

A study of trade credit: Best practices for managing accounts receivable

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ABSTRACT

The existing body of literature related to trade credit identifies accounts receivable as a key component of working capital and the cash conversion cycle, asserting that effective receivables management is vital to profitability, cash flows, and firm value. The literature suggests a number of methods for evaluating accounts receivable but only hints at ways in which managers can improve accounts receivable management. It is evident that company profits benefit from credit sales and that effective management techniques are needed to avoid payment delays and defaults. The purpose of this study is to identify from the literature several best practices related to credit policies, billing procedures, and collections practices. The research methodology included a careful sorting of 177 articles related to accounts receivable and firm performance. I utilized my expertise as a credit manager, accounting manager, and controller to identify and expand on best practices for managing accounts receivable. The findings support the assertion that best practices for managing account receivable are scarcely mentioned in the literature. The contribution to the literature is a detailed description of several best practices for improving the management of accounts receivable that are specifically related to credit policies, billing procedures, and collections practices.

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1. INTRODUCTION

There is no shortage of literature related to the study of accounts receivable and accounts receivable management. The vast majority of research is focused on the need to assess the performance of accounts receivable. Recent studies by Puri Suwantari, Ariana, and Adi Suprpto (2020) and Ugwuodho and Onmonya (2022) suggested that management use ratios to assess accounts receivable. Another recent study by DeFranco and Schmidgall (2020) recommended that managers use an aging report along with the statement of cash flows to evaluate receivables. The literature makes it abundantly clear that company profits benefit from credit sales and that effective accounts receivable management is needed to minimize losses due to defaults (Mbula et al., 2016; Mbembe et al., 2017; Ugwuodho & Onmonya, 2022). Some researchers call for managers to continuously monitor accounts receivable (Hill et al., 2015), but there is a significant lack of literature that provides managers with explicit strategies for addressing accounts receivable problems after they have occurred. For example, some researchers suggest using average collection period (or days receivable outstanding) to evaluate accounts receivable (Martinez-Solo et al., 2013; Azeez et al., 2016; Samiloglu & Akgun, 2016; Al-Abass, 2017; Al-Mohareb, 2019; Golas, 2020; Suwantari et al., 2020; Yin et al., 2021; Mazanec, 2022; Sah, 2022), but the same researchers provide no recourse for managers when the average collection period for accounts receivable is too high. The purpose of this paper is to document strategies that have been proven to improve accounts receivable management.

The investigation involved sorting through 177 articles and selecting 27 for further review. The authors of 27 articles recommended a combined total of 5 credit strategies, 4 billing strategies, and 5 collections strategies for managing accounts receivable. I provided detail for each strategy based on my extensive experience as a receivables clerk, credit manager, accounting manager, and controller. From this process, I was able to provide managers with 14 best practices for improving the management of accounts receivable. Prior studies focused on the methods for evaluating accounts receivable or investigated the relationship between accounts receivable and firm performance. This is the first study to provide practical steps managers can take to establish and improve receivables metrics.

2. LITERATURE REVIEW

Accounts receivable, as a component of working capital and the cash conversion cycle, is generally included in the discussion of liquidity, solvency, sales, and profitability. For this reason, it was necessary to include working capital and the cash conversion cycle in the review of accounts receivable literature.

2.1 Studies of Working Capital

Azeez et al. (2016) studied the effect of working capital on profitability of conglomerates in Nigeria and found that increasing the average collection period for accounts receivable had a negative impact on financial performance. Samiloglu and Akgun (2016) looked at the relationship between working capital and profitability of manufacturing companies in Turkey and reported that a decrease in the average accounts receivable collection period led to an increase in firm performance. Yin et al. (2021) explored the effect of working capital on Malaysian construction companies and also discovered a negative relationship between days sales outstanding and gross profit, suggesting that an increase in the average collection period of accounts receivable decreased firm performance. Similar to Azeez et al. (2016) and Yin et al. (2021), Thongnim et al. (2022) investigated working capital in the automotive industry in Pakistan and identified a negative relationship between increasing the average collection period for accounts receivable and firm performance. Ozkaya and Yasar (2023) examined the effect of working capital on financial performance in the food and beverage industry across Europe and found that increasing the average collection period for accounts receivable negatively impacted financial performance. In accordance with conventional wisdom, these studies support the view that decreasing the accounts receivable collection period is necessary to improve cash flows, liquidity, profitability, and solvency. Golas (2020) conducted a similar study of working capital in the Polish dairy industry and found mixed results for the effect of accounts receivable on firm performance. Specifically, Golas (2020) found that increasing the average collection period positively affected the financial performance of some companies; while decreasing the average collection period positively affected the financial performance of other companies. Mazanec (2022) examined the impact of working capital on the financial performance of Slovak transportation companies and discovered that increasing the average collection period of accounts receivable positively affected firm performance. In contrast with conventional wisdom, these studies provide evidence that increasing the average collection period for accounts receivable is beneficial to some companies. These studies highlight the need for different accounts receivable management techniques for different types of firms.

