MASTER

Exploring and improving SME B2B credit management

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Exploring and Improving SME B2B Credit Management

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I hope you can use this thesis to your advantage!

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This research concerns the use and improvement of cash management in small and medium enterprises in a business to business (B2B) environment. Cash management refers to the management of current assets and liabilities and plays an important role in the successful management of a company. This research will look at how SMEs in a B2B environment handle their cash position and how this can be improved. An emphasis will lie on credit management practices in SMEs in a B2B environment. The reason for this research is the growing rate of SME bankruptcies due to liquidity problems.

Since the current view on SME cash and credit management is not well established a check of the current cash and credit management is part of this research. The main research question for this report is:

*How to improve credit management of SMEs in a B2B environment?*

The research question is divided into several sub-questions which are answered in the subsequent chapters.

**DIFFERENCE BETWEEN SMES AND LARGE COMPANIES**

SMEs in a B2B environment differ from large companies, the entrepreneur has a very important position and much influence. Because of the difference from large companies SMEs cannot use traditional management styles, these are focused on the internal organization. In case of SMEs the managerial processes should be focused on the organizational environment and external stakeholders. Dresmé (2011) argued that the entrepreneur can influence the asset configuration using internal and external stakeholders. The social capital is seen as most important, since building networks, creating goodwill with individuals or groups is one of the main determinants for the performance of the company (Dresmé, 2011). The human capital of the entrepreneur is also of importance, with the right risk reducing skills the entrepreneur can manage the economic capital in a good way. Research shows that entrepreneurs try to reduce risk by using their network and with their competencies. The judgement of the entrepreneur therefore is very important. But we have to keep in mind that the position of the entrepreneur also can be of bad influence, it leads to suboptimal operation, only a focus on the core business, a short term view and limited flexibility. With the right set of entrepreneurial capital a SME is able to overcome these SME disadvantages.
BUSINESS MODELS

The business model is a conceptual tool that contains a set of elements and their relationships and allows expressing the business logic of a specific firm. It is a description of the value a company offers to one or several segments of customers and of the architecture of the firm and its network of partners for creating, marketing and delivering this value and relationship capital, to generate profitable and sustainable revenue streams (Osterwalder et al., 2005). This research emphasizes on the availability of cash, therefore the financial part of the business model is of importance to improve the credit management practices of SMEs.

STRATEGIC FOCUS

Regarding credit management it is important to know the internal processes and to assess the limits and threats that come from the environment. Strategic focuses are introduced to stress the importance for companies to know about possible risks to assess and mitigate the risk of cash and credit problems. Four strategic focuses are introduced: operational excellence, customer intimacy, product leadership and resource enrichment. SMEs working with the different strategic focuses all also emphasize the customer relationship.

ASSET CONFIGURATION

The asset configuration can be related to the strategic focuses. The competences of Hardjono (1995) for the basis for the four different resources and capabilities. He defined material assets, commercial assets, socialization assets and intellectual assets. Cash is seen as a material asset, they are therefore important for this resource. The other assets need to support growth in material assets.

CREDIT MANAGEMENT ANALYSES

Entrepreneurs need to focus on improving the company. One way to do this is to make sure that the company is financial solid by implementing financial strategies. In the B2B environment the offering of trade credit is accepted because it can improve demand and it helps to strengthen long term customer relationships. To reduce the risk of non payment of trade credit companies implement credit management practices. These need to be part of the financial strategy of a company. Credit management needs to assess and mitigate the risks and the potentials to come to an optimal level for the short and long run. In large companies credit management consists of standardizations and the implementation of monitoring tools. A good way to implement credit management is in all steps of the supply chain. In this way the company has a good view on outstanding credit and the risks attached to it.

SMEs have more risks offering credit since they make less use of professional credit management, their capital structure is different from large companies, they do not have
enough power in the buyer-supplier relationship and the control of the company is a problem. Professional credit management is mostly neglected in SMEs. Entrepreneurs use their relation with the customer to enforce payment. Most credit management products are not developed for SMEs, so they do not fit. In order to practice better credit management a change in mentality is needed, both at the suppliers of credit management solutions and the SMEs.

**CONCEPTUAL MODEL**

The entrepreneur, credit management and the liquidity position of the company are main subjects for this research. The entrepreneur has a large influence on all SME decisions, he influences the strategic focus, the business model and the asset configuration. Using the right credit management practices is important to maintain a good liquidity position. In this research more is to be found about the background of SME liquidity problems and the improvement of credit management practices.

**METHOD**

This research is exploratory since not much is known yet concerning SMEs and their credit management. To gain more insight into SMEs and their credit management a survey is sent to 1000 entrepreneurs, which consisted of 30 propositions concerning credit management and the SME relationship with their buyers and suppliers. The data was split to find differences between different strategic focuses and different company sizes. Ways to improve SME credit management are derived from in-depth interviews with credit management experts.

**RESULTS**

**SURVEY**

The survey findings show that SMEs in general do not have a focus on the use of professional credit management practices. Medium sized companies make more use of professional credit management practices. In general SMEs do not check customer solvency, do not use incentives for early payment, and do not see the use of implementing professional credit management solutions. Getting new orders is more important for the entrepreneurs than risk reduction by credit management practices. Medium sized companies try to extend the payment period to their suppliers. The division on strategic focuses shows almost no difference in the use of credit management practices. But they do not seem to experience with their debtors.
IN-DEPTH INTERVIEWS

The experts think that SMEs are having trouble with their liquidity position. They are forced to take more risk because of their weak power position. The experts state that the offered products and services do not fit SMEs and are regarded as expensive. All companies should perform credit checks and should continuously monitor payment behavior. Entrepreneurs should be made more aware of the importance of implementing solid credit management practices. Credit management should be viewed from a business opportunity perspective. Credit management associations could, in cooperation with other stakeholders, build a simple web application with which entrepreneurs need to be able to perform credit checks, insure credit, monitor customer credit status and startup collection inquiries. By setting up a branch-wide cooperation costs can be reduced. The importance of credit management could be shown by making it a standard part of the business plan.

CONCLUSION AND DISCUSSION

The results of this research are translated into several CIMO (Context Intervention Mechanism Output) propositions:

**Proposition 1:** In the context of SMEs in a B2B environment (C), credit management associations could create awareness (M) by reaching SMEs through SME associations, branch-specific associations, social media and first movers (I) to enforce them to make more use of professional management practices (O).

**Proposition 2:** In the context of SMEs in a B2B environment (C), credit management associations could help improve SME credit management practices (O) by developing a first aid credit management kit (I), which provide the entrepreneurs more knowledge concerning credit management (M).

**Proposition 3:** In the context of SMEs in a B2B environment (C), credit management associations could help improve SME credit management (O) by implementing credit management into the setup of business plans (I), which creates awareness and knowledge among entrepreneurs (M).

**Proposition 4:** In the context of SMEs in a B2B environment (C), credit management associations could develop a web application in cooperation with SME stakeholders (I) with which entrepreneurs can perform credit checks, insure credit, monitor customers credit status and startup collection inquiries (M), which improves credit management in SMEs (O).

Future research should try to get a better SME view, since the entrepreneurs in the survey do not represent SMEs as a whole. The propositions should be checked at SMEs to see if they really provide an improvement for their credit management practices.
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1. INTRODUCTION

This research concerns the use and improvement of cash management in small and medium enterprises in a business to business (B2B) environment. Small and Medium Enterprise(s) (SME(s)) are defined as companies that have less than 250 employees, have a turnover that is smaller than 50 million euro or have less than 43 million euro on their balance sheet (EU Recommendation 2003/361/CE). In the European Union 99% of all companies are SMEs, which deliver more than half of the European Union’s GDP (EU, 2003). Cash management refers to the management of current assets and liabilities and plays an important role in the successful management of a company. When a company does not manage its cash position well a shortage of cash can result in liquidity problems. Liquidity is the measure of the extent to which a person or company is able to meet immediate and short term obligations. Cash management is necessary for all businesses, small, medium or large, however, not every company is able to find external financing easily when necessary, especially smaller and medium sized enterprises (SMEs) encounter this problem, they are, for instance, seen as less creditworthy than larger companies (Bernanke, 1991). If a company only has enough cash to maintain their current position, cash needed for their long term goals, like growth and new product development, is lacking. In order to gain a good cash position, the company needs to optimize the difference between the costs and revenues. This research will look at how SMEs in a B2B environment handle their cash position and how this can be improved. The reason for this research is the growing rate of SME bankruptcies due to liquidity problems.

The 2007 credit crunch has shown SMEs vulnerability and their limiting opportunities to acquire funds. In Germany the number of bankruptcies rose by 17% in 2009 (IFM, 2010). In Denmark, Italy, Ireland, Norway and Spain the surge in corporate insolvencies was higher than 25%. In Finland normally short-term solvency problems among SMEs involve 6-8 %, in January 2009 more than 17 % of small firms with less than 50 employees declared insolvency problems. In Sweden, according to ALMI (the Swedish state owned Development Bank), bankruptcies increased over 50% in the first two months of 2009 compared to the same period in 2008” (OECD, 2009). Berryman (1983) indicated that poor or careless financial management can be seen as a major cause of SME failure. UK research indicates that 20 percent of the UK companies that fail, of which most are small firms, failed due to bad debts or poor credit management.

In these difficult times more SMEs have to cease operations. It is important to know why these companies are not able to survive. Bangma and Bruins (2010) looked at the background of bankruptcy for small companies in the Netherlands. They found that 8 percent of the companies went bankrupt because of an immediate shortage in cash. Another 8 percent of the companies ceased operations because they were having financial problems or would have in the near future. A questionnaire filled out by 556 SMEs within the Netherlands shows that less than half of the companies have enough cash on hand only to
pay for their fixed costs for three months. Almost 25% of the companies have more accounts receivable than they make profit in a year (ING, 2010). Credit is usually only given to business customers operating in a B2B environment, in a business to consumer environment credit is usually not provided by the supplier. Only 45% of the companies perform a credit check before doing business which involves a big risk for the liquidity of the company.

Van Caillie and Arnould (2001) also recognized that factors linking to operational management are crucial when looking at failing SMEs. They state that in essence finance and production functions are the places where the mistakes are being made. SMEs have a weak position in the negotiation for and the access to credit. Van Caillie and Arnould (2001) regard this weak position as major financial factor leading to bankruptcy. They state that SMEs depending too much on some key people, lacking delegation of responsibility and limited development of skills are the main factors contributing to SME bankruptcy. Financial business failure is seen as the result of a conjunction of a liquidity, a solvency and a profitability position rapidly degrading. However links between these positions still have to be defined in the longitudinal perspective.

Not developing credit management skills, lack of delegating responsibility and the overdependence on key people brings in risk of late- or non-payment. The OECD states that extended payment delays on receivables, especially in times of reduced sales, are leading rapidly to a depletion of SME working capital in many countries. For example, in Belgium 43 % of surveyed SMEs recently experienced extended delays in their receivables and in the Netherlands 50 % of SMEs have to deal with longer payment terms from their customers. A company like Unilever even declared to extend their supplier payment period to 120 days (VCMB, 2011). In New Zealand, the share of enterprises waiting over 60 days for payment has risen dramatically from 4.8 % to 29.5 % between February 2007 and 2008. On a full European scale (25 countries) Intrum Justitia (2010) stated that the average written-off percentage within Europe rose with 20%.

It is clear that SMEs are hit hard in economic downtime. To improve the way SMEs deal with this we identify the following four main risk areas for SMEs:

- Because of their capital structure they will be the first to encounter problems (van Caillie and Arnould, 2001)
- They make less professional use of credit management (ING, 2010)
- Not enough power in the supplier-buyer relationship, which can cause buyers to abuse this position (van Caillie and Arnould, 2001)
- Control of the company is a problem. In many cases an inexperienced person is responsible for cash management
Next to issues with their accounts receivable SMEs in a B2B environment are also having more trouble to acquire external funding. This is caused by the uncertain future of SMEs and the restricted lending policies of banks due to the Basel accords. With these accords international standards in banking are introduced, which banking regulators can use when they set capital standards for banks to guard against the different types of financial and operational risk. The Basel II accord attempts to accomplish this by setting up rigorous risk and capital management requirements designed to ensure that a bank holds capital reserves appropriate to the risk the bank exposes itself to through its lending and investment practices. (Basel II). In 2013 the Basel III accord will come into place. This accord forces banks to have more reserves resulting in reduced credit facilities and increased restrictions on the application of credit by banks (Basel III).

In this research we will emphasize on credit management practices in SMEs. Due to the Basel accords, there is very limited room to change the SME banking situation. Improvements might be possible in the management of SME working capital, especially credit management. It has been argued that the use of professional credit management is neglected in many SMEs. Most companies only focus on the collection, not also on the front end activities that consist of negotiating, risk screening, using credit information and establishing clear credit policies (Peel et al., 2000). Poor credit management was identified as one of the underlying causes of late payment by Wilson et al. (1995). Other causes that were identified are over-reliance on trade credit and short-term finance. Because of this companies will perceive an increased sensitivity to late payments. Improving credit management, as a part of their cash management, can be of importance for SMEs, since it is seen as a major reason for SME failure.

The current view on SME cash management is not well established. Therefore we find it useful to check the current cash management practices, in particular credit management practices in SMEs in a B2B environment. Also we would like to search for improvements regarding credit management in SMEs. The main research question for this report is:

*How to improve credit management of SMEs in a B2B environment?*

This main research question can be divided into the following sub-questions which will be used in this research:

*What are the characteristics of SMEs?*

*What is credit management?*

*What are the typical credit management risks in SMEs?*

*What are current credit management practices of SMEs in a B2B environment?*
How could the application of credit management in SMEs in a B2B environment be improved, taking the SME characteristics and current credit management situation into account?

The answers to these questions and how to get them will follow in the subsequent chapters. In chapter 2 the sub-question *What are the characteristics of SMES?* will be answered. The general characteristics (2.1), the business model framework (2.2), the strategic focuses (2.3), and the asset configuration will be described. Current credit management practices of SMEs are discussed in chapter 2.5 and 2.6, which will answer the sub-question *What are current credit management practices of SMEs in a B2B environment?*. Next in chapter 3 credit management analyses we will answer the sub-question *What is credit management?* By introducing financial strategies (3.1), trade credit (3.2), credit management (3.3) and its standards for large companies (3.4), which brings us to credit management practices (3.5), which are mainly developed for large companies. In chapter 3.6 we will answer the sub-question *What are the typical credit management risks in SMEs?*. An SME credit management description from the literature is provided in chapter 3.7. In chapter 4 a conceptual framework will be provided, which will be used as a guideline for this research. The method chapter (5) concerns a description of the research approach. After this description the results will be provided in chapter 6. In chapter 7 Conclusions and discussion the findings from literature and this research, the limitations and implications of this research will be provided and discussed.
2. CHARACTERISTICS OF SMALL AND MEDIUM ENTERPRISES (SMEs)

In this part we will characterize SMEs in a B2B environment by first describing the general characteristics of SMEs. Most important in this part is the difference between SMEs and large companies. In 2.2 we will introduce the business models framework which has been modified to fit SMEs. In 2.3 strategic focuses will be explained, linked to the business model framework and the asset configuration of a company. Finally in 2.4 we will look at the credit management risks that SMEs face and the way they are dealing with these risks at the moment.

2.1 DIFFERENCE BETWEEN SMEs AND LARGE COMPANIES

SMEs are not just small versions of large companies. The number of studies that address the unique qualities and characteristics of SMEs in comparison to large companies are limited. In this part we give a view on what is special about SMEs.

ROLE OF ENTREPRENEUR

We start describing the position and influence of the entrepreneur. The entrepreneur is the key player in a SME. He has the power to affect the company’s overall strategy (Man and Chan, 2002). It is agreed upon that the role played by the owner/manager is a big determinant of SME competitiveness because of his decision making power. The entrepreneur needs to handle this power in a good way, he should act in a way that benefits the company. For large companies the literature provides management styles which are mainly focused on the management of internal stakeholders (Schneider, 1994; Hardjono, 1995). But a SME management style has a broader focus. A good description for entrepreneurs and managers in SMEs, where it is not yet possible to create separated functions, is an entrepreneurial manager (Dresmé, 2011). This manager needs to handle the interaction with the external stakeholders and he needs to oversee and handle the company’s internal processes. Dresmé (2011) saw the entrepreneurial manager as the internal process manager as well as the outside asset manager. The internal process manager takes care of the internal stakeholders and therefore focuses on the internal business processes. The outside asset manager deals with the interaction with outside stakeholders and the development of the asset configuration of the company (Dresmé, 2011). Hoevenagel (2004) proposes four negative differentiating aspects that come with this large influence of the entrepreneur:
**SUBOPTIMAL OPERATION**

Because of the size of the company the entrepreneur is occupied with daily operational tasks, but also with other tasks like marketing, accounting, sales, developing new products, etc. There is not enough time for activities like optimizing the business performance.

**FOCUS ON CORE BUSINESS**

The entrepreneur focuses mainly on the core business. Only when the core business is in danger, or when concrete opportunities arise he will be inclined to move his focus.

**SHORT TERM VIEW**

The entrepreneur chooses short term results. Because of this he leaves little room for new developments.

**LIMITED FLEXIBILITY**

The company tends to work more reactive than proactive. Action is only taken when the core business is endangered. The entrepreneur receives only little feedback from his environment. There are no feedback mechanisms in place as there are in large companies, like share holders, unions, supervisory boards, etc.

The above mentioned four aspects have to be kept in mind when SMEs are involved. The entrepreneur will be involved when acquiring new customers, but also when the customer lacks payment. This is of importance for credit management within the company, since it involves giving credit, assessing credit limits for new customers and checking payment behaviour. When a lack of payment occurs, the entrepreneur will take action. At that moment he is however too late. Earlier in the process of acquiring customers, risks should be made clear to minimize the non-payment risk. The assessment of risks and the use of procedures concerning credit for customers is regarded as credit management. The four differentiating aspects are mostly focused on the internal processes of the company, especially on the entrepreneurs involvement. Next to a difference for internal processes SMEs also have a different relation with the environment, which will now be discussed.

**IMPACT ON ENVIRONMENT**

Carson et al. (1995) point out a lack of control of the external environment resulting in sensitiveness to competition and a vulnerable position with respect to suppliers and distributors on the one hand, but knowledge transfer and service are surplus value of SMEs even enabling them to compete with large companies. A problem which comes with the SME size is their lack of market power. A large company like Unilever is able to force SMEs to accept extended payment terms up to 120 days because of their buying power (VCMB, 2011). The turbulent markets in which many SMEs operate, make them vulnerable to...
external influences while they have very limited influence their selves (Man and Chan, 2002). So SMEs also need to look at their environment so they can deal with these threats and opportunities. Berger and Udell (2006) mention that the social environment may also affect SME credit availability. Social capital is regarded as the goodwill available to individuals or groups (Stringfellow & Shaw, 2008). Evidence suggests that “the level of social capital and trust may be important in facilitating the writing and enforcement of financial contracts” (Berger and Udell, 2006, pp 2960). In other words, the way the company interacts with the environment can affect credit availability, the company needs to be seen as a trustworthy company, which minimizes its risks and knows how to deal with the environment. Dresmé (2011) found that entrepreneurs interact with external stakeholders using external leadership. External leadership is based on the entrepreneurial capital the manager possesses. The entrepreneurial capital consists of economic, cultural, social and human capital (Firkin, 2001), which in short are:

- Economic capital refers to any form of asset that is directly convertible into money
- Cultural capital embodies shared knowledge and values, tacit understandings, collective styles, etc.
- Human capital regards ideas about formal qualifications, skills and work experience (Firkin, 2001)
- Social capital is the goodwill available to individuals or groups (Stringfellow & Shaw, 2008)

There is an overlapping nature between these capitals (Stringfellow & Shaw, 2008), this means that each form of capital can be converted from and into other forms of capital. Entrepreneurial capital can therefore be used to secure external assets. Since cash management and the liquidity position of a company are main topics in this research it is important to notice that the benefits that come from social, human and cultural capital can be translated into monetary forms. With the right set of capital the company is able to perform better credit management which will result in a good liquidity position.

**SME RISK MANAGEMENT**

Since the entrepreneur has a large influence on SME policies, it is interesting to know in what way he manages the risks the company faces. Sparrow (1999) studied the risk behavior of high tech small firms and found that the way they conceive risk is fundamentally different from risk management experts and large company specialized risk managers. His study revealed significant differences in risk identification, evaluation and management practices of different high tech SMEs. Sparrow (1999) researched the mental models that people have of particular issues and revealed that these often consist of “islands” of understanding. A
person works with separate areas of knowledge. These areas have not been thought through and are not interrelated. If a person faces a situation where several islands of knowledge are relevant, they are likely to respond in terms of only one of the islands. His analysis suggests that entrepreneurs categorize risk in terms of the following five different issues or activities: the business environment, the particular competitive positioning of the business, business processes, events and liabilities. In relation to the business environment large businesses primarily consider fiscal/regulatory risk. Small firms seem vulnerable to relegate these matters to one of their politico-economic concerns. Many tools that are outlined in risk management training programs have a focus on fiscal/regulatory risk. Sparrow (1999) identified that there is a clear need for broader risk identifying training and more appropriate tools for risk evaluation. Sparrow (1999) also saw that larger firms may see a universe of risks in their environment that need to be quantified and optimized, while smaller businesses tend to see the world with themselves at the centre. Entrepreneurs make decisions seeing their business as an entity instead of optimizing upon specific risks. Gilmore and Carlson (2004) found four key circumstances that entrepreneurs find risky, cash flow, company size, entering a new market and entrusting staff with responsibilities. They found that entrepreneurs regard their networks and their competencies as being key in their management of risk. The entrepreneurs use networking to identify new customers who offer potential for the long term. They also use it to manage the risk that comes with an increasing the company size. Internal networking lets the entrepreneur identify good players within their organization which lowers the risk. The entrepreneur can also manage risk through competencies. These competencies are described by Gilmore and Carson (2004) as experiential knowledge. The entrepreneurs’ perception of a risky situation changes over time, their experience allows them to judge the situation more critically.

