EFFECT OF DEBTORS' MANAGEMENT ON FINANCIAL SUSTAINABILITY OF THE SMALL AND MEDIUM ENTERPRISES IN NYARUGENGE DISTRICT, RWANDA

Uwineza Diane, Dr. Victor Lusala Aliata, PhD & Dr. Brian Singoro, PhD

The Strategic JOURNAL of Business & Change MANAGEMENT
ISSN: 2312-9492 www.strategicjournals.com
Vol. 11, Iss.2, pp 248 – 252, April 12, 2024. www.strategicjournals.com, © Strategic Journals

EFFECT OF DEBTORS' MANAGEMENT ON FINANCIAL SUSTAINABILITY OF THE SMALL AND MEDIUM ENTERPRISES IN NYARUGENGE DISTRICT, RWANDA

[1*] Uwineza Diane, [2] Dr. Victor Lusala Aliata, PhD & [3] Dr. Brian Singoro, PhD

[1*] Masters Student, School of Business and Economics, Kibabii University, Kenya
[2] Lecturer, Faculty of Business and Economics, Tom Mboya University, Kenya
[3] Lecturer, School of Business and Economics, Kibabii University, Kenya

Accepted: March 25, 2024

DOI: http://dx.doi.org/10.61426/sjbcm.v11i2.2906

ABSTRACT

In Rwanda, 78.5% of Small and medium-sized enterprises (SMEs) face significant challenges due to poor working capital management, which subsequently affects their financial sustainability. Limited access to finance, inadequate financial planning, and a lack of clarity in marketing strategies contribute to cash flow problems and liquidity issues. Insufficient working capital prevents SMEs from meeting operational expenses and hampers their ability to sustain and grow their businesses. The objective of this study was to determine the effect of debtors management on financial sustainability of the small and medium enterprises in Nyarugenge district, Rwanda. This study was guided by Financing advantage Theory, Cash conversion cycle theory and Transaction cost Theory. The study population consisted of 4900 employees working in Nyarugenge district and a sample size of 370 respondents determined using Yamane's formula. Simple random sampling technique was used to access respondents. Results revealed (R2= 0.524) to debtors management, implying that debtors management accounted for 52.4%, of variation in financial sustainability. Results of regression analysis show that debtors management β=0.181, p<0.05; implying that debtors management, has a statistically significant effect on financial sustainability of small and medium enterprise in Nyarugenge, Rwanda. The small and medium enterprises owners should rigorously follow up on debts, assess consumers before providing debts, give incentives for early debt payments, and build a solid debt management strategy.

Key Words: *Debtor's Management; Financial Sustainability; Small and Medium Enterprises; Nyarugenge District; Rwanda*

CITATION: Uwineza, D., Aliata, V. L., & Singoro, B. (2024). Effect of debtors' management on financial sustainability of the small and medium enterprises in Nyarugenge District, Rwanda. *The Strategic Journal of Business & Change Management,* 11 (2), 248 – 252. http://dx.doi.org/10.61426/sjbcm.v11i2.2906

INTRODUCTION

Most economies around the world are believed to be growing as a result of small and medium enterprises (Adebayo & Onyeiwu, 2018). The financial results of small-scale businesses are significantly impacted by Financial Management Practices (FMPs), such as working capital management (WCM), budgeting controls, financial forecast and cash management, and analysis (Afrifa & Padachi, 2016). The concept of working capital management practices addresses how companies manage their short-term capital in order to achieve a satisfying liquidity, profitability and shareholders' value. Working capital management practices is the ability to control effectively and efficiently the current assets and current liabilities in a manner that provides the firm with maximum return on its assets and minimizes payments for its liabilities (Rehn, 2012).

LITERATURE LIVIEW

In this study entitled "Influence of debt management systems on financial performance in selected micro finance institutions in Trans-Nzoia county", Tarus Zenah (2020) had aim to analyze the influence of debt management systems on financial performance. The research design that was used was descriptive research design and the target population was 12 Microfinance institutions where the branch managers, Operations Managers, Supervisors and selected staffs from each MFI was given questionnaires and be interviewed. The study adopted a census approach because of the small number of target population. The findings of the study guide the county governments in setting up a framework that guided policy and practice of debt collection not only in micro finance institutions in Trans Nzoia County but also in other state-owned ventures as well as private ventures where applicable. The study findings showed client appraisal was used since it is a viable strategy for credit management. The study found also that there is regular contact and reminders send to the customer. This helps financial institution recover their loans issued to the clients. Further, the study found that payment options are stated clearly on invoices to make it easier for customer to pay loans. In conclusion the study found that there was a positive influence of debt management systems on financial performance in micro finance institutions. Debt collection policy has a significant effect on financial performance. Policy terms are put in place to ensure that borrowers easily honor their obligations with minimal cost to the institution (Tarus Zenah, 2020).

