

## Effect of Working Capital Management on Financial Performance of Savings and Credit Cooperative Societies in Sheema Municipality, Uganda

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### ABSTRACT

This study examines the impact of working capital management on the financial performance of Savings and Credit Cooperative Societies (SACCOs) in Sheema Municipality, Uganda. SACCOs play a vital role in Uganda's economic development, contributing to the country's GDP and providing financial services to a significant portion of the population. However, SACCOs have faced challenges in managing their working capital, particularly in cash management, accounts receivable management, and accounts payable management. The study employed a descriptive research design with a sample size of 106 respondents. The data was collected using questionnaires, and the study used multiple regression analysis to analyze the data. The findings indicated that cash management and accounts payable management had an insignificant effect on financial performance, while accounts receivable management had a significant effect. The study recommends the implementation of automated systems, effective internal controls, and staff training to improve SACCOs' working capital management. The research is valuable for government policymakers, scholars, and SACCO management teams.

**Keywords:** Accounts receivable management, Cash management, Account payable management, Financial performance.

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### INTRODUCTION

Working capital is the difference between current assets and current liabilities [1, 2]. A company's working capital is made up of three main elements: receivable, payable and cash management [3, 4]. Therefore, strategies are developed on the basis of the three to assist the business to collect debt and make payments for credit [5, 6]. The managing of debtors is the duration taken for clients to settle their accounts after getting goods and services. It shows the average total of times taken for a corporation to obtain payouts by clients [6]. Accounts receivables are affected by the company's credit gathering policies in terms of how frequently they are turned into cash. Profitability issue may rise when a company policy favor giving clients a longer grace period, but at the price of liquidity [7]. Worldwide, credit and savings Cooperative Societies (SACCOs), help in the

provision of affordable credit facilities. SACCOs create job opportunities and contribute immensely towards GDP through payment of taxes such as employment taxes, property taxes, and sales taxes (U.S. Department of SACCOs, 2017). Globally, about 280 million individuals are involved in SACCOs representing 10% [8]. Study conducted in 2016 by European Research Institute on Cooperative and Social Enterprise (EURICSE) and International Cooperative Alliance (ICA) shows that 33% of SACCOs globally provide financial services in different countries [9]. Governments have also purchased shares in SACCOs, for instance in 2015, Netherlands, Italy, and Finland each had 83%, 55%, and 31% had purchased shares respectively in SACCOs [8, 10]. In Europe, there are more than 13.8 million members, with more than 58,000

SACCOs and in UK there are more than 72,000 Savings and Credit Cooperative Organizations, with at least 140 million members who generate one billion UK dollars a year.

Most of SACCOs are founded in the areas of Pharmaceuticals and Health Care industry. Due to their roles in economic development of nations, United Nations had to declare 2012 as an International Year of SACCOs to disseminate information on the contribution they make to economic development throughout the world. The situation in the organization of SACCOs has drastically changed due to expanding effects of globalization, competition in the market, technological advancements and challenges in working capital management [10, 11, 12]. Working capital management has been singled out as a challenge in SACCOs. [13], indicates a decrease in SACCOs by 25% which started in 2005 due to working capital challenges. In Africa, SACCOs are the source of income to about 80% people, either directly or indirectly. It's estimated that 24.6 million people which is approximately 63% are engaged in SACCO institutions either directly or indirectly. The majority of governments have started a widespread campaign to coordinate cooperative activities through establishment of relevant laws, however poor financial performance has remained as a major challenge [14]. In East Africa, Sacco Societies play a significant role by offering deposit and non-deposit-taking services [15]. Due to poor financial performance some countries like Kenya have developed legal framework restricting credit facilities to customers [15]. Notably

