THE EFFECT OF ACCOUNTS RECEIVABLES MANAGEMENTONFINANCIAL PERFORMANCE OF SMALL AND MEDIUMENTERPRISESINUGANDA: CASE STUDY KAMPALA DISTRICT

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DECLARATION PAGE

I, Lutara Ivy Berna hereby declare that this dissertation is my original work and has never been submitted to any university or institution of higher learning for any academic award.

Signature:.......................................

Date:15th / 04 / 2026

APPROVAL PAGE.

This dissertation has been submitted with the approval of the university's supervisor.

Signature:...

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Date:......15/04/2026..

DEDICATION.

I dedicate this dissertation to God for his guidance and strength through out my academic journey. I also dedicate it to my family for their love, encouragement and everyone who believed in me while pursuing my studies at Uganda Christian University.

AKNOWLEDGEMENT.

I would like to thank God for granting me life, wisdom and strength to complete this dissertation.

My sincere gratitude goes to my supervisor for the guidance, patience and constructive criticism that helped improve my work. I also thank the lecturers of Uganda Christian University for the knowledge they shared during my course.

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May God bless you all.

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ABBREVIATIONS

BOU	Bank of Uganda
CCC	Cash Conversion Cycle
COVID-19	Coronavirus Disease 2019
RBV	Resource Based View
ROA	Return on Assets
ROE	Return on Equity
SMEs	Small and Medium Enterprises
UIA	Uganda Investment Authority
WCM	Working Capital Management

ABSTRACT.

The research aimed at finding out how small and medium enterprises manage their accounts receivable and how this impacts their performance financially in Kampala district. It mainly concentrated on issues like how they manage their credit policy, how they follow up on their customers on their payments and how they check their customers before giving them goods or services on credit.

The research design adopted by this research was a correlational one. It aimed at finding out if there is a relationship between these factors and how they influence their financial performance. It targeted fifteen respondents who worked in different SMEs in different fields like the retail and service sectors. It mainly targeted business owners, accountants and finance managers since they are the ones who are mainly involved in managing their finances. Questionnaires were used to collect most of the information since they are considered to be more effective when collecting data. Later, some interviews were conducted to gather more information.

The results indicated that SMEs made efforts in implementing credit policies but the majority did not adhere strictly to the policies. It was also observed that businesses that kept in touch with customers through reminders and constant communication had better cash flow. It was also observed that businesses that checking the customers' credit helped in reducing cases where people did not pay as agreed. The results also indicated that there is a link between the management of receivables and the performance of the business.

In conclusion, the management of receivables is vital in enhancing the performance of a business. SMEs should be more consistent in implementing the credit policies and the way they collect their debt. They should also be serious about customer evaluation in order to avoid some of the problems they are likely to face in the future.

CHAPTER ONE
INTRODUCTION

1.0 Introduction.

This chapter introduces an in depth analysis of the influence that accounts receivables management exerts on the financial performance of small and medium enterprises (SMEs) in Uganda. This chapter therefore examines the historical, conceptual, theoretical and contextual background as well as the problem statement, research purpose, objectives, research questions, scope and the significance of the study.

Considering that SMEs contribute significantly to GDP growth, industrial output and employment generation (Uganda Investment Authority [UIA], 2023), showing how systematic management of credit sales and receivables collections can lighten the economic burden, improve cash flows and support business expansion, this study therefore shows why strong receivables management should be at the forefront of every SME's financial strategy.

1.1 Background of the study.

1.1.1 Historical background.

The practices of extending credit and managing accounts receivables goes way back to where early traders often allowed trusted buyers to postpone payment with an aim of promoting loyalty and increasing sales (Ross, Westerfield, & Jordan, 2019). As businesses became more resilient and trade volumes grew, the risks associated with unpaid debts became more noticeable which required the development of organized practices of receivables management.

It was also noted that practices like having clear credit policies, regular follow ups on debts and checking customer risk help businesses avoid losses and manage working capital more effectively (Pandey, 2021). These developments therefore laid the foundation for modern receivables management as a basic element of financial management and corporate governance.

In developing regions such as Africa, the situation has developed differently. SMEs which were often operating in conditions with limited access to regular funds and unstable business conditions have increasingly depended on credit sales to stay competitive and grow market share (Amoako, 2022). However, the dependence on credit has exposed them to significant weaknesses like continuous late payments, weak enforcement of credit policies and poor skills in financial management.

In Uganda, the SME sector has witnessed rapid growth since the liberalization policies of the 1990s, leading to a vibrant landscape where SMEs account for over 90% of private enterprises, contribute approximately 80% of the country's manufacturing output and employ more than 2.5 million people (Uganda Investment Authority, 2023).

Despite their significant economic role, many Ugandan SMEs still struggle with continuous challenges in collection of receivables which results in cash flow problems, increased levels of uncollected debts therefore leading to a decline in the financial performance (Nalukwago & Kamukama, 2023). These challenges show that SMEs need to strengthen how they manage receivables in a more practical way.

1.1.2 Conceptual background.

Accounts receivables refers to the money that customers owe a business after buying goods and services on credit. The process of managing accounts receivables involves a number of several activities like checking whether customers are able to pay, setting clear credit terms, keeping in touch with customers and making sure payments are collected on time (Atrill & McLaney, 2022). These businesses also need to have proper systems put in place to track outstanding balances and monitor how customers pay over time.

Financial performance on the other hand, shows how well a business is doing in terms of making profits and maintaining its operations. It is commonly measured using indicators like the net profit margin, return on assets (ROA)and return on equity (ROE). There are also liquidity measures such as the current ratio and quick ratio which are also used to assess how a business can meet its short-term goals.

These indicators help show whether the business is able to meet its short-term obligations and how it can use the available resources efficiently (Gitman & Zutter, 2021).

There is a strong relationship between relationship between accounts receivables management and financial performance. When receivables are managed well, businesses tend to receive payments on time and reduce chances of bad debts therefore maintaining a steady flow of income. This then allows such businesses to reinvest their money into operations leading to expansion and financial stability (Kabuye et al., 2022). However, poor receivables management can cause serious challenges if customers delay paying their debts such as cash shortages which forces a business to borrow funds in order to continue operating. For SMEs, the impact is even much greater since many operate with limited cash funds and are limited to external financing. This therefore can affect their long-term sustainability (Kato, 2023).

In Ugandan where businesses are still developing and competition among SMEs is increasing, the ability to turn accounts receivables into cash quickly is extremely important since businesses that can manage their accounts receivables effectively are more likely to maintain stable cash flows and improve their financial performance. Therefore, understanding the link between accounts receivables management and financial performance is not only for academic research but also for business owners, managers and policy makers who aim to strengthen the SME sector and support Uganda's economic development.

1.1.3 Theoretical background.

This study is guided by two main theories that is the working capital management theory and the cash conversion cycle theory. These theories help explain how these businesses can improve their financial performance through proper management of accounts receivables and other current assets.

Working capital management theory. This theory was first discussed by Gitman (1974) and it focuses on the importance of maintaining proper balance between a business’s current assets and current liabilities. According to the theory, the components of working capital such as accounts receivables play an important role in maintaining both liquidity and profitability in that when receivables are managed properly, businesses are able to receive cash more quickly, reduce the risk of bad debts and maintain enough funds to meet their short-term financial obligations.

On the other hand, poor accounts receivables management can create several financial difficulties since large amounts of money may remain tied up in unpaid invoices which then reduces the amount of cash available for the daily running of the business. This therefore limits a business’s ability to pay suppliers, meet operating expenses or take advantage of new business opportunities in case of any. Gitman and Zutter (2021) explain that the management of accounts receivables directly affects a business’s cash position and its ability to fund day to day operations without relying heavily on external borrowing.

Another important theory relevant to this study is the cash conversion cycle (CCC) theory developed by Richards and Laughlin (1980) which focuses on the time it takes for a business to convert its investments in inventory and other resources into cash received from customers. In other words it measures the period between paying suppliers and receiving payment from customers. A shorter cash conversion cycle is encouraged because it enables a business to recover its cash more quickly. When customers pay their debts on time, businesses are able to reinvest the money in operations and pay suppliers on time hence maintaining financial stability.

