BUSITEMA UNIVERSITY
Pursuing Excellence

P.O. Box 236, Tororo, Uganda
Cell: +256 - 45 444 8838
Fax: +256 - 45 4436517
Email: info@adm.busitema.ac.ug

www.busitema.ac.ug

CAPITAL STRUCTURE, CREDIT MANAGEMENT AND FINANCIAL PERFORMANCE IN SMALL AND MEDIUM ENTERPRISES IN PALLISA BUSINESS DISTRICT

OULE GEORGE OMODING

BU/GS20/MBA/18

A DISSERTATION SUBMITTED TO THE DIRECTORATE OF GRADUATE STUDIES, RESEARCH AND INNOVATIONS IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF MASTERS IN BUSINESS ADMINISTRATION DEGREE OF BUSITEMA UNIVERSITY

OCTOBER, 2025

DECLARATION

DECLARATION

I Oule George Omoding, declare that this research dissertation titled "capital structure, credit management and financial performance in Small and Medium Enterprises in Pallisa Business District" is my original work, unless where due acknowledgment has been made. I declare that this work has certainly not been submitted to this University or to any other institution for funding/ for partial fulfillment for any award.

Student Name: Oule George Omoding

Registration Number: BU/GS20/MBA/18

Signature.....

Date.....23/10/2025

SUPERVISOR'S APPROVAL

SUPERVISOR'S APPROVAL

This research dissertation has been submitted with our approval as University Supervisors. Kindly refer to the research dissertation handbook for the same.

1. **Name: Professor Rafiu Oyesola Salawu**

   Professor

   Faculty: Management sciences, Busitema University

   Signature.....

   Date.....

2. **Name: Associate Professor Musenze Ibrahim Abaasi**

   Senior Lecturer

   Faculty: Management sciences, Busitema University

   Signature.....

   Date.....

DEDICATION

I dedicate this study report to my classmates, Pallisa DLG staff, my family and friends. They strived to support me finish this research in time.

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LIST OF ACRONYMS

CRM	Credit Management
CST	Capital Structure
DLG	District Local Government
DV	Dependent Variable
FPC	Financial Performance
GDP	Gross Domestic Products
IV	Independent Variable
LLCI	Lower Level Confidence Interval
MV	Mediation Variable
SMEs	Small and Medium Enterprises
SPSS	Statistical Package for Social Scientists
TC	Town Council
UACE	Uganda Advanced Certificate of Education
UCE	Uganda Certificate of Education
ULCI	Upper Level Confidence Interval
UN	United Nations

ABSTRACT

The study sought to understand the liaison between capital structure and financial performance and how this relationship is mediated by credit management in Pallisa Business District in Uganda. The specific objectives were; to assess the role of capital structure on financial performance of SMEs in Pallisa Business District; to identify the relationship between capital structure and credit management among SMEs in Pallisa Business District; to examine the connection between credit management and financial performance of SMEs in Pallisa Business District; and to examine the mediating role of credit management on the relationship between capital structure and financial performance of SMEs in Pallisa Business District. A cross-sectional research design was utilized and the findings are based on a sample of 132 SMEs drawn from a population of 200 SMEs using simple random sampling technique. Also 396 questionnaires were administered and 333 were fully filed and returned to the researcher. The study statements were reliable as tested using Cronbach's Alpha Coefficient, and were also valid after subjecting them to expert judgment method. Pearson' correlation coefficient and linear regression were used for data analysis in SPSS version 23. Study results indicated a positive relation between all study variables. Regression results revealed that capital structure is positively related to financial performance, credit management is positively affected by capital structure, credit management is positively related to financial performance while credit management partially mediates the bond between capital structure and financial performance in Pallisa Business District in Uganda. Thus, it is recommended that SMEs in Pallisa Business District and those in Uganda should ensure adherence to proper management of capital structure and strengthen the credit management mechanisms to enhance financial performance in terms of profitability, turn over and cash flow.

CHAPTER ONE

INTRODUCTION

1.1. Background to the Study

This chapter consists of the study background, statement of the problem, study objectives, study hypothesis, scope of the study and the study significance

1.2. Study Background

While many nations have deliberately allowed the formation and growth of small and medium-sized enterprises (SMEs) in order to boost their GDP, SMEs have occasionally failed to make it past their first anniversary as a result of subpar financial performance (Muli & Wachira, 2019). According to the World Bank Group (2016) as cited in Muli and Wachira (2019), formal SMEs donate up to 45% of the total employment and 33% to Gross Domestic Product (GDP) in the developing economies and should be prioritized. Financial performance is a level at which financial goals of a firm are being or have been realised (Pimpong & Laryea, 2016). Likewise, Lenglet (2023) stated that financial performance denotes a company's ability to generate profits and enhance shareholder value over an extended period. Thus, it serves as an indicator of how effectively an organization is utilizing its resources and accomplishing its financial objectives.

There have been many attempts to define capital structure; however, capital structure is understood to be the combination of capital securities and debt used to finance actual investments. Scholars such as Aljamaan (2018) and Sharma (2023) defined capital structure as the composition of a company‘s sources of assets, a mix of owner‘s capital (capital) and loan (debt) from outsiders used to finance its overall operations and investment activities. Credit

management refers to a firm‘s detailed plan to minimise the frequency of encountering past-due invoices and defaults by its customers (Dimitri, 2023). Kagoyire and Shukla (2016) state that the main goals of credit management are to protect the company's investments in debtors and maximise operating cash flows through managing debtors and financing debts.

Internationally, SMEs have continuously struggled to perform financially standing out as the major cause for their limited lifespan for example Aharanwa (2021) posited that more than 50% of the SMEs globally are challenged by poor use of financial resources leading to poor returns making them survive for less than 5 years. In a study conducted by Sanga and Hong (2021), the average annual revenue growth rate of Vietnamese businesses was 19.5%; however, in recent years, this has been declining. Despite the government's implementation of the SME support package in 2012, the average rate of business losses remained at 42.3% (Vietnam Chamber of Commerce and Industry, 2018 as referenced in (Sanga & Hong, 2021).

In Africa, scholars such as Kanu (2022) suggested that over 50% of the SMEs experience poor financial utilization and low profitability which limits their survival. In a study by Douglas et al. (2017) in Kenya, it was reported that 70% of SMEs in Kenya fail within their first 3 years due to poor financial performance as indicated by poor financial access, usage and limited returns in terms of profits. Similarly, Faminu (2022) asserted that 80% of SMEs in Africa fail within 5 years with the major reason being poor financial performance. The circumstances are similar to those in Uganda, where the OECD (2019) found that fewer than half of SME start-ups fail after five years, with low financial performance being a major contributing factor. Similarly, a study by Aruho (2021) revealed that although 66% of the SMEs were operating at small scale, 67% of these experienced poor business returns in the year 2020. It should be noted that more than 50% of SMEs that fail in Pallisa are as a result of poor handling of cash-inflows and returns by

business owners especially in Pallisa Town Council and Kibale, Kamuge and Agule Town councils (Logose, 2022).

Theoretically, this study was guided by two (2) theories including Pecking-Order theory (Myers & Majluf, 1984) and financial theory (Minsky, 1974). The Pecking-Order theory (Myers & Majluf, 1984) was based on the idea that corporations choose debt over capital and internal finance over external financing. The primary component, according to Myers and Majiluf (1984), is knowledge asymmetry: the greater the asymmetry, the higher the financing sources' costs (Brounen et al., 2004). Researchers like Brounen et al. (2004) examined companies in the US and Europe to identify the variables influencing their capital structure. They found that financial flexibility was the primary driver of capital structure and recommended using the "pecking order" approach (Brounen et al., 2004). As per Brounen et al. (2004), this theory postulates that a firm's preference for using internal finance over external finance, that debt is encouraged when the firm experiences insufficient profits, that firms will choose among the various external finance sources in a way that minimises additional costs of asymmetric information, and that firms may or may not acquire external financing if internal funds are insufficient to finance investment opportunities.

Notably, this means that the manager's commitments will become the foundation for the shareholders' belief in the firm's future (Brounen, 2004). It is thought that the manager's behaviour conveys information about the health of the company. According to Myers and Majluf (1984), this means that internally generated funds come first, then reasonably low-risk debt financing and share financing. This theory suggests that as firms performs poorly in terms of returns on investment; the investors will channel to other firms that performing better to fund

their projects and so that firm‘s capital structure shall be affected (Brounen et al., 2004). These theories are good contributors of knowledge that the study was grounded.

1.3. Problem Statement

Although SMEs make up 45% of Uganda‘s labour force, 20% of Uganda‘s GDP (URSB, 2019) and plays a significant role in contributing to the global employment sector (Nyanchama & Wei, 2018), SMEs have persistently struggled to survive in Uganda due to a number of issues primarily related to subpar financial performance (Orobia et al., 2020). According to Kisame et al. (2022), Uganda‘s SME sector registered the worst performance among developing countries citing poor management of business returns, loan servicing, investment and sustainability as the major causes. Additionally, a study by Orobia et al. (2020) indicated that 30% of SMEs phase out before witnessing their third birthday due to poor financial performance related to poor use of SME assets to effectively and efficiently generate business profits. With the fact that turnover, cash flows and profitability are some of the measurements for financial performance in business institutions (Maseruka, 2021), SMEs in Uganda have continuously performed poorly for example Abomugisha et al. (2022) indicated that poor financial performance forced majority of SMEs to live for less than 3 years in Uganda and only 24% could survive between 6-10 years. In Pallisa for example, over 50% of SMEs poorly manage finances and close out in their infant stages due to poor returns (Logose, 2022 & Mirembe, 2023). According to Logose (2022) and Amenya (2023), less than 40% of the SMEs in semi-urban areas of Pallisa including Agule, Pallisa TC, Kibale and Kamuge could show consistent positive performance in terms of returns on investment. Amenya (2023) revealed that SMEs fails in Paliisa due to poor financial performance. Moreover, existing studies aimed at improving financial performance of SMEs,

though none of them examined the mediating influence of credit management in the link between capital structure and financial performance.

Therefore, the researcher sought that the above challenge could be attributed to the influence of capital structure and credit management among SMEs.

1.4. General study objective

To establish the relationship between capital structure, credit management and financial performance in Small and Medium Enterprises in Pallisa Business District. Overall, the study sought to understand the connection between capital structure and financial performance and how this relationship is mediated by credit management.

1.5. Specific Objectives

i. To assess the role of capital structure on financial performance of SMEs in Pallisa Business District.

ii. To identify the relationship between capital structure and credit management among SMEs in Pallisa Business District.

iii. To examine the relationship between credit management and financial performance of SMEs in Pallisa Business District.

iv. To examine the mediating effect of credit management on the relationship between capital structure and financial performance of SMEs in Pallisa Business District.

1.6. Study Hypotheses

H_1: Capital structure is significantly linked to financial performance of SMEs in Pallisa Business District.

H_2: There is a positively significant relationship between capital structure and credit management among SMEs in Pallisa Business District.

H_3: There is a significant relationship between credit management and financial performance of SMEs in Pallisa Business District.

H_4: Credit management plays a significant mediating role on the relationship between capital structure and financial performance of SMEs in Pallisa Business District.

1.7. Scope of the study

The study scope consists of time scope, content scope and geographical scope

1.7.1 Time Scope

The study targeted Small and Medium Enterprises in Pallisa Business District that were established between the years 2018 to 2023. This is the time when more than 80% of SMEs in Pallisa witnessed enormous financial challenges (Citizen Initiative for Democracy and Development, 2021; Logose, 2022; Mirembe, 2023).

1.7.2 Content Scope

The study reviewed the literature on capital structure, credit management and financial performance of SMEs in Pallisa business District in an attempt to test the relationship between the study variables.

1.7.3 Geographical Scope

The study was conducted in four (4) Town Councils of Agule,, Kibale, Kamuge and Pallisa in Pallisa District Local Government. This is because more than 50% of SMEs which experienced poor financial performance in 2018-2023 in Pallisa District were found in these town councils

(Pallisa District Community Based Services, 2022; Citizen Initiative for Democracy and Development, 2021; Mirembe, 2023).

1.8. Significance of the Study

The findings as a result of this study might be significant to the following:

First off, the study's conclusions can be useful for academics by, for instance, offering fact-based data on SMEs' capital structure, credit management, and financial performance, which could improve the companies' overall performance.

Secondly, the study might benefit Pallisa District Local Government, and other Local Governments in designing programmes to support the establishment, growth and sustainability of SMEs as a state social economic development strategy.

Thirdly, these study findings might be of value to NGOs that design programmes to supplement on government initiatives for community development. NGOs might use the study findings design viable and achievable programmes to aid small and medium businesses as an initiative to contribute to the attainment of the Agenda 2030.

Fourthly, the study findings can help the government to comprehend the significance of capital structure and credit management onto the financial performance of SMEs which can be embedded into the strategies of development programmes in the country.

Lastly, the study findings might help Small and Medium Enterprises‘ owners and managers to promote the growth and sustainability of their businesses by ensuring stability in capital, management of debts and achievement of expected returns.

