

Debtor Management and Financial Performance of Hardware SMEs in Mukono Municipality, Uganda

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Abstract

Debtor management is a critical determinant of the financial health of small and medium-sized enterprises (SMEs). This study examined the effect of debtor management on the financial performance of hardware SMEs in Mukono, Uganda. Using Yamane's (1967) formula at a 95% confidence level, a representative sample of 55 SMEs was determined. A stratified random sampling technique was employed to ensure coverage across municipality divisions, with a proportionate selection of respondents. Using a descriptive and correlational design, data was collected from owners, managers, and accounts staff through structured questionnaires and analysed using descriptive and regression techniques. Findings revealed that debtors' management practices (debt collection practices and debtors turnover) positively and significantly influence financial performance (liquidity and profitability). The study concludes that effective debtor management enhances financial performance and sustainability in the hardware sector. It recommends that SMEs strengthen credit policies, adopt robust collection mechanisms, and train staff in receivables management to improve performance.

Keywords: debtor management, debt collection, debtors turnover, financial performance, liquidity, profitability

JEL classification: D22, G32, L26, M41

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1. Introduction

Small and medium-sized enterprises (SMEs) are widely recognized as engines of economic growth, employment creation, and poverty reduction, especially in developing economies. In Uganda, SMEs contribute significantly to gross domestic product and provide a livelihood for a large segment of the population. Despite their importance, many SMEs face challenges in sustaining operations, largely due to poor financial management practices. Among these, debtor management has emerged as a critical factor influencing financial performance.

Debtor management refers to the strategies and practices employed by firms to control credit sales, monitor accounts receivable, and ensure timely recovery of outstanding debts. Effective debtor control enhances liquidity, stabilizes cash flows, and supports profitability, while weak practices often lead to bad debts, cash flow constraints, liquidity problems, low profitability, and business failure. Hardware SMEs in Mukono district operate in a highly competitive environment where credit sales are common, yet limited attention has been given to how their debtor practices affect financial outcomes.

This study therefore investigates the relationship between debtor management and financial performance of hardware SMEs in Mukono, Uganda. By examining credit policy formulation, debt collection procedures, and receivables monitoring, the study seeks to provide evidence on how effective debtor management can enhance sustainability and competitiveness of SMEs in this sector.

Debtor management comprises the policies, procedures, and controls a firm uses to grant credit, record and monitor receivables, and collect outstanding amounts. Core levers include credit policy formulation (credit standards, credit limits, documentation), credit terms (credit period, cash discounts, penalties), collection policy (reminders, dunning schedules, renegotiation/settlement, legal action), monitoring and review (aging analysis, days sales outstanding, receivables turnover, bad-debt ratio). For hardware SMEs sales are often project-linked and customer demand is cyclical, hence receivables decisions directly shape cash conversion, risk exposure, and sales growth.

2. Literature Review

2.1. Empirical Review

Nyabuto & Miroga (2024) conducted a study on the effect of debtor management on financial performance of small and medium-sized enterprises in Kisii County, Kenya. Utilizing an explanatory research design, the study sampled 89 SMEs using a semi-structured questionnaire to collect primary data. Reliability of the data collection instrument was confirmed with Cronbach's alpha, values exceeding 0.7 for all variables. Descriptive statistics revealed that effective debtor management practices, such as timely debt collection and thorough vetting of borrowers, are crucial for SMEs' financial performance. Correlation analysis indicated a positive and significant relationship between debtor management and financial performance ($r = 0.794$, $p < 0.01$). Regression analysis further demonstrated that a one-unit improvement in debtor management practices leads to a 40.1% increase in financial performance. The study concludes that robust debtor management strategies are essential for enhancing the financial performance and sustainability of SMEs in Kenya.