2.2 Studies of the Cash Conversion Cycle

Upadhyay et al. (2015) studied the cash conversion cycle and firm performance and found no correlation between the average accounts receivable collection period and profitability. Linh and Mohanlingam (2018) investigated the impact of the cash conversion cycle on the

performance of manufacturing companies in Bangladesh and, similar to Upadhyay et al. (2015), found no correlation between the average collection period for accounts receivable and firm performance. Al-Mohareb (2019) examined the impact of the cash conversion cycle on profitability of Jordanian manufacturing firms and found that increasing the average accounts receivable collection period led to a decline in financial performance. Other studies included the accounts receivable collection period in their calculation of the cash conversion cycle (inventory period + accounts receivable collection period – vendor payment period) and found a negative relationship between longer cash conversion cycles and firm performance (Al-Abass, 2017; Chang, 2018; Cristea & Cristea, 2018; Dogan & Kevser, 2020; Karim et al., 2023). These studies highlight the importance of maintaining efficient cash conversion cycles to maximize liquidity and financial performance.

2.3 Studies of Accounts Receivable

Ikechukwu and Nwakaego (2015) studied the impact of accounts receivable on profitability in chemical and paint manufacturing companies in Nigeria and found that accounts receivable positively affected sales growth if managed properly. Mbula et al. (2016) investigated the effect of accounts receivable on the profitability of government-funded companies in Kenya and found that reducing the average accounts receivable collection period improved financial performance. Suwantari et al. (2020) studied the effect of accounts receivable on financial performance at ALS Hotels and Resorts and found that increasing the average collection period for accounts receivable increased uncollectible accounts and decreased profitability. Sah (2022) investigated the effect of accounts receivable on the performance of small and medium companies in Ghana and concluded that increasing the average receivables collection period negatively affected profitability. Mbembe et al. (2017) surveyed a sample of 129 accounting employees at pharmaceutical distribution companies in Kenya and listed staff competency, invoice accuracy, invoice tracking/follow-up, and credit policies with clear credit terms as key components of effective receivables management. Singh et al. (2021) conducted a survey of 224 salespeople in India and suggested that salespeople use their relationships with customers in the management of accounts receivable. Anorue and Ugwoke (2022) surveyed 1,390 participants in Nigeria regarding effective accounts receivable management techniques and reported that small business owners should participate in training programs in which they learn about effective receivables management. Adusei (2022) surveyed accounting employees at Zoomlion Company Limited in Ghana and recommended that managers monitor and follow-up invoices, adhere to credit policies, implement collection efforts, and adopt accounts receivable best practices. Surikova et al. (2022) studied accounts receivable management for railway transport entities in Russia and argued that accounts receivable lead to profitability if properly managed.

Trade credit is a double-edged sword. If credit policies are too lax, management runs the risk of slowing down cash inflows or experiencing customer defaults (Seifert et al., 2013; Abuhommous & Mashoka, 2018; Machokoto & Ibrahim, 2022). If credit policies are too strict, management runs the risk of limiting sales and growth potential (Seifert et al., 2013; Abuhommous & Mashoka, 2018; Machokoto & Ibrahim, 2022). There is tremendous pressure for companies to achieve profits and this pressure can lead to excessive credit terms for new and existing customers (Meliawati et al., 2019). For these reasons, managers need to assess accounts receivable practices and also be ready to take corrective action. Though the literature states that managers should establish credit policies, billing procedures, collections practices, the literature does not detail how managers should accomplish these tasks.