Dan (2020) studied the influence of account receivable management on the performance of Nigeria's publicly traded companies industrial companies. The regression coefficient was the account receivable term, whereas the proxy for corporate performance was ROA. The study findings demonstrated a significant relationship between account receivable duration and ROA of Nigeria's listed industrial companies. The notion of accounts receivable management was studied, and it was a correlation to the financial performance of Nigerian manufacturing enterprises.

Prashun (2020), who investigated the relationship between accounts receivable management and financial performance in Thai firms. This study used a quantitative research design and panel data analysis methodology, and the population of interest was all listed firms on the Stock Exchange of Thailand. The sampling method used was purposive sampling, and the final sample consisted of 466 firms. The researcher used panel data regression analysis to test their hypotheses and conclusion drawn from this study is that accounts receivable management plays a crucial role in influencing the financial performance of firms in Thailand.

Bhadur (2019) investigated the impact of debtors management on the profitability of manufacturing companies in Nigeria. The research used a quantitative research design and survey methodology to collect data from 61 manufacturing companies in Nigeria. The study used purposive sampling to select the sample. The researchers used regression analysis to test their hypotheses. The

conclusion drawn from this study is that debtors management has a significant impact on the profitability of manufacturing companies in Nigeria. It highlights the importance for manufacturing companies to implement effective debtors management practices, such as credit policies, collection procedures, and monitoring systems, to optimize their profitability.

Munns & Bjeirmi (1996) investigated the relationship between debtors management and the profitability of firms in Nigeria. The research used a quantitative research design and panel data analysis methodology to examine the impact of debtors management on profitability. The population of interest was all firms in Nigeria, and the sample consisted of 118 firms. The study used purposive sampling to select the sample. The researchers used panel data regression analysis to test their hypotheses. The conclusions drawn from this study indicate that debtors management plays a crucial role in influencing the profitability of firms in Nigeria.

METHODOLOGY

This study employed a correlational design, according to Grant R. (1996)purposely tries to explain important behaviors or to predict likely outcome. For this study, a prediction study approach was adopted to investigate the relationship between the predictor variable (the independent variables) and the criterion variable (dependent variable). Two or more scores were obtained from each individual in the sample, one score for each variable. The pairs of score were then correlated, and the resulting correlation coefficient was used to indicate the degree of relationship between the variables. The population for this study comprised 4900 employees working in SMEs located in Nyarugenge district.

According to Grinnell, (1990), a sample size is the quantity of items or elements in a sample. Yamane (1967) provides a simplified formula to calculate sample sizes. $n = \frac{N}{1+Ne^2}$

Where n is the sample size, N is the population size, and e is the level of statistical significance (0.05) Therefore; $n = \frac{N}{1+Ne^2} = \frac{4900}{1+4900\ (0.05)^2} = 369.8 \approx 370$

A sample size of 370 respondents was taken to represent the population of 4900employees. This study used simple random sampling approach to select the respondents working in SMEs of Nyarugenge district. The sample size for each institution was determined using a proportionate sampling method because staff sizes vary. The following table lists these in further detail:

Table 1: Sample size

Sector	Employees	Sample size
Agriculture and Agri- processing	1003	76
Tea	895	67
Coffee	552	42
Craft	496	37
Handcraft	407	31
Wood work	304	23
Construction	467	35
Plastics and other home use products	419	32
Publishing	357	27
Total	4900	370

Extract from the MINICOM SME product cluster booklet 2022

RESULTS

Simple Linear Regression analysis was conducted between debtors management and financial sustainability. The results are summarized on Table 2.

