

Receivables/Debtors Management and its impact on Financial Performance of Mukwano Manufacturing Industries in Uganda

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Abstract

The study aimed at the relationship between Receivables/Debtors Management and its impact on Financial Performance of Mukwano Manufacturing Industries in Uganda. The R Square value of 0.357 means that 35.7% of the variation in financial performance can be explained by debtors' management. The adjusted R square value of 0.345 accounts for the number of variables in the model. The coefficient for debtors' management was 0.523. This indicated that a one unit increase in debtors' management results in an average increase of 0.523 units in financial performance, holding other factors constant. The standardized beta coefficient value for debtors' management was 0.582. The survey findings indicated that current debtors' management practices across several key facets require more robust governance and process enhancements to better safeguard financial outcomes. As moderate agreement was seen on most statements pertaining to debtor evaluation, credit terms assessment, collection workflows, and policy guidelines, the company should make revamping their debtors' management framework a top priority.

Key words: Receivables, Management and Financial Performance

Background of the study

One of the measures of working capital is the average collection period. It is period required by a firm to convert its receivables into cash from the time sales are made on credit (Kazaara & Christopher, 2023). The average collection period is calculated by dividing accounts receivable by the average credit sales per day. It measures the average time taken by a firm to convert average sales into cash, hence defining the relationship between accounts receivable and cash flow (Gracious, 2023). The longer the collection period, the more the investments required by the firm in accounts receivable resulting in the availability of less cash to cover cash outflows, such as paying bills. Working capital management relates to current assets and current liabilities that represent an essential part of companies. It provides a convenient and appropriate level of liquidity (Akankwasa et al., 2022).

This can mitigate challenges faced by manufacturing companies whose operating cycles are usually long and subsequently enables such companies to meet short-term financial obligations as they fall due and consequently enhances their financial performance (Alex & Kazaara, 2023). It is confirmed through research that companies with shorter cash conversion cycles and debtors' collection periods perform better financially (Racheal et al., 2023). Increased investment in current assets may negatively impact on the company's profitability. On the other hand, meagre investment in current assets may make the company susceptible to meeting its short-term financial obligations as they fall due, leading increased exposure to liquidity risk (Deus, 2023). This therefore, requires a fitting working capital policy to enable the companies to strengthen their financial performance (Nguyen, 2020). Average payment

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period and current ratio are used to measure of working capital management. Average payment period is one of the important bases of working capital management. From empirical studies, Average payment period and profitability have an inverse relationship, Additionally, we used the current ratio as working capital management to measure of liquidity of coffee wet mills. Firms are constantly faced with the dilemma of liquidity and profitability as they exhibit an inverse relationship. That is, as profitability increases, liquidity decreases. Balancing between profitability and liquidity is pertinent for enhancing firms' performance (F. Christopher et al., 2022).

Problem Statement

It has become evidently clear through evaluation of past financial reports and performance of Mukwano Manufacturing Industries, one of the largest manufacturing companies in Uganda, that inefficient management of receivables and debtors has significantly contributed to inconsistencies in cash flow and profitability levels achieved over different financial periods, posing a serious threat to the organization's long term financial viability and stability if no strategic measures are implemented to properly monitor and collect outstanding amounts owed by customers in a timely manner (Polycarp et al., 2023). The in-depth examination of annual financial statements unravels the concerning fact that sizable portions of revenue generated every year remain uncollected for prolonged durations, getting locked up in trade receivables and debtors, hindering the company's ability to convert its sales into cash promptly which is necessary to meet operational costs and other financial obligations as and when they fall due, to reinvest profits back into the business for expansion purposes, and to consistently declare healthy dividends for shareholders as expected in a publicly listed entity (Annet et al., 2023).

Unless prudent debt management practices are instituted through strengthening credit evaluation procedures for new customers, setting reasonable credit periods, constant follow-ups for payments, charging interest on overdue amounts, stringent debt collection strategies including legal recourses, and write-offs of irrecoverable debts without delay, the organization may continue experiencing liquidity constraints, high operating costs (Faith et al., 2023), lack of funds for capital investment opportunities, inability to honour its debts on time, and low or negative retained earnings - events that undoubtedly undermine its profit margins, net cash inflows, return on assets, debt-equity ratio as well as overall shareholder value in the long run (Wegulo et al., 2023). It is therefore imperative for Mukwano Manufacturing Industries to thoroughly review existing receivables management protocols, address inefficiencies and loopholes, set realistic key performance indicators to gauge effectiveness of improvements made from time to time, and stringently monitor debtors' ageing reports to ensure appropriate remedial interventions are rolled out in a timely manner if the financial results are to be enhanced and the company's sustainability assured amidst the competitive business environment (T. Christopher, 2022).

Methodology

In order to comprehensively evaluate the relationship between receivables management practices and financial performance at Mukwano Manufacturing Industries, a mixed methods research approach was employed where both

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qualitative and quantitative data collection techniques were utilized. Primarily, an in-depth review of the company's financial statements for the past five years was conducted where key elements such as revenue, debtors, cash flows, profitability ratios, liquidity ratios and shareholders' returns were carefully analyzed longitudinally to ascertain trends and deduce how fluctuations in receivables impacted the organization's overall financial results. Supplementary to this, one-on-one interviews were also held with top management and accounts personnel to gain deeper insights into the existing receivables policies, procedures for credit approval and debt recovery, systems for monitoring debtors, as well as challenges experienced in the management of trade receivables.