SACCOs in Kenya are the biggest in Africa and have had phenomenal development, accounting for over 60%, of savings, loans, and assets [16]. In Uganda, SACCOs are classified as Tier 4 financial institutions by the Bank of Uganda (BoU). The BoU does not undertake prudential oversight over Tier 4 Institutions, and they are also prohibited from mobilizing public deposits. SACCOs are governed by the Uganda Savings and Credit Cooperative Societies Act 1992, which also mandates the Ministry of Trade, Tourism, and Industry (MTTI) to keep a register of all savings and credit cooperative societies and monitor their smooth operation and stability [17]. According to [18], non-performing loans grew from Ugx13.21 billion in 2015 to Ugx15.57 billion in 2016 which portrays a worrying trend. SACCOs due to their vital role in economic development are the key beneficiaries of government's financial support [19]. Customers prefer SACCOs over other financial institutions, because of proximity [20]. However, fraudulent activities have also grown [21]. Due to poor financial performance as result of failure to effectively manage credit risks, over 26% of the loans made to consumers remained unpaid, and more than 60% of the SACCOs founded are unable to mark their next birthday [22]. Therefore, financial challenge is evident in SACCOs when dealing with liquidity and loan portfolio management [23]. Despite overall increase in enrollment of membership and dynamic engagement of 15.6% in 2016 and 17.5%, in 2017, fewer SACCOs were evidently in operation and situation seems to have downward spiral effect [18].

#### **Problem statement**

The role of SACCOs is huge in economic development of a nation. They improve economic status of their members through provision of affordable credit facility. Globally, SACCOs create 10% employment opportunities [8]. These organizations offer both deposit and non-deposit services to the customers [15]. Most of SACCOs in Uganda are struggling to survive others have closed shop due to poor financial performance. The reports available shows that loans given out in 2019, over 26% were not recovered and 60% of launched SACCOs

often fail or die within a period of one year. The SACCOs administratively are under the Ministry of Trade, Tourism and Industry [17]. Despite efforts made by the Government and Non-Governmental organizations in providing financial support, the issue of low financial performances has persisted. Therefore, the issues of concern were unknown effects of accounts receivable management, accounts payable management and cash management. If the situation is not addressed, majority of SACCOs will

collapse thereby affecting the economy and create unemployment crisis among other foreseeable consequences. Therefore, there

was need to study the effect of working capital on financial performance of SACCOs in Sheema Municipality in Uganda.

**Research hypotheses**

H<sub>0</sub>1: There is no significant effect of cash management on financial performance of SACCOs in Sheema Municipality.  
H<sub>0</sub>2: There is no significant effect of accounts receivables management on financial performance of Sacco's in Sheema

Municipality  
H<sub>0</sub>3: There is no significant effect on accounts payable management on financial performance of Sacco's in Sheema Municipality.

**Theoretical framework**

The study was anchored on Working Capital Management Theory [24]. According to this theory, businesses are expected to finance working capital, monitor factors that affect working capital, manage cash, accounts receivable, accounts payable, and the cash conversion cycle, as well as measure and analyze performance to

ensure that long-term assets are used effectively and efficiently. The components of the theory were accounts payable, cash management and account receivables which formed the constructs of the study and therefore the theory was relevance to guide the study.

**Conceptual framework**

**Working capital**

**Financial performance of SACCOs**



Source. Researcher, 2023

**LITERATURE REVIEW**

**Cash management and financial performance of SACCOs**

[25] in their study reported that effective cash management practices have an impact on the financial performance of SMEs. [26] also through their research recommended the use of effective cash management practices to improve financial performance of organizations. [27] reported that cash management had both adverse and minor impact on financial performance. [28] in

his study shows how financial plans and cash flows can describe the consequence of every unwavering venture. According to [29], effective managing of cash increases business's flexibility and offer viable competitive advantage. Similar findings were made by [30] who found that decent managing of cash permits a company to benefit from discounts.

**Accounts receivable management and financial performance of SACCOs**

[31, 32] in their study reported that debt has impact on a company's financial performance. Further, [33] reported that corporate debt negatively affects firm's financial performance. [34] using his result of the study recommended that there is

need to establish clear policies and procedures for extending credit to individuals and collecting individual accounts to enhance effective credit management. Credit management is described as the set of practices and

policies used by a company to maintain

total credit and manage it well [35].

**Accounts payable management and financial performance of SACCOs**

[36] in their study showed that accounts payable has a positive relationship with financial performance of manufacturing organizations. [37] in their research found that accounts payable has a positive and statistically significant relationship with financial performance. Further, [38], reported that accounts payable management affects financial performance of organizations. [39] assessed the influence of Accounts payable management (APM) practices on financial performance (FP) of Hotels in Nyeri County, Kenya. The

study revealed that APM practices had positive and statistically insignificant effect on FP of Hotels. [40] conducted a study to evaluate the effect of account payables on financial performance of Private Medical Facilities in Mombasa County, Kenya. The findings indicated an adverse correlation between accounts payable and financial performance. Similar study by [41] in Pakistan showed that APM had an impact on financial performance of firms.

