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Influence of Account Receivable Management Practices on the Performance of Small and Medium Scale Enterprises

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Abstract. The business enterprise sector has been known as a key supporter in the achievement of the economic evolution in the world at large nowadays. The small and medium scale enterprise in particular have attracted the attention of many governments in our world of today as a key source of employment and economic steadiness. Small and medium enterprises (SMEs) play an important role in the economic growth in Ghana. SMEs contribute to economic development in various ways: by creating employment for rural and urban growing labour force, providing desirable sustainability and innovation in the economy as a whole. The success or failure of new business is often dependent on overcoming a series of potential barriers, such as securing financial backing, adequate and appropriate guidance and training (Fielden et al, 2000). In line of these challenges, this paper sought to evaluate the influence of receivable management on performance of small and medium scale enterprises in Kumasi Metropolis in Ghana. This study adopted a descriptive design with cross sectional survey. According to Churchill (2011), cross sectional survey affords the researcher to capture the relevant information from almost all the key stakeholders within the SMEs across the Metropolis to be able to do a critical assessment. The study sought to collect data from the SMEs at one point in time and determine the impact of management accounting practices on financial performance of SMEs in in the Kumasi Metropolis in Ghana. The study established Receivable management practices were effectively followed by the selected SMEs, and there was a statistical significant effect of receivable management practices on firm performance.

Keywords. Small and Medium, Account receivables, Management, Performance, Ghana

Background to the Study

Working capital administration is one of the critical part of the financial management of many organizations. It deals with the choice on the composition of current assets and current liabilities in a business (Mansoori & Muhammad, 2012). Working capital administration assumes an imperative part in the growth of shareholder's wealth of larger companies. A positive link has been established between working capital management and profitability of the larger manufacturing companies, for examples Chatterjee (2010), Davis (2016), De-Almeida and Eid (2014) and Hussain et al. (2012) highlighted a positive significant relationship between working capital management and profitability in relation to the manufacturing sectors. However, the discussion on working capital management in the context of Small and Medium Enterprises (SMEs) is ongoing in the literature. The greater part of SMEs does not have long-

term assets, like, vehicles, office equipment or building. Therefore, the proportion of current resources over aggregate total assets is very high as majority of the assets comprise of stock, cash balances and account receivable (Ali, 2015).

An organization's financial performance has usually been measured with its ability to gain surplus revenue over expenditure or profit for the period. In most performance standards, a successful organization is usually deemed as the one with the higher profit (or profit on capital employed ratio). Simply generating profit cannot be the only motive for engaging in business activities as profit in itself does not guarantee the availability of liquid resources to finance further business operations. Considering that revenue and profits can be recognized as earned when cash has not yet been received, companies may record high profits and still have to contend with liquidity problems in the form of inability to provide cash and cash equivalents to finance operating activities. This has created the awareness of the need for organizations to adopt policies and programmed toward the management of their working capital since the organizations' success of both long and short term decisions depend on it.

Long-term investment and financing decisions give rise to future cash flow which, when discounted by an appropriate cost of capital, determine the market value of a company. However, such long-term decisions will only result in the expected benefits for a company if attention is also paid to short-term decisions regarding current assets and liabilities. Current assets and liabilities, that is, assets and liabilities with maturities of less than one year, need to be carefully managed (Watson & Head, 2007).

Several indicators have shown that working capital management plays a pivotal role in keeping the wheels of a business enterprise running (Kishore, 2008). By definition, working capital management refers to all management decisions and actions that influence the size and effectiveness of the working capital. It is that portion of a firm's capital invested in short term or current assets to carry on its day to day operations smoothly (Kishore, 2008). It emphasizes the management of current assets, current liability and the relationships that exist between them. In other words, working capital management may be defined as the management of firm's liquid assets that is cash, account receivable, market securities and inventories and its current liabilities such as accounts payable, outstanding expenses, short term borrowings among others (Chowdhury & Amin, 2007). The requirement of working capital varies from firm to firm depending upon the nature of business, production policy, market conditions, seasonality of operations, conditions of supply etc. (Kishore, 2008).