Kevin and Omagwa (2017) carried out a study to assess the effect of debtor management on the financial performance of selected microfinance institutions (MFIs) in Nairobi City County, Kenya. Primary data was collected with the aid of self-administered questionnaires and analysed using the multiple regression analysis. Both descriptive statistics and inferential statistics were determined. The nine MFIs in Nairobi City licensed by the Central Bank of Kenya (CBK) as at December 31st, 2014 were the target population of the study. In each of the nine MFIs, four individuals were purposively selected to participate in the study as respondents. These were the Branch Manager, Credit Officer, Debt Recovery Officer, and Finance Officer and hence the sample size was of 36 Officers from the nine MFIs. The study found out that debt collection policy, legal framework, and internal control systems are statistically significant in influencing financial performance of selected MFIs in Nairobi City.

Nyakundi et al. (2016) undertook a study on the influence of working capital management practices on financial performance of small and medium-sized enterprises in Machakos Sub-County, Kenya. The study adopted a cross-sectional survey research design which allowed the collection of primary quantitative data through structured questionnaires and interview methods. The target population was 159 owners/managers of SMEs trading in Machakos Sub-County. A random sampling technique was used to obtain a sample of 22 SMEs trading in that area. The data was analysed using both descriptive and inferential statistics. The study further revealed that SMEs' financial performance was positively related to efficient cash management, efficient receivable management, and efficient inventory management at 0.01 significance level. The coefficient of determination (R^2) indicated that 0.507 or 50.7% of the variables in financial performance could be explained by changes in these factors. This study concluded that working capital management practices (WCMPs) have an influence on the financial performance (FP) of SMEs. Therefore, there is a need for SMEs owners/managers to embrace efficient WCMPs as a strategy to improve their FP in order to survive in the turbulent business environment. This study corroborates extant literature findings that established a positive relationship between WCMPs and FP.

Wokeh (2023) examined the effect of debtor management on the financial performance of listed construction and real estate companies in Nigeria. The study adopted the *ex post facto* research design with a population of six listed entities operating in these sectors. Data were retrieved from the annual reports of the selected companies for the period 2012 to 2021. The data was analysed using multiple regression (Ordinary Least Square) analysis with the aid of Stata software. The study findings disclosed both a negative and insignificant effect of average collection period on return on assets and a positive but insignificant effect of debtors turnover on return on assets.

In their study, Igbojindu and Okafor (2023) examined the effect of debtor management on financial performance of listed pharmaceutical companies in Nigeria. The study adopted the *ex post facto* research design. The study population comprised seven pharmaceutical companies listed on the Nigeria Exchange Group in 2023. All seven firms were taken as the sample using the census approach. Data was obtained from the financial reports of selected companies and analysed using multiple regression and Pearson correlation coefficient. The study findings revealed that average collection period has a significant effect on the net profit margin, whereas debtors turnover has an insignificant effect on net profit margin of sampled pharmaceutical entities. The study recommended that pharmaceutical companies reduce their average collection period to improve financial performance and maintain their debtors turnover in order to achieve a good net profit margin.

2.2. Theoretical Review

■ **Cash Conversion Theory**

The Cash Conversion Theory is grounded in working capital management and emphasizes the efficiency with which firms transform their investments in resources into cash flows from sales. The central idea of the theory is that a business must carefully manage the time it takes to convert cash outflows, such as payments for inventory and other inputs, into cash inflows from customer sales. This process is captured by the Cash Conversion Cycle (CCC), which measures the number of days taken to convert resource inputs into cash receipts. According to the theory, the shorter the cash conversion cycle, the more efficiently a firm manages its liquidity. A reduced cycle indicates that the firm requires less external financing and can reinvest funds more quickly into operations, thereby improving profitability and financial performance. Conversely, a longer cycle signals inefficiencies in inventory management, receivables collection, or payables management, which may strain liquidity and increase dependence on external funding. The Cash Conversion Theory highlights three critical components: inventory holding period, accounts receivable period, and accounts payable period. Effective management of these components ensures that firms minimize the time funds remain tied up in operations.