Casson (2004) researched the way entrepreneurs and managers judge in case of risk, he looked at judgemental decision-making. Casson (2004) states that judgemental decision-making is a way to look at how the entrepreneur handles risk and uncertainty. Casson (2004) sees judgemental decision-making as the defining characteristic of an entrepreneur, it involves more improvisation than routines. Entrepreneurs take decisions based on the information that is available to them. Primary sources of information can be subject to error, while second-hand information is liable to distortion or misrepresentation (Casson, 2004). Superior judgement stems from correct privileged information. Individual entrepreneurs differ in risk aversion and in their access to information, so the assessment of risk differs between different entrepreneurs. Judgemental decision-making recognizes the importance of volatility in the environment. Volatility reflects that the economic environment is constantly changing, many changes are unpredictable. To cope with volatility the entrepreneur needs a constant flow of information about the state of the environment. This information is scarce and localized. Collecting information is costly and time consuming, therefore it can be appropriate to specialize the collection and processing of information.
Specialization could mean a separation of routine decisions from improved decisions, the allocation of different routine decisions to different employees and the allocation of different improved decisions to different entrepreneurs (Casson, 2004). But in the previous part it was shown that entrepreneurs of SMEs do not have the room to create specialized functions, only in larger companies the entrepreneur is able to create specialized functions.

SMEs in a B2B environment differ from large companies, the entrepreneur has a very important position and much influence. Because of the difference from large companies SMEs cannot use traditional management styles, these are focused on the internal organization. In case of SMEs the managerial processes should be focused on the organizational environment and external stakeholders. Dresmé (2011) argued that the entrepreneur can influence the asset configuration using internal and external stakeholders. The social capital is seen as most important, since building networks, creating goodwill with individuals or groups is one of the main determinants for the performance of the company (Dresmé, 2011). The human capital of the entrepreneur is also of importance, with the right risk reducing skills the entrepreneur can manage the economic capital in a good way. Research shows that entrepreneurs try to reduce risk by using their network and with their competencies. The judgement of the entrepreneur therefore is very important. But we have to keep in mind that the position of the entrepreneur also can be of bad influence, it leads to suboptimal operation, only a focus on the core business, a short term view and limited flexibility. With the right set of entrepreneurial capital a SME is able to overcome these SME disadvantages. Now we know the special characteristics of SMEs and the entrepreneurs and in what way they use their entrepreneurial capital.
2.2 BUSINESS MODEL

The future success of a company can for a large part be found in their own organizations and their evolving states of development. If a company is not able to understand its business the result will be less growth, decline or even bankruptcy. Especially with regard to credit management a company should work proactively and therefore needs understanding of their processes. To gain more understanding into their internal processes we introduce the business model framework. The business model framework is introduced to gain more understanding into how the entrepreneur fits his internal processes to the outside influences and stakeholders. In the next chapter strategic focuses will be introduced which entrepreneurs use to differentiate from competitors.

A business model is a way to describe how a firm creates value to its stakeholders. In this research the definition of Osterwalder et al. (2005) will be used to define the business model concept:

“the business model is a conceptual tool that contains a set of elements and their relationships and allows expressing the business logic of a specific firm. It is a description of the value a company offers to one or several segments of customers and of the architecture of the firm and its network of partners for creating, marketing and delivering this value and relationship capital, to generate profitable and sustainable revenue streams”.

Osterwalder et al. (2005) reviewed earlier studies concerning business models and proposed a single reference model which allows enterprises to describe their own specific business model. Business models therefore are unique for each company. The framework has been adjusted to fit SMEs by Loeffen (2011) and can be found in figure 1.
The business model consists out of four main blocks, infrastructure management, product, customer interface and financial aspects. We will now shortly discuss all parts of the business model framework and the possible link to credit management.

**INFRASTRUCTURE MANAGEMENT**

*Value configuration:* In the value configuration, the current configuration of a firm’s resources and key activities which create value for the customer are described (Osterwalder, 2004). Both the resources and activities can be used to create a competitive advantage and by sustaining this advantage an enduring success can be created. The offering of trade credit to customers can be regarded as part of the value configuration for the customer.

The importance of resources and the availability of specific resources have been stressed in the literature of Barney (Barney, 1991). By acquiring and maintaining unique and scarce resources, a firm can create a competitive advantage when these specific resources are optimally utilized (Barney, 1991).

This advantage has to be translated into value, which can be offered to the customers. Another important aspect in the value configuration is the identification of the critical activities in the value creation process for the customers. By identifying the key activities and their arrangement, the advantage of these activities and arrangement can be strengthened and optimally utilized to create and sustain a competitive advantage.
**Core capabilities:** The specific arrangement and utilization of the different resources and activities, described in the value configuration, form the core capabilities in an organization. These competences are necessary to execute the company’s business model (Osterwalder, 2004). To create and sustain a competitive advantage, it is important to first identify the core capabilities. Sometimes these capabilities are not as obvious as it seems, a core capability does not necessarily have to be the biggest, most performed activity, or most regularly used resources. In a business model, the core competences are the capabilities that create the most value for the customer.

**Partner Network:** When a company does not possess a specific capability, this does not necessarily have to mean that it cannot offer this capability to the customer or use it in the value creation process. A company which has created a good partner network can in-source capabilities from companies in the network to create value for the customer. This could enhance the available capabilities of a firm without making large investments. The ability to select and use the right partners from the network to perform a specific activity can therefore also become a core competence, and an important resource of a company. Therefore not only the partner network will be described in this element, but also how the network is maintained.

**CUSTOMER INTERFACE**

**Target customer:** A company offers value in very different Target customers. By describing these specific Target customers, a company is offering or wants to offer value to; a company creates the possibility to offer very specific value to each Target customer (Osterwalder, 2004). Differentiations in payment terms and credit limits are examples of Target customer approach as well as customer relationship.

**Customer relationship:** Each customer segment can demand a different approach to establish and maintain the relationship with the company. These specific links have to be described to ensure the quality of the relationship and that the specific capabilities needed to maintain the relationship are present.

**Distribution channel:** Customers from the different customer segments do not only need a specific approach to maintain the relationship, but also the communication with the different customer segments can be different (Osterwalder, 2004). In this communication, the product offering can play an important role and can be a unique capability of a company. A company has to posses the ability to attract different customers from different customer segments and identify their specific needs.

**PRODUCT**
Value proposition: The value proposition translates the core competences and resources into a value offer to a specific customer segment (Osterwalder, 2004). The value proposition can therefore consist of multiple value offerings for multiple customer segments. The identification of the relationship between specific value creating capabilities and customer segments is very important to create, and sustain a competitive advantage (Porter, 1985).

FINANCIAL ASPECTS

Cost structure: An important aspect of the value creation process is the requirement that the cost of the value created should not exceed the revenue (Porter, 1985). Therefore the cost of the value creation process should be well monitored and specified to be able to assign costs to specific activities (Osterwalder, 2004). With this cost specification, cost management can be maintained in the company.

Revenue streams: The primary goal of a company is to generate as much revenue as possible. This revenue can be generated from different sources. These different sources of revenue have to be described and monitored to also provide an insight into the financial consequence of specific decisions.

Cash flow: Loeffen (2011) added a third component to the finance part called cash flow. Reason for this addition is that the importance of cash flow in small and medium sized companies is overlooked in business model literature while cash flow shortage is one of the main reasons of smaller company failure, which we already showed in the introduction. This is due to the fact that revenues often imply a long term view, while cash flow is more a short-term aspect and therefore an important reason for failure of SMEs with limited resources. We use the model with the added cash flow because of our interest in the financial part of the business model. Credit management being an integral part of cash management, is part of the cash flow element.

In summary, business models consists of four interlocking elements that taken together create and deliver value. The internal processes of the business model guides the day to day execution of the external views and goals of the company; the business strategy. The dynamics belonging to these internal and external views are discussed in chapter 2.5 where the business model is discussed in relation with the strategic focus and the asset configuration of a company.

2.3 STRATEGIC FOCUS

It is very important for companies to differentiate from competitors by creating a competitive advantage. In the previous part we described the business model framework which is important because it creates insight into the internal processes. Regarding credit management it is important to know the internal processes and to assess the limits and
threats that come from the environment. In this part we describe strategic focuses, also known as value disciplines. It is important to have a clear strategic focus for SME cash management in a B2B environment. The company needs to assess possible risks to assess and mitigate the risk of cash and credit problems. Increased competition due to globalization may trigger risk taking by SME companies.

We will elaborate on an extended version of the strategic focus model (Treacy & Wiersma, 1992). The strategic focuses are related to competition, while business models are focused on the processes in the organization. Osterwalder (2004) stated that a business model acts as some kind of glue between business strategy and processes. The strategic focuses and business models are tailored for large companies, therefore Dresmé (2011), Loeffen (2011) and van Asten (2011) provided more insight into SMEs, their strategic focuses and their business models by case analyses.

Strategic focus is important for a company because by having a strategic focus a company is able to align the internal processes with the external environment. This alignment can be very important with regard to cash management, since a large part of SME capital is related to accounts receivable. Companies with different strategic focuses have different customer bases. Credit management practices which fit a certain strategic focus do not have to fit with another strategic focus. Therefore it can be important to know which strategic focus a company follows to optimize their credit management practices. With the alignment of the internal processes with the environment the company is able to strengthen its organizational effectiveness. We will now discuss organizational effectiveness by using the competing value framework (CVF).

### 2.3.1 Competing Value Framework

It is important to know the difference between organizational effectiveness and organizational efficiency. Efficiency concerns how well resources suit a purpose, while effectiveness is related to using the resources for the right purpose. Effectiveness is a widely used construct in literature. Quinn & Rohrbaugh (1983) have derived the competing value framework (CVF) in a study on organizational effectiveness. The framework combines the internal structure of a company with the focus of a company in connection to its goals (Yu, 2009). The framework consists of several effectiveness dimensions, of which focus and structure will be explained. The focus dimension differentiates from an internal focus to an external focus, internal has a micro emphasis, looks inside the organization, external has a macro emphasis, and looks at the organization’s place and development in the environment. The structure dimension of the organization is differentiated from flexibility, or change, to control, or stability.
Figure 2 shows the framework with 4 strategic focus areas: product leadership, customer intimacy, operational excellence and resource enrichment. Three of these strategic focus areas are taken from Treacy & Wiersma (1992). Resource enrichment is mostly derived from Gerstberger (2007).

**PRODUCT LEADERSHIP**

This strategic term is derived from the value disciplines of Treacy & Wiersema (1992) and is also known as the differentiation generic strategy (Porter, 1980). This strategic area emphasizes state of the art products and services, creativity, quick product launches, business and management processes which are engineered for speed and continuous improvement of new products. The uniqueness of the product or service can be expressed in dimensions like design, image, technology, features, customer service, or dealer network. The characteristics are in line with the open system model in which flexibility and readiness should lead to growth and resource acquisition (Quinn & Rohrbaugh, 1983). This type of organization should emphasize a flexible structure and an external focus. The use of complementors or customer intimacy related activities to increase sales and market share are important (van Asten, 2011). Schneider & Schneider (2007) further speak of standard setter leadership which shows the importance of visionary leadership. Hardjono (1995) further emphasizes seeing sales opportunities, risk taking and lateral thinking. The total quality management factors which are part of this area are creating new standards, creative solution finding, continuous improvement, anticipate needs and surprise and delight (Cameron & Quinn, 1999). The culture which fits best in this area is the adhocracy culture.
This culture is like a temporary institution, which is dismissed whenever the organizational tasks are ended, and reloaded rapidly whenever new tasks emerge (Cameron & Quinn, 1999; Yu, 2009).

CUSTOMER INTIMACY

This strategic area is characterized by the rational goal model (Quinn & Rohrbaugh, 1983). Planning and goal setting should lead to productivity and efficiency. This type of organization has an external focus and a structure which emphasizes control. The term is again derived from Treacy & Wiersema (1992). They emphasize customer loyalty, customer lifetime value, the fine definition of a customer segment and the process which is inferior to customer requirements. It can be compared partly with the generic focus strategy (Porter, 1980) because of the scope which is focused on a particular segment. According Hardjono (1995), the management orientation is effectiveness and emphasizes selling, setting goals and generating revenue. Gerstberger (2007) further explains the area by total solution, the relationship with the customer, high demand for co-involvement and incremental step by step customer relationships. In this area the leadership style should be participative which includes teambuilding, coaching and building trust (Gerstberger, 2007; Schneider & Schneider, 2007). The total quality management factors which play a dominant role in this area are measuring customer preferences, improving productivity, enhancing competitiveness, involving customers and suppliers and creating partnerships (Cameron & Quinn, 1999). Business relations need to be used to access the latest technologies applicable to the niche and for increasing flexibility; not becoming too dependent on some large customers (van Asten, 2011). Organizations which are active in this strategic area should have a market culture. This culture focuses on the transactions with the environment outside the organization instead of on the internal management. The organizational goal is to earn profits through market competition (Cameron & Quinn, 1999; Yu, 2009).

OPERATIONAL EXCELLENCE

This strategic term is derived from Treacy & Wiersema (1992) and is also known as the cost leadership generic strategy (Porter, 1980). This strategic area emphasizes to minimize overhead costs, reduce transaction costs, optimize business processes, eliminate intermediate production steps, and make operations lean and efficient. The emphasis within this focus area is on the process and is in line with the internal process model in which information management and communication leads to stability and control (Quinn & Rohrbaugh, 1983). Organizations with such a strategy should have a structure which emphasizes control and an internal focus. The control function is further translated in Total Quality Management factors in the focus area by Cameron & Quinn, (1999). They emphasize error detection, measurement, process control, applying quality tools and systematic problem solving. Business relations are used to improve process efficiency and to enhance
human resource flexibility (van Asten, 2011). Directive leadership is most appropriate in this area (Schneider & Schneider, 2007). This leadership style is characterized by the authoritative, conservative, assertive, commanding style. The strategic area is recognized by its hierarchy culture. This culture is characterized by its clear structure, standardized rules and procedures, strict control and well defined responsibilities (Cameron & Quinn, 1999). In relation to the business model Loeffen (2011) showed that the capabilities block is most important. All other blocks are designed to reinforce the capabilities block. Loeffen (2011) notes that in case of SMEs it is also important to stress the use of suppliers when it comes to controlling costs, not only investments in owned facilities will gain efficiency, the use of structured contracts and strategic relationships with suppliers will also result in lower purchasing prices.

RESOURCE ENRICHMENT

This area is based on the human relations model (Quinn & Rohrbaugh, 1983). In this model cohesion and morale should lead to human resource development. This type of organization has an internal focus and a flexible structure. Products and services are tailored based on specific customer requests. This means that it can be compared to the focus generic strategy (Porter, 1980) with a very narrow market scope. Gerstberger (2007) emphasizes the growth of the customer, fuller realization of potential and further realization of ideals, values which are from a higher order purpose. Hardjono (1995) speaks about a management orientation on flexibility in which redesigning processes and group development are of high importance. The business relations are used to acquire projects and to remain flexible regarding capacity in human resources (van Asten, 2011). The leadership style which fits this area best is a charismatic one, because of the commitment and trust building characteristics (Gerstberger, 2007). The culture which aligns with this area is named a clan culture (Cameron & Quinn, 1999; Yu, 2009). This culture is full of shared values and common goals, an atmosphere of collectivity and mutual help, and an emphasis on empowerment and employee evolvement (Yu, 2009).

In this part we have described a way to look at the strategic focus a company can choose. These strategic focuses were designed for large companies. Dresmé (2011) and van Asten (2011) found that strategic focus at SMEs for a large part resemble the model described by Treacy and Wiersema (1992). The most important difference they found was that within all strategic focuses there still was an emphasis on (customer) relations. While in large companies this is found foremost in companies using the customer intimacy focus. This is related to the role of the entrepreneur, which is the key player in an SME. Berger and Udell (2006) saw that social capital and trust may be important. The reputation of the company is part of the social capital, it gives status in the network. The entrepreneur in this way creates and uses social capital to compensate for the lack of control of the environment (Man and Chan, 2002).
In this part the concept asset configuration will be shortly explained. The asset configuration of a company consists of four different assets. The strategic focus areas and the different assets are related to each other. One of the assets, the material assets, is related to the business model. The business model optimizes the cash flow, which is part of the material assets. Therefore we add this topic to this report, with it we can relate the business models, which help us understanding the internal processes, to the strategic focuses which describe how to deal with the environment. Hardjono (1995) described four different assets. The material, commercial, socialization and intellectual assets. These assets are derived from Hardjono (1995), he describes these as:

**Material assets:** These are described as the tangible resources an organization possesses or controls. The change in cash-flow or profit on the balance sheet, reflect the growth rate of this competence.

**Commercial assets:** Refers to the ability to have access and to act on markets and the skill to execute commercial transactions. It is also understood as “goodwill”.

**Socialization assets:** This competence represents the development as a group and acting as a group. It can be measured in the presence of clear goals, understood and accepted hierarchy, organizational cohesion and entrepreneurship. This competence refers to the way the company develops itself as a unique entity.

**Intellectual assets:** This competence reflects to the learning capability of organizations and the capacity, which is based on the collective intellect of the members of organizations.

For different companies different combinations of these assets are ideal. Hardjono (1995) argues that a company needs to shift their focus in the right order to increase total competencies in a continuous process of exchanging one asset to another. He argued that three types of forces are recognized which decide when a company should move focus. These are market circumstances, exhausting the possibilities for growth of the basic core competencies and even danger of reaching the border after which the company will fall in excesses. Effectiveness falls into marketing myopia, efficiency falls into bureaucracy, flexibility will fall into anarchy and creativity will fall into hobbyism. Loeffen (2011) found that this is not the case in SMEs. He found that each strategy resulted in a focused center of gravity within the configuration of the business model or internal process of the organization. For a company striving for operational excellence the capabilities of the organization is central in the internal process, all other processes are there to comply and
enhance the competitive advantage of the company. Companies that act as product leaders in the market should focus on proposing the best value for the customer and all other facets in the company are aimed at reaching this best proposition. For organizations operating in resource enrichment the configuration of value is most important, here the company combines all facets to deliver the unique customized solution to the customer. Finally, customer relationship is vital in an organization that pursues the customer intimacy strategic focus.

These assets will be used while relating the strategic focuses and the business models. Since this research involves cash management we can say that the material assets are most important for this research. But the other assets are interchangeable and can be the reason for the added value in a company. Especially in the B2B environment the other assets can be of use reducing risks, gaining customers or developing new products or services. In the introduction we saw that SME face large risks concerning their cash position, it is therefore important to look which combination of assets is optimal in reducing these risks. Within each strategic focus a different mix of assets will be optimal, the same stands for the business models.

2.5 INTEGRATION OF STRATEGIC FOCUS, BUSINESS MODEL AND ASSET CONFIGURATION

After the general description of strategic focus, business models and asset configuration we now will combine different aspects of these views with a link to credit management. Per strategic focus we will shortly describe the related aspects of business models, asset configuration and credit management of SMEs in a B2B environment.

PRODUCT LEADERSHIP

This strategic area emphasizes state of the art products and services, creativity, quick product launches, business and management processes which are engineered for speed and continuous improvement of new products. This type of organization should emphasize a flexible structure and an external focus to make sure that their products will be first on the market. In this way they ensure their market share, which in turn will strengthen the cash flow. The use of complementors or customer intimacy related activities to increase sales and market share are important (van Asten, 2011). With customer intimacy the company is also able to receive more information about debtors with which better credit assessments of customers are possible. Schneider & Schneider (2007) further speak of standard setter leadership which shows the importance of visionary leadership. Hardjono (1995) further emphasizes seeing sales opportunities, risk taking and lateral thinking. Risk taking can have a negative effect on the liquidity of the company, their credit management should be more strict because of these higher risks. The total quality management factors which are part of
this area are creating new standards, creative solution finding, continuous improvement, anticipate needs and surprise and delight (Cameron & Quinn, 1999).

**Business model focus:** Loeffen (2011) saw that the business model configuration should emphasize on the value proposition. Product leaders are externally oriented, which means the focus lies on the value capturing aspect of the business model, so on the product offering. The company needs a close relationship with their customers in order to enhance market knowledge and finding opportunities. To maintain and improve the close relationship with the customer regular meetings are necessary. With this close relationship the company is able to gather more information on the credit status of the customer and other players in the market, the company should be able to minimize risks with this information. Customers of product leaders are first movers or early adopters’ organizations that want to stay ahead of the competition. Because of this the company is able to set strict payment terms, since the customers really need the product.

**Asset configuration:** Within the asset configuration of a product leader the emphasis lays on the intellectual assets of the organization. Without these assets on new knowledge or skill creation and the organizational readiness to cope with continuous innovations and the creativity in finding new customers would be useless. But Loeffen (2011) states that without the necessary socialization and commercial assets the outstanding presence of intellectual assets is useless. So the socialization assets reinforce the intellectual assets and the overall competitive advantage of the company.

**Credit management:** Key aspects in the product leadership environment are flexibility and external focus. Staying ahead of competitors may involve taking more risks and requires a close relation with customers. This close relation could be used by the company to obtain credit information about customers and suppliers. The latter may contribute to the optimization of credit management practices. The risks that product leaders take are high, they require big investments and can have a negative effect on the liquidity of the company. The use of proper management practices therefore is an important aspect to minimize these risks where possible.

**CUSTOMER INTIMACY**

This type of organization has an external focus and a structure which emphasizes control. Planning and goal setting should lead to productivity and efficiency. They emphasize customer loyalty, customer lifetime value, the fine definition of a customer segment and the process which is inferior to customer requirements. The total quality management factors which play a dominant role in this area are measuring customer preferences, improving productivity, enhancing competitiveness, involving customers and suppliers and creating partnerships (Cameron & Quinn, 1999). Organizations which are active in this strategic area should have a market culture. This culture focuses on the transactions with the environment
outside the organization instead of on the internal management. The organizational goal is to earn profits through market competition (Cameron & Quinn, 1999; Yu, 2009).

**Business model:** Loeffen (2011) saw that the business model configuration should emphasize on the customer relationship due to its external focus. All other building blocks of the business model should be used to strengthen the customer relationship. This strengthening of relationships can be done by co-development or advising the customer, building customer loyalty and by having regular meetings with the customer to improve trust and constantly trying to improve products or services to the demand of the customer. Companies with a customer intimacy focus can learn what problems arise at customers and can find solutions to help the customers and strengthen the relationship.

**Asset configuration:** the commercial assets are seen as most important (Loeffen, 2011). The skills needed to generate new customers and to make customers more dependent on the product are commercial tasks. The processes in the organization are inferior to the requirements of the customer. Operating in a niche market make intellectual assets also of importance to realize custom made solutions.

