

# **Accounts Receivable Management and Organizational Profitability as a Function of Employee Perception in Gumutindo Coffee Cooperative Enterprise Limited (GCCE), Mbale District Uganda**

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**Abstract:** *This study sought to explore the effect of Accounts Receivable Management on Organizational Profitability, by testing the hypothesis: Accounts Receivable Management has a significant positive effect on organizational profitability. Using a descriptive research design and a case study strategy, sample size of 181 was taken from the population of 345 staff. Likert type scale questionnaires were used to collect data from the respondents in terms of the two variables. The findings revealed that accounts receivable management positively affected organizational profitability (adjusted  $R^2 = 0.90$ ;  $p < .01$ ), thus the hypothesis was accepted. The study concluded that, accounts receivable management as practiced by GCCE was adequate. Recommendations were made to better enhance accounts receivable management in GCCE.*

**Keywords:** *Accounts Receivable Management, Organizational Profit, Mbale, Uganda*

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## **I. Introduction**

Profitability is an economic obligation of any business. This guarantees the businesses continuity and viability. In fact Lysons (1996:3) pointed out that, the term 'profitability however, has a wider meaning than pecuniary gain and can be extended to cover anything that is advantageous or beneficial to an organization'. Accounts receivable of a firm is a legally enforceable claim for payment from a business to its customers for goods supplied and services rendered in execution of the customer's order. Management of accounts receivables which aims at maintaining an optimal balance between each of the accounts receivables components, that is, cash, receivables, inventory and payables is a fundamental part of the overall corporate strategy to create value and is an important source of competitive advantage in businesses (Deloof, 2003) and thus organization profitability. This study therefore sought to explore the effect of Account Receivable Management on organization profitability, by testing the hypothesis: Accounts Receivable Management has a significant positive effect on organizational profitability.

## **II. Literature Review**

### **2.1 Accounts Receivable Management**

Accounts receivables of a business organization are created in two major ways. On one hand, the firm may advance payments to the suppliers of inventories to ensure timely supply, especially when the supplier hold a monopolistic position or when materials are in short supply or a firm desiring to develop a captive supply base or for short term financial and profitability considerations. On the other hand accounts receivables are created by a firm selling its output on credit, popularly termed as sundry debtors. Trade credit influences preferences of both sellers and the customers. The functions of accounts receivables' management are intended to set out credit terms, selection of credit worth customers, installing an appropriate collection and monitoring system and financing the receivables for maximizing the firm's value (Bhattacharya, 2006). According to Preve and Sarria-Allende (2010) firms invest in financing clients when their core business is not related to lending money or providing financial services because of various reasons. These reasons include, gaining competitive advantage, redistribution where firms with greater access to financing redistribute the available capital to clients facing credit constraints, information asymmetry where suppliers with close customer relationships have an advantage over financial creditors in obtaining information about their customers' credit worthiness, as they are able to observe customers' orders, and payments, among others. This information advantage lowers suppliers' credit risk and in turn increases their willingness to finance customers. In addition, suppliers often offer credit because they want to maintain long-term business relationships with their clients. According to Kontus, (2013) accounts

receivable management includes establishing a credit and collection policy. The policy includes, credit period, discounts for early payment, and credit standards specifying to whom credit should be extended, the terms of the credit and the procedure that should be used to collect the money. Lower accounts receivable ratios may indicate that average investment in accounts receivable is unsuitable and the company's credit policy is too stringent. This may lead to loss of business with the company failing to tap into the potential for profit through sales to customers in higher risk classes. Investment in accounts receivable represents the cost of capital tied up in those receivables. Therefore, a company has to weigh the profit potential against the risk inherent in selling to more marginal customers. The profitability on additional sales generated must be compared with the amount of additional bad debts expected, higher investment and collection costs, along with the opportunity cost of tying up funds in receivables for a longer period of time.

According to Pandey and Jaiswal (2011) accounts receivable conversion period is the average time taken to convert debtors into cash, represented by the average collection period. It is calculated by dividing the product of accounts receivable figure and 365 days by credit sales. When establishing a credit policy, finance managers must consider three main variables; credit standards and analysis, credit terms, and collection policy and procedures (Pandey, 2007). Credit standards are the criteria to be followed in selecting customers worthy of credit extension. The three Cs, Character of customer, Capacity to pay and prevailing economic Condition are important considerations. Credit terms stipulate conditions under which the firm sells on credit to customers. They specify the credit limit, credit period and the cash discount. Lastly firms should follow a well-documented collection policy and procedure to collect dues from customers. If the credit period is over and the customer has not yet paid, for example, the firm can send a polite letter reminding the customer, the firm sends progressively strong-worded letters followed with telephone reminders if the customer intentionally fails to pay or may proceed with court action.