■ **Agency Theory**

The Agency Theory (Jensen & Meckling, 1976) explains the relationship between business owners (principals) and managers (agents), highlighting the potential conflicts that arise when managers pursue personal interests at the expense of the firm's goals. The theory stresses the importance of monitoring mechanisms to align the actions of managers with the financial objectives of the business. In the context of this study, Agency Theory supports the role of credit monitoring as a key control mechanism in debtor management. Many hardware SMEs extend credit to customers without consistent supervision, which often leads to delayed payments or uncollected debts that weaken profitability. Strengthening credit monitoring practices through regular follow-ups, reviewing credit limits, and reconciling customer accounts helps reduce such risks. By doing so, business owners ensure that receivables are effectively managed, cash flows are maintained, and financial performance is improved. Hence, the Agency Theory provides a useful perspective for understanding how proper oversight of credit activities can enhance accountability and profitability in hardware SMEs.

■ **Pecking Order Theory**

The Pecking Order Theory (Myers & Majluf, 1984) posits that firms prefer using internally generated funds, such as retained earnings and operational cash flows, before seeking external financing. This idea is particularly

relevant to this study because effective debtor management directly influences the liquidity available for business operations and reinvestment. Hardware SMEs in Mukono Municipality often depend on customer payments to finance their daily activities and restock inventory. When receivables are collected promptly, firms maintain healthy cash flow and are less dependent on borrowing. However, delays in debt collection reduce liquidity, forcing firms to rely on costly external financing, which can increase interest expenses and lower profitability. The Pecking Order Theory therefore provides a theoretical foundation for understanding how efficient debtor management supports liquidity and strengthens the financial performance of hardware SMEs.

Although considerable research has been conducted on the relationship between debtor management and the financial performance of small and medium-sized enterprises, most studies in Uganda have largely concentrated on SMEs in general or on specific sectors such as manufacturing, retail trade, and services. As a result, limited attention has been given to hardware enterprises, yet these businesses operate under unique circumstances. Hardware SMEs often deal in high-value inventories, offer longer credit periods to customers, and rely heavily on supplier credit, conditions that make their liquidity and profitability dynamics distinct from those of other sectors. In addition, existing studies have tended to focus on metropolitan areas, particularly Kampala, while paying little attention to emerging commercial centres like Mukono Municipality. Mukono's rapidly growing business environment, characterized by a mix of urban and semi-urban settings, presents different challenges in credit control and financial management compared to larger urban economies. This oversight creates a contextual and sectoral gap in the literature. Therefore, examining how debtor management practices influence the financial performance of hardware SMEs in Mukono Municipality is both timely and necessary, as it will provide localized insights that can inform more effective financial management strategies within Uganda's evolving SME landscape.

3. Statement of the Problem

Small and medium-sized enterprises constitute the backbone of Uganda's economy, contributing about 20% of GDP and employing over 2.5 million people ([Uganda Bureau of Statistics, 2022](#)). In Mukono Municipality, hardware SMEs are critical players in the construction and real estate supply chain, providing essential building materials that support the municipality's fast-growing urban development. However, despite their significance, the financial performance of these SMEs remains precarious, with many struggling to sustain profitability and long-term survival. According to the [Uganda Investment Authority \(2021\)](#), approximately 60% of SMEs do not celebrate their fifth anniversary, with poor financial management practices, including weak debtors' management, cited as a major cause of failure.

Hardware businesses in particular face chronic liquidity challenges, as many operate in a highly competitive market where extending credit to customers is inevitable. While credit sales can boost turnover, they expose firms to risks of delayed payments and bad debts. [Federation of Small and Medium-sized Enterprises \(2022\)](#) revealed in a survey that over 55% of hardware SMEs experience delayed payments beyond 90 days, significantly impairing their working capital. Poor debtor monitoring, lack of formal credit policies, and weak record-keeping systems further exacerbate the situation, leading to liquidity problems, low profitability, cash flow shortages, inability to meet supplier obligations, and ultimately business decline.

Although previous studies in Uganda ([Ssekiziyivu et al., 2017](#); [Nanyondo, 2017](#)) have established a general link between credit management and SME performance, limited empirical evidence exists focusing on hardware SMEs in Mukono Municipality. Furthermore, most existing studies have concentrated on financial institutions and manufacturing SMEs, neglecting the unique dynamics of hardware businesses that deal with bulk supplies, fluctuating demand, and high competition. This gap in literature and practice raises concern as to how debtor management practices, such as credit policies, debt collection procedures, and monitoring systems, influence financial performance in this subsector.

