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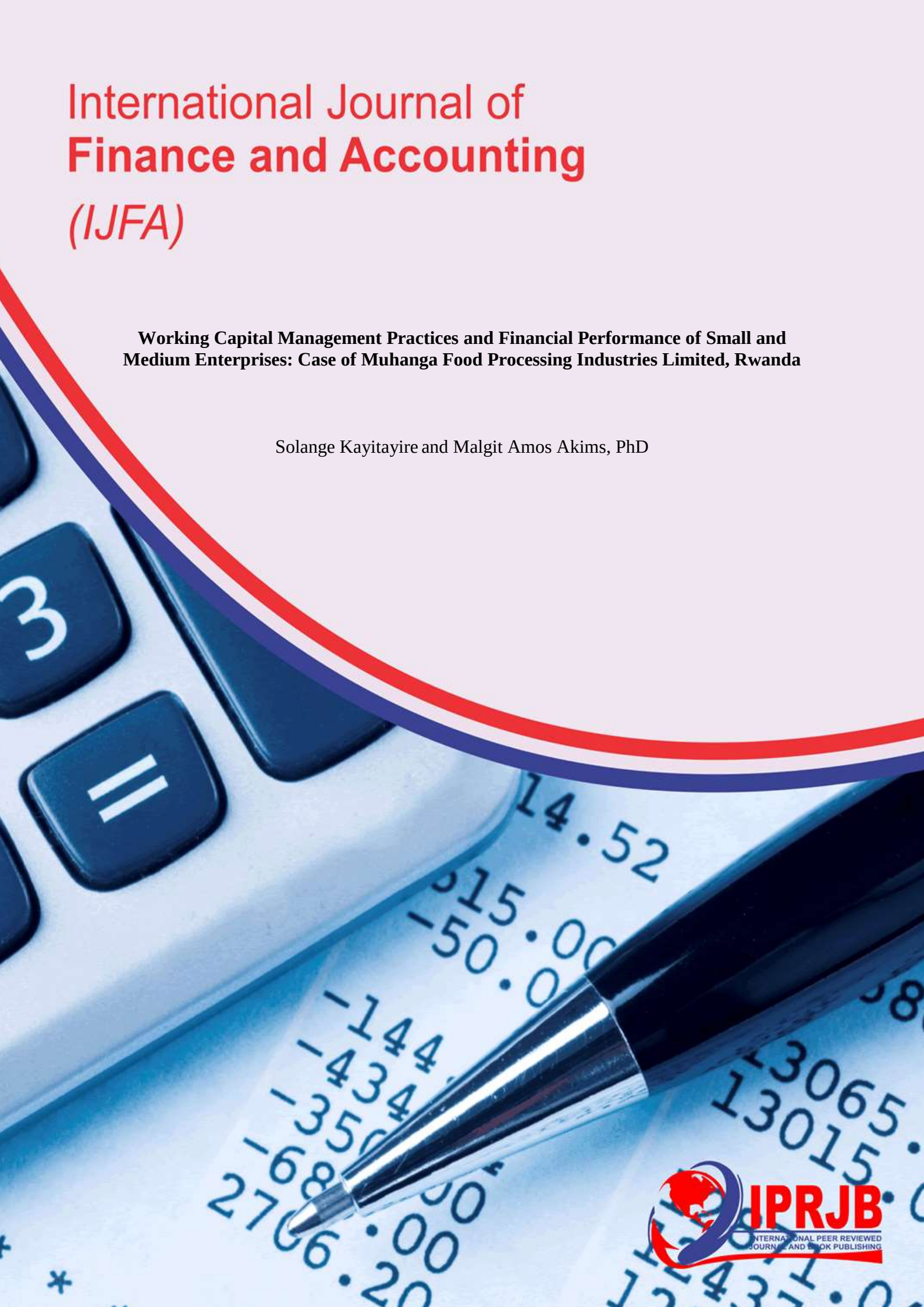

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Working Capital Management Practices and Financial Performance of Small and Medium Enterprises: Case of Muhanga Food Processing Industries Limited, Rwanda

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Abstract

Purpose: The study sought to assess the effect of working capital management methods on the financial performance of small and medium-sized businesses, with a focus on Muhanga Food Processing Industries Limited. The specific objectives of the study were to determine the effect of cash management, creditors' management, debtors' management and inventory management on financial performance of Small and Medium Enterprises.

Methodology: The study used descriptive design as it describes the working capital management practices ensured by Muhanga Food Processing Industry Ltd and its financial performance indicators. The research focused on 86 employees of Muhanga Food Processing Industry with relevant experience, utilizing a census inquiry approach due to the small population size.