Trade credit is an important source of finance for firms. Investment in accounts receivables is an important part of a firm's balance sheet. Trade credit granted by firms to customers can have important implications for firm's value and profitability. Suppliers extend credit mainly to enhance sales and consequently may result in higher profits, mitigate customer's financial frictions; trade credit enables price discrimination, by varying the period of credit or the discount for prompt payment. In the long run trade credit might give future profits by establishing and maintaining permanent customer relationships (Martinez-Sola et al, 2014).

Many companies are too passive when it comes to collecting overdue invoices. The money customers owe the company plays a big role in the monthly cash flow, therefore it is important to develop a solid technique for tracking who owes the firm money, how much they owe and when the payment is due. Accounts receivable staff must take a proactive approach to collecting unpaid bills. Periodic reports showing the total amount outstanding, along with an explanation of why those payments have not been received is recommended. Building an accounts receivable database is one of the best ways to keep track of what the company is owed (Damodaran, 2012).

## **2.2 Organizational Profitability**

According to Esselaar et al., (2008) Profitability is defined as after tax profits divided by the total value of fixed assets. Profit performance must be standardized against the size of the operation or the resources employed (Peck & Wiggins, 2006). De Carvalho et al, (2013) studied organizational profitability by considering multiple possible determinants such as size, age, liquidity, debt, asset structure, government support, and risk. They concluded that profitability is a more fundamental performance measure that is especially important for growth and survival; and that profitability was becoming more relevant with firms facing greater difficulty in accessing external finance.

## **2.3 Accounts Receivable Management and Organizational Profitability**

Deloof, (2003) studied the effect of average collection period on corporate profitability using a sample of 1,009 large Belgian non-financial firms. His correlation and regression tests, revealed a significant negative effect of average collection period of firms on the gross operating income. He suggested that managers could increase corporate profitability by reducing the average collection period. Padachi (2006) found a negative effect of accounts receivables' days on profitability. Likewise, Gill et al, (2010) found that a slow collection of accounts receivables is correlated with low profitability. Managers can improve profitability by reducing the credit period granted to customers. After studying a sample of 50 non-financial Nigerian firms quoted on the Nigerian Stock Exchange, Falope and Ajilore (2009) found a significant negative correlation between net operating profit on one hand and the average collection period and average payment period on the other hand. Mathuva (2009) examined the influence of receivables management on corporate profitability by using a sample of 30 firms listed on the Nairobi stock exchange (NSE) for the periods 1993 to 2008. After data analysis he found a highly significant negative correlation between the average collection period and Profitability of firms. Ramana et al (2013) found a mixture of good and poor receivables management in their study of cement

companies in India. The study showed a significant impact on accounts receivables management on working capital management and profitability. Similarly Padachi, (2006) found that accounts receivable days correlated negatively with profitability. Madishetti and Kibona (2013) studied 38 Tanzanian SMEs for the period 2006 to 2011. They used regression analysis in determining the impact of average collection period on gross operating profit. The results indicated a significant negative correlation between average collection period and profitability.

From the previous studies, it was concluded that good accounts receivable management helps the organization increase sales and sales revenue, and have sufficient cash inflow from timely cash collection. These positively influence organizational profitability. Thus the hypothesis:

**H<sub>1</sub>:** Accounts Receivable Management has a significant positive effect on organizational profitability.

### III. Methodology

The study used a descriptive research design and adopted a case study strategy. With a descriptive research design, respondents explained and described key issues about the important variables of the study. Descriptive research was deemed appropriate because the design determines and reports the way things are and presents an opportunity to fuse both quantitative and qualitative data for a cross section of the population (Mugenda & Mugenda, 2003). In addition, the strength of the case study strategy is its ability to examine in-depth a case within its real-life context and it is pertinent when the research addresses descriptive questions of what happened and how it happened or when a researcher wants to illuminate a particular situation, to get an in-depth understanding of the situation (Yin, 2013).

