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IMPACT OF ACCOUNTS RECEIVABLE MANAGEMENT PRACTICE ON FINANCIAL PERFORMANCE OF SMALL AND MEDIUM MANUFACTURING ENTERPRISES IN NIGERIA

SUNUSI FATE

Department of Banking and Finance, School of Management Studies, Abubakar Tatari Ali Polytechnic Bauchi, Bauchi state, Nigeria

ABSTRACT

Accounts receivable of a firm is a legally enforceable claim for payment from a business to its customers clients for goods supplied and or services rendered in execution of the customers order. The purpose of the study is to determine the impact of accounts receivable management practices on financial performance of small and medium manufacturing enterprises in Nigeria. The target population will be 176 SMEs from manufacturing sector. The study applied both probability and non probability sampling procedures to obtain a sample of 121 SMEs required for the study. To achieve

Introduction

One of the most important components of working capital is accounts receivable. The effective management of receivables helps one to increase the size of business activities by increasing total sales, and, by so doing, increasing the recycling of funds and generating higher incomes. On the other hand, according to Madishetti and Kibona (2013), the failure of management of receivables will result in long average collection period (ACP), leading to reduced recycling of funds which would, in turn, affect profitability and liquidity of the enterprise Researchers like Manyo and Ike (2013) and Deloof (2003) indicate that current assets of a typical manufacturing firm, or even a distribution firm, accounts for more than half of the firm's total assets For Van- Horne and Wachowiez (2005), firms may incur shortages and difficulties in maintaining smooth operations if they have too few current assets. All forms of business possess either products or services to sell to customers with the intention of maximizing their sales. In a bid to enhance the level of their sales, firms use policies to attract customers. One of such policies is offering trade credit to customers. According to Long et al., (1993) in Baveld (2012), accounts receivables, which is a part of trade credit, promotes sales as it allows customers to examine product quality before paying for it Manyo and Ike (2013) assert that when trade credit is allowed, it implies that the firm is selling its products now and would receive payment at a specified date in the future. Hill and Satoris (2005) opine that one-sixth of the total assets for manufacturing organizations is made up of accounts receivable. In their view, as a result of its huge proportion in total assets, accounts receivable could become a problem for an organization in such a manner that it may require more financing for

the objective of the assessment, primary data was gathered using questionnaires. Secondary data will be gathered from past published scholarly articles explaining theoretical and empirical information on the influence of working capital management on the financial performance of SMEs growth in manufacturing sector. Inferential statistics such as Pearson correlation coefficient will be use to analyze quantitative data. Pearson correlation coefficient will be use to determine the relationship between working capital management and financial performance. On the balance sheet, it is reported as a current asset and is considered part of an organization's working capital. The foundation behind accounts receivable is a firm's policies and procedures for sales. A system must be in place to track accounts receivable. This should include balance forwards, listing of all open invoices and generation of monthly statements to customers. An aging of receivables should be used to collect overdue accounts. Many organizations today are faced with the problem of having huge accumulated balances owing to accounts receivables which are sometimes written off and thus interfering with the organizations operations. The purpose of the study is to establish how Accounts receivable management tries to minimize the amounts of money tied up in form of accounts receivables and thus takes the organization back to its original set goals. This study describes target population comprising of all the manufacturing firms in Nakuru municipality which is the sample and census will be employed as the population is less than 30. There are 25 manufacturing companies within the municipalityBased on the results, findings and conclusions the following recommendations have been deciphered. It is therefore recommended that the management of manufacturing companies to consider putting in place the recommended steps seen as probable ways of ensuring that their financial management practices are improved for better financial performance.