However, when receivables are poorly managed, the cash conversion cycle becomes longer which leads to delays in cash inflows and increases the risk of bad debts and non payment from some customers. According to Wasiuzzaman (2022), delayed debt collection can weaken a business’s liquidity position and increase its financial risk.

These two theories therefore provide important information for understanding how management of accounts receivables could affect the financial performance of small and medium enterprises. They show that receivables management should not only be managed administratively but also strategically since they can influence a firm's liquidity, profitability and long-term sustainability especially in areas where access to external funding is limited.

1.1.4 Contextual background.

Small and medium enterprises play a very important role in Uganda's economy by contributing to the creation of employment opportunities, innovation and economic growth. Many SMEs operate in sectors like trade, manufacturing, agriculture and services, so in order to attract and retain customers, these businesses often sell goods and services on credit (Ministry of Trade, Industry and Cooperatives [MTIC], 2023). Although this practice can increase sales, it can also expose these businesses to risk of delayed payments.

One of the major challenges faced by many SMEs in Uganda is the difficulty faced when collecting payments from customers. In many cases, businesses lack proper credit assessment procedures and do not have clear credit policies put in place, some also have weak record keeping systems which makes it difficult for them to track outstanding debts and monitor customer payments (Nakayima & Ssemugenyi, 2022). In addition to this, many SME owners and managers have limited knowledge in financial management that is needed to implement effective management of accounts receivables practices (Lukwago, 2023). As a result, businesses then struggle to manage credit sales properly hence experiencing frequent delays when receiving payments.

According to the Bank of Uganda (2022), more than 60% of SMEs in the country experience cash flow challenges whereby most of these problems are often caused by delayed receivables and poor working capital management. When businesses fail to receive payments on time, they struggle to restock inventory, pay suppliers on time or even expand their operations which in some cases tends to lead to business closure.

Access to affordable external financing is also limited for many SMEs which makes the situation even more difficult as some businesses may find it hard to meet their financial obligations or invest in growth opportunities without reliable cash inflows.

In a city like Kampala, competition among SMEs is high which makes many businesses forced to offer goods and services on credit so as to be able to remain competitive. While this strategy increases sales, it also creates serious liquidity problems when customers delay to pay on time. Over time, this reduces profitability hence weakening the financial position of the business. For this reason, effective receivables management is very important for the survival and growth of SMEs in Uganda.

By establishing clear credit policies, conducting proper credit checks and maintaining accurate financial records, businesses can improve their cash flow and reduce the risk of bad debts. Proper management of receivables therefore helps SMEs remain financially stable therefore continuously contributing to Uganda's economic development (UIA, 2023)

1.2 Statement of the problem.

The management of accounts receivable play an important role in the financial stability of a business in a way that if they are properly managed, they ensure that businesses receive payments from customers on time, maintain steady cash flows and reduce on the risk of bad debts. For small and medium enterprises, having clear credit policies, conducting credit checks on customers and following up on overdue payments can greatly improve their financial performance.

These practices help businesses maintain liquidity and reduce the need to depend on external borrowing (Atrill & McLaney, 2022; Gitman & Zutter, 2021). When credit sales are converted into cash within the agreed period, SMEs are able to meet operational expenses and also invest in new business opportunities (Ross, Westerfield, & Jordan, 2019).

However, the situation among many SMEs in Uganda is different in such a way that a large number of these businesses operate without formal credit policies and often rely on informal arrangements or personal relationships when extending credit to customers.

In most cases, these businesses tend to focus more on increasing sales than ensuring that customers pay their debts on time (Nakayima & Ssemugenyi, 2022) which as a result, they experience delayed payments, accumulation of bad debts and continuous cash flow challenges. These problems tend to reduce profits hence making it difficult for businesses to meet their obligations such as paying suppliers and funding their daily operations (Nalukwago & Kamukama, 2023).

The evidence from previous studies show that poor management of receivables is a common problem among SMEs in Uganda. The Bank of Uganda (2022) reports that more than 60% of SMEs experience cash flow shortages mainly due to delays in payments as well as weak debt collection practices.

In addition, the Uganda Investment Authority (2023) shows that more than half of the SMEs in the country shut down within their first five years of operation because of poor financial management where inability to manage accounts receivable effectively is being identified as one of the major reasons for business failure. When businesses do not receive payments on time, they may struggle to pay suppliers and employees within the specified period (Kabuye, Nkundabanyanga, & Akugizibwe, 2022).

Another challenge faced by many SMEs is poor management of credit systems since most businesses tend to lack trained financial staff, proper credit evaluation procedures and modern accounting systems that can help them track customer debts (Kato, 2023). As a result, they become exposed to delayed payments and bad debts.

This study therefore seeks to examine how accounts receivables management affects the financial performance of SMEs as it aims to show how improving credit management practices can help businesses improve liquidity, reduce financial risks and support the long-term growth in Uganda.

1.3 Purpose of the study.

The main purpose of this study is to examine the relationship between accounts receivables management and the financial performance of small and medium enterprises in Uganda. The study therefore focuses on key areas of receivables management such as credit policy, debt collection practices and credit evaluation procedures.

By examining these areas, the study aims to understand how receivables management practices influence the financial performance of SMEs as the findings are then expected to provide practical recommendations that these businesses can use to improve how they manage customers with credit.

1.4 Specific objectives.

1. To examine the effect of credit policy on the financial performance of small and medium enterprises in Uganda.
2. To analyze how debt collection practices influence the ability of SMEs to recover outstanding payments and maintain stable cash flows.
3. To investigate how credit evaluation procedures affect the level of bad debts and the financial performance of SMEs.

1.5 Research questions.

1. How does credit policy affect the financial performance of small and medium enterprises in Uganda?
2. How do debt collection practices influence the ability of SMEs to recover outstanding payments and maintain cash flow?
3. How do credit evaluation procedures affect the level of bad debts and the financial performance of SMEs?

1.6 Scope of the study.

1.6.1 Geographical scope.

This study will focus on small and medium enterprises located in Kampala district, Uganda. Kampala is the capital city and the main commercial center of the country and has a large number of SMEs operating in different sectors such as trade, manufacturing and service businesses and due to this diversity, it provides a suitable study area for my topic.

While choosing Kampala city as a study area, practical considerations such as accessibility and availability of the businesses that would participate in the study were taken into consideration ensuring collecting data would be easier and more manageable within the available time and resources.
Although the study focuses on Kampala only and does not cover all regions of Uganda, the findings are expected to provide useful insights into the challenges faced by many urban SMEs within the country. The results may therefore help inform business practices and decisions aimed at improving financial management among SMEs.

1.6.2 Content scope.
This study focuses on accounts receivables management as the independent variable. The concept is examined through three main components which are credit policy, debt collection practices and credit evaluation procedures.

Firstly, the study examines how credit policy is used by SMEs by showing how businesses decide which of their customers are given credit, the credit limits set for their customers and the time allowed for debt repayment. Credit policies help businesses in a way that they control how credit is issued and ensure that customers understand the terms of payment. However, SMEs must balance between offering flexible credit to attract customers and protecting themselves from the risk of delayed payments or non payment.

Secondly, the study analyzes debt collection practices used by SMEs to recover money owed by customers through examining the methods used by businesses to follow up on unpaid debts such as reminders, phone calls and other communication methods set up. The study will also consider the steps taken when payments become overdue including the involvement of third party collection agencies. In addition, the study will also consider how businesses manage customer relationships while trying to recover outstanding payments.

Thirdly, the study investigates credit evaluation procedures which are used to assess the creditworthiness of customers before being granted credit. This involves checking a customer's credit history, reviewing financial information and other sources of information available. Proper credit evaluation tips help businesses reduce the risk of bad debts and improve the effectiveness of receivables management.

The dependent variable in this study is the financial performance. Financial performance will be measured using indicators such as net profit margin, return on assets (ROA) and return on equity (ROE). These indicators will help in showing how SMEs can use their resources properly to generate profits and manage their activities.

These variables will help the study understand how receivables management practices affect the financial performance of small and medium enterprises.

1.6.3 Time scope.

This study will consider the years 2021 to 2023. This period includes the time of the COVID-19 pandemic which affected many businesses worldwide. In this period, many SMEs in Uganda faced financial challenges like cash flow delays and changes in how customers paid their credit.

