesis is rejected and implies that the debts were not collected from their customers in the granted credit period. The analysis as per independent variables, however, reveals some differences which are worth mentioning. The results with respect to firm size go by the overall results and differences are noted in the cases of the rest of the three independent variables. Type of activity wise significant difference is found in the cases of service and trading sectors. In the form of organization, partnerships and LLPs shows the significant difference. According to the number of people employed, only units employing 200–499 people show the significant difference. Hence the hypothesis is rejected in these cases. However, in the case of manufacturing sector (type of activity), sole proprietorship form of organisation and firms employing upto 199 and ≥ 500 number of people, there is no significant difference between ACP and average credit period granted, leading to the acceptance of the hypothesis.

Further, the gap analysis between the average payment period (APP) and average credit period allowed by the supplier discerned that there is insignificant or no difference between APP and average credit period allowed by the suppliers. Hence, the hypothesis is accepted and concludes that the generally respondents of MSME firms paid their debts to their suppliers in the credit period allowed to them. According to the four independent variables, the analysis also reveal the same results as obtained at overall level, except in the case of type of activity, where only service sectors show the insignificant differences irrespective of average payment period (APP) and average credit period allowed by the suppliers.

6.1.3 MSMEs choice for bases of credit standards

The investigation of criteria of setting credit standards in MSMEs revealed that out of the four different criteria (credit rating, ratio analysis, trade and bank reference and average payment period of buyer) ‘credit rating of buyer’ is the most essential (1st rank)
criteria and ‘ratio analysis for solvency position of buyer’ is least preferred (last rank) criteria for setting the credit standards. Though, the ‘past average payment period of buyer’ falls at 3rd rank ‘yet it is very close to the trade and bank references supplied by buyer (2nd rank). The ratio analysis for solvency position of buyer has worked out at the lowest ebb, even though theoretically it is said to be one of the most important consideration in the corporate world. It would be important to mention here that MSMEs hardly carry out ratio analysis in so far as the researcher came to learn from survey. The association of these variables with four independent variables also reveals the same rank regarding all criteria, except in case of manufacturing sector, medium size units, partnerships and units employing 0-9 number of people who gave highest importance to the trade and bank references supplied by buyer.

6.1.4 Composition of costs of maintaining receivables

The results reveal that out of all costs associated with maintaining receivables (capital cost, administration cost, delinquency cost, cash discount for early recovery and cost of collection) capital cost for maintaining receivables falls at 1st rank, meaning thereby, there is need of very large amount of capital for maintaining the receivables by the MSMEs. ‘Administration cost for maintaining receivables’ provided by the firms to their customers falls at second rank, followed by ‘delinquency cost for maintaining receivables’ (3rd rank) and ‘cost of collection’ (4th rank). However, ‘cash discounts for early recovery’ has turned out the least important cost for maintaining receivables among the MSMEs. The range wise analysis reveals that capital cost with the range from 10 to 12 percent occupies the main share. A largest number of MSME firms incur an administration cost up to 5 percent and very least have the administration cost more than 15 percent. The delinquency cost generally goes up to 9 percent of receivables and very least of MSME firms have the delinquency cost greater than 12 percent.

6.1.5 Procedures and tools of credit evaluation

A Factor analysis of twenty three variables shows that the most important variables of the credit evaluation are credit agency checks, timely repayment behavior of applicant, firm size and commercial environment conditions of applicant. The commercial environment condition of the applicant is the only variable which itself is a factor of credit evaluation with the highest loading value.
The result of F-test has further revealed that, out of the seven factors of credit evaluation, only two factors, credit agency checks & goodwill and credit worthiness, are significantly different from each other, irrespective of type of activity, size of firm and form of organization. Therefore, the hypothesis is rejected and concludes that these are not equally important, with respect to independent variables.

6.1.6 Interrelationship between credit management variables

The Spearman’s correlation analysis for checking the interrelationship between the selected credit management variables (costs of maintaining receivables, financing of receivables, credit evaluation, credit risk bearing and credit collection) has revealed a statistically significant positive interrelationship (at 1 percent level) among all the variables. It means that all the credit management variables are moderately or strongly associated with each other. The relationship between the ‘financing of receivables’ and ‘credit risk bearing’ was found as strongest, implying that as a change in one variable takes place, so does in the case of another. The association of credit management variables with financial performance, form of organization and type of activity (except in the case of financing of receivables) also implies a significant relationship between the variables of credit management. Hence, the hypothesis is rejected. While, the hypothesis is accepted across size of firm and type of activity in the case of financing of receivables, implying that there is no significant relationship in credit management variables.

