

CREDIT TERMS AND FINANCIAL PERFORMANCE OF SELECTED CEMENT MANUFACTURING COMPANIES IN KENYA

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ABSTRACT

The manufacturing sector is essential to a nation's economy as it underpins industrial advancement and sustainable economic growth. In the highly competitive manufacturing sector, particularly within capital-intensive industries such as cement production, effective credit management is crucial for ensuring liquidity, profitability, and overall financial stability. To increase sales, the cement companies have employed a number of credit management practices to increase their market share and ensure a competitive edge. Regrettably, some of these practices have led to a depressed financial performance as the companies fight to remain afloat. These practices pose an enormous obstacle to the industry, impacting its growth rate and, subsequently, its contribution to Kenya's economy. This research therefore examined the credit terms influence their financial performance. The study used an explanatory research approach and was based on Agency Theory. All Kenyan cement producing firms, including Bamburi Cement Ltd., MCL, East Africa Portland Cement Company, Savannah Cement Ltd., and ARM, were included in the target demographic. All thirty participants—10 credit officers, ten

finance officers, five accountants, and five heads of credit departments—were surveyed in order to collect data. Both primary and secondary sources of data were utilized. Primary information was obtained through structured questionnaires administered to respondents, while secondary data was drawn from published financial statements, particularly focusing on ROA. Prior to analysis, diagnostic tests such as normality, homoscedasticity, and multicollinearity were conducted. The data was then processed using descriptive and inferential statistical techniques. Ethical protocols were observed by ensuring participants were fully briefed on the study's purpose, obtaining their consent, and maintaining anonymity in responses. Hypothesis testing through regression analysis revealed that credit terms affected the financial performance of the cement manufacturing companies in Kenya. The study concluded that robust credit management practices collectively contribute to improved financial performance among cement manufacturers in Kenya.

Key words: Credit Terms, Financial Performance.

INTRODUCTION

The financial performance of cement manufacturing firms in Kenya has displayed fluctuating trends over the past decade due to various macroeconomic and industry-specific factors. Cement firms have been affected by economic cycles, government policies, and competition within the East African region (KNBS, 2022). Kenya's cement industry has experienced periods of growth, particularly driven by increased infrastructure projects and real estate expansion. Between 2015 and 2019, cement production and consumption rose steadily, leading to improved revenues and profitability for major firms. However, the sector faced challenges such as high operational costs, fluctuating demand, and stiff competition from regional manufacturers (Mwarania & Wekesa, 2021).

Credit terms refer to reference terms and conditions put in place as firms give credit to customers. Credit terms pertain to the stipulations and conditions of payment specified on a bill of sale (Era, 2019). It may informally imply an accord established between a buyer and a seller that delineates the timeline and sum of payments the buyer will render in accordance with the purchase contract (Leja & Ibrahim, 2022). Credit terms shows the time at which the credit is due, and possible discounts on timely payment of credit as well as the penalty or interest in case the payment is not done in time (Domina & David, 2021). Credit terms typically specify the credit period, interest rate, payment schedule and discounts in the event credit is paid before or by strictly within the stipulated timeframe (Alhassan *et al.*, 2021). According to Nininahazwe and Mutembei (2023) credit terms may be measured in terms of the credit limit, amount of credit, credit duration, number of credit and schedule for repayment.

The financial performance of major Kenyan cement manufacturing firms over the past five years has shown mixed trends due to varying factors such as market conditions, operational challenges, and strategic shifts. Bamburi Cement for example, which is one of the largest players, posted a loss of \$2.99 million in 2023, down from a profit of \$1.36 million in 2022. Savannah Cement has been experiencing difficulties, with the company entering administration in recent years. It has faced operational challenges that have impacted its financial performance. East African Portland Cement (EAPCC) has struggled with financial difficulties and market competition, but has managed to remain operational by focusing on clinker production, an essential raw material for cement (Global Cement) (CW Group). Overall, while there has been consistent cement production, exceeding 9.5 million metric tons annually since early 2022, many companies in the sector have faced profitability challenges due to rising operational costs, competition, and strategic investments (Global Cement).