***KEYWORDS:**, Accounts receivable, employee performance, human resource strategies*

the period for which payment is due from customer. In as much as accounts receivable can raise profit by increasing sales, it is also possible that, because of high opportunity cost of invested money in accounts receivable and bad debts, the effect of this change might become difficult to realize. A company that adopts a policy to have a low level of accounts receivable can reduce its profitability by reducing sales. However, it contributes to the income by reducing the risk of bad debts and curtailing investment in accounts receivable. The foundation behind accounts receivable is a firm's policies and procedures for sales. A system must be in place to track accounts receivable. This should include balance forwards, listing of all open invoices and generation of monthly statements to customers. It therefore calls upon these firms to put systems into place to ensure that the management of these companies is manage effectively and efficiently. .The working capital management deals with the management of current assets and current liabilities (Ross, 2010). According to Van Horne and Wachowicz (2010), excessive levels of current assets can easily result in a firm realizing a substandard return on investment. At the same time, too few current assets may incur shortages and difficulties in maintaining smooth operations of a firm. Rao (2011) observed that managers spend considerable time on day-to-day problems that involve working capital decisions.

According to the Economic Survey of 2006, small scale enterprises contributed over 50 percent of new jobs created in the year 2005 and over 20 percent to the Gross Domestic Product (GDP) of the country. In recognition of this indispensable role, the Government of Kenya has instituted enterprise support programmes including the introduction of Women and Youth Enterprise Funds in the years 2006 and 2007 respectively to fuel the development of these enterprises (GoK, 2010). Micro finance institutions have joined the foray in providing them with microcredit hence, seeing their access to microcredit increase from 7.5 percent in 2006 to 17.9 percent in 2009 (FSD Kenya, 2009).

Small and Medium enterprises are new and growing business which (for any number of reasons) do not grow beyond a certain size (Thomson & Martin 2005). The Kenya Bureau of Statistical (KBS) consider firms with fewer than ten employees as small -scale enterprises and their counterparts with more than ten employees as medium and large sized enterprises. The KBS in its national accounts considered companies with up to 9 employees as SMEs

In reference to the global perspective, it is apparent that since the government introduced the series of economic reforms, the private sector has rapidly grown in terms of the number of businesses, capital and employees (Barr, 2011). In the United States of America (USA), SMEs provide approximately 75 per cent of the net jobs added to the economy and employ around 50 per cent of the private sector workforce, representing 99.7 percent of all employers (Sabato, 2010). In Australia, the SMEs manufacturing sector employs 45 percent of the workforce, and generates 55 percent of sales (Barnes, 2010). From the base of zero in 1991, the number of private businesses and limited companies had quickly risen to 28,811 SMEs in 2010 (Meredith, 2011). Meredith further observed that SMEs have contributed considerably to growing GDP and creating jobs for labourage people. Conceptually, cash management involves the determination of the optimal cash to hold by considering the trade-off between the opportunity cost of holding too much cash and the trading cost of holding too little (Ross et al, 2008). Atrill (2010) stressed that there is need for careful planning and monitoring of cash flows over time so as to determine the optimal cash to hold. Inventory management should be undertaken to maximize the value of the firm (Macharia, 2012). The firm should therefore, consider costs, returns and risk factors in establishing i ventory policy. Inventories represent a significant investment for SMEs in manufacturing sector. Hussain (2010) also states that the aim of inventory management is to avoid excessive and inadequate levels of inventories and at the same time maintain sufficient inventory for the smooth production and sales operations.

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 value of the firm (Michalski, 2007). A study by Juan and Martinez (2002) emphasized that firms can create value by reducing their number of days of accounts receivable, thus confirmed the finding of Deloof (2008) who established that the length of receivables collection period has a negative effect on a firm"s performance. Financial performance can be determined through profitability, return on assets and return in equity (Mureithi, 2009). Income statements are very useful in measuring financial performance where many kinds of ratio analysis can be calculated (Madura 2008).Based on this background, this study is designed to determine the role of working capital management on the financial performance of SMEs in manufacturing sector in Nigeria.

Problem statement:

Accounts receivables management is important because of its effect on the firm's profitability and risk, and consequently its value (Smith, 1980). Investments in current assets represent a very significant position of total assets. Additionally, there is risk-return trade off; in that the optimal level calls for a balance between profitability and solvency by minimizing the total costs of liquidity and cost of illiquidity. According to the Economic Survey of 2006, small scale enterprises contributed over 50 percent of new jobs created in the year 2005 and over 20 percent to the Gross Domestic Product (GDP) of the country. In recognition of this indispensable role, the Government of Nigeria has instituted enterprise support programmes including the introduction of Women and Youth Enterprise Funds in the years 2006 and 2007 respectively to fuel the development of these enterprises (GoK, 2010). Micro finance institutions have joined the foray in providing them with microcredit hence, seeing their access to microcredit increase from 7.5 percent in 2006 to 17.9 percent in 2009.

