Credit Management and Profitability of Manufacturing Firms Listed In Nairobi Securities Exchange

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Abstract

The general objective of the study was to investigate the effect of credit management on the profitability of manufacturing firms listed in Nairobi Securities Exchange. The study specifically sought to establish the effects of credit appraisal, credit monitoring and evaluation, credit debt collection policy and credit risk assessment on the profitability of manufacturing firms listed on the NSE. The study was anchored on Transactions Costs Theory, Portfolio Theory, Symmetric Information Theory and Liquidity Preference Theory. The study will benefit the organization in the industry in policy making, other researchers who will use the study as a basis for reference and government of Kenya. The study utilized a descriptive research technique and targeted manufacturing firms registered in Nairobi Securities Exchange. The unit of analysis comprised of staffs working in the finance department of the firm. A five point Likert scale questionnaire was utilized in collecting data for the study. The collected data was analysed qualitatively through descriptive and inferential statistics which were generated by the help of SPSS and MS Excel.The results and findings of the analysis were presented in form of tables and figures. The study established that credit appraisal, credit monitoring and evaluation decision, credit debt collection policy and credit risk assessment positively and significantly affect profitability of manufacturing firms registered in NSE. This is shown by Beta values of 0.736, 0.897, 0.582 and 0.1980 and significant values of 0.000, 0.000, 0.004 and 0.009 respectively. This bears the implications that increasing credit appraisal, credit monitoring and evaluation decision, credit debt collection policy and credit risk assessment with one unit, profitability of manufacturing firm registered in NSE increases with the respective beta values. The study concluded thatcredit appraisal, credit monitoring and evaluation decision, credit debt collection policy and credit risk assessment had a significant and positive effect on the profitability of manufacturing firms listed on the NSE. The study recommends that management of manufacturing firms in Kenya should hedge against Moral hazard and adverse selection risks when advancing loans to minimize occurrences of nonperforming loans. The study also recommends that management of manufacturing firms in Kenya should be aware of possible use of provisions for losses on non-performing Loans that may results due to ineffective credit monitoring and evaluation decision. Additionally, the study recommends that manufacturing firms in Kenya should enhance proper management of debtors by focusing on establishing the target investment in debtors, which maximizes the profits and reduces the costs of having debtors. The study finally recommends that manufacturing firms in Kenya should put in place a credit risk analysis and evaluation management strategy to enhance their profitability.

Key Words: *credit appraisal, credit debt collection policy, credit risk assessment & credit monitoring and evaluation*

I. Introduction

Manufacturing sector in an economy remains one of the most powerful engines for economic growth. It acts as a catalyst to transform the economic structure of countries from simple, slow growing and low value activities to more vibrant and productive economies. Its productive economic activities are driven by technology and therefore enjoy great margins (Amakom, 2016). This brings about growth prospects in the economies. Manufacturing sector today has become the main means for developing countries to benefit from globalization and bridge the income gap with the industrialized world (Amakom, 2016). Thus for manufacturing firms, management of credit acquired is a critical component as it has the ability to influence aspects such the profits made, the investments done, and the plans for expansion.

II.   Statement of the Problem

Sound credit management is a prerequisite for a manufacturing firm stability and continuing profitability, while deteriorating credit quality is the most frequent cause of poor financial performance and condition. According to Gitman (2013), the probability of bad debts increases as credit standard are relaxed. Firms must therefore ensure that the management of receivables is efficient and effective .Such delays on collecting cash from debtors as they fall due has serious financial problems, such as increased bad debts and affects customer relations. If payment is made late, then profitability is eroded and if payment is not made at all, then a total loss is incurred. Delays in the gathering of money from indebted individuals as they fall due has genuine financial ramifications, and results in expanded terrible obligations and influences client relations.