**RESEARCH METHODOLOGY**

A descriptive research design was adopted in conducting the study and quantitative research approach was used [42]. Study population was 145 and a sample of 106 respondents. Simple random sampling method was used to select respondents for the study. Data was collected by use of questionnaire. Both content validity and reliability of the research instrument were undertaken. The data was analyzed using multiple regression technique with the help of statistical package for social science (SPSS version 29). The regression model

was developed as shown below.

$$Y = B_0 + B_1X_1 + B_2X_2 + B_3X_3 + e$$

Where:

- Y = Financial performance of SACCOs
- X1 = Cash management
- X2 = Accounts receivable management
- X3 = Accounts payable management
- Bs = Coefficients of independent variables
- e = Error term (5%)

**RESULTS AND DISCUSSION**

**Effect of Cash management on financial performance of SACCO**

The Likert scale was used to rank rating of respondents. The key for Likert scale: SA - Strongly Agree (5), A - Agree (4), N - Neutral (3), DA - Disagree (2), SDA - Strongly disagree (1)

The result of cash management and financial performance is shown in table 1 below.

| Statements   |        | SA         | A          | N        | DA       | SDA    | Mean | SD   |
|--|--------|------------|------------|----------|----------|--------|------|------|
| Management of Cash Conversion Profitability  | N<br>% | 67<br>69.8 | 27<br>28.1 | 0<br>0.0 | 1<br>1.0 | 1<br>1 | 4.65 | .649 |
| The SACCO frequently prepares cash budget  | N<br>% | 62<br>64.6 | 30<br>31.3 | 3<br>3.1 | 0<br>0.0 | 1<br>1 | 4.58 | .660 |
| Cash at the SACCO is normally kept in protected Area                               | N<br>% | 69<br>71.9 | 22<br>22.9 | 4<br>4.2 | 1<br>1.0 | 0<br>0 | 4.66 | .613 |
| There is good coordination between our SACCO and commercial banks in managing cash | N<br>% | 70<br>72.9 | 21<br>21.9 | 3<br>3.1 | 2<br>2.1 | 0<br>0 | 4.66 | .646 |
| The SACCO uses computerized system to manage cash                                  | N<br>% | 70<br>72.9 | 22<br>22.9 | 3<br>3.1 | 1<br>1.0 | 0<br>0 | 4.68 | .589 |
| Only authorized persons are the ones accessing cash at the SACCO.                  | N<br>% | 75<br>78.1 | 17<br>17.5 | 3<br>3.1 | 1<br>1.0 | 0<br>0 | 4.73 | .571 |

**Table 1. Cash management and financial performance**

**Source:** Field data, 2023

Total of 67 (69.8%) strongly agreed, 27 (28.1%) agreed, 1 (1.0%) disagreed, 1 (1.0%) strongly disagreed. On preparation of cash budget, 62 (64.6%) strongly agreed, 30 (31.3%) agreed, 3 (3.1%), were neutral. Keeping of cash in protected area, a total of 69 (71.9%) strongly agreed, 22 (22.9%) agreed, 4(4.2%), were neutral 1 (1.0%). For good coordination between SACCOs and commercial banks in managing cash, 70 (72.9%) strongly agreed, 21 (21.9%) agreed, 3(3.1%) were neutral, 2(2.1%).

Computerization system to manage cash, 70 (72.9%) strongly agreed, 22 (22.9%) agreed, 3(3.1%) were neutral, 1(1.0%), disagreed. On personnel authorization to access cash at SACCOs, 75 (78.1%) strongly agreed, 17 (17.5%) agreed, 3(3.1%) were neutral, 1(1.0%). The overall mean was 4.66 and standard deviation of 0.621, implying that all respondents were in agreement with all questions raised on cash management in SACCOs.