Findings: The model summary reveals a multiple correlation coefficient (R) of 0.908, indicating a strong positive correlation among inventory management, cash management, creditor management, and debtor management with the dependent variable, financial performance of Muhanga Food Processing Industry. The unstandardized coefficient for cash management is 0.160, suggesting that for each unit increase in cash management, financial performance is expected to increase by 0.160, with this relationship being statistically significant (B = 0.160, t = 3.062, Sig. = 0.003). Similarly, the unstandardized coefficient for creditor management is 0.237, indicating that a one-unit increase in creditor management correlates with a 0.237 increase in financial performance, which is also statistically significant (B = 0.237, t = 4.372, Sig. = 0.000). Additionally, the unstandardized coefficient for debtor management is 0.314, revealing that enhancements in debtor management can improve financial performance by 0.314 units, with a statistically significant impact (B = 0.314, t = 5.066, Sig. = 0.000). Finally, the unstandardized coefficient for inventory management is 0.278, suggesting that a one-unit increase in inventory management contributes to a 0.278 improvement in financial performance, also statistically significant (B = 0.278, t = 4.572, Sig. = 0.000). These results highlight the essential role of effective management practices in enhancing the financial performance of Muhanga Food Processing Industry.

Unique Contribution to Theory, Practice and Policy: The study recommends that Muhanga Food Processing Industry adopt advanced cash forecasting tools and establish a formal cash reserve policy to enhance liquidity planning.

Keywords: *Cash Management, Creditors' Management, Debtors' Management, Financial Performance, Inventory Management, Small and Medium Enterprises, Working Capital*

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INTRODUCTION

More than half of the world's workers are employed by small and medium-sized enterprises (SMEs), and in developing countries, formally recognized SMEs may generate as much as 40% of GDP (Mwangi, 2022). The growth of national economies is closely tied to the success of SMEs. Small and Medium Enterprises are important because they provide jobs and employ a large percentage of the labor force. Moreover, SMEs help to stabilize regional economies by spreading economic activity around. Small and Medium Enterprises are hotbeds of creativity and innovation. They often pioneer new products, services, and business models, their agility allows them to adapt swiftly to changing market demands, fostering continuous improvement (Solano, 2023).

In Europe, the operation and competitiveness of SMEs are significantly influenced by their access to working capital and investment opportunities, particularly for start-ups and innovative, swiftly growing companies. State assistance is critical since these businesses often struggle to get financing, especially for working capital and have somewhat lengthy cash cycles. Addressing gaps in financial accessibility, attaining economic growth this year, and ensuring finance for company development, productivity, and export capacity expansion are all critical (Bandara, 2022).

In terms of financial performance, working capital is crucial for small and medium-sized businesses. It is a measure of the gap between short-term debt and current assets like cash, receivables, and inventories, as well as current obligations like accounts payable. Small and medium-sized enterprises (SMEs) are better able to satisfy their short-term commitments, take advantage of development possibilities, and run effectively when their working capital is in good shape. On the other side, liquidity issues caused by a lack of working capital may impact both daily operations and overall performance. For small and medium-sized enterprises (SMEs) to succeed and endure, it is essential to find the sweet spot (Javid, 2023).

Businesses risk going bankrupt if their working capital is inadequate, and they risk losing money if their working capital is large. A company must manage its working capital on a daily basis to make sure it has enough money to keep running and not be shut down, which may be expensive (Niyongabo, 2023).

Problem Statement

Research indicates that SMEs that control their inventory levels, accounts receivable, and accounts payable can reduce unnecessary costs and improve their cash conversion cycle, thereby enhancing their profit margins (Niyongabo, 2023). In fact, firms with robust working capital management often experience better returns on assets, equity, and investment (Mudumizi *et al*., 2024). Conversely, poor working capital management can lead to cash shortages, delayed supplier payments, and missed growth opportunities, ultimately impairing the financial viability of SMEs (Cyizihiro *et al*., 2022; Musuhuke *et al*., 2022).