Credit decision becomes more difficult when the financial conditions of the country where the firm operates are typically uncertain. Specifically, in the Kenyan case, the presence of two aggravating factors is observed. There is the high interest rates practiced in the financial institutions and the instability of the economy particularly associated with the election cycle that happens every year. There are different ways that firms are impacted by high interest rates. First, there is the rise in financing costs as well as inhibiting of sales which results in low financial activities and consequently a high uncertainty as noted by Salawu, (2007). There is also a problem of poor credit management which means that the vendor is not protected from possible losses and increases the debt obligations of the customer meaning failing to settle them timely (Olowoniyi, &Ojenike, 2013). According to Pandey (2013), when bad debt losses emerge, it means organisations are unable to collect what they are owed and this is attributed to the credit management processes put in place.Mogaka&Jagongo (2013) using NSE listed manufacturing and construction firms found a significant effect of debtor's management on profitability. Gatuhu (2013) studied the effect of credit management on the financial performance of microfinance institutions in Kenya and established that there was strong relationship between financial performance of microfinance institution performance and credit risk control and collection appraisal. Nyawera (2013) studied the effect of credit appraisal on the financial performance of deposit taking microfinance institutions in Kenya and found that credit had effect on the financial performance of deposit taking micro finance. The studies reviewed only focused on large firms; however, trade credit is particularly important in the case of small and medium-sized companies since trade debtors are the main asset on most of their firms' balance sheets (Garcia, & Martinez, 2010).

This study arises from the need to manage credit of manufacturing firms more effectively and efficiently – keeping viability and continuity in view. In Kenya, many manufacturing firms are struggling to thrive, and some key players have been forced to move their operations to the countries. Others have shut done their operations as evidenced by recent closure of Pan Paper Mills in Webuye and Cadbury East Africa. Other firms like Eveready East Africa have contemplated closure of their operations. All these companies cite high operation costs as the main cause of the precarious financial situation. Companies are closing doors and others are operating at breakeven point (KAM, 2018). If this trend continues unabated, Kenya's hope of rising to a middle level economy as envisioned by vision 2030 is in doubt.

Therefore, the present study will seek to investigate the effect of credit management on the profitability of manufacturing firms listed in Nairobi Securities Exchange.

Objectives
 i.   To determine the effect of credit appraisal on the profitability of manufacturing firms listed on the NSE
 ii. To find out the effect of credit debt collection policy on the profitability of manufacturing firms listed on the NSE
 iii. To examine the influence of credit risk assessment on the profitability of manufacturing firms listed on the NSE.
 iv. To examine how credit monitoring and evaluation influences profitability of manufacturing firms listed on the NSE

Theoretical review
Transactions Costs Theory

The origins of transactional cost economics can be traced from Ronald Coase works that had a strong emphasis on making legal considerations in economics. Nonetheless, the transaction cost theory was initially established by Schwartz (1974). The theory suggests that in comparison to the traditional lenders, suppliers have an upper hand when checking the actual financial conditions of their clients. Additionally, the suppliers can enhance force repayment and as well as monitoring the credit. In comparison to financial institutions, the aforementioned advantages give the suppliers a cost advantage. Petersen and Rajan (2014) classified the following as foundations of cost advantage; salvaging value from the current assets, achieving information and controlling the buyer. In relation to cost advantage, the initial source is described using the idea that the suppliers have the ability to get information regarding the buyers fast and at small expenses since the

information is received in the routine exercises of a business. Nevertheless, this is done according to the frequency of the buyer's orders and the amounts paid and therefore, this gives the supplier an overview of how their clients are financially