Thus, there is a glaring gap in literature with respect to Nigeria which this study sought to fill. Hence, lack of proper research study on the area gives a chance for Nigerian SMEs managers to have limited awareness in understanding the nexus between working capital management and SMEs financial performance. Therefore, by keeping the above problem in mind, the study will try to find out the impact of working capital management on the financial performance of SMEs in manufacturing sector in Nigeria.

Objective of the study:

The general objective of the study is to determine the impact of accounts receivable management practices on financial performance of Small and Medium manufacturing Enterprises in Nigeria.

Specific Objectives

i. To establish the impact of accounts receivable management practice on financial performance of Small and Medium manufacturing Enterprises in Nigeria.

ii. Determine the impact of inventory management practice on financial performance of Small and Medium manufacturing Enterprises in Nigeria.

iii. Establish the impact of account payable management practice on financial performance of Small and Medium manufacturing Enterprises in Nigeria

Research Question

Does working capital management practices influence financial performance of Small and Medium manufacturing Enterprises in Nigeria?

Research Hypothesis

- **H_{01}** account receivable management practices has no significant influence on financial performance of Small and Medium manufacturing enterprises in Nigeria
- H_0 iventory management practices has significant influence on financial performance of Small and Medium manufacturing enterprises in Nigeria
- H_{01} account payable management practices has no significant influence on financial performance of Small and Medium manufacturing enterprises in Nigeria

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Justification of the study

The study seeks to examine the impact of accounts receivable management practices on financial performance of small and medium enterprises in Nigeria. It is hoped that the findings obtained through this study will be used by Nigeria to improve on financial policy formulation and their operational procedures as they work to improve SMEs performance. Other government agencies could benefit from the findings. Working capital management practices are significant facets of financial management. The study of working capital management practices and financial performance of SMEs provides insights into the feasible and desirable growth pattern. Since SMEs dominate industrial scene in developing countries, their profitability understanding is very significant to the government, entrepreneurs, research institutions and the community (Namusonge, 2008). Knowledge of accounts receivable management like cash management, inventory management, account payable and account receivable management are of great value to policy makers. For example, policy interventions and international development aid intended for growth oriented enterprises could be targeted if the practices are known. The information obtained from this study can be use by economic planners who require knowledge of financial management practices.

LITERATURE REVIEW

Concept of accounts receivable management practices

Accounts receivable of a firm is a legally enforceable claim for payment from a business to its customers / clients for goods supplied and / or services rendered in execution of the customers order. On the balance sheet, it is reported as a current asset and is considered part of an organization's working capital. The foundation behind accounts receivable is a firm's policies and procedures for sales. A system must be in place to track accounts receivable. This should include balance forwards, listing of all open invoices and generation of monthly statements to customers. An aging of receivables should be used to collect overdue accounts. Many organizations today are faced with the problem of having huge accumulated balances owing to accounts receivables which are sometimes written off and thus interfering with the organizations operations. The purpose of the study is to establish how Accounts receivable management tries to minimize the amounts of money tied up in form of accounts receivables and thus takes the organization back to its original set goals. Accounts receivables management entails managing the firm's inventory and receivables in order to achieve a balance between risk and returns and thereby contribute positively to the creation of a firm value. Excessive investment in inventory and receivables reduces the profit, whereas too little investment increases the risk of not being able to meet commitments as and when they become due (Harris, 2005). 3 In many organizations today, liquidity position is thus a major issue that must be put into consideration by financial managers. This liquidity state can be identified by their riskreturn characteristics (Weinraub and Visscher, 1998). Therefore, risk and return tradeoffs are inherent in alternative accounts receivables management policies. High risk, high return accounts receivables investment and financing strategies are referred to as aggressive; lower risk and return strategies are called moderate or matching; still lower risk and return is called conservative (Moyer, 2005; Pinches 1991; Brigham and Gapenski, 1987). Keeping an optimal balance among each of the accounts receivables components is the main objective of accounts receivables

management. Business success heavily depends on the ability of the financial managers to effectively manage receivables, inventory, and payables (Filbeck and Krueger, 2005).