**Credit management:** Key aspects in customer intimacy are flexibility and control. A part of the control consists of gaining knowledge on customers. By creating partnerships a company is able to share the risks that come with certain decisions. Staying ahead of competitors requires a close relation with the customer which may be beneficial for credit management control, since more credit information on customers and suppliers can be obtained. The central place the customer has in the business model can be regarded as taking more risks concerning credit management. The wishes of the customer are very important which could result in a lack of attention for their credit status.

**OPERATIONAL EXCELLENCE**

This strategic area emphasizes to minimize overhead costs, reduce transaction costs, optimize business processes, eliminate intermediate production steps, and make operations lean and efficient. Organizations with such a strategy should have a structure which emphasizes control and an internal focus. Business relations are used to improve process efficiency and to enhance human resource flexibility (van Asten, 2011). The strategic area is recognized by its hierarchy culture. This culture is characterized by its clear structure, standardized rules and procedures, strict control and well defined responsibilities (Cameron & Quinn, 1999).

**Business model:** In relation to the business model Loeffen (2011) showed that the capabilities block is most important. All other blocks are designed to reinforce the capabilities block. Loeffen (2011) notes that in case of SMEs it is also important to stress the use of suppliers when it comes to controlling costs, not only investments in owned facilities.
will gain efficiency, the use of structured contracts and strategic relationships with suppliers will also result in lower purchasing prices.

**Asset configuration:** Material assets are leading in the operational excellence strategic focus. The commercial assets are also of importance because the routines of the company should be well known in the market to get new orders (Loeffen, 2011).

**Credit management:** Key aspects in operational excellence are control and internal focus. Focus on internal processes including cash management is an integral part of operational excellence. The use of structured contracts and strategic relations reduces the credit risks a company faces. By using standardized rules and procedures the company is also able to create more insight into and mitigate their risks.

**RESOURCE ENRICHMENT**

In this model cohesion and morale should lead to human resource development. This type of organization has an internal focus and a flexible structure. Products and services are tailored based on specific customer requests. The business relations are used to acquire projects and to remain flexible regarding capacity in human resources (van Asten, 2011). The leadership style which fits this area best is a charismatic one, because of the commitment and trust building characteristics (Gerstberger, 2007).

**Business model:** companies that focus on resource enrichment focus on the value configuration block of the business model framework. The added value of the organization is the unique offering of a custom made total solution for the customer (Loeffen, 2011). Companies make use of customer involvement to come to an ideal and unique solution.

**Asset configuration:** the socialization assets are most important for companies with the resource enrichment strategic focus. The organization must have strong organizational goals and the employees should all contribute to reaching these objectives (Loeffen, 2011).

**Credit management:** Key aspects in resource enrichment are flexibility and internal focus. Both aspects involve risks with respect to credit management, since being more flexible comes with having to take more risk and internal focus can result in a lack of credit information on customers. The company should implement proper credit management practices to minimize the risks that come with their flexibility and internal focus. The company should find a balance between helping the customer and reducing their credit risks.

**GENERAL REMARKS**

Van Asten (2011) saw that all four strategic focuses used in SMEs also make use of their business relations. The use of business relations can be seen as partially implementing a customer intimacy approach, since they try to gain competitiveness by maintaining a good
relation with the customer. SMEs use their entrepreneurial capital to gain assets they do not have from companies in their environment. Since the company is not able to control the environment (Carson et al., 1995) the entrepreneur needs to fulfill his role as outside asset manager (Dresmé, 2011).

Dresmé (2011) found that SME managers in all strategic focus areas have a focus on the reputation of their company. They feel a good reputation provides good performance in the long run. The reputation can make customers place more orders and new customers can be attracted because of the reputation. SMEs are also able to gain cost benefits like supply discounts with their reputation.

2.5.1 RESEARCH QUESTION

In the introduction the following sub research question was provided:

What are the characteristics of SMEs?

By first describing the differences between SMEs and large companies, followed by different models and frameworks regarding the way SMEs deals with the internal and external stakeholders and processes, we have given the characteristics of SMEs.
Managing cash-flow and the cash conversion cycle is a critical component of the overall financial management for all firms (Dodge et al., 1994) and particularly small firms who are often more reliant on short-term sources of finance. For SMEs it is more difficult to obtain finance through credit institutions (Garcia-Teruel & Martinez-Solano, 2010). The vast bulk of B2B sales are made on credit terms making trade credit a particularly important source of funding for smaller companies (Peel et al. 2000). The stocks and flows of trade credit are typically twice the size of those for bank credit and may represent 30-35% of the total assets on the balance sheet (Peel et al. 2000). For small firms, supplying and financing trade credit and managing trade debt, can cause cash-flow/financing difficulties. Just as it is important to manage production, sales and stock, it is important to manage credit.

The trade credit situation is not the same in all regions. Garcia-Teruel and Martinez-Solano (2010) saw differences on accounts receivable and payable among different European countries. These differences were caused by the terms of payment that differ between countries, but also by the different financial market structures across nations. This is especially important for companies that operate in different countries.

Credit management solutions for large companies have already been developed. As SMEs have less funds, they have to make choices allocating their capital. Choices that come with the scarcity result in lack of support for hiring credit management specialists. Professional credit management is also not part of the strategy, entrepreneurs do not see the importance of having expertise in house (Man et al., 2002). As we have seen in the strategic focus part, many SMEs try to use a form of customer intimacy to make sure their customers pay and to bring in new customers, this is their credit management practice. The professional credit management function is often not considered a core activity and is thus not resourced as a core competency (Paul and Boden, 2008).

SMEs do not use professional credit management solutions because there are no dedicated solutions available. The solutions that are offered vary from IT-tool to create insight in debtors, credit insurances, credit information, factoring, etc. These tools and solutions are mostly tailored for large companies. The main reason for entrepreneurs to neglect these tools and services are the costs and the time they would have to invest (Peel et al. 2000). Entrepreneurs do not want to spend large amounts of money on aspects that in their view are not part of the main process. Also entrepreneurs feel that the tools and services do not have much to offer (Vaaland and Heide, 2007), they have their own view on credit management in which they mainly focus on having a good relation with the customer.
There are professional credit management organizations which offer their help with credit management. SMEs are reluctant to involve professional credit management organizations. The general opinion is that they have not much to offer and are expensive. It is clear that most entrepreneurs do not see the need for professional credit management. Howorth and Westhead (2003) mention that small firm managers require powerful evidence of benefits of credit management to convince them of investing time in professional credit management use and training. SME entrepreneurs think that they are already handling their debtors adequately.

Offering trade credit does much more than simply finance customers inventories. With the offering of trade credit a company can reduce information asymmetries and transaction costs, offer sellers a more flexible approach to pricing, work as financing instrument and be an important competitive and strategic tool for capturing new business and building and maintaining long-term relationships. (Paul & Boden, 2008)

In chapter 2 we have seen that SMEs take more risks. The absence of good credit management is for many entrepreneurs a risk they are willing to take. They feel that the costs and the time that has to be invested, involved with professional credit management can be allocated to other more essential parts of the company. They also think that having a good customer relation is the best credit management practice for their company. Not much is written in the literature regarding credit management at SMEs, therefore it seems useful to create more insight into the current situation. We would also like to know more about credit management, which will be the next topic to discuss.
Now it is clear what makes SMEs special, we would like to introduce the topic credit management. Within cash management in SMEs credit management plays a vital role, since a large part of their capital is invested in debtors. An entrepreneur is responsible for the financial status of the company, and as mentioned before is a key figure in the company. He is the person in an SME to decide in what way credit management is in place in the organization. We will start this part by introducing financial strategies that the entrepreneur has to develop, followed by an introduction into trade credit, after which we will look into credit management for large companies and what already is seen in practice to end this part with SME credit management.

### 3.1 Financial Strategies

Kaplan & Norton (2000) have written about financial strategies and their importance. An entrepreneur constantly needs to focus on improving his company. One way to improve the company is by making sure that it is financially solid. Kaplan & Norton (2000) state that companies have two basic starting points for their financial strategies. These are the productivity perspective and the revenue growth perspective. They think that a company needs to balance their strategies to ensure short as well as long-term goals, with an emphasis on the revenue growth perspective.

The revenue growth perspective specifically focuses on the growth by revenue from new markets, new products, new customers; and increase value to existing customers by deepening relationships through expanded sales. The productivity perspective focuses on improving the business by upgrading productivity, the company needs to earn more money using the same resources.

So the entrepreneur needs to look at the gains from two sides. At one side he looks at the process continuation, which can be expressed in a monetary quantity needed (tangible resources). Also he needs to look at the growth objectives, which are related to social, commercial and intellectual assets (Hardjono, 1995). These assets are needed to gain revenue from new product/market combinations as explained from the revenue growth perspective (intangible resources). These resources don’t have to be expressed in a monetary quantity, and are constantly interacting with one and each other.

Those tangible (or intangible) assets that are tied semi-permanently to the firm are also regarded as resources .(Maijoor & Witteloostuijn, 1996). Resources and capabilities of a company are widely discussed in literature. Examples of such resources are: brand names, in-house knowledge of technology, skilled personnel, trade contracts, efficient procedures, etc. (Wernerfelt, 1984). In the early contributions, there was no explicit distinction between resources and capabilities. According to Amit & Schoemaker (1993), however, resources are...
assets that either are owned or controlled by a firm, whereas capabilities refer to its ability to exploit and combine resources, through organizational routines in order to accomplish its targets. In addition, Collis (1994) described capabilities as the socially complex procedures that determine the efficiency with which organizations are able to transform inputs into outputs. More recently, Teece et al. (1997) offered a comprehensive framework of dynamic capabilities that reflect a firm's ability to achieve new and innovative forms of competitive advantage. These encompass organizational and managerial processes (i.e., coordination/integration, learning and reconfiguration), specific asset positions (i.e., technological, financial, reputational etc. assets) and path dependencies (i.e., the firm's history).

Credit management is a way to ensure that enough cash is available for survival of the company and to achieve goals. To ensure a good liquidity position, it is important to take the operating cash flow into account.

![Operating Cashflow Cycle](Verdaasdonk)

The operating cash flow, shown in figure 3, is directly related to the activities of the company. The operating cash flow looks at activities that concern suppliers as well as buyers. So cash flow management should concern the value added processes of the organization. Also by using cash flow management companies should make sure that enough cash will be available at all time. By implementing credit management they will be able to monitor their days of sales outstanding, which can have a positive influence on the cash position. Credit management is important to maintain a healthy liquidity position. Credit management needs to be part of the financial strategy because a large part of SME cash is found in accounts receivable or can be extracted from accounts payable. In the next part we will explain the reasons for credit management by first introducing trade credit.
3.2 TRADE CREDIT

Credit management concerns managing the debtors and in many cases also the creditors a company has. Many companies work with trade credit, in this part we introduce trade credit and will try to describe its importance. The term Credit comes from the Latin word Credere which stands for believe or trust. The way it is used nowadays has a link to believe and trust because in case of credit the receiving party does not have to pay immediately for the goods or services (Sullivan, 2003). In the B2B environment this also is known as Trade Credit or accounts receivable. Trade credit is usually only given in the B2B environment. In the business to consumer environment direct payment is usually mandatory. Therefore this study has a focus on SMEs in the B2B environment.

Peel et al. (2000) noted that an important aspect of trade credit is the two-way nature of the transaction. Companies at the intermediate points in the value chain are suppliers as well as customers of trade credit, therefore it is important for them to manage their net trade position.

Companies offer trade credit because it can favor the company’s sales in several different ways. Trade credit can act as an effective price cut (Garcia-Teruel and Martinez-Solano, 2007; Petersen and Rajan, 1997), it incentivizes customers to acquire merchandise at times of low demand (Garcia-Teruel and Martinez-Solano, 2007; Emery, 1987), it allows customers to check that the merchandise they receive is as agreed and to ensure that the services that are contracted are carried out (Garcia-Teruel and Martinez-Solano, 2007) and it helps firms to strengthen long-term relationships with their customers (Garcia-Teruel and Martinez-Solano, 2007; Ng et al. 1999).

Trade credit can also have a negative influence on a company. Boissay (2007) asked US companies what their reason was for going for bankruptcy. Out of this he got that the major cause for bankruptcy of companies was the lack of payment of trade credit. Wells (2004) saw that trade credit is seldom considered as a discrete asset, so little attempt is made to extract its maximum value contribution.

A view on the former usage of trade credit is that many companies see trade credit as a historical practice that has been there for a long time, they think that because of its long existence nobody questions its extension or efficiency. However, since trade credit within SMEs exists of accounts receivable and accounts payable it is useful to question the way SMEs deal with maintaining a good cash position and with making sure that all outstanding credit will be paid. In the next chapters credit management will be further introduced, and the importance will be explained.
Trade credit is provided by many companies, but involves a non-payment risk reducing the available cash on hand. Therefore many companies implemented a form of credit management. They implemented this because they acknowledge the importance of liquidity, of having cash or financial resources to continue their operational processes.

We also have seen the acknowledgement of having cash in the described business model framework. This framework is useful to gain more understanding into the internal processes of a company. We saw that the assets proposed by Hardjono (1995) need to be configured in an optimal way for each strategic focus to minimize risks and to optimize the business processes.

Credit management is part of the financial strategy a company has, which in turn is part of the unique business model of the company. As a part of the business model the application of credit management is of importance for the survival of a company. Paul and Boden (2008) found that credit management is important as a research topic because of the following four reasons.

- Trade credit is greater in volume than short term bank credit in nearly all developing and industrialized countries
- Trade credit is macro economically significant by virtue of its size
- Despite the size and significance, trade credit is virtually unregulated, it is largely informal, it has grown organically and has low visibility
- The sizeable and unregulated form of credit represents a significant cash-flow risk for suppliers through late or non-payment.

Credit management needs to assess the risks and the potentials to come to an optimal level which is good for the company in the short and long run. For most companies current liabilities are one of the main sources of external finance (Garcia and Martinez, 2007).

Credit is also used as bargaining power and for customer relations. Large or other important customers are able to influence the companies decision making by trying to get beneficial payment terms. By offering credit the company is able to attract specific customers and create additional sales (Berryman, 1983; van Caillie and Arnould, 2001; van Weele 2008), which is also important for the continuation of the company.
Credit management in a company can exist using instruments like factoring, credit insurance and IT-solutions. But performing a credit check for new customers is also seen as credit management, which will be described further in subsequent chapters.
3.4 CREDIT MANAGEMENT STANDARDS FOR LARGE COMPANIES

Solutions for large companies have been derived from best practices. These best practices are distributed and applied by credit management professionals. In this part we will describe some of these best practices while taking SME characteristics into account. A description of the credit management approach is given in the next chapters.

3.4.1 MINIMUM REQUIREMENTS FOR CREDIT MANAGEMENT

Schneider-Maessen (2007) has defined minimum requirements for good credit management. The assessment of risks and potentials needs to be standardized as far as possible to make sure that everyone responsible for the handling of a customer knows what the do’s and don’ts are. At the organizational structure credit management shall function independent from sales. In chapter 2 we already described that in SMEs the entrepreneur in most cases is responsible for sales as well as accounts receivable, so this cannot be implemented in SMEs. SME entrepreneurs are responsible for all processes in the company and needs to take care of the outside stakeholders. This results in suboptimal operation. The credit management shall be integrated in the operative tasks, starting with the contractual agreements with customers. Companies shall regularly determine and evaluate measurable, comprehensible and comparable credit management performance indicators. The minimum requirements for the processes in a company are the basis for defining organizations, procedures and protocols and shall be documented. The credit management approach and system shall to be checked on a regular bases and if necessary it will be adjusted. The processes and procedures needs to be available to all persons involved, who shall be familiar with it. But the entrepreneur has a focus on the core business. He will only move his focus when the core business is in danger. He works proactive instead of reactive and receives little feedback from his environment. It will be hard to implement these requirements in SMEs.

Each new customer will be subject to a timely executed, well documented Credit Risk assessment. To assure the solvency of the customers his position will be monitored permanently followed by adequate reactions. Again the entrepreneur does not see this as his core business and therefore is not willing to continuously assess the credit position of the customer. Instead of this proactive way of dealing with the customers’ credit position the entrepreneur works in a reactive way, which makes the company more vulnerable to late or lacking payments. Also the payment terms and conditions need to be clearly arranged, monitored continuously and in case of a delayed /lacking payments measures need to be predefined and clear to the customer.
Skiera et al. (2004), Rooyaards (2002) and Weiβ (2008) all defined credit assessment approaches complying with the minimum requirements. Most views focus solely on the financial aspects that come with a customer. Other gains for the company's asset configuration that a customer can give are not taken into account in most assessment approaches.

The ABC-analysis segments the customers in three demand based groups. So if the demand of the customer is big, they will receive a better credit status. A disadvantage of this way of assessing is that the size of demand of a customer does not mean that this customer also helps to gain a bigger profit. (Skiera et al., 2004)

Profitability analysis is a second way of assessing customers credit status. This is a better tool than the ABC-analysis. But the tool looks at figures from the past to calculate the profitability, because of this the potential for the future is not taken into account. (Skiera et al., 2004)

The future potential of the customer is the third bases to evaluate the customers' credit status. It is however very expensive and time consuming to calculate this future potential. (Skiera et al., 2004) We have identified that SMEs are not willing to invest a large amount of time or money into their credit management practices.

A fourth way of assessing is by using scoring. Next to profit analysis more aspects of the potential client are being reviewed, for example the length of the relationship with the customer, technology affinity or the potential collaboration regarding information from both companies. Finally, the company could choose to use the customer lifetime value. Using customer lifetime value the company calculates the expected sales to the customer and profit coming from the customer during the relation between the companies. All future cash flows need to be adjusted for price changes in the future, there lies the threat for using this tool, if it is not adjusted right, a wrong customer lifetime value will come out. Next to that this also is a very time and money consuming process (Skiera et al., 2004), so we again do not expect that SMEs are willing to work in this way.

Royaards (2002) chooses another dimension by relating the return/profit per customer(group) to the actual outstanding debt of the customer. The outstanding debt relates to the number of months that the company agreed to postpone the payment. Royaards calls this asset management because the company-policy is related to the Return On Investment (ROI)-thinking. The investment in a customer can be complemented with work in progress and/or a specific stock formation that is being held. This view goes together with the customer-focused approach and shows which part of the clients subsidizes other customers. With this assessment the company gets an insight into the construction of
profit of each customer, but for the total customer base as well. The customer-focused method with a relation to the return on investment seems to fit SMEs better. It fits the more customer focused view of the entrepreneur and also fits better with the entrepreneurs focus on the core business. Since it is purely financial, it does not look at the other gains that can come from a customer.

Weiβ (2008) explained another way of assessing the situation of a customer. His assessment is based on financial statements, the most important information source for this credit check. These financial statements are made public in the business register and are available for analysis by credit management. From the financial statements negative characteristics can be gained fairly easily, the costs of this are low. Weiβ (2008) proposed to look at the negative equity, net losses, earlier losses and inadequate cash flow realizations. Next to that the liabilities of the creditor need to be checked to see what level of financial commitment the creditor has. Next Weiβ (2008) also points out that key figure evaluation can be used. This can be done in house or can be outsourced to rating agencies. The advantage of outsourcing is that the external companies use default probabilities for their ratings and provide statistical reliable indicator systems. A disadvantage is the cost of hiring this expertise.

3.4.3 CREDIT RISK ASSESSMENT BY BANKS

Just as SMEs need to assess the risks that are involved with the application of credit to customers, banks assess the credit status of companies whenever they apply for a loan. Since banks have specialized models to assess these risks it could be useful to look at their credit risk assessment and the way it can be used in SMEs. The Basel II accord, which was introduced earlier, not only forces banks to have more capital reserves, it also gives banks more responsibility regarding SME risk ratings. Unlike previous regulations, the rules of Basel II will make the size of the required buffer capital contingent on their own appraisal of ex-ante individual counterpart risk. This is in the accord because small business loans are generally found to be less sensitive to systematic risk (Jacobson et al. 2005).

Some credit assessments in standardized approach refer to unrated assessment. Basel II also encourages banks to initiate internal-ratings based (IRB) approach for measuring credit risks. Banks are expected to be more capable of adopting more sophisticated techniques in credit risk management. Banks can determine their own estimation for some components of risk measure: the probability of default, loss given default, exposure at default and effective maturity.
3.5 CREDIT MANAGEMENT PRACTICE

Skiera et al (2004) have combined three recent developments for good credit management in practice.

The first development is that companies make more use of supply chain management nowadays. The second development consist of value based management. The third development is that companies are more customer oriented. By combining these three developments Skiera et al. (2004) describe where in the financial supply chain customer analysis is used, and they are able to describe the influence of customers on the different steps in the process.

3.5.1 SUPPLY CHAIN MANAGEMENT

Figure 4 shows how the financial supply chain and financial supply chain management is imbedded in supply chain management. After the integration of the material and information streams in supply chain management the integration and control of the financial resources comes into play. An integrated view of the material, information and financial flows in supply chain management are crucial for the success of companies. The supply chain describes the logistic system (Purchasing, production, distribution, spare parts and reverse logistics) of a company, this gives us the process specific system shown in figure 3. This logistic view describes the whole resource flow from the purchase of materials, until the sales of the final product.

The financial supply chain lies parallel to the material flows between buyer and seller. They can exist out of interactions between material and financial flows, like a supplier evaluation when choosing a supplier. In this case information out of the Supplier Relationship Management and additional financial information like credit checks are added.
Buyer from a large firm perspective

First the characteristics of the buyer will be described by using van Weele (2008). The purchasing department of the buyer has several tasks and responsibilities. First of all they need to make sure that delivery of products or services are in time and without mistakes. If something goes wrong the company’s process can be disturbed. The second task is to reduce the purchasing costs of the company. Third, they will need to minimize the risk in the supply chain, this means that they need to minimize their strategic vulnerability on the purchasing markets. The company should not depend on one single supplier because of dependency problems. Finally the buyer wants the supplier to contribute to product and process innovation. To cope with the high development speed it can be an advantage to develop together with the supplier. This also cuts the costs and makes sure that a better relationship between supplier and buyer is in place. So the managing of this purchasing focuses on the improvement and structuring of the purchase processes within as well as between organizations and their suppliers (van Weele, 2008).

The purchasing policy takes the wishes of the internal departments. To make sure that this is done best as possible, the purchaser needs to work with customer orientation to make sure that the product that is about to be bought is acceptable for the departments that need it. Since purchasing decisions are taken by different people throughout the company a cross functional approach is needed to make sure that everyone is able to get their input in, several different disciplines need to have their say. Finally the purchaser needs to be result oriented. Whenever something is about to be bought he should still look further to look if a lower price or a higher quality is available, he should however always keep the wishes of the user in mind.