Working capital which considers the ability of an organization to meet its current liabilities (trade creditors, short term loan, expenses owing) with its current assets (cash, bank, debtors and stock) by measuring its liquidity in the form of current and acid test ratios will need to be managed for the success of the company.

To prevent liquidation or bankruptcy, most companies have taken various policies like just-in-time stock policies, investing surplus cash, credit control system, factoring, buffer stock and lead time policies, credit analysis system, invoice discounting, debtor collection system and others. Many of the recent cases of Small and Medium Scale Enterprises collapse might have been avoided if owners/managers had been in a position to interpret the early signs of collapse. Existing financial models provide some indication of how to avoid failure, but these need to be supplemented by a holistic, strategic management approach (Buttery & Shadur, 2011).

The working capital cycle of a business can either gobble up more than its fair share of cash or it can be managed as an efficient cash flow system. If managed, it can become one of the company's most significant competitive advantages (Kaufman, 2009). This study

therefore seeks to assess the impact of working capital on the profitability of Small and Medium Scale Enterprises within the Kumasi Metropolis

Introduction

An organization's financial performance has usually been measured with its ability to gain surplus revenue over expenditure or profit for the period. In most performance standards, a successful organization is usually deemed as the one with the higher profit (or profit on capital employed ratio).

Simply generating profit cannot be the only motive for engaging in business activities as profit in itself does not guarantee the availability of liquid resources to finance further business operations. Considering that revenue and profits can be recognized as earned when cash has not yet been received, companies may record high profits and still have to contend with liquidity problems in the form of inability to provide cash and cash equivalents to finance operating activities.

The management of receivables is a significant component of a firm's working capital management. Accounts receivable of a firm is a legally enforceable claim for payment from a business to its customers for goods supplied and services rendered in execution of the customer's order.

The present study empirically examines the effect of receivables management, as measured by debtors' turnover ratio, in the selected manufacturing companies in Kumasi, Ghana on the firm's profitability, through Return on Capital Employed.

Objectives of the Study

The main purpose of this study was to examine the impact of working capital management on firm's performance of some selected manufacturing companies in Kumasi, Ghana. Specifically, the study sought to;

1. To analyze the effectiveness of receivable management practices used in SMEs.

Research Hypotheses of the study tested that;

There a statistically significant influence of receivable management practices on firm performance?

Accounts Receivable Management

Firms would like to maximize sales through attraction and satisfaction of the customer at a profit. One of the ways it can increase sales is offering a trade credit. It means a company sells its product now to receive the payment at specify date in the future. Hill and Sartoris (2005) found that one sixth of total assets for manufacturing corporations consist of account receivables and because of its huge proportion in the total assets, it can become a problem for the organization in a way that it requires more financing for the period for which payment is due from the customers. Account receivables also have opportunity cost associated with them because company cannot invest this money elsewhere until and unless it collects its receivables.

Accounts receivables of a business organization are created in two major ways. On one hand, the firm may advance payments to the suppliers of inventories to ensure timely supply, especially when the supplier hold a monopolistic position or when materials are in short supply or a firm desiring to develop a captive supply base or for short term financial and profitability considerations. On the other hand accounts receivables are created by a firm selling its output on credit, popularly termed as sundry debtors. Trade credit influences preferences of both sellers and the customers. The functions of accounts receivables' management are intended to set out

credit terms, selection of credit worth customers, installing an appropriate collection and monitoring system and financing the receivables for maximizing the firm's value (Bhattacharya, 2006).

According to Preve and Sarria-Allende (2010) firms invest in financing clients when their core business is not related to lending money or providing financial services because of various reasons. These reasons include, gaining competitive advantage, redistribution where firms with greater access to financing redistribute the available capital to clients facing credit constraints, information asymmetry where suppliers with close customer relationships have an advantage over financial creditors in obtaining information about their customers' credit worthiness, as they are able to observe customers' orders, and payments, among others.

According to Kontus (2013), accounts receivable management includes establishing a credit and collection policy. The policy includes, credit period, discounts for early payment, and credit standards specifying to whom credit should be extended, the terms of the credit and the procedure that should be used to collect the money. According to Pandey and Jaiswal (2011) accounts receivable conversion period is the average time taken to convert debtors into cash, represented by the average collection period.