3. METHODOLOGY

Though there is a significant amount of scholarly literature regarding the assessment of accounts receivable and accounts receivable management, there is scant literature that details effective accounts receivable policies and procedures or even ways to take corrective action when performance problems are identified. Consequently, I draw upon a body of published literature and more than 20 years of experience with credit and collections to identify current best practices for managing accounts receivable. The literature search was limited to peer-reviewed academic articles published during the period 2013-2023. The results are listed in Table 1. The literature search resulted in 63 articles related to working capital management and 7 of the articles were germane to the topic of accounts receivable. A total of 71 articles related to the cash conversion cycle were also found and 8 of those articles were germane to the topic of accounts receivable. Lastly, the literature search resulted in 43 articles specifically related to accounts receivable but only 12 provided a measure of accounts receivable that was germane to this paper such as liquidity, solvency, sales, revenue, profits, financial performance, and/or

firm value. Altogether, 177 articles were reviewed and 27 were relevant to this paper.

Table 1. Literature Search Results

Topic	Search Results	%	Selected	%
Working Capital	63	35.6	7	3.95
Cash Conversion Cycle	71	40.1	8	4.52
Accounts Receivable	43	24.3	12	6.78
Total Literature	177	100.0	27	15.25

The working-capital articles accounted for approximately 36% of the total literature. Seven articles, 4% of the literature, specifically measured accounts receivable and discussed the impact of receivables on some aspect of firm performance. The articles related to the cash conversion cycle accounted for approximately 40% of the total literature. Eight articles, 4.5% of the literature, specifically measured accounts receivable and examined the effect of receivables on firm performance. The accounts receivable articles accounted for approximately 24% of the total literature. Twelve articles, 7% of the literature, specifically measured accounts receivable and studied the impact of receivables on some aspect of firm performance.

4. RESULTS

Based on the literature review, I divided accounts receivable management into three parts, credit policies, billing procedures, and collections practices, as shown in Table 2. I further subdivided accounts receivable management into several best practices by researchers as essential for improving cash flows and ultimately improving profitability or firm performance.

Table 2. Accounts Receivable Best Practices

A/R Management	Best Practices	Frequency	%
Credit Policies	Document credit policies	3	1.69
	Train credit policies	3	1.69
	Evaluate credit applications/worthiness	5	2.83
	Establish credit/payment terms	3	1.69
	Set credit limits	3	1.69
Billing Procedures	Document billing procedures	1	0.56
	Train billing procedures	3	1.69
	Prepare accurate invoices	1	0.56
	Deliver timely invoices	1	0.56
Collections Practices	Document collections practices	3	1.69
	Train collections practices	3	1.69
	Make Follow-up calls	2	1.12
	Provide invoice discounts	3	1.69
	Recover delinquent accounts	2	1.12

The literature identified five activities as part of effective credit policies: document credit policies, train credit policies, evaluate credit applications/credit worthiness, state credit/payment terms, and implement credit limits. The need to establish, document, and update formal credit policies was mentioned three times in 1.69% of the total literature. The idea that all accounting and sales employees should be educated and trained to understand receivables-management functions was proposed in three articles totaling 1.69% of the total literature. The importance of reviewing credit applications and evaluating credit worthiness was discussed five times in approximately 2.83% of the literature. The need to state clear credit/payment terms was also proposed in three articles approximating 1.69% of the literature. Lastly, three articles, approximately 1.69% of the total literature, recommended setting credit limits. Though a few researchers identified effective credit policies, there was little detail for how these policies should be implemented or used. In most cases, the researchers did not even provide a rationale for their suggestions. It is important to know how the credit policies benefit the company. The researchers also identified four activities as essential billing procedures: document billing procedures, train billing procedures, prepare accurate invoices, and deliver invoices in a timely manner. The need to establish, document, and even update billing procedures was mentioned only once (approximately 0.56% of the total literature). The need to provide proper training was mentioned three times (1.69%). Finally, one article (0.56%) suggested companies issue accurate and timely invoices. A few researchers suggested billing procedures, but they did not provide details for how to perform the procedures. It is important to know how to avoid billing errors and what the standard for timely billing should be.

