

**EFFECT OF WORKING CAPITAL MANAGEMENT ON FINANCIAL
PERFORMANCE OF SELECTED SMALL AND MEDIUM ENTERPRISES IN
MUKONO DISTRICT: A case study of small and medium sized enterprises, Mukono**

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**A RESEARCH REPORT SUBMITTED IN PARTIAL FULFILLMENT OF THE
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


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DECLARATION.

I Owomugisha Patience, hereby declare that the work contained in this report is wholly unique to me from the best of my knowledge, guidance and supervision and has never before submitted for academic awards at any university or any other training institute.

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APPROVAL

This is to certify that this research report was completed and filed under my supervision and is ready for submission as partial fulfilment of the requirement for the award of Bachelor of Science in Accounting and Finance at Uganda Christian University.

I also attest that I oversaw the completion of this field attachment.

Signature:  Date: 

Mr. Kisenyi Vincent

Research Supervisor

DEDICATION

With earnest gratitude, I dedicate this research report to the family of Mr. & Mrs. Twakiire Norman, my lecturers, friends and relatives for their sacrifice and all support rendered to me throughout my entire academic life. I am what I am today because of you! May the almighty God bless you abundantly.

Above all, I dedicate this report to the Almighty God for all the provision, knowledge and wisdom throughout my academic journey.

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Without the assistance, love, and support of many individuals, I would not have been able to accomplish my dissertation. First and foremost, I would like to thank the Almighty God for his guidance, good health and provision throughout this research.

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And lastly my sincere thanks go to my course mates especially my friends that I used to discuss with for their great advice and continuous support. To my parents Mr.& Mrs. Glorious Twakiire, my siblings and all relatives for their encouragement always and giving me a conducive academic environment in my life. I am forever indebted by you!

May the almighty God bless you all.

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ABSTRACT

The study investigated The Effect of Working Capital Management on Financial performance of selected Small and Medium Enterprises in Mukono District. The main objective of the study was to examine the effect of working capital management on financial performance on small and medium enterprises in Mukono guided by four specific objectives which were; To assess the influence of accounts payable management on the financial performance of small and medium enterprises, To examine the influence of accounts receivables management of the financial performance of small and medium enterprises, To analyze the influence of cash management on financial performance of small and medium enterprises and to assess the role of inventory management on financial performance of small and medium enterprises.

A population of 100 employees / owners of SMEs was targeted but only a sample of 80 respondents was used. The study used Simple random sampling technique where all members of the finite population were given equal chances to be included in the sample since the target respondents were either engaged or had an idea about financial performance of SMEs and these were in a better position to respond to the research questions appropriately. Data was collected from primary and secondary sources through use of Questionnaire, interview Guide and observation. The data collected was then analyzed using SPSS for means to determine the level of dependent and independent variables. The findings of the study revealed that there is a significant relationship existing between working capital management and financial performance of the selected SMEs however it turned out that working capital management has been associated with a number of challenges such as lack of proper management practices, employing none professional staffs, etc.

The researcher recommended that Small and Medium enterprises should manage their debts, receivables, cash and inventory retention very well in order to improve their financial performance as discussed in-depth in the main context.

CHAPTER ONE

INTRODUCTION

1.0 Introduction.

The aim of this study is to examine the effect of working capital management on financial performance of small and medium enterprises in Mukono district, Uganda.

This Chapter mainly focuses on the background of the study, problem statement, purpose of the study, objectives of the study, research questions, scope of the study, Justification of the study and the conceptual framework. It also acts as a stand base of all other chapters.

