EFFECT OF CREDIT MANAGEMENT ON THE PERFORMANCE OF MICRO ENTERPRISES IN SOUTH-SOUTH NIGERIA

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Abstract:
This study is on the effect of credit management on the performance of micro enterprises in South-South Nigeria. The study adopted the descriptive research design using the survey method of which questionnaires were administered to a sample of (397) registered SMEs in South-South. The responses were analyzed using smart PLS. It was found that credit policies has positive and significant effect on entrepreneurial intention while credit analysis revealed a negative and insignificant effect on the performance of micro business. Therefore, the study recommends that organization should strengthen credit analysis with advanced risk assessment tools and data analytics, focusing on training analysts for accuracy and integrate real-time data to maximize positive impact on performance. Microfinance/banks should revise credit policies for micro business to reduce restrictiveness, emphasizing on a flexible guidelines, balancing risk and opportunities. Audit policies and align with market conditions to mitigate negative effects.
Keywords*: Credit management, credit policies, credit analysis and performance.*

INTRODUCTION

Performance in micro enterprises is typically reflected in sustained sales growth, profitability, liquidity stability, and survival rates; in Nigeria's South-South zone where micro firms dominate the enterprise landscape effective credit management is a pivotal driver of these outcomes. Sound credit management (screening, appropriate collateral and tenor design, cash-flow-based appraisal, monitoring, and collections discipline) lowers default risk and financing costs, thereby smoothing working capital cycles and enabling reinvestment in inventory, technology, and market expansion (Akinlo & Akinlo, 2021). Recent national evidence underscores that financing frictions remain binding for MSMEs, with surveys reporting both large credit gaps and macro headwinds that heighten the need for prudent borrower and lender practices (PwC Nigeria, 2024; International Finance Corporation [IFC], 2024). Region-specific work in the Niger Delta finds that access to well-structured microcredit is positively associated with enterprise performance measured by sales growth while loan conditions (fees, tenor restrictions) and weak borrower financial capabilities can impede uptake and effective use of funds (Arinzeh, 2022). On the supply side, Nigerian studies show that stronger credit risk management in microfinance banks improves their financial performance, reinforcing the credit supply to micro clients (Dangana et al., 2022). Complementary South-South evidence on managerial practices likewise links better financial management capabilities to improved MSME effectiveness, suggesting that borrower-side credit discipline and capability building amplify the performance gains from access to finance (Ogbulu et al., 2025). Taken together, these strands imply that, in South-South Nigeria, micro-enterprise performance benefits most where lenders' credit processes are rigorous yet appropriately tailored to micro cash flows, and where borrowers possess the skills to plan, deploy, and service credit reliably (Dangana et al., 2022). Micro-enterprises play a crucial role in economic development by fostering job creation, poverty alleviation, and income generation, particularly in emerging economies like Nigeria. Despite government interventions through programs such as the Micro, Small, and Medium Enterprises Development Fund (MSMEDF) and the Government Enterprise and Empowerment Programme (GEEP), the effectiveness of these initiatives is undermined by weak credit management frameworks at the micro-enterprise level, as these businesses often struggle with financial sustainability, largely due to ineffective credit management practices as the reliance on informal credit often resulted in exorbitant charge in interest rates and provide little to no financial advisory support. In South-South Nigeria, where micro-enterprises dominate key sectors such as agriculture, trade, and oil-related services, the challenge of poor credit management has led to high loan default rates, restricted business expansion, and, in some cases, business failure.

The main objective of this research work is on effect of credit management on the performance of micro enterprises in South-South Nigeria. While the following specific objectives are to:

i. examine effect of credit policy on the performance of micro-enterprises in South-South Nigeria.
ii. assess the effect of credit analysis on the performance of micro-enterprises in South-South Nigeria.

Research Hypotheses

The following hypotheses guide the study:

Ho_1: Credit policy has no significant effect on the performance of micro-enterprises in South-South Nigeria.

Ho_2: Credit analysis has no significant effect on the performance of micro-enterprises in South-South Nigeria.

LITERATURE REVIEW

Performance of Micro enterprise

Miller and Davidson (2022) defined micro-enterprise performance as the invisible force that drives individuals to act decisively for the improvement of the business. It's the constant drive to improve, achieve goals, and complete tasks effectively, pushing individuals to think quickly and act efficiently in addressing challenges. In this dynamic environment, tasks become urgent, objectives loom large, and every action feels essential yet fleeting. Under the influence of organizational performance, decisions must often be made rapidly, sacrificing convenience for results. The pressure to perform urges individuals to accomplish more with less, driving business success. Organizational performance, in this sense, significantly influences human behavior and work outcomes, and understanding how to manage it can contribute to better business results and overall well-being.