Despite the influences of effective working capital management on liquidity, profitability, and operational efficiency, Small and Medium Enterprises in Rwanda still face significant challenges that hinder their financial performance and sustainability. According to Mudumizi *et al.* (2024), while the financial literacy rate in Rwanda reached 89% in 2020, over 70% of SMEs in Kigali, particularly in Nyarugenge District, continue to struggle with inadequate financial performance. Only 54% of SMEs have access to formal financing, and more than 76% of SMEs experience difficulties in managing their finances effectively. Additionally, around 33% of SMEs have reportedly ceased operations (Ruzindana et al., 2023). These issues

arise from poor financial planning practices and inadequate record-keeping skills. As a result, over 70% of SMEs collapse due to poor financial management practices (Cyizihiro et al., 2022). Mudumizi *et al*. (2024) highlight that financial literacy provides potential opportunities for enhancing SME financial performance in terms of profitability. Furthermore, Musuhuke et al. (2022) indicate that ineffective financial management is a critical barrier to SME success. Umutoni (2021) emphasizes that a lack of access to financial resources significantly hinders the growth of SMEs. Kasema (2022) also found that a considerable number of SMEs do not capitalize on available financial services, which further exacerbates their challenges.

This study examined the relationship between working capital management practices and the financial performance of small and medium-sized enterprises, specifically focusing on the case of Muhanga Food Processing Industries Limited in Rwanda. By identifying effective strategies for managing cash flow, inventory levels, and receivables, this research aims to provide actionable insights that can enhance liquidity, profitability and operational efficiency.

These challenges can be better understood through theories such as The theories of operating cycle, cash conversion cycle, and Keynesian liquidity preference.

Objectives of the Study

General Objective

The general objective of the research was to investigate the effect of working capital management practices on the financial performance of Small and Medium Enterprises, focusing on the specific case of Muhanga Food Processing Industries Ltd.

Specific Objectives

i. To determine the effect of cash management on financial performance of Small and Medium Enterprises.
ii. To evaluate the effect of creditors' management on financial performance of Small and Medium Enterprises.
iii. To examine the effect of debtors' management on financial performance of Small and Medium Enterprises.
iv. To analyse the effect of inventory management on financial performance of Small and Medium Enterprises.

Research Hypotheses

i. There is no significant effect of cash management on financial performance of Small and Medium Enterprises.
ii. There is no significant effect of creditors' management on financial performance of Small and Medium Enterprises.
iii. There is no significant effect of debtors' management on financial performance of Small and Medium Enterprises.
iv. There is no significant effect of inventory management on financial performance of Small and Medium Enterprises.

LITERATURE REVIEW

Theoretical Review

A theoretical framework involves examining and reviewing prior research on a particular topic. The process of gathering and analyzing data from diverse sources contributes to forming a more thorough understanding of the issue at hand.

Cash Conversion Cycle Theory

A cash conversion, first suggested by Gitman in 1974, connects a company's working capital to its cash flow. Get the amount of money needed for a certain sales level by using the principle. Subtract the accounts payable period from the total of the stock period, accounts receivable period, and accounts payable period to get the cash conversion cycle. The time it takes to get from purchasing raw materials and finished goods to turning a profit is the main point of emphasis. Put simply, it calculates the number of days needed to finance operational chores. Companies with shorter CCCs have better liquidity and need less outside funding as they are able to recoup their funds more rapidly. According to Rispah (2019), this cycle is a great indicator of a company's operational effectiveness and financial health.

A company's working capital management becomes much more efficient with the help of the Cash Conversion Cycle (CCC) hypothesis. This theory offers substantial advantages. Better management of inventory, receivables, and payables is made possible by gaining insight into the time it takes to turn resources (such as inventory) into cash (in the form of sales). By indicative inefficiencies, companies can improve cash flow through faster collections and reduced inventory holding periods. This improvement in cash flow can lead to lower financing costs and increased profitability. Improving cash flow is possible for firms by reducing the amount of time goods sits unsold, collecting receivables faster, and paying suppliers more slowly without penalties (Chasha, 2022).

The Cash Conersion Cycle theory was applicable to analyzing working capital management efficiency at Muhanga Food Processing Industries Ltd. This theory concentrated on how long it takes for a corporation to convert its inventory investments into cash flows from sales. Muhanga can improve its cash flow management and reduce its exposure to inventories and receivables by maximizing the CCC.

Keynesian Liquidity Preference Theory

John Maynard Keynes laid the groundwork for economic theory in 1936 when he stressed the need of studying interest rates, liquidity preferences, and the money supply. The theory lays forth the three main reasons why people and businesses opt to keep their money in the bank rather than invest it in assets that would earn interest. Preventative, transactional, and speculative uses all need currency, according to the idea. The precautionary motivation states that organizations need funds to deal with unforeseen possibilities and eventualities, which aids them in emergency and crisis situations. With this clarification, the liquidity preference case for monetary preservation gains credence. Since the transactional motive is to keep money on hand to pay for day-to-day operations and the immediate financial obligations of the corporation are met with easily accessible funds, it stands to reason that income and liquidity are directly related (Odhiambo, 2022).

