

**DEBTORS MANAGEMENT AND FINANCIAL PERFORMANCE ON MICRO  
FINANCE INSTITUTIONS IN UGANDA: Case study of Pride Micro Finance, Bukoto**

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**A DISSERTATION SUBMITTED TO THE SCHOOL OF BUSINESS IN PARTIAL  
FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF BACHELORS  
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**UGANDA CHRISTIAN  
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**DECLARATION**


I Akiror Lydia declare that this report is based on the experience and knowledge acquired throughout my research. Therefore, it is not a duplication of any other report. I have personally carried out the research as required and information contained in this report is based on my experiences during the research engagement and has never been presented to any university or institution of learning for any academic award.

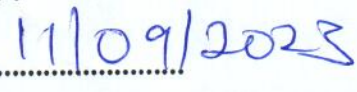
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Date 11/09/2023.....

**APPROVAL**

This is to certify that this Research report presented has been carried out under my supervision and now ready for submission with my approval.

Signature.....

Date.....

Ms. LORRIANE AKINYI

(UNIVERSITY SUPERVISOR).

## **DEDICATION**

I dedicate this work to the almighty God who gave me power, wisdom and knowledge to do this. I also dedicate this work to my beloved parents MR. AMODOI MOSES and MRS. CATHERINE NAMATOVU, and the entire Uganda Christian University who recognized the value of my education from the start and have devoted a lot of effort and resources to see that I have achieved my goal.

## **ACKNOWLEDGEMENT**

Special thanks to the Almighty God for His mercies and grace, that have enabled me to go this far. I am grateful for His provision of wisdom, knowledge, patience and strength to undertake this course

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## **ABSTRACT**

The management of a firm's liquidity is necessary for all businesses, small, medium or large. When a business does not manage its liquidity well, it will have cash shortages and as a result, they experience problem paying its obligations when they fall due. Debtors' management is important because of its effect on the firm's profitability and risk, and consequently its value.

To boost the growth of micro finance institutions sector, debtors' management must be put at the fore front since it forms the basis of almost each and every activity and thus it should be fully implemented in all levels of the organization, this will help shift the focus from following on doubtful debts to new ways of doing business, the main objective of debtors' management is to increase shareholder's wealth and as well as the firm's profits.

However, according to (Munyiri,2006) debtors' management challenges continue to hinder the achievement of objectives and has led to poor performance, too much funding and failure to do background check up before appraisal is done, this has led to some branches closing due to lack of business and too much debt as the commercial banks are striving in the money market their counterparts in micro finance sector are struggling to recover the outstanding amounts leading to poor performance. According to (Gathurithu,2011) micro finance institution offer similar services like banks but their performance is not something to be proud of. It is against this background that I conducted a study on debtor's management and financial performance of micro finance institutions. The general objective of the study was to find out how debtors management affects the financial performance of pride micro finance while the specific objectives were: to find out whether credit extension policies affects the financial performance, to examine how debt monitoring and control affects the financial performance and to assess the effect of debt collection policy on financial performance of pride micro finance

## CHAPTER ONE

### INTRODUCTION

#### 1.0 introduction

This chapter presented the background of the study, statement of problem, purpose of the study, objectives of study, research questions, scope of study, significance of study, conceptual frame work.

#### 1.1 Background of the study

Debtors' management refers to all activities that firms adopt when it comes to delivering and collection of payments upon issuing on credit (Murkherjee, 2014). According to (Omondi, 2015), debtors' management incorporates all functions of management implying that every department should be well versed with the process as it sustains all departments. It further entails reducing the collection period as this leads to further transaction cost, this is aimed at improving financial performance. (Miller, 2008) further asserts that Micro Finance institutions should document all their policies as this enhances debt collection as a practice

Debtors' management entails managing the firm's inventory and receivables in order to achieve a balance between risk and returns and thereby contribute positively to the creation of a firm value. Excessive investment in inventory and receivables reduces the profit, whereas too little investment increases the risk of not being able to meet commitments as and when they become due. (Haris, 2010)

The health of a financial system has a major role to play in the country. This is because its failure will hinder economic development of the country. Financial performance refers to the ability of a firm to generate revenues from its daily operations over a given period of time and is determined by net profit after tax and cash from operations (Das.A & Ghosh, 2007). The financial health of the micro finance institutions continues to be an integral element for economic stability and growth. Micro Finance Institutions as part of the financial sector in a growing economy performing activities on both sides balance sheet. On the assets side of the balance sheet, they enhance the flow of funds by meeting the demand for users of the funds and on the other side supply liquidity to savers (Schreiner, 2003)

Financial performance has been perceived only through its ability to obtain profits. This has changed over time. Further, also act as a restrain in financial performance, since it does not contribute to return on equity (Rafuse, 2014). A well designed and implemented financial management is expected to contribute positively to the creation of a firm's value (Padachi, 2006). Dilemma in financial management is to achieve desired trade- off between liquidity, solvency and profitability (Lazaridis, 2010)

The subject of financial performance has received significant attention from scholars in the various areas of business and strategic management. It has also been the primary concern of business practitioners in all types of organizations since financial performance has implications to organization 's health and ultimately its survival,

In Uganda financial statements published commonly include a variety of financial ratios designed to give an indication of the institution's performance (Kizzah, 2010). Debtors' management is a very important aspect of corporate finance since it directly affects the liquidity and profitability of the company (Peter, 2010).

The key principles of debtors management that a firm should adhere to are ageing of debtors, evaluating the potential customers ability to pay using criteria such as integrity of the customer, financial soundness, collateral to be pledged and current economic conditions should be analyzed, establishment of credit terms and limits, collection of trade credit, assessment of default risk and responsibility and the financing of accounts receivable until it has been paid by the purchaser, (Opolot, 2018).

Debtors management and financial performance of micro finance institutions. (Gill, 2010) Affirms that managers can create profits for their companies if they maintain debtors at optimal levels.

The study on relationship between working capital management and corporate profitability investigated a sample of 25 financial institution, using panel data analysis for the period 2008-2018, using key variables of debtors, inventories turnover, accounts payable days and cash conversion cycle, the regression result indicated that

high investment in debtors and inventories was associated with lower profitability (Padachi, 2006).

The study carried out on 1009 large Belgian non-financial firms for the period 2010-2013 found that working capital management has a significant impact on the financial performance of the business (Deloof M & Jegers, 2013) as cited by (Abuzayed, 2010). The study used debtors, creditors (accounts payable), inventories (stock) and the cash conversion cycle as a general measure of working capital management and found a significant negative relation between operating income and the number of day's accounts receivable, inventories and accounts payable. (Deloof M & Jegers, 2013) based on the study findings recommended that managers can increase profitability by reducing the number of day's accounts debtors and inventories turnover.

The credit risk theory state that investors risk of loss, financial or otherwise, arise from a borrower who does not pay his or her dues as agreed in the credit terms. Debtors are credit in the provision of goods or services to an entity on agreed terms and conditions where payments are to be made later with or without interest. When the debtor does not pay on due date, the lender is exposed to credit risk which may in turn lead to default and bad debts and hence poor financial performance (Nyunja, 2011).

(Padachi ,2006) study on debtors' management and its effect on a firm's performance used a sample of 58 manufacturing firms. The results of the study revealed that debtors' management practices contribute positively towards financial performance. (Solano,2007) also carried out a similar study on debtors' management on several Spanish firms, to determine the relationship between debtors' management and profitability. The study found a negative relationship between the two variables in consideration. A study done by Ebaid (2009) in Egypt on the firms listed under the Egyptian stock exchange sought to determine the relationship that exists between the debt level and financial performance of the listed companies, the study used return on assets as the main financial measure the study found a negative relationship between debt levels and overall financial performance.

(Nyamao et al, 2012) carried out a study which explains the effect of debt levels on the financial performance of small scale enterprises in Kisii County, Kenya, the study

revealed that debtors' management practices had not been put into practice among the small business enterprises. (Ogolla ,2012) in Kenya did a study on debt recovery strategies used by NIC Bank to manage their debt in terms of non-performing loans, She collected the data by administering the staffs in the debt department, the study revealed that the various strategies adopted by this bank are: debt management strategies, legal strategies and relationship strategies, The study also revealed that enough effort has to be put in place to avoid bad debts.