Jensen (2021) viewed micro-enterprise performance as the sensation of having limited resources to make decisions, take action, or complete performance-related activities. Beneath this sensation lies the pressure of the business environment, indifferent to challenges and demanding in its expectations. Micro-enterprise performance reminds individuals of the importance of effective work and results, urging them to act with urgency. It emphasizes the need to seize every opportunity for improvement and embrace challenges as opportunities for success. Ultimately, micro-enterprise performance is not merely a constraint but a force that pushes individuals and businesses to demonstrate their resilience and commitment to achieving goals.

Credit Policy

Adebayo (2023) defined credit policy as the structured approach organizations use to regulate credit issuance, minimize default risks, and enhance financial stability. This concept extends beyond basic loan approvals, focusing on strategic guidelines that ensure responsible lending and debt recovery. Credit policy requires organizations to evaluate borrower creditworthiness, establish credit limits, and enforce repayment terms. By implementing effective credit policies, businesses can reduce bad debts, maintain cash flow, and improve long-term financial performance. A weak credit policy, however, can result in financial losses, legal disputes, and reputational damage.

Martinez (2023) opined that credit policy creates a sense of structure and financial discipline within organizations by ensuring that lending practices align with corporate objectives and regulatory expectations. It bridges the gap between financial stability and business growth, encouraging credit practices that balance profitability with risk management. For instance, companies that implement effective credit policies may focus on optimizing loan approval processes, reducing bad debts, or improving customer repayment behavior. Clear communication of these policies is crucial for fostering employee and stakeholder confidence, ensuring collective adherence to credit management strategies. By enforcing well-structured credit policies, organizations can enhance their financial sustainability and mitigate risks associated with credit defaults. The core of credit policy lies in establishing guidelines that

promote fairness, transparency, and accountability in lending decisions. Unlike short-term revenue generation goals, credit policy emphasizes the long-term financial health of an organization by assessing the creditworthiness of borrowers and setting appropriate repayment terms.

Credit Analysis

Harrison (2023) defined credit analysis as the process of evaluating the creditworthiness of individuals, businesses, or financial institutions to determine their ability to meet financial obligations. This process involves assessing financial statements, examining cash flow trends, and analyzing debt repayment history. Credit analysis goes beyond numerical evaluation, incorporating qualitative factors such as industry conditions, management effectiveness, and market trends. A comprehensive credit analysis allows lenders and investors to make informed decisions, mitigate risks, and ensure financial stability. Neglecting thorough credit analysis can lead to financial losses, increased default rates, and weakened stakeholder confidence. In financial contexts, credit analysis encompasses areas such as liquidity assessment, debt-to-equity ratio examination, risk evaluation, and compliance with regulatory standards. Organizations that implement robust credit analysis frameworks enhance their decision-making, reduce default risks, and foster long-term financial sustainability.

Childs (2023) refers to credit analysis as the process of distributing available financial resources among various lending projects, departments, or units within a financial institution, while ensuring adherence to ethical standards. It involves making decisions about where to allocate capital, time, and human resources, balancing efficiency with fairness, equity, and sustainability. The aim is to align financial resource distribution with broader organizational and societal values. This process requires careful analysis of risk profiles, projected returns, and potential social impacts, ensuring that lending decisions serve both business objectives and social good. In the context of credit analysis, this could involve determining how to distribute funds to borrowers or sectors in a way that supports economic development, reduces environmental risks, and ensures fairness in credit access.

Credit Policy and Performance of Micro Enterprise

Adebayo and Adewale (2023) explored the effect of credit policy on the operational performance of micro-enterprises in Ogun State, Nigeria. Using a case study approach, they targeted 700 micro-enterprise owners, with 200 respondents selected through purposive sampling. Data were collected via interviews and analyzed using thematic analysis. The findings revealed that well-structured credit policies had a positive and significant impact on the performance of micro-enterprises, particularly in improving cash flow and enabling business expansion. However, the study also noted that overly stringent repayment terms could create operational challenges. The study recommended that policymakers design flexible credit policy to support micro-enterprises without imposing undue financial strain. While the study provided valuable insights, its reliance on qualitative data limited the depth of understanding regarding financial performance. A mixed-methods approach combining qualitative and quantitative data could have offered a more comprehensive perspective.