Average Number of Days Accounts Receivable

This approach is used as a measure of accounts receivable policy. It symbolizes the average number of days that the company apply to gather payments from its customer. This metric is established by dividing the sum of the opening and ending balance of account receivables with two and divide this with the net sales and then multiply the results with the average number of days in a year. Related to the inventory, a low number of days is needed to retain the cash conversion cycle short (Lantz, 2008, p. 115). Thus,

$$\text{Average number of days accounts receivable} = \frac{\text{Average accounts receivable} \times 365}{\text{Net Sales}}$$

In this regard, Deloof (2003) found a significant negative association between the average number of days accounts receivable and gross operating income as a measure of profitability. Boisjoly (2009) also revealed an evidence that companies have concentrated on improving accounts receivable management as their accounts receivable turnover rise over the 15 year time period for 1990-2004. Some methods such as strengthen their collection procedures, offer cash discount and trade credit, and use receivables factoring can be adopted (Boisjoly, 2009).

Account Receivable Management Practices and Firm Performance

Transactions are done on credit and retrieval of the settlement of these transactions in the era is called number of day's receivable. The achievements of company heavily focus on the competency of financial managers to regulate cash conversion cycle (Filbeck & krueger, 2005). Firms can reduce the debt cost of firms and increase the capital for accessible ventures through decreasing the value of short term resources. The availability of more current assets directly affect the profitability of the firm. There is a negative association between number of day's accounts receivables and profitability as evaluated by gross operating profit (Lazaridis & Tryfonidis, 2006). This negative findings established that firms can improve their profitability by decreasing credit term sent to their customers.

An evidence was provided by Boisjoly (2009) that businesses have concentrated on improving accounts receivable management as their accounts receivable turnover rises over the period of 15 years, thus from 1990-2004. Numerous procedures can be used to fortify their techniques of collection, give cash discount and trade credit, and apply receivables factoring

(Boisjoly, 2009).

A study conducted by Samiloglu and Demirgunes (2008) to survey the impact of managing working capital on the profitability of manufacturing companies resided in Istanbul Stock Exchange for the era from 1998 to 2007. Cash conversion cycle, accounts receivable period and inventory period were used to assess the influence of managing working capital; return on assets was used to measure profitability. The findings from the regression analysis confirmed that managing working capital has a significant negative connection with profitability.

Similarly, García-Teruel and Martínez-Solano (2007) studied the impact of managing working capital on profitability in Spain using 8,872 small and medium enterprises (SMEs) for the time from of 1996 to 2002. The return on assets (ROA) was applied to assess profitability, and the number of days accounts receivable, number of days inventories, number of days accounts payable and cash conversion cycle were used to evaluate the management of working capital. The correlation matrixes showed that number of day's accounts receivable has substantial negative association with return on assets.

Also, Raheman and Nasr (2007) conducted a study and reported that accounts receivable as an assessment of liquidity has substantial negative relationship with profitability. Furthermore, there is a negative association between average collection period and profitability as revealed by Alipour (2011). Further, the results from the study conducted by Şamiloğlu and Demirgüneş (2008) confirmed that accounts receivables period has a negative impact on firm profitability.

Deloof, (2003) studied the effect of average collection period on corporate profitability using a sample of 1,009 large Belgian non-financial firms. His correlation and regression tests, revealed a significant negative effect of average collection period of firms on the gross operating income. He suggested that managers could increase corporate profitability by reducing the average collection period. Padachi (2006) found a negative effect of accounts receivables' days on profitability. Likewise, Gill et al, (2010) found that a slow collection of accounts receivables is correlated with low profitability. Managers can improve profitability by reducing the credit period granted to customers. After studying a sample of 50 non-financial Nigerian firms quoted on the Nigerian Stock Exchange, Falope and Ajilore (2009) found a significant negative correlation between net operating profit on one hand and the average collection period and average payment period on the other hand.

