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## Impact of credit risk management

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### Abstract

Credit risk management was not so necessary, while sales of deferred payment has begun to dominate the prompt payment. The existence of receivables has become a necessity in the area of functional and effective market economy. Most of the receivables in the company have the form of trade credit. Therefore credit management as the management of trade credit has become very important. Insolvency four out of ten companies in the Slovak Republic is due to the delay or any payment of their receivables. Credit managers address important issues during their daily activities: the level of indebtedness enterprises, which is due to the sale of invoice, the increase of indebtedness should be supported or stopped, the ability and willingness of customers to pay their commitments properly and timely, appropriately set criteria for individual credit segments of customers or if it is necessary to make a decision of choosing an effective tool for debt recovery. Article highlights to a correlation between the amount of receivables in the company and its solvency and underlines the importance of credit management and its principal activities. We will use the methods of formal logic such as analysis, synthesis and interpretation. The intention is to draw up basic theoretical principles for determining the credit limit for individual customers in the company.

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*Keywords:* Economic Value Added; value of the company; shareholders; stakeholders

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### 1. Introduction

Every business takes several types of risks. Many companies typically provide credit sales to their customers. They give them the opportunity to pay for the supply of goods and services later. It supports good business relationships with its customers. Adamko, Birtus, Kliestik (2014) state that the provision of credit sales is commonplace in effectively functioning economy. Company takes credit risk very often. Credit risk is the risk of non-payment by the customer. Knowing the business partner creditworthiness is a prerequisite for the correct

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decision of providing credit sales. Credit management means management of credit sales to minimize the credit risk in the company. Credit managers deal with issues of increasing debt due to the sales invoice. They address the extent to which it is appropriate to support this increase and when it is necessary to stop. Implementation of credit management is conditioned by creating credit standards for each homogeneous group of customers in the company. The article deals with the theoretical design of credit standards.

## 2. Credit sales

Activities of credit management are associated with the concept of credit sales. Credit sales refers the possibility of purchasing made by a consumer that do not require a payment made in full at the time of purchase. Offering credit sale will increase the attractiveness of trade, so we can talk about the supplier's competitive advantage. Credit sale is convenience credit for customer. However, forcing companies to incorporate lack of the funds into the prices of goods and services. The following table shows average payment terms and the number of days of delay in each sector in Slovak republic in 2014.

Table 1. Overview of average payment term, average payment duration, average delay in days in 2014.

	B-2-C			B-2-B			Public authorities		
	Average payment term	Average payment duration	Average delay in days	Average payment term	Average payment duration	Average delay in days	Average payment term	Average payment duration	Average delay in days
<b>Slovakia</b>	15	29	14	25	42	17	30	55	25

Following table shows the payment behavior of European countries on the basis of a survey conducted by Intrum Justitia in 2013. The survey was conducted on a sample of 9,800 companies of different sectors and sizes.

Table 2. Overview of average payment term, average payment duration, average delay in days in 2013.

	B-2-C			B-2-B			Public authorities		
	Average payment term	Average payment duration	Average delay in days	Average payment term	Average payment duration	Average delay in days	Average payment term	Average payment duration	Average delay in days
<b>All surveyed European countries</b>									
<b>average</b>	20.42	35.26	14.84	32.29	50.74	18.45	34.74	60.65	25.90
<b>The Mediterranean region (Cyprus, Greece, Italy, Spain, Portugal)</b>									
<b>average</b>	31.00	59.80	28.80	54.00	86.80	32.80	66.00	140.40	74.40
<b>The Nordic countries (Denmark, Norway, Sweden, Finland, Iceland)</b>									
<b>average</b>	15.00	22.40	7.40	24.60	32.80	8.20	24.60	32.00	7.40
<b>The Visegrad Group (Slovakia, Czech republic, Poland, Hungary)</b>									
<b>average</b>	17.50	31.25	13.75	25.00	42.75	17.75	27.50	48.75	21.25

As we can see the most notably differences are between the Nordic region and the Mediterranean. The payment discipline of the Scandinavian countries is greatly influenced by not only the legislation, but also by respecting the unwritten rules of trade. The payment discipline of Slovak companies significantly deteriorated especially in times of crisis. At present, the situation is slightly better. Many entrepreneurs are still very cautious in predicting future developments.

Many entrepreneurs perceive the credit sale as a negative term. The provision of trade credit sale has not only disadvantages but also advantages, too. Cug, Frajtova-Michalíkova, Spuchlakova (2014) state that there is a comparison of advantages and disadvantages of credit sales.

### Advantage of credit sales

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