Therefore, it remains unclear to what extent debtor management contributes to the financial sustainability of hardware SMEs in Mukono Municipality. Addressing this gap is crucial, as effective debtor management can determine whether these businesses thrive or collapse in Uganda's competitive construction supply industry.

4. Study Objective and Hypothesis

The objective of this study is to examine the influence of debtor management on the financial performance of hardware SMEs in Mukono Municipality, Uganda.

The research hypothesizes that *debtor management does not have a significant effect on the financial performance of hardware SMEs in Mukono Municipality, Uganda (H₀)*.

5. Conceptual Framework



Conceptual framework

This study is anchored in the Cash Conversion Theory, which highlights the importance of managing working capital components, particularly inventory, receivables, and payables, in a way that supports a firm’s liquidity and profitability (Richards & Laughlin, 1980). The theory suggests that when firms reduce the time gap between cash payments for operations and cash receipts from customers, they strengthen their financial stability and efficiency. The Cash Conversion Cycle, therefore, becomes a key indicator of how effectively a business transforms its investments in inventory and receivables back into cash.

In this study, debtor management is viewed as a central element of the Cash Conversion Cycle because it determines how quickly hardware SMEs in Mukono Municipality can recover money owed by customers. The theory connects directly to the study’s main variables, debtors turnover and average collection period, which measure how efficiently receivables are converted into cash. A high debtors turnover ratio indicates that customers are paying on time, leading to a shorter Cash Conversion Cycle and stronger liquidity. On the other hand, a long average collection period suggests delayed payments, which prolong the Cash Conversion Cycle, tie up funds in receivables, and can weaken profitability. In line with the Cash Conversion Theory, effective debtor management helps firms shorten the time it takes to collect cash, improve cash flow, and enhance overall financial performance. For hardware SMEs in Mukono Municipality, where many sales are made on credit and customer payments are often delayed, the theory provides a useful framework for understanding how credit management practices can directly affect profitability and business sustainability.

6. Research Methodology

The study adopted a descriptive cross-sectional research design to investigate the relationship between debtor management and financial performance of hardware SMEs in Mukono Municipality, Uganda. This design was appropriate since it enabled collection of quantitative data at a single point in time without manipulating variables. The study population comprised hardware SMEs registered in Mukono Municipality. Respondents included owners/managers directly involved in credit management. Using Yamane’s (1967) formula at a 95% confidence level, a representative sample of 55 SMEs was determined. A stratified random sampling technique was employed to ensure coverage across municipality divisions, with a proportionate selection of respondents, and also to ensure that the sample adequately represents the diverse characteristics of hardware SMEs operating in Mukono Municipality. Data on collection period and debtors turnover period, alongside financial performance indicators of liquidity and profitability, were collected using a structured 1-5 Likert-scale questionnaire. Secondary data from financial records were also reviewed for triangulation. Data were analysed using descriptive and inferential statistics where Pearson correlation and linear regression analysis tested the relationship between debtor management and financial performance. Results were presented in tables and charts. The study observed

ethical guidelines by obtaining approval from relevant authorities, ensuring informed consent, and maintaining the confidentiality and anonymity of all participants.

7. Findings

7.1. Descriptive Analysis

Table 1. Showing debtors' management

Question item	N	Min	Max	Mean	SD
Our organization consistently collects receivables within the agreed payment period.	55	1	5	2.20	0.970
We have an efficient system in place to follow up with overdue customers.	55	1	5	2.65	1.109
Delays in receivables collection are rare in our operations.	55	1	5	2.45	1.199
We have credit policies that ensure customers pay promptly.	55	1	5	2.76	1.347
Our company maintains a high turnover of accounts receivable throughout the year.	55	1	5	2.45	1.051
We review and revise our credit terms regularly to improve turnover performance.	55	1	5	2.87	1.348
Aggregate score				2.57	1.170