In the near future van Weele (2008) states that organizations will need to make choices that regard the following: the primary target group(s), the most important competitors and the most important suppliers. By making the right choices a company is able to create a good position in the market. Most companies choose a focus on the target group by using much marketing. Though recently more companies are focusing on the competition to gain an advantage. Too few companies make good choices regarding their suppliers, this results in less competitive companies.

The buyer tries to get better results with their supplier in the following ways. By reviewing the contract the company gets more certainty about what to expect from a supplier. When there are inconsistencies changes have to be negotiated with the supplier to get the highest quality and the lowest price possible. Eventually a performance contract is the goal, by getting there the company could save 5 up to 10%. The second thing the buyer does, is
making sure that there is much competition between several suppliers. By pre-selecting suppliers with an open mind all suppliers show their best and by having a good procedure to choose the supplier, the buyer is able to choose the best supplier against the most competitive price. A third way of getting better results with the supplier is by simplifying the specifications and improving the relation with the supplier. This can be seen as closing the gap between buyer and supplier. The supplier can almost be seen as a department of the buyers organization.

In several ways the buyer is able to review the performance of the supplier. This is being done at product level, so a check of the quality and the quantity of products. It is also being done at process level, this is connected to the product level, because if the process is good few things go wrong which has a positive effect. Third it can be done at the level of the system of quality assurance, the process can be good, but a look also can be taken at the appliance of the process. Finally it can be reviewed on the level of the company’s system. This is seen as the highest level of research. A focus on the quality of the organization and the quality of the management is in place. After a review of these two the buyer decides if a longer relation with the supplier is wanted. One of the ways to review is the target costing model. This model takes the sales price for the market, reduces this with the necessary margin, the internal costs like staff wages and overhead, after this they are able to calculate a price for purchase per part or per supplier. Another way is to calculate the cost price for the supplier, this price can then be compared to the sales price of the supplier. If the sales price is much higher, the company can negotiate with the supplier for a more reasonable price by using their calculation.

Supplier from a large firm perspective

The supplier has several ways to price his product. The price can be set using the expected demand, the number of competitor suppliers in the market, the expected development in the cost price per product unit, the order volume of the buyer, the importance of the buyer for the supplier and the value of the product for the buyer. An important part of the price setting involves a discounting policy. Buyers can get a discount for paying early, for ordering a large amount, by receiving a bonus at the end of the year for their loyalty, cutting transport and distribution costs, ordering outside of the main season, and a promotional discount of the product (van Weele, 2008). Skarmeas et al. (2008) described the characteristics of suppliers when involved in a relation on the market. They state that suppliers can engender greater customer retention (Skarmeas et al., 2008; Hewett, Money, & Sharma, 2002), serve as a pool of new leads, ideas and experiences (Skarmeas et al., 2008; Anderson & Narus, 1991), and facilitate enhanced operational planning (Skarmeas et al., 2008; Han et al., 1993). Next to this they mention that a high quality relationship between supplier and buyer can create supply continuity and make sure that the risks involved for the supplier are smaller. The suppliers would like to have buyers that buy more than once, since
this enhances the performance, reduces the costs and increases technical cooperation (Han et al., 1993). By having a good relationship the supplier can make sure that the production and the price can remain at a fairly stable level, the marketing can be more effective, the capacity is better used and there is more customer orientation (Han et al., 1993).

**SME buyer-supplier**

In chapter two we already argued that SMEs differ from large companies, especially because of the position of the entrepreneur. The entrepreneur is responsible for the core business and interacts with the outside stakeholders and manages the development of the asset configuration (Dresmé, 2011). The buyers are outside stakeholders. In chapter 2.3 we introduced the strategic focuses. For each strategic focus a different relation with the buyer is proposed. Within SMEs we see more focus on customer relations no matter what strategic focus is used. The social capital is seen as most important capital, since building networks, creating goodwill with individuals or groups is one of the main determinants for the performance of a company (Dresmé, 2011). Each SME has its own business model, asset configuration and strategic focus. Because of the size of a SME it needs to in source certain assets from buyers and suppliers. In other words SMEs look at their current asset configuration and try to improve it with their relations with customers and suppliers by implementing these aspects into their strategic focus and business model.

**Financial supply chain**

The financial supply chain starts with a qualification process (Skiera et al., 2004), which is done at the start of a new or an existing business relation and is divided into three steps, first a business partner needs to be found, then it needs to be authenticated and finally it needs to be evaluated. The finish of this process has a direct influence on the next process steps. If for example a customer has a low credit rating, this will be translated to a higher sales price or the sales will have to be insured, which also has to be compensated in the price. The SME entrepreneur has a focus on the core business and therefore is less willing to put this much effort into the qualification of a business partner.

The next step in the process involves the financing and with that the sales scope for the different types of credit. In this case the choice for a type of financing (like customer credit) and in many cases the managing of the different forms of credit and the credit history. After this the price setting process starts. This process consists of the price setting and setting the conditions for this price, like discounts and fixed payment and delivery conditions. Through a fully integration of systems a company is able to access all information, for example about the history of payment behavior, or the number of complaints coming from the customer. By accessing this information the company is able to set the price involving as many aspects as possible, which reduces the risk. Especially the fully integrations of systems and the
availability of all information is a problem in SMEs. Because of the suboptimal operation there is not enough time to invest in these systems with which the company is able to optimize their business performance.

Because the credit given for the sale comes with a certain risk, it is important to hedge, or secure, the sale to minimize this risk. The goal of the hedging process is to administrate detailed information about each company. With this information and the price the company can look if the costs of taking care of the risks are at a level which is agreeable.

After the sale is delivered at the customer the bill will be sent. In many cases this is still a hardcopy bill, but in the recent years digital invoices are also used. The billing process is very critical for the processes which it precedes. The invoice needs to be correct and needs to be sent in time. If it is not correct a complaint by the client will be filed and the different departments need to check what went wrong. Because of this the payment will be received later and extra costs will have to be made.

The financial supply chain ends with the payment for the goods or services that are delivered to the customer. This means the release of the money by the customer, the way of payment and a calculation of the money that the customer may receive from the company. The last is important to optimize the cash streams and to minimize the number of transactions, which results in lower costs.

An entrepreneur should gain knowledge of his suppliers and customers in several steps of his financial process. In this way he is able to reduce the risks of lacking payment. Within SMEs we have seen that work many times is done by one or a few persons. The responsibility for customer contact and accounts receivable are in hands of one person. Also it is important to keep in mind that the suppliers and buyers have more power in the supplier-buyer relationship due to the difference in size. Next we would like to know what the current credit management options for SME are.
3.6 Credit Management Risks at SMEs

Too many SMEs still go bankrupt or cease operations each year. In the introduction we already provided bankruptcy figures since the credit crunch of 2007. Now we have more insight into the special characteristics of SMEs, the SME business model framework and the strategic focuses they generally use, we would like to know what risks SMEs have, especially concerning their credit management. SMEs supply trade credit to their business customers which increases the total amount of cash needed in the company. From literature and practice we have defined the following four main risk areas.

- Because of their capital structure SMEs will be the first to encounter problems (van Caillie and Arnould, 2001). SMEs are strongly undercapitalized, due essentially a lack of bank liabilities which reflects both in a high cash flow ratio to total liabilities and in a low level of total debt ratio. Due to a difficult access to short-term bank funding, long-term funds are dedicated to finance first fixed assets, but also need of working capital and cash. In this way SMEs are exposed to more risk. (van Caillie and Arnould, 2001)

- Less professional use of credit management (ING, 2010, Man et al. 2002). The entrepreneur is occupied with daily operational tasks and has a focus on the core business. Only when the core business is in danger or when concrete opportunities arise he will think about moving his focus. Since credit management is not seen as core business entrepreneurs hardly make use of it (Hoevenagel, 2004). There is not enough support and financial opportunities to hire a credit management specialist.

- There is not enough power in the supplier-buyer relationship, which can cause buyers to abuse this position (van Caillie and Arnould, 2001). A company like Unilever is able to force their suppliers to agree with a payment term of 120 days. This has a negative influence on the liquidity position of the SME and brings in more financial risk.

- Control of the company is a problem. In small companies the decisions many times are taken by one person who does not have the expertise needed to take the decision.

Empirical studies have shown that the financial structures of SMEs, in comparison to large firms, are less liquid, exhibit more volatile cash flows and profits, and rely more heavily on short-term debt funding. Also they are more likely to be credit rationed, so financial institutions can restrict the funds to sectors or companies when they are unable to fully evaluate the risk involved (Walker and Petty, 1978; Cosh and Hughes, 1994; Peel et al., 2000).

They are not only more likely to be credit rationed because of their SME structure. In these volatile financial times banks have to live up to the Basel accords. The Basel accords make it
harder for the SMEs to successfully apply for bank credit. This can also be seen in the Intrum Justitia European Payment Index (2010), stating that 52% of their SME respondents within the EU are having problems lending from banks. They have reduced access to credit as banks remain less inclined to extend loans. EIB (2003) notes that in many cases the credit rationing does not have to mean that an SME is not able to get a loan anymore, they state that banks can also overcharge loans, and as a consequence that these financial market imperfections have a negative impact on the growth of SMEs, and due to the large market size of SMEs, the economy at large.

Now we have seen that SMEs bear more risks due to their capital structure, their lack of professional credit management, their weak position in the supplier-buyer relationship and the way the company is controlled. The following sub-question which was given in the introduction has now been answered:

*What are the typical credit management risks in SMEs?*

3.7 SME CREDIT MANAGEMENT

Many credit management solutions are not designed to fit the SME environment. The organizations often do not have the resources to implement tools or make use of services. Many tools do not take into account that many positions in SME are filled in by the same person or the same department, which rules out the control of these functions on each other. In this part we give credit management options for SMEs found in the literature and practice.

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**Possible improvements for small companies**

To overcome problems that can come from the special characteristics of SMEs several policies are proposed.

First Peel et al. (2000) state that the provision of financial and credit management training would have a good impact. Training enforces the awareness into the services and the potential benefits that can come with the usage of credit insurance and factoring and the return to investment in information technology will grow.

Other propositions for better management are the implementation of voluntary codes of practice, the establishment of a ‘better payment practice group’, the compulsory disclosure of payment policies in company accounts, and making sure that legal procedures for the recovery of debt are improved. In the European Union legislation is already in place (EU II), which makes sure that small companies can claim interest payment in case of late payment. In the UK it is seen that this is valued greatly by the small companies, it was seen as most
valuable in the questionnaire of Peel et al. (2000). Still, in this questionnaire, many respondents did not see credit management training as being important for improving business performance. From this statement we can conclude that the respondents were unwilling to take the blame themselves, they are not looking for improvement of their financial management. The outcome of the questionnaire also showed that the size of the company has a positive relation with the amount of credit and financial management in the companies. Smaller companies reviewed the payment periods, painful debts, their discounting policy and the financing of working capital less frequently than larger companies.

Credit management has a focus on customers and suppliers. The way SMEs deal with them also shows us credit management in the company. We have seen before that the relation the company has with customers and suppliers is seen as important. Entrepreneurs feel that by managing the relation they will prevent late or non-payment. Street and Cameron (2007) explored the literature regarding relationships of small businesses. They saw that most literature describes the following dimensions: relationship formation, participation, trust and relationship building and organizational learning. From their review they saw that companies can benefit from an alliance while maintaining independence (Slowinski, Seelig, and Hull 1996), how intermediary institutions can help develop trust between business partners (Davenport, Davies, and Grimes 1999), and how developing cooperative goals within the relationship contributes to developing the business (Tjosvold and Weicker 1993). By using the relationship the entrepreneur can access new resources like materials, machines, financial capital or research and development facilities, referrals, contacts and social support. Because these relationships can be important for SMEs we will also take the relation with customers and suppliers into account.

There are some companies that provide low cost online credit management solutions for SMEs like debtor-online.nl. With such tools SMEs are able to easily import their administration, set different consequences for different customers when payment is not received, keep risk profiles of their customers, start collection procedures, set authorization for their staff and analyze the effort they put into debt collection.

Another online solution is provided by Flinqer.com. Flinqer is a network of companies which flexibly and smartly tune their cash and working capital management, so that they become less dependent on banks. This way, available cash stays within the supply chain and benefits everyone. Some companies allocate excess cash at low return for longer, inflexible terms. Meanwhile, their business partners face high working capital at high cost and dependency. The solution offered by Flinqer concerns flexibly tuning the timing of outstanding payments between business partners at terms that are beneficiary for everyone.
- Companies with cash generate much higher return on excess cash - risk free, while it’s more flexible and short-term than alternatives.

- Companies willing to decrease their working capital get access to cash, seize more control over their cash flow and become less dependent on banks.

This solution stimulates faster payment of outstanding invoices, and therefore faster circulation of cash.

These solutions are only used by a small number of SMEs, but they provide improvements for their credit management practices.

At this moment credit management is mostly neglected in SMEs. This is related to the capital structure of the SME, the scope and influence of the entrepreneur and the lack of credit management products or services. When we look at the standards for large companies we see many aspects with a focus on the division of responsibilities, which is harder in SMEs since there is less staff. Credit management concerns accounts receivable as well as accounts payable, therefore it is useful to look at the way SMEs deal with them and with problems with them. It is important to point out to entrepreneurs that good cash and credit management will improve the survival rate of their company. A change in mentality is needed, but this could also result from the time and money that needs to be spent and that is associated with professional credit management. Also companies see their customers as friends, which makes them less willing to ask for the payment when it is late, while there is no other professional relation (i.e. alliance, etc.).

In this research we would first like to know the current SME credit management practices in the field, since only little research has been done. After establishing a view the next step will consist of creating solutions with expert input.

3.7.1 RESEARCH QUESTION

The following sub-research questions were proposed in the introduction:

*What is credit management?*

*What are current credit management practices of SMEs in a B2B environment?*

In chapter three these questions were answered by offering a credit management description which stands mostly for large companies and by describing the current SME credit management practices and solutions.
4. CONCEPTUAL MODEL

In the previous chapters we introduced models which provide insight into SMEs and Credit Management. In this research an extension of this literature will be necessary, since a lot still is unknown. In the introduction the following main research question was produced:

How to improve credit management of SMEs in a B2B environment?

This main research question was divided into the several sub-questions of which the following were answered in the previous chapters:

What are the characteristics of SMEs?

What is credit management?

What are the typical credit management risks in SMEs?

Two other sub-questions will be answered in the following part. These sub-questions are:

What are current credit management practices of SMEs in a B2B environment?

How could the application of credit management in SMEs in a B2B environment be improved, taking the SME characteristics and current credit management situation into account?

In this part we will provide a conceptual model which will be used as a guideline for this research. The conceptual model can be found in figure 4. The blue blocks, consisting of the entrepreneur, credit management and the liquidity position, are main subjects of interest. The entrepreneur has a very large influence in all SME decisions, he influences the strategic focus, business model, asset configuration and the credit management practices in the company. The strategic focus that the entrepreneur chooses is of influence for the choices within the business model. The asset configuration depends on the chosen strategic focus and business model and is influenced by the entrepreneur. The asset configuration is important when it comes to credit management, an emphasis on different assets can result in different credit management practices. Using the right credit management practices is important to maintain a good liquidity position. In the introduction we showed that many SMEs that go bankrupt because of liquidity problems. To learn more about the background of these problems we would like to know more about the way the SMEs handle their liquidity, we are especially interested in their credit management practices. Furthermore we would like to see if and where there is room for improvement, taking the SME characteristics into account. In the next chapter we will provide a description of the method that will be used to gain the results to try to answer the final two sub-questions.
Figure 5: Conceptual model
5. METHOD

In chapters 2 and 3 we provided several findings regarding SMEs and credit management. As there is not much literature related to the liquidity position of SMEs available exploratory research is necessary. Exploratory research is a broad ranging, purposive, systematic, prearranged undertaking designed to maximize the discovery of generalizations leading to a description and understanding of a phenomenon. To gain more understanding a two step research approach has been defined. First a survey is developed and sent to a large group of SME entrepreneurs. The survey is designed to assess the current SME credit management status and to assess the opinion of the entrepreneurs on their credit management approach. The second stage consists of in-depth interviews with experts from the credit management field. These interviews should help us looking for approaches that could help SMEs with their credit management.

Research can be based upon a qualitative and a quantitative approach. The objective of quantitative research is to develop theories and/or hypotheses pertaining to phenomena. The process of measurement is central to quantitative research because it provides the fundamental connection between empirical observation and mathematical expression of quantitative relationships. The qualitative method investigates the why and how of decision making, not just what, where and when. Qualitative research is suitable in a relative open field focusing at the exploration of new phenomena and gaining new insights. Qualitative methods produce information only on the particular cases studied and general conclusions are only propositions (informed assertions). Quantitative methods can then be used to seek empirical support for such research hypotheses.

In this research quantitative research is first applied by using a survey to define the current cash management approach and practices. Next a qualitative approach is applied by holding in-depth interviews with experts to develop ideas about credit management approaches for SMEs.

5.1 SURVEY

To get a better view of the handling of cash and debtors by SMEs a survey (Appendix A) was sent to 1000 SME entrepreneurs. The entrepreneurs were all higher educated, since they were listed because of their affiliation with the university. The survey consisted of some open questions to gain insight into company size and growth perspective and 30 propositions regarding credit management and the relationship with buyers and suppliers.
In the invitation to the entrepreneurs a clear introduction into the topic and the purpose of the research was given to stimulate the entrepreneurs to participate. This resulted in a response rate of 43%.

Several different ways of gaining information were used in the survey. The first 5 questions regarded information about the company, like the number of employees, the company’s startup year and the strategic focus of the company.

Next the entrepreneurs filled in a score on 30 propositions. A likert-5-point scale was used. The following statements corresponded to the scores:

1. Strongly disagree
2. Disagree
3. Neither agree nor disagree
4. Agree
5. Strongly agree

The survey scores were processed by interpreting the mean scores provided and by comparing the scores of the different groups with the average of the other groups. This was done to see if there was a significant difference between a strategic focus and the mean of the other focuses and a company size and the mean of the other sizes. Before processing the data was checked for inconsistencies and wrong data. Cases were filtered out because of missing data. A one-way ANOVA is used to compare the mean scores of the different groups with the mean of the other groups with 0.05 significance.

5.2 IN-DEPTH INTERVIEWS

There is no broadly used SME standard yet. New solutions, which fit SMEs, need to be designed. With the input of experts from the credit management field these solutions can be developed. To receive this input we will perform in-depth interviews. An in-depth interview is intended to combine structure with flexibility (Ritchie & Lewis, 2003). The researcher needs to have some sense of the themes and the interview needs some key topics and issues that will be covered in the interview. The structure however needs to be sufficiently flexible to allow the interviewee to set the order of the discussed topics, allow responses to be fully explored and to allow the researcher to be responsive to relevant issues raised by the interviewee (Ritchie & Lewis, 2003). The interview needs to be interactive in nature. The material that is generated comes from the interaction between researcher and interviewee. The researcher asks questions in a way that the interviewee feels like he can talk freely. The researcher needs to develop follow up questions from the interviewees input, not on
beforehand. With these follow up questions the researcher is able to deepen the answer in terms of penetration, exploration and explanation (Ritchie & Lewis, 2003).

For the interviews 4 main stakeholder groups within credit management were selected. These groups were: banking, credit management associations, IT suppliers and credit insurance suppliers. The different focuses of these groups are of importance because we want to have a broad and open view on credit management for SMEs.

The in-depth interviews start out by an introduction into the research topic and the reasons for the research, followed by an introduction into strategic focuses (Appendix B) after which the findings of the survey were shared. The interview was semi-structured, the interviewer always discussed the survey findings, the interviewees view on minimum credit management practices for SMEs and their view on possible improvements. Depending on the answer of the interviewee the answers were deepened having a conversation style interview. The interview took about 1 hour.

5.3 RIGOR VERSUS RELEVANCE

Since not all research is done in the same way, and the use of qualitative and quantitative input can create quite a difference, we will discuss Shrivastava’s (1987) look on rigor versus relevance in scientific research.

According to Shrivastava (1987), the data used in the field of strategic management studies has a dual orientation toward rigor and practical usefulness (relevance). Shrivastava (1987) argues that rigorous research can be made more useful if researchers extend them and link them to variables that have clear action relevance and are related to specific organizational goals, such as profitability, steady employment levels, quality of work life, growth in market share, etc. To make this happen, explicit attempts need to be made to apply research findings to practical problems. It could be facilitated if:

- Investigators developed their research designs in terms of variables that are easily relatable to organizational goals;

- Investigators tested their research results and their applicability in specific organizational settings – this would require identification of those organizational contingencies that act as barriers to research utilization;

- The institutional reward structures under which rigorous research is conducted actively encouraged researchers to apply their results to practical problems.

Besides rigorous research, the field also possesses a large amount of relevant research which is meaningful to decision-makers, operationally useful, relevant to organizational goals, and is feasible in terms of costs and time. These useful scientific theories could be generated and
validated by testing propositions found to be useful by practitioners. In order to do this, researchers must:

- Adopt innovative methodologies that allow them to incorporate practical insights into their studies. Since many of these insights are qualitative and subjective, appropriate rigorous qualitative methods should be encouraged in this field.

- Test the conceptual and theoretical adequacy of action norms. Many strategic management practices and norms are grounded in past successes, outdated theories or unquestioned ideologies. These practices need to be re-examined in light of emerging findings in the field.

- Generate more empirical evidence documenting the contextual conditions within which research results become usable. This will allow researchers to transfer practical insights from one situation to another.

Shrivastava (1987) developed eight criteria for evaluating the level of rigor versus relevance in research in the field of strategic management. These are illustrated in figure 10.