The study population comprised employees of Gumutindo Coffee Cooperative Enterprise (GCCE) who were drawn from various departments categorized into top management, section heads, unit heads, and clerks & office assistants: As per GCCE staff list of December 2015, the company had 345 staff. Out of a population of 345 staff, a sample size of 181 was derived using the Krejcie and Morgan (1970). The study adopted both probability and non-probability sampling techniques. Stratified Random Sampling was used on unit heads, clerks, and office assistants, while all the top management and section heads were included (census). Likert type scale questionnaires were used to collect data from the respondents in terms of the two variables.

Using Cronbach's Alpha test of reliability (Cronbach, 1951), scores for the questionnaire were above the adopted 0.7 alpha as the adequate reliability as recommended by Cronbach, (1951). The researcher used content validity index (CVI) attributed to Martuza (1977) cited by Polit & Bech, (2014) to calculate content validity. The content validity index was 0.808, which exceeds 0.7 as suggested by Yin (2013).

The data was presented using frequency distribution tables summarizing the frequency and percentage of occurrences of values under study. Tables used gave a clear and a more understandable presentation of the obtained data. The mean was used in further statistical analysis using Statistical Package for the Social Sciences (SPSS) computer package for determination of correlation and regression. Correlation and regression were measured to determine the strength and direction of the effect of the independent variable on the dependent variable and thus test the hypothesis.

### IV. Results And Discussions

The results and discussion are presented as followed, basing on the stated hypothesis of the study.

#### 4.1 Account Receivable

**Table 4.1:** Responses About Accounts Receivable Management At Gcce

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Mean	Std. Deviation
Gumutindo sales its products on credit	37 (22%)	105 (62.5)	9 (5.4%)	11 (6.5%)	6 (3.6%)	3.93	.926
The company sometimes pays suppliers before they deliver goods	21 (12.5%)	89 (53%)	23 (13.7%)	21 (12.5%)	14 (8.3%)	3.49	1.121
I am familiar with guidelines on management of debtors	21 (12.5%)	62 (36.9%)	40 (23.8%)	20 (11.9%)	25 (14.9%)	3.20	1.246
Debtors pay within three months	26 (15.5%)	102 (60.7%)	29 (17.3%)	11 (6.5%)	-	3.85	.755
By selling on credit the company has increased sales revenue	6 (3.6%)	116 (69%)	31 (18.5)	15 (8.9%)	-	3.67	.688
The company provides discount to debtors who pay promptly	7 (4.2%)	41 (24.4%)	16 (9.5%)	61 (36.3%)	43 (25.6%)	2.45	1.227
Through debtors management, the company has reduced debt collection costs	14 (8.3%)	99 (58.9)	39 (23.2%)	16 (9.5%)	-	3.66	.765
Management of debtors positively affect Gumutindo's profitability	30 (17.9%)	123 (73.2%)	12 (7.1%)	3 (1.8%)	-	4.07	.564

Results from table 4.1 on whether GCCE sells its products on credit indicate that 84.5% of the respondents agreed, 10.1% disagreed, while 5.4% were neutral. The mean score was 3.93 and the standard deviation was 0.926. This meant that GCCE sold its products on credit creating a necessity to manage receivables. In fact interviews revealed that most of GCCE sales are sold under trade contracts and are mostly on credit. Consequently, accounts receivable management formed part of GCCE working capital management.

On finding out whether GCCE sometimes pays suppliers before they deliver goods; 65.5% of respondents agreed, 20.8% disagreed and 13.7% were neutral. The mean score was 3.49 and the standard deviation was 1.121. This implies that GCCE sometimes pays its suppliers in advance before supply of coffee giving rise to another component of accounts receivable that needs management. This means that advance payment to suppliers guarantee supply of coffee in future and continued operations which would lead to sustained profitability. One respondent had this to say: "Often-times farmers need cash necessitating GCCE to advance them money through their primary societies payable by supplying coffee at a later date." Preve and Sarria-Allende (2010) justified advance payments as redistribution of capital where firms with greater access to financing help smaller parties with resource constraints. GCCE has two major sources of accounts receivable, which are supplying on credit to buyers and paying in advance to suppliers. This is in agreement with Bhattacharya, (2006) who argues that there are two sources of accounts receivable, that is, supplying good to buyers on credit and advancing payments to suppliers of inventory especially where there is a lot of competition.