**Accounts receivable management and financial performance**

Results are shown in table 2 below

**Table 2. Accounts receivable management and financial performance of SACCOs**

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

**Source** Field data, 2023

On significance of managing account receivables, results showed that 61 (63.5%) strongly agreed, 34 (35.4%) agreed, 1(1.0%) was neutral. For enough staff in the SACCOs to manage account receivables, 53 (55.2%) strongly agreed, 38 (38.6%) agreed, 4(4.2%) were neutral, 1(1.0%) disagreed. As for the statement that managers normally supervise the receivables of the SACCO, 55 (57.3%) strongly agreed, 38 (38.6%) agreed, 3(3.1%) were neutral. On utilization of computerized system to manage

receivables, result showed that 59 (61.5%) strongly agreed, 34 (35.4%) agreed, 3(3.1%) were neutral. For receivables review, results showed that 55 (57.3%) strongly agreed, 34 (35.4%) agreed, 7(37.3%) were neutral. For personnel authorization to access receivables information at the SACCO, 53 (55.2%) strongly agreed, 36 (37.5%) agreed, 4(4.2%) were neutral, 3(3.1%) disagreed. The overall mean and standard deviation were 4.53 and 0.602 respectively.

**Accounts payables management on financial performance of SACCOs**  
**Findings are recorded in table 3 below.**

**Table 3: Accounts payables management and financial performance of SACCOs**

| Statement   |   | SA   | A    | N   | DA | SDA | Mean | SD   |
|---|---|------|------|-----|----|-----|------|------|
| Management of payables is important for increasing the company's profitability        | N | 54   | 39   | 3   | 0  | 0   | 4.53 | .561 |
|   | % | 56.3 | 40.6 | 3.1 | 0. | 0   |      |      |
| There is enough staff in the SACCO to handle payables                                 | N | 52   | 39   | 5   | 0  | 0   | 4.49 | .598 |
|   | % | 54.2 | 40.6 | 5.2 | 0  | 0   |      |      |
| The manager normally supervises the payables of the SACCO                             | N | 55   | 38   | 3   | 0  | 0   | 4.54 | .560 |
|   | % | 57.3 | 39.6 | 3.1 | 0  | 0   |      |      |
| The SACCO uses computerized system to manage payables                                 | N | 63   | 30   | 3   | 0  | 0   | 4.62 | .548 |
|   | % | 65.6 | 31.3 | 3.1 | 0  | 0   |      |      |
| The SACCO normally carries out payables review  | N | 46   | 46   | 4   | 0  | 0   | 4.44 | .577 |
|   | % | 47.9 | 47.9 | 4.2 | 0  | 0   |      |      |
| Only authorized personnel are allowed to access the payables information at the SACCO | N | 58   | 35   | 2   | 1  | 0   | 4.56 | .595 |
|   | % | 60.4 | 36.5 | 2.1 | 1  | 0   |      |      |

Source. Field data, 2023

Importance of managing payables to increase profitability, 54 (56.3%) strongly agreed, 39 (40.6%) agreed, 3(3.1%) were neutral. For enough staff to handle payable, 52 (54.2%) strongly agreed, 39 (40.6%) agreed, 5(5.2%) were neutral. Supervision of payables by manager, result showed that 55 (57.3%) strongly agreed, 38 (39.6%) agreed, 3(3.1%) were neutral. On utilization of computerized systems to manage payables, 63(65.6%) strongly agreed, 30 (31.3%) agreed, 3(3.1%) were neutral. For payable review, result showed that 46 (47.9%) strongly agreed, 46 (47.9%) agreed, 4(4.2%) were neutral. For personnel authorized to access payables information 58 (60.4%) strongly agreed, 35 (36.5%) agreed, 2(2.1%) were neutral, 1(1.0%) disagreed. The overall mean and standard deviation were 4.53 and 0.573 respectively

**Results on hypotheses**

Regression analysis results are shown in table 4a,b,c

Table 4a. Model Summary

| Model | R                 | R <sup>2</sup> | Adjusted R <sup>2</sup> | Std. Error of the Estimate |
|-------|-------------------|----------------|-------------------------|----------------------------|
| 1     | .762 <sup>a</sup> | .580           | .566                    | .22081                     |

a. Predictors: (Constant), Accounts payable management (APM), Cashmanagement (CM) Accounts receivable management (ARM)

The model summary is a measure of the quality of prediction of the financial performance of SACCOS. A value of 0.762 (R=.762) indicates a good level of prediction. The working capital

management can explain 58 % (R<sup>2</sup>=.58) of the variability in financial performance in SACCOS while 42 % can be explained by other factors not covered in this regression model.

