Does Creditors Terms and Accounting Process Affect MSMEs Debtor's Management? The Need for Novel IT Tools

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Abstract

The objective of the study is to know whether creditors terms and Micro, Small and Medium Enterprises (MSMEs) accounting process affect MSMEs debtor's management and to know the need for novel Information Technology (IT) tools. This study proposes a definite set of survey questionnaires to measure variables such as the influence of suppliers' credit policies and the accounting process of selected MSMEs. The sample size of this study focuses on various MSMEs owners or accountants in Oman. The questionnaire survey findings are based on 44 MSMEs that responded. The study used Partial Least Squares Structural Equation Modeling (PLS-SEM) to analyze creditors terms, accounting process of MSMEs with its impact on MSMEs debtors' management. MSMEs' accounting process and suppliers' credit policies do influence MSMEs debtors' management. Increased working capital risks due to inefficient debtors' management may lead MSMEs to be resource-efficient in managing their accounting process by using IT tools. The practice of using IT tools by MSMEs can scientifically manage their outstanding debtors which leads to a higher level of hostile working capital management and MSMEs sustainable development. MSMEs play a key role in the development of the national economy, there is a dearth of similar published MSMEs broad studies in Oman that validates the importance of the current research.

Key-words: Debtors Management, MSMEs, Creditors Terms, Accounting Process, Oman.

1. Introduction

Presently companies are bound to give credit to their customers since they use it as a convincing way of increasing sales. If the companies, including micro, small and medium enterprises

(MSMEs), insist only on cash sales to customers, the customers may drive away. Some SMEs or micro-small businesses believe that credit sales will achieve a competitive advantage in the market. The method of credit policy is applied to invite potential customers to produce large-scale sales (Khan et al., 2021). Accounts receivable (debtors) are considered as one of the most key factors for the cash inflow of any business (Pavlova, & Bikchantaeva, 2019). The credit policies of the company may differ from other companies. One company's credit term may be worsened if competitor's generous credit terms to their customers. Debtors are considered as one of the important current assets of a company (Wekesa, 2018).

In business, most of the sales are on credit. These increased credit sales end up with some customers that they cannot pay up their debts. These bad debt expenses should be written off by debiting Income Statement. Balancing the possible increased credit sales with bad debt, managing cash flow is an essential part of managing risk in any business (LIU, 2017).

The approach of suppliers on availability of credit, creditors period, terms, and policies might be different among large businesses and MSMEs. MSMEs situated in villages are following a manual way of accounting. They follow single entry and paper-based traditional ways of recording debtors' transactions. MSMEs are continuing to use manual ways of recording accounting transactions. Manual accounting is considered an ineffective and inefficient way of recording business transactions (Thottoli, 2020a; Thottoli, 2020b). The manual system of accounting process often goes erroneous, particularly if there are large transaction data, which might affect the reliability of financial statement (Satyawati, 2018). Therefore, regulating the debtor's credit policy, and MSMEs accounting process should consider frequent changes of supplier's credit terms for effective and efficient management of working capital. Cash discount, available factoring service, and newly implemented Value Added Tax (VAT) in Oman show increased impacts on credit transactions which need to be properly and timely recorded. MSMEs should move from the traditional method to Information Technology (IT) enabled debtor's management. Thus, the objective of the study is to know whether creditors terms and MSMEs accounting process affect MSMEs debtor's management and to know the need for novel Information Technology (IT) tools.

The continuing section of this paper is comprised as review of literature, research methodology, results, discussions, conclusions, and limitations.

2. Review of Literature

Debtors' management or accounts receivable management is considered as the main component of managing the working capital of the company. The credit sales are like short-term loans given to its customers. The purpose of the debtor's management is to increase the company's sales, reduce the occurrence of bad debts, reduce transaction cost of the accounting process, and timely collection of sale proceeds (Podile et al., 2020). The creditworthiness of clients is to evaluate before giving credit sales, controlling investment in accounts receivable, systematic approach to minimize probable losses due to bad debts, set policies for debtors' terms in such a way that it minimizes the risk of non-payment by debtors and maximizes sales revenue, to reduce costs of the accounts receivable department, and to keep a trade-off among the costs and benefits were aimed by (Tomilina, & Sidorova, 2020). Al-Mahmoud, and Nobanee, (2020) in their study, found that sustainability notions applied in the company's accounting operations are lagging in contrast to other sections in business management. Aziz, (2020) found that the company has employed a system to manage their debtors with adequate internal control, but the company was failed to keep a reserve for probable future bad debt. Suwantari et al., (2020) were found that the accounting approach on debtors adhered to applicable accounting standards. But debtor's management of the company was not yet effective. The debtor's collection terms were not ideal due to the debtor's turnover ratio and the debtors-collection period were shown an inadequate result. A Systematic accounting approach for debtors provides appropriate information that should require better management of debtors to reduce uncollectible receivables.