1.9. Conceptual Framework of the Study

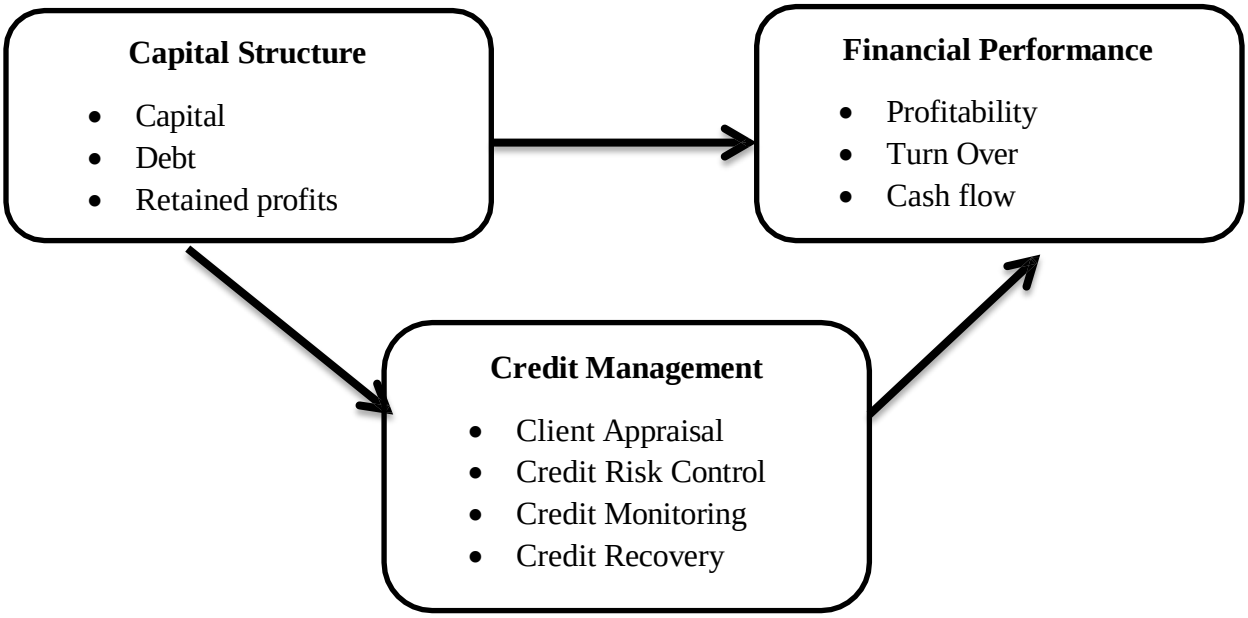

Figure 1.1 Conceptual framework

Source: (Kinyua, 2017; Mburu, 2021; Kagoyire & Shukla, 2016; Maseruka, 2021)

1.9.1. Describing the Conceptual framework

Based on the conceptual framework (Fig.1) above, it was revealed that both Capital Structure as measured by (Capital, Debt and Retained profits) (Kinyua, 2017) and Credit Management as measured by (Credit Appraisal, Credit Risk Control, Credit Monitoring and Credit Recovery) (Mburu, 2021; Kagoyire & Shukla, 2016) independently explain disparities in Financial Performance of SMEs. Model further posits that the basic link between Capital Structure and Financial Performance can be best explored by Credit Management practices as the mediating variable.

1.10. Chapter summary

The chapter (one) above presented the conceptual background of study variables, scholarly statistical statements of the study background, brief theoretical background (Pecking-Order theory by Myers and Majluf (1984), Modigliani-Miller theory (1958) and Financial theory (Minsky, 1974), problem statement, study objectives, hypothesis, study scope, study significance and conceptual framework of the study.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter includes the researcher's examination of pertinent academic literature regarding the suggested study, the study's driving theories, and the gap analysis.

2.2. Conceptualization of study variables

2.2.1. Financial Performance

As revealed by Kinyua (2017), financial performance is a comprehensive metric that assesses how well management is using the limited resources at hand to produce income for the company. Financial performance is defined as a subjective indicator of how well a company is able to earn revenue from its principal business and use its assets (Kenton, 2021) as referenced in (Maseruka, 2021). In the World Bank Enterprise Surveys conducted in 13 countries, Adian et al. (2020) report that small and medium-sized businesses' revenues have been declining more rapidly and that they are depleting their cash reserves more quickly than larger businesses in the same industry and nation. Among them, faster growing firms face the demand shock somewhat less severely, but they are more visible to finance shocks. Similarly, Gomez et al. (2018) cited that profit efficiency of SMEs operating food business in Spain is less than 50% indicating poor financial performance.

A recent report from Uganda Bureau of Statistics-UBOS (2022) revealed that SMEs in Uganda account for over 90% of business establishments but contribute more than 50% of GDP and so the average SME revenue growth was about 7% per year, with urban SMEs outperforming rural ones. However, the same report revealed that only 45 to 50% of SMEs reported positive net

profits, largely influenced by sector (retail, manufacturing vs. services). Several agencies including Uganda Registration Service Bureau-URSB (2023), Uganda Revenue Authority-URA (2022) and Private Sector Foundation Uganda-PSFU (2022) indicated in their survey reports that majority of the Small and Medium Enterprises are performing poorly in terms of financial returns and management hence making them close-out at early stage of business operation. SMEs‘ financial performance varies by size, sector, and location, supporting your focus on four town councils. Scholars like Caballero et al. (2014) and Mateev and Anastasov (2010) suggests that SMEs should embrace proper business etiquettes if they are to improve financial performance.

Financial performance is the major outcome of organizational effectiveness. Though such performance standards are deliberated vital, but not sufficient to regulate the overall effectiveness of a firm (Ojochide et al., 2018). Therefore, financial performance cannot be isolated from the ability of a company to generate profits and increase shareholder value over time since it is measure of how well a company is managing its resources and achieving its financial goals (Lenglet, 2023). This study conceptualized financial performance based on three (3) facets including profitability, turn over and cash flow (Maseruka, 2021). Profitability means the ratio between a business‘s income and its expense (Paller, 2022). Turnover is the total amount of sales accumulated by a business in a specific period of time (Aljamaan, 2018). Whereas cash flow refers to the net balance of cash moving into and out of a business at a specific point of time (Stobierski, 2020). Financial performance was measured using 15 study items grounded on the work of Kinyua (2017).

2.2.2. Capital Structure

The term "capital structure" describes the combination of debt and capital that a company uses to fund its operations, productive assets, and potential future expansion (Baker & Martin, 2011 as referenced in (Thanh & Tram, 2020). According to Aljamaan (2018), capital structure as the composition of a company‘s sources of funds, a mix of owner‘s capital (capital) and loan (debt) from outsiders used to finance its overall operations and investment activities. According to Aljamaan (2018), capital structure refers to the company's long-term financing, which is generally represented by long-term debt and capital. Financial management plays a crucial role in determining the best capital structure because it directly affects the firm's value. Three (3) factors; capital, debt, and retained profits were taken into consideration when conceptualising capital structure in this study (Kinyua, 2017). Capital refers to the amount of assets less the liabilities of a firm (Fernando et al., 2023). Debt connotes the money or goods borrowed for the operation of a business which is meant to be repaid with interest whereas retained profits means the cumulative net earnings of a business after accounting for dividend payments (Fernando et al., 2023). The financial performance constructs were measured using 16 study items based on the work of Kinyua (2017)

2.2.3. Credit Management

In order to protect the company's investments in debtors and improve operating cash flows, Kagoyire and Shukla (2016) define credit management as the management of debtors and financing of debts. Similarly, Dimitri (2023) defined credit management as a firm‘s detailed plan to minimise the frequency of encountering past due invoices and defaults by its customers. Credit management was conceptualized as a four (4) dimensional construct comprising of client

appraisal, credit risk control, credit monitoring and credit recovery as conceptualized by Mburu, (2021 as well as Kagoyire and Shukla (2016). Client appraisal refers to the assessment of creditworthiness of a borrower by the lender before approving and granting credit (Osei, 2015) as cited in (Twinomugisha, 2020). Credit risk control refers to management of a specific financial risk borne by lenders when they extend credit to a borrower (Kagoyire & Shukla, 2016); credit monitoring means the efforts to manage credits by ensuring that borrowers do not default (Wehinger, 2014) whereas credit recovery is all the efforts towards increasing the success of debt repayment by the borrowers (Twinomugisha, 2020). Therefore, credit management was measured with the help of 22 study items grounded on the suggestions of Kagoyire and Shukla (2016)

2.3 Theoretical Review

This study was supported by three (3) theories including Pecking-Order Theory of Capital Structure (Myers & Majluf, 1984), The Modigliani-Miller Theory (1958) and Financial Theory (Minsky, 1974). These theories were considered given their existing contributions in assessment of the connection between capital structure, credit management and financial performance of SMEs (Aljamaan, 2018; Tejvan, 2018; Nikolaidi, 2021).

2.3.1. Pecking-Order Theory of Capital Structure (Myers & Majluf, 1984)

Myers and Majluf (1984) introduced the pecking-order theory, which is predicated on the ideas that corporations prefer debt over capital and internal over external finance. Pecking order theory was first proposed by Donaldson in 1961, but Myers and Maljuf modified and updated it in 1984 (Aljamaan, 2018). The Pecking-Order Theory of Capital Structure (POT) is a behavioral theory of corporate finance which argues that firms prefer to finance new investments following a

hierarchical order due to information asymmetry between managers and external investors. This theory states that firms prefer to use internal funds first because they are cheaper and do not signal adverse information to the market. It also assumes that if internal funds are insufficient, firms borrow from external lenders (banks, trade credit).

The POT assumes that debt is less costly than issuing new equity but still introduces financial obligations although firms issue equity as a last resort, as it is most expensive and signals potential overvaluation, leading to negative investor perception. This is not different from SMEs that engages in internal capital utilization before resorting to loans from other financial lending institutions. POT focuses on information asymmetry, financing costs, and hierarchy of capital sources, explaining why firms choose particular financing methods at different times. According to this hypothesis, capital structure was primarily driven by financial flexibility, indicating the use of the "pecking order theory. According to Aljamaan's (2018) study, the pecking-order theory identifies the kind of finance a company chooses when it needs additional capital, whether from internal or external sources. The pecking-order theory, according to Brounen et al. (2004), asserts that debt is favored when a company experiences inadequate profitability as well as when capital is undervalued.

The pecking order theory states that over-leverage increases financial vulnerability, leading to liquidity risks while poor credit management amplifies the risks of over-leverage (Myers (2001). Scholars like Mateev and Anastasov (2010) revealed that SMEs that maintain balanced capital structures and effective credit policies experience better performance which supports the pecking order theory. The POT suggests that SMEs with limited access to external equity rely more on internal funds first, then debt while debt levels are determined not only by firm needs but also by availability of internal financing and cost of external borrowing (Frank & Goyal, 2003).

Therefore, SMEs often have moderate leverage, reflecting the pecking order preference. The theory further asserts that when SMEs use debt (second preference in POT), they must manage credit efficiently to meet interest and principal obligations. Additionally, the theory states that effective credit management ensures that cash inflows (receivables) are collected on time to service debt, aligning with POT‘s implication that external debt is costly and must be carefully managed.

Similarly, if SMEs use mostly internal funds, pressure to optimize receivables/payables is lower, but as debt increases, tight credit management becomes critical. POT implies that firms adjust credit policies based on financing hierarchy stricter credit collection for leveraged SMEs to avoid default. Baños-Caballero et al. (2014) observed that debt-constrained SMEs manage working capital (receivables and payables) more efficiently to maintain liquidity. Ngugi and Kagiri (2019) found that SMEs‘ credit management mediates the effect of financing on financial performance. It should be noted therefore that SMEs relying on debt (per POT) must carefully manage credit to safeguard financial performance, because high leverage increases default risk. Poor credit management can erode the advantages of debt financing, lowering ROA, ROE, and net margins (Deloof, 2003). A study by García-Teruel and Martínez-Solano (2007) revealed that SMEs with efficient credit management achieve better financial performance. According to Pecking-Order Theory (Myers & Majluf, 1984), SMEs‘ capital structure decisions influence the need for effective credit management. Efficient credit management ensures that debt obligations are met and cash flow is stabilized, thereby improving financial performance.

The Pecking-Order Theory of Capital Structure (Myers & Majluf, 1984) provides a theoretical basis for understanding SMEs‘ financing decisions. According to the theory, firms prefer to use internal funds first, debt second, and equity as a last resort due to information asymmetry and

associated costs. In the context of SMEs, reliance on debt increases the importance of credit management, as firms must collect receivables efficiently and manage liquidity to meet interest and principal obligations. Effective credit management thus acts as a mediating mechanism, translating capital structure decisions into improved financial performance. Empirical studies have supported this view, showing that SMEs with balanced capital structures and efficient credit management achieve higher profitability (Baños-Caballero et al., 2014; Ngugi & Kagiri, 2019; Deloof, 2003).‖

It should therefore be noted that if internal funds are insufficient to finance investment opportunities, firms may choose to obtain external financing, but if they do, they will select among the various external finance sources in a way that minimises additional costs associated with asymmetric information (Brouumen et al., 2004). Businesses clearly prefer to use internal finance, which they define as retained profits or excess liquid assets, over external finance. These pecking-order theory presumptions all accurately describe the situation of small and medium-sized businesses, which turn to outside financing sources like loans for sustainability when they incur debt and lack cash.

According to the pecking-order theory with its asymmetric information, since managers are more informed about the company's performance and overall state than shareholders are (Aljamaan, 2018). According to the same author, this means that the manager's decisions will become the foundation for the shareholders' belief in the company's future. The manager‘s actions are believed to signal information about the state of the firm. The resulting pecking order of financing according to Myers and Majluf (1984) is that, internally generated funds first, followed by respectively low-risk debt financing and share financing.

According to the Myers and Majluf model (1984), when managers issue capital rather than risk-free debt, outside investors realistically reduce the firm's stock price. As a result, managers want to avoid issuing capital as much as possible in order to avoid this discount. Brounen et al. (2004) state that the Myers and Majluf model predicts that managers will follow a pecking order, using up internal funds first, then risky debt, and finally turning to capital. The model also states that firms preserve profits and accumulate financial slack in the absence of investment opportunities in order to avoid needing to raise external financing in the future. The pecking order theory stipulates that as firms performs poorly in terms of returns on investment; the investors will channel to other firms that performing better to fund their projects and so that firm‘s capital structure shall be affected (Brounen et al., 2004). Therefore, the pecking-order theory best suited to test the variable capital structure as a proposed predictor for financial performance among SMEs.

2.3.2. Financial Theory (Minsky, 1974)

Financial theory, also referred to as the financial instability hypothesis, was established by Minsky in 1974 in an effort to comprehend and explain the features of financial crises. According to Tejvan (2018), Minsky put out hypotheses that connected speculative investment bubbles that are endogenous to financial markets with financial market instability during an economy's typical life cycle. It should be noted that Minsky (1974) developed the Financial Instability Hypothesis (FIH) as part of post-Keynesian economics to explain why financial markets are inherently unstable. Minsky challenged the traditional view that markets naturally move toward equilibrium. Instead, he argued that stability itself breeds instability meaning that periods of economic stability encourage firms and financial institutions to take on more debt, which eventually leads to fragility and potential crisis. This is not different from the study link

between capital structure, credit management and financial performance where SMEs borrows to invest in their businesses.

Excessive borrowing among SMEs if well managed can lead to fragility, making credit management crucial to sustain performance (Ngugi & Kagiri, 2019). For example, when SMEs rely on debt, strict credit control ensures that external financing contributes positively to financial performance and overall firm performance. Minsky denoted that financial performance is affected by debt-induced fragility, and so excessive leverage without credit control reduces profitability. Minsky (1974) stated that SMEs‘ capital structure decisions influence financial performance both directly and indirectly through credit management for example efficient credit management mitigates risks associated with debt, stabilizes cash flows, and enhances. Minsky‘s theory directly relates to how firms structure their financing (debt vs. equity), Firms that rely excessively on debt financing (high leverage) move from hedge to speculative or ponzi stages and this over-leverage increases financial vulnerability, leading to liquidity risks, higher interest costs, and potential bankruptcy.