Olumide and Okeke (2023) investigated the effect of credit policy on the growth of micro-enterprises in Asaba, Delta State, Nigeria. The study used a survey research design. Data was collected from 143 micro-enterprise owners using a convenient sampling method. The data was analyzed using statistical techniques to determine the impact of credit access and repayment terms on business growth. The study revealed that access to credit and flexible repayment schedules had a positive but insignificant influence on the growth and sustainability of micro-enterprises. The study also highlighted the importance of financial literacy programs to help micro-enterprise owners effectively utilize credit. However, the study was conducted in Asaba, and its findings may not be applicable to other regions, such as Lagos or Kano, due to differences in economic and cultural contexts. This limits the generalizability of the results to other geographic locations.

Credit Analysis and Performance of Micro Enterprise

Patel and Kumar (2023) conducted a study to assess the influence of credit analysis on the financial performance of micro-enterprise in Jos, Plateau State, Nigeria. The study adopted a cross-sectional survey research design and targeted micro-enterprise owners who had accessed credit facilities. The sample size of 331 respondents was selected using stratified random sampling. Data was collected via structured questionnaires and analyzed using regression analysis to test the relationship between credit analysis and financial performance. The findings revealed a positive and significant influence of credit analysis on the financial performance of micro-enterprise, with most respondents reporting improved cash flow and business expansion. The study recommended that financial institutions enhance their credit analysis processes to ensure that micro-enterprise receive tailored financial support. However, a critique of the study is that it primarily focused on formal credit institutions, which may limit its applicability to informal credit systems.

Obi and Nnamdi (2023) conducted a study on the impact of credit analysis on the financial performance of micro-enterprise in Makurdi, Benue State. The researchers adopted a cross-sectional research design with a sample size of 482 micro-enterprise owners selected using purposive sampling. Data was analyzed using SPSS, with both descriptive and inferential statistics. The findings revealed a positive and significant influence of credit analysis on financial performance, particularly in improving revenue and enabling business expansion. The study recommended that financial institutions invest in improving their credit analysis processes to better support micro-enterprise. A critique of the study is that it focused predominantly on formal credit systems, potentially excluding other credit sources that are popular among micro-enterprise in Nigeria.

Credit Risk Theory

The Credit Risk Theory was primarily developed by Robert C. Merton in 1974, based on the earlier works of Black and Scholes (1973) on option pricing. Merton's Structural Credit Risk Model, also known as the Merton Model, laid the foundation for modern credit risk assessment. This theory suggests that the risk of default on a credit obligation is directly linked to the financial health of the borrower, particularly the value of the borrower's assets relative to their liabilities.

Merton's model applies the principles of option pricing theory to corporate debt, arguing that a company's equity can be seen as a call option on its assets. In this framework, a firm default on its debt obligations if the market value of its assets falls below the value of its liabilities at the time of maturity. This means that credit risk is inherently a function of asset volatility and capital structure.

The Credit Risk Theory has been widely applied in financial risk management, particularly in the development of credit risk models used by banks, financial institutions, and rating agencies. It has influenced frameworks such as the Basel Accords, which guide international banking regulations on capital adequacy and credit risk management.

In the context of micro-enterprises, the theory underscores the importance of assessing borrowers' financial stability and creditworthiness before extending credit. Financial institutions use this approach to evaluate the likelihood of loan default and to design risk mitigation strategies such as collateral requirements, loan covenants, and credit monitoring.

Although Merton's original model is primarily suited for large corporations with publicly traded assets, its principles have been adapted to microfinance and SME lending, where credit risk assessments focus on cash flow stability, business viability, and repayment behavior. Over the years, modifications to the model, such as reduced-form credit risk models (e.g., Jarrow & Turnbull, 1995), have addressed some of its limitations, particularly in environments where market data on asset values is not readily available.

METHODOLOGY

The study adopted a survey research design. The population of the study consists of (71,467) registered SMEs in South-South Nigeria, according to SMEDAN (2021). The sample size of (397) was determined using Taro Yamane (1968) sample selection formula. Convince sampling techniques was used and the procedure involved selecting participants based on their availability and willingness to participate to enable the collection of data. The study used primary data. Data were collected using a 5-point Likert scale structured questionnaire. The data collected was analyzed using smart-PLS SEM.