Source: Study data

It can be determined from Table 1 that the aggregate mean score for debtor management is 2.57. This mean value falls below the neutral point of 3.00, denoting that the respondents grossly disagreed with the positive issues raised concerning debtor management practices. This suggests that hardware SMEs in Mukono Municipality exhibit weak debtors' management practices such as inadequate credit policies and poor debt collection efforts. More specifically, question items "We review and revise our credit terms regularly to improve turnover performance", "We have credit policies that ensure customers pay promptly", and "We have an efficient system in place to follow up with overdue customers" had mean scores of 2.87, 2.76 and 2.65, respectively. This implies that respondents were not sure with these question items concerning debtor management. At the same time, question items "Our company maintains a high turnover of accounts receivable throughout the year", "Delays in receivables collection are rare in our operations", and "Our organization consistently collects receivables within the agreed payment period" had the lowest mean scores of 2.45, 2.45 and 2.20, respectively.

Table 2. Showing financial performance

Question item	N	Min	Max	Mean	SD
Our hardware shop consistently achieves its monthly profit targets.	55	1	5	2.31	1.103
Sales revenue has been increasing steadily over the past 12 months.	55	1	5	2.85	1.253
Our business has sufficient cash to meet its short-term obligations as they fall due.	55	1	5	2.67	1.292
The company is able to pay suppliers on time without delaying payments.	55	1	5	2.80	1.145
Our business efficiently manages inventory to avoid stock outs or overstocking.	55	1	5	2.45	1.245
Our supplier payment process is streamlined to avoid unnecessary delays.	55	1	5	3.00	1.277
Aggregate score				2.68	1.219

Source: Study data

It can be observed from Table 2 that the aggregate mean score for financial performance is 2.68. This mean score falls below the neutral point of 3.00, suggesting that the respondents generally disagreed with the strong financial performance issues raised. This infers that the financial performance of hardware SMEs in Mukono Municipality is weak, more likely reflected by low profitability and liquidity challenges. Explicitly, question items “Our supplier payment process is streamlined to avoid unnecessary delays”, “Sales revenue has been increasing steadily over the past 12 months”, “The company is able to pay suppliers on time without delaying payments”, and “Our business has sufficient cash to meet its short-term obligations as they fall due” had the highest mean scores of 3.00, 2.85, 2.80 and 2.67, respectively. These findings suggest that the respondents were not sure about these question items regarding financial performance. At the same time, question items “Our business efficiently manages inventory to avoid stock outs or overstocking” and “Our hardware shop consistently achieves its monthly profit targets” had mean scores of 2.45 and 2.31, respectively, implying that respondents disagreed with these statements.

7.2. Inferential Statistics

Table 3. Showing normality test

	Kolmogorov–Smirnov ^a			Shapiro–Wilk		
	Statistic	Df	Sig.	Statistic	Df	Sig.
log_FP	0.136	55	0.012	0.968	55	0.153
log_DM	0.110	55	0.096	0.964	55	0.098

a. Lilliefors significance correction

Source: Study data

Results in Table 3 show two test statistics, Kolmogorov–Smirnov and Shapiro–Wilk. Since the data set for this study is below 100, the study depended on the test results of Shapiro–Wilk in testing for normality. Based on the Shapiro–Wilk test, the threshold indicates that the variable is normally distributed if the p-value is insignificant ($p > 0.05$). The results in Table 3 show that the p-value for debtor management is insignificant ($p > 0.05$), implying that the variable is normally distributed. Consequently, this study adopted the liner regression analysis and Pearson’s correlation analysis.

7.3. The Correlation Analysis

Correlation analysis was adopted to determine and measure the strength and direction of the relationship between the dependent variable and the independent variable.

Table 4. Showing the correlation analysis findings

		FP	DM
FP	Pearson correlation	1	0.567**
	Sig. (2-tailed)		0.000
	N	55	55
DM	Pearson correlation	0.567**	1
	Sig. (2-tailed)	0.000	
	N	55	55

** . Correlation is significant at the 0.01 level (2-tailed).

Source: Study data

The results in the table above reveal that in correlating financial management with debtor management, the coefficient of correlation is 0.567 and the p-value is 0.000. This intimates a strong, positive, and significant

association between debtor management and financial performance. These findings deduce that increasing debtor management by one unit generates an increase of about 57% in financial performance.