By focusing on these three years, the study makes it possible to use recent data that shows the current situation these SMEs were in. It also shows how businesses adjusted their credit policies and receivables management practices in regard to these economic challenges.

The period considered is good enough because it will provide information that identifies trends and patterns in receivables management and financial performance of businesses. At the same time, it allows the study to remain manageable within the available time and resources for conducting the research.

1.7 Justification of the study.

Small and medium enterprises play a very important role in Uganda's economy due to the fact that they account for more than 90% of businesses in the country and contribute greatly to employment creation and economic growth. SMEs also help promote innovation, reduce poverty and support development in different regions of the country. However, despite their importance, many SMEs face serious financial challenges that affect their ability to grow and survive in the long run.

One of the major challenges faced by SMEs is poor management of accounts receivables. Many businesses sell goods and services on credit but fail to implement systems that could monitor and collect payments from customers. As a result, SMEs experience delayed payments and unstable cash flows hence reduction in profits. These financial difficulties therefore affect the daily running of the business and limit the ability of SMEs to invest in business expansion.

Another reason for conducting this study is the limited research that specifically focuses on the relationship between accounts receivables management and financial performance among SMEs in Uganda. Although several studies have examined working capital management in general, a few studies have focused on practical aspects such as credit policies, debt collection practices and credit evaluation procedures within the Ugandan SME context. Therefore, this study aims to fill this gap by examining how receivables management practices affect the financial performance of SMEs.

In addition, many SMEs in Uganda operate without formal credit management systems. Many of these businesses still depend on informal agreements when dealing with customers and they do not have clear rules for giving credit or following up on unpaid debts which often makes them struggle with late payments and bad debts hence affecting their cash flow. The study therefore becomes important because it focuses on showing practical ways on how SMEs can improve their management of receivables.

1.8 Significance of the study.

The study is significant to different groups of people for instance the SME owners, managers, policymakers, financial institutions and researchers. This is because the study would provide them with useful information.

The study would be very beneficial to the SME owners or managers in the sense that they would learn how to better manage accounts receivables. When businesses have good policies regarding credit, they are able to evaluate their customers very well which helps them to avoid debts. This would help them in managing their businesses better which would result in more profits in the long term.

The policymakers or the government agencies like the Uganda Investment Authority or the Bank of Uganda can also benefit from the study. They can use the findings to help them come up with policies or initiatives to help the SMEs in the country. They can also come up with ways to encourage good financial management practices in the country which would result in the development of the SME sector.

Other financial institutions for example banks and microfinance institutions could also find the research helpful by understanding the relationship between the management of receivables and the performance of SMEs. This could help in the formulation of financial services that are best suited for small enterprises as well as in the improvement of credit risk evaluation hence reducing cases of loan defaults.

From the perspective of academics, this research adds to the already available knowledge concerning the management of finances by SMEs in Uganda. The research provides further insight into the relationship between the management of accounts receivable and the financial performance of the business. In addition, it could serve as a reference point in the future for research concerning the finances of small enterprises.

This research helps in linking the theories to what actually occurs in the real business environment by providing practical ideas that could be applied by the SMEs in enhancing their financial management.

1.9 Conceptual framework.

The conceptual framework is a theory that explains how accounts receivables management is related to the financial performance of small and medium enterprises. In this study, accounts receivables management is used as the independent variable while financial performance is used as the dependent variable.

Conceptual framework.

Independent variables		**Dependent variables**
Credit policy Debt collection practices Credit evaluation procedures	⇨	Profitabilty Net profit margin Return on assets, Return on equity

Source: Adapted from Neema, Nyakundi & Mulegi (2023) and Chebet (2024).

Accounts receivables management can be defined as the various approaches employed by businesses in managing credit sales and receiving payments from customers. In this study, it is considered in terms of three major aspects that is credit policy, debt collection methods and creditworthiness analysis.

On the other hand, the performance of the business is evaluated in terms of various factors such as net profit earned by the business, return on assets (ROA) and return on equity (ROE). These factors provide an idea of the effective utilization of resources by SMEs in generating profits.

If accounts receivables management is effective in the business, the business is likely to experience better cash flows and higher profitability. Conversely, if the management of accounts receivables is poor in the business, the business is likely to experience cash flow problems and lower profitability.

1.10 Key terms used in the study.

Accounts receivables. These refer to money owed by customers who have bought goods from the business. The accounts receivables are part of the company's assets because they can be collected within a short time.

Accounts receivables management. This is the way in which a business manages its credit sales. It includes how it ensures that customers pay for goods bought on credit.

Financial performance. This is how well a business is performing in utilizing resources to achieve profits. In this study, it is measured by various indicators such as net profit, return on assets (ROA) and return on equity (ROE).

Small and medium enterprises (SMEs). These refer to businesses that operate on a small scale compared to other companies. In Uganda, SMEs refer to companies employing between 5 and 100 workers. They contribute greatly to employment creation and development.

Credit policy. These are guidelines that a business uses in the provision of credit to customers. It involves issues such as the amount of credit to be allowed to customers and the period that customers take before paying.

Debt collection practices. These are practices used by a business to recover money from customers who have bought on credit. An example of debt collection practices could be sending reminders or making calls to customers who take a longer period before paying.

Credit evaluation procedures. These involve procedures that a business uses to determine whether a customer deserves to be granted credit or not. This could involve checking the payment history of a customer before allowing them to buy on credit.

1.11 Conclusion.

This chapter has presented the background of the study, the problem being addressed as well as the purpose of the study, research objectives and research questions. It has also covered the scope together with the conceptual framework and the key terms used in the research.

The chapter also shows how accounts receivables management plays an important role in determining the financial performance of SMEs. Many SMEs in Uganda face challenges such as delayed customer payments, poor credit policies and weak debt collection systems which negatively affect cash flow and reduce business profitability.

Due to such challenges, it is very important to examine how receivables management practices influence the financial performance of SMEs. The study therefore focuses on SMEs in Kampala in order to understand how credit policies, debt collection practices and credit evaluation procedures affect business performance.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction.

This chapter reviews existing literature related to accounts receivable management and the financial performance of small and medium enterprises. The review will draw on different sources such as established theories, previous empirical studies and other discussions in order to provide a clear understanding of the topic of study. It will also highlight the gaps that existed in earlier studies which justify the need for the present research.

This discussion focuses on three major components of accounts receivable management namely credit policy, debt collection and credit evaluation. These components are examined in relation to two important indicators of SME performance which are profitability and liquidity. Understanding how these factors relate to each other is important because SMEs largely depend on efficient cash flow management for their survival and growth.

Therefore, this chapter provides a review of relevant theories and empirical studies that explain the relationship between receivables management practices and financial performance. This discussion then helps to build a theoretical and empirical foundation for the study and prepares the ground for the analysis presented in the later chapters.

2.1 Theoretical review.

2.1.1 Working capital management theory.

This theory was established by Gitman (1974) and focuses on the need to ensure that there is a balance between the current assets and liabilities in a business enterprise. For most business organizations including SMEs, it is essential to ensure that there is a balance between the current assets and liabilities in the business enterprise. This is important in the sense that if the business enterprise has too many current assets, it may mean that the business enterprise has resources that it cannot utilize which may affect profitability. However, if the business enterprise has too few current liabilities, it may be difficult to run the business enterprise.

Accounts receivable are considered a vital component of working capital in the sense that whenever a business enterprise sells its products or services on credit, it expects the customers to settle the debt after a specified period of time. However, if the customers delay in making payments, the business enterprise may experience a shortage of cash which is essential in the running of the business enterprise.

This is especially so in SMEs which might be operating under limited financial resources. When there is an accumulation in receivables, it means that money meant for running the business is being held back in unpaid invoices. Consequently, it becomes hard for businesses to meet various expenses such as those from suppliers and employees.

According to the Bank of Uganda (2022), liquidity challenges have been identified in many SMEs as they take longer to receive payments from customers. In the same way, it has been identified by Chebet (2024) that businesses that manage their receivables effectively tend to have better financial performance compared to those without such clear strategies in managing their receivables.

As such, it is evident that the theory on working capital management is applicable to this study in that it emphasizes the need for effective management of receivables in ensuring liquidity and better financial performance in SMEs.