Regarding whether respondents were familiar with guidelines on management of debtors; 49.4% agreed, 26.8% disagreed, and 23.8% were neutral. The mean score was 3.20 and the standard deviation was 1.246. This implied that GCCE had guideline in place governing the provision of credit to buyers and advancement of payment to suppliers and that these guidelines were communicated. This means that with proper implementation of such guidelines, GCCE would be able to increase sales by provision of sanctioned trade credit and minimize losses from bad debtors which would boost profitability. One respondent mentioned that "accounts receivables management at GCCE followed fair trade guidelines". Although majority agreed, the percentage of agreement was still less than half of the respondents, implying that the guidelines have not been widely communicated to staff, an area that needs improvement. Communication of guidelines and policies is important for their effective implementation (Pandey, 2007).

In respect to whether debtors pay within three months, findings in table 4.1 show that 76.2% of respondents agreed, 6.5% disagreed, and 17.3% were neutral. The mean score was 3.85 and the standard deviation was 0.755. Results indicated that debtors settle their obligation within 90 days. This means that GCCE has a relatively good debtors' turnover implying that GCCE funds are not unnecessarily tied up with customers and this is good for profitability. This is in agreement with Padachi (2006) and Pandey (2007) who noted that accounts receivable management should ensure that the company's resources spend the least time outside the organization so that profitability can be improved. To substantiate this, one respondent wrote that: "Customers normally pay within 60 days after receipt of invoices although sometime payment would be stretched to 90 days." Another interview respondent had this to say: "GCCE sometimes borrows against invoices and supply contracts when it needs funds. This is done with international banks like Roots Capital bank in the United States, and Shared Interest bank in the United Kingdom."

As to whether by selling on credit the company had increased sales revenue, 72.6% of respondents agreed, 8.9% disagreed, while 18.5% were neutral. The mean score was 3.67 and the standard deviation was 0.688. These results meant that indeed GCCE was able to increase sales and thus sales revenue by selling on credit. This inquiry brought out the benefit of selling on credit which is to boost sales by increasing the customer base to include those customers that may not be able to pay cash on or before delivery. An increase in sales and sales revenue increases profitability. From the interview one respondent noted that: "most of the GCCE sales are under contractual agreements and on credit which enabled GCCE to increase sales volumes and sales revenue in return."

In regard to whether GCCE provided discount to debtors who pay promptly, 28.6% agreed, 61.9% disagreed to provision of discount, while 9.5% were neutral. The mean score was 2.45 and the standard deviation was 1.227. This implies that GCCE rarely offers discounts to encourage prompt payment. This means that GCCE did not have to sacrifice revenue when collecting payment on credit sales in form of discounts which helped the company to improve profitability. One interview respondent noted that: "Since products are sold under contract with buyers with the intention of promoting fair trade in which a premium price is paid for high quality products, discounts are rare." Another interview respondent substantiated that discounts would occasionally be offered when GCCE makes local sales. This would happen only when international coffee prices are low caused by international bumper harvests.

Findings in table 4.1 as to whether through debtors management the company had reduced debt collection costs, 67.2% agreed, 9.5% disagreed, while 23.2% were neutral. The mean score was 3.66 and the standard deviation was 0.765. This implied that GCCE did not incur substantial cost on debt collection and did not sacrifice substantial revenue on providing discounts for prompt payment. This means that GCCE did not

spend on additional efforts to collect debt, helping the company to boost profitability. One respondent wrote that: “GCCE paid minimal interest when borrowing short term funds against invoices because buyers always adhered to sales agreements.”

In regard to whether management of debtors positively affected GCCE profitability, table 4.1 shows that 91.1% agreed, 1.8% disagreed while 7.1% were undecided. The mean score was 4.07 and the standard deviation was 0.564. This means that GCCE was able to boost its profitability through managing accounts receivable. This was done through collection of all due funds with debtors where the company did not lose to bad debtors, maintaining a low receivables period of up to 90 days, providing minimal cash discounts, and increased sales by provision of credit sales. These findings were in line with Ramana et al (2013), Gill, et al (2010), and Padachi, (2006) who mentioned that managers were able to improve profitability by reducing the credit period granted to their customers.