Table 4b. Analysis of variance (ANOVA<sup>a</sup>)

| Model |            | SS     | DF | MS     | F    | Sig.              |
|-------|------------|--------|----|--------|------|-------------------|
|       | Regression | 6.198  | 2  | 3.049  | 64.6 | .000 <sup>b</sup> |
| 1     | Residual   | 4.486  | 93 | .0.048 |      |                   |
|       | Total      | 10.684 | 95 |        |      |                   |

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Accounts payable management (APM), Cash management (CM) Accounts receivable management (ARM)

Analysis of variance (ANOVA) tests whether the overall regression model is good fit for the data. Table 4b above shows that the independent variables statistically

significantly predict the dependent variable, {F.05 (2, 93) = 64.6, p<.05}. Therefore, regression model was a good fit of the data

Table 4c: Coefficients<sup>a</sup>

| Model |            | Unstandardized Coefficients |            | Standardized Coefficients | t     | Sig. |
|-------|------------|-----------------------------|------------|---------------------------|-------|------|
|       |            | B                           | Std. Error |                           |       |      |
| 1     | (Constant) | 1.682                       | .326       |                           | 5.152 | .000 |
|       | CM         | -.006                       | .064       | -.007                     | -.098 | .922 |
|       | ARM        | .494                        | .085       | .619                      | 5.808 | .000 |
|       | APM        | .160                        | .089       | .182                      | 1.793 | .076 |

a. Dependent Variable: Financial performance (FP)

The general model equation to predict financial performance of SACCOS from cash management, account receivables

management and accounts payable management is shown below:

**Y= 1.682 - .006 X1 + .494 X2 + .160 X3-----1**

**H<sub>0</sub>1: Cash management has no effect on financial performance of SACCOs**

Results indicated a statistically insignificant effect of cash management (CM) on financial performance ( $t = -0.098$ ,  $P = 0.922$ ,  $P > 0.05$ ). Therefore, the study accepted null hypothesis. The coefficient implies that an increase in one unit of cash management can decrease the financial performance of SACCOs by 0.006 units.

**H<sub>0</sub>2: Accounts receivables management has no effect on financial performance of SACCOs**

Results showed that accounts receivables management (ARM) was statistically significant ( $t = 5.808$ ,  $P = 0.000$ ,  $P < 0.05$ ). Therefore, null hypothesis was rejected. The coefficient of ARM implies

that an increase of one unit ARM can increase financial performance of SACCOs by 0.494 units.

**H<sub>0</sub>3: Accounts payable management has no effect on financial performance of SACCOs**

Results revealed that APM was statistically insignificant ( $t = 1.793$ ,  $P = 0.076$ ,  $P > 0.05$ ). Therefore, the study accepted null hypothesis. Coefficient recorded implies that although APM is statistically insignificant can affect financial performance of SACCOs positively by 0.160 units.

**DISCUSSION**

**Cash management and financial performance of SACCOs**

Result indicated a statistically insignificant effect of cash management (CM) on financial performance. The findings contradict the report of [25] who reported that effective cash management practices have an impact on the financial performance of SMEs. It also disagrees with [26] who recommended effective cash management to improve financial performance of organizations. However, the findings are in agreement with the study of [27] who reported that cash management had adverse and minor impact on financial performance.

**Accounts receivables management and financial performance of SACCOs**

Results showed that accounts receivables management was statistically significant. Result is in agreement with the reports of [31, 32] who indicated that debt has impact

on a company's financial performance. Further, the results support [33] who reported that corporate debt negatively affects firm's financial performance.

**Accounts payables management and financial performance of SACCOs**

The findings revealed that accounts Payable management was statistically insignificant. The finding disagrees with the report of [36] who indicated that accounts payable has a positive relationship with financial performance of manufacturing organizations. It further varies from the findings of [37-42] who reported that accounts payable has a positive and statistically significant relationship with financial performance. Also, the outcome is further in disagreement with [38], who reported that accounts payable management affects financial performance.



## CONCLUSION

In conclusion, this study has shed light on the crucial role of working capital management in the financial performance of SACCOs in Sheema Municipality, Uganda. The findings highlight that accounts receivable management significantly affects financial performance, while cash

management and accounts payable management have insignificant effects. This implies that SACCOs should pay more attention to improving their accounts receivable management practices to enhance their financial performance.

## RECOMMENDATIONS

To address the challenges faced by SACCOs, the study recommends the adoption of automated systems, the implementation of effective internal controls, and regular staff training. The research's significance extends

to government policymakers, scholars, and SACCO management teams, providing insights into strategies to enhance the financial performance of these important financial institutions.

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