Statement of the Problem

The manufacturing sector remains a critical pillar of national development, underpinning industrialization, employment creation, and sustainable economic growth.

In response to intensifying competition and declining demand conditions, cement firms have increasingly adopted aggressive credit management practices aimed at boosting sales volumes, expanding market share, and maintaining competitive advantage. While such practices, particularly liberal credit policies, may stimulate short-term revenue growth, they expose firms to heightened risks including increased accounts receivable, cash flow constraints, and potential bad debts. Consequently, these strategies may inadvertently undermine financial performance rather than improve it.

Previous studies done in Kenya on credit management practices have majorly been done on commercial banks and other financial establishments. The relationship between credit management and financial success was not examined in studies conducted in cement manufacturing businesses (Atela & Sitienei, 2023; Mbole et al., 2022; Sheila & Rugami, 2020).

Objectives of the Study

The research's objective was to establish the influence of credit terms on financial performance of selected cement manufacturing firms in Kenya.

Research Hypotheses

The study tested the following hypothesis;

H0₁: There is no statistically significant influence of credit terms on the financial performance of selected cement manufacturing firms in Kenya.

THEORETICAL REVIEW

Transactions Costs Theory

The theory was postulated by Schwartz (1974) (Anderson *et al.*, 2000). The theory posits that suppliers may possess an advantageous position over conventional lenders in assessing the creditworthiness or actual financial status of their consumers (Jonah, 2018). Suppliers also have a preferred capacity to oversee and enforce the repayment of credit (Man *et al.*, 2017). The transaction cost theory posits that individuals are motivated by competitive self-interest (Lajili & Mahoney, 2006). Each of these advantages may confer a cost advantage to providers as compared to financial institutions (Lajili & Mahoney, 2006). According to the argument, suppliers might have an advantage (Gilligan, 2009). Information gathering, customer manipulation, and value extraction from current assets are the three sources of cost advantage. The idea that merchants may obtain customer information more effectively and at a cheaper cost since it is obtained during regular business activities can help to clarify the main source of cost advantage (Man et al., 2017).

Research on transaction costs indicates that such expenses arise when a product or service is exchanged across a industrially distinct interface (Kim & Mahoney, 2005). Transaction costs therefore occur whenever a good or service is transferred from one stage to another, necessitating

the development of new technological skills for its manufacturing. (Man *et al.*, 2017). Managers must evaluate internal transaction costs in relation to external transaction costs prior to the company's decision on whether to retain certain activities in-house (Jonah, 2018). Transaction cost theory emphasizes the significance of credit terms, as cement production enterprises must establish authentic credit conditions to assess creditworthiness and potential creditors (Man *et al.*, 2017). Consequently, transaction cost theory is crucial to credit management as it allows organizations to implement loan terms that must be influenced to significantly affect the financial health of cement manufacturing enterprises. The cement production company is confident that the debtor would fulfill his obligation, so mitigating credit risk defaults.

EMPIRICAL REVIEW

In Europe, Zou and Li (2023) research gathered data from the largest 47 European financial institutions from 2012 to 2021. The results suggested that credit risk management positive influences the profitability of commercial banks. It was determined that credit terms significantly influenced both ROE and ROA. The study suggested European commercial banks to consistently assess their credit criteria, credit limits, credit amounts, credit costs, credit durations, number of credits, repayment schedules, and compliance with credit terms. This study therefore filled this gap by focus on the influence of credit term on financial performance of cement manufacturing firms in Kenya.

In Saudi Arabia, Kumaraswamy and George (2019) studied the connection between trade credit management and financial success. A sample of 41 industrial firms from three indexes namely energy, materials and capital goods, publicly traded at the Tadawul Stock Exchange in Saudi Arabia from 2009 to 2017 was used. The research's empirical results identified a strong, positive and significant influence of credit terms on financial performance. The research's findings implied that positive credit terms can substantially boost the cash flows and financial performance of the industrial enterprises in Saudi Arabia. There is however need to assess the current status of such a relationship in Kenyan context. Thus, the current study tested whether there was statistically significant influence of credit terms on the financial performance of selected cement manufacturing firms in Kenya.

