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An Empirical Study on the Effective Ways to Manage Credit in Business

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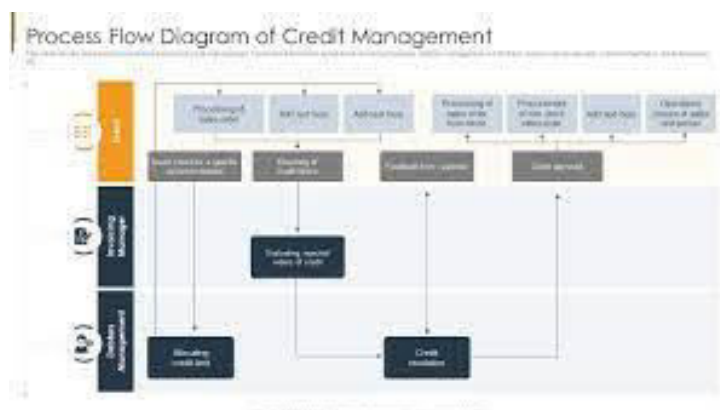
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ABSTRACT: Effective credit management is a crucial aspect of financial management for any business. It involves managing and monitoring the credit extended to customers, minimizing the risk of bad debt and ensuring timely payment of outstanding balances. The objective of effective credit management is to improve cash flow, maintain healthy customer relationships, and reduce the overall financial risk of the organization. Key components of effective credit management include credit policies and procedures, credit scoring and evaluation, monitoring and reporting, and collection strategies. By implementing these components, businesses can establish a robust credit management system that supports their financial objectives and helps them achieve long-term success.

I. INTRODUCTION

Credit management is one of the method of gathering, verifying, and managing information about a borrower’s credit status and credit status and credit history.

One of the most important factor that a credit manger has to do to monitor the overall credit quality of a companieS credit portfolio (intellectual achievement that a person has produced in their lifetime). This means that the credit manager must continually assess the credit worthiness of the company’s credit policies and procedure has necessary in order to keep the credit quality of the companie’s overall portfolio high. In order to do this, the credit manager must have a strong understanding of the various credit scoring models and the methods employed by the credit lenders to evaluate the credit worthiness of individual debtors. Additionally, the credit manager must be comfortable working with the company’s debt collectors in order to enforce the company’s debt collectors in order to enforce the company’s credit policies and ensure that debtors are paying their debts on time.



II. LITERATURE REVIEW

According to Glen Bullivant’s credit management is a brilliant handbook for readers from different walks of life, from experienced professionals and finance. This is a brilliant hand look for readers from different walks of life, from experienced professional and finance mangers to students and those who are new to credit the book covers a range of finance topics from credit services and commercial credit law, to insurance coverage, debt collection , modelling and management, and many others. The book also covers topics search as leasing and sales financing, insolvency procedures, invoice financing legal procedures for debt recovery, and export finance.

According to Joetta Colquitt’s credit risk management.

Colquitt’s book offers into a number of key topics and introduces major concepts related to risk analysis.

Credit management is so many ways to use in business and credit management also have some popular methods include:



1.credit score and credit reporting: credit score is the number that indicates the risk of default for a credit worthy individual or company, credit reporting is a process of collecting and analysing information about a person are company's credit history. credit score and credit reporting can help businesses decide if an applicant is a good risk and, if so, how much credit they should be given.

Approval processes: Businesses can establish clear approval processes for credit applications. This process can help business avoid mistakes that could result in customer credit ratings dropping and could impact their ability to obtain financial products in the future.

Credit limits: businesses can set a limit on the amount of credit that a customer can borrow what they are able to repay.

Credit checks: in some cases, businesses may require applicants to under go a credit check before they are given credit. This process can help to ensure that the applicant has a good credit history and isn't likely to turn around and money from the business later on.

Credit insurance: some businesses may want to consider purchasing credit insurance. This insurance can help to protect the business from any potential loss or damage that may we caused as a result of a customer's inability to repay their credit debts .

III. ANALYSIS AND INTERPRETATION

Effective credit management can help businesses maintain a healthy cash flow, reduce financial risks, and improve their overall financial performance. Here are some key aspects of credit management and their interpretation in a business context:

Credit Policy: A credit policy outlines the terms and conditions under which a business extends credit to its customers. This policy should be well-defined and clearly communicated to all customers to avoid confusion or misunderstandings. A good credit policy should consider the risk of non-payment, credit limits, payment terms, and the creditworthiness of the customer.