Furthermore, a study carried out by (Mwangi ,2014) explains the effect of liquidity management on the financial performance of commercial banks listed under the Nairobi stock exchange in Kenya, the researcher used secondary data obtained from the published accounts of the commercial banks and found out that liquidity has a negative relationship with commercial banks profitability. Additionally, a study done by (Otieno et al., 2016) affirms the relationship between debtors risk management and financial performance of microfinance banks in Kenya used Pearson's correlation coefficient, the population comprised of 12 licensed microfinance banks. The results were that debtors risk management has a negative effect on return on assets.

## **1.2 Statement of the problem**

The management of a firm's liquidity is necessary for all businesses, small, medium or large. When a business does not manage its liquidity well, it will have cash shortages and as a result, they experience problem paying its obligations when they fall due. Debtors' management is important because of its effect on the firm's profitability and risk, and consequently its value (Smith, 1980).

To boost the growth of micro finance institutions sector, debtors' management must be put at the fore front since it forms the basis of almost each and every activity and thus it should be fully implemented in all levels of the organization, this will help shift the focus from following on doubtful debts to new ways of doing business, the main objective of debtors' management is to increase shareholder's wealth and as well as the firm's profits (Moore ,2009).

However, according to (Munyiri,2006) debtors' management challenges continue to hinder the achievement of objectives and has led to poor performance, too much funding and failure to do background check up before appraisal is done, this has led to some branches closing due to lack of business and too much debt as the commercial banks are thriving in the money market their counterparts in micro finance sector are struggling to recover the outstanding amounts leading to poor performance. According to (Gathurithu,2011) micro finance institutions offer similar services like banks but their performance is not something to be proud of. It is against this background that I conducted a study on debtors management and financial performance of micro finance institutions.

### **1.3 General objective.**

To find out how debtor's management affects the financial performance of pride micro finance.

### **1.4 Specific objectives of the study**

- i. To find out whether credit extension policies affect the financial performance of pride micro finance.
- ii. To examine how debt monitoring and control affects the financial performance of pride micro finance.
- iii. To assess the effect of debt collection policy on financial performance of pride micro finance

### **1.5 Research Questions.**

- i. How does credit extension policy affect the financial performance of pride micro finance?
- ii. How does debt monitoring and control affect financial performance of pride micro finance?
- iii. What effect does the debt collection policy have on the financial performance of pride micro finance?

### **1.6 Scope of the study**

The scope of the study was based on three aspects that was, content scope, time scope and geographical scope.

### **1.6.1 Content scope**

The study was to examine the effect debtor's management on the financial performance, the study focused on the micro finance sector in category and considered the independent variable of debtors' management and focused on whether credit extension policies, debt monitoring and control and debt collection policy and how they affect financial performance which was the dependent variable operationalized as liquidity ratio, Return on Asset ratio, and acidic test ratio.

### **1.6.2 Time scope**

The study reviewed five (5) years financial statements of the finance institution from 2019-2023. The period was chosen because it enabled the researcher to get the in-depth analysis (data) about the problem under the study and it covered the whole pride micro finance as its unit of analysis.

### **1.6.3 Geographical scope**

The study was conducted at pride micro finance main branch Bukoto. The target population for the study was the manager, accountants, cashiers, credit officers and the clients.

## **1.7 Significance of the study**

- i. To benefit the managers of pride micro finance to understand the good practices of debtors' management suitable to reduce high default rate in debt recoveries.
- ii. To help educate the management of pride micro finance on the benefits of having a strong and efficient credit management practices that can realize financial gains.
- iii. The policy makers and government will find the study findings vital especially in building and widening on the existing information on the Accounts receivables management and profitability.
- iv. The study was significant for the researcher in the fulfillment of the requirement for the award of the degree of Bachelor of Science in Accounting and Finance.

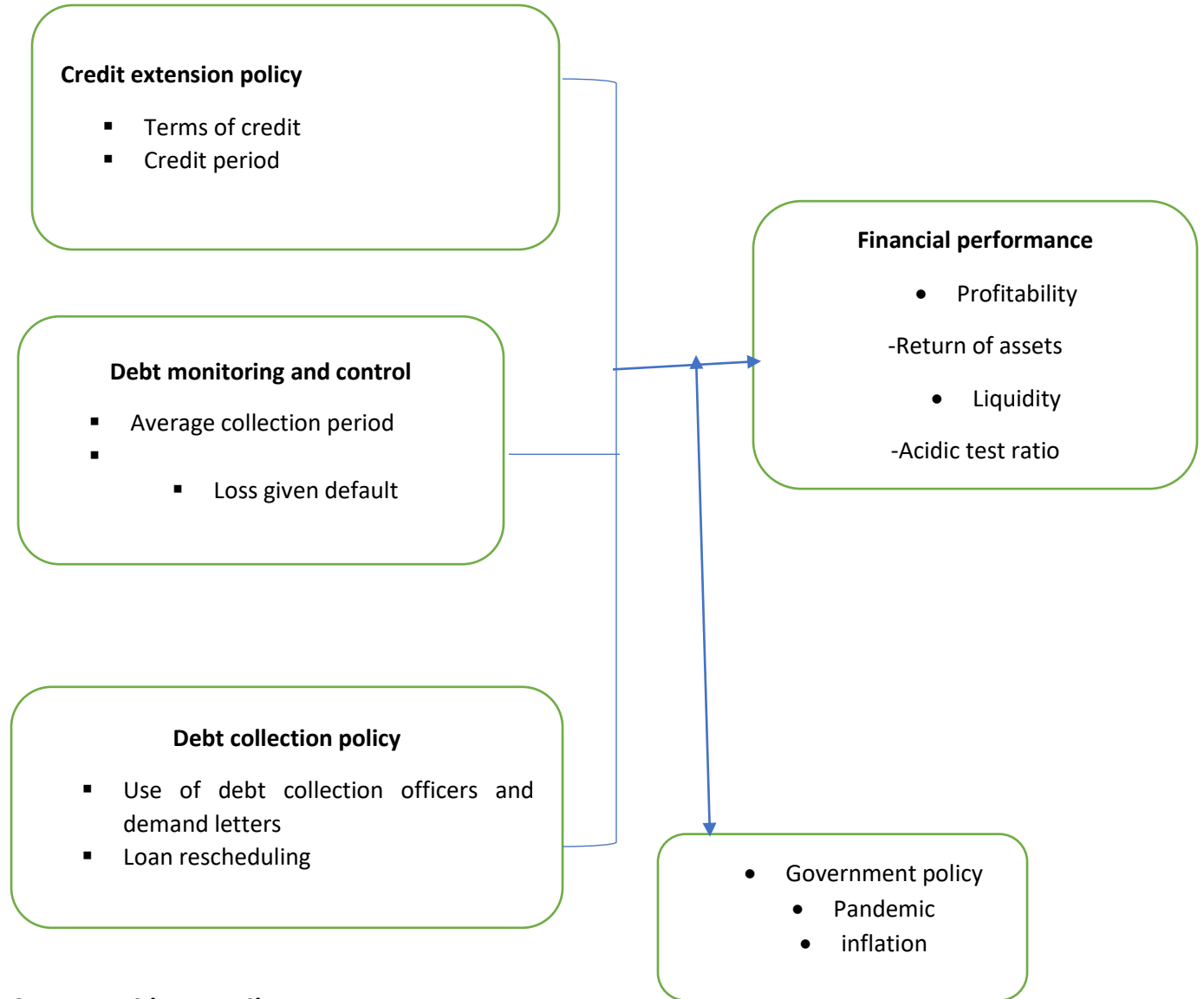
### **1.8 Conceptual framework**

The conceptual framework showed the relationship between the independent and the dependent variables. The independent variable in the framework was about the debtor's management practices of credit policy, average collection period and debtors' turnover period and the dependent variable was about financial performance of micro finance institutions, operationalized as liquidity ratio, debt equity ratio, acidic test ratio, profitability. Therefore, the conceptual framework gave a brief summary of how the variables relate with each other in a diagrammatic format as shown below;

# CONCEPTUAL FRAMEWORK

Independent variables  
variables

dependent



Source: Akiror Lydia 2023

Figure 1: Showing the conceptual Framework.