Portfolio Theory

The portfolio theory in the context of modern finance is traceable on the works of Markowitz (1959, 1956, and 1952) and the basic framework of the theory has its origins from von Neumann and Morgenstern (1944). Organisations have integrated the modern portfolio theory successfully into the market risk since the 1980s. Most firms use the value at risk models to control the market risks and their interest rates. However, although credit risk is among the main risks of many organisations, Margrabe, (2007) has noted that the action of integrating the modern portfolio theory with credit risk has lagged. Organisations have noted that concentrating on credits can affect financial performances adversely. Therefore, several institutions are using quantitative approaches to measure credit risk. Moreover, the industry continues to innovate and develop apparatus which are used in the measurement of credit risk using the portfolio context. Nevertheless, they use credit derivatives which are used to transfer risks while preserving a positive relationship with the customers.
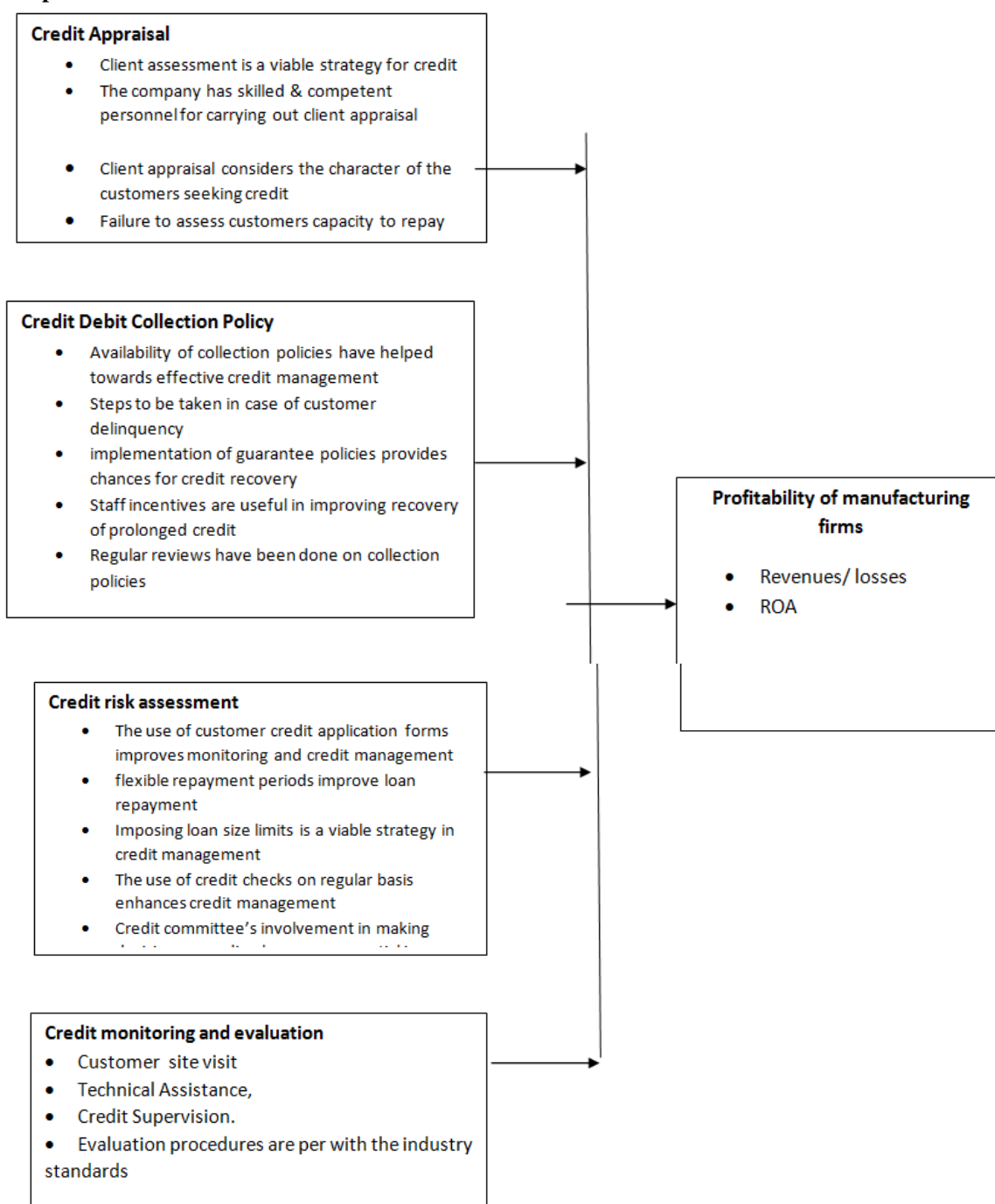
Symmetric Information Theory

The symmetric information theory is a concept which was first introduced by Claude Shannon in 1948 in his work known as "*A Mathematical Theory of Communication.*" According to Derban, Binner and Mullineux (2005), the symmetric information theory indicates that it is important to collect the borrower's information in the aim of enhancing effective screening. Nevertheless, the borrowers can also be assessed using the quantitative and qualitative techniques although the main challenge of using this method is that the qualitative models have a subjective nature. However, the borrower's features accessed using the models use numbers which have additional values when likened to a threshold based on the argument of Derban, Binner and Mullineux (2005). Moreover, this technique helps to reduce possible biases, subjective judgments and minimizing the processing costs. Rating systems are considered significant if they indicate variations in the predicted levels of losses. A research by Brown Bridge (2015, pp.173-89) indicated that the models have the ability to show the significant factors used to explain default risk numerically, factors involved in the improvement of default risk, calculating the reserves required to acquire the expected losses of future loans and identifying bad loan applicants.

