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# Analyzing the Effect of Credit Management: A Case Study of the Hospitality Industry in Lusaka

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**Abstract**

Effective credit management ensures that organizations maintain a balance between extending credit to customers and safeguarding cash flow, thereby minimizing the risk of bad debts and financial losses. In Lusaka, the hospitality industry has experienced rapid growth, driven by increasing domestic and international tourism, yet many establishments face challenges in managing credit effectively due to limited financial expertise, poor monitoring systems, and inconsistent credit policies. The general objective of this study was to evaluate the effect of credit management on business performance in the hospitality industry in Lusaka. Specifically, the study sought to assess the credit management practices employed by hospitality businesses, examine the relationship between these practices and financial performance, analyze the role of credit risk assessment in improving business outcomes, and explore strategies used by successful establishments to manage credit and minimize bad debts. The study adopted a cross-sectional case study design employing a mixed-methods approach, focusing on businesses within the hospitality industry. The target population comprised 100 hospitality businesses. Participants were selected using convenience sampling, and data were gathered through a semi-structured questionnaire that included both closed- and open-ended questions. Data entry and statistical analysis were conducted using STATA, while Microsoft Excel 365 was used to present descriptive statistics in graphical form. For inferential analysis, the Chi-square test was employed to examine the relationships between categorical variables. In Lusaka's hospitality industry, credit management practices emphasize short-term credit periods of 15–30 days (55% of businesses), centralized credit approval by finance teams (45%) or owners/managers (40%), and regular reviews of credit limits, mostly quarterly (50%), often supported by electronic record-keeping (50%). Credit decisions rely mainly on purchase history (40%) and customer reputation (25%), while overdue accounts are largely managed internally (60%), with payment monitoring increasingly conducted via accounting software (60%). Effective credit policies and structured risk assessments show statistically significant impacts on financial performance: frequent credit risk assessments reduce liquidity challenges ($\chi^2 = 96.667$, $p < 0.005$), effective credit policies enhance profitability ($\chi^2 = 96.667$, $p = 0.009$), and consistent enforcement of terms improves customer retention ($\chi^2 = 96.667$, $p = 0.001$). Businesses use both internal records (40%) and external credit bureaus (30%) for risk assessment, take preventive actions such as reducing credit limits for high-risk customers (40%) or enforcing cash-only transactions (30%), and rely on credit insurance and credit limits (26% each) to reduce bad debts. Bad debts account for 5–10% of annual losses in half of the businesses, while extending credit increases customer loyalty (40%) and attracts new customers (30%), showing that disciplined credit management supports financial stability, operational efficiency, and growth. Overall, efficient credit management positively influenced profitability, liquidity, customer retention, and operational efficiency, though gaps remain in standardizing assessment methods and improving consistency across businesses. Based on the findings, the study recommends that hospitality businesses in Lusaka strengthen the consistency and enforcement of credit policies to reduce late payments and bad debts. Businesses should adopt standardized credit assessment tools, including credit scoring systems and formal evaluation of financial statements, to improve accuracy in risk evaluation. Regular staff training on credit management procedures should be maintained to sustain high levels of understanding and competence.

## 1. Introduction

### 1.1 Background

Credit management is a fundamental component of financial administration that directly influences the stability, liquidity, and profitability of businesses across all sectors (Campus, 2025). In the hospitality industry, where services are often rendered on credit particularly in dealings with customers, suppliers, and corporate clients efficient credit management becomes even more critical. The concept of credit management encompasses various activities including credit policy formulation, credit risk

assessment, debt collection, and the monitoring of accounts receivable (Abduknafea, 2022). Effective credit management ensures that businesses can extend credit without compromising cash flow, thereby sustaining operational efficiency and financial performance (Yhip, 2020).

Globally, the hospitality sector has experienced rapid growth, driven by increasing tourism, urbanization, and globalization. However, the growth has also heightened the financial complexities facing businesses in the industry (Khan, 2020). Poor credit practices such as delayed customer payments, weak debt recovery mechanisms, and lack of proper credit evaluation systems have led to increased cases of bad debts and cash flow problems (Chilwana, 2021) [13].

In the Zambian context, particularly within Lusaka, the hospitality industry has grown considerably due to economic liberalization, infrastructure development, and increased demand for lodging, conference, and catering services (Nchito, 2024). Many hospitality businesses continue to grapple with liquidity challenges and high debt levels due to weak credit policies, informal risk assessment practices, and inadequate follow-up on receivables (Khan, 2020).

Scholars and practitioners have argued that effective credit management is a strategic necessity, not merely a financial function. Perspectives from financial management literature emphasize the role of credit control in sustaining business operations, improving customer relationships, and enhancing competitive advantage (Lumanauw, 2024). Despite these recognized benefits, there is a lack of empirical evidence specifically examining the direct relationship between credit management practices and business performance in the hospitality sector, particularly in the Zambian setting. The consequences of ineffective credit management in this context are far-reaching. They include cash flow constraints, increased bad debt provisions, reduced investment capacity, staff layoffs, and in severe cases, business closures (Ferri, 2021). These outcomes not only affect individual enterprises but also have broader implications on employment, service quality, and economic contributions of the sector.

## 1.2 Statement of the Problem

Credit management remains a critical financial function in the hospitality industry, directly influencing liquidity, profitability, and overall business performance (Asuga, 2024) [6]. many hospitality businesses are currently facing increasing financial strain due to poor credit management practices. These include inadequate credit risk assessments, inconsistent credit policies, delayed payments from clients, and ineffective debt collection mechanisms (Motta, 2020). Despite the growth of the hospitality industry in Zambia contributing over 7% to the country's GDP and employing approximately 8.5% of the labor force many businesses continue to experience high levels of bad debt and cash flow problems, undermining their financial stability and operational efficiency (International Trade Administration, 2024). Recent reports by the Zambia Chamber of Commerce and Industry (ZACCI, 2022) indicate that over 60% of small to medium hospitality enterprises in Lusaka experience delayed payments exceeding 90 days, significantly affecting their ability to pay suppliers, reinvest in business operations, or expand services. A local financial risk assessment conducted by the Hospitality Financial Management

Association of Zambia (HFMAZ, 2023) reveals that only 28% of hospitality businesses in Lusaka have formal credit policies in place, and less than 20% regularly assess creditworthiness before offering services on credit. These statistics reflect a major gap in credit governance within the sector, exposing businesses to high financial risks and operational inefficiencies.