1.1 Background of the Study.

In order to maintain the most financially effective functioning of the business, working capital management is a managerial accounting technique meant to monitor and use the two components of working capital, current assets and current liabilities. Making sure the business always has enough cash flow to cover its short-term operating costs and short-term debt commitments is the major goal of working capital management. (Abuzayed, 2012)

A managerial accounting method called working capital management (WCM) aims to keep a company's current assets and current liabilities at optimal levels. It has to do with managing a company's present assets and liabilities (Harris, 2015). WCM makes that a business generates enough cash flow to cover operating costs and short-term debt obligations (Mekonnen, 2011). WCM is a crucial element of corporate finance because it has a direct impact on a company's liquidity and profitability (Knauer & Wöhrmann, 2013). Along with capital structure and capital budgeting, working capital management is one of the financing factors that a corporation's finance manager must decide upon (Ross, Westerfield, and Jordan, 2010).

Management of working capital is crucial for a variety of reasons. Usually, a typical private entity's current assets make up more than half of its overall assets. Working capital therefore implies a large investment in the private company. A company could easily realize a poor return on investment if it has too many current assets. However, having insufficient current assets may make it difficult to keep up efficient business operations (Lu, 2013). A key component of the overall corporate strategy to create value is managing working capital which aims to maintain an ideal balance between each of the working capital components including: cash, receivables, inventory, and payables. It also serves as a significant source of competitive advantage for

businesses (Deloof, 2013). In actuality, it has grown to be one of the most crucial issues for businesses with many financial executives finding it difficult to define the fundamental working capital drivers and the right amount of working capital to hold in order to reduce risk, prepare for uncertainty, and enhance overall business performance (Gill, Biger, & Mathur, 2010).

Liquidity is dealt with and measured by working capital. Effective working capital management aims to make sure a business has appropriate easy access to the money needed for ongoing running costs while also ensuring that its assets are being invested in the most profitable manner (Norton, Parkinson and Drake, 2011). Planning and controlling current assets and current liabilities in a way that removes the risk of not being able to satisfy short-term commitments on the one hand, and avoids making excessive investments in these assets on the other, is the basis of effective working capital management (Eljelly, 2014).

Just enough should be invested in present assets to meet the firm's needs. This is due to the fact that excessive current asset investment reduces the firm's profitability because idle investment generates no income. While a shortage of operating capital puts the firm's stability in danger since it makes it difficult to pay bills as they come due. A company's shifting working capital requirements can result in a lack or surplus of working capital. Therefore, working capital management ought to be able to balance out such imbalances (Pandey, 1 2005). Similarly to this, quick arrangements for financing should be established anytime the requirement for working capital rises as a result of an increase in business activities. If there are any surplus funds, they should be invested in short-term securities rather than sitting idle (Pandey, 2005). In order to create a balance between risk and returns and so positively contribute to the production of firm value, working capital management involves handling the company's inventory, receivables, and payables.

Financial Performance .This is a subjective measure of how well a firm uses asset from its primary mode of business and generates revenues. This term is also used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. Financial performance refers to a measure of the results of a firm's policies and operations in monetary terms. These results are reflected in the firm's sales growth, profit growth, return on investment (ROI), return on assets (ROA), shareholder value, accounting profitability and its components.

Return on Assets are a measure of efficiency because they show how well and successfully a company generates money by using the resources (assets) at its disposal. Profitability indicators like gross profit margin, net margin, economic value added, return on equity less cost of equity, return on capital employed, cash flow indicators like: free cash flow over sales, and revenue growth are examples of quantitative measures of business performance. The usage of ratios is one method through which managers can keep an organization's financial issues under control. To fully understand how well a business is operating financially, we must understand the relationships between two financial balances or financial calculations that serve as our points of reference. Ratios also expand on the conventional method of measurement. (Saliha, 2011).

Return on equity (ROE), return on investment (ROI), and return on assets (ROA), as well as their variability as risk indicators, are further financial performance metrics. In earlier studies, the accounting rate of return is frequently measured. Return on investment (ROI), return on capital (ROC), return on assets (ROA), and return on sales are a few examples. These metrics may be used to assess financial performance including how well management is employing assets to produce accounting return per unit of sales or investment assets. These measures have well-known drawbacks. The proper reporting of earnings is influenced by accounting returns that include depreciation and inventory charges. Historical asset valuations are also kept track of. The success of senior management is frequently assessed using the return on equity (ROE) metric. (Donaldson & Preston, 2005).