#### 4.2 Organizational Profit

**Table 4.2: Responses About Profitability At Gcce**

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Mean	Std. Deviation
The company is experiencing an increase in return on shareholders capital.	10 (6%)	58 (34.5%)	41 (24.4%)	50 (29.8%)	9 (5.4%)	3.06	1.048
The company is experiencing improvement in sales revenue	6 (3.6%)	109 (64.9%)	25 (14.9%)	27 (16.1%)	1 (0.6%)	3.55	.825
The company is experiencing an increase in operating profit margin	6 (3.6%)	102 (60.7%)	26 (15.5%)	32 (19%)	2 (1.2%)	3.46	.882
Over the past two years there has been a reduction in operational costs	1 (0.6%)	38 (22.6%)	30 (17.9%)	83 (49.4%)	16 (9.5%)	2.55	.965
The company is experiencing an increase in return on invested capital.	6 (3.6%)	77 (45.8%)	51 (30.4%)	34 (20.2%)	-	3.33	.837
Profitability has influenced working capital management decisions	18 (10.7%)	112 (66.7%)	29 (17.3%)	9 (5.4%)	-	3.83	.683

On finding out whether GCCE was experiencing an increase in return on shareholders’ capital, findings in table 4.2 indicate that 40.5% of respondents agreed, 35.1% disagreed, while 24.4% were neutral. The mean score was 3.06 and the standard deviation was 1.048. This implied that GCCE was experiencing an increase in the return to shareholders equity although the increment might have been small because the percentage of those who agreed was only 40.5% which was below half. Documentary review revealed that the return on equity increased in the year 2011 to 17%, then in 2012, to 20%, it was stagnant in 2013 at 20%, but reduce in the 2014 to 19% and in 2015 to 15% (Management reports, 2011-2015). An increase in return on shareholders’ equity implies that the residual profits to be shared out to shareholders or to be retained in business have increased. This means an increase in shareholders’ wealth. This points to better performance of managers in managing the resources entrusted to them by their shareholders, as stipulated in the goal theory of Etzioni, (1964). Finding are also in agreement with Periasamy (2009) who argued that return on shareholders’ equity highlights success of the business from the owners’ point of view, measuring income on shareholders’ investment and measuring the efficiency of managers in handling owners’ investment.

In ascertaining whether GCCE was experiencing improvement in sales revenue, findings in table 4.2 show that 68.4% agreed, 16.7% disagreed, while 14.9% were neutral. The mean score was 3.55 and the standard deviation was 0.825. These results meant that there was an increase in sales revenue which could have resulted from an increase in sales volumes of the company, and/or an increase in coffee prices on the world market. Indeed documentary review of the statements of comprehensive income, (2011 to 2015) confirmed that GCCE was experiencing an increase in sales revenue during the study period. One respondent had this to say: “Sales is the major source of revenue for GCCE and most initiatives undertaken to increase profitability are sales oriented.”

In addition, when ascertaining whether GCCE was experiencing increasing operating profit margin, findings in table 4.2 show that 64.3% agreed, 20.2% disagreed, while 15.5% were neutral. The mean score was 3.46 and the standard deviation was 0.882. This meant that there was an increase in operating profit margin; these findings were in line with the increase in sales revenue. This implies that business volume had been increasing over the years under study at GCCE. Documentary review indeed confirmed that the operating profit margin increased from 2011 through to 2015 (Management reports, 2011-2015). One interview respondent said that: “GCCE uses operating profit margin to measure the pricing strategy and operating efficiency by measuring the amount of profit earned per unit of sales revenue made.” The findings imply that there has been an improvement in general operation efficiency at GCCE which point at an improvement in profitability.

On finding out whether over the past two years there had been a reduction in operational costs, findings in table 4.10 revealed that 23.2% agreed, 58.9% disagreed, while 17.9% were neutral. The mean score was 2.55

and the standard deviation was 0.965. Findings implied that there was an increase in operating cost in the past two years. This means that the increase in the volume of business inevitably increased operational expenses in terms of staffing, utilities payments, and the cost of sales.

