

Credit Management, Cash Flow Management And Financial Performance Among Petroleum Companies In Uganda

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Abstract

World over, the issue of financial performance has attracted a lot of debate among scholars especially after the collapse of world giants like World Com, Enron, Adelphia, among others. Similar situations in Uganda have seen institutions in the petroleum sector register poor financial results. Accordingly, a study was conducted to examine the relationship between credit management, cash flow management and financial performance of companies within the petroleum sector of Uganda. The study was guided by the objectives of assessing the relationship between credit management and financial performance, identifying the relationship between cash flow management and financial performance as well as establishing the relationship between credit management, cash flow management and financial performance among petroleum companies in Uganda. Literature for different scholars was reviewed with a view of identifying the agreements and disagreements among scholars. Using a cross sectional research study and employing a quantitative research design, the study was able to solicit views from 156 staffs of petroleum companies in Uganda. The study used close-ended questionnaires for data collection after which data was sorted, edited, and entered into SPSS to pave way for data processing, analysis and interpretation. The study indicated that there was a statistically significant positive correlation between credit management and financial performance within petroleum firms and that the nature of the correlation is strong. In relation to cash flow management and financial performance, the study revealed a moderate and significant positive correlation between the variables. Moreover, the study findings revealed that both credit management and cash flow management were significant predictors of financial performance within petroleum firms. Based on these findings, the researcher recommended that petroleum companies should put in place effective credit policies to boost financial performance through analyzing the entire cash cycle and designing procedures that extend credit sensibly, keep an eye on accounts receivable and collect overdue bills promptly. Also, petroleum firms should design employee retention strategies to ensure that they keep experienced employees for longer. Based on the study limitations, the study proposed the effect of employees' skills and seniority on financial performance, and the effect of organizational characteristics on financial performance within firms as areas for further study.

Key words: Credit Management, Cash Flow Management and Financial Performance Among Petroleum Companies

Background of the study

Financial performance is defined as the ability of firms to operate efficiently, profitably, survive, grow and respond to environmental opportunities and threats (Ramadhan et al., 2023). It is characterized by the

firm's ability to create acceptable results and actions (Paul et al., 2023). Financial performance as a concept is crucial for businesses because no single business can survive for long unless its liquidity, profitability

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and growth are worked on (Polycarp et al., 2023). It is used to measure the overall financial health of a firm over a given period of time and can also be used to compare similar firms in the same industry or to compare industries or sectors in an aggregate. This is best measured by profitability, liquidity and growth. A firm is said to be stable and profitable when the company's profits are growing, with high liquidity and growing sales and assets (Annet et al., 2023). The main objective of most companies is to ensure that their business has a healthy financial performance. As a result, the managements of various companies have come up with the right policies to achieve this. Some of the management paradigms that have emerged as a result are credit management and cash flow management with empirical evidence that they increase financial performance (Alex & Kazaara,

Problem statement

Financial performance problems among oil companies in Uganda continue to be evident with evidence suggesting that some companies are going bankrupt, some are exiting the market and others are being bought by rival competitors (Akankwasa et al., 2022). Uganda's oil industry is highly dependent on credit for small players who sell oil products to consumers. Most of these companies do not reach full maturity and take advantage of a stable and mature company. In 2008 CALTEX Uganda took over TOTAL Uganda and in 2012 Engen Petroleum took over Oryx on the grounds that the companies had failed to break even and were not profitable (Christopher et al., 2022). Similarly, the GAPCO Audit Report (2014) highlighted declining sales turnover, gross profit and rising financial costs, which are attributes that are indicators of poor financial performance and indicate poor financial management (Racheal et al., 2023). The Ministry of Energy and Mineral Development further highlighted that most oil companies in Uganda have been hit with liquidity and profitability problems due to poor credit and cash flow management, which has contributed to the slow growth of companies like Tosha. and Hass (Deus, 2023). These trends had various impacts, especially on retail fuel prices. Based on this, the objective of the study is to examine the extent to which the current financial performance problems experienced by oil companies in Uganda are a result of credit management and cash flow management.

Purpose of the study

The study examined the relationship between credit management, cash flow management and financial performance of companies within the petroleum sector of Uganda.

2023). According to Randall and Farris (2009), most business-to-business companies provide credit to their customers as an essential tool to attract customers. How they manage this process is critical to ensuring cash flow management that enhances financial performance in this process (Gracious, 2023). Likewise, credit management is a very important component of corporate finance as it directly affects liquidity, profitability and business growth and is important to the financial health of businesses of all sizes as the amounts invested in receivables are often high. share of the total used property (Polycarp et al., 2023). Therefore, careful planning and monitoring of trade receivables over time is needed to achieve a trade-off between the opportunity cost of extending too much credit and the business cost of holding too little cash.

Research Objectives

1. To assess the relationship between credit management and financial performance among petroleum companies in Uganda
2. To determine the relationship between cash flow management and financial performance among petroleum companies in Uganda
3. To establish the relationship between credit management, cash flow management and financial performance among petroleum companies in Uganda

Methodology

This study adopted a cross sectional research design while conducting the study. This research approach was selected because it involves studying a variable in which data is gathered just once or in a snapshot. The study also used a quantitative research approach to obtain numerical data which was used in the analysis of findings. The study considered 74 petroleum companies in Uganda. This number was derived basing on the Ministry of Energy & Mineral Development Report, (2013). The sample size was 63 petroleum companies which were obtained based on the Krejcie and Morgan, (1970) table for determining the sample size from a given population. To select the 63 petroleum companies, the researcher used simple random sampling technique. Simple random sampling technique was used because it accorded equal chance for each member within a given population to become part of the sample from which data was collected. The study used the questionnaire instrument for data collection purposes. The questionnaire tool was selected because it was the best instrument for collecting data from a large number of respondents. From the field, the data was sorted, edited and processed using the statistical package for social scientists (SPSS) (Nelson et al., 2022). Thereafter, frequency tables were obtained to present bio data of respondents that participated in the study. Using inferential statistics of correlation and regression, this study was able to establish the relationships between variables of the study.