A study by Juan and Martinez (2008) emphasized that firms can create value by reducing their number of days of accounts receivable, thus confirmed the finding of Deloof (2009) who established that the length of receivables collection period has a negative effect on a firm"s performance. A study by Nyakundi (2009) also affirmed that, putting in place a sound credit policy ensures proper debt collection procedures and is pivotal in improving efficiency in receivables management hence the performance of firms. When goods or services are transferred to a customer the firm becomes a trade debt or of the supplying firm until such time that it settles its debt by making payment(Singh, 2008). Pandey(2009) indicated that trade credit is considered as an essential marketing tool, acting as abridge for the movement of goods through production and distribution stages to customers. Additionally, a firm grants trade credit to protect its sales from the competitors and to attract potential customers to buy its products at favorable terms. According to Shah (2009), while cash sales continue to dominate in manufacturing industries, situations where customers purchase goods and services on credit are increasing. Determining credit terms, selecting credit customers and monitoring the level of accounts receivable become important area form managerial decision making (Smith,2010). In determining credit policy, firms tend to strike the balance between the cost of granting credit and those associated with denying or restricting credit (Sabato, 2008). Mureithi (2009) states that one of the central issues in modern financial management is the proper evaluation of risk and return. The profitability of many firms depends very much on the institution"s ability to evaluate and control credit risk.

Shah (2012) found generally low standards. Approximately 95 percent of businesses that sold on credit tended to sell to anyone who wished to buy. Only 30 percent of respondents subscribed to a regular credit reporting service. Most had no credit checking procedures and guidelines, and only 52 percent enforced a late-payment charge. A study by Kwame (2008) established that the setting of a cash balance policy ensures prudent cash budgeting and investment of surplus cash. This finding agree with the findings by Kotut (2009) who established that cash budgeting is useful in planning for shortage and surplus of cash and has an effect on the financial performance of the firms. The assertion by Ross et al. (2008) that reducing the time cash is tied up in the operating cycle improves a business"s profitability and market value furthers the significance of efficient cash management practices in improving business performance. Provision of trade credit is normally used by businesses as a marketing strategy to expand or maintain sales (Pandey, 2009).

SMEs Financial Performance

The concept of SMEs performance has been interpreted variously. In applied studies, it is common to associate improvements in firm performance with increased profitability, higher efficiency and increased output (Teruel, 2008). Assessing managerial performance is a difficult task. Typically, the capital market only has the current profit statement and other public disclosures with which to assess performance. These are inadequate measures of managerial quality since they ignore "soft issues" and strategic off-the balance sheet items in such as human resource development, expansion of production capacity and Research and Development whose return can only be realized in subsequent accounting periods (Star, 2008).

Extant research addressing SMEs performance has relied on accounting-based financial indicators (Vuong, 2008; Van, 2010), market-based indicators as well as combinations of both (Waweru, 2009). The nature of a given financial performance indicator may be fundamental, as there is some disagreement regarding the extent to which any board or executive decisions might impact accounting versus market-based measures of financial performance.

According to Waweru (2009), reliance on financial accounting measures has been frequently criticized. It has been argued, for example, that such measures (1) are subject to manipulation; (2) may systematically undervalue assets; (3) create distortions due to the nature of depreciation policies elected, inventory valuation, and treatment of certain revenue and expenditure items; (4) differ in methods adopted for consolidation of accounts; and (5) lack standardization in the handling of accounting conventions. Besides, financial accounting returns are difficult to interpret especially in the case of multi-industry participation by firms. It has been demonstrated, for example, that SMEs managers often compare SMEs performance relative to average industry performance when evaluating managerial decisions and performance (Wanjoi, 2008). It is also notable that financial accounting measures do not normally account for shareholder investment risk. Fearing the loss of their jobs, managers might put too much emphasis on how their decisions influence short-term profits and other public disclosures. Managers thus have a tendency to act myopically (Mathuva, 2009).