The financial theory states that during prosperous times, a hypothetical euphoria develops when corporate cash flow exceeds the amount required to pay off debt. Shortly after, however, debts exceed the amount that borrowers can pay off with their incoming revenues, which leads to a financial crisis (Minsky, 1992). As a result of such speculative borrowing bubbles, banks and lenders tighten credit availability, even to firms and the economy successively contracts which affects the financial performance of such firms (Wray & Tymoigne, 2008). Minsky's model suggested the financial instability hypothesis (FIH) as a credit system to improve financial performance of firms through management of debtors (Minsky, 1992).

According to Tejvan (2018), the financial theory according to Minsky (1974), a basic feature of an economy is that its financial system oscillates between robustness and fragility, and these oscillations are a necessary component of the process that causes business cycles in each organisation. In a purportedly free market economy, Minsky contended, these fluctuations and the booms and busts that may coincide with them are unavoidable unless the government intervenes to prevent them through regulation, central bank intervention, and other means (Nikolaidi, 2021).

According to Minsky‘s financial theory, it is necessary to use government regulation to prevent financial bubbles including regulation to prevent speculative and Ponzi lending; requiring banks to contribute to a stability fund during boom years which is to be used in times of crisis; and strict requirements for mortgage lending (Nikolaidi, 2021). Similarly, the theory states that a key mechanism that drives an economy or business towards a crisis is the accumulation of debt which is not different from the situation under which SMEs operate (Tejvan, 2018).

The three categories of debtors that Minsky (1974) identified as contributing to the build-up of insolvent debt are hedge borrowers, speculative borrowers, and Ponzi borrowers. The "hedge borrower" can use the current cash flows from assets to pay off debt (principal and interest). Whereas a "speculative borrower" relies on cash flow from investments to service their debt, a "Ponzi borrower" borrows money on the assumption that asset value appreciation will allow them to refinance their debt, but their cash flow from investments will not be sufficient to pay off their debt due to interest or principal; the only thing keeping the Ponzi borrower afloat is the increasing value of their assets (Wray & Tymoigne, 2008).

According to the hypothesis, even hedge borrowers may collapse due to the failure of speculative borrowers, even when the underlying investments appear to be sound. This could have a

detrimental impact on a firm's capital and returns (Nikolaidi, 2021). Through this theory, the construct of credit management is derived to explain financial performance of SMEs, given that credit management requires regulations from the government especially when SMEs either borrow or lend to boost their businesses.

2.4. Empirical Review

2.4.1. Capital structure and financial performance of SMEs

In the attempt to determine the relationship between SMEs' financial performance and capital structure, Turyahebwa et al. (2022) proposed that one of the most significant factors affecting a company's financial performance is its capital structure. According to Udisifan (2019) as cited in Turyahebwa et al. (2022), debt and capital are crucial components required for any business to improve its financial performance. Nakiranda and Onsiro (2022) asserted that retained profits, debts and capital are essential aspects of the business‘s capital structure that determines the level of financial performance for such a business in terms of profitability, turn over or cash flow. The same author cited that borrowing can either have undesirable or desirable impact on financial performance of any firm given the fact that borrowing normally affects business capital in the long run through accumulated interests.

It should be noted that inadequate or lack of capital is another impediment to Small and Medium Enterprises most especially in their infant stage and this affects their financial performance in the long run (Tushabomwe, 2006). It is suggested that SMEs in Uganda have financially performed poorly year after year due to insufficient capital that limits their growth and revenue (Tushabomwe, 2006). Similar to this, Turyahebwa et al. (2022) assert that capital structure may have an impact on the financial performance of SMEs or any other type of firm, depending on how managers manage capital or choose the appropriate combination of funding.

In a study by Kunt and Maksimovic (2001), findings provided one of the foundational cross-country analyses showing that standard determinants of capital structure (size, tangibility, profitability, growth) are broadly present across countries, but that institutional factors (credit markets, legal protection, bankruptcy regimes) shift leverage levels and the economic effect of leverage. They concluded that capital-structure theory is portable only after conditioning on institutional differences (e.g., creditor rights, financial development). Consequently, Berger and Udell (1998) developed a framework specific to small business finance and this meant that SMEs rely more on relationship lending, informal finance, and private sources; optimal capital structure varies by firm life-cycle and by access to private equity versus bank debt. It is through SMEs capital structure that financial performance is ensured.

In his study, Abor (2005) examined listed Ghanaian firms (often cited for SME-relevant lessons) and revealed that that short-term debt to assets is positively associated with ROE and that access to debt finance increases profitability measured as ROA more than ROE. The study suggested that working-capital oriented borrowing (short-term debt) can boost asset returns in contexts where trade credit and short-term bank finance support operations. According to Hall et al. (2004), research has it that similar patterns across European SMEs indicates that capital structure correlates with tangibility, size and profitability, and the leverage performance relationship is non-uniform across sectors and countries. This is not different from those of Daskalakis et al. (2020) who revealed that debt maturity matters: short-term vs long-term debt have different effects, and during financial crises SMEs with higher short-term exposure suffered disproportionally, altering observed leverage performance links.

According to MacCarthy (2019), firms should decrease the utilization of debt capital and rather focus on capital to finance their business activities which in turn shall increase their financial performance. He further asserted that debt capital accounted for more than 70% of capital for each operating firm in Ghana that affected their net profits given that the highest percentage of returns was spent on servicing debts Kinyua (2017) also noted that being determinants of capital structure, debts and capital had significantly affected financial performance of SMEs in Embu-Kenya. Therefore in view of these arguments, the following hypothesis was proposed;

H_1: Capital structure is positively significantly related to financial performance of SMEs in Pallisa Business District.

2.4.2. Capital structure and credit management among SMEs

According to Aljamaan (2018), capital structure is the company's long-term finance, which is mostly represented by long-term debt and capital. Choosing the right capital structure is crucial for every business. SMEs typically have limited access to public equity and long-term bank finance, rely heavily on owner finance, bank credit, and trade credit, and face acute liquidity and information asymmetry problems (Afrifa, 2024). Given that credit management (how firms manage receivables, credit terms, debtor screening, collection, and use of accounts-receivable financing) directly affects working capital and internal finance, it plausibly changes SMEs‘ capital structure choices (mix of short-term vs long-term debt, degree of external borrowing) and the consequences of those choices for firm performance (Afrifa, 2024; Aljamaan, 2018).

In the early works of Petersen and Rajan (1996), it was found out that small firms (with weaker access to banks) use more trade credit interpreted as substitution: suppliers extend credit when banks cannot or charge more (monitoring / information channel). Subsequent empirical work

confirms that trade credit is an important external finance source for SMEs and that reliance on trade credit is higher where bank finance is scarce or costly. This substitution effect implies that strong supplier relationships and active trade-credit management reduce SMEs‘ immediate demand for bank loans and thus affect observed capital structure (higher share of trade-credit relative to bank debt). According to Otto (2023), studies of accounts-receivable financing and receivables management show that better practices (shorter collection periods, stricter screening, efficient collection) improve cash flow, which reduces dependence on external bank loans or costly short-term credit (and may lower leverage). For example, accounts-receivable financing (factoring) is shown to support growth but also to be used primarily when other sources are scarce -making credit management a driver of the observed debt mix.

Literature on credit policies in SMEs reveals that formal credit-policy components (creditworthiness screening, clear terms, follow-up) reduce bad-debt and speed up receivables turnover, improving liquidity and lowering the need for external finance. For example Studies from Africa and Asia (Otto 2023; Siro 2025; Wilkinson 2017) revealed that SMEs with stronger credit management experience fewer liquidity squeezes and thus a different capital-structure profile (lower emergency short-term debt). A 2024 cross-European SME study found out that credit risk moderates the leverage performance relationship: firms with low credit risk sometimes show a different leverage performance relationship than high-risk SMEs which reflects that high credit-risk SMEs may be constrained to use short-term/trade credit with costly terms, affecting the quality of debt and performance outcomes. Daskalakis (2017) and Moro (2010) indicated that SMEs‘ shorter debt profiles make them sensitive to liquidity shocks and if credit management increases receivables risk (e.g., during downturns), short-term borrowing needs spike, altering

capital structure (higher short-term debt share) and increasing rollover risk again tying credit-management choices to capital-structure vulnerability.

Capital structure influences the firms‘ decision to offer supplies on credit and how best these credits can be managed (Kinyua, 2017). According to Kinyua (2017), firm managers keeps on making verdicts on proportions of debt versus capital as they try to get answers to questions like; ―so as to get higher returns, should we go for more debts?‖, and ―which amount of capital can be used to manage credits?‖. Similarly, Kagoyire and Shukla (2016) suggested that firms tend to offer credits to customers based on capital structure for example the amount of capital and debt available, determines whether the firm shall offer goods to customers on credit or not. According to Docherty (2022), credit management cannot be effected without stable capital structure given that credit management processes like client appraisal, monitoring and control requires stable financing. Consequently, it was suggested by Dimtri (2023) that credit defaulters can be minimized only when SMEs have dependable capital to finance monitoring, control and recovery of credits.

Jenny (2020) posited that SMEs should assess their level of capital to determine whether they are capable of offering goods and services to customers on credit to influence the management of credit recovery. It was asserted that credit management significantly influence business performance given that firms offering goods on credit can easily access and sustain customers as well as improve profitability (Aljamaan, 2018; Mburu, 2021). However, Woodruff (2019) advanced that if firm‘s capital structure is meager and unstable, such a firm cannot offer goods on credit or effectively recover what is already offered to customers on credit due to inadequate financing of credit monitoring and control. According to Jenny (2020), management of credits by any firm requires additional unavoidable costs that must be incurred by using firm‘s capital.

These additional costs include stationary, facilitation to credit recovery staff, legal fees and control fees which must be met only if there is sustainability and stability of capital structure (Jenny, 2020; Renuka, 2022).

Similarly, Carbajo (2019) asserted that financing credit customers is part of credit management that can contribute to over 50% increase in sales. However, he added that Small and Medium Enterprises infrequently manage credits for increased sales, given the limited capital structure. Jenny (2020) asserted that SMEs cannot offer goods on credit without producing or having enough stock of such goods, yet this process requires adequate and stable firm capital to succeed. Although the above reviewed literature cites the significance of capital structure to credit management in SMEs, the direct link between their constructs had never been examined in SMEs. Thus, the researcher hypotheses that;

H_2: There is a positively significant relationship between capital structure and credit management among SMEs in Pallisa Business District.

2.4.3. Credit management and financial performance of SMEs

Credit management is rarely prioritized by most Small and Medium Enterprises which makes more than half of them not reaching to their first anniversary (Renuka, 2022). This study does not differ significantly from the findings by Ahmad and Ahmad (2021) who reported that poor credit management skills among managers of SMEs have led to poor financial performance of such firms. According to Renuka (2022), good credit management encourages the business‘s financial stability with continuity of profitability as well as minimized receivables risks and increased growth opportunities in businesses, and this improves financial performance of such a business. Using a large sample of Belgian firms, Deloof (2003) found out that reducing days

accounts receivable and inventory is associated with higher corporate profitability (measured by ROA). Deloof‘s study is widely cited as evidence that efficient receivables management raises profitability. Although the sample is not limited to SMEs, the mechanism is directly applicable to small firms.

According to Lazaridis and Tryfonidis (2006) with their study in listed Greek firms, findings revealed that a significant negative relationship between the cash-conversion cycle (which includes DSO) and firm profitability including shorter conversion cycles correlate with higher profits. García-Teruel and Martínez-Solano (2007) revealed in their study that both very short and very long credit periods harm profitability although the relationship is non-linear, indicating an optimal range of credit policy. This is one of the most important SME-specific empirical contributions linking WCM (including receivables policy) to SME profitability. Raheman and Nasr (2007) and Afza and Nazir (2009) reported that shorter collection periods and smaller cash conversion cycles are associated with higher profitability (gross profit margin / ROA) for manufacturing firms. These studies also noted sector heterogeneity and recommended careful policies for SMEs in emerging markets where access to formal credit is restricted.

Based on the works of Mahmud (2022), some studies revealed negative net effects of trade credit on firm performance after accounting for financing costs (i.e., trade credit can be expensive or raise default risk for supplier firms). Thus, empirical consensus is that efficient credit management generally helps profitability, but the magnitude and sign depend on other firm and macro conditions. Studies shows that there is often a non-linear relationship for example modestly lenient credit can increase sales and profits up to a point; excessive leniency increases bad-debt and financing costs and reduces net profitability (García & Martínez, 2007). The same scholars revealed that net effect depends on industry, firm age/size, availability of external

finance (banks, factoring), and macro conditions and so for credit-constrained SMEs, trade credit is a crucial substitute, but it can be costlier for the supplier firm.

Similarly, Docherty (2022) asserted that cash is lifeblood of every business and thus, firms should ensure that payments from customers are received early to avoid poor financial performance due to poor credit management practices. It should be noted that many firms have continuously performed poorly financially as many ignore credit management as a prerequisite for financial stability and profitability of firms globally (Kagoyire & Shukla, 2016). In their study findings, Kagoyire and Shukla (2016) reported that deteriorating credit quality in relation to customer appraisal, credit monitoring and credit recovery is the most recurrent cause of poor financial performance. According to Mburu (2021), timely identification of prospective credit default is crucial in terms of reducing the possibility of firm‘s diminished cash flows, lower liquidity levels and financial misery.

Consequently, Renuka (2022) asserted that over more than half of the insolvencies among firms are attributed to poor credit management, given that even the gainful business shots into losses if their receivables are not well managed. According to Dimtri (2023), approximately one in five failing Small and Medium-sized Enterprises (SMEs) were caused by the high number of clients defaulting on their invoices, and in turn, had a negative effect on the firm as unpaid invoices significantly affected the SMEs‘ creditworthiness and overall financial performance. He also asserted that proper credit management boosts firm growth and its financial health through stable cash flow and sustainable returns on capital. The findings by Dimtri (2023) do not differ from those of Baguma et al. (2020) who posited in their study in Western Uganda that firms do experience poor financial performance due to poor credit management which makes them loose

resources through defaulters and bad debts. However, the extent to which these findings can improve SMEs situation in Uganda had not been investigated. Thus, we hypothesize that;

H_3: There is a positive significant relationship between credit management and financial performance of SMEs in Pallisa Business District.