2.1.2 Cash conversion cycle theory.

The theory of cash conversion cycle (CCC) was developed by Richards and Laughlin (1980). This theory explains how money is being converted in any given business and is mainly concerned with the time that is being taken between when a business spends money on purchases and when it is finally able to receive money from customers after making sales.

The three main parts of the cash conversion cycle are the inventory holding period, the accounts receivable period and accounts payable period. These three parts help in determining how long it takes for a given business to convert its money.

In most cases, a business prefers a short cash conversion cycle since it implies that the business will be able to get its cash quickly and redirect it to other uses. However, where the cash conversion cycle is longer, the business may experience cash flow problems since it may be unable to meet its obligations. For most SMEs in urban areas such as Kampala, offering credit to customers for the products and services that the business sells has become a common business practice that most businesses in the region use to attract customers.

Although offering credit may be a great way to increase sales for the business, it may also mean that the business may experience problems in the receivables collection period since the customers may take a longer time to settle the debt. As a result, the business may be forced to borrow money at a higher interest rate to run the business (Chebet, 2024).

The cash conversion cycle theory therefore highlights the importance of managing receivables efficiently in order to maintain adequate cash flow and ensure the financial stability of SMEs.

2.1.3 Pecking order theory.

The pecking order theory which was developed by Myers and Majluf (1984) explains how firms or businesses make decisions regarding their source of income. According to this theory, businesses prefer to use money that comes from within a business such as retained earnings before considering other sources like debt or equity.

This is particularly common among SMEs because they often face challenges in accessing loans. Most of these small businesses do not have enough collateral, a strong credit history or proper financial records that could enable them qualify for loans from financial institutions and due to this, they often depend on the money they generate within the business to keep things running.

For SMEs, the collection of receivables on time becomes very important to them. The money that is received from customers is used to pay suppliers, meet daily expenses and support growth because when customers delay to pay, it easily creates cash shortages that disrupt the normal business activities.

Such conditions prompt these businesses to start borrowing money from outside sources that are normally subject to high interest rates which will eventually increase their costs and reduce their profit. Therefore, proper management of receivables helps these businesses to maintain a constant cash flow and avoid borrowing money. In this context, the pecking order theory supports the idea that proper management of receivables helps these businesses to maintain financial stability.

2.1.4 Resource-based view (RBV).

The resource-based view (RBV) which was introduced by Barney (1991), is based on the idea of how the company's strengths can provide it with a competitive advantage over other firms. It goes ahead to explain that businesses tend to perform better if they have resources that are considered valuable and cannot be easily substituted by other competitors.

In the case of SMEs, the ability of the business to manage accounts receivables can be considered an important resource because businesses that are able to assess their customers well and manage the payments well tend to run their businesses smoothly. This is because they are able to avoid bad debts and can predict their income well.

In the competitive market, SMEs that are able to manage accounts receivables well tend to run their businesses smoothly. This is because they are able to keep track of the unpaid debts and can run the business in a stable manner.

Good receivables management also has the advantage of enhancing the business's relationships with customers and suppliers. This is because when a business is able to pay its suppliers on time and also meets its obligations of paying customers in a timely manner, it earns the customers' and suppliers' trust. This way, their performance is improved over time.

Therefore, with this perspective the management of receivables is not only a routine management task but also a strategic task for the business.

2.2 Empirical review.

2.2.1 Credit policy and financial performance.

A credit policy is a policy that indicates how and when credit is given to customers. It also indicates when such credit is to be paid back together with any consequences that may occur if payments are delayed. Research indicates that organizations that have credit policies are able to control bad debts and perform better.

In Uganda, most SMEs do not have credit policies. This is because they have been relying on informal credit. In other words, they have been relying on trust when giving credit to customers. This has caused problems because payments are being delayed. This is according to Nakayiza (2021). When payments are being delayed, organizations find it hard to pay their daily expenses.

On the other hand, organizations that have credit policies are performing better. This is because Chebet (2024) indicates that SMEs in Mbale that have credit policies are performing better. This is because they are able to control their finances since they have proper procedures for dealing with customers.

Similar studies were conducted by Tumwine and Ahimbisibwe (2023) and found that SMEs in Kampala that had well defined credit policies were successful in making timely payments. This was due to the fact that the SMEs had well defined credit policies that helped in the reduction of delayed payments.

Studies conducted in countries other than Uganda also support the importance of credit policies in SMEs, as Muhammad et al. (2020) found that SMEs in Kenya that had well structured credit policies performed well since they were in a position to assess their customers effectively.

Therefore, it is safe to conclude that the presence of credit policies in SMEs in Uganda is essential in the management of cash flow in the business and the reduction of risks in the business. However, most SMEs in Uganda operate in an informal manner leading to a disparity between the recommended practices and the actual practices.

2.2.2 Financial performance and debt collection procedures.

Debt collection practices include actions like sending reminders and making follow up calls to customers and even charging some penalties at times. All these practices are essential since they help businesses collect their money on time and not be forced to suffer financially.

SMEs that follow up their customers in Uganda are more likely to not experience delays in payments. Tumwine and Ahimbisibwe (2023) found that using reminders like sending messages or emails to customers helped improve their payment habits. It encouraged customers to pay their bills early and not be forced to be constantly followed up.

Kato and Kaggwa (2021) found that SMEs that had a proper debt collection system in place were able to meet their own financial obligations since they got their money early and therefore paid their suppliers early.

Other studies done in other countries have shown similar trends. Oladipo & Adeyemi (2019) reported that in Nigeria, the SMEs that had a collection system were profitable compared to the ones that did not. In addition, the ones that had a collection system did not have unpaid debts. Oketch & Muturi (2021) reported similar trends in East Africa.

However, the current trend in many SMEs is using inconsistent practices such as only following up on payments when the payments are overdue. In some cases, the business ends up incurring debt in order to carry on.

This demonstrates the importance of debt collection practices for the success of the operations of the SMEs.

2.2.3 Procedures for evaluating the creditworthiness of the customer and their impact on financial performance.

Evaluating the creditworthiness of the customer entails checking if the customer is able to pay back the debt before being granted credit. The business could consider the payment history, financial status or even the customer's reputation.

Namukasa & Nkata (2022) established that in Uganda, the performance of SMEs was better compared to those which did not carry out the process of checking the creditworthiness of the customer. By evaluating the customer, the business avoided the high-risk customers.

According to Chebet (2024), the use of computers in evaluating the creditworthiness of the customer resulted in improved performance in terms of the increase in the profit margin.

The same was observed by Oketch & Muturi (2021) who demonstrated the positive performance of SMEs that implemented the process of evaluation because it reduced the probability of default.

However, it seems that many SMEs provide credit in order to increase sales without evaluating the creditworthiness. Although this approach generates sales, it may lead to future payment issues.

This implies the significance of the process of credit evaluation in managing financial risks.

2.2.4 Integrated empirical insights.

In the past, researchers have focused on the application of credit policy, debt collection and credit evaluation individually. Nevertheless, recent studies have indicated that the application of the three is more effective when integrated.

Neema et al. (2023) indicated that the application of the three strategies by SMEs is more effective than the application of the strategies individually. This is because the application of the strategies in combination enables SMEs to manage risk and maintain cash flow.

In Uganda, the situation has indicated the importance of the application of effective receivables management strategies. This is because the Bank of Uganda (2022) indicated that many SMEs in Uganda are facing cash flow problems. This is attributed to the fact that many SMEs in the country are not effective in managing finances and are often slow in paying their debts.

In addition, the Uganda Investment Authority (2023) indicated that many SMEs in Uganda are failing in their first five years of operation. This is attributed to the fact that they are not effective in managing finances.

2.3 Conceptual review.

The relationship between accounts receivable management and financial performance is the focus of this study. In this context, accounts receivable management is used as an independent variable while financial performance is used as a dependent variable.

The three main accounts receivable management practices that this study will focus on are credit policy, debt collection and credit evaluation.

Credit policy is important because it helps businesses define terms with their customers. This includes defining when customers should pay and how much they can pay. This ensures that there is no confusion about terms between the business and customers. This also ensures that customers do not default on payments.