## 1.3 General Objectives

The general objective for the study was to evaluate the effect of credit management on business performance in the hospitality industry in Lusaka.

### 1.3.1 Specific Objectives

1. To assess the current credit management practices employed by businesses in the hospitality industry in Lusaka.
2. To examine the relationship between credit management practices and financial performance in hospitality businesses in Lusaka.
3. To analyze the role of credit risk assessment in improving business performance within Lusaka's hospitality industry.
4. To examine the strategies used by successful hospitality businesses in Lusaka to manage credit and minimize bad debts.

## 1.4 Conceptual Framework

The conceptual framework for this study is anchored on the understanding that credit management practices are a critical determinant of business performance in the hospitality industry in Lusaka. The independent variable in the framework is credit management, which covers a range of practices such as the establishment of clear credit policies, the use of credit control strategies, and the adoption of debt recovery measures (Ndichu, 2021) [43]. Credit policies define the terms under which businesses extend credit to customers, including repayment periods, credit limits, and penalties for late payments. Debt recovery measures involve the procedures businesses use to collect outstanding debts, which may include reminders, negotiations, or legal enforcement. Credit control strategies encompass actions such as customer screening, diversification of the customer base, and the use of collateral or guarantees to minimize exposure to credit risk (Enwereji, 2025) [17].

A central mediating variable in this framework is credit risk assessment. The effectiveness of credit management practices depends on how businesses evaluate and monitor the creditworthiness of their customers. Credit risk assessment involves the systematic use of both financial and non-financial information, such as payment histories, financial statements, or customer reputation, to predict the likelihood of repayment (Alvi, 2024). It also entails regular monitoring of customer payment behavior and adjusting credit terms in line with risk levels. By acting as a filter, credit risk assessment ensures that businesses make informed decisions before granting credit, thereby reducing the likelihood of defaults and strengthening the link between credit management practices and performance (Mungai, 2022) [39].

The dependent variable is business performance, which the study considers from both financial and operational dimensions. Financial performance indicators include profitability, cash flow, liquidity, and return on investment (Lee, 2023) [31]. These are directly influenced by the

efficiency of credit management, as effective practices improve cash inflows, minimize bad debts, and ensure financial stability. Operational performance is reflected in the ability of the business to run efficiently and sustainably, ensuring continuity of service delivery, customer satisfaction, and long-term growth (Tudose, 2022).

## 2. Literature Review
### 2.1 Credit management practices employed by businesses in the hospitality industry
The primary objective of the study conducted by Chilwana, W. (2021) [13] was to examine the impact of delayed payments on SMEs operating in Lusaka. The findings revealed that 38% of respondents had encountered at least one instance of delayed payment within the previous year. The service sector was the most affected, accounting for 48% of the delays, while the manufacturing and trading sectors experienced 14% and 38% respectively. Alarmingly, 82% of respondents were unaware of any coping mechanisms for handling payment delay (Chilwana, 2021) [13].

In their 2024 study, Lumanauw, B. and Lolowang, I.R.A. investigated the applicability of the trade-off theory in the context of Vietnam's rapidly expanding real estate sector. The findings revealed that listed real estate companies in Vietnam tend to adjust their leverage over time toward a target capital structure influenced by these factors. Specifically, the debt-to-asset ratio was observed to adjust by approximately 14% in response to deviations from the dynamic target ratio, supporting the existence of a long-term adjustment mechanism (Lumanauw, 2024).

Adamba's 2024 [1] study, grounded in the Technology Acceptance Model, Institutional Theory, and Resource-Based View Theory, employed a literature review approach to analyze the subject. Findings from the study indicate that digital banking tools have broadened access to credit, enhanced financial inclusion, and empowered underserved groups. Nevertheless, the literature also highlights critical concerns, such as digital literacy gaps, data security risks, and the potential exclusion of vulnerable populations. Moreover, the effectiveness of digital lending platforms in evaluating creditworthiness and managing financial risks remains questionable. While digital banking presents valuable opportunities for expanding credit access, addressing these issues is essential to achieving inclusive and sustainable financial outcomes (Adamba, 2024) [1].

### 2.2 The relationship between credit management practices and financial performance in hospitality businesses
The study by Drobyazko *et al*. (2020) [15] focused on developing theoretical foundations, methodological approaches, and practical guidelines for modeling the assessment of financial stability in service sector enterprises. Their findings demonstrate that Kohonen maps can help identify objective structural limitations for each hotel service during specific operational periods. These limitations can either prevent a shift into problematic financial zones or facilitate movement toward more stable clusters (Drobyazko, 2020).

Milton, T., (2024) [36] explored how artificial intelligence (AI) is being integrated into financial management within the hotel industry. Findings revealed that AI applications such as predictive analytics, expense monitoring tools, fraud detection systems, and dynamic pricing are transforming

financial decision-making processes in the hotel sector. The study emphasizes the need for hotels to adopt a holistic approach when integrating AI, addressing both technical and organizational barriers to fully realize AI's potential. Strategic use of AI can help hotels optimize financial performance, improve transparency, and enhance guest experiences ultimately positioning them for long-term success in a rapidly digitalizing industry (Milton, 2024) [36].

### 2.3 The role of credit risk assessment in improving business performance within the hospitality industry
The hospitality industry is characterized by high operational costs, variable demand, and significant reliance on both short-term and long-term credit arrangements. Hotels, resorts, restaurants, and event venues frequently extend credit to customers in the form of reservations, corporate bookings, or event packages, while also sourcing goods and services from suppliers on credit. Debt risk assessment has emerged as a critical strategy in managing these risks, directly influencing the financial stability, profitability, and long-term sustainability of hospitality businesses (Drobyazko, 2020; Motta, 2020).