6.1.7 Cross-industry variation in credit management variables

To examine the level of credit management variables (costs of maintaining receivables, financing of receivables, credit evaluation, credit risk bearing and debt collection) according to the selected independent variables (industry sector, type of activity, form of organization and firm size) a Kruskal-Wallis test is applied. The results are found significant (at 0.01 level of confidence) for all the sampled variables, except in the case of ‘costs of maintaining receivables’ where the statistic is found significant at 0.05 level of confidence in the case of the type of activity and insignificant in the case of size of firm and industry sectors, implying that only in the case of ‘costs of maintaining receivables’ all of the units of MSME firms are almost similar to each other. The hypothesis-wise test results reveal that only in the case of costs of maintaining receivables, the hypothesis is accepted irrespective of size of firm and in the industry.
sectors. However, in the remaining cases the there is significant variation with respect to the credit management variables. Hence the hypothesis is rejected in the remaining cases. On the whole, the analysis with respect to the variation in the use of credit management variables lends strong support to the contention that there is significant cross-industry, cross-activity and cross-organizational variation in the extent of the use and practice of all credit management variables, except the cost of maintaining receivables.

6.1.8 Miscellaneous: The analysis with respect to the other related objectives reveals the following findings:

i) The results reveal that the highest percentage (39.5%) of the respondent firms sell their goods on credit only ‘up to 20 percent of the total sales’, followed by 29.5 percent firms who did so in the range of 21 to 40 percent. The lowest percentage (9.5%) of the respondent firms sells their goods on credit in the range of ‘76 to 100 percent of the total sales’.

ii) About different collection practices, the study discloses that MSME firms mostly resort to remind their debtors by telephone and most of the reminder telephones are made within 30 days. This is followed by reminder in writing after the 30 days and approximate 45 percent MSME firms stop providing the credit to their customers after completion of three months. Near about 57 percent of the MSME firms take legal action for the unpaid dues and approximately 38 percent hire the collection agencies for recovery of dues. Regarding collection techniques and collection policies, the results further revealed that about three fourth of the MSME firms ‘collect their debts themselves’ and only, approximately six percent take the advantage of ‘outright sale of receivables to others including banks’. Largely, the collection of receivables through own efforts is the most common practice among MSMEs. The study further revealed that ‘conservative on credit and liberal on collection policy’ is the most practiced collection policy among MSME firms, implying that the credit is provided to only those customers whose credit worthiness is proved and on the collections they follow the liberal policy which is characterized by slow-paying. However, the MSME firms didn’t apply ‘liberal on credit and conservative on collections’ policy.

iii) Out of two different credit policies (uniform credit policy and differential credit policy), the study found that only one-fourth of the MSME firms adopted the uniform
credit policy, while three-fourth of the respondent's firm follows the differential credit policy. The major reason for adopting the uniform credit policy is ‘to make reputation for reliability and fair dealing’ and they didn’t adopt the uniform credit policy for avoiding the conflicts of interest.

iv) Regarding reasons for providing the cash discount, it is found that increasing the sales is the main motto of MSME firms for providing such discount to their customers, followed by the objective to withstand ‘competition from the competitors’ (2nd rank). The difference between the scores of the 3rd and 4th rank is not noteworthy, means ‘to attract the customer on festivals’ and ‘to gain the attention of prospective customers’ do not significantly fall apart as the reasons for providing the cash discounts. On the contrary, MSMEs hardly ever provided the cash discount ‘for clearance of old stock’ (5th rank). The analysis on the basis of independent variables also support that maximizing sales are the only reason to provide cash discount. However, only in case of firms employing 200-499 number of people and those in service sector, to increase sales is the second important reason for providing the cash discounts, whereas, to compete with competitors is the main reason.

v) In the context of different financing options used, the study shows that the entrepreneurs of the MSME firms mostly use the owned funds for financing the accounts receivables (1st rank), followed by the option to withstand ‘securitization of accounts receivables’ (2nd rank). The difference between the scores of these two options is higher than difference between scores of other options which means ‘use of internal funds and accumulated profits’ form the main source of financing the receivables as compared to others. The source ‘external funds’ falls at 3rd rank and it is very close to ‘accounts receivable collateralized debt’ as the difference of scores of these two sources is lesser than such difference between scores of other criteria. However, MSMEs are rarely financing the accounts receivables through ‘issue of commercial paper’ (lowest rank, 8th rank). An examination of intra independent variable wise differences also poses almost the same picture in this regard.

vi) With respect to the actions for the credit risk bearing, it is found that most of the MSME firms prefer to take the credit insurance, followed by ‘credit reporting agency for risk-assessment’ (2nd rank) and credit collection agencies for past due account receivables (3rd rank). Taking the collateral from credit customers (4th rank) is rarely
practiced. However, not any significant difference was found when intra independent variable-wise examination was carried out.