Liquidity Preference Theory

The liquidity theory suggests that organisations which have financial challenges have stringent credit policies and they give fewer credits (Emery in 2016). The liquidity preference theory was a concept first developed by John Maynard Keyne in 1936 with an aim of putting emphasis in money being the most valuable liquid asset. The focal point of this idea falls on the fact that when organisations face financial constraints, they have the inability to offer more credits since they lack the resources to invest in the collection costs. Based on this view, the organisations which have good liquidity give more credits compared to the constrained ones. Various scholars have had their views in the aim of getting more evidence to support this idea. Nielsen (2002) stated that small firms adopt a stringent credit appraisal when there is a monetary contraction. Nevertheless, they increase the credit accepted but they reduce the credit given to their consumers in order to reduce the chances of bad debts while releasing more capital for investment. Financially stable organisations offer more credit to their customers and are less likely to demand trade credit (Petersen &Rajan2013).

Conceptual framework

Credit Appraisal
- Client assessment is a viable strategy for credit
- The company has skilled & competent personnel for carrying out client appraisal

- Client appraisal considers the character of the customers seeking credit
- Failure to assess customers capacity to repay

Credit Debit Collection Policy
- Availability of collection policies have helped towards effective credit management
- Steps to be taken in case of customer delinquency
- implementation of guarantee policies provides chances for credit recovery
- Staff incentives are useful in improving recovery of prolonged credit
- Regular reviews have been done on collection policies

Profitability of manufacturing firms
- Revenues/ losses
- ROA

Credit risk assessment
- The use of customer credit application forms improves monitoring and credit management
- flexible repayment periods improve loan repayment
- Imposing loan size limits is a viable strategy in credit management
- The use of credit checks on regular basis enhances credit management
- Credit committee's involvement in making decisions regarding credit management

Credit monitoring and evaluation
- Customer site visit
- Technical Assistance,
- Credit Supervision.
- Evaluation procedures are per with the industry standards

Credit monitoring and evaluation

Figure 2. 1 Conceptual Framework

III.   Critique of the Literature

Nyawera (2013) did a study on the effect of credit appraisal in regard to profitability using the Kenyan microfinance organisations. In doing the research, the researcher employed secondary data analysis and focused on microfinance institutions in Nairobi. According to the findings from the study, there was a connection between profitability and the variables for credit policies although the impact was minimal; nevertheless, the study indicated a negative connection between the collection efforts and the credit terms and conditions which resulted to an increase in profitability of the firms although the collection efforts were reduced in the process which resulted to a decrease in the default rate of the firm. The shortcoming of this particular study was that it did not focus on manufacturing firms which are listed on the NSE. Further, the institutions used were not listed on the NSE.

Nagarajan (2001) conducted a study which indicated that the management of risk is considered to be a dynamic procedure which should be introduced and developed during normal times and in times of risk, it can be tested. However, it involves the commitment and careful planning of stakeholders. There is a possibility of reducing losses triggered by risks through the management of cash-flows and portfolios, building strong organizational infrastructure and teaching consumer discipline by coordinating the stakeholders effectively. The researcher used secondary data in the study. The limitation of the study was that it was conducted in Mozambique, a foreign nation and did not examine all the variables that the present study focuses on.

In another study, Orua (2009) investigated the connection which exists between financial structure and financial performance on Kenyan microfinance institutions. A descriptive research design was adopted by the researcher and data analyses through SPSS. According to the findings from the research short-term debt had affected the outreach of MFI in a positive way. However, when using the long-term debt, there was a positive connection although it was not significant since the rates were on default. The shortcoming of this study was that there was the use of financial institutions as the target population only. More firms in different other sectors could have been targeted.

Wanja (2013) investigated effects of credit appraisal used by commercial banks on their performance. The objective of the study was to examine the relationship between loan terms and conditions and performance, and relationship between loan processing procedures, amount of loan disposable, credit information and length of credit relationship with the bank and performance. The study was carried out using descriptive research design. The study population was all forty-three commercial banks headquarters thus a census was taken. The limitation of this particular study was the use of commercial banks and not any other firms in other critical industries such as manufacturing.

Owizy (2013) conducted a study on the impact of credit management on the financial performance of banks with reference to UBA Plc. In the study, secondary data for the years 2013 to 2008 was obtained from the bank's annual reports.As a measure of bank performance, analyses of regressive, descriptive and correlations were used to generate financial ratios. The study found out that there was tangible effect on profits in Nigerian banks due from management of credits. The limitation of this study is that it was conducted in Nigeria with the target population being Nigerian banks.