Debt collection is also an important accounts receivable management practice. This is because it ensures that customers pay their debts. This is done by ensuring that customers pay within the agreed period.

Credit evaluation is also an important accounts receivable management practice. This is because it ensures that customers can be trusted. This is done by checking customers' background information.

2.4 Research gaps.

Although a number of studies have been done on receivables management, there are still some gaps.

There is little literature that has been done on SMEs in Uganda. Most studies have been done on big organizations such as SACCOs. These organizations work differently from SMEs.

Most studies have been done on credit policy, debt collection and credit evaluation individually rather than together.

The other gap is that little literature has been done on recent economic changes such as the COVID-19 period that has impacted businesses which impacted cash flow. This is an important gap because this period has impacted SMEs.

Finally, little literature has been done using descriptive analysis. This is because little analysis has been done on the relationship between performance and receivables management.

This study is going to cover this gap because it is going to cover SMEs in Uganda and is going to cover all three together.

2.5 Conclusion.

This chapter has highlighted the theoretical and empirical literature on accounts receivable management and its relationship with financial performance. From the theories, it is evident that accounts receivable management is vital in the maintenance of business operations.

The literature reviewed has also established that SMEs that have a credit policy, effective accounts receivable management practices and evaluation procedures perform well in terms of financial performance.

However, gaps still exist especially in the Ugandan context.

CHAPTER THREE

MEHODOLOGY

3.0 Introduction.

This chapter explains how the study will be carried out in order to examine how accounts receivable management affects the financial performance of small and medium enterprises in Uganda. It describes the approach that will be used including the research design, the target population, the sample size and the methods used for collecting and analyzing data.

It also highlights the steps that will be taken to ensure that the findings are reliable and valid. The chapter will also provide a clear guide on how the data will be gathered and used to help understand the link between receivables management practices and financial performance among SMEs.

3.1 Research design.

This study uses a correlational research design. This design is suitable because the main purpose of the study is to examine the relationship between accounts receivable management and financial performance.

In this case, the management of accounts receivables is the independent variable while the performance is the dependent variable. In the study, the researcher is concerned with some of the aspects of accounts receivables management and the way they relate to the dependent variable.

The correlational research design is significant in the sense that it can be used to establish the existence of the relationship between the two variables and the extent of the relationship.

Many small and medium enterprises in Uganda experience challenges in managing their receivables. Delays in payments by customers are a common challenge and this affects the cash flow of small and medium enterprises. As a result, it is crucial to understand how this affects the financial performance of SMEs.

With this research design, it is possible to generate evidence on how different aspects can be linked to performance. This can be useful to business owners, managers and policymakers who are interested in how financial management can be enhanced for the development of small and medium-sized enterprises.

SMEs make up a large share of businesses in Uganda and provide employment to a significant number of people (Uganda Investment Authority, 2023). Despite their importance, many of them continue to face financial challenges especially liquidity issues related to poor receivables management. This study therefore aims to contribute to a better understanding of how improving these practices can support business sustainability.

3.2 Study population and sample size.

3.2.1 Study population.

The study focuses on small and medium enterprises operating within Kampala district. Kampala has a large number of SMEs dealing in different sectors such as retail trade, services and manufacturing where many of these businesses extend credit to their customers making them suitable for a study on accounts receivable management.

Table 3.1 Study population.

Category	**Estimated number in Uganda.**	**Source**
Registered small and medium enterprises (nationwide)	25,000	URSB (2024)
Target population (small and medium enterprises in Kampala district)	5,000	UBOS & URSB (2024)
Accessible population (small and medium enterprises to be studied)	A selected number of small and medium enterprises	Researcher’s selection (2025)

According to the Uganda Registration Services Bureau (URSB, 2024), there are approximately 25,000 registered SMEs in Uganda. A significant number of these businesses operate within Kampala because of the city's active business environment and concentration of commercial activities.

Due to limitations such as time and available resources, it is not possible to study all SMEs in Kampala. Therefore, a sample of SMEs will be selected to represent the wider population. The study will focus mainly on businesses that frequently engage in credit transactions with their customers.

These businesses are typically in industries like wholesale and retail trade, hospitality, services and small scale manufacturing industries. These are more likely to conduct credit transactions making them suitable for the study.

The study participants are individuals who have a direct role to play in managing finances in the selected businesses. This includes business owners, accountants or finance managers. These are individuals who are actively involved in managing financial transactions in these businesses. This makes them more likely to provide accurate and relevant information regarding the management of financial activities in these businesses.

The study was chosen to be conducted in Kampala district due to the presence of a larger concentration of SMEs in different sectors. This diversity in businesses enables the study to cover different perspectives on the management of receivables in different businesses. Secondly, a larger proportion of businesses in Kampala have basic financial records making it easy to retrieve the required information for the study.

3.2.2 Sample size.

The number of participants selected from the total population to take part in the study is referred to as the sample size. In this case, the population refers to the SMEs that operate in the Kampala district with emphasis on those that sell products or services on credit. This is important since it relates to the accounts receivable which has a great influence on the business.

Table 3:2 Sample size

Sector	**Type of SMEs selected**	**Roles included**	**Total respondents**	**Sampling technique**
Retail	Small and medium enterprises selling goods on credit	Owners, accountants and finance managers	8	Purposive sampling
Service	Small and medium enterprises selling services on credit	Owners, accountants and finance managers	7	Purposive sampling
Total	**-**	**-**	**15**	**-**

A total of fifteen respondents were selected for this study from SMEs in both retail and service industries. These industries were selected for this study because they often trade in credit transactions.

The selected participants for this study were business owners, accountants and finance managers. These participants were selected for this study because they are often involved in making financial decisions in their respective organizations. They often include activities such as granting credits, making payments, collecting debts and keeping financial records. These participants were considered appropriate for this study because they have in-depth knowledge regarding how effective managing receivables is for business performance.

The selection of fifteen participants for this study was based on various factors such as objectives for this research, time and availability. Though it is a small number, it is enough for generating appropriate insights for this research.

Moreover, the inclusion of participants from the retail and service sectors will ensure that the different experiences and perspectives of SMEs are taken into account. This will ensure a better understanding of the working of receivables management practices in different business environments.

Although the results may not be a true reflection of SMEs in Uganda, the selected sample will provide valuable insights into the reality of doing business in Kampala. It was also easier to work closely with the participants due to the smaller size of the sample.

3.2.3 Sampling technique.

This study has employed purposive sampling as the sampling strategy for selecting the respondents. This is a sampling strategy in which the researcher selects the respondents based on their knowledge and experience.

Purposive sampling has been employed in this study because the research is focused on SMEs that offer credit to their customers. It is only through purposive sampling that the researcher is able to identify the SMEs that are actively involved in the management of customers' receivables.

The respondents who have been selected through purposive sampling include SME owners, accountants and finance managers. These are the people who are actively involved in the management of the SME's finances and can provide information on the impact of receivables management on the SME's performance.

Purposive sampling has been employed in this study in order for the researcher to get information from the respondents who have experience with the subject of interest. This has helped the researcher in getting information that is relevant and useful in the achievement of the research objectives.

3.2.4 Selection criteria.

To ensure that relevant information was obtained, specific criteria were used when selecting SMEs and respondents for the study.

For SMEs, the following conditions were considered.

1. The enterprise had to be legally registered and operating within Kampala District.
2. The business had to engage in credit sales, meaning that customers are allowed to obtain goods or services on credit, resulting in accounts receivable.
3. The enterprise had to maintain basic financial records including those of receivables and financial statements.
4. The SME had to have operated for at least two years in order to demonstrate some level of stability and experience in managing credit transactions.

For individual participants, a few conditions were considered before selection.

1.The selected respondent had to be a business owner, accountant or finance manager in the SME since these are the people who are directly involved in business.

2.The selected respondent had to be a person who has a good idea of how the company's credit policy is being implemented and how the company is handling its receivables and financial performance.

3.The selected respondents had to be willing to participate in the research and provide information since participation was purely voluntary.

3.2.5 Selection procedure.

The procedure for selecting participants was a step by step process to ensure that the information obtained was relevant.

To start with, the researcher identified SMEs in Kampala district using business directories and local networks. From this list, those that met the requirements of the research especially those that conducted credit sales were selected.