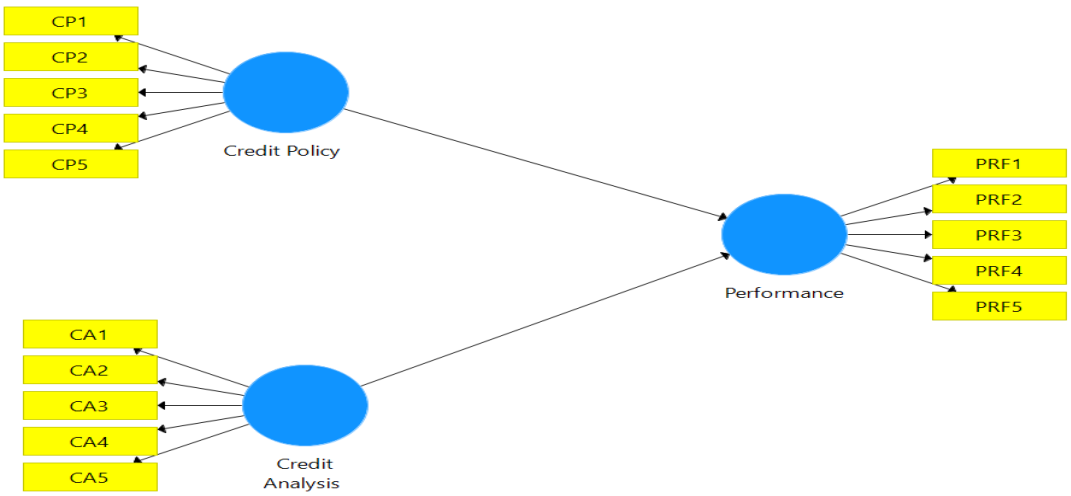

Figure 1: Study Model

RESULTS AND DISCUSSION

Table 1.1: Reliability of study scale

	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
Credit Analysis	0.786	0.801	0.860	0.606
Credit Policy	0.827	0.853	0.895	0.739
Performance	0.873	0.882	0.914	0.728

Source: Smart PLS Output, 2025

Composite reliability of Jöreskog's (1971) was applied to test for the internal consistency of the items. All the values fall within the Hair, et al., (2019) rating of good consistency. The Cronbach alpha value was above 0.60 which is the minimum threshold as recommended by Sekaran (2010). To test for the convergent validity, the average variance extracted (AVE) was used. All the latent variables showed values greater than 0.50 which indicates that the constructs explain at least 50 percent of the variance of its items. According to Henseler et al., (2015), the Fornell-Larcker criterion does not perform well when explaining discriminant validity, particularly when the indicator loadings on a construct differ only slightly. As a replacement, they proposed the Heterotrait-Monotrait (HTMT) ratio of the correlations which is the mean value of the item correlations across constructs relative to the (geometric) mean of the average correlations for the items measuring the same construct (Voorhees et al., 2016). Discriminant validity problems are present when HTMT values are higher than 0.90 for structural models (Henseler, et al., 2015).

Table 1.2: Outer Loadings

	Credit Analysis	Credit Policy	Performance
CA1	**0.724**		
CA3	**0.797**		
CA4	**0.801**		
CA5	**0.789**		
CP3		**0.841**	
CP4		**0.872**	
CP5		**0.865**	
PRF1			**0.796**
PRF2			**0.924**
PRF3			**0.904**
PRF4			**0.779**

The table presents the outer loadings for three constructs in a structural equation modeling (SEM) framework: Credit Analysis (CA), Credit Policy (CP), and Performance (PRF). Outer loadings indicate the strength of the relationship between each observed variable (indicator) and its corresponding latent construct, with values above 0.7 generally considered acceptable for construct validity, and higher values reflecting stronger relationships. Below is an explanation of the outer loadings for each construct in prose form.

For Credit Analysis, the construct is measured by four indicators (CA1, CA3, CA4, CA5), with outer loadings ranging from 0.724 to 0.801. CA4 has the highest loading at 0.801, making it the strongest indicator of Credit Analysis, followed closely by CA5 (0.789) and CA3 (0.797), all of which exceed the 0.7 threshold, indicating reliable measurement. CA1, with a loading of 0.724, is the weakest but still acceptable, suggesting it contributes adequately to capturing aspects such as risk assessment or credit evaluation. These loadings confirm that the Credit Analysis construct is robustly measured, with all indicators effectively reflecting the underlying concept of evaluating creditworthiness.