Obae and Jagongo (2022) in particular, the study looked at how client evaluation and credit rationing affected Kenyan commercial banks' financial stability. 38 commercial banks across the country participated in the study using a descriptive survey methodology. a questionnaire made it easier to gather source data about credit management techniques. The study showed that financial performance was strongly impacted by borrowing terms. The study was focused of commercial banks creating a contextual gap which was filled by the current study which focused on Ccement manufacturing firms in Kenya.

RESEARCH METHODOLOGY

The investigation was conducted using a positivist mindset. Positivism has a huge impact on quantitative research since it is based on the premise that reality is measurable, objective, and independent of the researcher.

This study employed an explanatory research approach to determine the causal relationship between credit management approaches and financial success.

The study used multiple regression to test the research hypotheses at 5% significance level. The following model was developed in line with the research hypotheses;

Direct Effect;

$$Y_1 = \beta_0 + \beta_1 X_1 + \varepsilon$$

Whereby;

Y_1 =Financial Performance (ROA)

X_1 = credit terms

The research's target population comprised the five selected cement manufacturing companies namely; Bamburi Cement Ltd, MCL, EAPCC, Savannah Cement Ltd and Athi River Mining Ltd (ARM). The respondents were all credit officers, that is, heads of credit departments, credit officers, finance officers and accountants. These employees were knowledgeable on credit management practices in their companies and thus yielded reliable and valid data. There were 30 respondents in this category; thus, the target audience.

Descriptive statistics on Credit Terms and Financial Performance

The mean was produced using SPSS and presented as shown in Table 1.

Table 1: Descriptive statistics on Credit terms and financial performance

Statement on credit terms	Mean	SD
The company has established terms of credit	4.06	0.61
The company has set strict terms of credit to ensure only credit worthy clients access credit	4.18	0.79
Credit terms delineate the duration of credit extended to customers.	3.84	0.91
The terms of credit encompass the duration for credit approval.	3.92	0.86
Credit conditions are evaluated based on the client's position as determined by credit worthiness.	3.47	1.10
Credit terms are assessed based on cash flow trends.	3.63	0.97
The company negotiates with the customers on payment plan	4.14	0.80

Source: Research data (2025)

The findings on Table 1 reveal that the cement manufacturing companies in Kenya have well-established credit risk control practices. Most respondents agreed that the firms enforce robust credit terms, and negotiate payment plans, all of which enhance credit discipline and strengthen financial performance. The highest-rated aspect was that the companies had set strict terms of credit to ensure only credit worthy clients access credit. However, the use of cash flow assessments in evaluating clients' creditworthiness was moderately applied, indicating the need for more data-driven assessment tools. These findings are similar to those of Zou and Li (2023) whose study findings suggested that credit risk management favourably influenced the profitability of firms. The study determined that credit terms significantly influenced both ROE and ROA. The study advised that European commercial banks should consistently assess their credit criteria, credit limits, credit amounts, credit costs, credit durations, number of credits, repayment schedules, and compliance with credit terms. In the same vein, Kumaraswamy and George (2019) argue that favourable credit terms can substantially boost the cash flows and financial success of the industrial enterprises in Saudi Arabia.

Tests of Normality

The response variables' normality of distribution was tested. The Shapiro-Wilk test was used to determine whether the data was normal.

Table 2: Tests of Normality

Variables	Statistic (W)	df	Sig.
Credit terms [X1]	.968	29	.327
Financial performance [Y]	.963	29	.241

Table 2 shows the Shapiro-Wilk test results for credit terms and financial performance. Because the Shapiro-Wilk test p-value was greater than the alpha criterion of 0.05, we accepted the hypothesis that the data came from a normally distributed population. As a result, the test results showed that the population was regularly distributed.

Homoscedasticity Tests

To determine whether the residual variance of one observation period differs from that of another, the homoscedasticity test is helpful (Godfrey, 1996). The study's significance level was set at $\alpha=5\%$. Heteroscedasticity was not an issue for $p \geq 0.05$, but it was for $p < 0.05$ (Bera & Jarque, 2012).