2.4.4. Capital structure, credit management and financial performance of SMEs

Credit management has been predominantly considered as a significant predictor for financial performance among firms (Baguma et al., 2020; Dimtri, 2023; Renuka, 2022; Kagoyire & Shukla, 2016). Whereas other scholars asserted that capital structure positively predicts financial performance among firms besides their size (Turyahebwa et al., 2022; Nakiranda & Onsiro, 2022; Kinyua, 2017). Thus, this argument necessitates the need for testing the direct connection between credit management and financial performance; capital structure and financial performance as well as capital structure and credit management among SMEs to establish empirical data to support the argument. Based on the work of Baron and Kenny (1986), it is also crucial to ascertain the indirect relationship between capital structure as the predictor variable and financial performance.

Based on the available literature, credit management could be one of the factors through which capital structure enriches financial performance among SMEs given the fact that good credit management practices reduce the risk of bad debts and defaulters among firm clients (Baguma et al., 2020). Additionally, Aljamaan (2018) reported that financial performance is negatively affected if the business is full of un cleared invoices that results into losses as well as negative impact onto the firm‘ capital. This argument is supported by the findings in the study conducted by Runde et al. (2021) and Docherty (2022). According to Bennet (2023), firm managers know

their business depends on how efficiently they can grow and sustain their capital structure in terms of capital, debt and retained profits, although they have to strike a balance between helping sales move forward quickly and managing credits such that the business does not encounter the risk of bad debts.

Scholars like Deloof (2003) indicated in their study targeting Belgium firms that reducing accounts receivable days correlates with higher ROA. Also, García and Martínez (2007) revealed that large SME panel components of working-capital management significantly influence SME profitability and effects can be non-linear. It should be noted that working-capital management impacts firm performance differently depending on financial constraints (constrained firms are more sensitive as suggested by Caballero et al. (2014). This is an indication that credit management plays a mediation role in the relationship between capital structure and financial performance. Studies in emerging markets (Raheman & Nasr, 2007; Afza & Nazir, 2009) showed similar directions between SME financial performance, capital structure and credit management for example shorter collection periods are associated with higher profitability for many firms.

In small firms and larger firms, short-term debt and higher leverage raise rollover/liquidity pressure, which changes managers‘ receivables policy. Those changes affect cash flows and profitability (Berger & Udell, 1998; Margaritis & Psillaki, 2007). Research shows that creditors impose liquidity/covenant constraints that alter how managers set credit terms and enforce collections; this alters working-capital needs and net margins (Petersen & Rajan, 1997; Berger & Udell, 1998). Where bank credit is limited, firms use trade credit and receivables financing. Thus, capital structure (access to bank debt) changes the relative role of trade credit i.e. credit

management becomes the operational substitute/complement that transmits leverage effects to profit (García & Martínez, 2007).

Similarly, Orichom and Omeke as well as Bennet (2023) suggested that offering credit to customers is critical for business development but managers must assess whether these kind of customers are creditworthy to help them in credit monitoring, and collection without affecting capital and firms‘ financial returns. It was clearly observed that literature on the basic relationship between capital structure and financial performance exists but the mechanisms underlying this process was lacking. Thus, we hypothesize that:

H_4: Credit management plays a significant mediating role on the relationship between capital structure and financial performance of SMEs in Pallisa Business District.

2.5. Reviewed study gaps

According to the research analysis above, credit management has never been used as a mediating underlying factor in the relationship between capital structure and financial performance among SMEs in Uganda. Similarly, although scholars like Aljamaan (2018), Runde et al. (2021), Orichom and Omeke (2020), Turyahebwa et al. (2022) and Renuka (2022) attempted to examine the connection between credit management and financial performance of firms as well as capital structure and financial performance of different businesses, none of these studies were conducted in Pallisa Business District especially those assessing financial performance of SMEs in relation to the above underlying variables. Therefore, it is on this background that the researcher sought to test whether financial performance of SMEs in Pallisa Business District could be attributed to credit management and capital structure.

2.6. Chapter summary

Under this chapter, the researcher reviewed the scholarly literature to enlighten the dependability of each of the variables of the study. The Pecking-Order Theory of Capital Structure (Myers & Majluf, 1984), The Modigliani-Miller Theory (1958) and Financial Theory (Minsky, 1974) were reviewed to guide the study. The researcher also reviewed related literature on the conceptualization of study variables and the empirical relationship between the study variables capital structure (independent variable), credit management (mediator) and financial performance (dependent variable) to ascertain the scholarly opinions in relation to this study.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

The research procedures used to carry out this study are included in this chapter. These comprise the study population, research design, sampling strategy, sample size, data collection techniques, data analysis and presentation techniques, ethical issues, study reliability, and validity.

3.2 Research Design

A cross-sectional research design and a quantitative design were used for this investigation. According to Thomas (2022) and Creswell (2009), a cross-sectional research design studies a

sample using questionnaires for data collection aimed at generalizing from a study sample to a population of interest and provides control over study measurement methodology. This helps to determine information on numerous cases at one point in time on a numerical (Saunders, Lewis & Thornhill, 2019). A quantitative research design on the other hand emphasizes numerical measurement and statistical analysis of data collected from participants and so involves using structured instruments such as questionnaires with close-ended items to quantify perceptions, practices, or financial indicators (Creswell, 2014). Quantitative design allowed the researcher to measure variables numerically (e.g., ratios, scales, percentages), providing objectivity and precision as suggested by Creswell and Creswell (2018).

This study adopted a cross-sectional survey design because it facilitated the collection of data from a large number of SMEs at a single point in time, allowing for the assessment of existing relationships among capital structure, credit management, and financial performance. The design was time-efficient and cost-effective, making it suitable for empirical research that sought to establish correlations rather than causal effects (Creswell, 2014; Saunders, Lewis, & Thornhill, 2019).

Furthermore, a quantitative research approach or design was employed to enable the objective measurement and statistical testing of the study hypotheses. Quantitative data were collected through structured questionnaires, which allowed for the numerical analysis of capital structure ratios, credit management practices, and financial performance indicators. This approach supported hypothesis testing, enhanced reliability, and permitted generalization of findings to the broader SME population (Creswell & Creswell, 2018; Hair et al., 2020). The quantitative design was therefore appropriate for examining the mediating role of credit management in the relationship between capital structure and financial performance.

3.3 Study Population

A study population is the cluster of people, events, things, groups, or other phenomena in which the researcher is most interested to draw a sample (Sheppard, 2020). The study population therefore contained 200 Small and Medium Enterprises including accommodation (lodges, bars, hotels), agriculture (agric produce and animal product sellers), financial (financial lending institutions, mobile money), food processing (grain millers), trading professional services (taxis, boda boda SACCOS), education and health, construction and maintenance (National Small Business Survey in Uganda, 2015). These were SMEs which had lived for a period of three to five years in the four Town Councils of Pallisa, Agule, Kibale and Kamuge in Pallisa District Local Government (Pallisa DLG, 2022).

The researcher considered SMEs in the four selected town councils given that they were representative of the district‘s SME ecosystem in terms of business types, sectoral distribution, and economic activity (URSB, 2022). It should be noted that town councils usually host a concentrated cluster of SMEs, making it easier to access businesses actively engaging in formal or semi-formal trade given the readily available customer reach. Hence the researcher considered four town councils given that conducting research across the entire district, including all town councils and villages, would be time-consuming, costly, and logistically challenging. Also, the researcher found out that limiting the study to four town councils allowed for adequate data collection and quality control within available resources while still capturing a sufficiently representative sample. Therefore, the selected town councils were purposively chosen to represent the economic and demographic profile of the district and so findings from these

councils can be generalized to similar SMEs in the district, especially those in comparable urban/peri-urban settings (Kothari, 2004; Creswell, 2014).

3.4 Sample Size

A study sample refers to a finite part or subset of participants drawn from the target study population (Bhandari, 2023). The study sample was therefore ascertained using Krejcie and Morgan table (1970), of which 132 SMEs were considered out of 200 SMEs as the study sample.

3.5. Sampling Technique

The study adopted both stratified and simple random sampling techniques with the fact that the targeted population was heterogeneous in nature. Stratified sampling is a probability sampling technique in which the entire population is divided into subgroups (strata) that share similar characteristics (Creswell, 2014; Saunders, Lewis, & Thornhill, 2019). According to Bhandari (2023), a sampling technique is a tactic used by researchers to draw a sample that fairly represents the target population for the study.

The study employed a stratified random sampling technique because the population of SMEs is heterogeneous in nature, differing in characteristics such as sector and firm size. Stratification was therefore done according to the major sectors of operation (manufacturing, service, and trade), ensuring that each subgroup was adequately represented. Within each stratum, simple random sampling was applied to select individual firms, giving each SME an equal and known chance of being included in the sample. This combined approach was preferred because it minimized sampling bias, enhanced representativeness, and increased the precision of estimates (Creswell, 2014; Saunders, Lewis, & Thornhill, 2019). Consequently, the final sample reflected

the diversity of the SME sector, thereby improving the validity and generalizability of the findings. As a result, the researcher wrote down the names of 200 SMEs selected (adding up all SMEs in the stratums) on small pieces of paper, mixed them into a basin from which 132 SMEs were obtained and deliberated as a study sample

3.6. Unit of analysis

The unit of analysis comprised of the 132 SMEs from the Town Councils of Agule, Kibale, Kamuge and Pallisa in Pallisa District Local Government. Thus, all responses from the unit of inquiry were aggregated to a single case, the SME.

3.7. Unit of Inquiry

The unit of inquiry for this study was 396 individuals (participants). These were obtained by selecting 3 (three) participants from each SME including 1 (one) SME owner, 1 (one) SME manager and 1 (one) SME book keeper/other employee from the 132 SMEs (study sample) in Pallisa Business District.

3.8. Data collection method and instruments

The data were collected numerically using questionnaires that were administered to the study participants (Creswell, 2009). A questionnaire is a technique that helps to collect data within a short time from a large population (Mcleod, 2022). The questionnaires were self-administered to the participants who knew how to write, read and interpret questions of the study. Similarly, participants who could not fully interpret the questionnaires were guided by research assistants and the researcher. It was upon the consent from the respondents that the researcher was able to administer questionnaires to them, aimed at obtaining vast data as well as due to reduced

subjectivity that would have raised sensitive moods (Creswell, 2009). Therefore, the questionnaires included clear and simple written down questions that which were answered by participants as depicted in Kinyua (2017), Kagoyire and Shukla (2016) and modified by the researcher to suit the study context. The study items in the study questionnaire were attained from the reviewed available literature and also measured on a 5 point Likert scale ranging from strongly disagree (1), disagree (2), no opinion (3), agree (4) to strongly agree (5). The study questionnaire did base on sections including A, B, C and D which indicated the characteristics of respondents, capital structure, credit management and financial performance.

3.9. Data Analysis and Presentation Strategies

3.9.1 Data exploration.

The researcher ensured that there was consistence in the data before capturing for analysis by conducting data exploration and visualization. The researcher screened the data for study outliers and missing values as asserted in Creswell (2009). Data in the questionnaires was subjected to the data in the SPSS data kit for inconsistence and missing values which helped to determine accurateness and comprehensiveness (Creswell, 2009). This process also helped the researcher to avoid errors that could have occurred during data entry into the SPSS software, and ensured dependable data analysis as suggested by (Tabachnick & Fidell 2013). Similarly, the researcher relied on the developed data set from which data was categorized based on characteristics for example gender, age, business type and name of town council where the SMEs were located using descriptive and frequency analysis in SPSS. Hence, missing values were 1% less than 5% which seemed tolerable as asserted by (William et al. 2020).

3.9.2 Correlation analysis to resolve the study objectives.

The researcher utilised Pearson's Correlation coefficient analysis method in the SPSS software version 23 to ascertain the direction and degree of the relationship between the variables of this study (capital structure and financial performance, capital structure and credit management as well as credit management and financial performance). This was grounded by the stated study objectives to obtain the statistical correlation findings as indicated in chapter four, section 4.5.

3.9.3 Regression analysis on the power of IVs in DVs.

The researcher conducted a regression analysis to ascertain the predictive power of capital structure and credit management on financial performance for example capital structure on financial performance (H_1), capital structure on credit management (H_2) and credit management on financial performance (H_3). Thus, the above direct effects were determined using the following linear equation;

Equation 1: Linear equation for direct effect testing

$$Y_i = \beta_{01} + \beta_1 X_{i1} + \varepsilon_{i1} \quad \ldots\ldots (1)$$

$$M_i = \beta_{02} + \beta_{02} X_{i2} + \varepsilon_{i2} \quad \ldots\ldots (2)$$

$$Y_i = \beta_{03} + \beta_3 X_{i3} + \varepsilon_{i3} \quad \ldots\ldots (3)$$

Note;

X_1: Independent variable (capital structure)

X_2: Independent variable (capital structure)

X_3: Mediator variable (credit management)

Y: Dependent variable (financial performance)

B_{01} to β_{03}: Corresponding Constants

_β_1'to 'β_3': Change induced on the dependent variable (financial performance) by the respective predictor variables (capital structure and credit management)

'ε_1'to 'ε_3': Error terms

3.9.4 Mediation Analysis.

Mediation analysis was conducted using process macro version 4.2. The researcher analysed for a series of regression models in SPSS software to confirm with the three principles of mediation as advanced by Baron and Kenny (1986), and later improved by Hayes (2017) as suggested in the following mediation equation;

Equation 2: Models for testing indirect/ mediation effect

$Y_i = \beta_{04} + C_1X_i + \varepsilon_{i4}$ ..... Model 1

$M_i = \beta_{05} + a_1X_i + \varepsilon_{i5}$ ..... Model 2

$Y_i = \beta_{06} + C_1X_i + b_1M_i + {}_i\varepsilon_6$ ..... Model 3

Note;

X: Independent variable (capital structure)

Y: Dependent variable (financial performance)

M: Mediator variable (credit management)

β_{04}, β_{05}, β_{06}: Constants representing the Y and M intercepts in corresponding equations

a_1: The effect of slope coefficients symbolizing the influence of the independent variable (capital structure) on the mediator (credit management)

Ć1: The effect of slope coefficients signifying the influence of the independent variable (capital structure) on the dependent variable (financial performance)

ε4 to 6: The corresponding error terms

3.9.5 Data Presentation

The study results were presented in form of figures and tables for example the correlation results, regression results as well as the mediation results were presented by utilizing clear statistical tables and figures as indicated in chapter four.

