

Impact of Accounts Receivable Management on the Financial Performance of SACCOS in Sheema Municipality, Southwestern Uganda

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ABSTRACT

The study aimed to examine the impact of accounts receivable management on the financial performance of Savings and Credit Cooperative Societies (SACCOS). Despite their significant contribution to a country's economic development, SACCOS still face financial challenges, with 26% of loans considered bad debts and 60% of them failing within a year. A correlational research design was adopted, with a sample size of 145 and a questionnaire used for data collection. A regression analysis using SPSS was used to analyze the data. The results showed that accounts receivable management significantly affects financial performance, suggesting that innovative programs can increase SACCOS' financial performance by 494 units. The study recommends the introduction of innovative programs to improve SACCOS' financial performance, benefiting government policy makers, researchers, and management teams. The findings will be beneficial to government policy makers, researchers, and Sheema Municipality management teams.

Keywords: SACCOS, Accounts receivable management, financial performance

INTRODUCTION

Worldwide, credit and savings help SACCOS, their employees, and also rural communities, therefore cooperative societies are significant institutions. Credit and savings Cooperative societies, like other companies, create jobs and pay taxes such as employment taxes, property taxes, and sales taxes [1]. Savings and credit employ about 280 million individuals globally, estimated at 10% of the world's employed population, [2]. SACCOS have been formed to handle businesses like pharmaceuticals and health care industry, the economic areas where cooperative societies are active. In 2016, it was reported that 33% of Saving and Credit Cooperative Societies in the global arena offered financial services [3]. In 2015, the Netherlands, Italy, and Finland each had an 83%, 55%, and 31% share of SACCOS, respectively [2, 4]. Due to vital role played by SACCOS, the United Nations declared 2012 to be the International Year of Savings and Credit Cooperative Societies in order to highlight the contribution the organizations make towards economies throughout the

globe.

The savings and credit cooperative societies are experiencing challenges which include competition in the markets, technological dynamics and working capital management [4, 5, 6]. The number of Saving and Credit Cooperatives institutions dropped by 25% due to challenges they have faced in working capital management, investment in capital assets, altered profit allocation techniques and human capital factor [7]. While making decisions on investment, profit is the main objective [8, 9, 10]. Choosing the right amount of working capital to balance risk and return is one of management's most crucial duties. Businesses must strike a balance between investing in current assets and paying obligations in order to preserve appropriate liquidity while still producing strong income.

The study by [11] further emphasized the importance of SACCOS when reported that in Europe, there are more than 13.8 million members enrolled in 58,000 SACCOS. Also, in UK there are more than 72,000 savings

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and credit cooperative organizations with membership of 140 million and are capable to generate one billion UK dollars a year [11].

According to [12], the quantity of cash, short-term investments, inventories, and receivables that will be retained is determined by the company's working capital policy.

The situation in Africa correlates well with the global perspectives as to the roles the SACCOs play. [13], indicates that in Africa, SACCOs support 80% people as a source of income and employs 24.6 (63%) Million people. The only single challenge faced by most of SACCOs is poor financial performance.

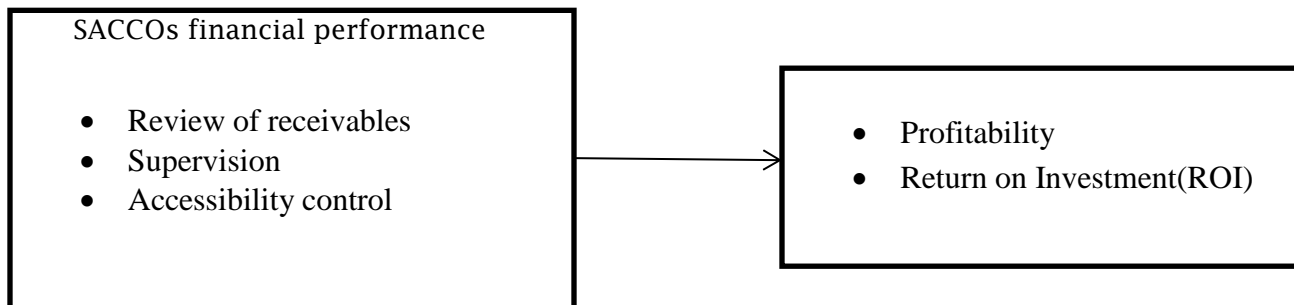
In East Africa, Sacco Societies play equally a significant role in economic development. SACCOs offer both deposit-taking and non-deposit-taking services (DTS). DTS are offered through Front-office money-saving

