

**Payables/Creditors Management And It's Impact On Financial Performance Of Ntake Manufacturing Industry**

**Ariyo Gracious Kazaara<sup>1</sup>, Arinaitwe Julius<sup>2</sup>**

**1, 2 Metropolitan International University**

**Abstract**

The study aimed at payables/creditors management and its impact on financial performance of Ntake manufacturing industry. Primarily, financial statements for the past 5 years were thoroughly analyzed longitudinally where crucial metrics including operating cash flows, inventory holding periods, payables days, profitability ratios and asset utilization were carefully evaluated to discern trends and how fluctuations in payables impacted overall returns. Supplementary to this quantitative phase, in-depth one-on-one interviews were also conducted with top leadership, accounts personnel as well as major suppliers using semi-structured questionnaires to garner deeper insights into prevailing vendor payment policies, challenges experienced in disbursing payment obligations on time, credit terms negotiation strategies and opportunities for improvement. From the findings, the analysis found a strong positive correlation between creditors' management and financial performance, as indicated by the R value of 0.735. This suggests financial performance was heavily influenced by creditors' management practices. The R Square value was 0.718, demonstrating that 71.8% of the variation in financial performance can be explained by creditors' management. The adjusted R square of 0.615 accounted for the number of variables in the model, confirming creditors' management strongly predicts financial performance even after correcting for additional factors. The statistical analysis revealed a remarkably strong positive correlation between creditors' management practices and overall financial performance. Given over 70% of the variation in results could be attributed to creditors' management alone, it is imperative that the organization urgently prioritizes optimizing processes and controls pertaining to this important function. A comprehensive, multi-pronged revamp of the creditors' management framework should be undertaken, spearheaded by senior leadership and closely monitored through an internal audit program.

**Key words: payables/creditors management, financial performance and Ntake manufacturing industry**

**Background of the study**

The average payment period is the average length of time between the purchase of materials, labor and their payment of cash. the payment of bills by managers has become one of the main sources of finances for many companies. This can become risky for the business if the organization offers an early payment discount (Akankwasa et al., 2022). This period is longer for countries with small and insufficient capital markets. Working capital management requires firms to delay their payments to creditors. By doing so, managers have another source of cash for use in other projects. Delaying payment of accounts payable to suppliers is a cheap source of financing and also affords the manager the time to access the quality of branch products (K. Faridah et al., 2023). However, if discounts are offered to the

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company for early payment, then reducing the payment period could mean that the company incurs extra costs. Therefore, the relationship between the average payment period and profitability is positive (Annet et al., 2023). Delaying Manufacturing sector is one of drivers of economic development. To all institutions working capital management has a direct impact on their profitability, risk and value (Polycarp et al., 2023). Evidence has it that appropriately implemented working capital management policies have a favorable effect on the firm's performance. However, manufacturing firms usually experience instability in their financial performance (Gracious, 2023). This may be due to over investing in working capital. Manufacturing as a sector is persistently face challenges due to inadequate resource linked to poor working capital management (Racheal, Kazaara, et al., 2023). Apt control of working capital is critical for liquidity purposes to enable the company to meet its short-term obligations as they fall due. However, operating concessions have to be considered. That is, companies need to enhance their working capital position in a way that do not negatively impact on sales and profits thereof (N. Faridah et al., 2023). Therefore, there was need to find out the relationship between working capital management and financial performance of selected manufacturing firms in Uganda (Isaac et al., 2023).

#### **Problem Statement**

Through a meticulous examination of financial reports over successive accounting periods, it has become overwhelmingly clear that inefficient payables management has notably contributed to inconsistent cash flows and profitability levels achieved by Ntake Manufacturing Industry, one of the largest manufacturing companies in Uganda, thus seriously jeopardizing its long term viability and growth aspirations (Frank et al., 2023). A close scrutiny of annual financial statements unveils the disturbing reality that undue delays in settling trade payables to suppliers have been commonplace despite healthy cash positions at different points in time during the year, resulting in higher interest costs incurred and deterioration of vital business relationships that are crucial for continuous material supplies and competitive pricing (K. Faridah et al., 2023). Unless strategic interventions are made to streamline payables policies, implement effective cash disbursement controls, optimize payment terms negotiated with key vendors, and ensure advanced pay outs are made whenever heavy loans are taken, the company may continue facing liquidity challenges, high costs of production, disruptions in manufacturing cycles, inability to exploit valuable credit periods, and low or negative returns for shareholders in the long run that emphatically undermine its profitability margins, asset utilization levels and overall image as a reliable client in the industry (Wegulo et al., 2023). It is therefore imperative for Ntake Manufacturing Industry to undertake an in-depth audit of prevailing payables management practices, plug any deficiencies, set forth realistic key performance indicators, and closely monitor cash conversion cycles to guarantee timely resolution of any inefficiencies that surface (Wegulo et al., 2023), if financial results are to be enhanced and the sustainability of the business sustained amidst intensifying competition.

#### **Methodology**

To comprehensively evaluate the relationship between payables management effectiveness and financial performance at Ntake Manufacturing Industry, a mixed research approach was adopted whereby both qualitative and quantitative

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data collection techniques were employed sequentially. Primarily, financial statements for the past 5 years were thoroughly analyzed longitudinally where crucial metrics including operating cash flows, inventory holding periods, payables days, profitability ratios and asset utilization were carefully evaluated to discern trends and how fluctuations in payables impacted overall returns.