The selection of SMEs was conducted from both retail and service industries to ensure that different experiences were obtained.

After this, the researcher contacted the owners or financial managers of these businesses and explained the purpose of the research. They were ensured that their participation was voluntary and that any information obtained remained confidential. Only those who agreed to participate in the research were selected.

After getting their consent, the researcher then proceeded to conduct questionnaires and interviews. This ensured that information was obtained from individuals who are actively involved in managing their receivables in their businesses.

3.3 Data collection methods.

In order to obtain the necessary information, this study mainly used primary data. This is because unlike secondary data, it is collected from the respondents hence more specific.

3.3.1 Primary data.

This study used both questionnaires and interviews in collecting primary data.

In this study, interviews were conducted with a selected number of people in order to gain more insights on how they manage their receivables in their respective businesses. During the interviews, respondents were asked about their credit policy, how they keep track of payments and how they evaluate their customers before giving them credit. They were also asked about their challenges especially when it comes to delayed payments.

At the same time, questionnaires were used in this study. These were mainly used to obtain information that is easily quantifiable such as how much of their sales is on credit, how long it takes for their customers to pay and how many times payments are delayed. There were also questions regarding their financial performance such as profitability.

The questions in the questionnaire were both open ended and closed ended. The use of both open ended and closed ended questions made it easier to analyze the results.

3.4 Research instruments.

In order to collect the required data, two main research instruments were employed and they are questionnaires and interview guides.

3.4.1. Questionnaire.

This research instrument was mainly employed to collect numerical data from the chosen SMEs. It was designed to contain both closed ended questions and open ended questions.

The questions were mainly focused on areas such as credit terms, how credit is approved, how debt is collected and how it affects profitability.

One of the main benefits of employing a questionnaire is that it gives the researcher the opportunity to collect similar information from all respondents thus facilitating easy comparison.

3.4.2 Interview guide.

An interview guide was utilized in the face to face interviews carried out with the SME owners/financial managers. The interview guide enabled the interviewees to share their experiences about credit sales and management of credit receivables in their own words. This enabled me not only to understand what the interviewees did but also why they did it.

The interview process also enabled the interviewees to share their challenges as well as the ways they employ to solve the challenges in the collection of payments.

The use of both interview and questionnaires enabled the gathering of both qualitative and quantitative data.

3.5 Validity and reliability of instruments.

3.5.1 Validity.

Validity in the context of the study refers to the actual measurement of the expected variables by the research tools.

To ensure the actual measurement of the variables, the questionnaires and interview questions were sent to the researcher's supervisor and a few people in finance and research fields for review. Based on the responses obtained, it was easy to determine the relevance of the interview and questionnaire questions.

Conducting a pilot study on a few SMEs that were not included in the actual study was also helpful in ensuring that the questions were not confusing or not well understood by the participants.

3.5.2 Reliability.

Reliability in the context of the study refers to the consistency of the research tools in measuring the variables.

To ensure the reliability of the tools, the researcher used the test retest method where the questionnaire was used on a few participants at different dates.

Cronbach's Alpha was also used to determine the reliability of the questionnaire where a value of 0.7 was considered acceptable for the questionnaire.

3.6 Data analysis procedures.

After the collection of the data, the responses obtained in the questionnaires were coded and entered into a statistical software program for analysis.

Descriptive statistics such as frequencies, percentages, means and standard deviations were used to analyze the data and provide a general overview of the results.

In addition, correlation analysis was also used to determine the relationship between the management of receivables and the firm's profitability and liquidity ratios. For the qualitative data collected in the interview and open ended questions, thematic analysis was used where the responses obtained were categorized into different themes according to the patterns obtained.

By using both quantitative and qualitative analysis, a more comprehensive understanding of the topic was obtained.

3.7 Ethical considerations.

During the entire study, the ethical considerations were taken seriously in order to ensure the well being of the participants.

Before the actual collection of the data, the participants were asked for their consent to take part in the study. They were well informed of the purpose of the study and the participation in the study was voluntary meaning that the participants were free to withdraw at any stage of the study.

Confidentiality will also be maintained. Information provided by respondents will be used strictly for academic purposes and will not be disclosed to unauthorized individuals. The names of businesses and respondents will not appear in the final report.

Anonymity will be ensured by assigning codes to respondents instead of using their real names. This will encourage participants to provide honest responses.

The researcher will also treat all participants with respect and professionalism during the research process.

3.8 Conclusion.

This chapter presented the research methodology used in the study. It described the research design, sampling procedures, data collection methods and research instruments that will be used to gather information from SMEs in Kampala district.

It also explained the procedures used to ensure the validity and reliability of the research instruments as well as the methods that will be used to analyze the collected data. Ethical considerations that guide the research process were also discussed.

The methodology outlined in this chapter provides the foundation for the next chapter which will present and analyze the data collected from the respondents.

CHAPTER FOUR

DATA PRESENTATTION, ANALYSIS AND INTERPRETATTION.

4.0 Introduction.

This chapter analyzed and presented data collected from fifteen small and medium enterprises in Kampala district. The main purpose was to understand how accounts receivable management practices affect the financial performance of SMEs. It was important especially for those businesses in developing economies where challenges such as limited access to finance and poor cash flow management were very common.

The study was guided by three main objectives.

1. To examine how credit policy influences the financial performance of SMEs.
2. To assess the effect of debt collection practices on financial outcomes.
3. To determine how credit evaluation procedures contribute to overall financial performance.

Data was then collected using structured questionnaires as the main tool for quantitative data and interviews to obtain more detailed responses designed to obtain clear and reliable responses from key individuals in each business. The analysis used descriptive statistics such as frequencies, percentages, means and standard deviations to summarize the data.

In addition, correlation analysis was carried out to identify relationships between receivables management practices and financial performance. The findings presented are however based on data collected through questionnaires according to each research objective followed by interpretation and discussion.

4.1 Background characteristics of respondents.

Understanding the background of the respondents was important because it helped in assessing how reliable and relevant the data was. In the study, the focus was on the positions held by respondents and how long their businesses had been operating.

Table 4.1 Position of respondents in enterprise (n = 15)

Position	Frequency	Percentage
Owner	6	40%
Accountant	5	33%
Finance manager	4	27%
Total	**15**	**100**

The majority of the participants in this research were business owners (40%), followed by accountants (33%) and finance managers (27%). These figures indicate that the information obtained for this research was from people who were actively involved in decision making in the businesses. The owners were responsible for guiding the business while accountants and finance managers were responsible for keeping financial records in the respective businesses.

The fact that the research participants were both owners and finance managers helped add value to the research as both provided information regarding business performance and operations. The owners provided information regarding business operations in general while finance managers provided information regarding how to manage receivables in business operations.

Table 4.2 Years of operation of SMEs.

Years of operation	Frequency	Percentage (%)
2-3 years	4	27%
4-5 years	6	40%
Above 5 years	5	33%
Total	**15**	**100%**

When looking at the years of operation, the majority of SMEs (73%) had been in business for more than four years. Specifically, 40% had operated for 4–5 years whereas 33% had been in operation for over five years. Only 27% had been in business for less than four years. This was important because businesses that had operated for a long period of time were more likely to have experienced challenges related to credit sales, delayed payments and bad debts. Therefore, their responses were based on real experience which strengthened the study.

4.2 Credit policy and financial performance.

The first objective of the study was to examine how credit policy affects financial performance.

Table 4.3 Descriptive statistics for credit policy

Statement	**Mean**	**Standard deviation**
The enterprise has a formal written credit policy.	4.27	0.59
Credit terms are clearly communicated to customers.	4.33	0.49
Credit limits are set for customers.	4.20	0.68
Credit periods are strictly enforced.	3.87	0.83
Credit policy reduces bad debts.	4.40	0.51
Overall mean	**4.21**	

The results indicated that the majority of the SMEs acknowledged the significance of having a well defined credit policy. This is further indicated by the overall mean score of 4.21. This indicated that the respondents agreed that credit policies played an essential role in enhancing the financial performance of the SMEs. In this case, the respondents agreed with the credit policy reducing bad debts with the highest mean score of 4.40.