The emphasis on short-term performance is a common practice among executives. The danger is that current profits are over-valued by the market relative to strategic decisions that are likely to generate future profits. Hence, management will use a very high discount rate when making investment decisions. Good projects that reap their gains in the distant future will be ignored and bad projects with a short payback period accepted (Michalski, 2009). Researchers have however, relied on financial indicators of firm performance because they are readily available to the public. The typical financial indicators that have been commonly used are Return on Assets (ROA) and Return on Equity (ROE) (Cohen, 2009: Meredith, 2010; McMahon, 2011). Over-reliance on financial indicators to judge overall SME performance is often misleading especially if the SME in question has a lot of intangible assets component in its operations including human resources, Research and Development and other non balance sheet assets. Hence, the need to pay attention to non-financial indicators of performance, or at least one that combines aspects of both, for a more comprehensive appraisal of firm performance cannot be overemphasized (Emory, 2009).

Theoretical Framework

Transaction Cost Theory

The Transaction Cost Theory was formulated by Commons (1934) and reinforced by Coase (1937), Arrow (1969, 1974) and Williamson (1985, 1991). According to Arrow (1969), transaction costs are the costs involved in running the economic system. Coase (1988) suggests that there are always costs for carrying out market transactions. Therefore, a firm would prefer transactions to be organised within the firm if the cost would be less than the cost of carrying out the transaction in the market. However, as the additional costs of transactions within the firm exceed the cost of carrying out the transaction through the market, firms attempt to reduce transaction costs by vertical integration (Williamson, 1991). Therefore, the rationale behind the transaction cost theory

is that market costs are usually too high for firms to overcome individually. This leads to the creation of linkages for small firms (Thorelli, 1986).

From a transaction theory perspective, a firm needs to consider two main costs, market transaction costs and control costs, as their part of internationalization process (Williamson, 1985; Hennart, 1989). These costs occur as the result of environmental and behavioral uncertainties, opportunism, and asset specificity (RindfleischHeide,1997). Heide (1994) states both environmental and behavioral uncertainties refer to the market changes that is unpredictable together with the uncertainty of possible firm action of reaction. Such unpredictability leads to the contractual constraints, which denote every possibility and consequent response become more ineffective (Heide, 1994). The opportunism can be defined as acting based on self interest with astuteness (Williamson, 1985). Lastly, Williamson (1985) also suggests that asset specificity refers to the fact that the relation between partners is transaction-specific assets that cannot be reorganized easily. Transaction cost theory (TCE) at its core, focuses on transaction and the costs that attend completing transactions by one institutional mode rather than another (Williamson, 1975). The transaction, a transfer of a good or service is the unit of analysis in the TCE and the means of effecting the transaction is the principal outcome of interest (Williamson, 1985).

The theory"s central claim is that transactions will be handled in such a way as to minimize the costs involved in carrying them out. The goods in this case refer to finances committed to for working capital management. In working capital management, the four elements cash, debtors, stock and creditors stand out as the key problems, whose management involves rigorous planning and resource commitment. For example, stocks can be modeled mathematically to formulate a basic policy outlining when stocks should be ordered, what quantity and the associated cost. In a SME environment, the tools for such action may be lacking or the cost of such adoption may offset the benefits of use. In most practical circumstances, firms can choose between the relative benefits of two basic types of strategies for net working capital management; they can minimize working capital investment or they can adopt working capital policies designed to increase sales. Thus, the management of a firm has to evaluate the trade-off between expected profitability and risk each of them representing an opportunity cost of the other before deciding the optimal level of investment in current assets.

Agency Theory

Agency theory deals with the people who own a business enterprise and all others who have interest in it like managers, banks, creditors, family members and employees. The agency theory postulates that the day to day running of a business enterprise is carried out by managers as the agents who have been engaged by the owners of the business as principals who are also known as shareholders.