The conceptual framework showed the relationship between the independent variable of debtors' management and the dependent variable of financial performance of micro finance institutions. Financial performance of micro finance institution was determined using the liquidity which was computed using the Acidic test ratio (Quick ratio). The independent variable, debtors' management constitutes of three key variables which are; credit extension policy, debt monitoring and control, debt collection policy. All these practices were crucial for efficient debtors' management in micro finance institutions.

**Profitability:** Profitability was measured by the incomes and the expenses. Income is the money generated from the activities of the business for example, the interest incomes on the loan obligations. Expenses are the costs of the resources used up or consumed by the business. These costs include the opportunity cost for tying up the funds in debts, the cost of running the credit operations, cost of time to chase for debts, cost of bad debts and cost of debt recovery. Leong (2009).

**Return on Assets (ROA)** refers to the financial ratio that indicates how profitable a company is in relation to its total assets. (Brigham, 2012).

**Liquidity ratio:** Liquidity ratios are an important class of financial metrics used to determine a debtor's ability to pay off current debt obligations without raising external capital. Liquidity ratios measure a company's ability to pay debt obligations and its margin of safety through the calculation of metrics including the current ratio, quick ratio, and operating cash flow ratio.

**Acidic test ratio/Quick Ratio:** The quick ratio measures a company's ability to meet its short-term obligations with its most liquid assets when they fall due and therefore excludes inventories from its current assets, (Brigham, 2012).

**Debtors/Accounts receivables (AR)** is an interim debt arising through credit sales and recorded as accounts receivable by the seller and accounts payable by the buyer (Brigham, 2012).

**Debtors' turnover period (DTP):** Accounts receivable turnover reflects an output or operation rate, which determines how often a business will translate the receivable

into money over a time frame. In other words, the accounts receivable turnover ratio measures how often a company can collect its annual average accounts receivable.

**Debtors' management:** Refers to the set of policies, procedures and practices employed by an organization or company with respect to managing sales offered on credit, loans and services offered on credit.

**Financial performance:** is the process of measuring the results of an organizations policies and operations in monetary terms. It also refers to subjective measures of how well affirm can use assets from primary mode of business and generate revenues in terms of return on investments and return on equity (Brigham,2012).

**Credit policy:** Means the set of guidelines that sets or indicates the credit and payment terms for clients and customers to clear their debts when they fall due and establishes a clear course of action for late payment, (Brigham, 2012).

**Average collection period (ACP):** Refers to the number of days between the date that a credit sale or a loan is made and the date that the money is received from the customer or client.

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.0 Introduction

This chapter included the review of the objectives under study which are; debtors' management and financial performance, review of credit policy and financial performance, review of average collection period and financial performance, review of debtor's turnover ratio and the summary of the literature.

#### 2.1 Credit extension policy and financial performance

Credit policy is either lenient or stringent. A lenient credit policy tends to give credit to customers on very liberal terms and standards such that credit is granted for longer periods even to those customers whose credit worthiness is not well known. A stringent credit policy on the other hand is restrictive and allows credit only to those customers whose credit worthiness have been ascertained and are financially strong. There are no two organizations with a similar credit policy. Whether lenient or stringent credit policy is adopted by an organization, it must ensure that it attracts and retains good customers, without having a negative impact on the cash flow (Kalunda, 2012).

(Antoine,2015), Explains that credit policy consists of both the credit terms and the collection policy set up by an organization to attain its goals . In this, we review authors who have addressed the effect of credit policy on financial performance of banking institutions in the past.

The study carried out to examine the extent to which the credit terms and access to credit have affected financial performance in SMEs in Uganda, the results indicated a significant positive association among the variables of credit terms. The research concluded that credit terms contribute 33.1% of the variance in financial performance, (Pamela ,2012).

There is need to establish sound credit management in micro finance so as to prevent late payment of accounts receivables, thus increasing profitability levels (Kipkoech, 2015). Also, the same study suggested a need for timely settlement of accounts receivables so as avoid facing financial constraints emanating from bad debts. The

study revealed that credit management systems significantly influence profitability of micro finance in Kenya (R-squared = 0.622, P = 0.000). The study implies that the existences of sound credit managements systems will in effectively prevent the late payment of accounts receivables, and the end results will be increased profitability levels. Consequently, the study considers credit management systems as a key driver for the success of Saccos since their main source of income is interest earned from loans extended to customers. This study focused on profitability as the dimension for financial performance, and the use of more than one dimension of financial performance is highly emphasized (Fujo & Ali, 2016).

(Luqman, 2015) suggested that management need to be cautious in setting up a collection policy that will not negatively affects profitability and also, they need to know how a collection policy affects the operation of their banks to ensure judicious utilization of deposits and maximization of profit. The study concluded that improper credit risk management reduce the bank profitability, affects the quality of its assets and increase loan losses and non-performing loan which may eventually lead to financial distress. (Kargi, 2011) cited in (Kolapo, 2012) attained to the same conclusions in a study conducted in Ghana.

(Waweru ,2013) his study explains the principles and practices of debtors' management in manufacturing firms in Thika Town, Kenya found out that the factors that affect debtors' management include: lack of formal credit policy, Inconsistency on lending procedure and the credit terms. The study also found that there was fluctuation in the average collection period and the debts outstanding written off. (Raphael & Ajayi ,2014) affirms the effect of credit policy on the performance of Commercial banks in Nigeria using Zenith bank as a case study found out that incidences of bad debts would be minimized if a good credit policy is put in place.

In another study done by Alshatti (2015) on effects of credit management on the financial performance of the Jordanian commercial banks during the period 2005 to 2013. Thirteen commercial banks were used as a sample and the results revealed that credit management affects financial performance of the Jordanian commercial banks as measured by ROA . (Kimotho & Gekara, 2016), carried out a study on the effect of credit management and financial performance of commercial banks in Kenya used

descriptive research design and target population consisted of credit managers and recovery managers, the study found a negative relationship between credit management and profitability

(Norell ,2001) did a study in Accra Ghana sought to establish the various methodologies that MFIS in that country had adopted to reduce outstanding debt. The study found that in order to reduce the debtors outstanding credit officers should monitor debt on a continuous and as well have flexible credit policies which should be updated regularly before being enforced, educate clients frequently before issuing any loan and entice the credit officers since they spend most of their time in the field. The Bank of Jamaica (2003) also conducted a study on adoption of debtor's risk management practices of banks in that country and the results of the findings revealed that only 46% of the commercial banks had adopted them in full. For debtors' management practices to be effective, they should be implemented through all levels of the organization and should be revised periodically.

## **2.2 debt monitoring and control and financial performance.**

The study of account receivables in Nigeria by (Ikeschukwu & Nwakaego,2015) showed that the debtors account has a positive and significant impacts on profitability while the ratio of debt to debt.

The correlation between amount of day-to-day transactions and productivity calculated by gross operating profit has been negative for (Lazaridis, 2010). This negative result demonstrated business productivity by increasing the loan period for its clients.

As a metric of profitability, (Deloof M & Jegers, 2013) identified a substantial negative relationship between average day accounts receivable and gross operating income. (Boisjoly ,2012) is demonstrating that companies were focusing on improving their accounts receivable management by increasing their accounts receivable turnover over the 15-year 2001-2015period. Various techniques such as improving the payment processes, delivering money discount and trade guarantees, and using the factoring of receivables can be implemented (Boisjoly, 2016).