An equilibrium interest rate is defined by Keynes as the point at which the demand for money is equal to the supply of money controlled by the central bank. The money supply is a tool that central banks use to control interest rates and, by extension, economic activity. A good illustration of this is how a rise in the money supply may spur economic development by lowering interest rates, which in turn encourages borrowing and investment. Interest rates are raised when the money supply is reduced, which discourages borrowing and helps to control inflation. Keynesian Liquidity Preference Theory is crucial in guiding monetary policy, particularly in managing economic cycles. During economic downturns, heightened liquidity

preference due to uncertainty can lead to reduced spending and investment. Central banks can counter this by lowering interest rates to foster economic activity (Olaniyan *et al*., 2020).

A connection to Keynesian Liquidity Preference Theory was established via the investigation of Muhanga Food Processing Industries Ltd's management of its preference for liquidity, or the hoarding of cash, over investment in productive assets, which include working capital components like receivables, payables, and inventories. Keeping the right amount of cash on hand is critical for taking advantage of investment possibilities and satisfying short-term commitments, according to this notion.

Operating Cycle Theory

The operating cycle theory, proposed by Richard and Langulin (1980), asserts that the effectiveness of working capital is crucial in determining a firm's sustainability and efficiency. According to this theory, effective management of trade receivables and inventories is crucial for effectively managing working capital. Managers should strive to establish an optimal level of receivables and inventories in order to enhance the efficiency of the firm's operations. The idea proposes an alternative solution to using current or acid-test ratios as indicators of solvency, which is considered to be flawed (Gakondi & Muturi, 2019).

According to Operating Cycle Theory, a company needs a certain amount of time to turn its investments in inventory and other resources into cash flows from sales. The acquisition of raw materials kicks off this cycle, which concludes with the collection of accounts receivable after a sale. The inventory period and the accounts receivable period are the two primary parts of the operational cycle. Time spent producing and selling goods is known as the Inventory Period, and time spent collecting payment from buyers is known as the Accounts Receivable Period (Mensah, 2021).

If a company can turn its investments into cash faster, it means it has better liquidity and doesn't need as much outside funding, which is why a quicker operating cycle is usually a good thing. Efficient management of both inventory and receivables is crucial. By minimizing the time inventory sits in storage and accelerating collections from customers, businesses can enhance their cash flows, which can then be reinvested into operations or other growth opportunities. Techniques such as just-in-time inventory management and improving credit policies can significantly impact reducing the operating cycle (Solano, 2023).

In the context of Muhanga Food Processing Industries Ltd., this theory was applied to analyze the efficiency of the entire production and sales process. Optimizing the operating cycle, which includes minimizing delays in production, sales, and collections, can significantly impact the company's working capital efficiency and, consequently, its financial performance.

Empirical Review

Rispah (2019) examined how industrial companies listed on the Nairobi Securities Exchange performed financially based on working capital management. The study revealed that accounts receivable management had a positive and statistically significant impact on financial performance, while inventory management showed no such correlation. Data from 2008–2017 highlighted the importance of managing accounts receivable effectively to enhance financial outcomes.

Marinova *et al*. (2021) examined how cash flow management impacted the financial performance of SMEs in Bulgaria. Regression analysis indicated a statistically significant positive effect of cash management on financial success. SMEs with effective cash

management exhibited lower debt levels and higher profitability ratios. Recommendations included employing strong cash flow strategies to boost profits and reduce reliance on debt financing.

Odhiambo (2022) analyzed how various working capital management components influenced financial performance in Kenya. Results demonstrated that working capital elements, such as cash, receivables, and payables, have distinct effects on performance. The cash conversion cycle and liquidity preference theory framed the research, identifying mixed correlations between specific working capital variables and financial outcomes across manufacturing firms.

Niwemutoni et al. (2018) The study examined the effects of cash management practices on the financial performance of SMEs in Kicukiro District, Rwanda. The research targeted 300 finance managers/accountants of various SMEs, including trading, manufacturing, hairstyling, dressmaking, and carpentry enterprises. Using stratified random sampling, a sample of 172 SMEs was selected. Data collected through structured questionnaires was analyzed using SPSS version 21. The findings revealed a significant positive correlation between cash planning and financial performance ($r = 0.690$, $p = 0.023$). The study concluded that effective cash management practices, particularly cash planning, are crucial for improving financial performance in SMEs. It recommended strengthening cash collection methods and moving towards electronic payment systems to mitigate liquidity risks.

Oha *et al.* (2024) examined the effects of Working Capital Management (WCM) on profitability (ROA) from the perspective of supply chain relationships between Korean automotive manufacturers and SMEs. The study revealed that CCC and DIO negatively correlated with ROA ($r = -0.36$, $r = -0.29$), while DPO had a positive correlation with ROA. The panel data model with fixed effects was used for analysis.