This theory places emphasis on transaction costs, contracting analysis following the work of Coase (1937) Jensen and Meckling (1976) and most important, Stiglitz and Weiss (1981).The work of these writers all point to the challenges that surround ownership, contractual agreements, management interrelationship, credit rationing etc between SMEs and external providers of finance, thereby subjecting firms to the risk of asset substitution which in practice means a change in the firm"s asset structure. For very small and micro-enterprises this asset substitution may well take place

between the enterprise and the owner"s household. As described in the report by South African reserve bank (2004)

The presence of these problems in small firms may explain the greater use of collateral lending to small firms as a way of dealing with these agency problems. Lenders" strategies for dealing with these problems also add significantly to the cost of dealing with this sector. For a large enterprise the evaluation of an application for finance may be limited to the assessment of an (audited) set of financial statements and supporting documentation provided by the applicant, while for SMEs the assessment frequently has to go far beyond this, implying a substantially higher transaction cost.

The theory is on the notion of the principle of two sided transaction. It holds that any financial transactions involve two parties and both act on best interest but with different expectations. The major problem associated with this theory includes information asymmetry, moral hazard and adverse selection (Kwame, 2010). According to Stiglitz and Weiss (1981), agency problems such as asymmetric information and moral hazards can impact on the availability of credit and hence the capital structure of SMEs. Stiglitz and Weiss termed this phenomenon as credit rationing.

Resource-Based Theory

Resource-based view has become one of the most influential and cited theories in the history of management theorizing. It aspires to explain the internal sources of a firm"s sustained competitive advantage (Kraaijenbrink, Spender & Groen, 2010). It was Penrose who established the foundations of the resourced-based view as a theory (Roos & Roos, 1997). Penrose first provides a logical explanation to the growth rate of the firm by clarifying the causal relationships among firm resources, production capability and performance. Her concern is mainly on efficient and innovative use of resources. She claimed that bundles of productive resources controlled by firms could vary significantly by firm, that firms in this sense are fundamentally heterogeneous even if they are in the same industry (Barney & Clark, 2007). Wernerfelt (1984) took on a resource perspective to analyze antecedents of products and ultimately organizational performance and believed that "resources and products are two sides of the same coin" and firms diversify based on available resources and continue to accumulate through acquisition behaviors. The knowledge based literature of the firm fosters and develops the resource based theory in that it considers knowledge to be the most complex of an organization"s resources (Alavi&Leidner, 2001). According to resource-based theory, the intellectual capital (IC) is a main source to improve enterprise growth. Therefore, intellectual capital has been studied by many past researchers who investigate the influence of intellectual capital on business performance. However, most past researchers focused on the impact of individual intellectual capital on performance while neglecting the effects of specific elements of intellectual capital.

The currently dominant view of business strategy – resource-based theory or resourcebased view (RBV) of firms – is based on the concept of economic rent and the view of the company as a collection of capabilities. This view of strategy has a coherence and integrative role that places it well ahead of other mechanisms of strategic decision making. Ganotakis & Love (2010) used the Resource Based Theory (RBT) to explain the importance of human capital to entrepreneurship. According to RBT, human capital is considered to be a source of competitive advantage for

entrepreneurial firms. Ownership of firm-specific assets enables a company to develop a competitive advantage. This leads to idiosyncratic endowments of proprietary resources (Barney, 1991). According to RBT, sustainable competitive advantage results from resources that are inimitable, not substitutable, tacit in nature, and synergistic (Barney, 1991). Therefore, managers need to be able to identify the key resources and drivers of performance and value in their organizations. The RBT also states that a company's competitive advantage is derived from the company's ability to assemble and exploit an appropriate combination of resources. Such resources can be tangible or intangible, and represent the inputs into a firm's production process; such as capital, equipment, the skills of individual employees, patents, financing, and talented managers. As a company's effectiveness and capabilities increase, the set of available resources tends to become larger. Through continued use, these "capabilities", defined as the capacity for a set of resources to interactively perform a stretch task or an activity, become stronger and more difficult for competitors to understand and imitate. (R&D expenditures) and can be used to augment future production possibilities. Rylander, 2001

Resource-based theory has been developed to understand how organisations achieve sustainable competitive advantages. The theory focuses on the idea of costly-to-copy attributes of the firm as sources of business returns and the means to achieve superior performance and competitive advantage (Barney, 1986; Conner, 1991; Hamel and Prahalad, 1996). A firm can be understood as a collection of physical capital resources, human capital resources and organisational resources (Barney, 1991). Resources that cannot be easily purchased, that require an extended learning process or a change in the corporate culture, are more likely to be unique to the enterprise and, therefore, more difficult to imitate by competitors. It is argued that performance differentials between firms depend on having a set of unique inputs and capabilities (Conner, 1991).