(Dong,2010) conducted a study on the effects of debtors' management practices on financial performance on the companies listed under Vietnam Stock Exchange; the study used data between 2006 and 2008 and found out that there exists a negative relationship between debtors' management and profitability, implying that profits are greatly influenced by a longer cash conversion cycle. (Kariuki,2011) study in Kenya assessed the debt collection practices adopted by large Kenyan firms. The findings found out that the companies do not outsource debt collection agents since debt management is a sensitive process and thus wish to retain flexibility in credit extension and collection.

In another study carried out by (Egbido & Enyi,2012) in Nigeria on profitability in the manufacturing firms used debtors' collection period as a key variable. The study revealed that a longer collection period has a negative impact on debtors' management. A study done by Owolabi (2012) on effect of liquidity on corporate profitability found out that, managers can increase profit by putting in place a flexible credit policy and a short conversion cycle. The study used data from selected manufacturing companies quoted on the NSE. (Lartey et al,2013) study on the relationship between modern liquidity and profitability on the institutions listed on the stock exchange in Ghana, found out that there exists a very weak positive relationship between liquidity and the profitability of these institutions. (Samiloglu, 2008) studied the effects on the competitiveness of the Istanbul Stock Exchange coded producers for the 2009 to 2017 era of cash flow management. In order to measure the effect of working capital management, the revenue flow process, the time to receivables and stock duration was used; return on capital assets was used as a metric of productivity. Regression results indicate that the productivity of payments receivables had a significant negative correlation.

The findings of (Nasr, 2007) found beneficial partnerships with accounts due as a liquidity factor to be significantly negative. In addition, the average collection period and profitability have been adversely related (Alipour, 2011).

The researchers concluded that accounts receivables have been compromised by opportunities to use loans as a form of price discrimination and internal funding, and

(Mubashir, 2012) carried out an analysis on determinants of responsible receivables and accounts payable management policies in Pakistan textiles. The study also found that the company's scale has influenced the volume of receivables held by a business.

### **2.3 The debt collection policy and financial performance.**

Receivable Turnover for companies is very important to know because the higher the receivable turnover, the more receivables that can be billed by the company. So that it will minimize the existence of uncollectible accounts and facilitate cash flow. In addition, with the existence of Receivable Turnover, it can be seen how the performance of the Marketing department in finding potential customers who buy but also potentially pays their receivables. According to (Kasmir,2016), accounts receivable turnover (turnover Receivable) is a ratio used to measure how long the collection of receivables is for a period. Account receivable turnover is considered to have a relationship relative to the Company's sales conditions. High accounts receivable turnover can cause current ratios that are quite low which can be accepted from the standpoint of liquidity and can lead to higher Returns on assets. On the other hand, high turnover indicates sales conditions that are too tight, causing a decrease in sales and profits.

Previous research related to receivable turnover is a ratio used to measure how long the collection of receivables during a period or the number of times funds invested in receivable revolves in one accounting period. The higher receivable turnover ratio indicates that the working capital invested in receivables is higher and of course this Condition is good for the company. Whereas (Chen & Yin,2010) claims that receivable turnover shows the number of times a company Collects receivables in an accounting period. Receivables turnover shows the efficiency of a company in managing its receivables. Low Receivable turnover shows that billing efficiency was getting worse during that period because of the length of time that billing were made.

Debtors' turnover reflects an output or operation rate, which determines how often a business will translate the receivable into money over a time frame. In other words, the debtor's turnover ratio measures how often a company can collect its annual average accounts receivable. One turn refers to a company's average receivables each time

(Adembo, 2014) urges the effect of the debtors on profitability of the financial institutions included in the NSE and found that there is a significant association between the receivable turnover of the accounts and the profitability of institutions.

(Divya J., 2015) explains the effect of efficiency of receivables management, measured by debtor 's turnover ratio, in the commercial vehicle industry in India on the firm 's profitability. Profitability was measured using Return on Capital Employed. The research was conducted for the period 2009 to 2016. The findings indicated a significant positive relationship between debtor 's turnover ratio and profitability of the firm. This implied that receivables management should be a key focus point for improving profitability in this industry. (Mathuva, 2009), Examined the influence of working capital management components on Corporate profitability by using a sample of 30 listed firms on the Nairobi Stock Exchange for the Period 1993-2008. The findings of the study were that there exists a highly significant negative Relationship between the time it takes for firms to collect cash from their customers and a highly Significant positive relationship between the period taken to convert inventories into sales. (Mbula, 2016), analyzed the effect that accounts receivables had on the Financial performance of Kenyan firms with venture capital funding from the government. They observed a positive effect of accounts receivables on the financial performance of these firms. They concluded that managers of these firms should improve efficiency of management of Accounts receivable. (Ezejiofor, 2015) found that the liquidity position in the financial institution in Nigeria has been closely related by the debtor's turnover. This means that a favorable liquidity position would be achieved by a favorable debtor's turnover

## **2.5 Conclusion**

From the literature review done, debtors' management plays a critical role in improving the financial performance of the organization. Review of local studies has focused on determining the effects of credit management on the financial performance micro finance institutions in Uganda , similar studies have been carried out on debtors' management though in different industries of Manufacturing companies as well as SME sector. It is therefore evident that few studies have been

advanced on debtors' management and financial performance of micro finance which is the gap this study sought to fill.

As mentioned earlier, the issue of debtors' management has been studied widely, however most studies have concentrated on commercial banks, Micro finance institutions Biwott (2011), recommended similar studies in different sectors and industries. This study therefore sought to fill this research gap by determining the effect of debtors' management on financial performance

## CHAPTER THREE

### RESEARCH METHODOLOGY

#### 3.0 Introduction

This chapter covered the research design, the sample size and sampling procedure, source of data, data quality control, data collection procedures, analysis and presentation and the problems encountered during the study.

#### 3.1 Research design

The study adopted a descriptive correlational research design, which according to (Kothari, 2014), is used when the problem has been defined specifically and where the researcher had certain issues that were described by the respondents about the problem.

(Mugenda, 2003), describe descriptive research design as a systematic, empirical inquiring into which the researcher does not have a direct control of independent variables as their manifestation has already occurred or because they inherently cannot be manipulated. Descriptive studies are concerned with the what, where and how of a phenomenon, hence more placed to build a profile on that phenomenon (Mugenda, 2003).

#### 3.2 Study population

The target population for the study was 100 comprising of elements from different units which constitutes the branch manager, cahiers, accounts officers, credit officers and clients, where quantitative method is will be used to determine the sample size.

#### 3.3 Sample size

The sample size was determined using YAMANE FORMULAR, according to the formula a population of 100 respondents require a sample size of 80 respondents as shown below.

Determination of sample size using Yamane formula.  $n = \frac{N}{(1+Ne^2)}$ . **Where:** n sample size, N is study population, e is margin error in calculation of 0.05

$$n = \frac{100}{(1 + 100(0.05^2))}$$

$$n = 100 / 1.25$$

$$n = 80$$

### **3.4 Sampling techniques.**

Purposive sampling was used to choose branch managers so as to ensure that the right respondents with the relevant knowledge and experience are selected. In order to limit researcher bias, simple random sampling was used to choose the respondents from the remaining subcategory; clients, accountants, credit officers and cashiers in the study as a way of ensuring an equal chance of representation among all categories (Mugenda, 2003).

### **3.5 Data collection methods and instruments**

(Creswell, 2007) Defines data collection as a means by which data is obtained from the selected subjects of an investigation. The studies will use both primary and secondary data.

Primary data collection methods include questionnaire method and interview method. According to (Mugenda, 2003) data readily available and which has been collected in the past by other individual(s) other than researcher is referred to as secondary data. Secondary data involves the collection and analysis of published material and information from other sources such as annual reports, published data of the Sacco for a period of 5 years starting 2019-2023. The period is chosen because it enables the researcher to obtain necessary information of the problem under investigation

#### **3.5.1 Questionnaire method**

The researcher used this method to employ both closed and open-ended questionnaire survey to generate primary data from respondents. Considering the sample size for this research, this was a suitable method since it was time saving and makes it easy to quantify and analyze responses. The researcher administered a questionnaire to each member of the target population. The questionnaire was designed and tested with a few members of the population for further improvements. This was done in order to enhance its validity and accuracy of data that was collected, (Creswell, 2007).