2.1. Debtors' Management

Debtor management involves strategies to design and continuously observing the credit policies that can manage how an organization broadens credit to its customer base. The occurrence of debtors or accounts receivables is generally related to the practices of the sale of goods on credit. Receivables management is considered as one of the most essential aspects of MSMEs management (Richard, & Kabala, 2020; Книшек, & Кіка, 2018). Receipts of cash from debtors will take place after some period when the sale has been made and so the cash inflow will affect (Sah, 2020). Organizations follow systematic debtor management by providing cash discounts to debtors, carryout proper follow up, and timely recording debtors' transactions (Anayo, 2021). Proper management of debtors helps any company to track customer credit, retain customer loyalty and avoid bad debt

expenses (Munene, & Tibbs, 2018). It was showed that Small and medium enterprises (SMEs) incur quite high costs when managing accounts receivable which hinders their financial performance. Increased bad debts create a burden on SMEs' cash flow thus restricting the progress of their businesses (Mori, & Richard, 2018). Debtors' management was substantially associated with social, economic, and environmental sustainability (Corpuz, & Bool, 2021). Firms need to reduce accounts receivable days to create firm value (Yao, & Deng, 2018).

2.2. Influence of Suppliers' Credit Policies and Debtors' Management

The suppliers-controlled credit policies should consider by the company to match its debtors credit policies. A major reason behind firms' liquidity is the buyer's extended payment policies that contrary to the supplier's credit policies, which heightens the risk of an imbalance among cash inflows and outflows (Eric, & Adis, 2020). Kwon, Han, and Lee, (2020) aim to study trade credit and its effect on a firm's profitability in and after the economic crisis. (Lu et al., 2021) were aims to examine the influence of supplier-buyer collaboration on supply chain funding readiness from the mutual perspective of SMEs with their trade creditors by transaction cost theory.

Small scale business with a high probability of insolvency goes for extensive trade credit. Whereas weaker SMEs are comparatively less skilled to match debtors to creditors payable. It also evident that during economic crises liquidity issues are propagated via providing trade credit (Bussoli, & Marino, 2018). If a company chooses a policy with a lower debtor's level and delays payment to its trade suppliers for a particular level of sales. Such policy increases firm profitability because less cash was tied up as current assets. It may increase the risks due to the increased likelihood of stock out or cash shortages (Sah, 2020). (Zimon, & Dankiewicz, 2020) were found that the supplier's negotiating power had a substantial effect on the supply of trade credit. Further, they emphasized that suppliers with weaker negotiating power more frequently give their customers trade credit by allowing longer debtors periods. If an organization delay payment to its suppliers by means of indulging in an aggressive strategy might enhance firm performance (Afrifa, & Tingbani, 2018; Thottoli, & Thomas, 2021).

2.3. MSME Accounting Process and Debtors' Management

The majority of MSME business are following manual accounting. The present level of SMEs regarding accounts receivable management and financing difficulties were examined by Jiaxin,

(2021). Fordham, and Hamilton, (2019) were aimed to study the prevalence of information technology-enabled accounting information of SMEs. Nyathi, Nyoni et al., (2018) examined the operations of the accounting process in the operational success of SMEs. Schwab, Gold, and Reiner, (2019) were studied the effect of debtors' collection period as a key financial performance indicator and credit period provided by firm financial partners of SMEs on accounting management perspective. The improper accounting system, ineffective management of cash flow, and inefficient debtors' management are some of the challenges facing by SMEs (Anastesia et al., 2018). It has revealed that the owners of SMEs who have increased financial literacy, can manage their debtors (Sindani, 2019). Accounting procedures of SMEs have a long-running hour and a lower level of user satisfaction (Tang et al., 2020). SMEs might prefer an appropriate policy to manage their outstanding debtors and set the debtors' collection period at an optimal level (Mbula et al., 2020). Generalized real time accounting software helps in the development of accounting process. Prominent suppliers of this type of generalized software claim that those types of software can manage debtors for SMEs and can assist to increase their cash inflows. That software has developed in a standard structure and can be customized to enter debtors' management add-on to help SMEs scientifically manage their accounts receivable (Thottoli, & Thomas, 2020; Osinowo, 2018; Thottoli et al., 2019b). Many SMEs were not yet used or practiced computerized accounting systems in their accounting process (Fordham et al., 2019).