Empirical review

According to (Joshi, 2000) and Meyer et al (1992), noted that accounts receivables consist of the credit a business grants its customers when selling goods or services which take the form of either trade credit which the company extends to other companies or consumer credit, which the company extends to its ultimate consumers. The effectiveness of a company"s credit policies can have a significant impact on its total performance.

Machiraju (2005) also argue that receivables arise out of delivery of goods or rendering of services on credit. Receivables represent claims against others for future receipt of money, goods or services whose value depends upon the volume of credit sales and the policy for collecting such credits. Joshi (2000) indicated that the primary objective of investment in trade debtor is to increase profit by expanding sales to attract new customers and retain old customers. By constantly increasing its sales and profit the business carves out a bigger niche in the market and elevates its status among competitors. In determining an optimal credit extension policy, Meyer et al (1992) observe that a company"s financial managers must consider a number of major controllable variables that can be used to alter the level of receivables which include credit standards, credit terms and collection effort.

Singh and Pandey (2008) had an attempt to study the working capital components and the impact of working capital management on profitability of Hindalco Industries Limited for period from 1990 to 2007. Results of the study showed that current ratio, liquid ratio, receivables turnover ratio and

working capital to total assets ratio had statistically significant impact on the profitability of Hindalco Industries Limited. As observed by Michalski (2009), 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 value of the firm. A study by Lazaridis (2008) and Dimitrios (2008) found out that firms who pursue increase in their accounts receivables to an optimal level increase their profitability resulting from increase sales and market share.

A study by Juan and Martinez (2008) emphasized that firms can create value by reducing their number of days of accounts receivable, thus confirmed the finding of Deloof (2009) who established that the length of receivables collection period has a negative effect on a firm"s performance. A study by Nyakundi (2009) also affirmed that, putting in place a sound credit policy ensures proper debt collection procedures and is pivotal in improving efficiency in receivables management hence the performance of firms. When goods or services are transferred to a customer the firm becomes a trade debt or of the supplying firm until such time that it settles its debt by making payment(Singh, 2008). Pandey(2009) indicated that trade credit is considered as an essential marketing tool, acting as abridge for the movement of goods through production and distribution stages to customers. Additionally, a firm grants trade credit to protect its sales from the competitors and to attract potential customers to buy its products at favorable terms. According to Shah (2009), while cash sales continue to dominate in manufacturing industries, situations where customers purchase goods and services on credit are increasing. Determining credit terms, selecting credit customers and monitoring the level of accounts receivable become important area form managerial decision making (Smith,2010). In determining credit policy, firms tend to strike the balance between the cost of granting credit and those associated with denying or restricting credit (Sabato, 2008). Mureithi (2009) states that one of the central issues in modern financial management is the proper evaluation of risk and return. The profitability of many firms depends very much on the institution"s ability to evaluate and control credit risk.

Shah (2012) found generally low standards. Approximately 95 percent of businesses that sold on credit tended to sell to anyone who wished to buy. Only 30 percent of respondents subscribed to a regular credit reporting service. Most had no credit checking procedures and guidelines, and only 52 percent enforced a late-payment charge. Thirtyfour percent of businesses had no formal procedure for aging accounts receivable. Bad debts averaged 1.75 percent of sales, with a high of 10 percent in some concerns. Singh (2008) revealed a very high level of awareness and utilization of credit control systems in the UK, even in the smallest businesses

Methodology

Research Design: The study adopted a descriptive research design. The researcher used a cross sectional research design with both qualitative and quantitative methods. The design was appropriate in investigating the empirical and theoretical relationship between the variables.

Sample Size and Population

80 members of staff and 87 members of customers constitute the respondents for this research work. A total of 432 questionnaires were sent out and 253 were fully answered and returned and used for the analysis.

Methods of Data Collection

Data needed for this work was collected through the use of primary and secondary source.

Primary Sources of Data

The research uses personal interviews amongst staff of the company and few customers, all selected at random. Also, questionnaires were used to collect necessary information to avoid bias.