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scheme (FOSA). Front Office Service Activity (FOSA) is a quasi-banking operation that uses permitted services from SACCOs [14]. Front office services activity (FOSA), are licensed and supervised under the Sacco societies Act of 2008 (SASRA, 2014). The provision of financial services often get limited due to poor financial performance [14].

In Uganda SACCOs give financial support customers. The choice of customers to use SACCOs as financial provider compared to other micro-financial institution was due to accessibility, others were difficult-to-reach [15]. However, the SACCOs have had their share of failures leading to poor financial performance. Study by [16] show that over 26% of the loans made to consumers remained unpaid, and more than 60% of the SACCOs founded were unable to mark their first birthday and therefore their profitability is still poor [17].

Accounts receivables management



Source: Researcher, 2023

Saving and Credit Cooperative Societies (SACCOs), globally play vital role in the development of a country. It is estimated that they create 10 % job opportunities worldwide and also offer affordable credit facilities to the customers [2]. In Africa, they support about 80% people in income generation. In Uganda, SACCOs have performed dismally leading to low profitability due to poor financial performance [17]. Loans advanced to customers, over 26% remain unpaid and over 60% SACCOs formed die or fail within one year [18]. The issue of concern is the influence of accounts receivable management on financial performance which is unknown. If the situation remains unaddressed, the opportunities that could

otherwise been made available for customers to be empowered economically might get lost therefore increasing level of poverty. This in the long run will make it difficult for the country to achieve its National Development Plan. Therefore prompting a need to study influence of accounts receivable management on financial performance of SACCOs in Sheema Municipality in South-Western Uganda. The research was anchored on Working capital management theory [19]. The theory show that businesses or organizations engaged in an economic generating activities are expected to finance working capital, and monitor closely factors that can affect working capital. The components of working capital include of accounts

receivable, accounts payable and cash conversion cycle. In this study, accounts receivable management is one of the components of working capital. Management of accounts receivable if not done appropriately, the effect can cause

downward spiral on financial performance of an organization. Therefore, in this study accounts receivable management is independently viewed on how much it can affect financial performance.

LITERATURE REVIEW

Accounts Receivable management and Financial Performance of SACCOs

The capacity to effectively and intelligently manage client credit lines or credit limits is a crucial prerequisite for managing revenue and receivables. Organizations need more knowledge on the financial health, credit history, and shifting payment patterns of their customers in order to reduce their exposure to bad debts and bankruptcies [20]. Credit management are practices and policies aimed at effective credit management [21, 22].

Gaitho, [23] conducted a survey on the procedures used by SACCOs in Nairobi to manage credit risk and found that most SACCOs adopted best practices and policies in debts/loans collection to mitigate against Shiada, [24] studied the issue of debt or loan default with an objective of establishing procedures developed by organizations in managing non-performing

debts or loans which affected financial performance. Results showed that the procedures existed but ineffective implementation was an issue.

Montana, [25] due to rapid expansion of SACCOs which seems to be inexorable, the debt recovery is also taking ominous trend to the organization. Therefore, innovative review of existing practices and policies is inevitable such as flexible repayment plan, lowering interest rate for customers with financial difficulties. [26, 27], found that corporate debt has a detrimental impact on a company's financial performance. This can be caused by high interest costs and agency fees [28]. Furthermore, the researchers found that there is likelihood of arising disagreement between debt holders and shareholders which may lead to decrease in the financial performance of organizations.