Mathuva (2009) examined the influence of receivables management on corporate profitability by using a sample of 30 firms listed on the Nairobi stock exchange (NSE) for the periods 1993 to 2008. After data analysis he found a highly significant negative correlation between the average collection period and Profitability of firms. Ramana et al (2013) found a mixture of good and poor receivables management in their study of cement companies in India. The study showed a significant impact on accounts receivables management on working capital management and profitability. Similarly Padachi, (2006) found that accounts receivable days correlated negatively with profitability.

Madishetti and Kibona (2013) studied 38 Tanzanian SMEs for the period 2006 to 2011. They used regression analysis in determining the impact of average collection period on gross operating profit. The results indicated a significant negative correlation between average collection period and profitability. From the previous studies, it was concluded that good accounts receivable management helps the organization increase sales and sales revenue, and have sufficient cash inflow from timely cash collection. These positively influence organizational profitability. Base on the aforementioned research, hypothesis 3 is formulated as:

H₃: Receivable Management practices have significant effect on the financial performance of firms.

RESEARCH METHODS

The study employed the descriptive cross-sectional survey design using the questionnaire as the only instrument to collect the relevant data in addressing the research questions formulated. The simple random sampling technique was used to sample the respondents at three levels. Valid data was collected from 340 respondents given a return rate of 97% out of the 350 respondents meant for the study. Both descriptive and inferential statistics were used to analyse the data. Specifically, for the descriptive statistics, frequencies and percentages were used to analyse the demographic characteristics of the respondents, the mean and standard deviation for research questions one to three and for the inferential statistics, the Multiple Linear Regression and Correlation were used to analyse research questions four to seven.

Results and discussion

Demography of Respondents

This part presents and discusses the preliminary data which consists of the background data of the respondents for the study. The characteristics will provide understanding to readers as to the category of workers who were involved in the study in relation to their level of maturity and experiences. The characteristics are the sex of the respondents, age, educational level, type of business ownership and number of years in business. The results of the characteristics of the respondents are presented in Table 1.

Table 1: Characteristics of Respondents

Variables	Subscale	Freq. (n)	Percent %
Sex	Male	294	86.5
	Female	46	13.5
Age	31-40	183	53.8
	41-50	109	32.1
	51-60	48	14.1
Level of Education	Secondary	254	74.7
	Tertiary	86	25.3
Type of business ownership	Sole Proprietorship	174	51.2
	Partnership	104	30.6
	Limited Liability	62	18.2
Number of years in business	1-5	153	45.0
	6-10	146	42.9
	Over 10 years	41	12.1

Source: Field Data, (2021).

The results in Table 1 displays the sex, age, level of education, type of business ownership and number of years the respondents have being in the business. The male workers dominated (n = 294, 86.5%) the study. As indicated in Table 1, only 46 of the respondents were female workers representing 13.5%. The dominance of the male workers in the study has been

a usual phenomenon experienced in the manufacturing sectors. From time immemorial, male workers have always been seen working in the manufacturing companies because of the nature of the job. It requires workers with the strength since production and storage are done daily. However, what is seen in our societies is that more of the male workers establish their own business due to the increasing number of male workers found in the manufacturing companies as compared to that of the female workers.

In terms of age, the majority (n = 183, 53.8%) of the workers were within the age range of 31-40 years, followed by those in the age range of 41-50 years (n = 109). Only a few (n = 48) workers were found to be more than 60 years. Results on the varying ages show that the workers, by implication, may come with different learning experiences when found working together and each worker might have the opportunity in tapping the ability of each other in the company. This would be seen as a healthy and expected experience as a vivid simulation of teams in the world of work is being practiced in our manufacturing companies.

Again, with respect to the level of education of the workers, the majority (n = 254, 74.7%) of the workers had secondary education. Workers who had tertiary education (n = 86, 25.3%) were least presented. It is not surprising because the manufacturing of good and services involves the use of sophisticated equipment hence, requires some level of intelligence from workers. The implication is that more and quality goods and services would be produced due to the workers' high level of educational attainment.