As to whether GCCE was experiencing an increase in return on invested capital, findings in table 4.2 revealed that 49.4% agreed, 20.2% disagreed, while 30.4% remained neutral. The mean score was 3.33 and the standard deviation was 0.837. These results implied that GCCE was experiencing an increase in return on invested capital. This means that GCCE management was managing well the total invested capital and this pointed to better profitability. Documentary review revealed that the return on invested capital increased in the year 2011 to 12%, then in 2012, to 15%, in 2013 to 18%, but reduced in the year 2014 to 14% and increased in 2015 to 15% (Management reports, 2011-2015). One interview respondent mentioned that: "GCCE uses the difference between return on shareholders' equity and the return on invested capital to determine the extent shareholders were benefiting in terms of profitability from borrowed funds after payment of interest."

On whether profitability had influenced working capital management decisions, results in table 4.2 show that 77.4% agreed, 5.3% disagreed, while 17.3 were neutral. The mean score was 3.83 and the standard deviation was 0.683. This implies that profitability motives direct decisions of working capital management. As illustrated under cash management, one interview respondent expressed that profitability was stressed more than liquidity when making cash management decisions. This means that decisions in management of accounts receivables are geared towards improving profitability of GCCE.

### 4.3 Account Receivable and Organizational Profitability

**Table 4.3: Model Summary Of Accounts Receivable Management And Organizational Profitability**

Model	R*	R Square*	Adjusted R Square*	Std. Error of the Estimate
1	0.309	0.096	0.090	0.57422

Significance level: \* $p < .01$

The model summary in table 4.3 above revealed that correlation coefficient (R) using predictor accounts receivable management is 0.309, and adjusted the  $R^2$  of 0.090. This implies that 9% ( $0.090 \times 100$ ) variations in profitability are explained by accounts receivable management while the remaining 91% is explained by other factors. This further suggests that the hypothesis: Accounts Receivable Management has a significant positive effect on organizational profitability is accepted. The view therefore is that the management of GCCE should enhance accounts receivable management if profitability is to improve. These findings are contrary to the findings of Gill et al, (2010) who found no statistically significant effect of accounts receivable management and organizational profitability. However, Madishetti and Kibona, (2013) findings indicated a significant negative effect of average collection period and profitability, which corresponds to the findings of this study.

## V. Conclusions And Recommendations

In regard to accounts receivable management, the study revealed that accounts receivable management positively affected organizational profitability with a Pearson correlation coefficient of 0.309. The adjusted  $R^2$  was 0.90 implying that 9% of changes in GCCE profitability are accounted for by accounts receivable management. The study discovered that most of GCCE's sales were on credit to foreign customers and sometimes paid suppliers before delivery of goods. These gave rise to accounts receivable that needed effective management to maintain good profitability. Likewise, GCCE maintained guidelines for management of accounts receivable. In regard to accounts receivable turnover, debtors normally paid within three months. By selling on credit, indeed the company managed to increase its sales revenue which in turn helped increase profitability. However, GCCE did not provide discounts to debtors in a bid to boost prompt payment but rather borrowed from foreign banks against invoices in cases where the company had cash flow challenges. Findings also revealed that accounts receivable management helped the company reduce related costs. Respondents reported that accounts receivable management positively influenced GCCE profitability.

The study concludes that, accounts receivable management as practiced by GCCE was adequate. Accounts receivable management positively contributed to GCCE profitability with a coefficient of determination of 9%. This was the least contribution as compared to other working capital components.

The study recommends improvement in accounts receivable management by offering cash discounts to foreign customers to whom GCCE has not been offering discounts. Although GCCE had not experienced challenges of bad debts, the finance manager may advocate for an alternative strategy of offering cash discounts for quicker payments to accelerate payment collection. The rate of discounts to be offered may be determined using the rates GCCE borrows at against invoices. This would help in quicker realization of funds from debtors that would be used to acquire more inventory to be sold and boost profitability. In addition GCCE can reduce its accounts receivable period from ninety to sixty day to enable quicker realization of receivables.

Secondly, the study recommends improvement in accounts receivable management. The procurement manager may suggest to management a payment of higher premium prices for coffee as a trade-off with interest payment. This would boost credit supply of coffee. Documentary review revealed that GCCE borrows at rates ranging from eight per cent to ten per cent. In the recommended strategy, GCCE may promise a premium price to farmers and an addition of say three per cent interest so that farmers supply coffee on credit payable in three months. Instead of borrowing from financial institutions at eight per cent, GCCE would borrow in form of coffee supply from farmers at three per cent. This trade-off between loans and credit supply of coffee would boost sales volumes to meet the existing bigger demand and reduce borrowing cost, thereby boosting profitability.

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