Debt risk assessment refers to the systematic evaluation of potential credit exposures to determine the likelihood that a customer or supplier will default on payment obligations. By proactively identifying high-risk clients, hospitality businesses can make informed decisions regarding credit limits, payment terms, and the requirement for guarantees or deposits. Such measures not only mitigate the risk of bad debts but also enhance cash flow predictability, a fundamental driver of operational efficiency (Bardukova, 2020; Rajendran, 2023).

One of the most important objectives of debt risk assessment is the identification and mitigation of financial risk. In hospitality, businesses frequently encounter clients who may have unpredictable payment patterns, particularly in sectors like corporate events, large weddings, or group reservations. Debt risk assessment enables businesses to evaluate whether a client has the capacity and willingness to fulfill their financial obligations before services are rendered (Rodriguez, 2022).

This process involves several key activities. First, businesses gather financial information about prospective clients, including prior payment records, outstanding liabilities, and general market reputation. Second, qualitative indicators such as the client's relationship history with the company, industry reputation, and business continuity plans may be considered. Finally, businesses can implement tailored credit policies that limit exposure, such as defining maximum credit amounts, shortening payment cycles, or requiring partial upfront payments (Motta, 2020). By adopting these strategies, hospitality firms can proactively manage risks, reducing the likelihood of cash flow disruptions that could threaten operational continuity. Early identification of high-risk clients also allows businesses to allocate resources more effectively and prioritize monitoring efforts, which directly contributes to better overall business performance.

### 2.4 The strategies used by successful hospitality businesses to manage credit and minimize bad debts
According to Lamichhane (2023) [30], effective screening ensures that credit is not extended to high-risk clients who are unlikely to honor their obligations. Tools such as credit

bureau reports, bank references, and internal scoring models are often used to evaluate risk. Hotels that purchase food, beverages, and amenities on credit terms must ensure that suppliers are financially stable and reliable, as supplier defaults can disrupt operations and cash flow. Turgt (2022) emphasizes that diligence in evaluating counterparties safeguards not only immediate transactions but also long-term relationships.

Regular monitoring ensures timely follow-up on late payments and allows businesses to adjust credit limits when risks are identified. Kamau's (2015) [24] study of SACCOs in Nairobi's hospitality sector illustrates the consequences of weak monitoring. The study revealed that many SACCOs lacked effective systems to detect non-performing loans early, resulting in significant financial losses. By contrast, successful businesses implement structured monitoring, including periodic reviews of client accounts, automated reminders for due payments, and early intervention strategies such as renegotiating terms with clients showing signs of distress.

To minimize the risks associated with credit, hospitality businesses also encourage prompt payments through flexible and diverse payment options. Digital platforms such as mobile money, online payment gateways, and electronic fund transfers allow clients to settle bills quickly and conveniently. Venkatesan (2022) argues that adopting diverse payment systems reduces reliance on credit transactions, enhances customer convenience, and accelerates cash flow. For example, some hotels offer discounts for early payments made through online portals, incentivizing clients to clear debts sooner.

Turgt (2022) notes that clients are more likely to honor their obligations when they perceive the relationship as long-term and mutually beneficial. Personalized communication, loyalty programs, and regular engagement foster goodwill that reduces the likelihood of defaults. Credit management is not only a financial function but also an operational one, requiring staff across departments to understand and implement policies effectively. Training frontline staff, such as sales and reservations teams, ensures that credit policies are communicated clearly to customers. Staff training also equips employees with negotiation and conflict-resolution skills necessary when dealing with overdue accounts. According to Lamichhane (2023) [30], well-trained staff serve as the first line of defense in enforcing credit policies and reducing the risk of disputes escalating into defaults.

## 3. Research Methodology
### 3.1 Research Design
The study adopted an exploratory case study, utilizing a mixed method approach.

### 3.2 Target Population
The target population for this study were businesses under the hospitality industry.

### 3.3 Sample Size
The study consisted of 100 businesses under the hospitality industry.

### 3.4 Sampling
Convenience sampling approach was used to select the study sample.

### 3.5 Data Collection Methods
The main data collection method for this study was a structured questionnaire containing closed-ended questions.

## 4. Result Presentation
### 4.1 Presentation of results on background characteristics of the respondents
Out of 100 respondents, 54% were female and 46% were male, showing a slightly higher participation of women in the study.
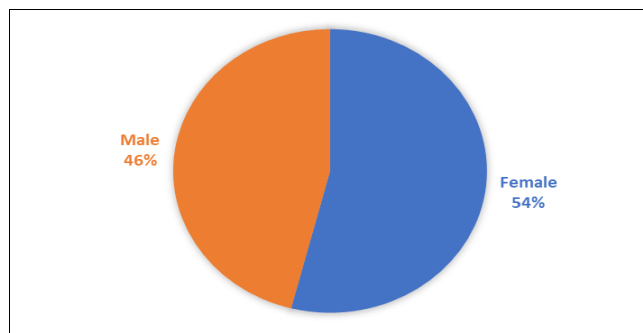


**Fig 4.1.1:** Sex of Respondent

Respondents had varied educational backgrounds, with the majority holding a master's degree (22%), followed by PhDs (18%) and secondary school certificates (20%). Smaller proportions had bachelor's degrees (14%), higher education diplomas/certificates (10%), and primary/basic school certificates (16%).
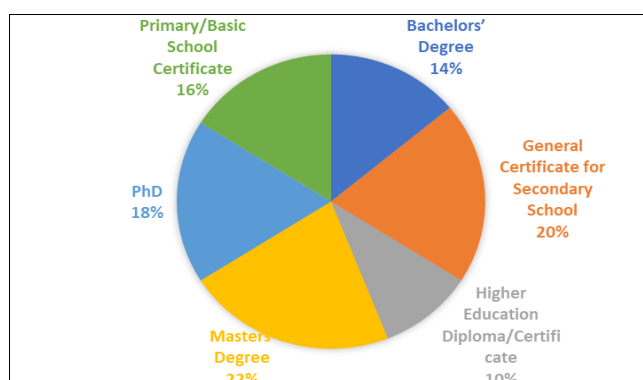