The literature also produced five activities that were considered effective collections practices: document collections practices, train employees to understand collections, perform follow-up with customers regarding invoices, provide customer with cash discounts for paying

invoices early, and implement a recovery plan for delinquent accounts. Documenting collections practices and training the staff to understand collections were each suggested three times in the literature (1.69% each). The need for follow-up communication with customers regarding outstanding invoices appeared twice in the literature (1.12%). Incentivizing customers to pay early by discounting invoices was suggested in the literature three times (1.69%). Ultimately, a recovery plan for delinquent accounts was mentioned twice (1.12%) in the literature. Some researchers identified collections practices, but they did not detail them or provide a rationale for them. It is important to know which employees should learn the companies collections practices and why it is important for employees to learn them. There is plenty of evidence in the literature to support the need for effective accounts receivable management. There is even overwhelming support for the use of various tools to evaluate and monitor accounts receivable levels. It is surprising, given the volume of literature on the topic of accounts receivable, that very little effort has been made to detail specific ways to improve accounts receivable outcomes.

5. DISCUSSION

The purpose of this study is to provide managers with a series of best practices for managing accounts receivable. The first step in the defense against delinquent accounts should be to establish practical credit policies (Kontus, 2013; Adusei, 2017; Sah, 2022). The second step in managing receivables should be to implement efficient billing procedures (Adusei, 2017). The last step in managing receivables should be to employ effective collection efforts (Kontus, 2013; Adusei, 2017; Sah, 2022). The best practices are intended to help managers decrease the time it takes to collect receivables; thereby reducing the cash conversion cycle, increasing cash flows, and ultimately improving the effectiveness of working capital.

5.1 Best Practices for Credit Policies

Five best practices related to credit policies emerged from the literature review. Based on my knowledge of and experience with credit policies, I provide anecdotal evidence to support documentation, training, credit applications, payment terms, and credit limits as best practices for managing accounts receivable.

5.1.1 Document Credit Policies

The literature suggests that documenting credit policies is important (Kontus, 2013; Adusei, 2017; Sah, 2022), but it does not explain why. I learned early in my career that the most important reason for documenting credit policies was to have a consistent standard for others to follow. A sales manager once rushed a credit application to me and explained that the customer needed billing established right away. At this time, I worked for a hotel as the Credit Manager and this customer was a company hosting a small conference with banquet events and rooms they wanted billed to them. Though I could, if everything went well, review a credit application in as little as a day, this was not a common outcome and was not a good practice. Rushing credit decisions, in my experience, led to hasty and costly mistakes. Luckily, I could point to the credit policy that stated credit applications must be submitted at least 30 days prior to the date of arrival or event at the hotel. This requirement was also stated in bold on the credit application. This was to ensure that I had plenty of time to gather reference information, access credit reports, determine the amount of billing needed and ensure that the proper instructions were disseminated to the hotel staff. Some accounts were more challenging to process than others, so a minimum amount of time was established for reviewing credit applications. Enforcing a rule like this was easier because it was documented. When policies are not documented, people do not believe they are real and they are reluctant to follow them, particularly if it means they have to go back to the customer and explain they can't have billing privileges. The customer will demand to know why and "because I said so" is not a defensible position. It is also important to note that, without clear direction in the form of documented credit policies, employees will come to their own conclusions about what credit policies work best for customers. For this reason, credit policies should be thorough and leave no room for employees to make interpretations or substitute their own ideas for policies that are not complete. At the very least, in cases where a credit policy is vague or even missing, make it clear that credit decisions are to be made by the appropriate accounting personnel. This prevents the proliferation of different, and sometimes competing, credit policies. Some credit policies may already be documented, but it is important to regularly review and update them as well. Decisions affecting credit policies are often made without officially documenting the changes. It is important to update policies as decisions are made in order to ensure everyone has the same information and to minimize communication errors. Well-maintained credit policies help to ensure that the credit standards are applied consistently by all employees to all customers.

5.1.2 Train Credit Policies

Implementing a thorough training program is a good way to avoid communication problems and ensure everyone has the same knowledge and understanding of the credit policies (Adusei, 2017; Mbembe et al., 2017; Anorue & Ugwoke, 2022). All members of the accounting and sales staff should be trained, and have their knowledge tested, regarding the company's credit policies so they do not unwittingly provide inaccurate information or make promises to customers that cannot be kept. It is also a good idea to have each person sign a statement acknowledging the training and to keep the signed training acknowledgement in their personnel file. This ensures that employees cannot later say they were unaware of the policies.