Results

Table 1: Correlation analysis between credit management, cash flow management and financial performance

	CM	Credit Policy	Credit Insurance	CFM	Cash Flow Planning	Cash Flow Monitoring	Cash Flow Control	FPM
CM	1							
Credit Policy	.041	1						
Credit Insurance	.215	.661**	1					
CFM	.158	.114	.031	1				
Cash Flow Planning	-.103	.340**	.251	.276*	1			
Cash Flow Monitoring	-.104	.465**	.499**	.131	.627**	1		
Cash Flow Control	.002	-.310*	.217	.055	.389**	.172	1	

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FPM	.686**	.174	.032	.413**	.048	.044	-.035	1
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** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

Key: CM- Credit management, CFM- Cash Flow Management, FPM- Financial performance

Source: *Primary data*

Relationship between credit management and financial performance

The findings from table 1 above showed that there was a significant and strong positive correlation between credit management and financial performance with results of ($r = .686$ $p < 0.01$). The results revealed that a positive change in credit management leads to a positive change in financial performance within firms (Kazaara & Christopher, 2023). Thus, it is important that petroleum companies should put emphasis on credit management practices within their institutions. The findings also revealed that constructs of credit policy and credit insurance also influence financial performance outcomes within petroleum companies. However, their relationship was not statistically significant.

Relationship between cash flow management and financial performance

As per table 1 above, the findings revealed a significant positive correlation between cash flow management and financial performance with statistical values of ($r = .413$ $p < 0.01$). Therefore, the results imply that cash flow management is moderately associated with financial performance within petroleum firms. This implies that a positive change in cash flow management can moderately boost financial performance (Alex & Kazaara, 2023). Accordingly, if petroleum firms are to register an improvement in their financial performance, then they should design better cash flow management strategies. Moreover, the results also revealed that attributes of cash flow planning and cash flow monitoring are linked to financial performance though the nature of the relationship is statistically insignificant (Wegulo et al., 2023).

Regression analysis

The regression analysis between credit management, cash flow management and financial performance was carried out to establish the extent to which the combined variables predict financial performance outcomes. The findings of this analysis are summarized hereunder.

Table 2: Combined relationship between credit management, cash flow management and financial performance

Model Summary						
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate		
1	.753 ^a	0.567	0.551	0.22979		
a. Predictors: (Constant), Credit Management, Cash Flow Management						
Coefficients						

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.499	0.283		5.300	0.000
	Credit Management	0.483	0.067	0.637	7.214	0.000
	Cash Flow Management	0.140	0.040	0.313	3.540	0.001
a. Dependent Variable: Financial Performance						

Source: *Primary data*

From table 2 above, the regression results indicated that credit management and cash flow management can explain up to 55.1% of the variance in financial accountability (Adjusted R Square = 0.551) (Nelson et al., 2023). This implies that other factors outside the model can predict up to 44.9% of the variations within financial accountability of petroleum companies.

Conclusion

In relation to cash flow management and financial performance, the study revealed a statistically positive correlation between the two variables. The study's observation is that with the adoption of an effective cash flow planning and monitoring, financial performance within a firm would improve (Faith et al., 2023). These findings are consistent with earlier scholarly works and supports the interdisciplinary position and importance of such cash flow management practices in achieving the desired financial performance that is yearned for in petroleum firms. Thus, the study impliedly revealed that when the cash flow management practices of planning and monitoring are not adhered to, it would result in insufficient level of financial performance where petroleum firms would not be profitable, where firms would find challenges in financing their daily operations and where firms would not grow to their ideal levels.

Recommendation

Petroleum companies should put in place effective credit policies to minimize revenue leakages due to debtor's failure to pay their dues as and when they fall due. Creating an effective credit and collection policy would make and keep the company stronger. This can be done by analyzing the entire cash cycle of a firm and design procedures that extend credit sensibly, keep an eye on your accounts receivable and collect overdue bills promptly (Derrick et al., 2023). An effective credit policy will also spell out whether the company is liberal, moderate, conservative or some combination such as liberal on credit/conservative on collections, moderate on credit/moderate on collections as well as conservative on credit/liberal on collections.

It is also recommended for management of petroleum firms to design strategies for proper cash flow planning and monitoring on a daily basis as this can indicate clients who are to pay their dues on a given date, their outstanding dues and the obligations that the institution is liable on the side of suppliers. Knowing the company's level of risk tolerance, cash-on-hand and access to capital will go a long way in helping your company to determine its cash flow management objective.

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Petroleum firms should also improve their employee retention strategies to ensure that employees with the right skills do not easily move to other rival firms. This can be achieved by setting good working conditions such as better pay, incentives payment, recognizing best performers and creating an atmosphere where employees feel valued for their input. This will minimize the rampant staff exits and ultimately most employees will stay longer on their jobs (Emmanuel et al., 2023).

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