**Fig 4.1.3:** Highest Level of Education

### 4.2 Credit Management Practices in the Hospitality Industry in Lusaka
Over half of the businesses (55%) offer credit periods of 15–30 days, reflecting a preference for short-term credit arrangements. Only a minority provide longer periods, above 60 days, or very short periods below 15 days.
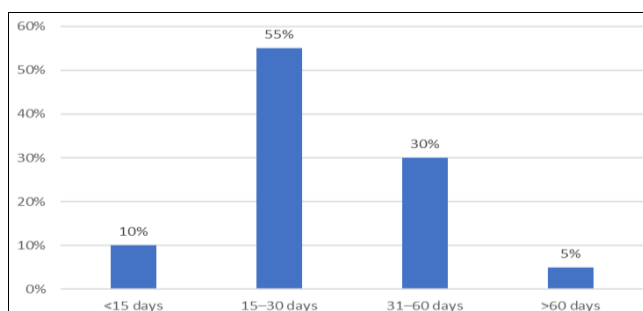


**Fig 4.2.1:** Credit Period Practices

Credit approval is predominantly handled by the finance department (45%) and owners/managers (40%). This shows that credit decisions are centralized and often involve experienced personnel, reducing the likelihood of credit defaults due to poor judgment. Sales departments and external consultants are rarely involved.
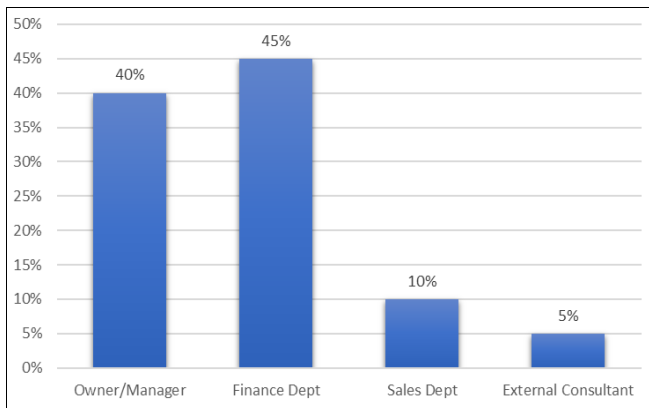


**Fig 4.2.2:** Credit Approval Responsibility

Quarterly reviews are conducted by 50% of businesses, followed by annual and monthly reviews. Regular monitoring of credit limits indicates that businesses are proactive in managing their exposure and updating terms according to customer performance.



**Fig 4.2.3:** Frequency of Credit Limit Reviews

Electronic records are maintained by 50% of businesses, while 25% combine electronic and manual methods. Only 5% maintain no formal records. This indicates that a majority of businesses rely on digital tools for efficient tracking and minimizing errors.



**Fig 4.2.4:** Credit Record-Keeping Methods

Purchase history is the most influential factor in granting credit (40%), followed by customer reputation (25%) and transaction amount (20%).



**Fig 4.2.5:** Factors Influencing Credit Decisions

Most businesses (60%) manage overdue accounts through internal follow-up, demonstrating a hands-on approach to debt collection. A smaller proportion rely on debt collectors, write-offs, or customer negotiation.
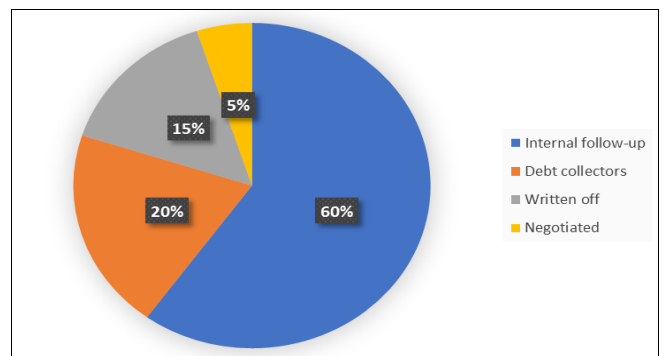


**Fig 4.2.6:** Management of Overdue Accounts

Payment monitoring: Payment monitoring is mainly conducted via accounting software (60%), with fewer relying solely on manual tracking. This reflects adoption of technology to ensure timely payments and reduce administrative burden.
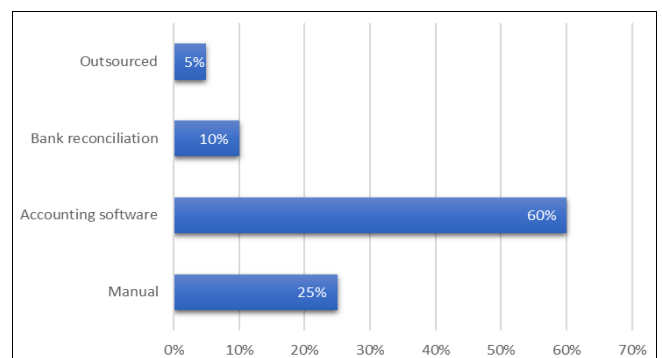


**Fig 4.2.7:** Payment Monitoring Practices

## 4.3 Relationship Between Credit Management Practices and Financial Performance

Almost half of the businesses (46%) use a fully automated, policy-driven credit approval process. A smaller portion relies on structured criteria or minimal checks, while some have informal or no process.
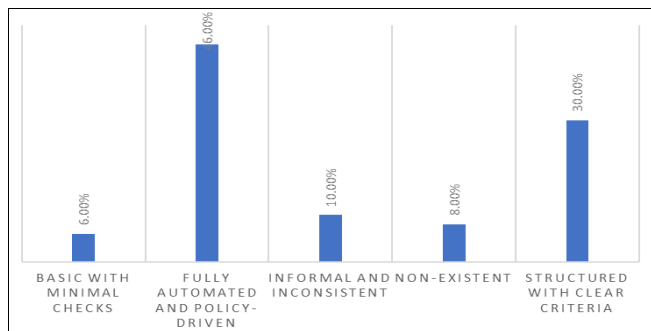
**Fig 4.3.1:** Credit Approval Processes in Businesses

The chi-square test results show a statistically significant relationship between the frequency with which businesses conduct credit risk assessments and the impact of poor credit management practices on liquidity ($\chi^2 = 96.667$, df = 6, p < 0.005). This indicates that businesses that conduct credit risk assessments more frequently are less likely to experience severe liquidity challenges compared to those that rarely or never perform such assessments. The findings suggest that regular and structured credit risk assessments play a critical role in safeguarding liquidity within hospitality businesses in Lusaka.