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Sentences for coding research programs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rigor</td>
<td><strong>Rigor variables</strong></td>
</tr>
<tr>
<td>1. Conceptual adequacy</td>
<td>1. The research program is well grounded in base discipline, it uses a conceptual framework consistent with existing theories in the fields</td>
</tr>
<tr>
<td>2. Methodological rigor</td>
<td>2. The program uses analytical methods and objective quantifiable data to empirically examine research questions</td>
</tr>
<tr>
<td>3. Accumulated empirical evidence</td>
<td>3. The research program has generated a substantial amount of accumulated empirical evidence supporting it</td>
</tr>
<tr>
<td>Practical usefulness (Relevance)</td>
<td><strong>Practical usefulness variables</strong></td>
</tr>
<tr>
<td>4. Meaningfulness</td>
<td>4. The research is meaningful, understandable and adequately describes strategic problems faced by decision makers</td>
</tr>
<tr>
<td>5. Goal relevance</td>
<td>5. It contains performance indicators which are relevant to manager's goals</td>
</tr>
<tr>
<td>6. Operational validity</td>
<td>6. It has clear action implications which can be implemented using the causal variables used in the research program</td>
</tr>
<tr>
<td>7. Innovativeness</td>
<td>7. It transcends 'commonsense' solutions and provides non-obvious insights into practical problems</td>
</tr>
<tr>
<td>8. Cost of implementation</td>
<td>The solution suggested by the research are feasible in terms of their costs or timeliness</td>
</tr>
</tbody>
</table>

Figure 6, Criteria regarding rigor and relevance (Shrivastava, 1987)
This research does not meet all the above criteria. It uses a conceptual framework, which is derived from literature. Quantifiable empirical data is used to determine the current credit management practices in SMEs. But the in-depth interviews are not objective and quantifiable data. Therefore this research is only partially rigor in essence. This research is more relevant. It is meaningful and tries to adequately describe a specialist view on credit management in SMEs and how to deal with it. The indicators used are indicators from practice and are relevant for SME goals. Through the in-depth interviews an innovative view on the use of credit management in SMEs is provided. Specialists from several fields are interviewed, which results in different insights. These different insights result in several design propositions that will be provided in the discussion chapter. We will provide operational validity with these propositions by stating them in the CIMO logic (Denyer et al., 2008). Construct validity will follow from the in-depth interviews. In these interviews the researcher will show the survey results, the experts will be able to express their views on these results. By combining literature with the findings of this research and by looking for expert opinions on these findings external validation will be ensured. Denyer et al. (2008) discuss prescriptive knowledge which is cast in the form of design propositions; this notion is then extended into the so called CIMO logic. In short, the CIMO logic for prescriptive knowledge can be shown as a design proposition in the following form: in context C, use intervention I to invoke generative mechanisms M that produce outcome O. The design proposition can be used as a general template for the creation of solutions for a particular field of problems.
6. RESULTS

In this part we will first provide the outcome of the survey and the in-depth interviews. The survey as well as the outset of the in-depth interviews have been described in the method chapter (chapter 5).

6.1 SURVEY

To obtain a view on the handling of cash by SMEs in a B2B environment we have used a survey as described in chapter 5 (Method). The used survey can be found in appendix A. In the method chapter we provided the main subjects of the survey which were: the speed of payment, the use of credit management practices and the possible improvements that entrepreneurs see. In the introduction we developed several sub research questions of which the following encompasses these subjects:

*What are the current credit management practices of SMEs in a B2B environment?*

In order to gain a view on the handling of cash and debtors by SMEs the survey was sent to 1000 Dutch SME entrepreneurs. The entrepreneurs were all higher educated, since they were listed because of their affiliation with the university. The questionnaire consisted of some open questions and 30 propositions. 428 entrepreneurs responded to the questionnaire. Since not all questionnaires were completed, 53 responses were filtered out of the data. This results in 375 responses which can be analyzed. In order to analyze the different approaches by different groups of SMEs we divided the data in two ways. One division was made using the EU definition of SME, which splits the data into different SME sizes. This provided us:

- 294 micro sized companies (<10 employees)
- 62 small sized companies (10-50 employees)
- 16 medium sized companies (50-250 employees)

The second way of splitting the data into different groups was by dividing the respondents into their strategic focuses. One of the propositions of the questionnaire regarded the way the company tries to strategically compete in the market, so which strategic focus (Treacy and Wiersema, 1992) it has. Using this division provided us with the following groups:

1. Operational excellence (OE), 69 respondents
2. Customer intimacy (CI), 101 respondents
3. Product leadership (PL), 99 respondents
4. Resource enrichment (RE), 107 respondents
We will first discuss the survey results using the division into groups by strategic focus. The results can be found in table 1. The structure of the discussion of results is as follows, first we will look at the speed of payment of the different groups, after which we look at the credit management practices that the SMEs use, to finally look at possible improvements that entrepreneurs see.
### Propositions:

<table>
<thead>
<tr>
<th>Proposition</th>
<th>OE</th>
<th>CI</th>
<th>PL</th>
<th>RE</th>
</tr>
</thead>
<tbody>
<tr>
<td>6. Ik ben geheel afhankelijk van één of een paar belangrijke klanten</td>
<td>2,55</td>
<td>2,96</td>
<td>2,60</td>
<td>2,86</td>
</tr>
<tr>
<td>7. Mijn klanten betalen de laatste jaren steeds trager</td>
<td>2,65</td>
<td>2,51</td>
<td>2,55</td>
<td>2,72</td>
</tr>
<tr>
<td>8. De relatie met de klant is zo sterk, dat hij altijd tijdig betaalt</td>
<td>3,46</td>
<td>3,72</td>
<td>3,45</td>
<td>3,48</td>
</tr>
<tr>
<td>9. Ik heb concrete targets in het debiteurenbeheer</td>
<td>3,45</td>
<td>3,03</td>
<td>3,26</td>
<td>3,19</td>
</tr>
<tr>
<td>10. We hebben speciale procedures voor het debiteurenbeheer</td>
<td>3,12</td>
<td>2,97</td>
<td>2,89</td>
<td>2,91</td>
</tr>
<tr>
<td>11. Het debiteurenbeheer is een zorgenkind in mijn bedrijf</td>
<td>1,93</td>
<td>1,80</td>
<td>1,99</td>
<td>1,92</td>
</tr>
<tr>
<td>12. Binnenhalen van opdrachten en debiteurenbeheer staan in mijn bedrijf op gespannen voet</td>
<td>1,59</td>
<td>1,77</td>
<td>1,83</td>
<td>1,80</td>
</tr>
<tr>
<td>13. Debiteurenbeheer heeft in mijn bedrijf een hogere prioriteit dan binnenhalen van grote opdrachten</td>
<td>1,74</td>
<td>1,53</td>
<td>1,39</td>
<td>1,54</td>
</tr>
<tr>
<td>14. Een hechte klantrelatie is in mijn bedrijf belangrijker dan tijdige betaling van rekeningen</td>
<td>3,01</td>
<td>3,38</td>
<td>3,23</td>
<td>3,41</td>
</tr>
<tr>
<td>15. Ik check altijd de kredietwaardigheid van een nieuw klant</td>
<td>2,42</td>
<td>2,55</td>
<td>2,26</td>
<td>2,61</td>
</tr>
<tr>
<td>16. Ik check continue de kredietwaardigheid van een bestaande klant</td>
<td>1,84</td>
<td>1,70</td>
<td>1,53</td>
<td>1,82</td>
</tr>
<tr>
<td>17. In mijn bedrijf is iemand speciaal belast met het debiteurenbeheer</td>
<td>2,17</td>
<td>2,50</td>
<td>2,35</td>
<td>2,54</td>
</tr>
<tr>
<td>18. Het debiteurenbeheer is uitbesteed aan een gespecialiseerd bureau</td>
<td>1,07</td>
<td>1,17</td>
<td>1,09</td>
<td>1,10</td>
</tr>
<tr>
<td>19. Ik maak gebruik van een incassobureau bij te lang uitstaande rekeningen</td>
<td>2,36</td>
<td>2,02</td>
<td>2,09</td>
<td>1,98</td>
</tr>
<tr>
<td>20. Ik gebruik een speciaal softwarepakket voor het credit management</td>
<td>1,78</td>
<td>1,74</td>
<td>1,58</td>
<td>1,78</td>
</tr>
<tr>
<td>21. Ik laat de klant vooraf betalen</td>
<td>2,87</td>
<td>2,10</td>
<td>2,44</td>
<td>2,36</td>
</tr>
<tr>
<td>22. De klant moet een aanbetaling doen</td>
<td>2,61</td>
<td>2,01</td>
<td>2,48</td>
<td>2,50</td>
</tr>
<tr>
<td>23. Ik gebruik incentives (kortingen etc.) om de klant op tijd te laten betalen</td>
<td>1,61</td>
<td>1,49</td>
<td>1,45</td>
<td>1,47</td>
</tr>
<tr>
<td>24. Ik neem persoonlijk contact op om de klant tot betaling aan te sporen</td>
<td>4,26</td>
<td>4,12</td>
<td>4,20</td>
<td>4,21</td>
</tr>
<tr>
<td>25. Iedereen in mijn bedrijf is zich bewust van de noodzaak tot goed debiteurenbeheer</td>
<td>3,78</td>
<td>3,91</td>
<td>3,78</td>
<td>3,83</td>
</tr>
<tr>
<td>26. Ik heb behoefte aan advies op het gebied van effectief debiteurenbeheer</td>
<td>1,58</td>
<td>1,46</td>
<td>1,49</td>
<td>1,65</td>
</tr>
<tr>
<td>27. Ik verwacht dat IT-software in mijn bedrijf kan bijdragen aan beter debiteurenbeheer</td>
<td>2,51</td>
<td>2,19</td>
<td>2,41</td>
<td>2,45</td>
</tr>
<tr>
<td>28. Mijn klanten hebben een hoge meerwaarde (bezorgen nieuwe klanten etc.)</td>
<td>3,93</td>
<td>4,08</td>
<td>4,10</td>
<td>4,01</td>
</tr>
<tr>
<td>29. Wanneer er Vereniging voor Credit Management in het MKB zou zijn, dan zou ik lid worden</td>
<td>1,62</td>
<td>1,50</td>
<td>1,48</td>
<td>1,60</td>
</tr>
<tr>
<td>30. Ik heb een goede persoonlijke band met mij belangrijkste leveranciers</td>
<td>4,13</td>
<td>3,89</td>
<td>4,01</td>
<td>3,86</td>
</tr>
<tr>
<td>31. Ik krijg van mijn belangrijkste leveranciers gunstige betalingsvoorwaarden</td>
<td>3,42</td>
<td>3,12</td>
<td>3,05</td>
<td>3,19</td>
</tr>
<tr>
<td>32. Ik rek de betalingstermijn van mijn leveranciers bewust op</td>
<td>1,97</td>
<td>1,97</td>
<td>2,17</td>
<td>2,18</td>
</tr>
<tr>
<td>33. Ik betaal mijn belangrijkste leveranciers altijd op tijd</td>
<td>4,65</td>
<td>4,28</td>
<td>4,20</td>
<td>4,29</td>
</tr>
<tr>
<td>34. Mijn belangrijkste leveranciers hebben een hoge meerwaarde (bezorgen nieuwe klanten etc.)</td>
<td>3,00</td>
<td>2,76</td>
<td>2,71</td>
<td>2,81</td>
</tr>
<tr>
<td>35. In ben afhankelijk van een bank voor het op peil houden van mijn liquiditeitspositie</td>
<td>1,78</td>
<td>1,84</td>
<td>1,76</td>
<td>1,75</td>
</tr>
<tr>
<td>36. Indien een bank daarbij belangrijk is: Banken doen steeds moeilijker om krediet te krijgen</td>
<td>3,43</td>
<td>3,38</td>
<td>3,33</td>
<td>3,47</td>
</tr>
</tbody>
</table>

**Table 1:** The mean scores divided by strategic focus
**Speed of payment**

Proposition 8 states: the relation with the customer is so strong that the customer always pays on time.

SMEs using the Customer Intimacy strategic focus are expected to have a culture with a focus on the transactions with the environment outside of the organization instead of a focus on the internal management. A part of this focus on the external environment can be translated into having a strong customer relation. There is an emphasis on customer loyalty, customer lifetime value, the fine definition of a customer segment and the process which is inferior to customer requirements. Also, from the business model perspective we saw an emphasis on the customer relation because of the external focus. All building blocks are in place to strengthen the customer relationship, by co-development, advising, building loyalty, by having regular meetings with the customer and by improving products or services to fit customer demand. The commercial assets are seen as most important. These consist out of skills needed to generate new customers and to make customers more dependent on the product or service. From this perspective we expect a significant higher score for customer intimacy on proposition 8. The scores on proposition 8 (figure 7) show that no matter what strategic focus a SME uses, they always make use of a strong customer relation, all scores are above average (3.0). However we still see that the customer intimacy group provides a higher score.

Proposition 21 regards forcing the customer to prepay the order. Figure 8 shows that the scores between the different strategic focuses vary, but are all lower than 3, which means that they on average do not force the customer to prepay. SMEs using operational excellence try to minimize overhead costs, reduce transaction costs, optimize business processes and make operations lean and efficient. These organizations emphasize on control and internal focus. Loeffen (2011) stated that the material assets are leading, as a part of this there is an emphasis on cash. Prepayment of an order takes away the risk of lacking payment. It is expected that SMEs with a operational excellence focus make more use of
prepayment. In figure 8 we see that indeed operational excellence shows a higher score on proposition 21. Using one-way ANOVA (Appendix C) we see that the difference between operational excellence and the other groups is significant. We also see that SMEs using the customer intimacy strategic focus score significantly lower, which is to be expected, since offering trade credit is a way to gain customer intimacy.

Instead of a full prepayment a partial down payment can also be required. Proposition 22 (Figure 9) involved this and shows again that the SMEs with a customer intimacy focus are significant less likely to ask for a prepayment.

The scores in figure 10 show that all entrepreneurs think that they do not fully depend on one or a couple of customers, the scores on proposition 6 are all lower than 3. But we can see that customer intimacy scores slightly higher. Also we can see that all entrepreneurs do not think that customers are paying later (proposition 7), again all values are lower than 3. Furthermore all entrepreneurs think they have a good relationship with their customers, which results in on time payments, the scores for proposition 8 all are higher than 3. We can however see that the companies with a customer intimacy focus score higher, though not significant higher.

Not only the speed of payment of the customers, but also the supplier payments of the company are taken into the questionnaire. Proposition 31 states that the most important suppliers provide good payment conditions. Companies which focus on operational excellence show a significant higher outcome in comparison to the average of the other groups. The other strategic focuses show an average score of about 3 which means that the entrepreneurs have a neutral view on this proposition.
Companies with an operational excellence focus tend to always pay their important suppliers in time, their score is significantly higher than the others. But all groups score way above 4, so all entrepreneurs try to pay on time. When we take a further look at the scores it is interesting to see that none of the companies really tries to extend the suppliers payment terms, all entrepreneurs score about 2 on proposition 32.

Credit management practices

Proposition 13 involves the prioritizing of credit management over getting big orders. Figure 13 shows that in all categories the companies provide a low score, but an operational excellence focus results in a higher score, but still not significant different from the average of the other groups.

The same is seen in proposition 9 and 10, which state that the company has distinct targets and special procedures regarding their credit management, the scores show that companies with a focus on operational excellence score a bit higher, but no significant difference is found. Next we look at proposition 14 which states: a close relation with the client is more important than their on-time payment. It is interesting to see that having the customer
intimacy focus does not return a significant higher result than the product leadership and resource enrichment focuses (figure 15). The product leadership focus scores lower than expected, around 3. The product leadership focus emphasizes state of the art products and services, creativity, quick product launches, business and management processes which are engineered for speed and continuous improvement of new products. For an optimal policy a company needs to have a flexible structure and an external focus. This external focus is translated into the use of complementors or customer intimacy related activities to increase sales and market share (van Asten, 2011). The business model has a external focus on capturing value, so on the product offering. The company needs a close relationship with their customers in order to enhance market knowledge and finding opportunities. So the score on proposition 14 is lower than expected, the on-time payment is seen as just as important as the customer relationship.

A further look at the scores shows that all companies do not see credit management as a worry for their company (figure 16), all scores are lower than 2, they do not feel they have any problems concerning credit management. But the scores also show that most companies do not check the solvency of their customers, not for existing customers (which gave a score of about 2,5), but also not for new customers (which gave a score of about 1,7). From proposition 12 we see that all companies do not really think credit management and getting new orders are opposite forces, since all scores are lower than 2.

**Improvements**

No significant differences are seen between the groups. But the scores show us that the companies do not have a need for advice concerning credit management (proposition 26 and 29). Next to that they do not have a real need for any IT solutions that could help them with their credit management, since all scores are lower than three.
We also divided the sample group by differences in size. We used the EU definition (SME user guide) for this division. Companies with less than 10 employees will be called Micro sized, with less than 50 employees, but more than 10, will be called Small sized and companies that have less than 250 employees, but more than 50, will be called Medium sized. Due to the relatively small number of respondents in the Small and Medium sized categories it will be harder to detect statistically significant differences. Still we think it is interesting to look at the differences in scores between the groups and the average of the population. Again we will look at the speed of payment, credit management practices and possible improvements. The results divided by company size can be found in table 2. The outcome of the one-way ANOVA can be found in appendix C.
<table>
<thead>
<tr>
<th>Proposition</th>
<th>Micro</th>
<th>Small</th>
<th>Medium</th>
</tr>
</thead>
<tbody>
<tr>
<td>6. Ik ben geheel afhankelijk van één of een paar belangrijke klanten</td>
<td>2,84</td>
<td>2,50</td>
<td>2,50</td>
</tr>
<tr>
<td>7. Mijn klanten betalen de laatste jaren steeds trager</td>
<td>2,51</td>
<td>3,05</td>
<td>2,69</td>
</tr>
<tr>
<td>8. De relatie met de klant is zo sterk, dat hij altijd tijdig betaalt</td>
<td>3,63</td>
<td>3,19</td>
<td>3,13</td>
</tr>
<tr>
<td>9. Ik heb concrete targets in het debiteurenbeheer</td>
<td>3,07</td>
<td>3,58</td>
<td>4,06</td>
</tr>
<tr>
<td>10. We hebben speciale procedures voor het debiteurenbeheer</td>
<td>2,66</td>
<td>3,90</td>
<td>4,44</td>
</tr>
<tr>
<td>11. Het debiteurenbeheer is een zorgenkind in mijn bedrijf</td>
<td>1,89</td>
<td>1,87</td>
<td>2,44</td>
</tr>
<tr>
<td>12. Binnenhalen van opdrachten en debiteurenbeheer staan in mijn bedrijf op gespannen voet</td>
<td>1,76</td>
<td>1,79</td>
<td>1,63</td>
</tr>
<tr>
<td>13. Debiteurenbeheer heeft in mijn bedrijf een hogere prioriteit dan binnenhalen van grote opdrachten</td>
<td>1,48</td>
<td>1,66</td>
<td>1,88</td>
</tr>
<tr>
<td>14. Een hechte klantrelatie is in mijn bedrijf belangrijker dan tijdige betaling van rekeningen</td>
<td>3,35</td>
<td>3,03</td>
<td>3,19</td>
</tr>
<tr>
<td>15. Ik check altijd de kredietwaardigheid van een nieuw klant</td>
<td>2,36</td>
<td>2,71</td>
<td>3,13</td>
</tr>
<tr>
<td>16. Ik check continue de kredietwaardigheid van een bestaande klant</td>
<td>1,62</td>
<td>1,90</td>
<td>2,38</td>
</tr>
<tr>
<td>17. In mijn bedrijf is iemand speciaal belast met het debiteurenbeheer</td>
<td>2,04</td>
<td>3,52</td>
<td>4,44</td>
</tr>
<tr>
<td>18. Het debiteurenbeheer is uitbesteed aan een gespecialiseerd bureau</td>
<td>1,07</td>
<td>1,32</td>
<td>1,06</td>
</tr>
<tr>
<td>19. Ik maak gebruik van een incassobureau bij te lang uitstaande rekeningen</td>
<td>1,87</td>
<td>2,74</td>
<td>3,06</td>
</tr>
<tr>
<td>20. Ik gebruik een speciaal softwarepakket voor het credit management</td>
<td>1,53</td>
<td>2,24</td>
<td>2,50</td>
</tr>
<tr>
<td>21. Ik laat de klant vooraf betalen</td>
<td>2,36</td>
<td>2,61</td>
<td>2,44</td>
</tr>
<tr>
<td>22. De klant moet een aanbetaling doen</td>
<td>2,32</td>
<td>2,63</td>
<td>2,69</td>
</tr>
<tr>
<td>23. Ik gebruik incentives (kortingen etc.) om de klant op tijd te laten betalen</td>
<td>1,40</td>
<td>1,79</td>
<td>2,25</td>
</tr>
<tr>
<td>24. Ik neem persoonlijk contact op om de klant tot betaling aan te sporen</td>
<td>4,16</td>
<td>4,32</td>
<td>4,38</td>
</tr>
<tr>
<td>25. Iedereen in mijn bedrijf is zich bewust van de noodzaak tot goed debiteurenbeheer</td>
<td>3,91</td>
<td>3,53</td>
<td>3,50</td>
</tr>
<tr>
<td>26. Ik heb behoefte aan advies op het gebied van effectief debiteurenbeheer</td>
<td>1,52</td>
<td>1,60</td>
<td>1,88</td>
</tr>
<tr>
<td>27. Ik verwacht dat IT-software in mijn bedrijf kan bijdragen aan beter debiteurenbeheer</td>
<td>2,21</td>
<td>2,82</td>
<td>3,38</td>
</tr>
<tr>
<td>28. Mijn klanten hebben een hoge meerwaarde (bezorgen nieuwe klanten etc.)</td>
<td>4,02</td>
<td>4,11</td>
<td>3,88</td>
</tr>
<tr>
<td>29. Wanneer er Vereniging voor Credit Management in het MKB zou zijn, dan zou ik lid worden</td>
<td>1,54</td>
<td>1,52</td>
<td>1,81</td>
</tr>
<tr>
<td>30. Ik heb een goede persoonlijke band met mij belangrijkste leveranciers</td>
<td>3,93</td>
<td>4,16</td>
<td>3,88</td>
</tr>
<tr>
<td>31. Ik krijg van mijn belangrijkste leveranciers gunstige betalingsvoorwaarden</td>
<td>3,10</td>
<td>3,48</td>
<td>3,44</td>
</tr>
<tr>
<td>32. Ik rek de betalingstermijn van mijn leveranciers bewust op</td>
<td>1,97</td>
<td>2,37</td>
<td>3,00</td>
</tr>
<tr>
<td>33. Ik betaal mijn belangrijkste leveranciers altijd op tijd</td>
<td>4,38</td>
<td>4,19</td>
<td>4,06</td>
</tr>
<tr>
<td>34. Mijn belangrijkste leveranciers hebben een hoge meerwaarde (bezorgen nieuwe klanten etc.)</td>
<td>2,81</td>
<td>2,81</td>
<td>2,75</td>
</tr>
<tr>
<td>35. In ben afhankelijk van een bank voor het op peil houden van mijn liquiditeitspositie</td>
<td>1,67</td>
<td>1,97</td>
<td>2,69</td>
</tr>
<tr>
<td>36. Indien een bank daarbij belangrijk is: Banken doen steeds moeilijker om krediet te krijgen</td>
<td>3,38</td>
<td>3,34</td>
<td>4,00</td>
</tr>
</tbody>
</table>

Table 2: The mean scores divided by company size
Speed of payment

Propositions 7 and 8 provide us insight into the speed of payment and the customer relationship. The scores show us that the micro companies have a good relationship with the customer, they also do not experience as much later payments. The means are significantly different, which is shown in the ANOVA table in appendix C.