7.4. Model Summary

Table 5. Showing the model summary

Model	R	R-squared	Adjusted R-squared	Std. error of the estimate	Durbin-Watson
1	0.567 ^a	0.321	0.308	0.35822	1.674

a. Predictors: (Constant), DM

b. Dependent variable: FP

Source: Study data

According to the results in Table 5, R, which is the correlation coefficient and describes the strength and direction of the linear relationship, is 0.567. This shows that, grossly, there is a strong and positive correlation among the four variables. The R-squared, which gives the proportion of the total variation in the dependent variable that is explained by the independent variables, is 0.321. This manifests that about 32.1% of the changes in financial performance is explained collectively by debtor management practices, however, due to multicollinearity, it is unclear which of the debtor management practices is most dominant, while a greater portion of about 67.9% is captured by the error term. This shows that the model has a poor fit.

Table 6. Showing ANOVA (F-statistic) results

Model		Sum of squares	Df	Mean square	F	Sig.
1	Regression	3.214	1	3.214	25.049	0.000 ^b
	Residual	6.801	53	0.128		
	Total	10.015	54			

a. Dependent variable: FP

b. Predictors: (Constant), DM

Source: Study data

The ANOVA (F-statistic) measures the overall significance of the model. It consists of calculations that provide information about the levels of variability within a regression model and form a basis for tests of significance. In this study, the test result affirms that the overall regression model is significant for the data as indicated by the F-statistic value of 25.049 and its associated probability value of 0.000, that was found to be significant at 5% level of significance.

7.5. Test of Hypothesis

Table 7. Showing the coefficient

Model		Unstandardized coefficients		Standardized coefficients	t	Sig.	Collinearity statistics	
		B	Std. error	Beta			Tolerance	VIF
1	(Constant)	1.307	0.279		4.685	0.000		
	DM	0.536	0.107	0.567	5.005	0.000	1.000	1.000

a. Dependent variable: FP

Source: Study data

H₀: Debtor management does not have a significant effect on the financial performance of hardware SMEs in Mukono Municipality, Uganda.

In the table above, the regression results communicate that the t-value for the relationship between debtor management and financial performance is 5.005, with an associated p-value of 0.000, which is less than 0.05 at 5% level of significance. The study concludes that there is a positive, statistically significant relationship between debtor management and financial performance. Therefore, the study rejects the null hypothesis that debtor management does not have a significant effect on financial performance.

These findings are consistent with [Dan \(2020\)](#), who examined the impact of debtor management measured by the debtor period on performance of quoted manufacturing firms in Nigeria. The study findings revealed the positive effect of debtor management (debtor period) on financial performance (return on assets) of listed manufacturing firms in Nigeria. The findings also agree with [Wasike \(2019\)](#), who assessed the effect of debtor management on Nzoia Water Services Company's financial performance. The study results indicated that company's financial performance measured as return on equity was significantly affected by debtor management, proxied as the average collection period and debtors' receivable turnover.

However, these findings are not in agreement with [Wokeh \(2023\)](#), who, in his study on the effect of debtor management on the financial performance of listed construction and real estate companies in Nigeria, revealed an insignificant effect of debtor management measured as the average collection period and debtors turnover on financial management, proxied as return on assets. The findings also contradict [Igbojindu and Okafor \(2023\)](#), whose study revealed that debtor management (debtors turnover) does not have any significant effect on financial performance (net profit margin) of listed pharmaceutical companies on the Nigerian Exchange Group.

It is important to note that several studies, including some carried out in Nigeria, have found no significant relationship between debtor management and financial performance. This outcome can be understood in light of differences across sectors, institutional environments, and cultural attitudes towards credit, all of which influence how businesses extend and manage credit. To begin with, sectoral differences play an important role. The impact of debtor management varies depending on the type of business. For example, firms in the manufacturing and retail sectors often operate with longer credit periods because of how supply chains and customer relationships are structured. This makes it difficult to see an immediate link between how debts are managed and the firm's profitability. On the other hand, businesses in the service industry or those dealing in fast-moving consumer goods may experience faster financial feedback from their credit management efforts. As a result, when studies combine data from different sectors, the varying credit cycles may mask the true effect of debtor management within individual industries, producing statistically insignificant results.