**Table 4.3.1:** Relationship Between Credit Risk Assessment Frequency and Liquidity Challenges

| Chi-Square Tests | | | |
|---|---|---|---|
| | Value | df | Asymp. Sig. (2-sided) |
| Pearson Chi-Square | 96.667ᵃ | 6 | .002 |
| Likelihood Ratio | 112.288 | 6 | .003 |
| Linear-by-Linear Association | 1.820 | 1 | .002 |
| 004N of Valid Cases | 100 | | |

The top challenge is poor enforcement of credit policies (38%), followed by unclear credit terms (20%). Inadequate systems and lack of trained staff also contribute. This shows that procedural and human factors play a major role in credit management challenges.
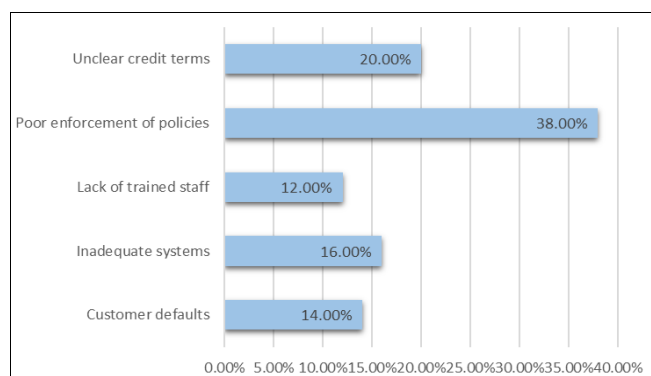


**Fig 4.3.2:** Key Challenges in Managing Business Credit

Customer satisfaction (24%) and operations/profitability (22% each) are the most affected areas. Cash flow and supplier relations are slightly less impacted. This suggests that credit practices influence multiple aspects of business performance.
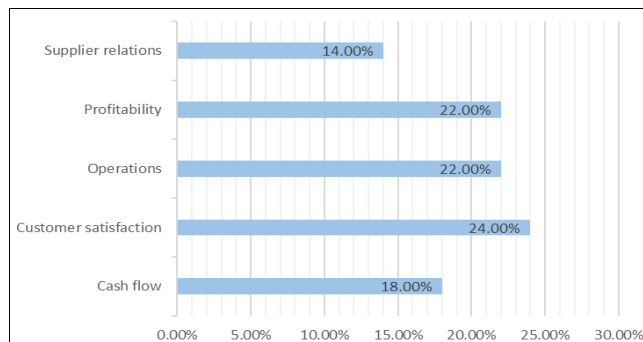


**Fig 4.3.3:** Business Areas Most Affected by Poor Credit Practices

Liquidity ratios (45%) and profit margins (35%) are most impacted by poor credit management. This indicates that credit practices influence not only cash availability but also overall profitability.
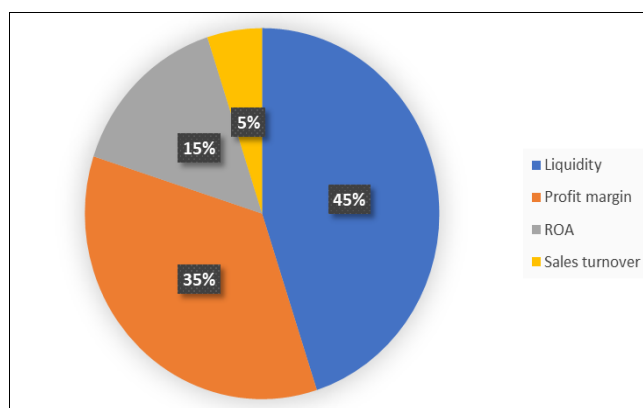


**Fig 4.3.4:** Effect of Credit Management on Financial Indicators

Bank loans (35%) and personal funds (30%) are commonly used to manage shortfalls caused by unpaid debts, showing that businesses often resort to external financing to maintain operations when credit control is insufficient.
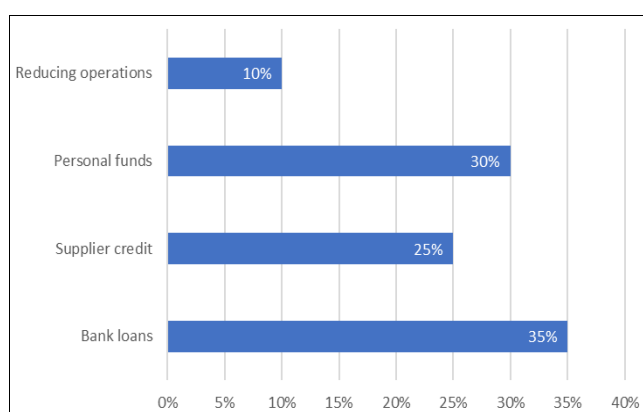


**Fig 4.3.5:** Use of External Financing to Cover Shortfalls

Half of the businesses report that bad debts account for 5–10% of annual losses, which suggests moderate exposure. This highlights that while credit carries risks, most businesses manage it sufficiently to limit losses.
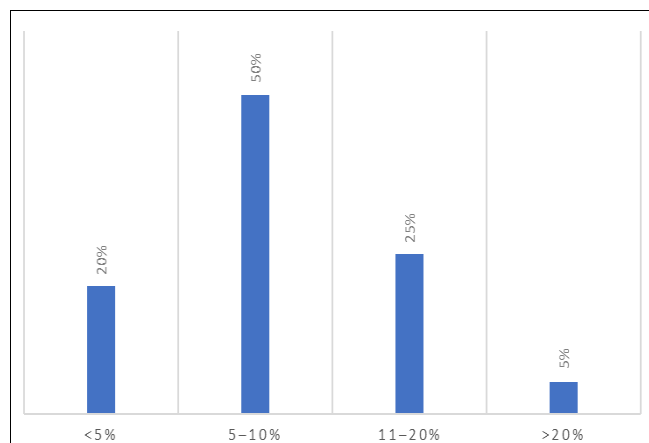
**Fig 4.3.6:** Extent of Bad Debt Losses