Further, the majority (n = 174, 51.2%) of the respondents practiced sole proprietorship as the type of business ownership. The selected manufacturing companies surveyed were owned and managed by a single individuals although they consisted of multiple people operating the business. This current study has confirmed the fact that sole proprietorship is the most common and simplest type of business entity. The second highest type of business ownership in the selected companies was partnership (n = 104, 30.6%). These companies were being owned and managed by two or more people, hence, share management and profit together. Only a few (n = 62, 18.2%) of the selected businesses were limited liability type. These types of businesses combine aspects of partnerships and corporations and as such benefit from the flexibility and flow-through taxation of partnership and sole proprietorships while maintaining the limited liability status of corporations.

Finally, the majority (n = 153, 45.0%) of the respondents had being in the business for the period of 1-5 years. This indicates that most of the workers are in the early years in their businesses. Other workers (n = 146, 42.9%) had also work for 6-10 years signifying stable years in their business career while the remaining 41 representing 12.1% were least presented.

Receivable Management Practices Used in SMEs

Research Question Three: What is the effective use of receivable management practices in SMEs? The purpose of this research question was to examine the effective use of receivable management practices at SMEs as factors to increase production. In order to address this research question, workers at SMEs were asked to respond to a number of statements relating to the receivable management parameters by indicating their level of agreement (mean ranging from 3.5 to 5.0) and disagreement (mean ranging from 1.0 to 2.4). An agreement indicates the effective and efficient use of the practices and a disagreement indicates otherwise. Table 4 summarised the obtained findings.

Table 4: Effective use of Receivable Management Practices in SMEs

Statements	Mean	SD
Genuine copies of the payment slips are reserved and resolved to the conforming sums.	4.02	1.10
Cash funds are periodically counted by an independent employee	3.86	.99
Discrepancies are resolved by internal audit department.	3.81	1.07
Cash sales has a pre-numbered identification receipts	3.74	1.21
Management investigates all substantial variations from norms.	3.71	1.81
The organization uses Accounting software	3.54	.96
The organisation has a credit policy.	3.31	1.21
Credit limits are set for all accounts.	3.09	1.15
Mean of Means/Average Standard Deviation	3.51	1.10

Source: Field Data, (2021).

The results in Table 4 confirmed that largely, receivable management practices are being followed by the selected SMEs. The majority (mean = 4.02, standard deviation = 1.10) of the workers at SMEs were of the view that all genuine copies of the payment slips are reserved and resolved to the conforming sums in the cash proceeds records. This finding implies that if firms want to achieve maximum results in terms of productivity, management has to ensure that amounts recorded in the cash books reconciled with the authenticated duplicates of the deposit slips. This would go a long way to ensure accountability in the business.

Moreover, this argument is further explained by the finding revealed in Table 4 and agreed by most respondents that when cash funds are periodically counted on a surprise basis by an independent employee (mean = 3.86, standard deviation = .99), output will increase thereby increasing revenue. This means that if this principle is actually anything to go by, then it is manifestly unarguable that more time will not be spent in achieving the common goal of the organisation.

Again, there is no doubt that a firm with a reliable audit department always receives higher revenue at the long run. The results in Table 4 confirmed that the majority (mean = 3.81, standard deviation = 1.07) of the respondents affirmed firms obtain higher productivity and sale when discrepancies in receipts and other necessary documents are resolved by its own internal audit department. Companies can use the amount to be spend on external auditors to re-invest in the business for more profit. It is therefore, necessary for any profit oriented firm to adopt the strategy of investigating and resolving all inconsistencies in cash sales internally to avoid extra cost.

In addition, the majority (mean = 3.74) of the respondents pointed out that cash sales have a pre-numbered identification receipts. Such approach serves as checks and balances to prevent inappropriate management of cash sales. It is therefore not surprising that this response given by the respondents show a high degree of homogeneity (standard deviation = 1.21) in the opinions of the workers with respect to the statement that when cash sales occur, all receipts have pre-numbered identification.

More so, firms achieve positive results when authorities scrutinize all significant disparities using norms. This is the reason why the majority (mean = 3.71, standard deviation = 1.81) of the respondents agreed to the assertion that management investigates all substantial

variations from norms. This is a true reflection that if firms want to maximize profit and reduce cost which happens to be their ultimate goal, they use norms such as cash register voids, no sales, refunds, errors, etc. so as to promote accountability in their businesses.