3.10. Operationalization and Measurement of Study Variables

The study employed a 5 point Likert of scale to ascertain the significant relationship between the study variables ―capital structure, credit management and financial performance‖. These ranged directly from Strongly Disagree=1, Disagree=2, No Opinion=3, Agree=4 and Strongly Agree=5. Capital structure (independent variable) was measured by 16 study items subjected to 3 constructs, credit management (mediating variable) was measured by 22 items representing 4 constructs, and 15 items were used to measure financial performance (dependent variable) subjected to 3 paradigms.

3.10.1 Capital Structure.

Capital structure refers to the mixture of debt and capital that the firm employs to finance its productive assets, operations and future growth of the business (Baker & Martin, 2011 as cited in Thanh & Tram, 2020). This study conceptualized capital structure based on three (3) dimensional factors: capital, debt and retained profits. Capital refers to the amount of assets less the liabilities of a firm (Fernando et al., 2023). Debt refers to money or goods borrowed for the operation of a business which is meant to be repaid with interest, whereas retained profits means

the cumulative net earnings of a business after accounting for dividend payments (Fernando et al., 2023). Capital structure was measured using 23 study items based on the work of Kinyua (2017)

3.10.2 Financial Performance.

Financial performance refers to an absolute way of measuring how effectively the management is utilizing the limited resources to generate revenue for the business (Kinyua, 2017). This study measured financial performance based on three (3) dimensional factors: profitability, turn over and cash flow. Profitability is the ratio between a business‘s income and its expense (Paller, 2022). Turnover is the total amount of sales accumulated by a business in a specific period of time (Aljamaan, 2018). Whereas cash flow denote the net balance of cash moving into and out of a business at a specific point of time (Stobierski, 2020). Financial performance was measured using 15 study items grounded on the work of Kinyua (2017).

3.10.3 Credit Management.

According to Kagoyire and Shukla (2016), credit management means the management of debtors and financing of debts. Credit management shall therefore be measured using four (4) measures comprising of client appraisal, credit risk control, credit monitoring and credit recovery as conceptualized by Kagoyire and Shukla (2016). Client appraisal refers to the assessing of creditworthiness of a borrower by the lender before approving and granting credit (Osei, 2015 as cited in Twinomugisha, 2020). Credit risk control refers to management of a specific financial risk borne by lenders when they extend credit to a borrower (Kagoyire & Shukla, 2016). According to Wehinger (2014), credit monitoring means the efforts to manage credits by ensuring that borrowers do not default. Consequently, credit recovery is all the efforts towards increasing the success of debt repayment by the borrowers (Twinomugisha, 2020). Therefore,

credit management was measured with the help of 28 study items grounded on the suggestions of Kagoyire and Shukla (2016)

3.11 Validity of the Research Instruments

Validity refers to the extent at which a concept is accurately measured in a study (Surucu & Maslakci, 2020). This study used expertise judgment of the supervisors and the technical study participants to ascertain whether the study statements to measure the study facets were valid and could yield valid information. The researcher consulted two (2) University supervisors and seven (7) technical respondents (SME owners and Senior Managers) to collect ideas on the validity of the study. By use of the content validity index (CVI) method, the researcher ascertained the validity of the variables: capital structure (.81), credit management (.89) and financial performance (.83). The results indicated that CVI values met the suggested threshold as established by Polit et al. (2007) and Amin (2005) that the CVI values should not be less than 0.78 to give meaning of study findings hence, the researcher went ahead to conduct the study. Thus, the following formula was used to determine the validity of statements after gathering opinions using expertise judgment method;

$$CVI = \frac{Relative\ items}{Total\ Number\ of\ Items}$$

3.12 Reliability of the Research Instruments

Reliability is the consistency of the measurements or the degree to which an instrument measures the same with every use under the exact same conditions (Creswell, 2009). The researcher used Cronbach‘s α coefficient (Cronbach Alpha Coefficient) for a numerical test that later enabled the researcher to split the study findings and calculate the correlations between them (Middleton, 2023). As a result, a single-value between 0-1 was generated and so the closer the coefficient

generated is to 1 (at least 0.7), the higher the reliability estimate of the statement utilized. The Cronbach‘s Alpha coefficient reliability of scales was conducted which was between 0.1 and 1.0 as suggested by Surucu and Maslakci (2020) that a reliability value between 0.1 to 1.0 is acceptable for any study to be conducted. Thus, the reliability values included capital structure (.896), credit management (.830) and financial performance (.638) as indicated in table 3.1 below;

Table 3.1: Reliability Results

Variable	Cronbach's Alpha (**α**)	Cronbach's Alpha Based on Standardized Items	N of Items
Capital structure	.896	.897	23
Credit management	.830	.841	28
Financial performance	.638	.637	15

Source: Primary data (2023)

3.13. Ethical Considerations

This study recognized university and Local Government field introductory letters, safety of participants, informed consent, privacy and confidentiality of information as the key ethical issues.

The researcher obtained a university introductory letter from the Directorate of Graduate Studies, Research and Innovations Busitema University for recognition by Pallisa District Local Government as well as study participants before data collection. The researcher also got consent from the Local Government Authorities of Pallisa District before cooperating with the study respondents as another ethical practice.

The researcher informed and got consent from the participants about the study before obtaining their opinions about the study. The study participants were informed about the procedures of getting involved in the study, the purpose of the study, duration, unforeseen risks or discomforts to the participants, benefits to the participants, available alternative procedures or treatments, if any that might be accessible to the respondents.

Also, the researcher first guaranteed the respondents that their information shall be treated with the utmost confidentiality by perceiving the respondent's right to privacy and ensuring that their personal information and opinions were given non-identifiable codes other than disclosing them.

Equally, the researcher ensured that there was no potential harm onto the study participants for example the researcher ensured that physical, social, psychological, and all other types of harm to participants are kept to an absolute minimum.

Finally, the study participants were also guaranteed the anonymous and honest treatment of information provided to the researcher by assuring them that the information provided was to be used only for academic purposes.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRETATION OF FINDINGS

4.0 Introduction

This chapter presents the study findings from data analysis and the researcher‘s interpretation of the study results. This includes the response rate, demographic statistics, results of hypotheses testing and the mediation results of the study. Therefore, this study‘s analysis and interpretation of results is based on the following study objectives;

i. To assess the role of capital structure on financial performance of SMEs in Pallisa Business District.
ii. To identify the relationship between capital structure and credit management among SMEs in Pallisa Business District.
iii. To examine the relationship between credit management and financial performance of SMEs in Pallisa Business District.
iv. To examine the mediating effect of credit management on the relationship between capital structure and financial performance of SMEs in Pallisa Business District.

Similarly, this subchapter presents the findings from the regression analysis and hypotheses testing based on the following study hypotheses;

H_1: Capital structure is significantly related to financial performance of SMEs in Pallisa Business District.

H_2: There is a positively significant relationship between capital structure and credit management among SMEs in Pallisa Business District.

H_3: There is a significant relationship between credit management and financial performance of SMEs in Pallisa Business District.

H_4: Credit management plays a significant mediating role on the relationship between capital structure and financial performance of SMEs in Pallisa Business District.

4.1. Response rate

From Table 4.1 below, study findings indicate that 132 (one hundred thirty-two) SMEs were targeted for this study as unit of analysis. However, the findings also indicates that 111 (one hundred eleven) participated in this study suggesting a response rate of 84% which is above the threshold as proposed by Saunders and Lewis (2009) that a response rate above 50% is acceptable because it produces valid findings given the adequate representation of the study sample.

Table 4.1: Response rate

	Frequency	Percentage Rate (%)
Unit of Analysis		
Total targeted SMEs	132	100
Response rate	111	84
Non-response rate	21	16
Total	**132**	**100**

Source: Field Survey (2023).

4.2. Missing data and treatment

Missing Value Analysis (MVA) refers to the process of identifying the patterns of missing values in statistical data to avoid data that can mislead the entire study (William et al., 2020; Tabachnik & Fidell, 2013). The researcher conducted missing value analysis using SPSS software to identify missing values. Although missing values above 5% can harm the study findings (William et al., 2020), the missing values of this study analysed using SPSS were at 1% which is

bearable. It was therefore suggested by William et al. (2020) and Heir et al. (2013) that missing values below 5% are tolerable and bears no harm onto the study findings.

4.3. Demographic characteristics of respondents

Under this subsection, the researcher analysed demographic features of the study respondents including gender, number of SMEs per Town Council, age bracket, education level, type of SME, period of business existence and category of respondents as indicated in the following table 4.2;

Table 4.2. Characteristics of the study respondents

Demography		Frequency	Percentage
Gender			
	Male	220	66%
	Female	113	34%
	Total	**333**	**100%**
Number of SMEs per Town Council			
	Pallisa	69	62%
	Agule	14	13%
	Kibale	18	16%
	Kamuge	10	9%
	Total	**111**	**100%**
Age Bracket			
	25 years and below	40	12%
	26-32 years	86	26%
	33-39 years	80	24%
	40 years and above	127	38%
	Total	**333**	**100%**
Education level			
	Primary	101	30%
	UCE	46	14%
	UACE	97	29%
	Diploma	52	16%
	Degree	30	9%
	Postgraduate	7	2%
	Total	**333**	**100%**
Type of SME			
	Professional service	7	6%
	Accommodation	10	9%
	Health and education	24	22%
	Trading	36	32%
	Construction and maintenance	10	9%

Food processing	13	12%
Agriculture.	11	10%
Total	**111**	**100%**
Period of Business Existence		
Less than 1 year	14	13%
1-4 years	48	43%
5 years above	49	44%
Total	**111**	**100%**
Category of Respondents		
Business Owner	111	33%
Employee	222	67%
Total	**333**	**100%**

Source; primary data (2023)

Based on the study findings in table 4.2 above, it is clearly reported that 220 (66%) of the respondents were male whereas 113 (34%) were female. This indicates that majority of business owners and employees in SMEs are males which is a reflection of gender inequality in the employment in Pallisa Business District thus refuting with SDG 5 which advocates for full participation of women in economic productivity as men do (UN in Uganda, 2015). In line with the number of SMEs per Town Councils that participated in the study, the study revealed that 69 (62%) were in Pallisa Town Council, 14 (13%) were in Agule, 18 (16%) SMEs were in Kibale Town Council while only 10 (9%) of the SMEs were in Kamuge Town Council. This implies that majority of SMEs were found in Pallisa Town Council. This could be true with the fact that Pallisa is the largest Town Council and busiest town in Pallisa District as indicated by Pallisa DLG (2022).

Regarding the age group, the study findings revealed that only 40 (12%) of the respondents were aged 25 years and below, 86 (26%) were aged 26-32 years, 80 (24%) were aged 33-39 years and 127 (38%) were aged 40 years and above. This means that majority of the study respondents had enough experience in SMEs‘ operations in Pallisa Business District and so provided valid data for this study. Similarly, the study findings indicated that 101 (30) of the respondents were primary level leavers, 46 (14%) were holders of UCE, 97 (29%) of the respondents had UACE

qualifications, 52 (16%) were diplomas holders, 30 (9%) were Degree holders whereas only 7 (2%) of the respondents had postgraduates. This means that more than half of SMEs in Pallisa Business District are being operated by qualified people who can contribute to profit maximization and business development.

In line with the study findings regarding the types of SMEs, it was revealed that 7 (6%) were under professional services, 10 (9%) were in accommodation business, 24 (22%) were in health and education, 36 (32%) were in trading, another 10 (9%) were in construction and maintenance, 13 (12%) were in food processing while 11 (10%) were in agriculture. This implies that majority of the SMEs reached by the researcher were in trading of the daily household needed items in Pallisa Business District. The study findings also indicated that 48 (43%) of SMEs had existed between 1 to 4 years, 49 (44%) had existed for 5 years and above whereas only 14 (13%) of the SMEs had lived for less than 1 year. This means that the researcher collected more than 80% of data from SMEs that had existed for more than 1 year with employees and owners who had enough experience about business operation. Lastly, the study findings showed that 111 (33%) of the respondents were SME owners while 222 (67%) were employees in the SMEs. This implies that majority of the respondents were employees and so the researcher collected valid data with exclusion of unbiased opinions that would have occurred if the researcher had collected data from only SME owners about their businesses.

4.4 Descriptive statistics of the study variables

Descriptive statistical analysis was conducted to describe and provide a summary of basic characteristics of the study findings (Debbie, 2023). This helped to describe the data sample, its

measurements and improved thee understanding of data as evidenced by mean and standard deviation values of the study statements in Table 4.3 below;

Table 4.3. Descriptive Statistics

Variable	Mean	Std. Deviation
Capital structure	4.4819	.76354
Credit management	4.7922	.57408
Financial performance	3.5030	.95888

Source: primary data (2023)

Based on the study findings in Table 4.3 above, it was revealed that majority of the study participants seem to have agreed with the study statements designed under each of the study variables under study as indicated by the appropriate mean and standard deviation values that is to say capital structure (mean=4.4819; standard deviation= .76354); credit management (mean=4.7922; standard deviation= .57408) while financial performance had a mean of 3.5030 and a standard deviation of (.95888).

4.5. Correlation analysis results

Pearson‘s correlation analysis was conducted to ascertain the significance and the direction of relationship between the study variables as suggested by Chen and Anderson (2022) that Pearson‘s correlation analysis is the effective method of analysis to determine the link between two study variables. Thus, the following Table 4.4 reflects the findings from Pearson‘s correlation coefficient analysis conducted by the researcher;

Table 4.4. Correlation Analysis Results

Variable	FPC	CST	CRM
Financial performance (FPC)	1		
Capital structure (CST)	0.478**	1	
Credit management (CRM)	0.351**	0.637**	1
**. Correlation is significant at the 0.01 level (2-tailed).			

Source; primary data (2023)

4.5.1. Capital structure and financial performance

From the study findings in Table 4.4 above, it is clearly indicated that capital structure is positively and significantly related to financial performance evidenced by coefficients ($r=0.478$; $p < 0.01$). This means that 0.48% possibility variation in financial performance of SMEs might be due to change in capital structure.

4.5.2. Capital structure and credit management

With reference to the findings in Table 4.4 above, it is indicated that there is a positively significant relationship between capital structure and credit management as indicated by coefficients ($r=0.637$; $p < 0.01$). This implies that there is 0.64% possibility that credit management among SMEs might change due to a variation in capital structure.