Accounts departments are responsible for monitoring financial performance in 60% of businesses, indicating centralized oversight. Sales and operations have less influence, suggesting the importance of specialized financial expertise.
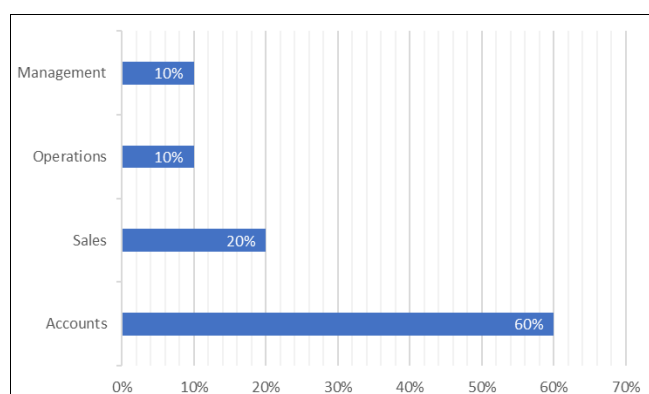


**Fig 4.3.7:** Departmental Responsibility for Financial Monitoring

Extending credit increases customer loyalty in 40% of businesses and attracts new customers in 30%, indicating that credit can be used strategically as a growth tool, provided risks are controlled.
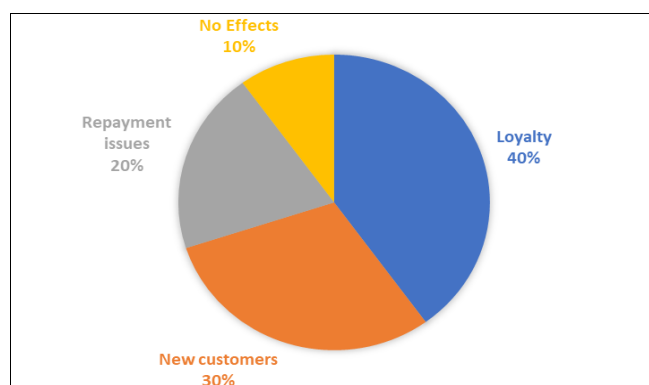


**Fig 4.3.8:** Effect of Credit on Customer Loyalty and Acquisition

### 4.4 Role of Credit Risk Assessment in Enhancing Business Performance

The chi-square test indicates a statistically significant relationship between the effectiveness of current credit policies in minimizing bad debts and the overall impact of credit management on profitability ($\chi^2 = 96.667$, df = 6, p =

0.009). This finding implies that businesses with more effective credit policies are more likely to report a positive impact of credit management on profitability, while those with weak or ineffective policies tend to experience reduced financial gains. The results highlight the importance of well-structured credit policies in supporting profitability within the hospitality industry in Lusaka.

**Table 4.4.1:** Effectiveness of Credit Policies and Their Influence on Profitability

| Chi-Square Tests | | | |
|---|---|---|---|
| | Value | df | Asymp. Sig. (2-sided) |
| Pearson Chi-Square | 96.667ᵃ | 6 | .009 |
| Likelihood Ratio | 112.288 | 6 | .000 |
| Linear-by-Linear Association | 1.820 | 1 | .022 |
| 004N of Valid Cases | 100 | | |

The chi-square test results reveal a statistically significant association between the consistency in enforcing credit terms and the effect of efficient credit management on customer retention ($\chi^2 = 96.667$, df = 6, p = 0.001). This suggests that businesses that consistently enforce their credit terms are more likely to retain customers, as disciplined credit management builds trust and strengthens customer relationships. On the other hand, inconsistent enforcement of credit terms may weaken customer retention and overall loyalty. These findings emphasize that consistency in applying credit policies is not only a financial control measure but also a driver of customer retention in the hospitality sector.

**Fig 4.4.2:** Consistency in Enforcing Credit Terms and Its Effect on Customer Retention

| Chi-Square Tests | | | |
|---|---|---|---|
| | Value | df | Asymp. Sig. (2-sided) |
| Pearson Chi-Square | 96.667ᵃ | 6 | .001 |
| Likelihood Ratio | 112.288 | 6 | .001 |
| Linear-by-Linear Association | 1.820 | 1 | .001 |
| 004N of Valid Cases | 100 | | |

The study shows that 35% of businesses rely on credit references and 30% on past payment behavior to assess customer risk. This demonstrates that hospitality businesses in Lusaka primarily use historical data and third-party evaluations to inform their decisions.
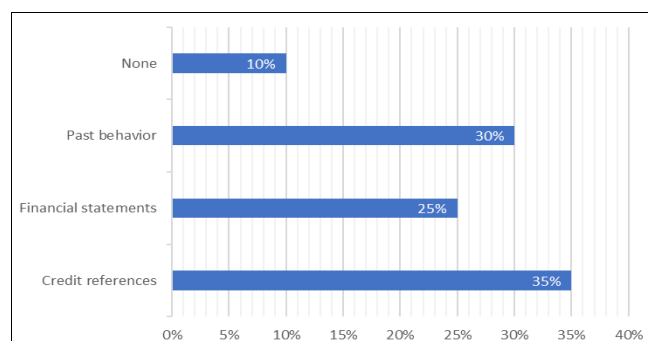