Research Questions

As per the review of literature, the researchers have driven the following objectives:
1. Does suppliers' credit policy affect MSME debtors' management?
2. Does MSME accounting process affect MSME debtors' management?
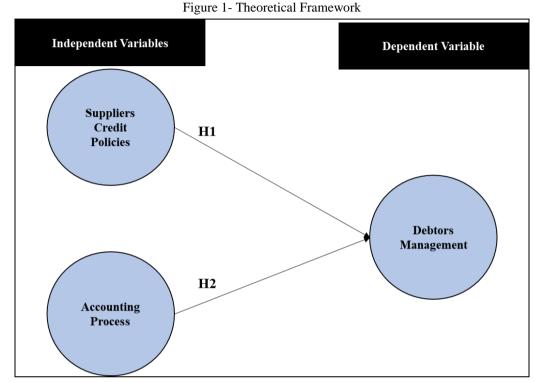
Hypotheses

Accordingly, the current study seeks to measure the degree of creditors terms and MSMEs accounting process affect MSMEs debtor's management and to know the need for novel Information Technology (IT) tools. Therefore, the hypotheses have made in the existing study are:
H1: Suppliers credit policy positively affect MSME debtors' management.
H2: MSME accounting process positively affect MSME debtors' management.

Consequently, the framework was developed which has been described in figure 1 below. It has shown the link between suppliers' credit policy and MSME accounting process with MSME debtors' management.

Figure 1- Theoretical Framework

Source: own elaboration based on the hypothesis development.

3. Research Methodology

This study proposes a definite set of survey questionnaires to measure variables such as the influence of suppliers' credit policies and the accounting process of selected SMEs. The sample size of this study focuses on various MSMEs owners or accountants in Oman. The questionnaire survey findings are based on 44 MSMEs that responded. The study used Partial Least Squares Structural Equation Modeling (PLS-SEM) to analyze creditors terms, accounting process of MSMEs with its impact on MSMEs debtors' management.

3.1. Data Analysis

The reason for using the PLS-SEM method was to deal with the small sample size. The dearth of assumptions about the allocation of regression residuals and with the minimal demands it locates

on measurement scales (Smith, 2003; Chin, 1998). The shortage of distributional assumptions necessitates the use of bootstrap techniques to decide the statistical impact of substances and path coefficients (Chin, 1998). Therefore, bootstrapping with 1,000 subsamples has been carried out. The PLS can also be used in circumstances where there is a less theoretical background to keep up with hypotheses in empirical studies (Joreskog, 1982; Chin, 1998). Also, PLS can assess the structural and measurement model instantaneously (Barclay et al.,1995; Vandenbosch, 1999).

3.2. Reliability and Validity

The primary element of the assessment comprises the composite reliability, factor loading, Average Variance Extracted (AVE), and Cronbach's Alpha must be greater than 0.5 (Hair, Black, Babin, Anderson, & Tatham, 2010). The Average Variance Extracted must be equal to or higher than 0.5 that achieves the inner consistency. The rule of thumb for alpha value if the score "$\alpha > 0.9$- Excellent, $\alpha < 0.8$- Good, and the $\alpha < 0.7$- Acceptable (Hair et al., 2016). Below Table 1 indicates the reliability and validity of the current study variables were used.

Table 1 - Reliability and Validity

Variables	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
Debtors Management	0.883	0.913	0.911	0.573
Suppliers credit policies	0.798	0.841	0.866	0.577
Accounting process	0.883	0.936	0.904	0.504

Source: own elaboration based on the results of PLS analysis.

4. Results

4.1. Descriptive Statistics

The findings of descriptive statistics have shown in Table 2. The dependent variable, debtors' management, implies that MSMEs debtors' management averaged 40%, together with a standard deviation of 1.00, minimum -3.57, and a maximum of 1.26. Additionally, the factors of Supplier's credit policies show an average of 47%, together with a standard deviation of 1.00, minimum of -2.83, and a maximum of 1.01; and the factors of MSMEs accounting process shows an average of -9%, together with a standard deviation of 1.00, minimum of -2.91, and a maximum of 1.66.

Table 2 - Descriptive Statistics

Variables	Median	Min	Max	Standard Deviation
Debtors Management	0.40	-3.57	1.26	1.00
Suppliers credit policies	0.47	-2.83	1.01	1.00
Accounting process	-0.09	-2.91	1.66	1.00

Source: own elaboration based on the results of PLS analysis.

Table 3, Discriminant Validity constructs (Fornell-Larcker Criterion), below represents the results of assessing the research proposals interested in the structural model and examines the explanatory influence of the model.