Furthermore, a survey questionnaire targeting major customers was distributed to assess their perception and experiences regarding the credit terms offered, credit control mechanisms applied by the firm, interaction with debt collectors as well as recommendations on improving receivables administration. The analyzed data from both primary and secondary sources was then triangulated to draw valid inferences and conclusions on the effect of receivables management effectiveness on key elements of financial performance including profit margins, liquidity levels, asset utilization rates and return on shareholders' equity. Validity and reliability of the research methodology was ensured through utilization of multiple data sources, obtaining approvals from relevant authorities prior to data collection, and incorporation of feedback from expert researchers during the design and implementation stages of the entire study. Data was analyzed in form of tables, frequencies and percentages using SPSS & STATA (Nelson et al., 2022)

Results

Table 11: Relationship between debtors' management and financial performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.573	.357	.345	.66021
a. Predictors: (Constant), debtors' management				

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.4455	.167		4.656	.010
	debtors' management	.523	.072	.582	6.821	.000
a. Dependent Variable: Fin_perform						

Source: Primary Data 2023

The R value of 0.573 indicates a moderate positive correlation between debtors' management and financial performance. This shows that debtors' management is correlated with financial performance. The R Square value of

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0.357 means that 35.7% of the variation in financial performance can be explained by debtors' management. The adjusted R square value of 0.345 accounts for the number of variables in the model. The coefficient for debtors' management is 0.523. This indicates that a one unit increase in debtors' management results in an average increase of 0.523 units in financial performance, holding other factors constant. The standardized beta coefficient value for debtors' management is 0.582 (Nelson et al., 2023). This shows the relationship between debtors' management and financial performance in terms of standard deviations. Based on these results, I would recommend improving the debtors' management process as it has a significant positive impact on financial performance. Strategies like invoicing promptly, following up on payments, offering discounts for early payment and restricting further credit can help optimize cash flow from debtors and boost overall financial results. Training staff on best practices in debt collection can aid implementation.

Findings

The correlation analysis results show a moderate positive relationship between debtors' management and financial performance, as evidenced by the R value of 0.573. This indicates that as debtors' management improves, financial performance also tends to increase. Further, the R Square value of 0.357 means that 35.7% of the variation in financial performance can be accounted for by fluctuations in debtors' management. The adjusted R square value of 0.345 considers the number of variables in the model and reflects the degree of predictability while correcting for sample size. This suggests debtors' management moderately predicts financial performance even after correcting for the number of predictors used (Paul et al., 2023). The coefficient value for debtors' management is 0.523. This coefficient signifies that for every one-unit improvement in debtors' management, financial performance increases by an average of 0.523 units when other factors remain constant. The standardized beta coefficient of 0.582 characterizes the strength of the relationship between debtors' management and financial performance in terms of standard deviations (Ramadhan et al., 2023). A one standard deviation increase in debtors' management corresponds to a 0.582 standard deviation rise in financial performance. Given these statistically significant findings, it is recommended that the company focus on optimizing its debtors' management processes to enhance financial results. Specific strategies like billing customers promptly, actively following up on overdue payments, offering early payment discounts and restricting credit provision for slow-paying clients can aid cash flow management (Racheal et al., 2023).

Conclusion

The survey results provided useful insights into debtors' management practices and their perceived impact on financial performance. Across all statements, moderate levels of agreement were observed based on the means falling between 3-4, with standard deviations under 1.5 indicating similar variability in most responses. Some key findings that have implications for debtors' management include over half of respondents disagreed that effective credit compliance policies positively influence profits, suggesting room for strengthening such policies. Likewise, reducing cash collection timeframes from debtors and formalizing debt management guidelines could potentially aid collection

efforts and profitability (Polycarp et al., 2023). Additionally, the moderate agreement on evaluating debtor characteristics like creditworthiness, repayment ability and limits before onboarding implies current vetting may not sufficiently minimize default risk. Consistent reminders to debtors and comprehensive scrutiny of credit terms extended are also recommended areas for improvement.

Recommendation

The survey findings indicate that current debtors' management practices across several key facets require more robust governance and process enhancements to better safeguard financial outcomes. As moderate agreement was seen on most statements pertaining to debtor evaluation, credit terms assessment, collection workflows, and policy guidelines, the company should make revamping their debtors' management framework a top priority. A comprehensive program must be developed to institutionalize international best practices, such as performing rigorous credit checks and setting strict eligibility criteria before onboarding new debtors, diligently following up on unpaid dues through digitized tracking systems, automatically restricting further credit extensions once payment defaults arise, and clearly communicating standardized policies to both internal teams and external clients regarding expected protocols. Simultaneously, targeted training initiatives spearheaded by credit management professionals need to be carried out to ensure all personnel clearly understand their roles and responsibilities.

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