### 3.5.2 Data collection instruments

#### 3.5.2.1 Questionnaire

The questionnaires were used to collect mainly quantitative data. However, some qualitative data was collected from open ended questions, (Krishnaswamy ,2011). The researcher used structured questionnaires for data collection from respondents. The questionnaire adopted a 5-point Likert scale ranging from 5(strongly agree) to 1(strongly disagree), the higher the number of responses from the respondents, the greater the influence on performance of financial institution. This was used because Likert-scale provides consistent responses and allows a respondent to provide feedback that is slightly more expansive than a simple closed ended question, and much easier to quantify than a completely open-ended response (Patrick, 2019). Questionnaire was used because it collects large amounts of information from a large number of people in a short period of time and in a relatively cost-effective way.

### 3.6 Data quality control

#### 3.6.1 Validity

Validity is the extent to which an instrument is capable of yielding the response on which it is supposed to (al, 2018). Validity is established by correlating the scores of the same instrument measured at different times (test- retest) for critical assessment of each item to state the relevance (R) or non-relevance (NR) of each item. The content validity index (CVI) was computed using standardized measures so that appropriate adjustment is made. The CVI was generated from the formula below;

$$CVI = \frac{\text{Itemsratedrelevant}}{\text{Totalnumberofitemsonthequestionnaire}}$$

For the instruments to be valid, the CVI as to be within the acceptable statistical range of 0.5 to 1

#### 3.6.2 Reliability

According to (Carroll ,2015), a test is reliable to the extent that whatever it measures, it measures it consistently in respect to reliability. Pilot testing was carried out. The data collection instruments were tested on a small number of respondents from each category of the population to ensure accuracy and validity of questions in line with each of the objective of the study (Mugenda, 2003).

Pilot test was conducted to obtain some assessment of the questions' validity and the reliability of the data that was collected. It was during the pre-test of the instrument that the researcher was able to assess the clarity of the instrument and the ease of use of the instrument (Mugenda, 2003).

### **3.7 Data analysis**

(Kothari, 2014). Data analysis involved actions and methods performed on the data that helped to describe facts, detect patterns, and develop explanations and test hypothesis about a set data (Berkowitz, 2018). Descriptive statistics was used to analyze the data and examine the relationships between the variables under investigation. Descriptive statistics include frequency distributions and tables that describe the data with the help of Microsoft excel computer package. Descriptive statistics was used because it considers comparisons and analysis of historical data and key performance indicators and takes into account past trends and how they affect future performance.

## CHAPTER FOUR

### PRESENTATION, ANALYSIS AND INTERPRETATION OF FINDINGS

#### 4.0 Introduction

This chapter focuses on the presentation, analysis and interpretation of data collected from the field. The purpose of this study was to establish the effect of debtors' management on financial performance of Pride Microfinance, Uganda. The findings are presented in line with the sole objective of the study and are intended to give answers to the research questions which were asked in relation to the study. The tools used for presentation and analysis included tables and percentages.

#### 4.1 The demographic information

##### 4.1.1: Showing Gender of Respondents

In the table below, the researcher is interested in determining the ratio of male to female gender.

Gender	No. of respondents	Percentage (%)
Female	28	35
Male	52	65
<b>Total</b>	<b>80</b>	<b>100</b>

*Source: Researcher 2023*

*Table 1: Gender*

From the table 4.1.1 above, among all the respondents interviewed, 28 were Female presented by 35% and 52 were Male presented by 65%. Therefore, the ratio of male to female 28:52 which implies that Pride Microfinance, Uganda are dominated by Male than Female counterparts. This was based on the nature of the business that is why male are more than female.

#### 4.1.2: Showing age respondents

The interest is centered on identifying if the respondents were of the right age in order to establish the basis for better quality control of the collected data. The age groups can be distributed as follows.

Age group	No. of respondents	Percentage (%)
18-25	2	2.5
26-36	42	52.5
35-45	21	26.25
46 and above	15	18.75
<b>Total</b>	<b>80</b>	<b>100</b>

Source: Researcher 2023

Table 2: Age

From the table 4.1.2 above, respondent of age group 18-25 were 2 presented by 2.5%, 26-36 were 42 presented by 52.5%, 35-45 were 21 presented by 26.25% and 46 and above years were 15 represented by 18.75% of the respondents. Therefore, for the success of this report, most data was got from respondents in the age bracket between 26-36 years which was presented by 52.5%. This age group is associated with experience in any work places due to perceived longer period in service, thereby ensuring quality feedback.

#### 4.1.3: Showing level of education attained

Here the objective is determined different education levels. The detailed breakdown can be seen below:

Level of education	No. of respondents	Percentage (%)
PHD	8	10
Masters	22	27.5
Bachelors	35	43.75
Diploma	15	18.75
<b>Total</b>	<b>80</b>	<b>100</b>

Source: Researcher 2023

Table 3: Education

The results in the table 4.1.3 above shows that 8 respondents have PHD represented by 10%, 22 respondents have master’s degree representing 27.5% of the respondents and 35 of them have bachelor’s degree represented by 43.75% and 15 respondents are diploma holders represented by 18.75%. This therefore indicates that the most respondents of Pride Microfinance are bachelor’s degree holders (43.75%) implies that the response achieved a balanced inclusion of all the key people, however, the bachelor’s degree section dominated.

#### 4.1.4: Period spent in organization

The period of service at Pride Microfinance was very important in determining the experience about the institution’s services. More experience has been attributed to the longevity of the periods served in businesses, that is to say, respondents with more years of experience most likely provided credible information about the institution that their counterparts with lesser years of service.

<b>Period</b>	<b>No. of respondents</b>	<b>Percentage (%)</b>
2-5 year	27	34
6-10 years	33	41
Above 10 years	20	25
<b>Total</b>	<b>80</b>	<b>100</b>

*Source: Researcher 2023*

*Table 4: Period spent in organization*

From the table 4.1.4 above, from the research carried out, it was found out that 34% of the respondents have been working for 2-5 years, 41% for 6-10 years, 25% have been working for 10 years and above. This meant the majority of employees have been working for a period of 6-10 years which is regarded as the best years in service for the employees to have better experience.

#### 4.1.5: Showing job position engaged

Here the objective is determined different denominations or job positions of the respondents. The detailed breakdown can be seen below:

Level of education	No. of respondents	Percentage (%)
Manager	35	43.75
Subordinate staff	22	27.5
Cashier	8	10
Accountant	15	18.75
<b>Total</b>	<b>80</b>	<b>100</b>

Source: Researcher 2023

Table 5:job position

The results in the table 4.1.3 above shows that 35 respondents were managers presented by 43.75%, 22 respondents were subordinate staff representing 27.5% of the respondents and 8 of them were cashiers represented by 10% and 15 respondents' accountants represented by 18.75%. This therefore indicates that the most respondents of pride micro finance were managers (43.75%) implies that most people key decision makers among the businesses contacted.

## 4.2 Credit extension policy

Key: strongly Agree (SA)=5, Agree(A)=4, Not sure (NS)=3, Disagree (D)=2, Strongly Disagree (SD)=1

Statement	1		2		3		4		5				TOTAL
	F	%	F	%	F	%	F	%	F	%	Std Dev	Mean	
The institution has standardized loan forms	28	35	25	31.3	14	17.5	7	8.8	6	7.5	10.1	16	80
There is regular assessment of borrowers' financial position	31	38.8	22	27.5	15	18.8	7	8.8	5	6.25	10.8	16	80
A maximum period is given to borrowers to repay their loans	28	35	26	32.5	16	20	7	8.8	3	3.75	11.1	16	80
Members are eligible for loan after subsequent savings.	30	37.5	23	28.8	16	20	8	10	3	3.75	10.9	16	80
Credit extension terms and conditions are taken into consideration before advocating any form of debt.	29	36.3	25	31.3	16	20	8	10	2	2.5	11.3	16	80
The institution considers borrowers capacity and collateral security in credit extension	30	37.5	24	30	17	21.3	6	7.5	3	3.75	11.5	16	80
The credit history of a debtor is always evaluated before extending credit	31	38.8	23	28.8	16	20	7	8.8	3	3.75	11.4	16	80

From the table above, the research study carried out revealed that 28 respondents represented by 35% strongly agreed that the institution has standardized loan form(mean:16,SD:10.1). This was followed by 31% who agreed with the statement 17.5% were not sure whether the institution has standardized loan form, 8.8% disagreed that the institution has standardized loan form whereas 7.5% strongly disagreed that the institution has standardized loan form. This meant that with small and medium sized enterprises, the majority of respondents strongly agreed that the institution has standardized loan form as represented by 28(35%) above.