4.5.3. Credit management and financial performance

With reference to the findings in Table 4.4 above, it is clearly reported that there is a positively significant relationship between credit management and financial performance evidenced by coefficients ($r=0.351$; $p < 0.01$). This means that there is 0.35% possibility that financial performance in SMEs might change due to a variation in credit management.

4.6. Hypotheses testing for the study variables

The researcher tested for study hypotheses using SPSS software linear regression analysis for the direct effect and process macro regression for the indirect effect among variables. Under this subsection of the dissertation, the researcher presents the results from hypothesis testing for all the study variables guided by the following hypotheses;

Three (3) study hypotheses were tested for the direct effect as stated that; H_1: Capital structure is significantly related to financial performance of SMEs in Pallisa Business District, H_2: There is a positively significant relationship between capital structure and credit management among SMEs in Pallisa Business District, and H_3: There is a significant relationship between credit management and financial performance of SMEs in Pallisa Business District. Similarly, one (1) study hypothesis was tested for indirect effect (mediation) that is to say **H_4:** Credit management plays a significant mediating role on the relationship between capital structure and financial performance of SMEs in Pallisa Business District

4.6.1. Direct Effect testing

The direct effect of the study variables was tested by the researcher using linear regression in SPSS software to ascertain the predictive power of capital structure and credit management onto financial performance of SMEs based on the following study hypotheses;

Alternative H_1: Capital structure is significantly related to financial performance of SMEs in Pallisa Business District.

Null H_0 There is no significant relationship between capital structure and financial performance of SMEs in Pallisa Business District.

Alternative H_2: There is a positively significant relationship between capital structure and credit management among SMEs in Pallisa Business District.

Null H_0 There is no positively significant relationship between capital structure and credit management among SMEs in Pallisa Business District.

Alternative H_3: There is a significant relationship between credit management and financial performance of SMEs in Pallisa Business District.

Null H_0 There is no significant relationship between credit management and financial performance of SMEs in Pallisa Business District.

4.6.1.1. Capital structure and financial performance

The first hypothesis (H_1) stated that capital structure is significantly related to financial performance of SMEs in Pallisa Business District. The study findings indicated that capital structure is significantly and positively related to financial performance with coefficients (β = .478; R^2 = 0.229; $p < 0.01$). This implies that 23% of the change in financial performance is due to capital structure, while the remaining 77% is due to other external factors in relation to this study scope. We therefore accept the alternative hypothesis that capital structure is significantly related to financial performance of SMEs in Pallisa Business District and we reject the null hypothesis as demonstrated in the Table 4.5 below;

Table 4:5. Hypothesis testing for capital structure and financial performance

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta (β)	t	Sig.
(Constant)	2.501	2.348		11.287	.001
Capital structure	.263	.027	.478***	9.898	.001
Model Summary					
R	.478[a]				
R Square	.229				
Adjusted R Square	.227				
Std. Error of Estimate	6.11987				
Change Statistics	R Square Change	.229			
	F Change	97.979			

a. Dependent Variable: Financial performance

N=111 **p < 0.01

Source: Author's Computation (2023) *** 1% level of significant

4.6.1.2. Capital structure and credit management

The second hypothesis (H_2) stated that there is a positively significant relationship between capital structure and credit management among SMEs in Pallisa Business District. The study findings revealed that capital structure is significantly and positively related to credit management among SMEs with coefficients ($\beta = .637$; $R^2 = 0.405$; $p < 0.01$). This means that 41% of the variation in credit management is as a result of capital structure while the remaining 59% is due to other external factors in relation to this study scope. We therefore accept the alternative hypothesis that there is a positively significant relationship between capital structure and credit management among SMEs in Pallisa Business District and we reject the null hypothesis as indicated the following Table 4.6;

Table 4.6. Hypothesis testing for capital structure and credit management

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta (β)	t	Sig.
(Constant)	31.217	4.283		7.289	.001
Capital structure	.727	.048	.637	14.999	.001
Model Summary					
R	.637[a]				
R Square	.405				
Adjusted R Square	.404				
Std. Error of Estimate	11.16258				
Change Statistics	R Square Change	.405			
	F Change	224.983			

b. Dependent Variable: Credit management

N=111 **p < 0.01

Source: Author's Computation (2023)

4.6.1.3. Credit management and financial performance

The third hypothesis (H_3) stated that there is a significant relationship between credit management and financial performance of SMEs in Pallisa Business District. The study findings revealed that credit management is significantly and positively related to financial performance as indicated by coefficients ($\beta = .351$; $R^2 = 0.123$; $p < 0.01$). This implies that only 12% of the change in financial performance is due to credit management whereas the remaining 88% is caused by other factors beyond this study context. We therefore accept the alternative hypothesis there is a significant relationship between credit management and financial performance of SMEs in Pallisa Business District and we reject the null hypothesis as indicated in the Table 4.7 below;

Table 4.7. Hypothesis testing for credit management and financial performance

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta (β)	t	Sig.
(Constant)	33.507	2.380		14.078	.001
Credit management	.169	.025	.351	6.799	.001
Model Summary					
R	.351[a]				
R Square	.123				
Adjusted R Square	.120				
Std. Error of Estimate	.54683				
Change Statistics	R Square Change	.123			
	F Change	46.222			

c. Dependent Variable: Financial performance
N=111 **p < 0.01

Source: Author's Computation (2023)

4.6.1.4. Mediation role of credit management in the relationship between capital structure and financial performance

Under mediation analysis, the researcher tested the following study hypothesis;

Alternative H_4: Credit management plays a significant mediating role on the relationship between capital structure and financial performance of SMEs in Pallisa Business District.

Null H_0 Credit management plays no significant mediation role in the relationship between capital structure and financial performance of SMEs in Pallisa Business District.

Thus the indirect effect of credit management on the relationship between capital structure and financial performance of SMEs was tested using Process Macro version 4.2 (Hayes, 2022) in the SPSS software version 23 (Baron & Kenny, 1986) and later improved by Hayes (2017). According to Baron and Kenny (1986), mediation analysis necessitates the establishment of four (4) models to support the principles of mediation as indicated below;

Model I (c). This model establishes that capital structure should be a power predictor for financial performance. In reference to the study findings in Table 4.8 below, capital structure predicts financial performance (r = .7267; LLCI = .6314, ULCI = .8220; R square = .4054; p < 0.01). Therefore, any change in the units of financial performance is as a result of a 0.7267 units increase in capital structure hence satisfying the 1st model condition as indicated in Table 4.8 below;

Model II (a). This model states that capital structure should be a power predictor for credit management. In reference to the study findings in Table 4.8 below, capital structure is a power predictor for credit management with the coefficients (r = .2629; LLCI = .2107, ULCI = .3152; R square = .2289; p < 0.01). Consequently, any change in the units of credit management is as a result of a 0.2629 units increase in capital structure hence fulfilling the 2nd model condition as indicated in Table 4:8 below;

Model III (b). This model establishes that credit management should be a predictor for financial performance. The study results revealed that credit management has a positively significant impact on financial performance evidenced by coefficients (r = .0371; LLCI = .0222, ULCI = .0965; R square = .2325; p <0.01). This is because there is no zero value between lower level confidence interval and upper level confidence interval values hence fulfilling the 3rd condition of this model. The study findings also indicated that the subsequent indirect effect on financial performance is ascertained by (path a) and (path b) representing a 0.0270 value and lower level confidence interval (.0152) and upper level confidence interval (.0743) values which have no zero in between them.

Consequently, (path c‘) indicated that when we control for credit management, the direct effect of capital structure on financial performance is positively and statistically significant with coefficients (r= 0.2359; LLCI= 0.1682, ULCI= 0.3037; $p < 0.01$) denoting that there is no zero in between the LLCI and ULCI values. Thus, Model I is a necessary condition for mediation analysis as earlier suggested by Baron and Kenny (1986).

Model IV. In reference to Model IV, the decision is established to ascertain the type of mediation whether it is full or partial mediation by subjecting Model I to Model III. The mediation results therefore indicated that capital structure strongly predicts financial performance in Model I (.7267) than in Model III (.2359). Consequently, the study results indicate that credit management partially mediates the association between capital structure and financial performance in SMEs.

Table 4.8. Capital structure, credit management and financial performance

Model	Variables	r	t	p	LLCI	ULCI
Model I (c)	Financial performance	31.2168	7.2893	.001	22.7922	39.6414
	Capital structure	.7267	14.9994	.001	.6314	.8220
	R = .6367					
	R^2 = .4054					
	F = 224.9834					
	P = .001					
Model II (a)	Credit management	26.5015	11.2873	.001	21.8827	31.1202
	Capital structure	.2629	9.8984	.001	.2107	.3152
	R = .4785					
	R^2 = .2289					
	F =97.9787					
	P = .001					
Model III (b)	Financial performance	25.3421	10.0250	.001	20.3692	30.3150
	Credit management	.0371	1.2316	.048	.0222	.0965
(c')	Capital structure	.2359	6.8546	.001	.1682	.3037
	R = .4822					
	R^2 = .2325					
	F = 49.8245					
	P = .001					
	Total effect of X on Y					
	Effect se t p LLCI ULCI					
	.2629 .0266 9.8984 .001 .2107 .3152					
	Direct effect of X on Y					
	Effect se t p LLCI ULCI					
	.2359 .0344 6.8546 .001 .1682 .3037					
	Indirect effect(s) of X on Y:					
	Effect se LLCI ULCI					
	.0270 .0229 .0152 .0743					
	N=111					

Source: Author's Computation (2023)

Summary of Mediation Analysis

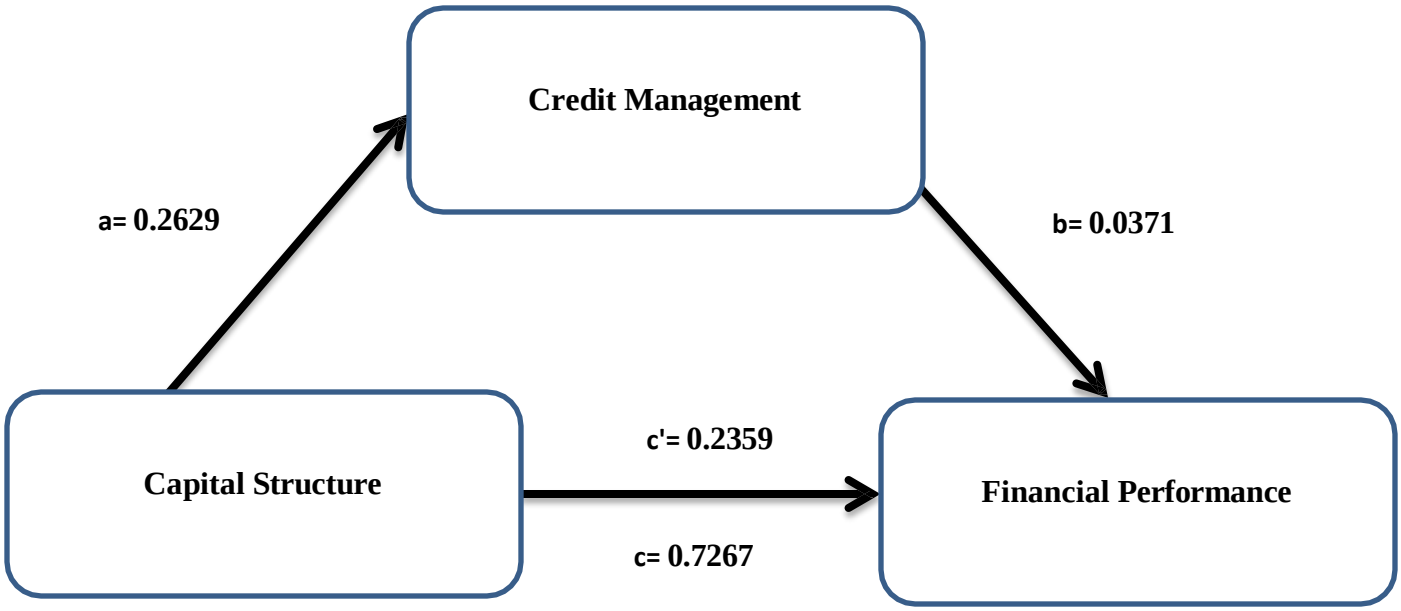

Figure 4.1. Summary of mediation analysis

Source: primary data (2023)

CHAPTER FIVE

DISCUSSIONS, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter presents the discussion, conclusions, and recommendations based on the study findings as shown in the previous chapters of this dissertation. This chapter is arranged into five sections including; Discussions based on study‘s objectives, conclusion and recommendations, study limitations, and areas for further study.

5.1 Discussion of study findings

The researcher addresses the study findings in this section according to the particular goals of the investigation, as can be seen below;

5.1.1. Capital structure and financial performance

The initial goal of the study was to evaluate how capital structure affected the financial performance of SMEs in the Pallisa Business District. The findings of the study showed that capital structure has a favourably substantial impact on SMEs' financial performance. The study results also showed that capital, debt and retained profits are key factors that determines change in profitability, turn over and cash flow as the necessities for financial performance.

The findings of this study are consistent with the findings of Turyahebwa et al. (2022), who claimed that capital structure is one of the most important factors affecting a company's financial performance and that debt and capital are therefore essential elements needed to improve the financial performance of SMEs. The findings also concur with those of Nakiranda and Onsiro (2022) who suggested that retained profits, debts and capital are essential aspects of the

business‘s capital structure that determines the level of financial performance, and also cited that borrowing can either have undesirable or desirable influence on financial performance of any firm given the fact that borrowing normally affects business capital in the long run through accumulated interests.

The study findings concur with the results in the study conducted by Tushabomwe (2006) and URSB (2023) which indicated that inadequate capital is another impediment to Small and Medium Enterprises most especially in their infant stage and this affects their financial performance in the long run. Furthermore, the study results are in congruence with MacCarthy (2019) who suggested that firms should decrease the utilization of debt capital and rather focus on capital capital to finance their business activities which in turn shall increase their financial performance. The findings also concur with those of Kinyua (2017) who noted that debts and capital as the determinants of capital structure have a significant effect on financial performance of SMEs.

The study's conclusions also support the theories put forth by Myers and Majluf (1984), which contend that businesses will follow a pecking order, exhausting internal funds first, then taking on riskier debt, and then turning to capital. In the absence of investment opportunities, businesses will also preserve profits and accumulate financial slack to avoid later having to raise external financing, which will have an impact on performance.