![Figure 17: Proposition 7 scores per SME size](image)

![Figure 18: Proposition 8 scores per SME size](image)

Companies of all sizes on average do not require prepayments or partial prepayments. All scores on proposition 21 and 22 are lower than three, which means that they partially do not agree with the proposition.

Also all companies think that they receive good payment conditions from their suppliers, since they all score above 3 on proposition 31. Micro companies provide a lower score, however they still score slightly above 3. The medium and small sized companies score a bit higher, both significant higher than the population average (figure 19).

![Figure 19: Proposition 31 scores per SME size](image)

![Figure 20: Proposition 9 scores per SME size](image)

Credit management practices
Proposition 9 and 10 concern targets and procedures regarding credit management. Figure 20 and 21 show that it is clear that the size of the company has an impact on these targets and procedures. Micro and small companies score significantly lower on these propositions. In the case of micro companies we see that they score slightly above neutral (3,1) on the use of concrete targets concerning the management of debtors. The small companies score 3,58 and the medium companies score 4,06 , which means they have a more intensive way of working with targets. Proposition 10 results in an even bigger difference in scores. Micro companies score 2.66 which is lower than three, so on average they do not use special procedures regarding credit management. The score of small companies equals 3,9 which tells us they make use of these procedures. With a score of 4,44 for medium companies we can say that most medium companies find it important to work with special procedures.

![Figure 21: Proposition 10 scores per SME size](image1)

![Figure 22: Proposition 15 scores per SME size](image2)

Proposition 15 till 20 regard the customer solvency and how the entrepreneurs deal with this. The outcome shows that micro companies do not see checking solvency as a matter of importance. On average they do not really check the credit status of the new and existing customers. Though small and medium sized companies also do not really make a priority of this check, since the highest score is 3,13 , this is just above the middle. None of the groups really checks the credit status of current customers, since all groups score lower than three.

![Figure 23: Proposition 17 scores per SME size](image3)

![Figure 24: Proposition 18 scores per SME size](image4)
Proposition 17 (figure 23) shows that micro companies do not have a specialized credit management function in their organization, small companies do have them, but they score only 3.52. The medium companies score 4.44 so most of them have the position of specialized credit manager in their organization. Since all scores on proposition 18 (figure 24) are around one, most companies do not outsource their credit management.

Most companies make no use of specialized software packages for their credit management, all scores are lower than 3. The scores however show us that micro companies make least use of software packages, since their score is significantly lower.

Next to that proposition 23 (figure 25) shows that Medium companies make more use of incentives like discounts to make sure that their customers pay on time. Their score is significantly higher than the population average, however it is still smaller than 3 so most companies do not make use of incentives. All companies try a personal approach if a customer doesn’t pay in time, since all scores on proposition 24 are above 4. The employees of all SMEs are aware of the importance of good credit management according to the scores on proposition 25.

In proposition 35 the respondents were asked about their dependence on banks as a line of credit, the medium sized companies provided a score of 2.69, which is lower than 3, so on average they are more likely to not use banks as line of credit. Small and micro companies show that they significantly make even less use of banks as a line of credit, since they score less than 2. The low scores can partially be attributed to the stricter terms that banks have for loans, this is seen in the scores on proposition 36. All SME sizes are having more trouble applying for bank credit, but Medium companies score 4 which is significantly higher than the other company sizes.

**Figure 25: Proposition 23 scores per SME size**

![Figure 25: Proposition 23 scores per SME size](image)

**Figure 26: Proposition 36 scores per SME size**

![Figure 26: Proposition 36 scores per SME size](image)

**Improvements**
None of the companies is interested in advice on their credit management, since the scores on proposition 26 all are lower than 2. But Medium sized companies think that the use of IT-software could improve their credit management according to proposition 27.

CONCLUSION

Out of 375 fully completed questionnaires the following can be stated. No matter what strategic focus a SME has, they in general do not have a focus on the use of professional credit management. The Medium sized companies make more use of professional credit management practices than the Small and Micro sized companies. In general SMEs do not check the solvency of customers, do not make use of incentives for early payment and do not see the use of implementing professional credit management solutions. They all are not experiencing an increase in late payments and feel that having a good relation with customers makes them pay their bills. There are some credit management policies in place, but the scores at most are just above the middle, so the entrepreneurs do not see credit management as a priority. We did however see that bigger companies make more use of credit management by implementing policies. But still getting new orders is more important for them than risk reduction by credit management practices. Most companies do not see the advantage of using IT solutions for their credit management, however medium sized companies show some interest in these solutions. Medium sized companies show that they try to delay their payments to their suppliers far more than small and micro sized companies do. But still all respondents pay their most important suppliers on time. Since medium sized companies have larger cash flows they need apply for bank credit more often to maintain a good cash position. It is clear that they are having more trouble to receive credit from banks lately.

Regarding the division of respondents by strategic focuses we can conclude that only minor differences appear. We did however see that medium sized companies implement more credit management practices. The survey results differ from the findings in the literature, entrepreneurs do not experience problems with their debtors. This might be caused by the high education of the respondents, they might have put more effort into aspects of their business which are not primary. Being on the respondent list meant that they were interested in improving their business with the help of the university. The difference between the results and literature could relate to the nature of the relationship between SMEs and academics, the kind of assumptions made concerning policies and processes and the way the entrepreneurs were approached (Gibb, 2000). Another reason for the different views could be found in the optimistic view the entrepreneur wants to communicate to his environment. Between the different strategic focuses only minor differences are found. But the overall scores point out that the entrepreneurs are not willing to change, they think that their current credit management practices are good enough to reduce their risks. At the same time we see that as companies grow they are more willing to invest resources into
credit management. In that case the entrepreneurs do see the need for professionalizing credit management, this could be due to the scarcity of resources at micro and small companies.

In the introduction the following sub-question was provided:

**What are current credit management practices of SMEs in a B2B environment?**

The results of the survey and the findings in chapter 2.7 give us a view on the SME credit management practices.

### 6.2 IN-DEPTH INTERVIEWS

All interviews can be found in appendix D. Here the most important findings derived from the interviews are given. First expert opinions regarding the current situation are described. Next the expert views on how external stakeholders can support SMEs with their credit management practices. The following sub-question will subject in this part.

**How could the application of credit management in SMEs in a B2B environment be improved, taking the SME characteristics and current credit management situation into account?**

### 6.2.1 CURRENT SITUATION

All experts think that SMEs in a B2B environment are having more difficulties to maintain a healthy liquidity position. This view corresponds with the figures that were given in the introduction (chapter 1). But it does not correspond with the view of the entrepreneurs that filled out the survey (chapter 6.1). This could be due to the positive view of the entrepreneurs on their own business and because the group of entrepreneurs who filled in the survey might not give a correct view for all SMEs. The experts see a difference in power between larger and smaller companies. The SMEs know about and accept this difference in power. Because SMEs are very dependent on their customers, they are forced to take more risks. Also most entrepreneurs think the use of professional credit management is only of limited value and is regarded as a restriction to their customer intimacy. This view is shared with the entrepreneurs who do not have a need for credit management solutions. The experts mention that most SMEs do not use debtor information and do not have enough revenue to finance the use of credit insurances.

The credit management products and services that are offered at the moment do not fit SMEs. One of the interviewees saw a SME IT credit management product fail because it was too much trouble to integrate the tool into the accounting software of SMEs. Others state that price of credit management products and services are of upmost importance. To gain access to customer credit information a SME has to pay 600 EURO plus a small fee per consult. A credit insurance has a minimum price of 2500 EURO. For many SMEs these are
high costs and therefore a reason to take more risks by not using professional credit management products and services.

One interviewee thinks that the difficulties that exist are part of the business model of SMEs. He thinks that after the credit crunch not much has changed in the way SMEs work with credit management. Only when a company becomes bigger the entrepreneur realizes that credit management is more important. And only then he will have the resources to implement solid credit management practices. So from then on they put more effort into credit management. The same interviewee in many situations sees bankruptcy as part of the learning curve of an entrepreneur. By starting up a new business with a clean sheet, with the experience in mind, the entrepreneur is able to create a company with a better setup, also regarding credit management.

Linking these results to the literature and the survey results, we first see that the expert views differ from the view from the literature. They do not think in terms as strategic focus. The division into the different strategic focuses therefore is not seen in these interview results. The expert view does correspond with the position of the entrepreneur in SMEs. They also see the entrepreneur as responsible for all important decisions. They feel that the entrepreneurs’ focus on the cores business, his emphasis on maintaining a strong customers relation, his limited flexibility and his short term view results in too much risk for the company. The experts also did not talk about an asset configuration. But most experts noted that SMEs need to take risks because of their financial situation. So they lack material assets in comparison to large companies. They also stated that entrepreneurs their selves want to act on the markets and execute commercial transactions, which refers to the commercial assets. The socialization assets of the entrepreneur might be lacking when he keeps all responsibility to himself, especially concerning credit management it could be helpful to work with a standardized process and specialized staff.

The difference between the current view on credit management from literature and the view from experts concerns especially the strategic focus, business model and asset configuration. The experts have a more practical than scientific focus, which results in explaining their view with practices, instead of models. The position of the entrepreneur is seen as most important in literature and in the interviews with the experts.

6.2.2 NECESSARY CREDIT MANAGEMENT PRACTICES FOR SMES

The experts point out that some aspects of credit management are necessary for all companies. This does not necessarily mean that they need to purchase credit management products or services. It does mean that the implementation of some standards into the organization can reduce the risk.
For all new customers credit checks are necessary. These credit checks involve collecting and reviewing customer information. In this way the entrepreneur works pro-active towards a more trustworthy relationship with the customer. The credit checks are seen as an important part of the process. Credit checks should involve getting structured information on the financial history of the customer. This information could come from different sources, like credit information suppliers, credit insurance companies, competitors, suppliers and other customers. But also from the customers themselves by asking the right questions. Most customers will be reliant to introduce potential difficulties into a conversation, but by asking the right questions the entrepreneur could still be able to obtain the right information. This is in line with the findings of Casson (2004) concerning judgemental decision-making, since superior judgement stems from correct privileged information. After the credit check the payment behavior must be monitored continuously to cope with the volatility in the environment.

One interviewee states that the number 1 priority should be to make sure that bills are sent out as soon as possible. The bills should be accompanied by clear payment conditions. These conditions can be adjusted for customers that involve bigger risks.

All experts emphasize the importance of the entrepreneur knowing that credit management is part of their main process, not a bystander. Credit management should be integrated into the financial systems of a company. One expert states that most companies just need something like credit bureau reports and a monitoring system to be aware of risks at all times.

6.2.3 EXTERNAL SUPPORT FOR SMES

Since most entrepreneurs do not see the need for good credit management, all experts think it is important to change the view of the entrepreneur. Credit management should be viewed from a business opportunity perspective. They feel this can be done by creating awareness. Awareness can be created mostly through the channels that are already in place for SMEs (MKB-Nederland, etc.). It can be helpful to get more speakers in SME seminars and by publishing credit management articles in SME magazines. Social media could also be used to reach entrepreneurs, since it is an easy non time consuming way of communication. Giving examples of unnecessary bankruptcies because of liquidity problems due to late or non paying customers could change the entrepreneurs’ view. Still it will be hard to reach the entrepreneurs. Credit management associations could first try to get first movers to see the importance of credit management, to later have the attention of all SMEs.

The credit management associations could develop a first aid credit management kit which should create a minimum standard for SMEs. This kit could be distributed through the chamber of commerce or branch associations. Some experts think credit management needs
to be integrated into the setup of a business plan, since it is important for the survival of a company.

A relative easy way to get more entrepreneurs to use credit management is by implementing solutions into accounting software that are already in use by the companies. This will be difficult since the software suppliers do not see the need to add this as a standard, only as an additional package.

One expert states that a solution should come from the market and should contain a large database concerning payment behavior, a data pool. A lot of data is necessary, therefore a commercial party could be able to offer the best solution. The biggest problem to get a database or a widely used tool is that many entrepreneurs should be mobilized, otherwise the commercial party will not earn money, which will result in the party ceasing the project and also having a lack of payment behavior information in the database.

The credit management associations could build a simple web application while cooperating with other stakeholders, like the branch associations, credit information bureaus and credit insurance companies. This program should give the entrepreneurs access to check companies credit status, get credit insurance, monitor the credit status of their customers, and to startup a collection inquiry. All these products should be bought by a branch-wide cooperation of companies to reduce the costs of these actions and services. There are 2 weaknesses in this approach:

- It will be very hard to partner up for the credit management associations

- The different associations (also the credit management association) do not have enough time for a project like this.

For a good solution it is important to keep the entrepreneurs’ position in mind. In many cases he is financially liable for the company and therefore he wants to keep financial decisions as his own responsibility. The entrepreneur feels that personal contact with customers is very important for the performance of his company. Therefore he will not just be willing to change credit management practices into a standardized process. He wants to be involved in the process and he wants to keep the personal communication with the customers because it can result in new order, new customers and information about competitors.

CONCLUSION

The experts share the view that many SMEs are having troubles with their liquidity position. Due to the weak power position and the customer dependency SMEs are forced to take more risks. The entrepreneurs do not show interest in professional credit management, they think it is only of limited value. Also the experts see problems on the credit management
product and services supply side. The products and services do not fit SMEs and are regarded as expensive. Entrepreneurs in larger SMEs have more attention and more resources for the implementation of professional credit management.

All companies should perform credit checks for new customers and should continuously monitor payment behavior. Invoices need to be sent out as soon as possible and should be accompanied by clear payment conditions, which can be customer specific.

To help SMEs improve their liquidity position entrepreneurs should be made aware of the importance of implementing solid credit management practices. Credit management needs to be viewed from a business opportunity perspective. Awareness can be created through branch-specific associations, SME associations, social media and by focusing on first movers. Credit management associations can develop a first aid credit management kit which should create a minimum standard for SMEs.

Credit management associations could also, in cooperation with other stakeholders, build a simple web application with which entrepreneurs need to be able to perform credit checks, insure credit, monitor customers credit status and startup collection inquiries. By setting up a branch-wide cooperation of companies costs can be reduced. The web application should be easy and fast in use.

The expert views give more insight into what SMEs can do to improve their liquidity position. We should however keep in mind that the experts usually deal with large companies and tend to create ideas from the experience they have with large companies, which does not always fit with SMEs.

The following sub-question was provided in the introduction:

*How could the application of credit management in SMEs in a B2B environment be improved, taking the SME characteristics and current credit management situation into account?*

The results of the in-depth interviews provide us several ideas for the improvement of SME credit management practices. In the next part we will shortly discuss these improvements and the other findings in this report.
In the introduction the following main research question was provided:

*How to improve credit management of SMEs in a B2B environment?*

In this part we first will give an overview of conclusions that come from the literature and the results. Since the results did not meet expectations an elaboration on involvement of the environment to create a positive change in SME credit management practices will be given. Finally the limitations and implications for future research are addressed.

SMEs are not just small versions of large companies. Mainly because of the position of the entrepreneur SMEs operate in a suboptimal way, focus on their core business, hold a short term view and show only limited flexibility. The entrepreneurs tend to work more reactive than proactive. SMEs operate in more turbulent markets, which limit their influence and make them vulnerable to external influences. They experience a lack of control of the external environment which results in sensitiveness to competition and a vulnerable position with respect to suppliers and distributors (Carson et al., 1995). The entrepreneurial capital of the manager is important for the performance of the company because of his influence on the asset configuration. To gain understanding into the internal processes of SMEs we provided the business model framework. The ideal SME business model differs from the large company business model because it needs an extra focus on cash flow (Loeffen, 2011). The entrepreneurs focus on the survival of their company by acquiring new customers. By creating an extra focus on the cash flow the entrepreneurs are forced to think about the short-term survival of their company. Credit management provides a focus on receiving cash from debtors, which is important for the short-term survival.

Credit management practices in SMEs differ from credit management practices in large companies. There are few dedicated solutions available and entrepreneurs neglect them because they feel these solutions take too much time and are expensive. SME entrepreneurs focus on maintaining good relations with their customers as a way of credit management. By maintaining a good relation they try to make their customers pay on time, since they are already investing in this relation they feel it is an easy and effective credit management practice.

We described different strategic focuses, which help to align the internal processes with the external environment. Concerning credit management the survey results show only minor differences between these focuses, therefore we think that the strategic focus is of less importance for small companies. Medium sized companies use more credit management practices, but there were too few respondents to compare different strategic focuses of medium sized companies. The survey results show that entrepreneurs do not think they
have a problem regarding their credit management, they are not willing to add more credit management practices and do not require help.

The experts note in the in-depth interviews that the market for credit management solutions shows almost no interest in SMEs. Despite that they do think that many SMEs are having a hard time maintaining a good cash position. Several possible improvements were proposed by the experts. Creating awareness among entrepreneurs is seen as an important part of all solutions, entrepreneurs need to be willing to invest resources into more professional credit management. If entrepreneurs look at credit management from a business opportunity perspective they are more likely to improve their practices. Awareness can be created through SME associations, branch-specific associations, social media and by focusing on first movers. Credit management associations could develop a first aid credit management kit which should contain information and help concerning most important credit management practices for SMEs, like performing credit checks, monitor payment behavior and set up clear payment conditions. Another possible improvement concerns the integration of credit management into the setup of a business plan.

The mentioned solutions can be translated into the following propositions which follow the earlier described CIMO (Context Intervention Mechanism Output) logic:

**Proposition 1:** In the context of SMEs in a B2B environment (C), credit management associations could create awareness (M) by reaching SMEs through SME associations, branch-specific associations, social media and first movers (I) to enforce them to make more use of professional management practices (O).

**Proposition 2:** In the context of SMEs in a B2B environment (C), credit management associations could help improve SME credit management practices (O) by developing a first aid credit management kit (I), which provide the entrepreneurs more knowledge concerning credit management (M).

**Proposition 3:** In the context of SMEs in a B2B environment (C), credit management associations could help improve SME credit management (O) by implementing credit management into the setup of business plans (I), which creates awareness and knowledge among entrepreneurs (M).

**INvolvement of Environment**

Another solution requires more involvement from the SME environment. Credit management associations and SME stakeholders could develop a simple web application which includes options to perform credit checks, credit insurance, monitor customer credit status and startup collection inquiries as a cooperation. More knowledge about the environment of the SMEs is necessary to dig deeper into this solution. We will briefly explore
the environment of a company and the way entrepreneurs can deal with it in an optimal way. Jones (2007) defines the following outside stakeholders:

- **Customers**: usually an organization’s largest outside stakeholder group (this stakeholder can be divided in different categories: Initiator, influencer, decider, buyer and user).

- **Suppliers**: contribute to the organization by providing reliable raw material and component parts that allow the organization to reduce uncertainty in its technical or production operations and thus reduce production costs.

- **Competitors**: makes resources scarce and valuable because the greater the competition for resources, the more difficult they are to obtain, i.e. customer revenues.

- **The government**: makes a contribution to the organization by standardizing regulations so that they apply to all companies and so that a company can obtain an unfair competitive advantage. Next to this the government may give financial assistance for doing certain business activities.

- **Trade unions**: and organizations have often a relationship that can be one of conflict or cooperation.

- **Local communities**: have a stake in the performance of organizations because employment, housing, and the general economic well-being of a community are strongly affected by the success or failure of local businesses, and therefore management also has a social responsibility fulfill which can influence the reputation of the company.

- **The general public**: wants its corporations to act in a socially responsible way, which means that corporations refrain from taking actions that may injure or impose on other stakeholders.

A cooperation of all stakeholders will be difficult to realize. The relationships between different stakeholders are very important for the setup and success of a cooperation. In the literature the relational view provides a description about the interaction of a company and its environment and the advantages of these relationships. Dyer and Singh (1998) have shown that a pair or a network of firms can develop relationships that result in sustained competitive advantage. The company will gain by relational rents. Relational rents are “supernormal profit jointly generated in an exchange relationship that cannot be generated by either firm in isolation and can only be created through the joint idiosyncratic contributions of the specific alliance partners” (Dyer and Singh, 1998, pp662). So competitive advantage is not only to be created within the company, it is also important to look cross the
Dyer and Singh (1998) discussed four potential sources of inter-organizational competitive advantage:

- **Relation-specific assets**: Relational rents generated through relation-specific investments are realized through lower total value chain costs, greater product differentiation, fewer defects and faster product development cycles. In this case the lower total costs that come with the cooperation are very important for the SME entrepreneurs to get involved.

- **Knowledge sharing routines**: Inter-organizational learning is critical to competitive success, noting that organizations often learn by collaborating with other organizations. The cooperation will stimulate knowledge sharing between different SMEs regarding their customers and their credit management practices, which will reduce their credit risk.

- **Complementary resources/capabilities**: Leverage the distinctive resources of alliance partners that collectively generate greater rents than the sum of those obtained from the individual endowments of each partner. So when SMEs, through the SME and branch-specific associations, cooperate with credit management associations in the development of credit management web application they in source the needed knowledge.

- **Effective governance**: Influences transaction costs, as well as the willingness of alliance partners to engage in value-creation initiatives.

O’Toole and McGregor (2010) have argued that SMEs need to build a set of capabilities that they need to effectively utilize and operate with their networks. They named this relational capabilities, which describe the process by which SMEs are connected in a network setting. Teece et al. (1997) defined relational capability as “the firm’s ability to integrate, build and reconfigure internal and external competencies to address rapidly changing environments” (Teece et al., 1997, pp 516). But perhaps relational capabilities are best described as the capacity of an SME to interact proactively with a wide range of connected actors to purposefully exchange knowledge, create opportunities and joint process improvements including adaptations and innovations. O’Toole and McGrath (2010) saw that relational capabilities can enrich the bundle of resources that the company has in an evolving manner. They emerge and deepen while the company both develops existing capabilities and explores new ones. When the company is in a highly uncertain situation, it uses their relational capabilities as they interact with external parties in order to get access to relevant resources and knowledge. Singh and Zollo (2004) suggest that experiential learning and institutionalized learning is able to develop relational capabilities and integration capabilities that are crucial to the success of alliances and acquisitions. Because of this they are developed and facilitated through learning, which for them is a key element of
superior relational capability: knowledge management. Relational management is the ability to coordinate alliance activities, manage conflict, foster trust and encourage information exchange between partners.