31 respondents represented by 38.8% strongly agreed that there is regular assessment of borrowers' financial position(mean:16,SD:10.8). This was followed by 27.5% who agreed with the statement 18.8% were not sure whether there is regular assessment of borrowers' financial position, 8.8% disagreed that there is regular assessment of borrowers' financial position whereas 6.25% strongly disagreed that there is regular assessment of borrowers' financial position. This meant that with small and medium sized enterprises, the majority of respondents strongly agreed that there is regular assessment of borrowers' financial position represented by 31(38.8%) above.

With,(mean:16,SD:11.1) the findings of the study show that 28 respondents represented by 35% strongly agreed that a maximum period is given to borrowers to repay their loans. This was followed by 32.5% who agreed with the statement 20% were not sure whether a maximum period is given to borrowers to repay their loans, 8.8% disagreed that a maximum period is given to borrowers to repay their loans whereas 3.75% strongly disagreed a maximum period is given to borrowers to repay their loans. This meant that with small and medium sized enterprises, the majority of respondents strongly agreed that a maximum period is given to borrowers to repay their loans represented by 28(35%) above.

30 respondents represented by 37.5% strongly agreed that members are eligible for loan after subsequent savings(mean:16,SD:10.9). This was followed by 28.8% who agreed with the statement 20% were not sure whether members are eligible for loan after subsequent savings, 10% disagreed that members are eligible for loan after subsequent savings whereas 3.75% strongly disagreed that in their organization they

maintain good relationship with suppliers. This meant that at Pride Micro Finance, the majority of respondents strongly agreed that members are eligible for loan after subsequent savings represented by 30(37.5%) above.

The findings of the study reveal that 29 respondents represented by 36.3% strongly agreed that Credit extension terms and conditions are taken into consideration before advocating any form of debt(mean:16,SD:11.3). This was followed by 31.3% who agreed with the statement 20% were not sure whether Credit extension terms and conditions are taken into consideration before advocating any form of debt, 10% disagreed that Credit extension terms and conditions are taken into consideration before advocating any form of debt whereas 2.5% strongly disagreed that Credit extension terms and conditions are taken into consideration before advocating any form of debt. This meant that at Pride Microfinance, the majority of respondents strongly agreed that Credit extension terms and conditions are taken into consideration before advocating any form of debt represented by 29(36.3%) above.

30 respondents represented by 37.5% strongly agreed the institution considers borrowers capacity and collateral security in credit extension(mean:16,SD:11.5). This was followed by 30% who agreed with the statement 21.3% were not sure whether the institution considers borrowers capacity and collateral security in credit extension, 7.5% disagreed that the institution considers borrowers capacity and collateral security in credit extension whereas 3.75% strongly disagreed that in their organization they give reminders to customers before their due dates. This meant that at Pride Microfinance, the majority of respondents strongly agreed that the institution considers borrowers capacity and collateral security in credit extension represented by 30(37.5%) above.

The findings of the study reveal that 31 respondents represented by 38.8% strongly agreed that the credit history of a debtor is always evaluated before extending credit(mean:16,SD:11.4). This was followed by 28.8% who agreed with the statement 20% were not sure whether the credit history of a debtor is always evaluated before extending credit, 8.8% disagreed that the credit history of a debtor is always evaluated before extending credit whereas 3.75% strongly disagreed that the credit

history of a debtor is always evaluated before extending credit. This meant that the credit history of a debtor is always evaluated before extending credit, the majority of respondents strongly agreed that the credit history of a debtor is always evaluated before extending credit represented by 31(38.8%) above.

### 4.3 Debt control and monitoring

Key: Strongly Agree (SA)=5, Agree(A)=4, Not Sure (NS)=3, Disagree (D)=2, Strongly Disagree (SD)=1

Statement	1		2		3		4		5		Std Dev	Mean	TOTAL
	F	%	F	%	F	%	F	%	F	%			
The institution frequently reminds borrowers on their outstanding amounts.	29	36.3	25	31.3	14	17.5	9	11.3	3	3.75	10.9	16.0	80
The institution keeps track of payments using average collection period.	30	37.5	26	32.5	14	17.5	5	7.5	5	6.25	11.6	16.0	80
Internal audit does a verification of the loans advanced.	31	38.8	24	30	15	18.8	8	10	2	2.25	11.7	16.0	80
The institution monitors timely repayments of loans.	30	37.5	24	30	17	21.3	7	8.8	4	5	11.0	16.4	80
The institution strictly monitors the account operation of its customer.	30	37.5	25	31.3	15	18.8	6	7.5	4	5	11.4	16.0	80
We keep proper records	27	33.6	26	32.5	15	18.8	6	7.5	6	7.5	10.3	16.0	80
Daily, weekly or monthly reports are generated to monitor debtors.	29	36.3	25	31.3	15	18.8	6	7.5	5	6.25	10.9	16.0	80

From the table above, (mean:16, SD:10.9) 29 respondents represented by 36.3% strongly agreed that the institution frequently reminds borrowers on their outstanding amounts. This was followed by 31.3% who agreed with the statement 17.5% were not sure whether the institution frequently reminds borrowers on their outstanding amounts, 11.3% disagreed that the institution frequently reminds borrowers on their outstanding amounts, whereas 3.75% strongly disagreed that the institution frequently reminds borrowers on their outstanding amounts. This meant that at Pride Microfinance, the majority of respondents strongly agreed that the institution frequently reminds borrowers on their outstanding amounts as represented by 29(36.3%).

30 respondents represented by 37.5% strongly agreed that the institution keeps track of payments using average collection period (mean:16, SD:11.6). This was followed by 32.5% who agreed with the statement 17.5% were not sure whether the institution keeps track of payments using average collection period, 7.5% disagreed that the institution keeps track of payments using average collection period, 6.25% strongly disagreed that the institution keeps track of payments using average collection period. This meant that at Microfinance, the majority of respondents strongly agreed that the institution keeps track of payments using average collection period represented by 31(38.8%).

31 respondents represented by 38.8% strongly agreed internal audit does a verification of the loans advanced (mean;16, SD:11.7). This was followed by 30% who agreed with the statement 18.8% were not sure whether internal audit does a verification of the loans advanced, 10% disagreed that internal audit does a verification of the loans advanced, whereas 2.25% strongly disagreed that internal audit does a verification of the loans advanced. This meant that at Microfinance, the majority of respondents strongly agreed that internal audit does a verification of the loans advanced represented by 31(38.8%) .

The finding of the study reveals that 30 respondents represented by 37.5% strongly agreed that the institution monitors timely repayments of loans(mean:16,SD:11.0). This was followed by 30% who agreed with the statement 21.3% were not sure

whether the institution monitors timely repayments of loans, 8.8% disagreed that the institution monitors timely repayments of loans whereas 5% strongly disagreed that the institution monitors timely repayments of loans. This meant that at Pride Microfinance, the majority of respondents strongly agreed the institution monitors timely repayments of loans represented by 30(37.5%).

30 respondents represented by 37.5% strongly agreed that the business always raise funds to pay their debts promptly (mean:16, SD:11.4). This was followed by 31.3% who agreed with the statement 18.8% were not sure whether the business always raise funds to pay their debts promptly, 7.5% disagreed that the business always raise funds to pay their debts promptly whereas 5% strongly disagreed that the business always raise funds to pay their debts promptly. This meant that at pride micro finance, the majority of respondents strongly agreed that the business always raise funds to pay their debts promptly represented by 30(37.5%).