Thus, the study findings establishes that firms‘ management of capital, debts and retained profits should be strengthened to ascertain financial performance in terms of profitability, turn over and cash flows.

Subsequently, this current study bridges the gaps in the prevailing literature by establishing itself as the first of its kind to be conducted in Uganda and Pallisa Business District as well as demonstrating the role of capital structure as a combined variable for strengthening financial performance in SMEs by suggesting that when SMEs embrace the required levels and sizes of capital structure especially aligning capital with debts, efficient utilization of business assets and also putting retained profits to proper use for example future investment in the SMEs. This shall help the SMEs to maximize profits and attain other business intended objectives. Similarly, this study establishes that managers or owners of SMEs should consistently borrow from legally established financial institutions to avoid risks of illegal interest accumulation which results into business insolvency.

5.1.2. Capital structure and credit management

The second study objective aimed at identifying the connection between capital structure and credit management among SMEs in Pallisa Business District. The findings indicated that capital structure is positively and significantly related to financial performance. The study findings also showed that capital, debts and retained profits are critical factors that determines client appraisal, credit risk control, credit monitoring and credit recovery as the components of credit management.

These study findings agree with those of Kinyua (2017) who suggested that capital structure influences the firms‘ decision to offer supplies on credit and how best these credits can be managed, and firm managers keeps on making decisions on proportions of debt versus capital as they try to get responses to questions like; ―so as to get higher returns, should we go for more debts?‖, and ―which amount of capital can be used to manage credits?‖. The study's conclusions also align with those of Aljamaan (2018), who argued that choosing an appropriate capital

structure is critical for any business, as capital structure refers to the company's long-term debt and capital, which determine the company's creditworthiness.

Moreover, the study's conclusions align with those of Kagoyire and Shukla (2016), who proposed that a company's capital and debt levels dictate whether or not it can provide items to consumers on credit. As a result, the results are consistent with the research of Docherty (2022), who found that stable capital structure is necessary for credit management since credit management procedures including customer assessment, monitoring, and control depend on stable funding.These findings cannot be isolated from the work of Jenny (2020) who posited that SMEs should assess their level of capital to determine whether they are capable of offering goods and services to customers on credit to influence the management of credit recovery

Finally, the study results are in congruence with those of Mburu (2021) and Woodruff (2019) who suggested that credit management significantly influence business performance given that firms offering goods on credit can easily access and sustain customers as well as improve profitability and if the firm‘s capital structure is meager and unstable, such a firm cannot offer goods on credit or effectively recover what is already offered to customers on credit due to inadequate financing of credit monitoring and control. Therefore, these study findings suggest that retained profits, capital and debt are main determinants that should be enhanced to strengthen client appraisal, credit risk control, credit monitoring and credit recovery as the critical factors of credit management.

Similarly, this current study suggests that capital structure is a critical factor in credit management activities that later determines financial performance in SMEs by establishing that if SMEs adopt and sustain proper practices which sustains capital, limits debts and efficiently utilize retained profits, they are capable of controlling the risks of defaulters through client appraisal, monitoring and

recovery. Also, this current study asserts that SMEs should maintain the required amount of capital while offering goods on credit as a strategy to promote business growth and also reduce the probabilities of failure.

5.1.3. Credit management and financial performance

The third goal of the study looked at the connection between the financial performance of SMEs in the Pallisa Business District and credit management. The study's findings showed a statistically significant positive correlation between credit management and financial performance. The study findings further revealed that client appraisal, credit risk control, credit monitoring and credit recovery transfers their inputs into profitability, turn over and cash flows to enhance financial performance.

The results of the study are consistent with the findings of Renuka (2022), who found that inadequate credit administration accounts for almost half of company insolvencies. In addition, even profitable businesses might experience losses if their receivables are not properly managed. The study findings also concur with the works of Baguma et al. (2020) who posited in their study that firms do experience poor financial performance due to poor credit management which makes them loose resources through defaulters and bad debts. Similarly, these findings concur with those of Dimtri (2023) who posited that approximately one in five failing Small and Medium-sized Enterprises are as a result of the high number of clients defaulting on their invoices, and in turn, lead to a negative effect on the firm as unpaid invoices significantly affect the SMEs‘ creditworthiness and overall financial performance.

Furthermore, the study results agree with those of Ahmad and Ahmad (2021) who asserted that poor credit management skills among managers of SMEs have led to poor financial performance

of such firms and so good credit management encourages the business‘s financial stability with continuity of profitability as well as minimized receivables risks and increased growth opportunities and this improves financial performance. The study findings also agree with those of Docherty (2022) who asserted that cash is lifeblood of every business and thus, firms should ensure that payments from customers are received early to avoid poor financial performance due to underprivileged credit management practices.

Lastly, the study's findings are consistent with the findings of Kagoyire and Shukla (2016) and UBOS (2022), who found that the most common reason for poor financial performance is declining credit quality in relation to customer appraisal, credit monitoring, and credit recovery. Thus, the study findings revealed that strengthening client appraisal, credit risk control, credit control and credit recovery is the foundation of strengthening profitability, turn over and cash flow as the determinants of financial performance.

Based on the findings in this study therefore, SME managers/owners should embrace the practices and behaviors that strengthens credit management to avoid financial losses and improve on in-flows. Hence, SME managers should determine and document creditworthiness of customers, design guidelines for lending or borrowing, consistently follow-up and remind creditors and set limits for lending in order to enhance financial performance through improved financial inflow and reduced defaulters.

5.1.4. Capital structure, credit management and financial performance

The study also looked at how credit management influences the relationship between SMEs' financial performance and capital structure in the Pallisa Business District. The results of the study indicated that the relationship between capital structure and financial performance in SMEs is partially mediated by credit management. In order to strengthen profitability, turn over, and

cash flow and improve financial performance, credit management which includes client evaluation, credit risk control, credit monitoring, and credit recovery transfers its inputs into capital, debts, and retained profits, which determine capital structure.

The study findings concur with those of Baguma et al. (2020) who reported that credit management could be one of the factors through which capital structure enriches financial performance among SMEs given the fact that good credit management practices reduce the risk of bad debts and defaulters among firm clients. The findings also concur with those of Aljamaan (2018) and URA (2022) who reported that financial performance is negatively affected if the business is full of un cleared invoices that results into losses as well as negative impact onto the firm‘ capital.

Furthermore, the study results are in agreement with Runde et al. (2021) and Mateev and Anastasov (2010) who asserted that credit management practices necessitate the availability and size of capital structure which is also a determinant of financial performance in firms. The study findings also concur with those of Bennet (2023) and PSFU (2022) who suggested that firm managers understand that their business depends on how efficiently they can grow and sustain their capital structure in terms of capital, debt and retained profits, although they have to strike a balance between helping sales move forward quickly and managing credits such that the business does not encounter the risk of bad debts.

Finally, the findings concur with those of Orichom and Omeke (2020) who suggested that offering credit to customers is critical for business development although managers must assess whether these kind of customers are creditworthy to help them in credit monitoring, and collection without affecting capital and firms‘ financial returns. Therefore, the partial mediation influence of credit management indicates that the precise pathway by which capital structure and

financial performance happens is direct, although credit management reserves part of the inputs into capital structure on financial performance of firms.

In line with the findings in this study, it is clearly indicated that credit management plays a crucial role to strengthen the link between capital structure and financial performance among SMEs, implying that although capital structure is critical in financial performance, the concept credit management should be strengthen given that financial performance may not be achieved through capital structure alone without the proper practices of credit management. Hence, this study findings suggests that managers in SMEs should ensure that credits are offered to credit worthy customers by appraising them, and also monitoring credit customers to promote credit recovery as an initiative to enhance business solvency, managing debts, sustaining capital for operations which in turn enables SMEs to incur minimal costs in business operation, increase sales through sales promotion, increase financial inflows and general targeted business revenue.

5.2. Conclusion

In reference to the study findings and discussions, this study proposes the following conclusions;

Firstly, in line with the study findings, capital structure significantly affects financial performance. Consequently, we can conclude proper management of capital, debts and retained profits can enhance financial performance.

Secondly, in reference to the study findings, capital structure has a positively significant link with credit management. Thus, it can be concluded that proper management of capital, debts and retained profits are critical elements of financial performance that needs to be strengthened among managers in Small and Medium Enterprises.

Thirdly, it became clear from the study's findings that credit management significantly affects financial performance. It follows that improving client assessment, credit risk management, credit monitoring, and credit recovery are necessary to improve small and medium-sized businesses' financial performance.

Lastly, credit management somewhat mediates the relationship between capital structure and financial performance, which is consistent with the study's findings. Therefore, it can be said that the relationship between capital structure (capital, debt, and retained profits) and financial performance in terms of profitability, turn over, and cash flow among firms is partially mediated by credit management in terms of client appraisal, credit risk control, credit monitoring, and credit recovery.

5.3 Recommendations

The researcher further recommended that;

In reference to study findings which suggested that capital structure significantly affects financial performance, i recommend that the SMEs should ensure that borrowing is limited by managers and they should enhance the use of internally generated funds to improve financial performance by improving profitability, and turn over. This shall reduce on loan servicing and hence improve profitability given that interest rates on loans shall be reduced.

It is also recommended that firms should always utilize retained profits to beef up businesses in hard times through reinvestment to promote the stability of capital structure and enhance financial performance through desirable cash flow and profitability.

Consequently, it is recommended that managers of SMEs should embrace the required levels and sizes of capital structure especially through aligning capital with debts, efficient utilization of

business assets and properly allocating retained profits for example future investment. This is an initiative which can enable SMEs to maximize profits and achieve other business goals. Also, this study recommends that SME managers and owners should consistently borrow from legally established financial institutions to reduce the risks of business failure and increase profits.

Similarly, the study findings indicated that capital structure affects credit management. Hence, i recommend that the SMEs should minimize seeking loans, promote capital stability and reinvest retained profits to enhance their levels of offering goods on credit which does not make firms insolvent with the fact that stability in capital structure strengthens the process of managing credits especially during monitoring and recovery.

Also, this study recommends that managers and owners of SMEs should sustain required amount of operating capital/capital especially when they offer goods on credit to customers as a strategy to promote continuous business operation, growth, maximization of profits and ensuring retained profits.

Based on the study results which revealed that credit management has a significant impact on financial performance, we can therefore recommend that the SMEs should ensure effective client appraisal based on their credit records, strengthen credit monitoring and recovery with the fact that these activities improves profitability to enhance financial performance of firms.

Correspondingly, it is recommended that SME managers/owners should embrace the practices and behaviors that strengthens credit management to avoid financial losses and improve on in-flows. For example, SME managers should regulate and have records about creditworthiness of customers, develop lending and borrowing regulations, routinely, monitor and remind creditors to reduce credit defaulters and enhance financial performance through improved financial inflow and revenue.

In reference to the study findings that indicated that credit management partially mediates the relationship between capital structure and financial performance, I can therefore recommend that the SMEs and any other business which aims at maximizing profits should strengthen credit management process in terms of appraising credit clients to determine their credibility, avoiding credit risks for example limiting the amount of goods offered on credit, monitoring credit clients and enhancing recovery of credits to ensure stability of capital structure and strengthen financial performance.

Also, it is recommended that SME managers/owners should ensure that credits are offered to credit worthy customers by appraising and monitoring credit customers to promote credit recovery as an initiative to enhance business solvency, managing debts, sustaining capital for operations which in turn contributes to minimal costs in business operation, increase sales and financial inflows and also leads to increased revenue

5.4 Contribution to Knowledge

From the study results, the following should contribute to the existing literature;

This study bridges the gaps in the prevailing literature by suggesting itself as the first of its kind to be conducted in Uganda and Pallisa Business District as well as demonstrating the role of capital structure as a strategy for enhancing financial performance in SMEs by establishing that when SMEs embrace the required levels and sizes of capital structure especially aligning capital with debts, efficient utilization of business assets and also putting retained profits to proper use for example future investment.

Also, this study establishes that SME managers/owners should embrace the practices and behaviors that strengthens credit management to avoid financial losses and improve on in-flows. Hence, new scholars

should understand that SME managers have to determine and document creditworthiness of customers, design guidelines for lending or borrowing, consistently follow-up and remind creditors and set limits for lending in order to enhance financial performance through improved financial inflow and reduced defaulters

Subsequently, this study adds that credit management is critical in strengthening the connection between capital structure and financial performance yet the prevailing literature had ignored the clear role of credit management in the relationship between capital structure and financial performance in Small and Medium Enterprises in Uganda.

5.5 Limitations and areas for further studies

From this study, some limitations should be described as follow;

This study only relied on a quantitative data collection method and analysis which is subjected to errors and biased opinions as well as undetailed data. It is thus thought that these limitations might have affected the findings of this study. However, the researcher ensured that non-subjective hypotheses are set and used as the benchmark for data analysis to avoid subjectivity and bias for the limited collected data. The researcher applied rigorous data cleaning and reliability checks to minimize bias and measurement of errors. The researcher later interpreted the results cautiously, acknowledging that numerical trends might not fully capture contextual nuances. It is then recommended that further studies should test this model using a mixed approach deal with the subsequent weaknesses of a quantitative survey.

The findings were gathered from a limited study sample of the SMEs in Pallisa Business District in Uganda; hence the findings might not be depended on beyond this study area or beyond the country Uganda. The researcher however ensured that a better sample representation of town

councils with over 80% of SMEs in Pallisa are considered. These were SMEs with heterogeneous characteristics not different from those of other parts of Uganda. The researcher purposefully selected a sample of SMEs to represent key characteristics of the target population and data collection procedures were standardized to reduce internal variability. Also, an appropriate statistical technique suitable for smaller samples (non-parametric tests to maintain validity was utilized. Thus, further studies should investigate this financial performance model using data from SMEs beyond Pallisa Business District to solve the gap of external validity and dependability.

Finally, the study based on a cross-sectional research design and quantitative design where data from participants was obtained at a single moment in time and later subjected to statistical software analysis. Thus, the findings might be unable to collect the possible changes over time that occurred to the variables after the data was collected. Although these designs did not support the researcher to collect data over a long period of time to assess the impact, the data collection period was carefully timed to capture representative opinions and utilized inferential statistical techniques to identify associations that might suggest potential patterns. Also, the researcher contextualized the results with insights from previous longitudinal studies in the literature to strengthen interpretation. Hence, we recommend a related study to be conducted based on a longitudinal research approach

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Appendix I. Questionnaire

QUESTIONNAIRE

BUSITEMA UNIVERSITY, FACULTY OF MANAGEMENT SCIENCES

Dear Respondent,

I am conducting a study about the capital structure, credit management and financial performance of SMEs in Pallisa District Local Government. Therefore, you have been selected to participate in this study, entitled **―Capital Structure, Credit Management and Financial Performance of SMEs‖**.