Small and medium-sized businesses (SMEs) must manage their working capital effectively to survive. This is based on the idea that excessive working capital indicates inefficiency while a lack of available cash indicates that the survival of SMEs is in danger. Since the majority of SMEs' assets are current assets, working capital management is crucial to them. Additionally, one of their primary sources of external financing is current liabilities because they have trouble acquiring funding on the long-term capital markets (Garcia and Martinez, 2007).

Small and medium-sized businesses (SMEs), which make up the majority of businesses worldwide and play significant roles in creating employment, providing goods and services, improving living standards, as well as greatly contributing to economic growth, development, and stability within several economies, have received the recognition they deserve since the 1960s, especially in developed nations. (Mabonga, 2014). However, it appears that considering the enormous potentials of the SMEs sector, and despite the acknowledgement of its immense contribution to sustainable economic development, its performance still falls below expectation in many developing countries (Tobechukwu, 2012).

Small businesses are widely acknowledged as making significant contributions to the growth and development of nations. There has been an effort to support these businesses in order to help the country's GDP and employment growth. Multinational corporations dominate the global market, and for developing nations, SMEs seem to be the best way to compete (Director MUBS, "Entrepreneurship and Small Scale Businesses in Uganda"). Because of their ability to increase economic output and human welfare, Small and Medium Enterprises (SMEs) play a crucial role in the economies of many African nations, including Uganda (Akingunola & Oreoluwa, 2011).

More than 1,069,000 SMEs are thought to exist in Uganda, constituting almost 90% of the country's private sector. They employ approximately 2.5 million people and generate 75% of Uganda's GDP (BID network, 2008). The SME sector is crucial to the economy, particularly in terms of subsistence earnings, innovation, job generation, and promotion. In Uganda, SMEs employ more than 2.5 million people, constitute up to 90% of the private sector, and contribute more than 70% of the country's GDP (Byaruhanga, 2014).

1.2 Statement of the Problem.

According to the 2017 Auditor General's Report, Uganda's Small and Medium Enterprises continue to operate profitably. Despite the Government of Uganda and other development partners placing more emphasis on these organizations, recent reports have shown limited progress in helping these businesses increase sales and achieve the necessary profitability, endangering their survival (BOU, 2018; PSFU, 2017; UIA, 2017).

Because it guarantees an appropriate cash flow to satisfy its short-term responsibilities and expenses, good working capital management should create cash that will enable an enterprise boost profitability and decrease risks. An organization is expected to generate more money as it grows. Ugandan SMEs follow rules and procedures for good working capital management. These regulations include well-organized credit procedures, ideal inventories, receivables, and creditor management. The failure to effectively implement these rules results in poor/inadequate working capital, which keeps the level of profitability low and puts the survival of these SMEs in danger. According to forecasts, one out of three SMEs close within a year of opening (GEM, 2004, Hatega,2007). Although SMEs are viewed as the engine for an economy's growth, they still face obstacles and problems, such as the ones cited like poor performance (Turyahebwa et al., 2013). Small and medium-sized enterprises (SMEs) in Uganda suffer particular issues that have an impact on their profitability and growth, reducing their capacity to make a meaningful contribution to sustainable development (Kazimoto, 2016).

Poor working capital management methods are to blame for the severe underperformance of SMEs (Shaskia, 2012). The inability of financial managers to effectively plan for and manage the present assets and current obligations of their separate enterprises has been blamed for a significant portion of business failures in Uganda (Mbaguta, 2002). To cut operating expenses, owners often manage these businesses themselves (Kazooba, 2006).

To close this gap, it is essential to examine the effect of working capital management on the financial performance of SMEs in Uganda. If the situation is not addressed, however, the contribution of SMEs to the Ugandan economy is likely to be impacted.