A short time after becoming Credit Manager, it became apparent to me that the sales managers did not fully understand the company's credit policies. For example, I had implemented a policy that prohibited extending billing privileges for social and political events like birthday parties, holiday parties, and election-campaign parties; yet I periodically found credit applications on my desk for a wedding reception or a post-election campaign party for a prominent local politician. To get everyone on the same page regarding credit policies, I realized I had to provide training to the sales staff. As someone joined the sales team, they spent an hour with me learning about the company's credit policies as part of their on-boarding process. Without my prompting, the sales department extended the training requirement to all sales support staff as well. Eventually, everyone learned to bring questions regarding unique situations to me rather than guess whether existing policies applied. I learned early on in my career that the best way to garner cooperation from other departments was to provide reasonable explanations for changing or updating policies. For me, as Credit Manager, it was easy to make the connection between a new policy and preventing a loss due to default. Take the policy regarding social events and campaign parties as an example. Most parties were one-time events, so there was no payment history to evaluate. The risk of default was too high. Prior to implementing the no-credit policy for social and political events, I spent a great deal of time chasing down payments from people who had no desire to pay for the post-election party after their political candidate lost the election. Some policies resulted from bad experiences and had the added benefit of making good business sense.

5.1.3 Evaluate Credit Applications

Credit Managers should collect and review credit applications from every customer requesting billing privileges regardless of the customer's reputation or ties to the community (Kontus, 2013; Seifert et al., 2013; Mayasari & Andrian, 2016; Adusei, 2017; Sah, 2022). The time needed to evaluate a credit application will depend on the time it takes to collect information from the trade references, bank reference, and credit report. Do not rush to make a hasty decision. Decisions made in haste tend to involve shortcuts that lead to delinquent accounts and collection headaches. I always asked for a minimum of 30 days to evaluate a credit application. This gave me plenty of time to process a credit application without feeling rushed. Most of the time, the outcome of the review process was positive; but, on occasion, the outcome was negative. I found that denying billing privileges to customers should be done quickly. I sometimes received credit applications a year or two in advance of the convention. When this happened, I would ask the sales manager to inform the client that I would be processing the application now and re-examining it again later when we got closer to the arrival dates. I learned the hard way that, given enough time, organizations could suffer economic hardships, impacting cash flows and their ability to pay vendors. One to two years was plenty of time for things to change from good to bad, so take the time to re-evaluate credit applications. This lesson should be applied to long-term customers as well. After several years working as a Credit Manager, I found it necessary to revise the hotel's credit application form. Instead of asking for three general vendor references, I modified the credit application to ask for three specific hotel references. As a hotel, I wanted to know how the customer treated other hotels. If you are an automotive parts company, you want to know how your customer treats other automotive parts companies. It made sense to me that the references I evaluated were related to credit that was sought. I also added a section for a bank reference, requested a DUNS number, asked for the number of years in business, and requested the signature and title of an officer. I also required the credit application be submitted 30 days prior to the event or arrival date. Over time, the quality of my receivables dramatically improved, but each revision to the credit application was the result of a hard-earned lesson.

5.1.4 Establish Payment Terms

I recommend giving customers more than one opportunity to learn the payment terms (Kontus, 2013; Seifert et al., 2013; Mbembe et al., 2017). By stating the payment terms on the credit application, it becomes difficult for the customer to later say they were not informed. If the credit

application is signed by an officer of the company, it also makes it difficult to refute the understanding of or agreement to the specific payment terms. Payment terms should again be provided to customers when they are informed of the credit decision. Finally, payment terms should be clearly marked on every invoice to the customer. The idea is to reduce, as much as possible, the ability of customers to claim they were unaware of the payment terms by making them prominent in every document. During my years in credit and collections, I revised numerous credit applications based on my experiences. On one such occasion, I added a line for the payment terms in bold characters right below the signature line for the company officer. By doing this, I made the credit application a form of agreement. Signing the credit application was an indication that the customer agreed to pay the invoice within 30 days.