Onyango *et al.* (2023) explored the correlation between cash management strategies and financial performance among 100 SMEs in Nakuru County, Kenya. Regression analysis revealed a strong positive correlation ($r = 0.859$), with cash management accounting for 73.7% of financial performance improvements. Effective budgeting, forecasting, and collection strategies were identified as key factors in enhancing financial success.

Mensah (2021) examined how SMEs in Ghana fared financially, focusing on creditor management tactics. The study, involving 150 SMEs, revealed that effective creditor management practices, including open communication, negotiating favorable payment terms, and adherence to payment schedules, positively impacted cash flow and financial stability. Findings highlighted the importance of implementing creditor management strategies to enhance cash flow management and improve financial outcomes for SMEs in Ghana.

Desai (2022) analyzed the financial performance of SMEs in India in relation to creditor payments. A sample of 120 SMEs demonstrated a positive association between profitability ratios and timely payments to creditors. Effective communication regarding payment schedules improved future access to credit. Findings emphasized that timely creditor payments and proactive communication significantly enhance financial stability and profitability for SMEs in India.

Aysan *et al.* (2023) evaluated creditor management strategies' impact on SMEs in Turkey's industrial sector. Survey data from 200 SMEs indicated a positive and significant correlation between timely payments, favorable trade terms, and profitability as measured by return on equity. Regression analysis emphasized the role of effective trade credit management practices in strengthening financial performance and stability within Turkey's manufacturing sector.

Pastore *et al.* (2020) investigated debtor management's link to SME resilience in Italy. Using regression analysis on a sample of 180 SMEs, results showed effective practices, such as creditworthiness assessments and clear payment terms, reduced bad debts by over 80% and improved financial stability with a 72% increase in debt-to-equity ratios. Effective debtor management significantly enhanced resilience and economic adaptability.

Braimah *et al.* (2021) explored the relationship between debtor management and financial performance among Nigerian SMEs. A study involving 220 SMEs revealed that successful debtor management, including credit control and efficient collection practices, was associated with a 70% improvement in financial performance. Results highlighted a 60% reduction in bad debts and enhanced cash flow, leading to improved profitability and financial health.

Rahman and Mahali (2023) analyzed debtor management practices among SMEs in Malaysia using a mixed-methods approach. A survey of 130 SMEs showed efficient practices, such as credit risk assessment and effective collection procedures, improved cash flow by over 50% and reduced insolvency risks with a 68% decrease in late payment incidents. Findings emphasized the critical role of comprehensive debtor management in ensuring sustainable financial performance.

Okoro *et al.* (2018) analyzed supply chain management's impact on production rates in Nigerian manufacturing firms. A sample of 285 respondents revealed a significant positive correlation ($r = 0.849$, $p < 0.05$) between inventory management and production efficiency. High F-values (768.754) and t-values (27.726) reinforced the findings. Training in inventory control management was identified as crucial for enhancing productivity and customer satisfaction.

Olaniyan *et al.* (2020) assessed inventory management's effect on business performance in Osogbo, Osun State. Using descriptive cross-sectional data from 80 respondents, findings showed 46.2% strongly agreed better inventory management reduced costs, and 42.26% acknowledged barcodes enhanced record accuracy. Improved inventory management correlated with increased organizational growth, profitability, and sales volumes, emphasizing its strategic importance for business success.

Anichebe and Agu (2023) investigated inventory management's impact on productivity among businesses in Enugu. Surveys and case studies involving 248 respondents revealed a positive and statistically significant correlation ($r = 0.898$, $p < 0.05$) between inventory management and organizational efficiency. Findings indicated that effective inventory management enhances productivity, profitability, and business stability, underscoring its critical role in operational success.

The across various studies highlight the profound effect of cash, creditor, debtor, and inventory management on the financial performance of SMEs. Closing the knowledge gaps helped researchers, stakeholders, and lawmakers comprehend the intricate relationship between SMEs' financial success and their working capital management. As a result, the purpose of this research is to analyze the relationship between SME financial performance and working capital management techniques using the example of Muhanga Food Processing Industries Limited in Rwanda.

METHODOLOGY

This research employed a mixed-methods approach, combining quantitative and qualitative techniques. A descriptive and correlational research design was used, where the quantitative

methods focused on measuring variables, and the qualitative methods explored the underlying aspects. The correlational component of the study examined the relationships between the variables being investigated.