Table 3 - Discriminant Validity Constructs (Fornell-Larcker Criterion)

	AP	D_Mgt	SCP
AP	0.710		
D_Mgt	0.829	0.757	
SCP	0.688	0.763	0.760

Source: own elaboration based on the results of PLS analysis.

The hypotheses test results have also shown the variance explained R Square (R^2) in the endogenous variables. The R^2 represents 0.758 shows in Table 4 below and R Square Adjusted 0.746 which is considered as considerable value agreeing by Chin (1998). It indicates that both the two exogenous variables examined in the present research study, for instance, suppliers credit policies and MSMEs accounting process supports, and describes 75.8% of the variance of independent variable affect debtors' management.

Table 4 - Variance Explained

Endogenous Construct	R Square	R Square Adjusted
Exogenous Variables -> Endogenous D_Mgt	0.758	0.746

Source: own elaboration based on the results of PLS analysis.

5. Discussion

5.1. Influence of Suppliers' Credit Policies and Debtors' Management

Table 5: Path Coefficients, expresses the correlation between variables and their p-values. The results of the PLS structural model analysis are shown in Table 5, which too exhibits p-values for every path coefficient. The results of the PLS output were depicted in Figure 2. The analysis of PLS path coefficients is used collaboratively to describe the relationships between variables.

The first independent variable tested in the current study is suppliers' credit policies. The results of the hypothesis testing show that the suppliers' credit policies are positively associated with MSMEs debtors' management (p= 0.01, t-value 2.924). This shows that Hypothesis 1, suppliers credit policy positively affects MSME debtors' management, and it implies that MSMEs should consider suppliers credit terms and policies while setting debtors credit terms. There are several research studies were found that the suppliers' credit policies or terms positively affect accounts receivable or debtors' management (Olabisi et al., 2019; Wekesa, 2018; Sabki et al., 2019). SMEs finance source is considered as one of the ways of payment facilities from credit suppliers and pre-payments from trade customers (Dornel et al., 2020). It is found that SMEs demanding greater extensions from suppliers (creditors period) leads to extra costs that may not compensate for the ensuing benefits (Sensini, & Vazquez, 2021). An organization's dependence on key credit suppliers is significantly linked to its credit risk but adversely associated with its credit rating with SME perspective (Liu, & Park, 2020). A short credit type customer constantly gets an extended credit time from the trade supplier since the related risk of a higher credit time can be progressively reduced across an enhanced initial payment due to the controlled effect of trade credit. It also disclosed that the trade supplier wishes to use protection through an insurance system only when the retailer's credit terms is comparatively weak and utilizes the testing method established on the defaulting risk gap impact (Wang et al., 2018).

Path coefficient assessment presented in Table 5 shows the significant and positive relationship among suppliers' credit policy positively and MSME debtors' management ($\beta = 0.004$, $p < 0.01$). This reveals that the fist hypothesis of the current study has been supported and indicating that MSMEs should consider suppliers' credit policies to manage trade debtors. More specifically, the result of the study shows that there is a significant and positive relationship with suppliers' credit policy and MSME debtors' management. This result might be helpful for SMEs to consider various

aspects. MSMEs should calculate creditors' turnover ratio, they should properly account cash discount received from suppliers, consider available factoring services, consider recently implemented rules of value added tax in Oman, and VAT impacts on debtors' transactions. Therefore, it can be concluded there have been proper justification for achieving positive results of first hypothesis. By considering suppliers credit policies and better relationship giving a guide to MSMEs to better manage their debtors using novel IT tools. This result will give an insight to the village MSMEs to move from manual recordings of debtors' transactions to IT enabled debtors' recordings.

The first objectives of the current study are to know suppliers' credit policies positively affect debtors' management. The study shows that the suppliers' credit policy has positively significantly affect MSME debtors' management.

5.2. MSME Accounting Process and Debtors' Management

The second independent variable tested in the current study is MSME accounting process. The results of the hypothesis testing show that the MSME accounting process is positively associated with MSMEs debtors' management (p= 0.001, t-value 4.935). This shows that Hypothesis 2, MSME accounting process positively affects MSME debtors' management, and it implies that MSMEs should consider novel IT tools for accounting process while managing accounting transactions specially to record their debtors' transactions. There are several research studies were found that the MSMEs accounting process is positively affect debtors' management (Anastesia et al., 2018; Nyathi et al., 2018; Jiaxin, 2021). The adaption of information technology-enabled accounting process by SMEs will allow the owners to enhance decision-making ability, and managing accounting including accounts receivable which facilitate the preparation of fair financial statements on a timely basis (Abdulle et al., 2019). The process of debtors accounting and which has tax effects has been accounted for by using IT tools (Pukała et al., 2020).