Consequently, the data collected from this study shall be decently utilized for academic purposes and as well treated with honest and anonymity.

Please answer the questions generally and accurately for correct and reliable data. Thank you

Oule George Omoding

MBA Student

SECTION A: Demographic Information

A1: Personal Demographic

Kindly tick ✓ your best appropriate description

1. **Gender**

Male	Female
1	**2**

2. Age Bracket

25 years and below	26-32 years	33-39 years	40 years and above
1	**2**	**3**	**4**

3. Education Level

primary	**UCE**	**UACE**	**Diploma**	**Degree**	**Postgraduate Qualification**
1	**2**	**3**	**4**	**5**	**6**

A2: Demographics on SME's

4. Type of SME

Accommodation/services	Agriculture	Health/ Education	Food processing	Construction	Forestry	Trading
1	2	3	4	5	6	7

5. Period of Business Existence

Less than 1	**1-4**	**5 years above**
1	2	3

6. SME's Location

Pallisa	Agule	Kibale	Kamuge
1	**2**	**3**	**4**

7. Name of the SME……

SECTION B: CAPITAL STRUCTURE

Kindly answer by agreeing or disagreeing; 1-strongly disagree, 2-disagree, 3-no opinion, 4-agree, and 5-strongly agree by ticking ✓your appropriate answer in response to the questions below

SECTION B: CAPITAL STRUCTURE		**Strongly disagree**	**Disagree**	**No Opinion**	**Agree**	**Strongly Agree**
Capital						
CSE1	Our own capital is greater than other sources	1	2	3	4	5
CSE2	We have ever acquired loans for business operation	1	2	3	4	5
CSE3	Our capital/own capital alone is enough to run our business	1	2	3	4	5
CSE4	We prefer using our own capital than loans	1	2	3	4	5
CSE5	Our capital/own capital has continuously been increasing since we started	1	2	3	4	5
CSE6	Our business has been solvent since its establishment	1	2	3	4	5
CSE7	Our accounting records reflects the periodic size of capital for our company	1	2	3	4	5
CSE8	Using capital is cheaper than utilizing loans for our business	1	2	3	4	5
Debt						
CSD1	We easily access loans	1	2	3	4	5
CSD2	Going for loans has improved our business	1	2	3	4	5
CSD3	We have a strategy of managing debts to avoid related risks	1	2	3	4	5
CSD4	We analyze financial institutions/suppliers before borrowing to avoid risks	1	2	3	4	5
CSD5	We try as much as possible to limit debts	1	2	3	4	5
CSD6	We rely on long term loans for business development	1	2	3	4	5
CSD7	We have never been considered as bad debtors	1	2	3	4	5
CSD8	We access loans from trusted and legal companies	1	2	3	4	5
Retained profits						
CSR1	More than half of our earnings are retained	1	2	3	4	5
CSR2	We have a specific bank/mobile money account for retained profits	1	2	3	4	5
CSR3	We always use retained profits to beef up our business in hard times	1	2	3	4	5
CSR4	Retained profits should be reinvested in the business	1	2	3	4	5
CSR5	We have never failed to retain earnings due to business operation costs	1	2	3	4	5
CSR6	We always retain our business earnings for more than 3 months	1	2	3	4	5
CSR7	We have never used retained profits for daily personal expenditure	1	2	3	4	5

SECTION C: CREDIT MANAGEMENT

Kindly answer by agreeing or disagreeing; 1-strongly disagree, 2-disagree, 3-no opinion, 4-agree, and 5-strongly agree by ticking ✓your appropriate answer in response to the questions below

SECTION C: CREDIT MANAGEMENT		**Strongly disagree**	**Disagree**	**No Opinion**	**Agree**	**Strongly Agree**
Client Appraisal						
CCA1	We determine creditworthiness of our customers	1	2	3	4	5
CCA 2	We have a list of creditworthy customers documented and updated	1	2	3	4	5
CCA 3	We investigate the possible source of payment by credit customers	1	2	3	4	5
CCA 4	We document contacts for our credit customers for follow-up	1	2	3	4	5
CCA 5	We have guidelines followed before offering credit to customers	1	2	3	4	5
CCA 6	We have enough skills to assess the creditworthiness of customers	1	2	3	4	5
CCA 7	Our business considers the characters of customers before offering credit	1	2	3	4	5
Credit Risk Control						
CRC 1	We have credit limits for our credit customers based on payment history	1	2	3	4	5
CRC 2	We have rules for late/early payment i.e. additional cost/discount	1	2	3	4	5
CRC 3	We agree with credit customers on terms of payment i.e. date for paying	1	2	3	4	5
CRC 4	We resort to legal actions in case customers default payment	1	2	3	4	5
CRC5	Our customers sign an agreement before taking goods on credit	1	2	3	4	5
CRC 6	We only offer credit to customers whose previous invoices were cleared	1	2	3	4	5
CRC 7	We offer flexible repayment period to our customers	1	2	3	4	5
Credit Monitoring						
CCM 1	We do assess credit customers‘ records and accounts periodically	1	2	3	4	5
CCM2	We follow-up credit customers physically to remind them about payment	1	2	3	4	5
CCM3	We make phone calls to credit customers to remind them about payment	1	2	3	4	5
CCM4	We monitor credit payment records to guide us for future credit sales	1	2	3	4	5
CCM5	We design a monitoring work plan before starting credit	1	2	3	4	5

	monitoring					
CCM6	We have adequate skills in monitoring credit customers	1	2	3	4	5
CCM7	Our business has a distinct staff for credit monitoring	1	2	3	4	5
Credit Recovery						
CCR 1	If payments are not forthcoming, we resort to the agreed credit principles	1	2	3	4	5
CCR 2	We experience limited number of credit defaulters/non payers	1	2	3	4	5
CCR 3	We reschedule due date for some credit customers to clear payments	1	2	3	4	5
CCR 4	We have innovative skills for recovering payments from all customers	1	2	3	4	5
CCR 5	Our credit customers can also pay either by bank or mobile money or both	1	2	3	4	5
CCR 6	Our business engages law enforcement agencies for credit recover especially for defaulters	1	2	3	4	5
CCR 7	Strict ways are more effective in debt recovery than lenient ones	1	2	3	4	5

SECTION D: FINANCIAL PERFORMANCE

Kindly answer by agreeing or disagreeing; 1-strongly disagree, 2-disagree, 3-no opinion, 4-agree, and 5-strongly agree by ticking ✓your appropriate answer in response to the questions below

SECTION D: FINANCIAL PERFORMANCE		**Strongly disagree**	**Disagree**	**No Opinion**	**Agree**	**Strongly Agree**
Profitability						
FPP1	We did experience losses in the previous 1 year	1	2	3	4	5
FPP 2	We always meet the targeted revenue	1	2	3	4	5
FPP 3	We regret setting up this business	1	2	3	4	5
FPP 4	We incur minimal costs to operate business activities	1	2	3	4	5
FPP 5	Our net profits offers room for retained profits	1	2	3	4	5
Turn Over						
FPT 1	Our sales have been increasing in the previous period	1	2	3	4	5
FPT 2	We keep records for our sales	1	2	3	4	5
FPT 3	We conduct sales promotional activities that leads to quick sales	1	2	3	4	5
FPT 4	Our customers have been increasing over time	1	2	3	4	5
FPT 5	We currently have more customers than our competitors	1	2	3	4	5
Cash Flow						
FPC 1	Our inflows are enough to sustain business operations	1	2	3	4	5
FPC 2	We incur less expenditure than our business incomes	1	2	3	4	5
FPC 3	Our financial inflow has been continuously increasing	1	2	3	4	5
FPC 4	We have a clear work plan and budget for expenditure	1	2	3	4	5
FPC 5	We do record both inflow and outflow of funds in our books	1	2	3	4	5

Thank you

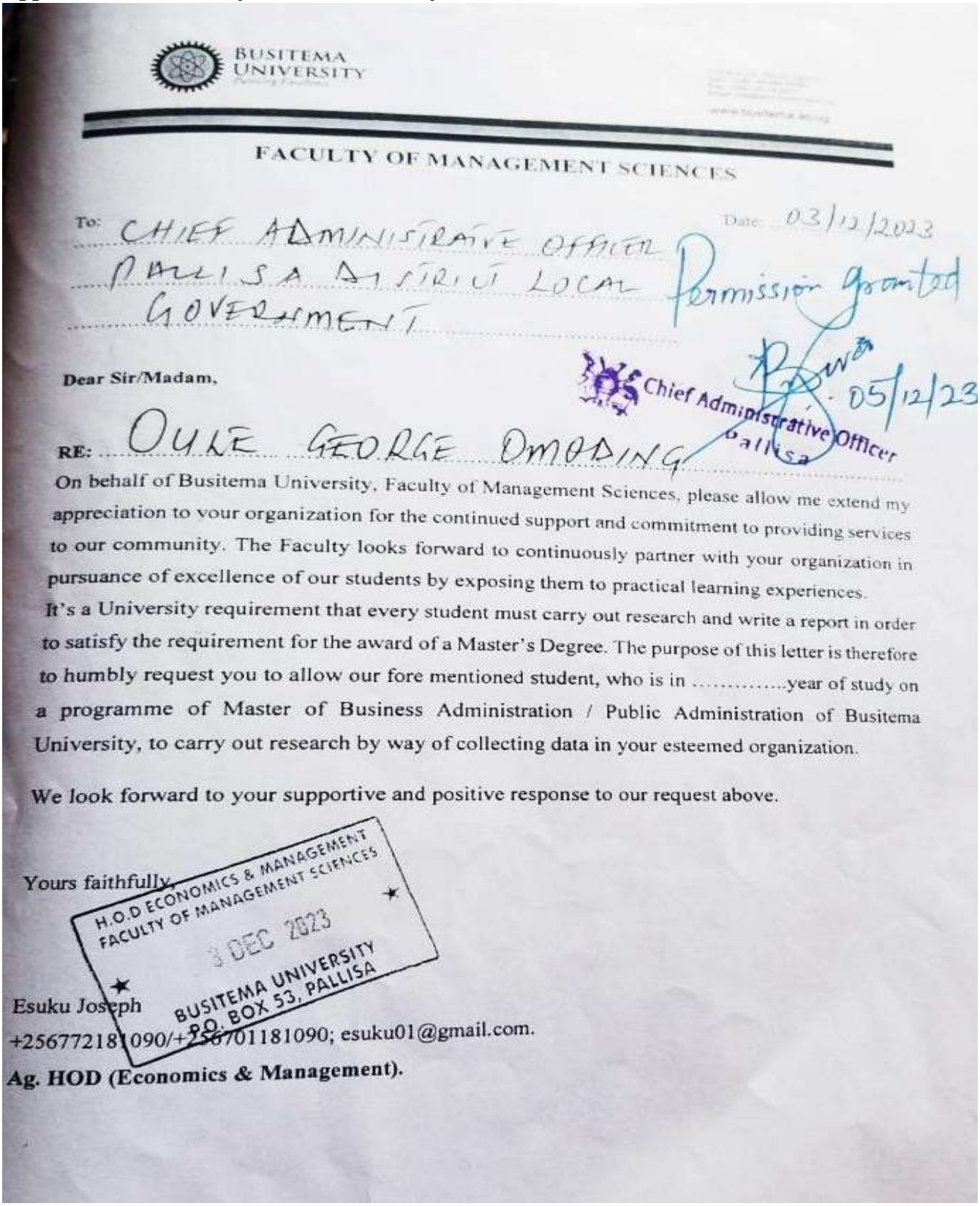
Appendix II: Krejcie and Morgan (1970) table

N	*S*	*N*	*S*	*N*	*S*
10	10	220	140	1200	291
15	14	230	144	1300	297
20	19	240	148	1400	302
25	24	250	152	1500	306
30	28	260	155	1600	310
35	32	270	159	1700	313
40	36	280	162	1800	317
45	40	290	165	1900	320
50	44	300	169	2000	322
55	48	320	175	2200	327
60	52	340	181	2400	331
65	56	360	186	2600	335
70	59	380	191	2800	338
75	63	400	196	3000	341
80	66	420	201	3500	346
85	70	440	205	4000	351
90	73	460	210	4500	354
95	76	480	214	5000	357
100	80	500	217	6000	361
110	86	550	226	7000	364
120	92	600	234	8000	367
130	97	650	242	9000	368
140	103	700	248	10000	370
150	108	750	254	15000	375
160	113	800	260	20000	377
170	118	850	265	30000	379
180	123	900	269	40000	380
190	127	950	274	50000	381
200	132	1000	278	75000	382
210	136	1100	285	1000000	384

Note.—*N* is population size. *S* is sample size.

Source: Krejcie & Morgan, 1970

Appendix III: University Field Introductory Letter



BUSITEMA UNIVERSITY

FACULTY OF MANAGEMENT SCIENCES

To: CHIEF ADMINISTRATIVE OFFICER
PALLISA DISTRICT LOCAL GOVERNMENT

Date: 03/12/2023

Permission Granted

Chief Administrative Officer
Pallisa
05/12/23

Dear Sir/Madam,

RE: OULE GEORGE OMODING

On behalf of Busitema University, Faculty of Management Sciences, please allow me extend my appreciation to your organization for the continued support and commitment to providing services to our community. The Faculty looks forward to continuously partner with your organization in pursuance of excellence of our students by exposing them to practical learning experiences.

It's a University requirement that every student must carry out research and write a report in order to satisfy the requirement for the award of a Master's Degree. The purpose of this letter is therefore to humbly request you to allow our fore mentioned student, who is in .....year of study on a programme of Master of Business Administration / Public Administration of Busitema University, to carry out research by way of collecting data in your esteemed organization.

We look forward to your supportive and positive response to our request above.

Yours faithfully,

H.O.D ECONOMICS & MANAGEMENT
FACULTY OF MANAGEMENT SCIENCES
3 DEC 2023
BUSITEMA UNIVERSITY
P.O. BOX 53, PALLISA

Esuku Joseph
+256772181090/+256701181090; esuku01@gmail.com.
Ag. HOD (Economics & Management).