With (mean:16, SD:10.3), The findings of the study show that 27 respondents represented by 33.6% strongly agreed that they keep proper records. This was followed by 32.5% who agreed with the statement 18.8% were not sure whether they keep proper records, 7.5% disagreed that they keep proper records whereas 7.5% strongly disagreed that they keep proper records. This meant that they keep proper records, the majority of respondents strongly agreed that they keep proper records represented by 37(33.6%).

With,(mean:16,SD:10.9) The findings of the study reveal that 29 respondents represented by 36.3% strongly agreed that daily, weekly or monthly reports are generated to monitor debtors. This was followed by 31.3% who agreed with the statement 18.8% were not sure whether daily, weekly or monthly reports are generated to monitor debtors, 7.5% disagreed that daily, weekly or monthly reports are generated to monitor debtors whereas 7.5% strongly disagreed that daily, weekly or monthly reports are generated to monitor debtors. This meant that daily, weekly or monthly reports are generated to monitor debtors, the majority of respondents strongly agreed that daily, weekly or monthly reports are generated to monitor debtors represented by 29(36.3%).



### 4.3 Debt collection policy.

Key: Strongly Agree (SA)=5, Agree(A)=4, Not Sure (NS)=3, Disagree(D)=2, Strongly Disagree (SD).

Statement	1		2		3		4		5				TOTAL
	F	%	F	%	F	%	F	%	F	%	Std Dev	Mean	
All loans are subject to penalties after a specified number of days of delinquency.	28	35	25	31.3	14	17.5	7	8.8	6	7.5	10.1	16	80
A loan is considered delinquent when its one day past due.	30	37.5	23	28.8	17	21.3	5	6.25	5	6.5	11.0	16	80
There exists a written collection policy.	28	35	26	32.5	16	20	7	8.8	3	3.75	11.1	16	80
Collection policies apply to equally to all borrowers irrespective of their social standing.	31	38.8	22	27.5	17	21.3	8	10	2	2.5	11.4	16	80
The institution has staff in the debt collection department.	32	40	22	27.5	14	17.5	6	7.5	6	7.5	11.1	16	80
The institution provides vehicles for staff mobilization while carrying out their duties.	29	36.3	25	31.3	16	20	8	10	2	2.5	11.3	16	80
We use the following													

strategies to collect debts													
a) Litigation	28	35	26	32.5	16	20	7	8.8	3	3.75	11.1	16	80
b) Reminders	31	38.8	23	28.8	16	20	7	8.8	3	3.75	11.4	16	80
c) Insuring debtors	33	41.3	23	28.8	14	17.5	7	8.8	3	3.75	12.2	16	80

From the table above, 28 respondents represented by 35% strongly agreed that all loans are subject to penalties after a specified number of days of delinquency (mean:16,SD:10.1). This was followed by 31.3% who agreed with the statement 17.5% were not sure whether all loans are subject to penalties after a specified number of days of delinquency, 8.8% disagreed that all loans are subject to penalties after a specified number of days of delinquency whereas 7.5% strongly disagreed that all loans are subject to penalties after a specified number of days of delinquency. This meant that at Pride Microfinance, the majority of respondents strongly agreed that all loans are subject to penalties after a specified number of days of delinquency as represented by 28(31.3%).

The findings of the study reveal that 30 respondents represented by 37.5% strongly agreed a loan is considered delinquent when its one day past due (mean:16,SD:11.0). This was followed by 28.8% who agreed with the statement 21.3% were not sure a loan is considered delinquent when its one day past due, 6.25% disagreed that a loan is considered delinquent when its one day past due whereas 6.25% strongly disagreed that a loan is considered delinquent when its one day past due. This meant that at Pride Microfinance, the majority of respondents strongly agreed that a loan is considered delinquent when its one day past due represented by 30(37.5%) above.

With, (mean:16,SD:11.1) the findings of the study reveal that 28 respondents represented by 35% strongly agreed that there exists a written collection policy. This was followed by 32.5% who agreed with the statement 20% were not sure whether

there exists a written collection policy, 8.8% disagreed that there exists a written collection policy whereas 3.75% strongly disagreed that there exists a written collection policy. This meant at Pride Microfinance, the majority of respondents strongly agreed that there exists a written collection policy represented by 28(35%) above.

31 respondents represented by 38.8% strongly agreed that collection policies apply to equally to all borrowers irrespective of their social standing(mean:16,SD:11.4). This was followed by 27.5% who agreed with the statement 21.3% were not sure whether there exists a written collection policy, 10% disagreed that collection policies apply to equally to all borrowers irrespective of their social standing whereas 2.5% strongly disagreed that collection policies apply to equally to all borrowers irrespective of their social standing. This meant at Pride Microfinance, the majority of respondents strongly agreed that collection policies apply to equally to all borrowers irrespective of their social standing represented by 31(38.8%) above.

The findings of the study show that 32 respondents represented by 40% strongly agreed that the institution has staff in the debt collection department (Standard Deviation of 11.1, and mean of 16), this was followed by 27.5% who agreed with the statement 17.5% were not sure whether the institution has staff in the debt collection department, 7.5% disagreed that the institution has staff in the debt collection department whereas 7.5% strongly disagreed that the institution has staff in the debt collection department. This meant at Pride Microfinance, the majority of respondents strongly agreed that the institution has staff in the debt collection department represented by 32(40%) above.

29 respondents represented by 36.3% strongly agreed that the institution provides vehicles for staff mobilization while carrying out their duties (Standard Deviation of 11.3, and mean of 16), This was followed by 31.3% who agreed with the statement 20% were not sure whether the institution provides vehicles for staff mobilization while carrying out their duties, 10% disagreed that the institution provides vehicles for staff mobilization while carrying out their duties whereas 2.5% strongly disagreed that the institution provides vehicles for staff mobilization while carrying out their

duties. This meant at Pride Microfinance, the majority of respondents strongly agreed that the institution provides vehicles for staff mobilization while carrying out their duties represented by 29(36.3%) above.

With the Standard Deviation of 11.1, and mean of 16, the findings of the study show that 28 respondents represented by 35% strongly agreed that the institution provides vehicles for staff mobilization while carrying out their duties. This was followed by 32.5% who agreed with the statement 20% were not sure whether the institution provides vehicles for staff mobilization while carrying out their duties, 8.8% disagreed that the institution provides vehicles for staff mobilization while carrying out their duties whereas 3.75% strongly disagreed that the institution provides vehicles for staff mobilization while carrying out their duties. This meant at Pride Microfinance, the majority of respondents strongly agreed that the institution provides vehicles for staff mobilization while carrying out their duties represented by 28(35%) above.

31 respondents represented by 38.8% strongly agreed that the institution provides vehicles for staff mobilization while carrying out their duties(mean:16,SD:11.4). This was followed by 28.8% who agreed with the statement 20% were not sure whether the institution provides vehicles for staff mobilization while carrying out their duties, 8.8% disagreed that the institution provides vehicles for staff mobilization while carrying out their duties whereas 3.75% strongly disagreed that the institution provides vehicles for staff mobilization while carrying out their duties. This meant at Pride Microfinance, the majority of respondents strongly agreed that the institution provides vehicles for staff mobilization while carrying out their duties represented by 31(38.8%) above.

33 respondents represented by 41.3% strongly agreed that the institution provides vehicles for staff mobilization while carrying out their duties(mean:16,SD:12.2). This was followed by 28.8% who agreed with the statement 17.5% were not sure whether the institution provides vehicles for staff mobilization while carrying out their duties, 8.8% disagreed that the institution provides vehicles for staff mobilization while carrying out their duties whereas 3.75% strongly disagreed that the institution provides vehicles for staff mobilization while carrying out their duties. This meant at

Pride Microfinance, the majority of respondents strongly agreed that the institution provides vehicles for staff mobilization while carrying out their duties represented by 31(38.8%) above.