Research Gap

Following the above critique of literature and the literature review, in Kenya, there is no study which has been conducted to examine the effect of credit management on profitability of manufacturing firms listed in Nairobi Securities Exchange. Most of the studies which have been conducted are in foreign countries and those in Kenya targeted banks and other microfinance institutions.

Thus, using the critique of the literature above, the gap that the study seeks to fill arises from the need to manage credit of manufacturing firms more effectively and efficiently – keeping viability and continuity in view. In Kenya, many manufacturing firms are struggling to thrive, and some key players have been forced to move their operations to the countries. Others have shut done their operations as evidenced by recent closure of Pan Paper Mills in Webuye and Cadbury East Africa. Other firms like Eveready East Africa have contemplated closure of their operations. All these companies cite high operation costs as the main cause of the precarious financial situation. Companies are closing doors and others are operating at breakeven point (KAM, 2018). If this trend continues unabated, Kenya's hope of rising to a middle level economy as envisioned by vision 2030 is in doubt.

The gap that the proposed study seeks to fill is that of determining the impact of credit management on the profitability of manufacturing organisations that have been listed in the NSE.

Chapter Summary

In summary, this chapter has provided for a literature review of the topic. The major theories influencing each of the variables have been detailed and explained. Further, each of the variables including credit appraisal, credit monitoring and evaluation, debt collection, and risk assessment have been explained through the conceptual framework. Further, this section has included the empirical review and the critique of the literature. The gap to be filled has also been detailed.

IV. Research Methodology

The study conducted utilized the descriptive research technique. Thestudy design is the best to use since it assures the impression and disposition of the participants involved while putting into consideration the factors which are being examined (Newman, 2003). The target population of the study comprised of all the 10manufacturing firms listed in NSE. The unit of analysis comprised of 5 staffs from each of the finance departments of each firm comprising of finance managers, credit officers, credit risk officer, Debt collection officers, and credit controllers. A total of 50 staffs were involved in the study. The study featured both primary

and secondary sources of data. The researcher conducted a pilot study which tested the appropriateness and quality of the questionnaires. Based on the outcome of the pilot, the researcher made changes or corrections in the questionnaires especially if they have poor sentence construction or grammatical errors. The information collected from the participants using questionnaires was examined and compared to come up with quality responses, which are more consistent. Moreover, coding of the data followed using Microsoft excel sheets with the aim of dividing them into few categories. Data from the research was also analysed using software known as the SPSS (Statistical Package for the Social Science). The data was then summarized and presented after using descriptive statistics such as the percentages, standard deviation, the mean, and the frequency distribution.

Diagnostic Tests
Normality Test

The study adopted Kolmogorov-Smirnov (K-S) Test in testing the normality of the dependent variable. According to Ghasemi and Zahediasl (2016), K-S test is the most commonly used normality test possibly because of disadvantages of other tests and that it can easily be examined using SPSS. The results in table 4.10 indicated that the dependent variable had insignificant Shapiro Wilk values and Kolmogorov Smirnov values greater than 0.05 implying that the null hypothesis is not rejected hence the variables are normally distributed. Since the data set was normally distributed, it was hence suitable to conduct an ordinary least square regression analysis since there were no violations of the assumptions of classical linear regression.

Table 4.1 Kolmogorov-Smirnov test of Normality

	Kolmogorov-Sminorv			Shapiro-Wilk		
	Statistic	Df	Sig.	Statistic	df	Sig.
Profitability Of Manufacturing Firms	.329	45	.056[*]	.414	45	.068

*. This is a lower bound of the true significance.
. Lilliefors Significance Correction

Linearity Test

Linearity is displayed by the data points being arranged in the shape of an oval. If any other shape other than oval is observed, it is most likely that the population from which the data came from is not linear in terms of the variables being analysed. The results presented in figure 4.2 shows that the data points for all the variables were arranged in an oval form along the best line of fit implying that the data was linear.

Multicollinearity

The study adopted Variance Inflation Factor (VIF) which will be applied using the threshold of 10 for severe multicollinearity. The results presented in table 4.11revealed that there was no collinearity on credit appraisal, credit risk assessment, credit monitoring and evaluation decision and debt collection policy since none of them had VIF greater than 5 or tolerance limits less than 0.1.