METHODOLOGY

The study adopted correctional research design [29]. Quantitative approach was employed, target population was 145 with a sample of 106 (Table 1) The respondents were selected using purposive and simple random sampling techniques. Data was

collected through questionnaire, an instrument which was subjected to test-retest technique. Data was analyzed by use of regression technique (sign.0.05) with help of Statistical Package for Social Science(SPSS).

Table 1: Population and sample distribution

| Category | Population | Sample |
|--------------------|------------|------------|
| Managers | 4 | 3 |
| Commercial officer | 1 | 1 |
| Employees | 140 | 102 |
| Total | 145 | 106 |

Source: [30]

RESULTS

The results addressed both research objective and research hypothesis.

To determine the influence of accounts receivable management on financial performance of SACCOs in Sheema

Municipality in southwestern Uganda

The findings addressing this objective are recorded in table 2 below.

Table 2: Accounts receivable management and financial performance of SACCOs

| Statements | | SA | A | N | DA | SDA | Tot al | Mea n | SD |
|--|---|------|------|-----|-----|-----|-----------|-------------|-------------|
| Management of receivables is important for increasing the company's profitability | N | 61 | 34 | 1 | 0 | 0 | 96 | 4.63 | .508 |
| | % | 63.5 | 35.4 | 1.0 | 0 | 0 | 100 | | |
| There is enough staff in the SACCO to handle receivables | N | 53 | 38 | 4 | 1 | 0 | 96 | 4.49 | .632 |
| | % | 55.2 | 38.6 | 4.2 | 1 | 0 | 100 | | |
| The manager normally supervises the receivables of the SACCO | N | 55 | 38 | 3 | 0 | 0 | 96 | 4.54 | .560 |
| | % | 57.3 | 39.6 | 3.1 | 0 | 0 | 100 | | |
| SACCO uses computerized system to manage receivables | N | 59 | 34 | 3 | 0 | 0 | 96 | 4.58 | .556 |
| | % | 61.5 | 35.4 | 3.1 | 0 | 0 | 100 | | |
| The SACCO normally carries out receivables review | N | 55 | 34 | 7 | 0 | 0 | 96 | 4.50 | .632 |
| | % | 57.3 | 35.4 | 7.3 | 0 | 0 | 100 | | |
| Only authorize personnel are allowed to access the payables information at the SACCO | N | 53 | 36 | 4 | 3 | 0 | 96 | 4.45 | .724 |
| | % | 55.2 | 37.5 | 4.2 | 3.1 | 0 | 100 | | |
| Mean | | | | | | | | 4.53 | .602 |

Source. Field data, 2023

Key:5-Strongly agree(SA)4-Agree(A),3-Neutral(N),2-Disagree(DA),1-Strongly disagree(SDA) SD-Standard deviation.

Management of receivables is important for increasing the company's profitability, the results showed that a total of 61 (63.5%) strongly agreed, 34 (35.4%) agreed, 1(1.0%) was neutral, and none disagreed or strongly disagreed. The mean of 4.63 and standard deviation of .508 were recorded. Therefore 95 representing 98.5% were in agreement that managing receivables increases profitability of a company.

On the statement that, There is enough staff in the SACCO to handle receivables; results showed that a total of 53 (55.2%) strongly agreed, 38 (38.6%) agreed, 4(4.2%) were neutral, 1(1.0%) disagreed. The mean of 4.49 and standard deviation of .632 were recorded. This implies that majority 91(93.8%) were in agreement that there were sufficient staff(employees) in SACCOs. As for managers supervising the receivables of the SACCO, the findings showed that a total of 55 (57.3%) strongly agreed, 38 (38.6%) agreed, 3(3.1%) were neutral. The

mean of 4.54 and standard deviation of .560 were recorded. The implication is that majority,93(95.9%) supported the statement of managers supervising receivables, hence are in control.