5.1.5 Set Credit Limits

Credit limits are used to limit your exposure to the risk of default (Kontus, 2013; Adusei, 2017; Sah, 2022). This aspect of the credit process could sometimes be the most challenging for me as a credit manager. I expected customers to list references that were commensurate with the amount of credit they were seeking. I found that this was not always the case. Sometimes customers listed the last three references without regard to the amounts. This was when I learned to do a three-point check for the amount of credit being sought. The first check was to ask for the amount of credit sought on the credit application. The next check was to ask the sales manager how much credit would be needed. The last check was to compare the first two amounts to the credit references. If the credit references were not in line with the amount of credit sought, I asked for new references. Some companies had multiple uses for hotels. For example, a local music hall established credit with the hotel and picked up the room charges for entertainers. Local businesses established credit with the hotel in order to accommodate traveling salespeople, important vendors, and prospective employees that needed accommodation for multiple nights. The invoices ranged from a few hundred dollars to a few thousand dollars depending on the number of people and nights spent in the hotel. These same companies also hosted annual conventions that included room nights and banquet events. I recall a local company that sprang for two nights of lodging and all meals, including breakfast, lunch, and dinner, for hundreds of their salespeople. The company spent a couple hundred thousand dollars on conventions every year. When evaluating a credit application for a convention, I expected to see large convention references; but I sometimes discovered references for only a few hundred dollars. When this happened, I asked the salesperson to get convention references from the customer. Sometimes this was an easy fix and sometimes it was not.

It was not uncommon for a company hosting its first ever convention to apply for credit, which meant there were likely no hotel references listed on the credit application. The main purpose for the credit application was to see how well they paid other hotels, so I requested only hotel references. If hotel references were not available, I needed the next best thing. Another vendor that was not integral to their business so I could see how well the company paid them. Companies sometimes paid vendors that were not integral to their business much slower than other vendors. A baker might pay for ingredients and utilities very quickly because these components are integral to the product, but the same baker might not pay the hotel for several months because the hotel is not integral to making the product. If there was a lack of adequate references, I asked for a credit-card guarantee. Just prior to arrival at the hotel, I placed a hold on the credit card for the amount of the convention. I did not charge the credit card as long as I received payment within 30 days of the invoice date. If things went well, the company did not need the credit-card guarantee the next time.

5.2 Best Practices for Billing Procedures

During my review of the literature, I identified four topics related to billing procedures that deserve further explanation. Based on my experience with billing procedures, I expanded the discussion of documentation, training, accuracy, and timeliness as best practices for accounts receivable management.

5.2.1 Document Billing Procedures

The billing process includes gathering information, assembling invoices, and delivering the invoices to customers in the most efficient manner possible (Adusei, 2017). If billing procedures are not documented, you run the risk of employees adopting different standards, which can lead to confusion, miscommunication, errors, and delays. I recommend that managers document the information that should be collected from customers for billing purposes such as company or organization name, contact name for billing, contact phone number, billing address, and street address if different from the billing address, and purchase order information if needed. Whether the account is being established for the first time or it is a regular purchase, verify the billing and contact

information every time. Many accounts become delinquent because assumptions are made about billing information and contact information. "Is this John Doe? Is your number 555-502- 5505? Is your address still 1313 Mockingbird Lane?" Sometimes, the person placing the order or booking the function is not the same person who will process payment of the invoice. Take a moment to verify the name of the billing contact. Establish this information every time. Taking a few minutes to get the correct billing information will help expedite the payment process. You may be surprised to learn that a second and third contact person at the same company requires separate billing of invoices. I did what it took to ensure prompt payment of invoices.

5.2.2 Train Billing Procedures

As the manager of accounts receivable, I understood that billing procedures were a team effort and it was my responsibility to ensure that receivable clerks and the salespeople were trained to bill customers accurately and timely (Adusei, 2017; Mbembe et al., 2017; Anorue & Ugwoke, 2022). When I took over managing accounts receivable for the first time, I was not sure what I would find. After going through every account on the aging report, I came to realize that some invoices were not billed accurately, were delayed, or both. Getting accurate and timely invoices mailed to customers required two-way communication between the receivable clerks and the salespeople. After training my receivable clerks how to communicate their billing expectations to the salespeople, I had training sessions with each of the salespeople about the communication and timing of charges to customer invoices. Implementing the training of billing procedures helped reduce billing errors and also decreased the days receivables outstanding.