The study's population consisted of 86 Muhanga Food Processing Industry employees; census design was employed to evaluate the entire target population comprehensively. However, purposive sampling was utilized to select specific employees from Muhanga Food Processing Industry, as not all employees were included in the study. This approach ensured broad coverage while focusing on respondents with relevant expertise or roles aligned with the research objectives.

Each research objective was explored through in-depth inquiries to ensure thorough conclusions. Data for the study were gathered using questionnaires. The analysis of the collected data was conducted using the Social Science Statistical Package (SPSS) version 25.

FINDINGS AND DISCUSSION

Response Rates

Out of the total questionnaires distributed, 96.5% were completed, while 3.5% remained incomplete. This high response rate demonstrates strong participation, with 83 valid responses out of 86, providing reliable data for the study on the effect of working capital management practices on financial performance at Muhanga Food Processing Industries Ltd.

Inferential Statistics for Hypotheses Test

The goal of inferential statistics is to draw conclusions from a statistical sample. Methods such as correlation analysis, hypothesis testing, confidence intervals, and regression analysis are commonly used in this process.

Table 1: Correlations

		Cash Management	Creditor Management	Debtor Management	Inventory Management	Financial Performance
Cash Management	Pearson Correlation	1	.517	.556	.544	.681
	Sig. (2-tailed)		.000	.000	.000	.000
	N		83	83	83	83
Creditor Management	Pearson Correlation		1	.600	.555	.742
	Sig. (2-tailed)			.000	.000	.000
	N			83	83	83
Debtor Management	Pearson Correlation			1	.607	.790
	Sig. (2-tailed)				.000	.000
	N				83	83
Inventory Management	Pearson Correlation				1	.757
	Sig. (2-tailed)					.000
	N					83
Financial Performance	Pearson Correlation					1
	Sig. (2-tailed)					
	N					83

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

Table 1 presents the relationships between financial performance and various management practices, including cash management, creditor management, debtor management, and inventory management.

The analysis shows a strong positive relationship between financial performance and cash management, with a correlation coefficient of 0.681, indicating that effective cash management is closely linked to improved financial outcomes. This study by Onyango et al. (2023) in Nakuru County, Kenya, sought to assess the correlation between these SMEs' cash management strategies and their financial performance. A strong positive correlation (r=0.859) between cash management and financial success was found in the regression analysis. Considering that cash management is responsible for 73.7% of the improvement, it follows those effective techniques of managing cash flow significantly boost financial performance. Cash management and financial success are strongly correlated for SMEs in Nakuru County, Kenya.

Similarly, creditor management demonstrates a strong positive relationship with financial performance, reflected by a correlation coefficient of 0.742, indicating that efficient management of creditors significantly enhances financial results. Aysan et al. (2023) evaluated how creditor management strategies affected the financial performance of SMEs in Turkey's industrial sector. The study suggests that managing creditor relationships strategically can improve financial performance for SMEs. Small and Medium Enterprises in Turkey's manufacturing sector that prioritize effective trade credit management practices, such as timely payments and negotiating favorable terms, experience improved profitability and financial stability.

Additionally, debtor management exhibits an even stronger relationship with financial performance, evidenced by a correlation coefficient of 0.790, highlighting that timely collection from debtors is crucial for financial success. The findings are in line with Lopez (2023) mentioned that debtors Management is the process of effectively managing and supervising a company's outstanding receivables to reduce the risk of poor debts and ensure timely collection. This includes establishing transparent credit standards, checking the creditworthiness of prospective clients, and methodically pursuing accounts that are past due.

Lastly, inventory management also shows a significant positive relationship with financial performance, as indicated by a correlation coefficient of 0.757, reinforcing the importance of managing inventory effectively to bolster financial performance in Small and Medium Enterprises. The findings are consistent with Solano (2023), who highlighted that effective management practices in Small and Medium Enterprises (SMEs) are crucial for enhancing financial performance. The correlations observed in the analysis of Muhanga Food Processing Industry indicate that strong cash management, creditor management, debtor management, and inventory management practices significantly contribute to improved financial outcomes.

Table 2: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.908[a]	.825	.816	.11503

a. Predictors: (Constant), Inventory Management, Cash Management, Creditor Management, Debtor Management

Table 2 presents the model summary for the regression analysis conducted to evaluate the predictive power of inventory management, cash management, creditor management, and debtor management on financial performance.