Table 2: Linear Regression of Debtors Management and Financial sustainability

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.743[a]	.524	.522	.56204	.524	59.356	1	256	.000

a. Predictors: (Constant), Debtors Management
b. Dependent Variable: Financial Sustainability

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	16.442	1	16.442	59.356	.000[b]
	Residual	67.825	256	.170		
	Total	84.267	257			

a. Predictors: (Constant), Debtors Management
b. Dependent Variable: Financial Sustainability

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.371	.186		10.571	.000
	Debtors Management	.371	.031	.782	2.314	.000

a. Dependent Variable: Financial Sustainability

The first study hypothesis was;

$H_0$1: Debtor management has no significant statistical effect on financial sustainability of small and medium enterprises in Nyarugenge district, Rwanda.

By using the 0.05 % significance level with a 95% confidence interval the first hypothesis was tested using the Standardized Coefficients Beta (β), analysis of variance (ANOVA), and t-test.

Table 2 shows that Debtors Management and Financial Sustainability were positively correlated statistically, with Debtors Management accounting for 52.4% (R^2=0.524) of the variances in the Financial Sustainability of Small and Medium Enterprises (SMEs) in Nyarugenge, Rwanda.

The test criteria were established so that if β1≠0, the investigation rejects the null hypothesis (H01). Table 2 displays the regression findings obtained by regressing the Debtors Management variables against the mean of Financial Sustainability of Small and Medium Enterprises in Nyarugenge Rwanda. The findings also demonstrate a positive, linear, and significant (p-value is less than 0.05) association between Debtors Management and Financial Sustainability (t-test value: t=2.314, β= 0.782, ANOVA, F=59.356).

This suggests that a unit improvement in Debtors Management's rating would result in a notable 37.1% increase in Financial Sustainability while all other factors remain unchanged.

According to the test criterion, if the p-value is less than 0.05, the null hypothesis is rejected, and if it is more than 5% (0.05), the null hypothesis is accepted. Given that the results show a positive, linear, and significant (p-value less than 0.05) relationship, the null hypothesis was rejected. This suggested that the Financial Sustainability on Small and Medium Enterprises (SMEs) in Nyarugenge Rwanda are greatly impacted by Debtors Management.

CONCLUSION AND RECOMMENDATION

The study found a high correlation between debtor management and SMEs' ability to maintain a stable financial position. Better debtor management practices were improving the financial sustainability and vice versa.

The study also showed that there is a substantial positive correlation between cash management and financial sustainability, meaning that poor cash management was negatively impact SMEs' finances while good cash management was led to a better financial situation.

Also, it can be said that there is a strong correlation between improved credit management and improved financial sustainability, indicating that as credit management rises, financial sustainability was benefit and may even suffer adversely if it falls.

Since Debtors Management had a significant positive relationship with financial sustainability, it is important that small and medium enterprises review their Credit policy, Credit assessment invoicing, collection procedure as well as payments plan so as to ensure that there are financial sustained to the expected levels. The ability of SMEs to maintain a stable financial position and debtor management were found to be highly correlated by the study. The financial sustainability was enhanced by better debtor management techniques, the study therefore recommends that SMEs owners should encourage continual use of working capital management practices to improve financial sustainability

REFERENCES

Adebayo I. S, & Onyeiwu, C. (2018). The Determinants Of Profitability Of Manufacturing Firms In Nigeria. *International Journal Of Economics, Commerce And Management*, 479–481.

Afrifa, G. A., & Padachi, K. (2016). Working Capital Level Influence On Sme Profitability. *Journal Of Small Business And Enterprise Development*, *20*(1), 44–63.

Bhaduri S. (2019). Empirical Investigation Of Herding Under Different Economic Setups. *Journal Of Asian Economics*, *25*, 43-52.

Duncan W. (1996). The Guide To The Project Management Body Of Knowledge. *Project Management Institute Standards Committee*.

Grant R.(. (1996). Toward A Knowledge-Based Theory Of The Firm. *Strategic Management Journal.*, 109–122.

Munns, A., & Bjeirmi, B. (2009). The Role Of Project Management In Achieving Project Success. *International Journal Of Project Management*, *14*(2), 81 – 88.

Prashun Shrestha. (2020). *The Impact Of Cash Management On Sustainability Of Small Manufacturing Business In Dhulikhel Municipality*.

Tarus Zenah. (2020). Influence Of Debt Management Systems On Financial Performance In Selected Micro Finance Institutions In Trans-Nzoia County. *International Journal Of Recent Research In Commerce Economics And Management (Ijrrcem)*, *7*(1), 138–140.