The results further indicated that the SMEs communicated the credit terms to the customers (mean = 4.33) and established credit limits (mean = 4.20). This helped the SMEs in managing the associated risk of granting credit and enabled them to maintain better control of the cash flow. However, the SMEs had difficulty in enforcing the credit period with a lower mean score of 3.87. This indicated that although the SMEs had credit policies in place, they did not follow them strictly.

This may have been attributed to various factors such as the need to maintain customer relationships and the competitive environment.

This was in line with the working capital management theory which emphasized the significance of managing debtors in a manner that ensured the profitability and liquidity of the business. When the implementation of the credit policy was effective, businesses were able to avoid bad debts, generate cash flow and minimize dependence on debt finance.

In practice, SMEs had to strike a balance between providing credit to customers to gain market share and the associated risk of providing credit. Those businesses that managed to do so were more likely to perform better financially. The findings of the study also emphasized the significance of not only having a credit policy in place but also its implementation.

4.3 Debt collection practices and financial performance.

The second objective showed findings of how debt collection practices played a very important role in determining the financial performance of SMEs. The results in Table 4.4 indicated how different methods of collecting debts affected the overall financial health of the business.

Table 4.4 Descriptive statistics for debt collection practices.

Statement	**Mean**	**Standard deviation**
The enterprise uses reminders for overdue accounts.	4.47	0.52
Follow ups are done promptly after delays.	4.33	0.49
Penalties are imposed for late payment.	3.73	0.88
Debt collection improves cash flow.	4.53	0.52
Efficient collection reduces liquidity problems.	4.40	0.51
Overall mean	**4.29**	

The use of reminders for overdue accounts and timely follow ups recorded high mean scores of 4.47 and 4.33 respectively. This showed that most SMEs actively followed up on customers who delayed to pay on time which helped reduce the time money remained unpaid which was important for maintaining steady cash flow.

The statement “debt collection improves cash flow” had the highest mean score of 4.53 which clearly showed that respondents strongly agreed that collecting debts on time was essential for business operations. It was not just about giving credit but also about how efficiently that credit was recovered.

However, the use of penalties for late payments had a lower mean score of 3.73 which indicated that SMEs were not very strict in terms of penalizing their customers. One of the reasons for this was the need to have good relations with their customers. While this was good for customer retention, it also caused them to be delayed in terms of payment which negatively impacted them in the long run.

The results were in line with the cash conversion cycle theory which emphasized the importance of converting receivables into cash. Good debt collection practices also ensured that businesses remained liquid which in turn was good for growth as more cash was available for reinvestment.

4.4 Credit evaluation procedures and financial performance.

The third objective was about the role of credit evaluation procedures in financial performance. From the findings in Table 4.5, it was evident that many SMEs saw it as important to evaluate their customers before giving them credit.

Table 4.5 Descriptive statistics for credit evaluation procedures.

Statement	Mean	Standard deviation
Customers are assessed before credit is granted.	4.33	0.49
Customer payment history is considered.	4.47	0.52
Creditworthiness checks reduce default	4.40	0.51

risk.		
Poor evaluation leads to bad debts.	4.27	0.59
Overall mean	**4.37**	

The mean for assessing customers was high at 4.33 and for considering customers' payment history, it was even higher at 4.47. This indicated that many SMEs took their time to evaluate their customers.

In addition, the statement "creditworthiness checks reduce default risk" had a mean score of 4.40 which meant that respondents agreed that proper evaluation helped reduce the chances of customers failing to pay. The data also showed that poor evaluation can lead to bad debts (mean = 4.27) which can affect profitability.

Overall, these results suggested that SMEs were becoming more aware of the importance of evaluating customers before extending credit. By doing so, they were able to reduce risks and improve their financial performance. It also showed that prevention is better than dealing with losses after they occur.

4.5 Financial performance of SMEs

The findings on the financial performance are presented in Table 4.6.

Table 4.6 Descriptive statistics for financial performance.

Statement	Mean	Standard deviation
Profitability has improved over the last three years.	4.07	0.70
Cash flow is sufficient to support operations.	3.93	0.80
Delayed payments affect liquidity.	4.33	0.49
Receivables management improves profitability.	4.47	0.52
Overall mean	**4.20**	

The overall mean score of 4.20 suggests that receivables management had a positive effect on SME performance. The statement "receivables management improves profitability" had a high mean score of 4.47 which showed that businesses that manage their receivables well tend to perform better financially. On the other hand, "delayed payments affect liquidity" also had a high score of 4.33, showing that late payments were still a major challenge.

While many of these SMEs experienced improvements in their profitability over the last three years (mean = 4.07), the score for sufficient cash flow was slightly lower at 3.93. This indicates that even though profitability is improving, cash flow issues still exist and that SMEs need to improve their receivables management practices if they are to benefit from improvements in their profitability.

4.6 Correlation analysis.

The correlation analysis indicates a strong positive relationship between receivables management practices and financial performance.

Table 4.7 Correlation matrix.

Variables	Credit policy	Debt collection	Credit evaluation	Financial performance
Credit policy	1			
Debt collection	0.64	1		
Credit evaluation	0.61	0.69	1	
Financial performance	0.72	0.78	0.74	1

Debt collection had the highest correlation coefficient of 0.78, therefore it had the most influence on financial performance. Credit evaluation and credit policy also showed strong correlations at 0.74 and 0.72 respectively. It indicates that all three are important however, debt collection may be more critical and have more influence in the short term. It also indicates that these three are closely related and that if one is poor, financial performance will be poor. It is therefore critical that all three are addressed and not just one.

4.7 Discussion of findings.

The results obtained from this study showed a pattern. SMEs that took their receivables management seriously were successful.

Credit policy, debt collection and credit evaluation are interconnected activities that work together to enhance both profitability and liquidity. For instance, credit policy helped various enterprises avoid trading with customers that were not creditworthy. On the other hand, debt collection ensured that enterprises were able to receive their money on time. This enabled them to operate. Finally, credit evaluation helped various enterprises to anticipate problems before they occur.

The results obtained were in line with the theoretical concepts that were discussed earlier. This demonstrated that management of receivables is not just a normal accounting practice but can actually influence the success of a given enterprise.

SMEs that took this seriously were able to cope with financial difficulties and were able to expand and compete favorably.

4.8 Conclusion.

This chapter has analyzed and presented the findings of the analysis of fifteen SMEs in the Kampala district with regard to the management of accounts receivables.

The analysis has clearly shown that the management of accounts receivables has a positive impact on the overall business performance of the business enterprise. Business enterprises that have effectively managed accounts receivables have been able to enhance the overall efficiency of the business enterprise.

Moreover, the study has also revealed that the effective management of accounts receivables has helped business enterprises in Uganda to effectively respond to the changing environment and take advantage of new business opportunities that may come up in the future.

CHAPTER FIVE
SUMMARY OF FINDINDS, CONCLUSIONS AND RECOMMENDATIONS.

5.0 Introduction.
The chapter has provided an overview of the key findings from the research study together with conclusions, recommendations, limitations and suggestions for further research. The research study was based on an examination of how account receivables management affects financial performance in small and medium enterprises in Kampala district.

Specifically, the research examined key areas in account receivables management such as credit policy, debt collection and credit evaluation and how they impact financial performance. The discussion in this chapter is based on findings from the research study as presented and analyzed in chapter four. The objective was not only to explain findings from the research study but also to explain what they meant for SMEs, policymakers and future researchers.

5.1 Summary of findings.
The research collected information from fifteen respondents consisting of SME owners, accountants and finance managers in Kampala district. From their feedback, useful information was obtained on how receivables management is actually implemented and how it impacts financial performance.

5.1.1 Credit policy and financial performance.
The research findings revealed that most SMEs have a credit policy in place. From this finding, it was evident that most businesses are becoming more aware of the need to have a policy guiding how they extend credit to their customers.

The research findings revealed that most respondents acknowledged that credit policy is well communicated and that limits are set. These factors are helpful in controlling bad debts and instilling financial discipline in these businesses.

The research findings revealed a strong agreement that credit policy impacts financial performance since the mean score was 4.21. In addition, from the correlation findings (r = 0.72), it was evident that a strong relationship exists between credit policy and financial performance.