Supplementary to this quantitative phase, in-depth one-on-one interviews were also conducted with top leadership, accounts personnel as well as major suppliers using semi-structured questionnaires to garner deeper insights into prevailing vendor payment policies, challenges experienced in disbursing payment obligations on time, credit terms negotiation strategies and opportunities for improvement. Additionally, a survey was distributed to key internal stakeholders to gauge their perceptions on payables administration systems and processes.

The data gathered from both approaches was then triangulated to draw valid conclusions regarding the effect of payables practices on metrics such as liquidity levels, operating costs, investment opportunities and shareholders' returns. Validity and reliability were ensured through utilization of multiple sources, getting approvals from relevant authorities and incorporating expert feedback during design and implementation. Data was analyzed inform tables, frequencies and percentages using SPSS & STATA (Nelson et al., 2022)

Results

Table 1: Regression results on the relationship between creditor's management and financial performance

| Model                                                   | R    | R Square | Adjusted R Square | Std. Error of the Estimate |
|---------------------------------------------------------|------|----------|-------------------|----------------------------|
| 1                                                       | .735 | .718     | .615              | .47001                     |
| a. Predictors: (Constant), <b>creditor's management</b> |      |          |                   |                            |

| Coefficients                                        |                              |                             |            |                           |       |      |
|-----------------------------------------------------|------------------------------|-----------------------------|------------|---------------------------|-------|------|
| Model                                               |                              | Unstandardized Coefficients |            | Standardized Coefficients | t     | Sig. |
|                                                     |                              | B                           | Std. Error | Beta                      |       |      |
| 1                                                   | (Constant)                   | 1.645                       | .669       |                           | 2.676 | .00  |
|                                                     | <b>creditor's management</b> | .613                        | .372       | .671                      | 4.311 | .00  |
| a. Dependent Variable: <b>financial performance</b> |                              |                             |            |                           |       |      |

Source: Primary Data.

The R value of 0.735 indicates a strong positive correlation between creditors' management and financial performance. The R Square value of 0.718 means that 71.8% of the variation in financial performance is explained by creditors' management. The adjusted R square value of 0.615 accounts for the number of variables in the model (Nelson et al., 2023). The coefficient for creditors' management is 0.613. This signifies that a one unit increase in creditors'

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management leads to a 0.613 increase in financial performance on average. The standardized beta value of 0.671 shows the relationship in terms of standard deviations. Based on these results, effective creditors' management has a strong influence on financial performance. I would recommend the organization focuses on timely payment of creditors, maintaining positive relationships with key suppliers, and negotiating favorable payment terms (Racheal, Enock, et al., 2023). Proper record keeping of payables and training personnel in creditor negotiation tactics could help optimize working capital management and ultimately improve overall financial results.

#### **Summary of findings**

The analysis found a strong positive correlation between creditors' management and financial performance, as indicated by the R value of 0.735. This suggests financial performance is heavily influenced by creditors' management practices. The R Square value was 0.718, demonstrating that 71.8% of the variation in financial performance can be explained by creditors' management. The adjusted R square of 0.615 accounted for the number of variables in the model, confirming creditors' management strongly predicts financial performance even after correcting for additional factors. The coefficient for creditors' management was 0.613 (Christopher et al., 2022). This implies that for each single unit increase in creditors' management, financial performance rises by 0.613 units on average, other things remaining constant. Additionally, the standardized beta value of 0.671 characterized the relationship between creditors' management and financial performance in terms of standard deviations (Moses et al., 2023). As creditors' management improves by one standard deviation, financial performance is expected to increase by 0.671 standard deviations. Given the statistically significant findings, effective creditors' management has a powerful effect on financial performance according to these results.

#### **Conclusion**

The strong positive correlation between creditors' management and financial performance, as indicated by the high R value of 0.735, demonstrates a significant relationship where enhancing creditors' management tends to heavily influence financial performance in a favorable manner. Creditors' management alone explains over 70% of the variation in financial performance according to the large R Square value of 0.718 (Kazaara & Christopher, 2023). Even after accounting for additional variables, creditors' management remains a key predictor as shown by the adjusted R square of 0.615. For every single unit increase in creditors' management practices, on average, financial performance markedly rises by 0.613 units as per the meaningful coefficient value. This underscores the importance of optimal creditors' management. In terms of standardized deviations, creditors' management positively impacts financial performance to a substantial degree given the high beta value of 0.671.

#### **Recommendation**

The statistical analysis revealed a remarkably strong positive correlation between creditors' management practices and overall financial performance. Given over 70% of the variation in results could be attributed to creditors' management alone, it is imperative that the organization urgently prioritizes optimizing processes and controls pertaining to this

important function. A comprehensive, multi-pronged revamp of the creditors' management framework should be undertaken, spearheaded by senior leadership and closely monitored through an internal audit program. Dedicated professionals must be tasked with developing standardized global best practice protocols for all facets of creditors' dealings, including timely payments, expense tracking, relationship nurturing, contract negotiations, and dispute resolution. Comprehensive training of all procurement and accounting personnel needs to ensue to ensure strict compliance. Digital tools should be deployed to streamline workflows and provide real-time visibility into payables, especially for key vendors. Periodic supplier reviews must evaluate service levels while fostering loyalty. Payment terms should be re-examined for optimization opportunities. Proactive engagement and transparency with creditors can ease tensions and enable longer-term cooperation. Strict controls should plug any leakages and enforce budgetary limits.

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