**Fig 4.4.1:** Risk assessment methods

Internal records are the primary source of customer information for 40% of businesses, while 30% also use credit bureaus. This combination suggests that businesses integrate internal performance data with verified external data to enhance the accuracy of risk assessment.
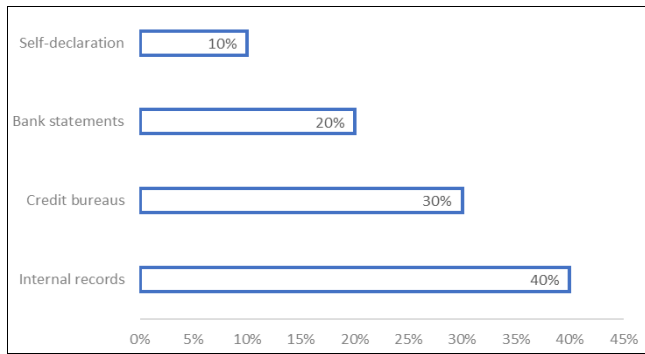
**Fig 4.4.2:** Data sources

Manual evaluation (40%) and automated software (35%) are both commonly used for scoring customer risk. This indicates that while businesses are gradually adopting technology to streamline and standardize assessments, traditional judgment and manual oversight remain important. The dual approach reflects a transitional phase in the industry where technology supports, but does not entirely replace, human expertise.
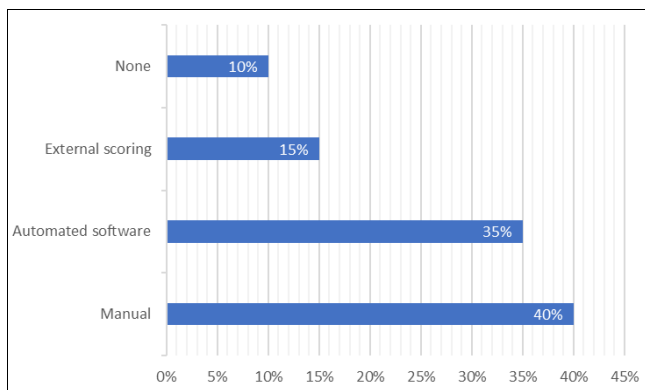


**Fig 4.4.3:** Scoring methods

For high-risk customers, 40% of businesses reduce credit limits, and 30% enforce cash-only transactions. These preventive actions highlight that Lusaka hospitality businesses actively manage exposure to defaults by limiting financial risk. By taking these measures, businesses protect cash flow and reduce potential losses associated with non-payment.
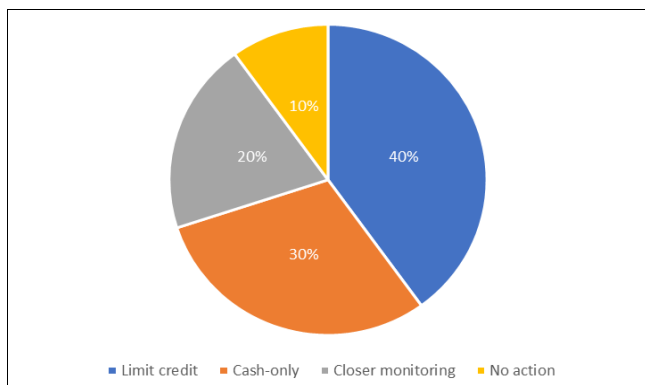


**Fig 4.4.4:** Action for high-risk customers

Despite assessing risk, 40% of businesses maintain uniform pricing for all customers. This indicates that risk-based pricing is not yet widely implemented, possibly due to

competitive pressures or customer relationship considerations. The limited use of differential pricing may reduce revenue potential from high-risk clients but simplifies customer transactions and maintains market competitiveness.



**Fig 4.4.5:** Effect on pricing

The study indicates that risk assessment leads to reduced bad debts (40%) and increased revenue stability (30%). This shows that businesses that implement structured credit risk assessments are better positioned to maintain consistent cash flow and financial performance.
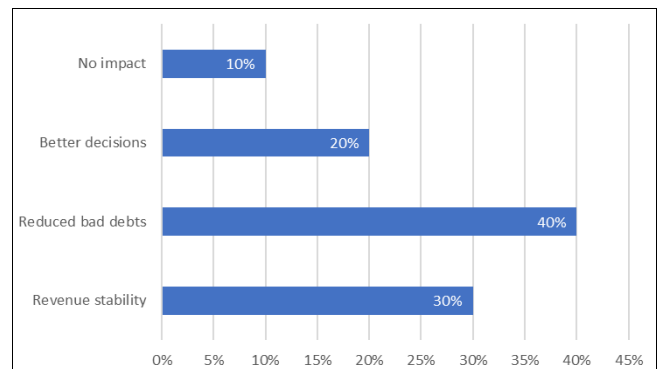


**Fig 4.4.6:** Performance impact

### 4.5 Strategies for Managing Credit and Minimizing Bad Debts in the Hospitality Industry

Businesses rely mainly on credit insurance and credit limits (26% each) to reduce bad debts. Advance deposits, strict terms, and early payment discounts are less commonly used. This indicates a focus on risk mitigation through structured limits and insurance.
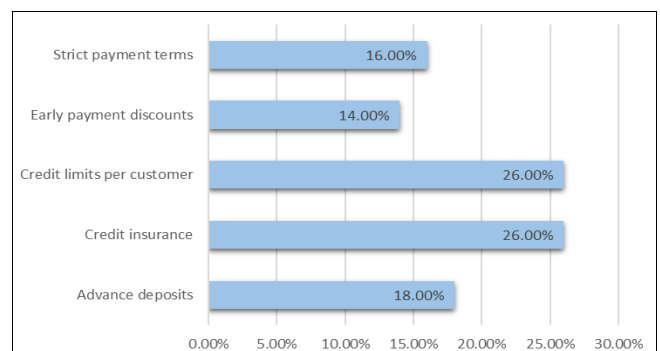


**Fig 4.5.1:** Credit Control Measures for Reducing Bad Debts

Half of the businesses prefer negotiated payment plans for overdue accounts, while internal collection follow-up is