Path coefficient assessment presented in Table 5 shows a significant and positive relationship among MSME accounting process positively associate with MSME debtors' management (β = 0.000, p < 0.001). This reveals that the second hypothesis of the current study has been supported and indicating that MSMEs should use novel IT tools for recording accounting transactions especially recording debtors' transactions to manage its trade debtors. More specifically, the result of the study shows that there is a significant and positive relationship between MSMEs accounting process with MSME debtors' management. This result might be with numerous reasons, such as, small scale

business operating in villages may records debtors accounts manually, they may not have their accounting software, they may not have proficiency in MS Excel for recording debtors transactions, they may not appoint designated accounts receivable manager, not preparing periodic debtors ageing schedule, not provide provision for bad debt, not grouping customers as good according to their past payment relationship, not evaluating debtors' outstanding frequently, may not calculate debtor's turnover ratio, not account cash discount allowed for debtors, and not considering the effect of bad debt on firm profitability. Therefore, it can be concluded there has been a proper justification for achieving positive results of the second hypothesis also. By adopting novel IT tools with a systematic accounting process helps MSMEs to better manage their debtors. This result will give an insight to the village MSMEs to consider timely follow-up and systematic records of debtors' transactions by using novel IT-enabled debtors' tools.

The second objectives of the current study are to know the MSME Accounting process and its positive effect on debtors' management. The study shows that the MSME Accounting process has a positively significantly affect MSME debtors' management.
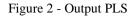
Table 5 - Path Coefficients

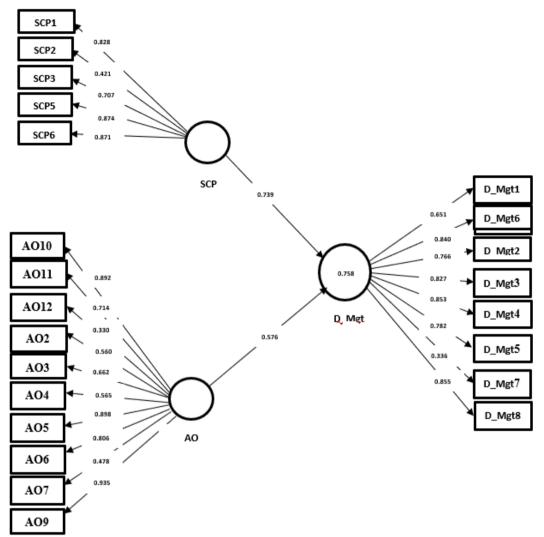|	Original Sample (O)	Sample Mean (M)	Standard Error	Path Coefficient	T-value
SCP -> D_Mgt	0.367	0.352	0.125	0.004	**2.924
AO -> D_Mgt	0.576	0.596	0.117	0.000	***4.935

Note: Significance levels: ***$p < 0.001$ (t >3.33), **$p < 0.01$ (t >2.33), *$p < 0.05$ (t >1.605) (based in one-tailed test).

Source: own elaboration based on the results of PLS analysis.

In the future, MSMEs owners and accountants can use information communication technology-enabled accounting and auditing tools for controlling their accounting transactions (Thottoli et al., 2019a; Thottoli 2021; Thottoli et al., 2019c).

Figure 2 - Output PLS

Source: own elaboration based on the results of PLS analysis.

6. Conclusions

MSMEs accounting process and suppliers' credit policies do influence MSMEs debtors' management. Increased working capital risks due to inefficient debtors' management may lead MSMEs to be resource-efficient in managing their accounting process by using IT tools. The practice of using IT tools by MSMEs can scientifically manage their outstanding debtors which leads to a higher level of hostile working capital management and MSMEs sustainable development. MSMEs play a key role in the development of the national economy, there is a dearth of similar published MSMEs broad studies in Oman that validates the importance of the current research. Hence, the results of the study suggest that cost-effective, customized simple innovative mobile tools are essential to managing their debtors systematically with their available financial literacy. Further, the

current research may give insight to statutory regulators, software developers, and policymakers in general, and government to take timely awareness among village MSME in Oman.

7. Limitations

This research study examined only suppliers' credit policies to analyze debtors' credit policies among SMEs and the need for a novel IT tool. In the future, the researchers can include other variables such as the influence of government can also be tested. It is admitted that the number of respondents is limited. Because of this, future research studies can be conducted by using a qualitative approach.

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