Within a cooperation SMEs are able to gain knowledge and develop relational capabilities. Knowledge management is seen as the superior relational capability and is the one of the reasons for the setup of a SME credit management cooperation.

O’Toole and McGrath (2010) defined relational capability dimensions which are important for the success of a SME credit management cooperation. They provided the following dimensions:

- **Realization capability**: the ability of SMEs to map out and realize that they are involved in business-to-business networks that could enhance their marketing efforts

- **Assessment capability**: the ability of SMEs to proactively manage their networks to; allocate time based on usefulness; strengthen worthwhile bonds; realize the benefit of weak ties; expand their networks

- **Access to knowledge**: the ability to generate, integrate and utilize knowledge from network flows emerges as a distinctive marketing oriented relational capability

- **Access to opportunity**: the ability to extract exploit opportunities in a network and improve the exchange process between SMEs in a network

- **Co-adaptation**: the ability to proactively adapt products and services through interaction within the network setting

- **Co-innovation**: the ability to tap into the pools of technologies and human resources in SME networks in order to jointly innovate

Entrepreneurs must see these dimensions as advantages, in this way they can make the most of the cooperation. Entrepreneurs also need to see the opportunities that come from cooperation. With the development of an SME credit management cooperation the stakeholders should keep the relational capabilities and the different dimensions into mind to maximize the chance of successful cooperation. When all stakeholders share the same goal, better credit management in SMEs, they will all be able to benefit. The creation of the cooperation will be a difficult process. Different stakeholders, holding different interests, need to be stimulated into participating. The credit management association will take initiative in starting the cooperation. They will have to define clear goals and need to provide a clear description of the necessary input of the different stakeholders. The cooperation solution can be translated into the following proposition:
**Proposition 4:** In the context of SMEs in a B2B environment (C), credit management associations could develop a web application in cooperation with SME stakeholders (I) with which entrepreneurs can perform credit checks, insure credit, monitor customers credit status and startup collection inquiries (M), which improves credit management in SMEs (O).

**LIMITATIONS AND IMPLICATIONS FOR FUTURE RESEARCH**

Most research has its limitations, this research as well. Validity and reliability are the main limitations. The first limitation regards the survey respondents. They were selected because they were on a list of entrepreneurs affiliated to the university. This does not give an accurate view regarding the whole SME group. These entrepreneurs could run their business in a different way, which makes the survey less applicable to all SMEs. In future research a sample group which fits the whole SME group should be chosen to gain a result that can be generalized.

Second the research was conducted by one researcher, he could be biased. Especially regarding the outcome of the in-depth interviews the researcher has a lot of influence, he could direct the interviews to fit his own thoughts. The interviewer tried to cope with this by only providing some main topics to be discussed. The interviewees were able to change subject if they thought it would provide more information on the main topics.

This research is regarded as explorative, which means that the researched problem is not clearly defined. The view on the credit management problem was established by distributing a survey to entrepreneurs and by conducting in-depth interviews with credit management experts. So quantitative as well as qualitative research was used to establish a view on the problem, which is in line with Yin (2004).

The provided solutions come from the in-depth interviews and can therefore be biased. In future research SMEs should have more input into the solutions. Also the solutions could be further specified and implemented into a branch to look at the effect they have. But we have to keep in mind that the conclusions of that research only will count for that branch.
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VRAGENLIJST MKB CREDIT MANAGEMENT

Tijdens de kredietcrisis bleek dat veel bedrijven moeite hadden om een gezonde liquiditeitspositie te behouden, een gedeelte ging failliet omdat ze hun lopende kosten niet meer konden betalen. Mede naar aanleiding van de liquiditeitsproblemen die veel MKB-ers hadden wordt er getracht inzicht te krijgen in de oorzaken van deze problemen. Daarom vragen wij u om deze vragenlijst in te vullen zodat wij inzicht krijgen in de eventuele liquiditeitsproblematiek van het MKB. Eerst zouden we graag wat algemene info van u krijgen zodat er ook rekening gehouden kan worden met de verschillen binnen het MKB.

Algemene info

1. Startjaar bedrijf:
2. Aantal werknemers:
3. Verwachte omzetgroei tot en met 2015 (in %):
4. Groei aantal werknemers tot en met 2015 (in %):
5. Hoe onderscheidt u zich het meest ten opzichte van de concurrentie?
   1. Een betere prijs-/kwaliteitverhouding van de producten/diensten
   2. Een hechte, langdurige relatie met klanten
   3. Aanbod van een of meer unieke producten/diensten
   4. Producten/diensten die geheel naar behoeve van een specifieke klant worden gemaakt


AFNEMERS

6. Ik ben geheel afhankelijk van één of een paar belangrijke klanten
7. Mijn klanten betalen de laatste jaren steeds trager
8. De relatie met de klant is zo sterk, dat hij altijd tijdig betaalt

9. Ik heb concrete targets in het debiteurenbeheer

10. We hebben speciale procedures voor het debiteurenbeheer

11. Het debiteurenbeheer is een zorgenkind in mijn bedrijf

12. Binnenhalen van opdrachten en debiteurenbeheer staan in mijn bedrijf op gespannen voet

13. Debiteurenbeheer heeft in mijn bedrijf een hogere prioriteit dan binnenhalen van grote opdrachten

14. Een hechte klantrelatie is in mijn bedrijf belangrijker dan tijdige betaling van rekeningen

15. Ik check altijd de kredietwaardigheid van een nieuw klant

16. Ik check continue de kredietwaardigheid van een bestaande klant

17. In mijn bedrijf is iemand speciaal belast met het debiteurenbeheer

18. Het debiteurenbeheer is uitbesteed aan een gespecialiseerd bureau

19. Ik maak gebruik van een incassobureau bij te lang uitstaande rekeningen

20. Ik gebruik een speciaal softwarepakket voor het credit management

21. Ik laat de klant vooraf betalen

22. De klant moet een aanbetaling doen

23. Ik gebruik incentives (kortingen etc.) om de klant op tijd te laten betalen

24. Ik neem persoonlijk contact op om de klant tot betaling aan te sporen

25. Iedereen in mijn bedrijf is zich bewust van de noodzaak tot goed debiteurenbeheer

26. Ik heb behoefte aan advies op het gebied van effectief debiteurenbeheer

27. Ik verwacht dat IT-software in mijn bedrijf kan bijdragen aan beter debiteurenbeheer

28. Mijn klanten hebben een hoge meerwaarde (bezorgen nieuwe klanten etc.)
29. Wanneer er Vereniging voor Credit Management in het MKB zou zijn, dan zou ik lid worden

**LEVERANCIERS**

30. Ik heb een goede persoonlijke band met mijn belangrijkste leveranciers

31. Ik krijg van mijn belangrijkste leveranciers gunstige betalingsvoorwaarden

32. Ik rek de betalingstermijn van mijn leveranciers bewust op

33. Ik betaal mijn belangrijkste leveranciers altijd op tijd

34. Mijn belangrijkste leveranciers hebben een hoge meerwaarde (bezorgen nieuwe klanten etc.)

**BANKEN**

35. Ik ben afhankelijk van een bank voor het op peil houden van mijn liquiditeitspositie

36. Indien een bank daarbij belangrijk is: Banken doen steeds moeilijker om krediet te krijgen
Corporate Strategy & Credit Management in SMEs

Student: Theo van Keppel
Thesis advisor: Prof. E.L.J. van der Veer
External thesis mentor: Jan Schneider-Maassenhoff, Bsc, CCM

APPENDIX B IN-DEPTH INTERVIEW INTRODUCTORY PRESENTATION

Problems in SME

- In 2009 a rise of 17 percent in German SME bankruptcies (IFM, 2010)
- On a full European scale (25 countries) Intrumjustitia (2010) stated that the average written-off percentage within Europe rose with 20%
- 52% of SME respondents within the EU are having problems lending from banks because they have reduced access to credit as banks remain less inclined to extend loans (Intrumjustitia (2010))

Strategies in large companies

- Custom product
- Optimize capacity on different projects
- Much knowledge
- Much experience
- Needs good reputation

Opportunity driven (Entrepreneurial approach)

- R&D
- Knowledge of market
- Short development cycle

- Focus on long lasting relationship with customer
- High service

Resources

- Psychological resources
  - Proactive
  - Performance focussed
  - Committed to others

- Economic resources
  - Resources that can be expressed in financial figures

- Human resources
  - Behavioural beliefs
  - Normative beliefs
  - Control beliefs

- Social resources
  - Relations and networks

- Custom product
- Optimize capacity on different projects
- Much knowledge
- Much experience
- Needs good reputation

Opportunity driven (Entrepreneurial approach)

- R&D
- Knowledge of market
- Short development cycle

- Focus on long lasting relationship with customer
- High service

Special Characteristics SME

- Action is only taken when the main process is endangered or when it is clear that real improvements can be made (this is partially because the SME receives little feedback from the environment)
- The entrepreneur mainly chooses for short term certainty, this leaves little resources for experimentation
- The enterprise is more reactive than proactive
- Banks mostly look at financial indicators, which makes it harder to get cash
- Almost no advocacy for SME

Resources

- Psychological resources
  - Proactive
  - Performance focussed
  - Committed to others

- Economic resources
  - Resources that can be expressed in financial figures

- Human resources
  - Behavioural beliefs
  - Normative beliefs
  - Control beliefs

- Social resources
  - Relations and networks

- Custom product
- Optimize capacity on different projects
- Much knowledge
- Much experience
- Needs good reputation

Opportunity driven (Entrepreneurial approach)

- R&D
- Knowledge of market
- Short development cycle

- Focus on long lasting relationship with customer
- High service

Questionnaire outcome

- 375 respondents consisting of:
  - 294 micro sized companies
  - 62 small sized companies
  - 16 medium sized companies

- Value disciplines respondents consisting of:
  - 69 operational excellence
  - 101 customer intimacy
  - 99 product leadership
  - 107 resource enrichment

Questionnaire outcome (2)

- Speed of payment:
  - Companies with any of the different value disciplines focus on a good relation with their customer, customer intimacy scores a bit higher on the speed of payment
  - Companies do not require (partial) prepayment
  - Companies do not try to pay their own bills later
### Questionnaire outcome (3)
- Credit management:
  - Companies do not have a specialist for credit management in their organization
  - Companies do not use incentives to motivate their customers to pay quickly
  - Companies with any of the different value disciplines do not see any credit management problems
  - Credit management does not have a high priority in any of the companies
  - All used value disciplines show that getting new customers is more important than good credit management
  - Companies do not try to pay their own bills later

### Questionnaire outcome (4)
- Loans:
  - Companies do not depend on banks for maintaining a healthy liquidity position
  - It is becoming harder to get a loan at the banks

- Possible improvements:
  - Entrepreneurs do not demand a credit management solution for SME
  - Entrepreneurs do not demand any advice concerning credit management

### Discussion
- So most entrepreneurs do not have the feeling that they need to make more use of credit management. Still the figures show that SMEs get liquidity problems when the market goes down or other problems come up.
- Is there a way to help SMEs with their liquidity position while taking their concerns and their position against credit management into account?
- On which aspects do they need to focus? And is there a way to make sure that only very few resources will have to be used for this solution?
### APPENDIX C ANOVA

**DIVIDED BY STRATEGIC FOCUS**

<table>
<thead>
<tr>
<th>ANOVA</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>6. Ik ben geheel afhankelijk bent van één of een paar belangrijke klanten</td>
<td>Between Groups 12,832</td>
<td>3</td>
<td>4,277</td>
<td>2,433</td>
<td>.065</td>
</tr>
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<td>Within Groups 648,798</td>
<td>369</td>
<td>1,758</td>
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<td></td>
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<tr>
<td></td>
<td>Total            661,630</td>
<td>372</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Mijn klanten betalen de laatste jaren steeds trager</td>
<td>Between Groups 2,791</td>
<td>3</td>
<td>.930</td>
<td>.598</td>
<td>.617</td>
</tr>
<tr>
<td></td>
<td>Within Groups 574,276</td>
<td>369</td>
<td>1,556</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>Total            577,067</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. De relatie met de klant is zo sterk, dat hij altijd tijdig betaalt</td>
<td>Between Groups 5,667</td>
<td>3</td>
<td>1,889</td>
<td>1,581</td>
<td>.194</td>
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<tr>
<td></td>
<td>Within Groups 441,019</td>
<td>369</td>
<td>1,195</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total            446,686</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. Ik heb concrete targets in het debiteurenbeheer</td>
<td>Between Groups 9,905</td>
<td>3</td>
<td>3,302</td>
<td>1,954</td>
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<td>Within Groups 623,414</td>
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<td>1,689</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>Total            633,319</td>
<td>372</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10. We hebben speciale procedures voor het debiteurenbeheer</td>
<td>Between Groups 2,613</td>
<td>3</td>
<td>.871</td>
<td>.390</td>
<td>.760</td>
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<tr>
<td></td>
<td>Within Groups 824,089</td>
<td>369</td>
<td>2,233</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total            826,702</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11. Het debiteurenbeheer is een zorgenkind in mijn bedrijf</td>
<td>Between Groups 1,714</td>
<td>3</td>
<td>.571</td>
<td>.438</td>
<td>.726</td>
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<td></td>
<td>Within Groups 481,187</td>
<td>369</td>
<td>1,304</td>
<td></td>
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<tr>
<td></td>
<td>Total            482,901</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12. Binnenhalen van</td>
<td>Between Groups 2,565</td>
<td>3</td>
<td>.855</td>
<td>.732</td>
<td>.534</td>
</tr>
</tbody>
</table>

94
|  | Within Groups | Total |  
|---|---|---|---|
| 95 | opdrachten en debiteurenbeheer staan in mijn bedrijf op gespannen voet | 431,199 | 369 | 1,169 |
| 13. | Debiteurenbeheer heeft in mijn bedrijf een hogere prioriteit dan binnenhalen van grote opdrachten | 4,953 | 3 | 1,651 | 2,256 | .081 |
| 14. | Een hechte klantrelatie is in mijn bedrijf belangrijker dan tijdige betaling van rekeningen | 8,507 | 3 | 2,836 | 2,035 | .109 |
| 15. | Ik check altijd de kredietwaardigheid van een nieuw klant | 6,274 | 3 | 2,091 | 1,278 | .282 |
| 16. | Ik check continue de kredietwaardigheid van een bestaande klant | 6,432 | 3 | 2,144 | 2,113 | .098 |
| 17. | In mijn bedrijf is iemand speciaal belast met het debiteurenbeheer | 5,906 | 3 | 1,969 | .714 | .544 |
| 18. | Het debiteurenbeheer is uitbesteed aan een gespecialiseerd bureau | .531 | 3 | .177 | .675 | .568 |
| 19. | Ik maak gebruik van een incassobureau bij te lang uitstaande rekeningen | 8,738 | 3 | 2,913 | 1,359 | .255 |
| 20. | Ik gebruik een speciaal | 2,887 | 3 | .962 | .570 | .635 |
| softwarepakket voor het credit management | Within Groups | 623,038 | 369 | 1,688 |  |
| Total | 625,925 | 372 |  |

| 21. Ik laat de klant vooraf betalen | Between Groups | 25,469 | 3 | 8,490 | 4,397 | 0.005 |
| Within Groups | 712,403 | 369 | 1,931 |  |
| Total | 737,871 | 372 |  |

| 22. De klant moet een aanbetaling doen | Between Groups | 20,498 | 3 | 6,833 | 3,200 | 0.023 |
| Within Groups | 787,910 | 369 | 2,135 |  |
| Total | 808,408 | 372 |  |

| 23. Ik gebruik incentives (kortingen etc.) om de klant op tijd te laten betalen | Between Groups | 1,134 | 3 | 0.378 | 0.387 | 0.762 |
| Within Groups | 360,116 | 369 | 0.976 |  |
| Total | 361,249 | 372 |  |

| 24. Ik neem persoonlijk contact op om de klant tot betaling aan te sporen | Between Groups | 724 | 3 | 0.241 | 0.207 | 0.892 |
| Within Groups | 430,596 | 369 | 1,167 |  |
| Total | 431,319 | 372 |  |

| 25. Iedereen in mijn bedrijf is zich bewust van de noodzaak tot goed debiteurenbeheer | Between Groups | 1,023 | 3 | 0.341 | 0.272 | 0.845 |
| Within Groups | 461,996 | 369 | 1,252 |  |
| Total | 463,019 | 372 |  |

| 26. Ik heb behoefte aan advies op het gebied van effectief debiteurenbeheer | Between Groups | 2,160 | 3 | 0.720 | 0.868 | 0.458 |
| Within Groups | 306,173 | 369 | 0.830 |  |
| Total | 308,332 | 372 |  |

| 27. Ik verwacht dat IT-software in mijn bedrijf kan bijdragen aan beter debiteurenbeheer | Between Groups | 8,148 | 3 | 2,716 | 1,298 | 0.275 |
| Within Groups | 772,264 | 369 | 2,093 |  |
| Total | 780,413 | 372 |  |

<p>| 28. Mijn klanten hebben een | Between Groups | 1,363 | 3 | 0.454 | 0.566 | 0.638 |</p>
<table>
<thead>
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<th>Betekenis</th>
<th>Between Groups</th>
<th>Within Groups</th>
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<td>hoge meerwaarde (bezorgen nieuwe klanten etc.)</td>
<td>296,251</td>
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<td>.803</td>
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<td>29. Wanneer er Vereniging voor Credit Management in het MKB zou zijn, dan zou ik lid worden</td>
<td>1,193</td>
<td>3</td>
<td>.398</td>
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<td>Total</td>
<td>280,332</td>
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<td></td>
</tr>
<tr>
<td>30. Ik heb een goede persoonlijke band met mijn belangrijkste leveranciers</td>
<td>3,487</td>
<td>3</td>
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<td>Total</td>
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<td>31. Ik krijg van mijn belangrijkste leveranciers gunstige betalingsvoorwaarden</td>
<td>5,970</td>
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<td>Total</td>
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<td>32. Ik rek de betalingstermijn van mijn leveranciers bewust op</td>
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<td>Total</td>
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<td>33. Ik betaal mijn belangrijkste leveranciers altijd op tijd</td>
<td>9,061</td>
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<td>Total</td>
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<td>34. Mijn belangrijkste leveranciers hebben een hoge meerwaarde (bezorgen nieuwe klanten etc.)</td>
<td>3,824</td>
<td>3</td>
<td>1,275</td>
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<td>Total</td>
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<td>35. Indien een bank daarbij een bank voor het op peil houden van mijn liquiditeitspositie</td>
<td>.062</td>
<td>3</td>
<td>.021</td>
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<tr>
<td>Total</td>
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<tr>
<td>36. Indien een bank daarbij</td>
<td>1,075</td>
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belangrijk is: Banken doen steeds moeilijker om krediet te krijgen

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<tr>
<td><strong>Within Groups</strong></td>
<td>408,043</td>
<td>368</td>
<td>1,109</td>
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DIVIDED BY SME SIZE

DIVIDED BY SME SIZE

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<td><strong>Between Groups</strong></td>
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<td>2</td>
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<td>652,986</td>
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<td>1,770</td>
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<tbody>
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<td><strong>Total</strong></td>
<td>576,699</td>
<td>371</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Within Groups</strong></td>
<td>561,762</td>
<td>369</td>
<td>1,522</td>
<td></td>
</tr>
<tr>
<td><strong>Between Groups</strong></td>
<td>14,937</td>
<td>2</td>
<td>7,469</td>
<td>4,906</td>
</tr>
<tr>
<td><strong>Within Groups</strong></td>
<td>561,762</td>
<td>369</td>
<td>1,522</td>
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<table>
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<tr>
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<td><strong>Within Groups</strong></td>
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</tr>
<tr>
<td><strong>Between Groups</strong></td>
<td>12,530</td>
<td>2</td>
<td>6,265</td>
<td>5,351</td>
</tr>
<tr>
<td><strong>Within Groups</strong></td>
<td>432,016</td>
<td>369</td>
<td>1,171</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
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<tr>
<td><strong>Total</strong></td>
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</tr>
<tr>
<td><strong>Within Groups</strong></td>
<td>603,235</td>
<td>369</td>
<td>1,635</td>
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<tr>
<td><strong>Between Groups</strong></td>
<td>25,238</td>
<td>2</td>
<td>12,619</td>
<td>7,719</td>
</tr>
<tr>
<td><strong>Within Groups</strong></td>
<td>603,235</td>
<td>369</td>
<td>1,635</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Sum of Squares</th>
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</tr>
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<td>369</td>
<td>1,923</td>
<td></td>
</tr>
<tr>
<td><strong>Between Groups</strong></td>
<td>117,039</td>
<td>2</td>
<td>58,520</td>
<td>30,428</td>
</tr>
<tr>
<td><strong>Within Groups</strong></td>
<td>709,660</td>
<td>369</td>
<td>1,923</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
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</tr>
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<td>1,284</td>
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</tr>
<tr>
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<td>4,778</td>
<td>2</td>
<td>2,389</td>
<td>1,861</td>
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</tbody>
</table>
12. Binnenhalen van opdrachten en debiteurenbeheer staan in mijn bedrijf op gespannen voet

<table>
<thead>
<tr>
<th></th>
<th>Between Groups</th>
<th>Within Groups</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>.348</td>
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<td>.174</td>
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<tr>
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<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>428,392</td>
<td>369</td>
<td>1,161</td>
</tr>
<tr>
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<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>428,739</td>
<td>371</td>
<td></td>
</tr>
</tbody>
</table>

13. Debiteurenbeheer heeft in mijn bedrijf een hogere prioriteit dan binnenhalen van grote opdrachten

<table>
<thead>
<tr>
<th></th>
<th>Between Groups</th>
<th>Within Groups</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>3,623</td>
<td>2</td>
<td>1,811</td>
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<tr>
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<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>271,052</td>
<td>369</td>
<td>.735</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>274,675</td>
<td>371</td>
<td></td>
</tr>
</tbody>
</table>