In addition, institutional and regulatory factors also help explain these outcomes. Many small and medium-sized enterprises in Nigeria operate outside formal credit systems, where regulations and enforcement mechanisms are weak. The limited presence of effective credit bureaus, slow judicial processes in debt recovery, and weak financial discipline make it difficult for firms to recover debts promptly, even when they follow proper credit management procedures. Consequently, good debtor management practices may not necessarily lead to better financial performance because the broader institutional environment does not support enforcement or compliance. Finally, some methodological issues may contribute to the insignificant findings. Differences in how researchers measure variables, small sample sizes, and unreliable financial records among SMEs can affect statistical results. In settings where financial reporting and data management are weak, both debtor management and financial performance may not be accurately represented, leading to weaker or non-significant statistical relationships.

In summary, the insignificant results reported in some studies do not necessarily mean that debtor management has no influence on financial performance. Rather, they reflect contextual challenges such as sectoral diversity, weak institutional support, and informal credit practices that limit the effectiveness and visibility of debtor management outcomes.

8. Conclusion and Originality Statement

The study set out to examine the relationship between debtor management and financial performance of hardware SMEs in Mukono Municipality, Uganda. Findings revealed that debtor management practices, particularly credit policy, collection procedures, and monitoring debtors turnover period, are statistically significant predictors of financial performance. This implies that SMEs with well-structured and consistently applied debtor management strategies are more likely to achieve improved liquidity, profitability, and cash flow stability. Conversely, weak debtor control mechanisms expose firms to risks of cash flow constraints and reduced profitability. Therefore, the study concludes that effective debtor management is not only a financial control tool but also a key determinant of SMEs' long-term survival and competitiveness.

Our research makes several contributions to existing knowledge on debtor management and financial performance. First, it provides original empirical evidence that debtor management significantly influences the financial performance of hardware SMEs in Mukono Municipality. While most prior studies have concentrated on large enterprises or non-trade sectors, this research fills a contextual gap by focusing on SMEs in a developing-country setting, thereby expanding the literature in Sub-Saharan Africa, where empirical studies remain limited.

Our findings demonstrate that specific debtor management practices, credit policy, collection procedures, and monitoring debtors turnover period, are not only operational tools but also strategic determinants of SMEs' profitability, liquidity, and cash flow. This deepens the theoretical understanding of the trade-off between extending credit to stimulate sales and maintaining financial stability.

The study contributes methodologically by combining survey data with secondary financial records, showing that a mixed approach enhances the robustness of financial management research in small enterprises.

Empirical evidence from the Ugandan context indicates that debtor management significantly influences SMEs' financial performance, reinforcing theoretical claims of the trade-off between credit extension and liquidity management.

The originality of this research lies in its sector-specific, context-specific, and methodological contributions, making it one of the few empirical investigations linking debtor management and financial performance among hardware SMEs in Uganda.

Recommendations include that SME owners should develop clear and enforceable credit policies that define terms of trade, credit limits, and repayment periods to minimize bad debts. SMEs should invest in customer assessment tools such as credit history checks and reference verification before extending credit to reduce default risks. Enterprises should employ timely and consistent debt collection strategies, including reminders, discounts for early repayment, and penalties for late payments. Adoption of digital debtor tracking systems can help SMEs monitor receivables effectively and improve cash flow management.

The study further recommends customer credit vetting in that before extending credit SMEs should assess the reliability of customers through background checks, payment history, or references. By carefully vetting customers, SMEs can reduce the risk of default, avoid high-risk credit extensions, and improve overall financial performance by lending only to trustworthy clients. There is also a need for local government support to SMEs through organizing workshops, offering business advisory services, and promoting regulations that encourage good credit management. This creates an enabling environment where SMEs can better manage

debtors and enhance financial performance. Financial training initiatives to SMEs can also be of benefit, especially training in financial literacy, bookkeeping, and credit management. Such initiatives equip business owners and managers with the skills to implement structured credit policies and monitor debts effectively, ultimately improving both debt recovery and financial outcomes.

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