Table 4.2 Multicollinearity

	Collinearity Statistics	
	Tolerance	VIF
Credit Appraisal	0.285	3.29
Credit Risk Assessment	0.459	2.247
Credit monitoring and evaluation	0.473	2.019
Debt Collection policy	0.341	3.332

Homoscedasticity Test

The study adopted Breusch-Pagan test developed by Breusch and Pagan (1979) in testing for homogeneity in a linear regression model. Homoscedasticity assumptions is arrived at when the probability value in the Breusch-Pagan test is greater than 0.05. The results indicated in Table 4.12 indicated an insignificant p-value which is greater than 0.05 at 5% level of significance. This implies that the null hypothesis of constant variance is not rejected. This shows presence of homogeneity in the error term and hence the assumption of classical linear regression on homogeneity was not violated.

Table 4.3 Breusch-Pagan Test of Homoscedasticity

Breusch-Pagan / Cook-Weisberg test for Homoscedasticity
Ho: Constant variance
chi2(3)   =   0.834

Prob > chi2 = 0.765

Correlation Analysis

Table 4.4 Correlations Analysis

		CA	CDC	CG	CME	P
CA	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	45				
CDC	Pearson Correlation	.523[*]	1			
	Sig. (2-tailed)	.000				
	N	45	45			
CG	Pearson Correlation	.509[**]	.417[*]	1		
	Sig. (2-tailed)	.000	.000			
	N	45	45	45	45	
CME	Pearson Correlation	.562[**]	.442[*]	.537[**]	1	
	Sig. (2-tailed)	.000	.000	.000		
	N	45	45	45	45	45
P	Pearson Correlation	.654[**]	.562[**]	.653[**]	.677[**]	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	45	45	45	45	45

**. Correlation is weighty at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).

As indicated in the table 4.4 above, there was a moderate positive correlation between credit appraisal and profitability of manufacturing firms listed on the NSE. This is shown by a correlation value of .654. This implies that enhancing credit appraisal practices enhances profitability of the NSE registered manufacturing firms. The results concur with Mishkin (2016) who noted that credit appraisal has a guiding principle which ensures that only the borrowers who are capable of repaying and are in need of credit access the credit.

The results further show that credit risk assessment and profitability of manufacturing firms listed on the NSE positively and significantly correlates. This is shown by a correlation value of .677. This implies that enhancing credit risk assessment practices enhances profitability of the NSE registered manufacturing firms.The results concur with Basel (2013) who explained that the success of any company lies in the effectiveness of their system in ensuring the repayments of debts by borrowers which is essential in handling asymmetrical information and therefore reducing financial levels and ensuring effective assessment of the credit risk system thus providing a suitable credit risk environment.

The results further show that credit monitoring and evaluation period and profitability of manufacturing firms listed on the NSE positively and significantly correlates. This is shown by a correlation value of .653. This implies that enhancing credit monitoring and evaluation period practices enhances profitability of the NSE registered manufacturing firms. The results concur with Ayodele, Thomas, Raphael and Ajayi (2014) who revealed that having a good credit standard in place goes a long way in minimizing the incidence of bad debts.

The results also show that credit debt collection policy and profitability of manufacturing firms listed on the NSE positively and significantly correlates. This is shown by a correlation value of .562. This implies that enhancing credit debit collection policy practices enhances profitability of the NSE registered manufacturing firms.The results concurs with Nzotta (2014) that credit management has the capability to influence the failure or success of all types of institutions including financial firms and that a critical requirement to achieve efficiency and effectiveness in credit management is the capability to manage the credit lines of all customers.

Regression results
Regression Analysis Model Summary
A multiple linear regression analysis was performed to test the degree of relationship between the independent and depend variables.The results are presented in table 4.5

Table 4.5: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.845[a]	.714	.689	1.0127534

The results shows that the value of R was .845 implying existence of a high relationship between the independent and dependent variables. The R Squared value of .714 implies that 71.4% of variations in the performances of NSE listed manufacturing firms can be accounted by credit appraisal, credit risk assessments, credit monitoring and evaluation period and debt collection period.

The study conducted analysis of variance to assess whether the model adopted in the study for testing the relationship between independent and depend variables was statistically significant. The results are presented in table 4.6

Table 4.6: Model of Significance (ANOVA)

Model		Sum of Squares	Df	Mean Square	F	Sig.
	Regression	103.348	4	25.837	6.52268	.00142[b]
	Residual	158.444	40	3.9611		
	Total	261.892	44			

The results shows that the value of F-Calculated was 6.52268 while the value of F Critical from F-statistics at (4,40) and at 95% confidence level was 2.61. The value of F-Calculated exceeds the value of F-Critical implying that the model linking independent variables with the dependent variable was statistically significant and thus a good fit for the study.