540

used by 34%. Legal action, outsourcing, or write-offs are rare. This shows that collaborative recovery strategies are favored over punitive measures.
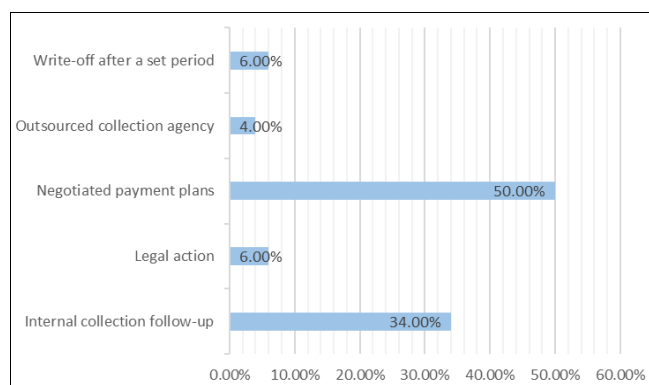


**Fig 4.5.2:** Strategies for Handling Overdue Customer Accounts

Most businesses (40%) use a combination of preventive and corrective strategies to manage credit, while 30% focus solely on preventive measures. This dual approach indicates that Lusaka hospitality businesses recognize the importance of both avoiding potential defaults and actively managing overdue accounts.
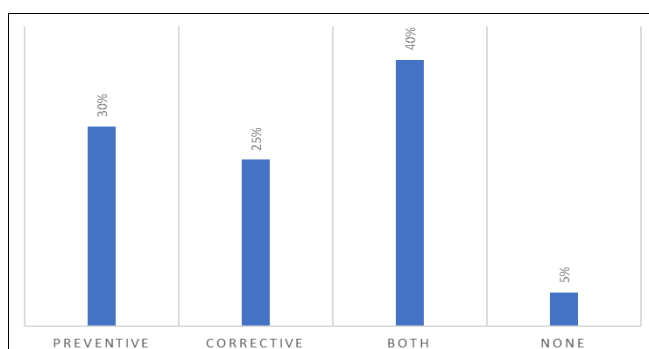


**Fig 4.5.3:** Credit control strategy

Early payment discounts (40%) and late payment penalties (30%) are widely used to motivate timely settlements. The use of both rewards and deterrents shows that businesses actively seek to influence customer behavior, balancing positive reinforcement with measures that discourage delays. This approach can improve cash flow and reduce overdue accounts.
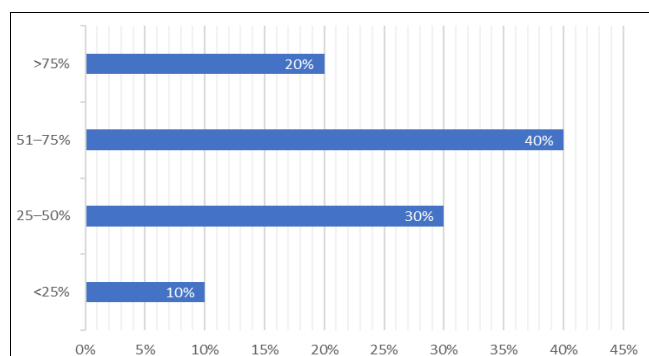


**Fig 4.5.4:** Payment incentives

Effective credit assessment (35%) and strong collection procedures (30%) are seen as the most important factors in reducing bad debts. This emphasizes that both preventive

measures and active recovery strategies are essential to maintaining financial health and sustainability in the hospitality sector.
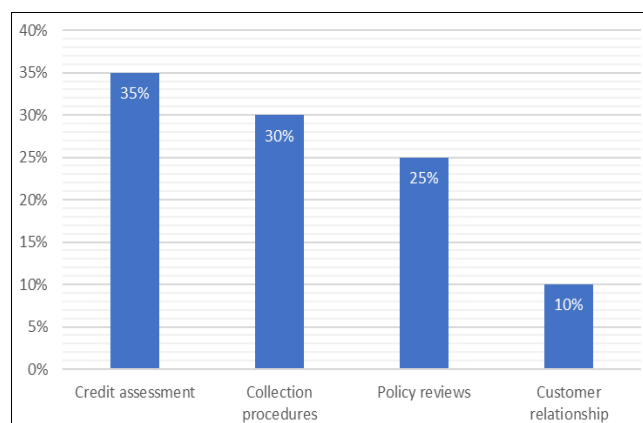


**Fig 4.5.5:** Key factors minimizing debt

## 5. Discussion

The study found that hospitality businesses in Lusaka recognize the importance of credit management but face challenges in consistent application. Most businesses conduct regular credit risk assessments and view their policies as effective, yet 22% lack formal assessment methods, exposing them to default risks. Automation is increasingly used for reminders and approvals, but enforcement gaps and staff knowledge limitations reduce effectiveness, leading to frequent late payments and bad debts. Effective credit management is strongly linked to profitability, liquidity, and operational stability, though many businesses remain overconfident despite persistent challenges. The reliance on traditional methods like bank references reflects limited technological capacity among smaller firms. Strategies such as credit limits, insurance, deposits, and automated systems help manage risk, while relationship-based collections and frequent policy reviews strengthen compliance. However, weak enforcement remains a major barrier. To improve performance, businesses need stronger internal controls, better staff training, measurable credit performance tracking, and shared industry tools for risk assessment. Overall, Lusaka's hospitality sector shows sound awareness of credit management principles but needs improved enforcement, technology use, and practical risk control systems to achieve consistent financial resilience.

## 6. Conclusion

The study shows that credit management in the hospitality industry in Lusaka significantly influences business operations, financial stability, and profitability. Most businesses recognize the importance of evaluating customer credit risk, with frequent or consistent credit risk assessments and generally effective credit policies. Structured credit collection processes, automated reminders, and policy-driven approval systems are widely used, reflecting an organized approach to credit management. Despite these measures, late payments and bad debts remain prevalent, indicating challenges in enforcement, unclear terms, and inconsistent use of formal assessment methods. These issues affect cash flow, operational efficiency, supplier relationships, and customer satisfaction. Businesses that apply credit insurance, credit limits, and credit scoring

systems demonstrate better control over risks, while staff training and policy revisions enhance overall credit management effectiveness. Overall, effective credit management is positively associated with profitability, operational efficiency, customer retention, and business expansion. While most businesses display confidence in their credit strategies, there is room to standardize assessment methods, improve enforcement of credit policies, and adopt more comprehensive risk mitigation measures to strengthen financial performance and reduce operational disruptions.

## 7. Acknowledgement

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