Findings in Table 4 uphold that of several researchers (Berry & Jarvis, 2006; Haris, 2010; Sharma & Kumar, 2011; Duru, Ekwe & Okpe, 2014) who found out that an effective and efficient use of account receivable management practices affects firms' performance. This is further supported by Ruichao (2013), who opined that account payables plays a critical role in managing working capital because delaying bill payments is one of the tools for management to have access to an inexpensive source of financing. However, the opportunity cost of keeping high account payables may hurt the business if an early payment discount is offered. Efficient accounts receivable management affords a firm improve on its profitability by reducing the transaction costs of raising funds in case of liquidity crisis (Ahmet, 2012).

Moreover, the management of accounts receivables which aims at maintaining an optimal balance between each of the accounts receivables components, that is, cash, receivables, inventory and payables is a fundamental part of the overall corporate strategy to create value and is an important source of competitive advantage in businesses (Deloof, 2003). Therefore, the key principles of accounts receivable management that a firm should adhere to are ageing of accounts receivable, evaluating the potential customers ability to pay using criteria such as integrity of the customer, financial soundness, collateral to be pledged and current economic conditions should be analyzed, establishment of credit terms and limits, collection of trade credit, assessment of default risk and responsibility and the financing of accounts receivable until it has been paid by the purchaser (Schaum, 2011).

More so, accounts receivables management is an issue for every institution offering credit to its customers and the challenge for organizations is to protect profit margins by reducing write-offs, cutting the cost to collect and maximizing the cash collected. In practice, Onwumere, Ibe and Ugbam (2012), confirmed that it has become one of the most important issues in organizations with many financial executives struggling to identify the basic accounts receivables drivers and the appropriate level of accounts receivables to hold so as to minimize risk, effectively prepare for uncertainty and improve the overall performance of their businesses. Accounts receivable management is a very important aspect of corporate finance since it directly affect the liquidity and profitability of the company (Pandey, 2010). A firm is therefore required to maintain a balance between liquidity and profitability while conducting its day to day operations.

In addition, Hill and Sartoris (2005) found that one sixth of total assets for manufacturing corporations consist of account receivables and because of its huge proportion in the total assets, it can become a problem for the organization in a way that it requires more financing for the period for which payment is due from the customers. Account receivables also have opportunity cost associated with them because company cannot invest this money elsewhere until and unless it collects its receivables. This implies that the level of account receivables is largely influenced by the credit policy offered by the company to creditors. Strict policy will reduce the collection period and account receivables and if company offers relaxed credit policy it will raise the level of account receivables.

Influence of Receivable Management Practices on Firm Performance

Research Hypothesis Three: Is there a statistically significant effect of receivable management practices on firm's performance? This analysis was realized using the Multiple Linear Regression (MLR). MLR was used to show the direction and magnitude of the effect

and relationship between the predicted variable (Receivable Management) and the firm financial performance. MLR was performed at $p\text{-value} = 0.05$ (two-tailed) level of significant. Prior to conducting MLR analysis test, preliminary analyses were performed to ensure no violation of the assumption of normality, linearity and homoscedasticity. Table 7 presents the results of the multiple regression analysis.

Table 7: Regression Coefficients

	Unstandardized Coefficients		Standardized Coefficients	t.	Sig.
	B	Std. Error	Beta	B	Std. Error
(Constant)	1.220	.621		1.965	.000
Receivable Management	.471	.207	.601	2.276	.035
R	.309				
R ²	.095				
Adjusted R ²	.090				
Std. Error of the Estimate	.57422				
Regression Sum of Squares	11.32149				
Residual Sum of Squares	.319478				

Source: Field Data (2021).

The results in Table 7 presents the coefficients model for the significant influence of receivable management on firm performance. The results showed a strong influence ($r = .309$) between receivable management and financial performance. This suggests that any difference in receivable management is linked to a strong difference in financial management among the selected businesses. This implies that 9.5% variations in profitability are explained by accounts receivable management while the remaining 90.5% is explained by other factors. This further suggests that the hypothesis: Accounts Receivable Management has a significant positive effect on organizational profitability is accepted. To further prove the strong influence of receivable management on financial performance among the selected businesses, ($\text{sig.} = .035 \leq 0.05$), which suggests that receivable management is a major determinant of firm financial performance. The view therefore is that the management of the selected businesses should enhance accounts receivable management if profitability is to improve.