## CHAPTER FIVE

### DISCUSSION AND SUMMARY OF FINDINGS

#### 5.0 Introduction

In this chapter, presentation on the summary and discussion of findings is discussed. Based on what is already discussed above in the previous chapter, the basis from which the report milestones can be reached were shared. This chapter focuses on the findings as compared to the purpose and objectives that the study is intended to achieve.

#### 5.1 Discussion of the Findings

Reflecting on the study objectives presented in chapter four, discussion of findings was drawn to provide more evidence about the two study variables that is to say, debt management and financial performance of Pride Microfinance.

#### 5.2 Summary of findings

To find out whether credit extension policies affects the financial performance of pride micro finance, the findings were in agreement with the literature of Kalunda (2012) who observed that a lenient credit policy tends to give credit to customers on very liberal terms and standards such that credit is granted for longer periods even to those customers whose credit worthiness is not well known. The scholar also cites that a stringent credit policy is restrictive and allows credit only to those customers whose credit worthiness have been ascertained and are financially strong. Kipkoech (2015) also observes that there is need to establish sound credit management in micro finance so as to prevent late payment of accounts receivables, thus increasing profitability levels. This can be achieved through timely settlement of accounts receivables so as avoid facing financial constraints emanating from bad debts.

With no disparity in their finding, the scholar Raphael & Ajayi (2014) also affirms the effect of credit policy on the performance of Commercial banks found out that incidences of bad debts would be minimized if a good credit policy is put in place.

Norell (2001) found that in order to reduce the debtors outstanding, credit officers should monitor debt on a continuous and as well have flexible credit policies which should be updated regularly before being enforced, educate clients frequently before

issuing any loan and entice the credit officers since they spend most of their time in the field.

### **5.3 Conclusions**

According to Antoine (2015), it is important to design a credit policy that consists of both the credit terms and the collection policy set up by an organization to attain its goals. This therefore calls for the attention of every microfinance institution to follow this direction, especially Pride Microfinance being our case study.

The report generated from different literature information shows that there is a significant positive association among the variables of credit terms, which concludes that credit terms contribute 33.1% of the variance in financial performance. This there indicates the prevailing challenges affecting most Small and Medium sized Enterprises, therefore increasing relevance of most financial institutions to follow the same trend. The main essence of this research is help shade enough light as to whether there is a relationship between debtors' management and financial performance of financial institutions, which conclusion has been drawn showing a strong relationship between the two.

### **5.4 Recommendation**

#### **Debt collection policy.**

The research recommends that all MFIs should have in place well established debt collection policies that clearly outlines the senior management's view of business development priorities and the terms and conditions that should be adhered to for loans to be approved.

The debt collection policy should be reviewed and regularly updated to reflect changes in the economic outlook and the evolution of the MFI's loan portfolio, and be distributed to all lending/marketing officers, The debt collection policy should be approved by the Managing Director/CEO & Board of Directors of the MFIs based on the endorsement of the MFI's Head of Credit Risk Management. Also there should be laid down legal aspects when issuing a credit to customers and all staff involved in debt management should adhere to those legal aspects in place

## **Credit extension policy**

credit extension policy should have details of the credit qualifications, credit limits and terms, and invoice and debt collection methods. Micro finance sets for its clients and customers. It should outline steps for collecting outstanding debts, it should define payment terms including prompt payment, discount, late penalties and interest rate.

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## APPENDICES

### APPENDIX I: QUESTIONNAIRE

#### UGANDA CHRISTIAN UNIVERSITY

A questionnaire for the staff and customers of pride micro finance, Bukoto.

My name is Lydia Akiror a student of Uganda Christian University conducting a research study on the “Debtors management and financial performance of in micro finance institutions in Uganda” as a requirement for the award of Bachelors degree of science in Accounting and Finance in Uganda Christian University.

I am kindly requesting for your assistance in this study by answering the following questions. I assure you that your information will be treated with utmost confidentiality

#### PERSONAL INFORMATION

Answer the following questions by ticking.

1.) what is your gender? a) Mal  b) fem

2.) what is your age bracket?

18-25years

26-3 rs

37-45years

46an ove

3.) what is your level of education?

PHD

Bac s

Masters

Dip

4.) How long have you worked in this institution?

Less than a yea

2-5y

5- ars

5.) which position are you engaged in pride micro finance?

Accountant

Cashier

Manager

Subordinate staff

## SECTION A: CREDIT EXTENSION POLICY

### Instructions:

The following statements relate to the credit extension policy, Answer by circling where appropriate.

**Key:**stronglyAgree(SA)=5,Agree(A)=4,Nottsure(NS)=3,Disagree(D)=2,Strongly Disagree(SD)=1

Statement	SD	D	NS	A	SA
The institution has standardized loan forms	1	2	3	4	5
There is regular assessment of borrowers' financial position	1	2	3	4	5
A maximum period is given to borrowers to repay their loans	1	2	3	4	5
Members are eligible for loan after subsequent savings.	1	2	3	4	5
Credit extension terms and conditions are taken into consideration before advocating any form of debt.	1	2	3	4	5
The institution considers borrowers capacity and collateral security in credit extension	1	2	3	4	5
The credit history of a debtor is always evaluated before extending credit	1	2	3	4	5

## SECTION B:DEBT CONTROL AND MONITORING

### Instructions

The following information relate to debt control and monitoring, Answer by circling where appropriate.

**Key:**StronglyAgree(SA)=5,Agree(A)=4,NotSure(NS)=3,Disagree(D)=2,Strongly Disagree(SD)=1

Statement	SD	D	NS	A	SA
The institution frequently reminds borrowers on their outstanding amounts	1	2	3	4	5
The institution keeps track of payments using average collection period	1	2	3	4	5
Internal audit does a verification of the loans advanced	1	2	3	4	5
The institution monitors timely repayments of loans.	1	2	3	4	5
The institution strictly monitors the account operation of its customer	1	2	3	4	5
We keep proper records	1	2	3	4	5
Daily, weekly or monthly reports are generated to monitor debtors	1	2	3	4	5

## SECTION C: DEBT COLLECTION POLICY.

### Instructions:

The following statements relate to debt collection policy in debtor's management, answer by circling where appropriate.

Key: Strongly Agree (SA)=5, Agree(A)=4, Not Sure (NS)=3, Disagree (D)=2, Strongly Disagree (SD).

Statement	SD	D	NS	A	SA
All loans are subject to penalties after a specified number of days of delinquency.	1	2	3	4	5
A loan is considered delinquent when its one day past due.	1	2	3	4	5
There exists a written collection policy.	1	2	3	4	5
Collection policies apply to equally to all borrowers irrespective of their social standing.	1	2	3	4	5
The institution has staff in the debt collection department.	1	2	3	4	5
The institution provides vehicles for staff mobilization while carrying out their duties.	1	2	3	4	5
We use the following strategies to collect debts					
a) Litigation	1	2	3	4	5
b) Reminders	1	2	3	4	5
c) Insuring debtors	1	2	3	4	5

*THANK YOU*

**APPENDIX II: SCHEDULE OF THE RESEARCH**

	PERIOD IN MONTHS			
Activity	June	July	August	September
Proposal Preparations				
Data collections				
Data processing, Editing and summarizing				
Data analysis				
Compiling final report				
Consultations				
Final report handing in				



# UGANDA CHRISTIAN UNIVERSITY

A Centre of Excellence in the Heart of Africa

SCHOOL OF BUSINESS

1<sup>st</sup> Aug 2023

## TO WHOM IT MAY CONCERN

Name: AKIROR LYBIA

Reg. No. 020B331019

A bachelor's student who is seeking permission from your office to collect data for his/her dissertation titled

"Sector's Management and financial performance on micro finance institutions"

We shall be grateful if you could render assistance to him/her in collecting the necessary data for his/her dissertation

The Uganda Christian University School of Business thanks you in advance

Mukisa Simon Peter  
Research coordinator