1.3 Main Objective of the Study

The purpose of the study was to examine the effect of working capital management on financial performance of selected small and medium enterprises in Mukono district.

1.4 Specific Objectives of the Study.

- i. To assess the influence of accounts payable management on the financial performance of small and medium enterprises.
- ii. To examine the influence of accounts receivables management on the financial performance of small and medium enterprises.
- iii. To analyze the influence of cash management on the financial performance of Small and Medium enterprises.
- iv. To assess the role of inventory management on financial performance of Small and Medium enterprises.

1.5 Research Questions.

- i. To what extent does accounts payables management affect the financial performance of small and medium enterprises?
- ii. To what extent does accounts receivables affect the financial performance of small and medium enterprises?
- iii. To what extent does cash management affect the financial performance of small and medium enterprises?
- iv. To what extent does inventory management on the financial performance of small and medium enterprises?

1.6 Justification of the Study.

The findings of the study will help the management and employees of the small and medium-sized businesses that were the subject of the study by providing them with insight into how to better manage their companies' working capital to improve their financial performance. The theory and knowledge of the changes in working capital management that small and medium-

sized businesses are going through must be improved upon by this research. This study can be used by regulatory organizations like the Uganda Investment Authority to strengthen the legislation and rules governing Small and Medium Enterprises in Uganda.

The findings of this study will help regulators and policy makers at Capital Markets Authority adopt a new set of policies and regulations surrounding working capital management. A better understanding of working capital management practices (cash management, receivables management, inventory management, and payables management) and their relationship to financial performance in terms of profitability (Return on assets and Return on Equity) will be provided by the study's findings, which will be helpful to a variety of stakeholders. Academics and future researchers who do related research will find this study to be helpful. This is due to the fact that it will advance the knowledge of working capital management strategies and how crucial they are to the SME sector in Uganda.

1.7 Scope of the Study.

1.7.1 Content Scope.

The study aimed at analyzing the effect of working capital management on financial performance of Small and medium enterprises in Mukono District. It focused on components such as: Accounts payables management, Accounts receivables management, Cash management, Inventory management, Profit growth and Sales growth (Garcia and Tervel 2017). I chose this study because it gave a deeper understanding of how to manage organizational assets.

1.7.2 Geographical Scope.

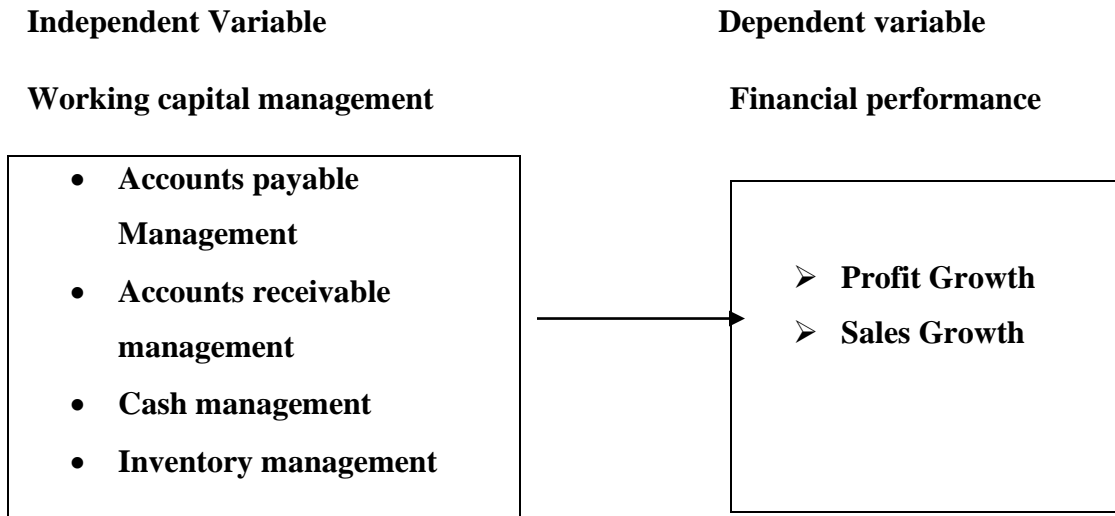
The study was conducted in Small and Medium Enterprises in Mukono District, Uganda.