However, it was also observed that the enforcement of credit periods was still a challenge for SMEs. This implies that even though the policy was in place, it was not strictly adhered to which could be due to the need to sustain a relationship with customers or the pressure to be competitive in the market.

Overall, the findings revealed that it was essential to have a credit policy but it was also necessary to ensure that it was well implemented.

5.1.2 Debt collection practices and financial performance.

The study established that SMEs are very active in debt collection. Most businesses send reminders to ensure timely payment from customers.

The respondents strongly agreed with the importance of debt collection in ensuring cash flow and preventing cash flow problems. This was evident in the high mean score of 4.29 which was also highly correlated with financial performance at r = 0.78, the highest among all the variables. This shows that debt collection is a very vital aspect in determining the performance of any business.

However, the study established that SMEs are not very strict in matters concerning penalties for delayed payment. Most businesses would rather have good relations with their customers even if it means they are not paid promptly.

5.1.3 Credit evaluation procedures and financial performance.

The findings also revealed that most SMEs find it vital to evaluate customers before offering them credit. This is because they find it vital to check the customers' payment history and reputation as well as their overall financial condition.

The average score for this segment was 4.37. This is an indication of the respondents' agreement with the segment. Moreover, the correlation result revealed that there is a strong positive correlation between credit evaluation and financial performance ($r = 0.74$). This implies that businesses that took the necessary precautions in evaluating customers would not suffer losses in terms of bad debts.

The findings revealed that it is more effective to prevent problems before they occur than to cure them after they have happened.

5.1.4 Financial performance of SMEs.

The findings revealed that good receivables management is beneficial in terms of financial performance. All respondents concurred that when debtors pay on time, it is easier for businesses to pay their own debts and explore new business opportunities. Despite this, delays in payments were identified as a challenge for businesses.

This revealed that although SMEs are moving forward, they are still experiencing challenges in managing their cash flow. From the findings, it is evident that good receivables management is associated with good financial performance.

5.2 Conclusions.

From the study's findings, the following conclusions can be made.

First of all, it is clear that credit policies are of significant importance in influencing the way in which businesses provide credit and in managing risk. However, they ought to be enforced accordingly.

Secondly, debt collection has the greatest impact on the way in which a business performs financially. This is because businesses that actively follow up on debtors' payments are more likely to maintain good cash flow.

Thirdly, credit evaluation is of significant importance in reducing the risk of bad debts by ensuring that only reliable customers are provided with credit.

Finally, the study has confirmed that there is a strong positive relationship between the management of receivables and the way in which SMEs in the Kampala district perform financially.

In general, the management of receivables is not only an accounting practice but is of significant importance in the way in which a business performs.

5.3 Recommendations.

Based on the research, the following recommendations were made.

Strengthening credit policy enforcement. SMEs should ensure not only that their credit policies are in place but also that the policies are enforced. Therefore, clear credit policies should be established and the customers should adhere to the policies.

Improving debt collection systems. SMEs should improve their debt collection systems by using reminders, following up on debts and keeping records. This will ensure timely payments.

Improving credit evaluation systems. Before giving credit to their customers, SMEs should carefully evaluate their customers by checking their reliability in making payments. This will reduce the chances of bad debts.

Capacity building and training. Business owners and employees should be trained in various aspects of financial management so that they can make better decisions.

Adoption of financial monitoring tools. SMEs should consider adopting financial monitoring tools such as simple accounting systems to track payments made by their customers.

5.4 Limitations of the study.

The research had some limitations which included the following.

The sample size was small as it only targeted fifteen SMEs in Kampala district which could not represent all the SMEs.

The research was also based on self reported data which could not be completely accurate.

The research could not analyze the actual financial statements because of the time constraint which could have given further insights.

Despite the limitations, the research gave valuable information about the management of receivables in SMEs.

5.5 Areas for further research.

Future research can be conducted by using more SMEs and covering different regions including rural areas.

Future research can also be conducted by using a larger sample and actual financial records.

Future research can be conducted by finding how digital tools and accounting systems are used in managing accounts receivables.

5.6 Conclusion.

In conclusion, this research has shown that accounts receivables management has a great influence on the financial performance of SMEs. It has shown that poor management of accounts receivables can cause cash flow problems and good management can improve profitability.

SMEs need to take accounts receivables management seriously if they want to succeed in the future.

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APPENDICES

APPENDIX ONE: RESEARCH QUESTIONNAIRE.

TITLE: The effect of accounts receivables management on financial performance of small and medium enterprises in Uganda.

Instructions to respondents.

The information in this questionnaire is for academic purposes only. Your responses will be treated with **strict confidentiality**. Please tick (✓) the option that best represents your view or fill in where appropriate.

Section A: Background information.

1. Position in the enterprise:
   ☐ Owner
   ☐ Accountant
   ☐ Finance Manager
   ☐ Other (specify) ……………………
2. Sector of operation:
   ☐ Retail
   ☐ Service
   ☐ Manufacturing
   ☐ Other (specify) ……………………
3. Number of years the enterprise has been in operation:
   ☐ Less than 2 years
   ☐ 2–5 years
   ☐ 6–10 years
   ☐ Above 10 years
4. Does your enterprise sell goods/services on credit?
   ☐ Yes
   ☐ No

Section B: Credit policy practices.

Indicate your level of agreement with the following statements.
(1 = Strongly disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, 5 = Strongly agree)

Statement	1	2	3	4	5
Our enterprise has a formal written credit policy	☐	☐	☐	☐	☐
Credit terms are clearly communicated to customers	☐	☐	☐	☐	☐
Credit limits are set for customers	☐	☐	☐	☐	☐
Credit periods are strictly enforced	☐	☐	☐	☐	☐
The credit policy helps reduce bad debts	☐	☐	☐	☐	☐

Section C: Debt collection practices

Using the same scale (1–5), indicate your agreement:

Statement	1	2	3	4	5
Customers are reminded before payment due dates	☐	☐	☐	☐	☐
Follow-ups are made immediately after payment delays	☐	☐	☐	☐	☐
Penalties are charged for late payments	☐	☐	☐	☐	☐
Debt collection procedures are clearly defined	☐	☐	☐	☐	☐
Effective debt collection improves our cash flow	☐	☐	☐	☐	☐

Section D: Credit evaluation procedures

Indicate your level of agreement (1–5):

Statement	1	2	3	4	5
Customers are evaluated before being granted credit	☐	☐	☐	☐	☐
Customer payment history is considered	☐	☐	☐	☐	☐
Creditworthiness checks reduce default risk	☐	☐	☐	☐	☐

Statement	1	2	3	4	5
Credit evaluation improves receivable collection	☐	☐	☐	☐	☐
Poor evaluation leads to bad debts	☐	☐	☐	☐	☐

Section E: Financial performance

Indicate your agreement (1–5):

Statement	1	2	3	4	5
Our profitability has improved over the last 3 years	☐	☐	☐	☐	☐
The business has sufficient cash flow for operations	☐	☐	☐	☐	☐
Accounts receivables are collected within agreed periods	☐	☐	☐	☐	☐
Efficient receivables management improves profitability	☐	☐	☐	☐	☐
Poor receivables management affects business growth	☐	☐	☐	☐	☐

Section F: Open-ended questions

1. What challenges does your enterprise face in managing accounts receivables?
   ……………………………………………………………………………………………
2. In your opinion, how does accounts receivables management affect your financial performance?
   ……………………………………………………………………………………………
3. What strategies would you recommend to improve receivables management among SMEs in Uganda?
   ……………………………………………………………………………………………

APPENDIX TWO

INTERVIEW GUIDE.

This interview guide was used to collect data from SME owners and financial managers concerning accounts receivables management and financial performance.

Section A: Background information

1. What is your position in the business?
2. How long has your business been operating?

Section B: Credit policy

3. How do you decide which customers to give credit?
4. Do you have any rules or guidelines for giving credit?

Section C: Debt collection

5. How do you follow up on customers who delay to pay?
6. What challenges do you face when collecting debts?

Section D: Credit evaluation

7. How do you assess whether a customer can pay back?

Section E: Financial performance

8. How would you describe the financial performance of your business?
9. How do delayed payments affect your business?

Section F: General views

10. What advice would you give to other SMEs about managing credit sales?
11. Do you have any additional comments?