Credit Assessment: Before extending credit to a customer, a business should assess the customer's creditworthiness. This involves analyzing their credit history, financial statements, and other relevant information. The assessment helps to determine the credit limit, payment terms, and the level of risk associated with the customer.

Credit Control: Credit control involves monitoring and managing a company's outstanding debtors to ensure timely payment. It includes the timely follow-up on overdue payments, reviewing and updating credit limits, and assessing the risk of bad debt.

Cash Flow Management: Effective credit management helps to improve cash flow by ensuring timely payment of outstanding debts. This allows a business to meet its financial obligations, pay its creditors on time, and avoid penalties or fees.

Credit Reporting: Credit reporting involves the regular monitoring and reporting of a business's credit risk and creditworthiness. It helps a business to identify potential risks and opportunities and make informed decisions about extending credit to customers.

In summary, effective credit management is essential for the success of any business. It involves setting clear credit policies, assessing the creditworthiness of customers, monitoring and controlling outstanding debtors, and managing cash flow. By implementing these practices, a business can reduce financial risks, improve its cash Effective credit management can help businesses maintain a healthy cash flow, reduce financial risks, and improve their overall financial performance. Here are some key aspects of credit management and their interpretation in a business context:

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Effective credit management is a critical aspect of running a successful business. Here are some suggestions and learnings for effective credit management:

Know your customers: Understanding your customers' creditworthiness is essential in making informed decisions about extending credit. Consider conducting credit checks, reviewing payment history, and analysing financial statements to determine the level of risk involved.

Set clear credit policies: Clearly defined credit policies can help minimize the risk of non-payment. Consider establishing credit limits, payment terms, and penalties for late payments.

Communicate effectively: Communication is key to successful credit management. Be clear and consistent in communicating credit policies, payment terms, and deadlines to customers. Regularly follow up on overdue payments and offer payment plan options if necessary.

Keep accurate records: Maintaining accurate and up-to-date records of all credit transactions is crucial. This information can be used to monitor payment trends, identify potential risks, and make informed credit decisions.

Monitor credit utilization: Keeping an eye on credit utilization can help prevent overextending credit to customers. Consider implementing a credit monitoring system to track credit usage and flag potential issues.

Consider offering incentives: Offering incentives such as early payment discounts can encourage customers to pay their bills on time, reducing the risk of non-payment.

Seek professional help when necessary: If you are experiencing significant credit management challenges, consider consulting with a financial advisor or credit management specialist.

IV. CONCLUSION

Overall, effective credit management involves implementing clear policies, monitoring credit utilization, maintaining accurate records, and communicating effectively with customers. By taking these steps, you can reduce the risk of non-payment and ensure the long-term financial health of your business.

Here are some resources for further reading on credit management:

REFERENCES

1. "Credit Management Handbook" by Burt Edwards - This book provides a comprehensive guide to credit management practices and strategies.
2. "Credit Management: Principles and Practices" by Alok Kumar Rai - This textbook covers the basics of credit management, including credit evaluation, credit risk management, and debt recovery.
3. "The Art of Credit Management: Advanced Tools, Techniques, and Strategies for Managing Your Company's Credit" by Darrell Zahorsky - This book provides practical tips and strategies for effective credit management.
4. "The Credit Manager's Handbook" by Burt Edwards and David P. Wright - This guide covers all aspects of credit management, including credit analysis, risk management, and collections.
5. "Credit Risk Management: How to Avoid Lending Disasters and Maximize Earnings" by Joetta Colquitt - This book provides insights into credit risk management, including credit analysis, portfolio management, and risk mitigation strategies.
6. "Credit Management: A Practical Guide" by Michael Brown - This book provides practical advice on credit management, including credit scoring, credit analysis, and collection techniques.



7. "The Handbook of Credit Risk Management: Originating, Assessing, and Managing Credit Exposures" by Sylvain Bouteille - This comprehensive guide covers all aspects of credit risk management, from origination to collection.
8. "The Ultimate Guide to Credit Management" by Ian Fleming - This book provides a step-by-step guide to credit management, including credit analysis, risk management, and collections.
9. <https://maaw.info/CreditBibliography>
10. https://www.researchgate.net/publication/304771273_Effectiveness_o_f_Credit_Management_System_o_n_Loan_P_erformance_Empirical
11. These resources can help you develop a better understanding of credit management and improve your credit management practices.



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