Table 4.7: Model Coefficients

Predictors	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	T	Sig.
(Constant)	1.063	0.133		7.9925	1.3192
Credit Appraisal	0.736	0.196	0.83	2.2602	0.000
Credit monitoring and evaluation	0.897	0.201	0.79	1.6965	0.000
Credit Debt Collection	0.582	0.198	0.72	1.5960	0.004
Credit Risk Assessment	0.980	0.183	0.91	1.5410	0.009

From the regression results in table 4.7 the coefficient of credit appraisal was found to be 0.736.This value shows that holding other variables in the model constant, an increase in the credit appraisal by one unit causes the profitability of manufacturing firms listed in NSE to increase by 0.736 units. The value of the coefficient is also positive and significant.The positive effect shows that there is a positive relationship between the Credit appraisal and profitability of manufacturing firms listed in Nairobi Securities Exchange. The results tallies with Simonson *et al.,* (20110 who established that a good credit appraisal helps to develop sensible oversight of asset quality, usage of mutual languages as well as methodology which involves the evaluation of ethics, securities, risks, documentation, and pricing for reporting and measuring passive assets.

The coefficient of credit risk assessment was found to be 0.897.This value shows that holding other variables in the model constant, an increase in the credit risk assessmentby one unit causes the profitability of manufacturing firms listed in NSE to increase by 0.897 units.The value of the coefficient is also positive and significant. The positive effect shows that there is a positive relationship between the credit risk assessmentwasand profitability of manufacturing firms listed in NSE. The results concurs with Basel (2013) who explained that the success of any company lies in the effectiveness of their system in ensuring the repayments of debts by borrowers which is essential in handling asymmetrical information and therefore reducing financial levels and ensuring effective assessment of the credit risk system thus providing a suitable credit risk environment.

Furthermore, the coefficient of credit monitoring and evaluation decision was found to be 0.582.This value shows that holding other variables in the model constant, an increase in the credit monitoring and evaluation decision by unit causes the profitability of manufacturing firms listed in NSE to increase by 0.582 units.The value of the coefficient is also positive and significant. The positive effect shows that there is a positive relationship between the credit monitoring and evaluation decision and profitability of manufacturing firms listed in NSE.The results tallies with Ayodele, Thomas, Raphael and Ajayi (2014) findings which revealed that a good credit standard in place goes a long way in minimizing the incidence of bad debts.

Also, the coefficient of credit debt collection policy was found to be 0.980.This value shows that holding other variables in the model constant, an increase in the credit debt collection policy by one unit causes the profitability of manufacturing firms listed in Nairobi Securities Exchange to increase by 0.980 units. The value of the coefficient is also positive and significant. The positive effect shows that there is a positive relationship between the credit debt collection policy and profitability of manufacturing firms listed in NSE. The results are consistent with Sindani (2016) that involvement of customers and credit officers when formulating credit terms affects the performance of loans.

V. Conclusion

This study concluded that credit monitoring and evaluation decision has a significant and a positive effect on the profitability of manufacturing firms listed on the NSE.The study also concluded that credit debt collection policy had significant and a positive effect on the profitability of manufacturing firms listed on the NSE. The study further concluded that credit risk assessment had a significant and positive effect on the profitability of manufacturing firms listed on the NSE.The study finally concluded that credit monitoring and evaluation decision has a significant and a positive effect on the profitability of manufacturing firms listed on the NSE.

VI. Recommendations

The study recommends that management of manufacturing firms in Kenya should hedge against Moral hazard and adverse selection risks when advancing loans to minimize occurrences of non-performing loans. The study also recommends that there is need for manufacturing companies to improve on their client appraisal techniques so has enhance their financial performance. Through client appraisal techniques, the manufacturing companies in Kenya will be able to know credit worthiness of clients and thus reduce default loans. The study further recommends that manufacturing firms in Kenya should enhance proper management of debtors by focusing on establishing the target investment in debtors, which maximizes the profits and reduces the costs of having debtors. The study finally recommends that manufacturing firms in Kenya should put in place a credit risk analysis and evaluation management strategy to enhance their profitability. They should continuously assess their credit risk management practices to see if they are still practical in the face of a continuously changing operating environment.

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