The correlation coefficient R is 0.908, indicating a strong positive relationship between the predictors and financial performance. The R2 value of 0.825 indicate that approximately 82.5% of the variance in financial performance can be explained by the combined effects of the management practices included in the model. The adjusted R2 value of 0.816 provides a more accurate representation of the model's explanatory power, accounting for the number of predictors used. Research by Rispah (2019) looked at how industrial companies traded on the Nairobi Securities Exchange fared financially in relation to how well they managed their working capital. The research included tests for normality, autocorrelation, multicollinearity, and residual plots. While managing accounts receivable had a favorable and statistically significant association with financial success, managing inventory levels had no such correlation. Companies in the industrial sector that are listed on the Nairobi Securities Exchange also demonstrate strong financial management and performance.

The findings are consistent with Javid (2023), who emphasized the importance of effective working capital management in enhancing the financial performance of small and medium-sized enterprises (SMEs). The model demonstrates a strong positive relationship between the management practices and financial performance, indicating that effective inventory management, cash management, creditor management, and debtor management significantly contribute to the overall success of SMEs. This indicates the critical role that sound management practices play in improving financial outcomes and sustaining business growth in industries like Muhanga Food Processing Industry.

Table 3: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.864	4	1.216	91.892	.000[b]
	Residual	1.032	78	.013		
	Total	**5.896**	**82**			

a. Dependent Variable: Financial Performance
b. Predictors: (Constant), Inventory Management, Cash Management, Creditor Management, Debtor Management

Table 3 shows the ANOVA findings for the regression analysis, indicating the association between the predictors (Inventory Management, Cash Management, Creditor Management, and Debtor Management) and the dependent variable, Financial Performance.

The F-value of 91.892 indicates a significant overall model fit, while the significance level (Sig.) of .000 indicate that the model significantly predicts financial performance in the Muhanga Food Processing Industry. Not in agreement with Tauringana (2022) revealed that african SMEs have many major challenges when it comes to funding, such as a lack of affordable options and overall accessibility. Accessibility refers to the ability of SMEs to obtain financing. Many SMEs in Africa operate in an unofficial capacity, without official company registration, which hinders their ability to get funding. Bank loans or lines of credit are available to only one-third to one-half of SMEs in sub-Saharan Africa. Full credit constraint affects around 28.3% of regional businesses.

The findings are consistent with Bandara (2022), who highlighted that the operation and competitiveness of SMEs are significantly influenced by their access to working capital and investment opportunities. The ANOVA results demonstrate that the model effectively predicts financial performance in the Muhanga Food Processing Industry, reinforcing the importance of inventory management, cash management, creditor management, and debtor management. This highlights the need for targeted interventions to enhance financial accessibility and operational efficiency for SMEs, facilitating economic growth and improved productivity.

Table 4: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.082	.228		.359	.721
	Cash Management	.160	.052	.188	3.062	.003
	Creditor Management	.237	.054	.277	4.372	.000
	Debtor Management	.314	.062	.340	5.066	.000
	Inventory Management	.278	.061	.295	4.572	.000

a. Dependent Variable: Financial Performance

The model used in the study can be represented by the following equation:

$Y=\beta_0+\beta_1X_1+\beta_2X_2+\beta_3X_3+\beta_4X_4+\epsilon$

Where:

Financial Performance = 0.082 + 0.160 (Cash Management) + 0.237 (Creditor Management) + 0.314 (Debtor Management) + 0.278 (Inventory Management).

Table 4 presents the coefficients that provide insights into the relationships between the predictors (Cash Management, Creditor Management, Debtor Management, and Inventory Management) and the dependent variable (Financial Performance) of the Muhanga Food Processing Industry.

The constant term (α) is 0.082, indicating the expected level of financial performance when all management practices are at zero. The unstandardized coefficients (B) demonstrate how financial performance changes for each unit increase in the corresponding predictor while controlling for other variables.

Cash Management has a coefficient of 0.160, indicating that a one-unit increase in cash management corresponds to a 0.160 improvement in financial performance. A study by Niwemutoni et al. (2018) sought a positive and statistically significant correlation between cash planning and financial performance. The findings revealed that SMEs in Kicukiro District, Rwanda, significantly benefit from effective cash management practices, particularly cash planning. Many SMEs face challenges in maintaining optimal cash flow. To improve financial outcomes, it is essential for SMEs to strengthen cash management practices and adopt more efficient payment systems, including electronic methods.

Creditor's Management shows a coefficient of 0.237, highlighting that a one-unit increase leads to a 0.237 enhancement in financial performance, indicating its significant contribution. The findings are in line with Xuan (2023) stated creditor's management involves monitoring

outstanding accounts payable, ensuring timely payments, and maintaining positive relationships with creditors. Effective management of creditors not only safeguards a company's credit rating but also improves cash flow planning and operational reliability.