Credit Policy, the construct is assessed by three indicators (CP3, CP4, CP5), with loadings ranging from 0.841 to 0.872. CP4 is the strongest indicator with a loading of 0.872, followed closely by CP5 (0.865) and CP3 (0.841), all well above the 0.7 threshold. These high loadings indicate that the indicators strongly capture the Credit Policy construct, reflecting policies and guidelines for credit management. The consistency and strength of these loadings suggest that Credit Policy is reliably measured, with CP4 being particularly representative of the construct.

For Performance, the construct is represented by four indicators (PRF1, PRF2, PRF3, PRF4), with loadings ranging from 0.779 to 0.924. PRF2 has the highest loading at 0.924, making it the strongest indicator of Performance, followed closely by PRF3 (0.904). PRF1 (0.796) and PRF4 (0.779) are slightly lower but still exceed the 0.7 threshold, indicating reliable measurement. These loadings suggest that the indicators effectively capture Performance, encompassing outcomes such as financial or operational success, with PRF2 and PRF3 being particularly strong contributors to the construct.

Table 2 Heterotrait-Monotrait Ratio (HTMT)

	Credit Analysis	Credit Policy	Performance
Credit Analysis			
Credit Policy	**0.997**		
Performance	0.858	**0.570**	

Source: Smart PLS Output, 2025

Model Goodness of Fit (GoF)

Sequel to the need to validate the PLS model, there is a need to assess the goodness of fit of the model as Hair, et al. (2017) suggested. This study used the standardised root mean square residuals (SRMR). The choice of this index was based on the fact that the SRMR provides the absolute fit measure where a value of zero indicates a perfect fit. The study adopted Hu & Bentler's (1998) suggestion that a value of less than 0.08 represents a good fit while applying SRMR for model goodness of fit. The study result indicates an SRMR value of 0.01. This indicates the model is fit.

Assessing the Structural Model

Having satisfied the measurement model assessment, the next step in evaluating PLS-SEM results is to assess the structural model. Standard assessment criteria, which was considered include the path coefficient, t-values, p-values, and coefficient of determination (R^2). The bootstrapping procedure was conducted using a resample of 5000.

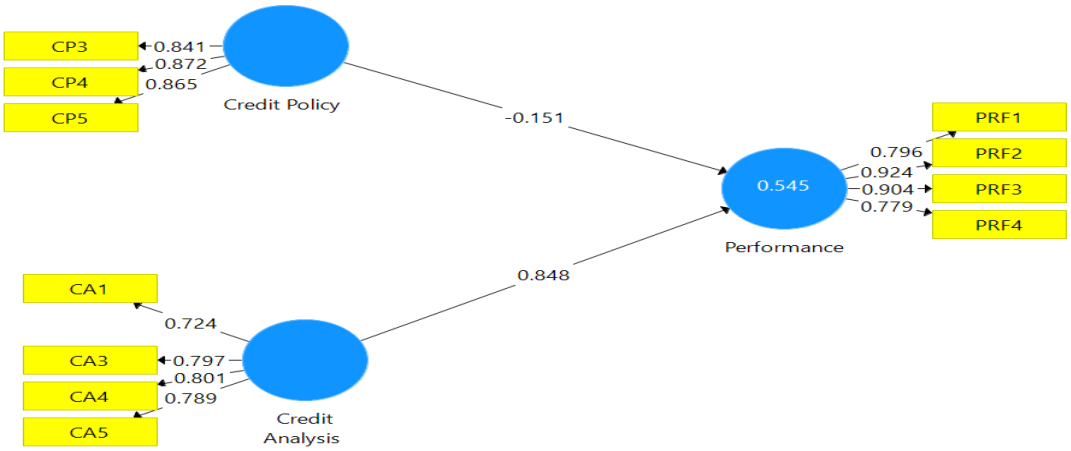

Fig. 3: Path Coefficients of the Regression Model

The R-square value stood at 545%, indicating that credit management represented by credit policy and credit analysis are responsible for 54% variation in the performance. The remaining 46% variation could be explained by other factors not included in the study. Based on Hair, et al., (2019), the R-square is considered suitable and lends credence to the study's findings. The result of the path analysis is presented in the table below.