Descriptive Results

Results and Discussion

Impact of accounts receivable on financial performance of Small and Medium manufacturing Enterprises in Nigeria

Table 2: Distribution of respondents by impact of accounts receivable management practice on financial performance of small and medium manufacturing enterprises in Nigeria

Statement	Mean	Rank
Business review debtors" credit periodically	**4.01**	**Accepted**
Sometimes cash management can be difficult due to lack of funds or in-house capacity	**3.98**	**Accepted**
The firm prefers long term debt to short term debt as source of finance	**3.76**	**Accepted**
The firm pays accounts payable in good time	**3.65**	**Accepted**
All retained earnings have been reinvested back to the business over the last 10 years.	**4.12**	**Accepted**
The return on investment (ROI) is the best measure of firm profitability	**5.15**	**Accepted**
Inventory budgets of your business is useful in providing information for making the inventory decisions	**4.09**	**Accepted**
Grand mean	**4.62**	

In Table 2, the grand mean of 4.96 which is above the criterion mean of 3 shows that respondents agreed that accounts receivable management practice has significant effect on financial performance of small and medium manufacturing enterprises in Nigeria. The results also indicate that on average; the respondents agreed that accounts receivable management practice is one way a company has remained competitive. The mean score for the opinion of owner/manager might feel about the efficiency of cash management practices as worked out by adding all respondents scores. The overall mean score is **4.62**. This means that the opinion of the respondents was on the higher side of the likert scale which implied that the respondents felt that the of cash management was positive.

The summary findings indicate that accounts receivable management practices that about 83.7 percent of SMEs rarely or sometimes prepare accounts receivable management practices and preparing and reviewing cash budgets are frequently based on monthly periods. At the same time, 85.3 percent of responding SMEs sometimes and often have shortage of cash while about 59.6 percent always and often have a surplus of cash. Nevertheless, only 19 percent of SMEs deposit

their cash surplus into bank accounts while up to 58.9 percent of responding SMEs invested nowhere.

Regression Model

Financial performance = $\alpha + \beta 1_{x1} + \mu$

Where the variables are define as:

FP- Financial Performance

X_1 – Accounts receivable Management Practices

Table 3: Impact of accounts receivable management practice on financial performance of Small and Medium manufacturing Enterprises in Nigeria

Model	R	R^2	Adjusted R^2	Std error of the estimate
1	0.761	0.579	0.490	1.602

Explanatory variable	**B**	**Std error**	**t – value**	**p-value**	**Remarks**
Constant	21.450	0.875	28.510	0.000	
Accounts receivable Management Practices	0.232	2.074	1.786	0.011	S

Table 2 The findings revealed that accounts receivable had the greatest influence on financial performance with a unit change in the accounts receivable management practices, holding financial performance constant.

Conclusion

The study concludes that there is a strong positive and statistically significant correlation between accounts receivable and financial performance of manufacturing firms in Nigeria. The study also concludes that good management of accounts receivable will keep manufacturing sector a float.

Therefore, accounts receivable management has a potential of assisting Nigeria to achieve vision 2030 which advocates for strengthening SMEs to become key industries of tomorrow. These conclusions bring about important implications in applying working capital management and improving SME financial performance. Therefore it implies that accounts receivable has a significant role in the financial performance of SMEs in Nigeria.

Recommendations

The study also recommends that there should be proper accounts receivable system in the organization to avoid over stock of inventory resulting efficient outcome of investment and engage in better relationship with those suppliers who allow long credit time period and those customers who allow short payment period. The manufacturing companies should also prepare cash-flow forecasts as this could help in identifying future surpluses and deficits. This will enable the enterprises maintain optimal cash balances which will enable them meet their financial obligations as they fall due. The government should be able to come up with the monitoring units

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to have the government sponsored SMEs evaluated in order to ensure that they follow the required regulations more so on the working capital management. This is because proper working capital management practices lead the SMEs to achieve a successful financial performance. Conclusively, the study recommends that further studies should be carried out on the effects of accounts receivable management of financial performance in other sectors of economy focusing on financial and accounting variables not studied and in an extended period of time.

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