For the statement that, 'The SACCO uses computerized systems to manage receivables', the result showed that a total of 59 (61.5%) strongly agreed, 34 (35.4%) agreed, 3(3.1%) were neutral and none disagreed. The mean of 4.58 and standard deviation of .556 were recorded. Therefore 93 representing 96.9%, confirmed that computerized system is in use in managing receivables. As regards to the statement that, 'SACCO normally carries out receivables review', results showed that a total of 55 (57.3%) strongly agreed, 34 (35.4%) agreed, 7(37.3%) were neutral and no disagreement was recorded. The mean of 4.50 and standard deviation of .632 were recorded. This result means that 89(92.7%) supported the statement of SACCOs

conducting periodic reviews on receivables. Further on the statement that, 'Only authorized personnel are allowed to access the receivables information at the SACCO', a total of 53 (55.2%) strongly agreed, 36 (37.5%) agreed, 4(4.2%) were neutral, 3(3.1%) disagreed, 0(0.0) strongly disagreed. The mean of 4.45 and standard deviation of .724 were recorded. Therefore majority (89(92.7%) were in agreement that receivable information can only be accessed by authorized people which is a good measure for risk mitigation. The overall mean of 4.53 and standard

deviation of .602, implies that majority of the respondents ,about 91 % were in agreement with all statements raised on accounts receivable management which depicts the importance of the system in ensuring sound financial status of SACCOs.

Results of hypothesis testing

The study conducted a regression analysis to examine the influence of accounts receivable management on financial performance of SACCOS in Sheema Municipality. The results are presented in tables 4 a,b below.

Table 4a. Model Summary

| Model | R | R ² | Adjusted R ² | Std. Error of the Estimate |
|--|-------------------|----------------|-------------------------|----------------------------|
| 1 | .752 ^a | .565 | .561 | .22224 |
| a. Predictors: (Constant), Accounts Receivable Management(ARM) | | | | |

The model summary is a measure of the quality of prediction of the dependent variable which in this case is financial performance of SACCOs. A value of 0.752 (R=.752) indicates a good level of prediction. The independent variable

(Accounts receivable management) can explain 56.5% (R²=.565) of the variability in dependent variable (Financial performance) while 43.5 % can be explained by other factors not covered in this regression model.

Table 3b: Coefficients^a

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|-------|------------|-----------------------------|------------|---------------------------|--------|------|
| | | B | Std. Error | Beta | | |
| | (Constant) | 1.897 | .247 | | 5.687 | .000 |
| 1 | ARM | .600 | .054 | .752 | 11.060 | .000 |

a. Dependent Variable: Financial performance(FP)

The general model equation to predict financial performance of SACCOs from accounts receivable management (ARM) is **H₀. There is no significant influence of accounts receivable management on financial performance of SACCOs in Sheema Municipality.** The results showed that Accounts Receivable Management (ARM) was statistically significant (t=5.808, P=.000, P<.05).This implies that an increase in one unit of ARM can increase financial performance of SACCOs by .494 units.

shown below:

$$Y = 1.897 + .600X1$$

Therefore, the study rejected null hypothesis in favour of alternative, '**H_a. There is significant influence of accounts receivable management on financial performance of SACCOs in Sheema Municipality.**

DISCUSSION

The results showed that Accounts

Receivable Management (ARM) was

statistically significant which implies that it can affect financial performance of SACCOs. The finding is in agreement with the findings of [26, 27], who reported that debt has impact on a company's financial

performance. Furthermore, the result supports [31] who reported that corporate debt negatively affects firm's financial performance.

CONCLUSION

Based on the results obtained, the study concludes that accounts receivable management affects the financial performance of SACCOs significantly. This implies that if a new project or program is developed or initiated, it will improve the financial performance of SACCOs. Therefore, the study recommends that SACCOs should innovatively develop and

implement new programs or systems for accounts receivable management. The SACCOs will be able to reduce bad debts by setting viable credit limits and not discouraging customers from borrowing. This way, profitability will improve and SACCOs will contribute substantially to the national economic development of the country.

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