vii) Regarding the forms of obtaining purchase orders, the study discovered that a large majority (84 percent) of the MSMEs obtained orders from customers in verbal as well as written forms. The lowest percent (4.8%) of the MSME respondents obtained their orders only verbally and more than 11 percent did so in only written form. A perusal of the analysis of entrepreneurs’ responses about the forms of obtaining the orders according to independent variables also presents almost similar picture.

viii) An enquiry as to the sources of influence in entrepreneurial business decisions reveals that such decisions are largely influenced by ‘elders in family’, followed by friends & relatives, spouse and government schemes, in that order. It is noted that having elders in family command respect and play key role in business due to their rich prior experience. The intra-independent variable wise analysis also presents a similar picture in this regard.

viii) Regarding frequency of revising the credit limit, it is found that about 90 percent of the MSME respondents ‘every year’ review the credit limit of their customers and the remaining reported to have done so within period of 1 to 3 years. The practice of reviewing credit limit beyond 3 years was conspicuous by its absence.

6.2 Recommendations: On the basis of forgoing conclusions and experience gained in the course of study, the researcher is prompted to make following recommendations.

1. In view of the MSMEs’ importance in Indian economy, there is a requirement of the collective mechanism comprising of financial institutions, educational institutions and project entrepreneurs to adapt their ideas into new business opportunities. This will not only helps in promoting the new and budding entrepreneurs, but will also apprise them of newer way of doing business in a professional manner.

2. The MSME firms generally prefer to take credit insurance for bearing the credit risk and overlook other options. The reason for this is their unawareness regarding other options of credit risk management, like reporting agencies of risk assessment, collateral from borrowers, hiring factoring services, etc. Therefore, their exposure to these alternatives needs to be facilitated through workshops and training programmes to be conducted by district industries centers in the state.
3. It seen that the entrepreneurs of MSME firms generally prefer to take advice for their business from the elders of the family and the practice of consulting the spouse and government agencies is very low. While the value of elders’ experience cannot be ignored, it is also imperative that professional advice of consultancy firms should also banked upon to solve business problems of modern times.

4. As the study has shown that the entrepreneurs of MSME firms mostly depend upon limited options of financing account receivables particularly internal funds and accumulated profits. It is, therefore, suggested that they should also resort to other alternatives, like commercial papers and bank credit.

5. As the survey results reveal that women entrepreneurs’ participation in MSMEs is very low, it is suggested that women self help groups are formed and supported by the government for their motivation and support.

6. As per the survey, near about three fourth (71%) of the sampled respondents falls in the middle age of 36-55 year and least number (1.3%) of sampled respondents are less than 25 years age. Therefore, the elders of the family should motivate the younger generation to start their own independent enterprises in a professional manner by using information and communication technology and new ways of doing business.

7. According to survey, fifty eight percent of MSME units in Haryana are organised as sole proprietorship firms and only three percent of MSME firms are in company form. It is felt that the MSMEs should increasingly go for company and limited liability partnership forms of organization so as to circumvent the problems arising from high financial leverage and avail other benefits associated with these organizations.

8. It is seen that the MSMEs do credit collection mostly through their own collection mechanism and machinery which tells upon precious business time and enhance collection cost. In order to overcome their problem, they should resort to the use of factoring services which will speed up collection of credit and financing of receivables.

6.3 Limitations of the study

1. Most of the respondents in the study are entrepreneurs/managers and their biasness towards some of the survey questions cannot be ruled out. The sample was heterogeneously selected from the different districts of Haryana in terms of size, activity and organizations. Though heterogeneity is essential to incorporate all
characterises of the universe population, but it has the risk of non representation of some features.

2. The MSME entrepreneurs did not maintain the proper records of their transactions and therefore their answers to several queries were based on their approximations rather records.

3. It was noted during survey that many of the MSME firms also dealt with foreign countries but the scope of present study was limited to domestic transactions.

4. The scope of the study has been limited to variables of credit management, more specifically to bring out the important credit policy and analysis of credit management variables as well as interrelationship between the variables. The study has not considered the other general factors of MSMEs, like strategic aspects of MSME business and problems faced by them.

6.4 Scope for further studies

It was recognized during this study that there can be some more interesting areas which can be explored for further study by the researchers. The present work has covered some selected variables of credit management, like credit granting, credit risk, credit collection and financing options, etc. Further studies can be carried out on the additional variables, such as sales revenue, loan performance, barriers in the credit management process, credit administration and credit control policy. Besides, the researchers can also compare the credit management of small firms with large firms. Another interesting aspect which can be studied is the effects of credit management on financial performance of large and small firms and to investigate whether differently sized firms will produce different results.