5.2.3 Prepare Accurate Invoices

In my experience, most delinquent payments were the result of billing errors. Before working in the lodging industry, I worked for three years in the admissions department of a university hospital. Prior to a scheduled procedure or admittance to the hospital, patients met with me to arrange payment for hospital services. My primary responsibility was the gathering of payment information including some personal information related to insurance, Medicare, and Medicaid. Any mistakes I made gathering billing and payment information resulted in delayed payments to the hospital and created collection problems for patients. It was vital that I was careful collecting and inputting patient information in the billing system. Invoice accuracy was a critical component of the billing process (Asharani et al., 2016). When I was credit manager, a major university in my state regularly hosted events and booked rooms for convention attendees or even prospective employees. It was a large university with many departments spread over several campuses and multiple cities. To get prompt payment, it was vital that the correct billing information was collected upfront. I once followed-up regarding an invoice to learn that it had been addressed to the incorrect person at the university. Sometimes such invoices were forwarded to the correct contact person and sometimes they were not. I could not rely on the person who got the invoice to track down the correct recipient over multiple campuses. It was on me, and my staff, to get the invoices addressed correctly the first time. For accounts like this, I established an umbrella system for billing. Instead of having one account for a large customer that had multiple contact people responsible for paying invoices, I opened multiple subaccounts. I opened an account for each contact person and noted the unique contact information for each person, which typically included their department, phone number, billing address, and street address if different from the billing address. Essentially, I treated each contact with the organization as a separate customer but filed the invoices under the same umbrella account.

Some organizations, such as universities, require invoices to be accompanied by a purchase order or at least state the purchase order number. Purchase orders should not be confused with a promise of payment and should not be used in lieu of reviewing a credit application. Purchase orders are the customer's internal document giving them permission to buy a product or service. If a customer with approved credit supplies a purchase order, follow the billing instructions carefully. Reference the purchase order number on the invoice and mail the invoice to the specified billing address. Go the extra step and include a copy of the purchase order with the invoice. As I reduced billing errors, I improved the time it took to collect receivables and improved cash flows.

5.2.4 Deliver Timely Invoices

An efficient billing practice involves shortening the time between fulfillment and delivery of accurate invoices as much as possible (Kontus, 2013). The main reason for getting invoices to customers as quickly as possible is to expedite payment from customers as quickly as possible, which generally worked well. When I was credit manager for a hotel, I was

once asked to reduce billing time as much as possible, so I went from about seven days down to three days. I was then challenged to reduce the billing time to one day, the next day. To do this, I needed the cooperation of the sales team. They ensured the charges on invoices were accurate at the time of the event and I double checked everything for accuracy the next day and mailed the invoices. The accuracy of billing tended to break down when we were asked to provide invoices to credit customers the same day charges were incurred. This was because charges could be posted throughout the day and evening. To accomplish same-day billing, we needed to anticipate all of the charges and type out an invoice. We almost always discovered charges were missed the next day when they posted to the account. It was difficult to anticipate unexpected room charges such as drycleaning, the mini-fridge, and services provided after checkout. Last-minute banquet changes could pose problems if communication broke down between sales manager and banquet captains. Because the billing was complex, we needed one day to ensure all charges were recorded and invoices were accurate.

5.3 Collections Practices

As I reviewed the literature, five topics related to collections practices emerged that deserved further consideration. Based on my experience with collections practices, I elaborated on the documentation, training, customer follow-up, cash discounts, and the recovery of delinquent accounts as best practices for accounts receivable.

5.3.1 Document Collections Practices

The most satisfying part of my job as credit manager was receiving timely payments from customers. It took a great deal of work to get the receivables cleaned up to the point where payments were received on a timely basis. I started by running an aging report to see how bad things were. Then I went to the SOPs to see what was explicitly expected of me for collection efforts. Having documented collections practices made it easier for me to defend my collection efforts and train other employees to follow my example (Kontus, 2013; Adusei, 2017; Sah, 2022). When I was credit manager for the Minneapolis Hilton, I had two billing clerks working for me. After I established my own footing with regard to the collections process, I shared the changes I wanted to make with my employees. Both clerks understood that I was implementing changes to bring our collection efforts up to company standards. With clearly documented collections practices, it was easier for me to get my employees to accept the changes I implemented.

5.3.2 Train Collections Practices

Based on my experience, I found the best way to get employees to do something new was to demonstrate it by example. For this reason, I trained my billing clerks to perform the collections practices after I had already practiced them (Adusei, 2017; Mbembe et al., 2017; Anorue & Ugwoke, 2022). People also want to know that they are doing something meaningful. Because I took the time to prove the collections practices worked, I was also able to show my staff how the new collections practices helped bring in payments from customers more quickly. In my case, I had written collections policies in the form of SOPs and evidence that the company's collections practices worked to help convince my staff to adopt what they perceived were new tasks. As I did with the credit policies and billing procedures, I also shared the collections practices with the sales staff. The members of the sales team needed to be familiar with the collections procedures so they were informed of them when customers inquired about them. From time to time, it was even necessary to bring a salesperson into the collections process. Before I attempted to collect on a delinquent account, I asked a salesperson to call the customer. A salesperson could make a collection call sound like a casual conversation. As a stranger to the customer, it was difficult for me to make the same call without sounding like a collection effort. This is an important tactic if you have customers who are sensitive to collection calls or salespeople who are sensitive regarding your communication with their customers.