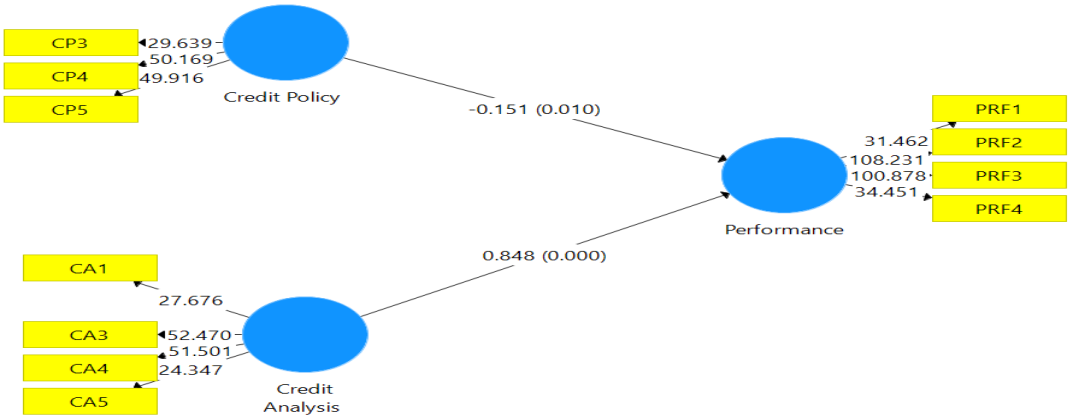

Table 3.1: Path Coefficients showing the Results.

Variables	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
Credit Analysis -> Performance	0.848	0.851	0.057	14.894	**0.000**
Credit Policy -> Performance	-0.151	-0.150	0.058	2.597	**0.010**

Source: Smart PLS Output, 2025

Discussion of Findings

The path coefficient for Credit Analysis to Performance is 0.848, with a sample mean of 0.851, a standard deviation of 0.057, a T-statistic of 14.894, and a p-value of 0.000, indicating a highly significant positive relationship. This implies that thorough credit analysis enhances organizational performance by reducing default risks and optimizing lending decisions.

Lastly, Credit Policy exhibits a path coefficient of -0.151, with a sample mean of -0.150, a standard deviation of 0.058, a T-statistic of 2.597, and a p-value of 0.010, indicating a statistically significant negative relationship. This indicates that overly restrictive or poorly implemented credit policies in this context, potentially limiting lending opportunities or increasing operational costs, thus hindering performance.

CONCLUSION AND RECOMMENDATION

Based on the findings above, the study concluded that credit analysis demonstrates a highly significant and strong positive effect on performance. The study concludes that credit evaluation processes, such as assessing borrower creditworthiness, are a critical driver of organizational performance, likely by minimizing default risks and optimizing lending decisions. Also, that credit policy exhibits a significant but negative effect on Performance. The study also concludes that potentially overly restrictive or misaligned, hinder performance by limiting lending opportunities or increasing costs.

Based on the findings of the study, the following recommendations are proposed:

i. Organization should strengthen credit analysis with advanced risk assessment tools and data analytics, focusing on training analysts for accuracy and integrate real-time data to maximize positive impact on performance.
ii. Microfinance/banks should revise credit policies for micro business to reduce restrictiveness, emphasizing on a flexible guidelines, balancing risk and opportunities. Audit policies and align with market conditions to mitigate negative effects.

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Key: ***SA = Strongly Agree, A = Agree, U = Undecided, D = Disagree, SD = Strongly Disagree***

S/N	Credit Policy	SA	A	U	D	SD
1	The terms and conditions of credit (e.g., interest rates, repayment schedules) are clearly communicated to borrowers.					
2	Credit policies offer flexible repayment options that accommodate borrowers' financial situations.					
3	The process of applying for and receiving loans is efficient and timely.					
4	The loan amounts offered under current credit policies are sufficient to meet borrowers' needs.					
5	Credit policies make it easy for individuals and businesses to access loans.					
	Credit Management					
6	The credit assessment process effectively evaluates the creditworthiness of borrowers.					
7	The institution has effective strategies for managing loan defaults and delinquencies.					
8	Credit policies are flexible enough to accommodate the unique needs of borrowers.					
9	The institution provides adequate training and capacity-building programs for staff involved in credit management.					
10	The institution uses modern technology (e.g., credit scoring systems, digital platforms) to improve credit management.					
	SME Performance					
11	My business demonstrates strong financial health, with consistent revenue growth and effective cost management.					
12	My business operates efficiently, with streamlined processes and effective use of resources to achieve its goals.					
13	My business has ability to innovate and adapt to changing market conditions and customer needs.					
14	My business meets or exceeds customer expectations, resulting in high levels of satisfaction and loyalty.					
15	My business has strong growth potential and is well-positioned to scale its operations in the future.					