The study revealed a statistical significant effect of receivable management on firm performance. The result falls in comparison to researchers like (Gulet, 2014) in his case study of association between WCM and FP of small medium enterprises concluded that receivable turnover ratio and profitability had positive association. Madishetti and Kibona, (2013), also indicated a significant effect of account receivable management and profitability, which corresponds to the findings of this study. Similarly, investigation for researchers like (Akoto, 2013) in Ghana, (Oladipupo, 2013) in Nigeria and (Deloof, 2003) in Belgium also found similar results in his study. This leads to a conclusion that receivable management has same results to business success in terms of performance in all areas.

Further, Michalski (2007), opined that an increase in the level of accounts receivables in a firm increases both the net working capital and the costs of holding and managing accounts receivables and both lead to a decrease in the financial performance of an organization. Makori and Jagango (2012), share the same view after establishing a relationship between number of days of account receivable and profitability. Besides, they pointed out that management of a firm can create value to the shareholders by reducing the number of days of account receivable.

However, this finding is contrary to the findings of Gill et al, (2010) who found no statistically significant effect of accounts receivable management and organizational profitability. Similarly, Raheman and Nasr (2007), reported a significant negative association between profitability and accounts receivable as an assessment of liquidity. Additionally, Alipour (2011) reported that profitability has a significant negative connection with average collection period. Finally, Şamiloğlu and Demirgüneş (2008) results of their research proved that accounts receivables period has a negative influence on firm profitability.

It can be concluded that account payables plays a critical role in managing working capital because delaying bill payments is one of the tools for management to have access to an inexpensive source of financing. However, the opportunity cost of keeping high account payables may hurt the business if an early payment discount is offered (Ruichao, 2013). It has been revealed in a proof that companies have concentrated on improving the management of accounts receivable as their accounts receivable turnover increase over the 15 year time period for 1990-2004. Several techniques can be applied such as strengthen their collection procedures, offer cash discount and trade credit, and use receivables factoring (Boisjoly, 2009). Efficient Accounts receivable management practices, when adopted by Small and Medium Enterprises (SMEs) lead to growth.

However, Mathuva (2009) examined the influence of receivables management on corporate profitability. After data analysis he found a highly significant negative correlation between the average collection period and Profitability of firms. Ramana et al (2013) found a mixture of good and poor receivables management in their study of cement companies in India. The study showed a significant impact on accounts receivables management on working capital management and profitability. Similarly, Padachi, (2006) found that accounts receivable days correlated negatively with profitability.

Again, Dinku (2013) reported a positive relationship between a number of day's accounts payable and ROA of SMEs in Ethiopia. While, the number of days accounts receivable, cash conversion cycle and a number of days inventory have a negative effect on ROA. He argued that an increase of day's accounts payable causes increases the ROA and also increase in the number of day's accounts receivable, a number of days inventory and cash conversion cycle relates to a decrease of the ROA level (Dinku, 2013). Madishetti and Kibona (2013) studied 38 Tanzanian SMEs for the period 2006 to 2011. The results indicated a significant negative correlation between average collection period and profitability. From the previous studies, it can be concluded that good accounts receivable management helps the organization increase sales and sales revenue, and have sufficient cash inflow from timely cash collection. These positively influence organizational profitability.

Conclusions

The results of this study gave enough evidence to believe that generally, effective and efficient cash management parameters are being practiced at the SMEs. the result that receivable management has a strong influence on financial performance suggests that receivable management is a major determinant of firm financial performance. Account payables plays a critical role in managing working capital because delaying bill payments is one of the tools for management to have access to an inexpensive source of financing. This means that an increase in the level of accounts receivables in a firm increases both the net working capital and the costs of holding and managing accounts receivables and both lead to a decrease in the financial performance of an organization. This leads to a conclusion that receivable management has same results to business success in terms of performance in all areas. Efficient Accounts

receivable management practices, when adopted by Small and Medium Enterprises (SMEs) lead to growth.

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