5.3.3 Make Follow-Up Calls

The first step I took after issuing an invoice to a customer was to make a follow-up call (Kontus, 2013; Adusei, 2017). The primary reasons for making follow-up calls were to ensure customers received their invoices and to give me an opportunity to quickly correct billing errors without slowing down payment. Billing mistakes caused accounts to become delinquent (Singh, Singh, & Mishra, 2021). To avoid this, I made follow-up calls approximately 7-10 days after the invoice was mailed (ten-day calls) to make sure invoices were received and to see that everything was accurately billed. I documented every collection call for two reasons: to document collection efforts I already made and to maintain an audit trail. I found it helpful to note the name of the person to whom I spoke, what that person said (particularly any promises regarding payment), the phone number if different from the file, and the date of the call. The ten-day calls

helped me establish rapport with customers and often compelled them to make payment a priority. During the ten-day call, I made it a point to let customers know to expect another call in a few weeks. They almost always objected to a second follow-up call, so I simply explained that company policy required me to call when the invoice reached 30 days. If payment was not yet received by the time I made the thirty-day call, I asked for a check number, date of the check, and documented the usual collection call information. These calls, along with improving the accuracy and timeliness of invoices, helped me to significantly improve the days receivable outstanding.

5.3.4 Provide Invoice Incentives (Carrot and Stick)

The literature identified two specific ways in which customers could be encouraged to make timely payments: invoice discounts and invoice penalties (Kontus, 2013; Seifert et al., 2013; Sah, 2022). I never used the carrot and stick approach when I worked with receivables, but I was often subjected to them when I worked with accounts payable. For example, I expedited payments for vendors that offered discounts. I was not asked to do this, but I took advantage of the opportunities to save money for the company when they appeared. Most of the time it was a 1% discount if the invoice was paid in ten days. This was ten days from the date of the invoice, not the date the invoice was received; so, I had to time things correctly or I could not claim the discount. The invoice penalty was an interest rate charged for late payments. I also prioritized the payment of invoices that stated interest penalties. From my experience as a payables clerk, discounts and penalties worked.

5.3.5 Recover Delinquent Invoices

For me, an account became delinquent as soon as it was past due, which was generally 31 days past the date of the invoice. By this time, I usually secured a check number or the promise of a check on a specific date. If I did not have payment information, I began working on a recovery plan in consultation with the controller (Kontus, 2013; Adusei, 2017). At 31 plus days, it was still early enough to recover delinquent accounts using friendly in-house collection efforts. I sometimes negotiated reduced payments and/or payment plans. It was not uncommon to ask the salesperson managing the account to make collection calls on my behalf. For the vast majority of delinquencies, the sales team could convince their customers to bring accounts back into good standing. When an invoice reached 60 days old, which made it 30 days past due, I needed some sort of payment arrangement on file or I needed to begin more aggressive collection efforts. After exhausting all other options, I sent a final demand letter with specific dates and actions outlined. When an account got to 75 or 90 days without payment or even promise of payment, I sent it to a collections company. My worst fear as a credit manager was that one of my receivable accounts would become delinquent. Most of the invoices were for large sums of money and I lived with the daily fear that one of the customers would suddenly become unable or unwilling to pay what they owed. A certain amount of fear was healthy because it incentivized me to install effective accounts receivable management techniques. I was also clever to realize early in my career that successful receivables management required a team effort.

6. CONCLUSION AND FUTURE DIRECTIONS FOR RESEARCH

Most of the literature related to trade credit focused on the assessment of accounts receivable management and provided very little specific information regarding best practices. This paper contributes a detailed description of several best practices for credit policies, billing procedures, and collections practices. Future research could focus on the development of additional best practices. Future research could also focus on credit applications, specifically examining the components of an effective credit application and the development of a process for evaluating credit applications.

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