Table 3: Test for homoscedasticity

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.482	.154		9.623	0.000
Credit terms [X1]	.433	.268	.075	1.615	0.147

a. Dependent Variable: Financial performance

There is no heteroscedasticity issue because the credit terms and financial performance yielded Sig. values >0.05. Therefore, the residual variance of the independent and dependent variables under test did not differ.

Coefficients

Table : Multiple regression on credit management practices and financial performance

Model		Unstandardized Coefficients	Standardized Coefficients	t	Sig.	Decision
1		B	Beta			
	(Constant)	6.182	.826	7.484	0.0000	
	Credit terms	0.367	.234	2.423	0.0201	Rejected H ₀₁

Source: Research Data (2025)

From the hypothesis testing using multiple regression analysis, credit terms had statistically significant positive influence on the financial performance of the cement manufacturing firms in Kenya at the 0.05 significance level. This implied that effective credit terms collectively enhanced firms' financial performance.

Substituting the regression model;

$$Y = 6.182 + 0.367X_1 + \varepsilon$$

Based on the regression equation, when credit terms are held constant at zero, the financial performance was estimated at 6.182 units. The study rejected all null hypothesis and accepted the corresponding alternative hypotheses.

The study also found a significant positive association ($\beta = 0.367$, $p < 0.05$) between credit terms and financial performance. This suggests that a one-unit improvement in loan terms yields a 0.367-unit increase in financial performance. As a result, H13 was accepted but H03 was refused. These results contradict Alhassan et al. (2021), who observed that credit terms had no meaningful effect on indicators such as liquidity, debt repayment ability, bad debt levels, and cash inflows. However, they support Obae and Jagongo (2022), who demonstrated that credit terms significantly influence financial performance.

Financial performance

The findings indicate a discrepancy in which respondents consistently rated credit management techniques favorably, yet financial performance metrics, including Return on Assets (ROA), were predominantly negative across the majority of organizations. This seemingly contradictory

situation is analyzed through the lens of Asymmetric Information Theory (AIT). The findings indicate that although participants consistently rated credit management techniques highly, the financial performance indicators of most firms, especially Return on Assets (ROA), continued to be negative. The Asymmetric Information Theory (AIT) elucidates this apparent discrepancy. A conspicuous disparity exists between perception and financial reality, since survey results indicated favorable evaluations of credit management practices across all firms, despite the low return on assets (ROAs). AIT posits that information is distributed asymmetrically in economic and financial relationships, with certain entities depending on signals or incomplete data while others have access to more comprehensive knowledge (Matagu, 2018). In light of this approach, managers can assess credit management primarily based on the existence of formal procedures and regulations, rather than on their effectiveness in enhancing liquidity or reducing default rates. This exemplifies confidential information that is not wholly congruent with the actual financial outcomes. Accumulated losses from operational inefficiencies, rising expenses, and legal/tax issues are once again evident in negative ROAs.

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

The findings indicated that strict enforcement of credit terms and flexible repayment schedules promote credit discipline, enhance repayment efficiency, and strengthen financial outcomes. The use of default fees emerged as the most effective practice in encouraging timely repayments and maintaining steady cash flow. The study therefore concludes that well-formulated and consistently enforced credit terms enhance liquidity, reduce default risks, and improve the overall financial performance of cement manufacturing firms in Kenya

Recommendations

From the findings, the following recommendations were suggested;

Cement manufacturing firms should establish formal credit evaluation committees comprising representatives from sales, finance and operations departments. These committees should meet monthly to review credit applications exceeding KES 5 million and quarterly to assess the performance of the client appraisal framework. Firms should implement standardized credit scoring systems incorporating the 5Cs model (Character, Capacity, Capital, Collateral, Conditions) with weighted criteria specific to the construction industry's payment cycles."

The study recommends that Cement manufacturing firms integrate all aspects of credit terms into a comprehensive credit management framework. This integrated approach would improve coordination, reduce inefficiencies, and ensure consistent decision-making across all credit-related functions.

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