14. Een hechte klantrelatie is in mijn bedrijf belangrijker dan tijdige betaling van rekeningen

<table>
<thead>
<tr>
<th></th>
<th>Between Groups</th>
<th>Within Groups</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>5,238</td>
<td>2</td>
<td>2,619</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>516,985</td>
<td>369</td>
<td>1,401</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>522,223</td>
<td>371</td>
<td></td>
</tr>
</tbody>
</table>

15. Ik check altijd de kredietwaardigheid van een nieuwe klant

<table>
<thead>
<tr>
<th></th>
<th>Between Groups</th>
<th>Within Groups</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>14,375</td>
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<td></td>
<td>593,439</td>
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<td></td>
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<tr>
<td></td>
<td>607,815</td>
<td>371</td>
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</tbody>
</table>

16. Ik check continue de kredietwaardigheid van een bestaande klant

<table>
<thead>
<tr>
<th></th>
<th>Between Groups</th>
<th>Within Groups</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>11,777</td>
<td>2</td>
<td>5,888</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>368,503</td>
<td>369</td>
<td>.999</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>380,280</td>
<td>371</td>
<td></td>
</tr>
</tbody>
</table>

17. In mijn bedrijf is iemand speciaal belast met het debiteurenbeheer

<table>
<thead>
<tr>
<th></th>
<th>Between Groups</th>
<th>Within Groups</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
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<tr>
<td></td>
<td>1020,911</td>
<td>371</td>
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</table>

18. Het debiteurenbeheer is uitbesteed aan een gespecialiseerd bureau

<table>
<thead>
<tr>
<th></th>
<th>Between Groups</th>
<th>Within Groups</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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<tr>
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<tr>
<td></td>
<td>97,258</td>
<td>371</td>
<td></td>
</tr>
</tbody>
</table>

19. Ik maak gebruik van een incassobureau bij te lang

<table>
<thead>
<tr>
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<th>Between Groups</th>
<th>Within Groups</th>
<th>Total</th>
</tr>
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<tbody>
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<td></td>
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<td>uitstaande rekeningen</td>
<td>Total</td>
<td>Between Groups</td>
<td>Within Groups</td>
</tr>
<tr>
<td>-----------------------</td>
<td>-----------</td>
<td>----------------</td>
<td>--------------</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>21. Ik laat de klant vooraf betalen</td>
<td></td>
<td>3,187</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>22. De klant moet een aanbetaling doen</td>
<td></td>
<td>6,407</td>
<td>2</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>23. Ik gebruik incentives (kortingen etc.) om de klant op tijd te laten betalen</td>
<td></td>
<td>17,287</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>24. Ik neem persoonlijk contact op om de klant tot betaling aan te sporen</td>
<td></td>
<td>1,890</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>25. Iedereen in mijn bedrijf is zich bewust van de noodzaak tot goed debiteurenbeheer</td>
<td></td>
<td>9,194</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>26. Ik heb behoefte aan advies op het gebied van effectief debiteurenbeheer</td>
<td></td>
<td>2,197</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>27. Ik verwacht dat IT-software in mijn bedrijf kan</td>
<td></td>
<td>36,589</td>
<td>2</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bijdragen aan beter debiteurenbeheer</td>
<td>Total</td>
<td>777,731</td>
<td>371</td>
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<tr>
<td>--------------------------------------</td>
<td>-------</td>
<td>---------</td>
<td>-----</td>
</tr>
<tr>
<td>28. Mijn klanten hebben een hoge meerwaarde (bezorgen nieuwe klanten etc.)</td>
<td>Between Groups</td>
<td>838</td>
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</tr>
<tr>
<td></td>
<td>Within Groups</td>
<td>295,837</td>
<td>369</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>296,675</td>
<td>371</td>
</tr>
<tr>
<td>29. Wanneer er Vereniging voor Credit Management in het MKB zou zijn, dan zou ik lid worden</td>
<td>Between Groups</td>
<td>1,231</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Within Groups</td>
<td>273,081</td>
<td>369</td>
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<tr>
<td></td>
<td>Total</td>
<td>274,312</td>
<td>371</td>
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<td>30. Ik heb een goede persoonlijke band met mijn belangrijkste leveranciers</td>
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<td>2,982</td>
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<tr>
<td></td>
<td>Within Groups</td>
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<tr>
<td></td>
<td>Total</td>
<td>415,473</td>
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</tr>
<tr>
<td>31. Ik krijg van mijn belangrijkste leveranciers gunstige betalingsvoorwaarden</td>
<td>Between Groups</td>
<td>8,888</td>
<td>2</td>
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<tr>
<td></td>
<td>Within Groups</td>
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<td></td>
<td>Total</td>
<td>429,642</td>
<td>371</td>
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<td>32. Ik rek de betalingstermijn van mijn leveranciers bewust op</td>
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<td>Within Groups</td>
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<tr>
<td></td>
<td>Total</td>
<td>579,892</td>
<td>371</td>
</tr>
<tr>
<td>33. Ik betaal mijn belangrijkste leveranciers altijd op tijd</td>
<td>Between Groups</td>
<td>2,960</td>
<td>2</td>
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<tr>
<td></td>
<td>Within Groups</td>
<td>377,707</td>
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<tr>
<td></td>
<td>Total</td>
<td>380,667</td>
<td>371</td>
</tr>
<tr>
<td>34. Mijn belangrijkste leveranciers hebben een hoge meerwaarde (bezorgen nieuwe klanten etc.)</td>
<td>Between Groups</td>
<td>448</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Within Groups</td>
<td>618,626</td>
<td>369</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>618,675</td>
<td>371</td>
</tr>
<tr>
<td>35. In ben afhankelijk van een bank voor het op peil</td>
<td>Between Groups</td>
<td>18,866</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Within Groups</td>
<td>526,260</td>
<td>368</td>
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</tbody>
</table>

101
<table>
<thead>
<tr>
<th>houden van mijn liquiditeitspositie</th>
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<th>370</th>
</tr>
</thead>
<tbody>
<tr>
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<td>545,127</td>
<td></td>
</tr>
</tbody>
</table>

| 36. Indien een bank daarbij belangrijk is: Banken doen steeds moeilijker om krediet te krijgen | Between Groups | 6,165 | 2   | 3,082 | 2,817 | .061 |
|                                                                                           | Within Groups | 402,590 | 368 | 1,094 |       |     |
|                                                                                           | Total         | 408,755 | 370 |       |       |     |
The interviewee agrees with the insights that are given regarding SMEs. She is Director of Operations for a company that offers IT solutions for Credit Management. The company was started as a normal company which did not have a tie with Credit Management. The company then got into liquidity problems went bankrupt. Because of their liquidity problems the entrepreneur then developed an IT based tool to work with the debtors. This was developed for their own organization which was a small enterprise. Because they saw the need within their own SME organization, they thought that there was a huge market for this solution, since they were in need for this and there was no other SME solution yet. They then commercialized their Credit Management product and put it on the market. However the solution never became a success, because there was a very low demand for the product, therefore the company later focused on creating an IT Credit Management solution for large companies, which is still their main business. The cause for the low demand for credit management solutions by SMEs comes from the short term focus of these companies. For their company the SME market still is not interesting and she does not see any changes in this position in the near future. The company however still offers a solution for SMEs, this can be seen as a cheap light version of their solution, the demand for this is very low. One of the problems with getting SMEs to use their software is that the margin on the product is very low, there is not enough margin to use professional sales, the customers need to buy the software their selves, selling it to them is too expensive.

One of the reasons for the failing of their first SME product was that it was too much trouble to integrate the tool into the accounting software of the SME. Entrepreneurs are not willing to spend time or money into this solution, which is the main problem of the SME-CM market.

An important stakeholder that needs to help entrepreneurs is a relevant association. These associations can be branch specific, but they can also represent all SMEs (like MKB-Nederland). These associations can help to make sure that the entrepreneur sees the importance of good credit management. A call on their emotions might help, so by giving examples of companies that went bankrupt because of trouble with debtors. Also it could be useful to try to get some example companies, which have status, to be first movers into using credit management to show their colleagues that it pays off.

Credit management should be integrated into the financial systems of a company, however an IT solution is not always necessary. A simple solution for the handling of debtors which is
already on the market is debtoronline.com which has a focus on speed and costs, however this initiative also is not a success. **It is important to monitor payment behavior continuously.** In this way changes in payment behavior can be detected immediately. SMEs should financially profile their customers, this can be done using credit information bureaus. SMEs can also profile their customers their selves, by asking around in their network.

**SMEs number 1 priority should be to make sure that the bills are sent out as soon as possible.** They should be accompanied by **clear payment conditions,** sometimes they can improve them for customers with a bigger risk by asking a full prepayment. It does not really matter what happens within the SMEs, as long as **Credit Management is a part of their main process and not a bystander.**

**Interviewee: Mannes Westhuis**
**Function: Chief Commercial Officer at Beerens Collection Attorneys**
**Date: 07/07/11**

The interviewee works as a collection lawyer and previously had a position in a credit management association. He believes that the ratio in the market is more important than the judicial aspects. **The SMEs know and accept the difference in power in comparison to larger companies.**

The government could try to help SMEs by legislation, however the chance of success is not very big. Commercial parties already are trying to help SMEs with their credit management, but this help is hardly used, so they are not offering in the right way. **Price is of upmost importance for SMEs** when they buy a credit management solution, the suppliers should keep this in mind.

**Awareness about Credit Management and the advantages coming from credit management should be created,** mostly through the channels that are already in place for SMEs (MKB-Nederland, etc.). It can be helpful to get more speakers in SME seminars and by publishing credit management articles in SME magazines. **Social media could also be used to reach entrepreneurs,** since it is an easy non time consuming way of communication. Still it will be hard to reach SMEs, since most entrepreneurs stop listening when the topic credit management comes up. The credit management associations are more of a doctor and therefore they are not part of the scene. This makes it hard to reach the entrepreneurs, which results in a **low interest in Credit Management within SMEs.**

A cheap **first aid credit management kit** could be developed by credit management associations which should create a minimum standard for SMEs. SMEs need to have a good view of whom they are doing business with. They need to perform credit checks and they need to continuously update this status.
The problems that exist are part of the business model of SMEs. The interviewee thinks that after the credit crunch not much has changed in the way SMEs work with Credit Management. Only when a company becomes bigger the entrepreneur realizes that Credit Management is more important, so from then on they put more effort into Credit Management.

If a company fails, this is due to the view of the entrepreneur. This is characterized by an example with the paradise island game. A kid can realize a higher growth in the game, the adult could lose. But because of the risks that need to be taken to get this growth many times this results in liquidity problems, the kid then loses. Next time the kid will keep this in mind when facing decisions. Bankruptcy is a part of the learning curve of an entrepreneur.

Good entrepreneurs take Credit Management into account, this is one of the reasons that they are seen as good entrepreneurs

The interviewee thinks that honest and hard systems which are the best. When an entrepreneur is bankrupt he should learn from his mistake and take his experience into a new company. He should not let the company exist by asking financial support in most cases because this will limit the growth potential.

Customer intimacy is sometimes seen as doing everything for the customer. Entrepreneurs should focus more on their own business, in this way SMEs can reduce their risks.

By creating awareness in SMEs the problem could be tackled. The use of Credit Management is already becoming more easy. The awareness creation should deal with the following:

1. What is for sale?
2. How healthy is the intimacy with the customer?
3. Availability (are the products on the markets easy enough to use and are they cheap enough)

Interviewee: Frits Vromen
Function: Senior Relationship Manager at Rabobank
Date: 12/07/11

SMEs are very dependent on their customers. They are forced to take more risks.

The difference between large and smaller companies is very big from the perspective of a bank. In SMEs:

- the entrepreneur is very important
- the company depends very much on the entrepreneur
- entrepreneurs think that they can do everything their selves
- entrepreneurs are afraid of losing customers
- entrepreneurs are opportunists
- Entrepreneurs don’t (or do not want to) see the risks coming with some customers
- The attitude of the entrepreneur in the relation with the customer is not good

Entrepreneurs have problems with information. They mostly do not use debtor information and they are many times too small to make use of credit insurances. But the SMEs should look at the quality of their customers, for example with the information of Graydon. It is most important for them to collect information about their customers.

The SMEs can be helped by:

- informing themselves better about their customers
- getting information more systematically (so integrate in the process)
- Work more pro-active

But SMEs do not show much interest in Credit Management. An easy to use cheap payment information system could be a solution. In this system many entrepreneurs should give input on payment behavior of customers this system should be maintained by a commercial party (like BKR). To reach the SME the use of associations could be helpful. MKB-Nederland is a commercial club, maybe it is easier to reach for the entrepreneurs trough associations like FME and VNO. The best solution should come from the market and should contain a large database concerning payment behavior. So to solve the problem a lot of data is necessary, therefore a commercial party could give the best solution. The biggest problem to get a database or a widely used tool is that many entrepreneurs should be mobilized, otherwise the commercial party will earn no money which will stop the project and also there will be not enough payment behavior information in the database.

It is possible to get a credit check through Credit Insurance companies. When a customer is not creditworthy they will tell before any relation with the customer is in place. There are still costs, but it is an easy alternative if a company only has few customers.

Banks are not willing to co-operate on these solutions, their margins are already too small. Not only the banks, but also the credit insurance companies were harder in their judgment after the credit crunch

The government needs to set some boundaries, but mostly we should let the markets do their work.
Interviewee: Andreas van Koeverden  
Function: Working Capital Manager at TNT  
Date: 14/07/11

In the view of the entrepreneur the value of Credit Management is only limited. The Interviewee sees that entrepreneurial friends in his environment see Credit Management as a limitation to their customer intimacy.

Entrepreneurs are not willing to join credit management associations since the membership fees are too high.

SMEs work reactive, like stated in the introduction. Their decision making is too slow when problems arise. The entrepreneur needs more information regarding the customer, but is not willing to look for this. A startup company needs to integrate credit management into their business plan. With this integration they make sure that they will not just try to get in as many customers as they can, without thinking about the consequences of late or non-paying customers. It is possible to follow a course regarding CM through the chamber of commerce in the Netherlands.

In any company the process needs to be streamlined, assessments need to be inserted into the process and the company needs to decide which information it needs regarding the financial background of their new and existing customers. But in SMEs many times the entrepreneur is too optimistic, since everything is going well. To make sure it keeps on going well the entrepreneur needs to get a balance between their new customers and their Credit Management.

Some entrepreneurs are just not 100% entrepreneurs, they do not own all the competences which are required to let the company survive and grow in the long term.

SMEs need to perform credit checks:

- this is an important part of the process
- they need structured information on the financial history of the customer
- they need to talk to their customers in a structural way (so they need to ask how the financial position of the customer is, since a customer will be reliant to tell himself)

The credit check does not need to be seen as the absolute truth, it is merely an indicator which can be used to set up a level of trust. A personal conversation with the customer is important, however the right questions need to be asked.
Some kind of BKR for SMEs is not a solution, this will be limiting for the company. The use of IT could be useful, but an additional tool is difficult in implementing, a good way to offer a CM solution to SME entrepreneurs is to implement it into accounting software, which most companies already use, this should however not be an external add on, but a standard option within the software package, so the entrepreneurs have almost no barriers to use it. The SMEs could use scoring, but this is probably too time consuming.

It is important that SMEs pro-actively use notifications for customers with payment issues.

When a company grows more resources become available for credit management and a more professional view of the organization will be in place. The best solution is to get the entrepreneurs interested in credit management, so that they see the need for it themselves. But Credit Management is seen as an negative subject, because of the negative air around it, it is harder to talk about. For example sales is a positive subject, therefore it will be discussed easier.

The interviewee thinks that banks could provide courses for SMEs regarding credit management. Also he notes that credit management should be viewed from a business opportunity perspective to get entrepreneurs more interested.

Creating awareness among entrepreneurs is the solution. Credit management has to become an integrated part of standard business discussion, they have to be aware of the advantages. The interest of the entrepreneurs also needs to focus on credit management, this can be accomplished using marketing. The entrepreneurs need to be told that credit management is making use of your knowledge (about your customer and your process) and that using CM will gain efficiency. The blind spot for entrepreneurs is that the company needs to grow in a healthy way. If marketing is used it needs to be brought in a positive way, as a chance to do better business

When we look at the value disciplines we see no real difference in the marketing aspects. First we need to get the attention of the entrepreneur to credit management. After that they can choose themselves in what way and which aspects suits best for their situation

The government does not have to act, leave it to the market.

Interviewee: Eckart Gaertner
Function: Vice-president Sales at Schufa
Date: 22/07/11

Important for an entrepreneur is to gain information at an early point in time. How important this is depends on the risk of the business. How much aspects of credit
management need to be used also depends on the number of customers that the company has, with few customers only little is needed. All companies should know their risk, they need to have an overview of the risks that are involved. But existing companies many times think they have an overview of the risks, since 95% of the sales is with existing customers. **For the sales to existing customers a monitoring system needs to be in place.** The situation of the customer could have gone worse after some time.

An entrepreneur needs to look at his margin, and then calculate how much money he can invest in Credit Management practices. A normal margin is to invest 0.5% of the bill into credit bureau reports (so credit information about the customer).

For customers which involve big amounts of money good reports need to be available, also monitoring systems could be used.

Only real small companies do not use CM at all. Other companies have their own way of credit management. To get the attention of SMEs and to get SMEs to use CM it could be an idea to show the problems of companies that did not use credit management. This could give a shock effect.

**An online risk assessment app could be a solution,** the risk for a particular customer can be shown in tables and with a score system. The online risk assessment should also look at the margin of the business and then give some numbers which are from an expert point of view. **This online system needs to be seen as an expert system which could give the same information as a credit bureau or a consultant.** This tool should be developed by credit bureaus because of their experience. But an online tool is probably not the solution, since it costs money and entrepreneurs are not reliant to work with these solutions. By using Guardian, Debitex, Schumann or Kompeter a company is able to implement their own strategy into their credit management tool, but mostly this is too expensive for SMEs.

The credit information company has many SMEs as customer, they pay a minimum of 600 euro a year to get access to credit information. For many companies this still is too expensive.

Getting the attention of entrepreneurs for credit management through associations could be a good way to create awareness amongst them. The credit information company contacts SME customers mainly in three ways. They send out mailings, they advertize, they use mouth2mouth by making sure customers are satisfied with their service, so they will spread the word.

**A data pool could be created, but probably not enough information will be entered in the pool,** there are already data pools in place which are not good enough or too expensive and therefore are not used. Also data pools are too complicated for SMEs. **Most companies just**
need credit bureau reports and they need to put a monitoring system into place to be aware of risks at all time.

Creating awareness is a solution, because the entrepreneur should want to reduce risks by using credit management himself!

The creation of awareness could be done through:

- SME associations
- Publications
- chamber of commerce
- articles in papers

**Interviewee: Niels Witteman**
**Function: Product manager at Atradius**
**Date: 25/07/11**

Atradius has many SME customers, but these are mostly medium sized companies. They use a professional organizational structure and many times have specialized credit managers. Approximately 5% of the SMEs uses a credit insurance. The costs for a credit insurance are approximately 0.2% of the revenue of the customer.

**SMEs need to screen the financial position of their customer before they do business and while they do business.** The personal tie to the customer is many times seen as a form of insurance, while it is not! Awareness of how to make sure customers pay needs to in place.

Credit insurances are expensive for most SMEs, 2500 euro is the minimum price. This is the reason that many SMEs do not use credit insurances. Companies do not use IT tools, because they find them too expensive. To buy credit information could be a solution, but this is not enough, **the information does not only need to be available, but it also needs to be interpreted**, this is important, but hard for many entrepreneurs. The database has all the information available, but not all the financial statements could be available, so this still does not give a good view on the creditworthiness of the customer.

The government is not in the position to get involved in this subject, they are not able to contribute anything useful. Everything they do will probably affect the market.

**The use of credit management should be integrated into the business plan,** in this way entrepreneurs start thinking about it in the early stages of their startup.
D&B has a large portfolio of clients including SMEs. The interviewee recognizes the view that is sketched in the introduction. However she misses cross border (i.e. Germany-Netherlands) business, since it is harder for companies to collect their money when something is wrong. From experience she sees that companies near the border will have more problems receiving payments, because of different cultures, different mindsets, different legislation or rules, etc.

The b2b market is in trouble because of international competition and because of non-paying customers. Many B2B SMEs do business with companies in foreign countries.

Government always are a late payer, but eventually they will pay. In case of late paying businesses entrepreneurs should know that they can be a bit rude to their customers when they haven’t received payment yet.

The entrepreneurs of SMEs need seminars in strategic business planning to strengthen their knowledge of what is necessary to lead a company. In these seminars cash or credit management can be packaged into a marketing or an economic seminar. In this way the entrepreneurs are attracted with subjects that they are interested in, once they attend the seminar they will also receive some information regarding credit management.

One of the ways to show SMEs how business is done regarding credit management is by creating transparency of the processes at large companies. SMEs can learn from the way the large companies handle their credit management. And in this way they can pick out the aspects that are most important for their business, they can create a direct and easy solution their selves. This could all be task for the credit management associations.

Another solution could be to create an easy to understand web solution which is linked to the different professional parties that are specialized in aspects of credit management.

All initiatives should be brought through the different specific SME associations, for example branch-specific associations. The credit management association should partner up with the other associations, and with this help they can create a general application that can be used by all, after some branch specific details are implemented.

The credit management association should build a simple web application while cooperating with other stakeholders, like the branch association. This program should give the entrepreneurs access to check companies credit status, get a credit insurance, monitor the credit status of their customers, and to startup an collection inquiry. All these products should be bought by a cooperation to reduce the costs of these actions and services. This
cooperation should be seen as a group of companies who can share the costs of these products. They can also create a data pool which is branch specific. They will also help other companies, since many companies will have the same customers and suppliers. Usually entrepreneurs are scared to lose their customers, even when they are having trouble getting their payment. If this non paying customer is in the data pool he will probably not be able to buy at one of the competitors, so entrepreneurs lose this fear of losing the customers.

The branch specific associations could put their own logo on the tool that is created by the credit management association and they could adjust the web application to the need of the branch. Companies will help each other by using this tool!

**There are 2 weaknesses in this approach:**

- **It will be very hard to partner up for the credit management association**
- **The different associations (also the credit management association) do not have any time for a project like this.**

In the B2B segment entrepreneurs are a bit scared of losing their customers. The clustering of companies in the branch will give them a power advantage.

The credit management association could write a checklist or a manual for people who want to start a company. They should make sure that this manual will be distributed through the different initiatives that try to help entrepreneurs with startups.

The government could do something in an ideal situation, however when facing reality it seems smarter to have no government involvement, since they will disturb the market.