Debtor's Management exhibits the highest coefficient of 0.314, signifying that a one-unit increase results in a 0.314 improvement in financial performance, emphasizing its critical role. In agreement with Abdulnafea et al. (2022) mentioned debtors' management is crucial for maintaining adequate cash flow, reducing the risk of bad debts, and sustaining the company's financial health. This includes setting credit terms, assessing customer creditworthiness, sending timely reminders, and negotiating payment plans if necessary.

Inventory Management also contributes positively, with a coefficient of 0.278, indicating a substantial influence on financial performance. Research by Oha et al. (2024) examined the effects of Working Capital Management on profitability (ROA) in supply chain relationships between Korean automotive manufacturers and SMEs. The study found that a longer cash conversion cycle and higher inventory levels reduce profitability. Effective payables management positively influences profitability. Efficient working capital management strategies can mitigate the negative impacts of extended cash conversion cycles and inventory durations, improving financial performance for Korean SMEs.

All predictors have statistically significant p-values ($p \leq 0.005$), confirming their individual impact on financial performance. These results indicate the essential role of cash management, creditor management, debtor management, and inventory management in enhancing financial performance in the Muhanga Food Processing Industry. The findings are supported by Niyongabo (2023), who emphasized that inadequate working capital can lead to bankruptcy risks for businesses in Rwanda. The coefficients from the analysis highlight the essential contributions of cash management, creditor management, debtor management, and inventory management to financial performance in the Muhanga Food Processing Industry. This reinforces the necessity for SMEs to effectively manage their working capital to maintain operational continuity and enhance strategic competitiveness. The significant impact of these management practices illustrates the critical nature of financial oversight in driving the success of enterprises.

CONCLUSION AND RECOMMENDATIONS

Conclusion

This research aimed to investigate the effect of working capital management practices on enhancing operational performance at Muhanga Food Processing Industry, particularly through the implementation of cash management, creditors' management, and debtors' management practices. The study focused on four areas: cash management, creditors' management, debtors' management and inventory management. Results indicated a strong consensus among respondents regarding the significance of these practices in improving the overall operational effectiveness of the industry.

Respondents strongly agreed that effective cash management practices are pivotal in maintaining liquidity and ensuring the company can meet its short-term obligations. The management of cash reserves was identified as crucial for handling unexpected expenses, which fosters operational stability and supports long-term financial health. This highlights the necessity of robust cash management strategies for facilitating uninterrupted operations and enhancing the industry's resilience against financial fluctuations.

Findings related to creditors' management were equally promising. Participants agreed that timely payments to suppliers significantly contribute to maintaining strong relationships and negotiating favorable credit terms. Respondents emphasized the importance of monitoring accounts payable to avoid overdue payments, underscoring the view that effective creditors' management practices mitigate risks while enhancing operational collaboration with suppliers.

Debtors' management also emerged as critical, with respondents strongly endorsing practices such as regular communication with customers and thorough evaluations of creditworthiness. Participants noted that these strategies enhance the industry's ability to collect payments promptly, thereby improving cash flow and supporting overall operational performance. Insights from effective debtors' management contribute to a proactive approach in safeguarding financial stability.

There is a strong consensus among respondents regarding the inventory management practices at Muhanga Food Processing Industry. The respondents generally agreed that the company effectively monitors stock levels, maintains accurate inventory records, utilizes warehouse space efficiently, and employs inventory management software to enhance stock tracking and control. These assessments indicates that strong inventory management is perceived to significantly contribute to the organization's financial performance.

Regarding the effect of working capital management practices on performance, findings provide evidence to reject the null hypothesis. Results demonstrated a strong positive correlation between effective cash management and financial health. Furthermore, the significant role of creditors' management in sustaining supplier relationships was confirmed, alongside the effectiveness of debtors' management practices in supporting the industry's operational efficiency and also effect of inventory management on financial performance was confirmed as significant.

Recommendations

Muhanga Food Processing Industry is recommended to implement advanced cash forecasting tools to enhance the accuracy of cash flow predictions, ensuring better planning for liquidity needs and maintaining adequate cash reserves for unexpected expenses.

Muhanga Food Processing Industry is recommended to negotiate long-term supplier agreements that include favorable credit terms, improving cash flow management and strengthening relationships with suppliers for timely access to essential materials.

Muhanga Food Processing Industry is recommended to enhance customer credit evaluation processes by implementing a strong system for assessing creditworthiness before extending credit, which can minimize the risk of bad debts and improve overall cash flow.

Muhanga Food Processing Industry is recommended to adopt Just-in-Time (JIT) inventory practices to reduce holding costs and optimize stock levels, minimizing excess stock while ensuring that materials are available when needed.

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