1.7.3 Time Scope.

The study took a period of four months from May to August, 2023.

1.8 CONCEPTUAL FRAMEWORK.

Figure 1: Conceptual framework.



Source: Adopted from Rathirane, Y., Sangeetha, T., (2011).

The working capital management dimension was represented in the conceptual framework as the independent variable that was considered to affect financial performance. The framework indicated that the management of accounts payables, accounts receivables, cash, and inventory had an effect on financial performance. However, the ability of your sales team to increase revenue over a set period of time was measured using the dependent variable, financial performance, as shown above. On the other hand, a high percentage growth in sales is positive for all stakeholders, such as executives, the board of directors, and shareholders. (Garcia and Tervel, 2017).

Profit growth and more specifically, the combination of economic profitability and growth of free cash flows, is the combination of profitability and growth. At the beginning of the 1980s, when creating shareholder value became the primary goal of the corporation, profitability expansion began with the intention of shrinking the financial community. One of the often used profitability ratios to assess the profitability of a business activity is profit margin/growth. It shows the proportion of sales that have generated profits. The percentage figure simply represents the amount of profit the company made for each sale (Nazir M.S. Afza 2009).

The analysis shows that there is a relationship between the two variables because when you have working capital which is well managed it may positively affect the performance of the business.

Definition of the Terms.

For the purposes of the study, the following terms were defined to have meaning as used in the study Working capital management (WCM);

Working capital management (WCM). A managerial accounting strategy called working capital management (WCM) aims to keep a company's current assets and current liabilities at optimal levels. It has to do with managing a company's present assets and liabilities (Harris, 2015).

Financial Performance is a measure of how effectively a company can utilize resources from its main line of business and generate income. The term is often used to compare similar businesses within the same industry or to compare entire industries or sectors (Padachi, 2016). It also serves as a broad indicator of a company's overall financial health over a specific period of time.

Sales Growth: A high percentage growth in sales is encouraging for all stakeholders, including executives, the board of directors, and shareholders. Sales growth is a metric that assesses your sales team's capacity to raise revenue over a set period of time. 2017 (Garcia and Tervel).

Profit Margin / Profit Growth: According to Knauer and Wohrmann (2013), one of the regularly used profitability measures to assess the profitability of a company activity is profit margin, which measures the proportion of sales that have been converted into profits.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction.

This chapter presents the literature review on working capital management and financial performance. It also covered some of the available literature on the working capital theory. It also dealt with the actual review of literature that was done by previous scholars' objective by objective and finally the gap available in the literature of previous studies. The rationale of the literature review was to discuss the existing literature with the objective of revealing contribution made by earlier scholars, weaknesses and gaps in existing knowledge and lessons learnt. The sources of Journals, text books and online materials by other scholars and academicians.

2.1 Theoretical Framework.

2.1.1 Resource based theory.

All active businesses including those that are fully equipped with all times of assets require working capital. In fact, working capital is like blood to a business. Without working capital expenses such as procurement of adequate supply of raw materials for processing, cash to pay power and wages, capacity to grant credit to its customers and creating a stock of finished goods to feed the market demand regularly will be un met. This curtails efficiency out of the day today activities of the business (Lambarg & Valmang, 2009) .Working capital management is an area of corporate finance which directly affects the liquidity and profitability of the firm (Raheman & Nasr, 2007). It is the management of current assets and current liabilities to improve a firm's performance (Hill, Kelly and Highfields, 2010). It involves maintaining an optimal balance among receivables, inventory and payables.

Given the above explanation working capital management is crucial for a firm particularly manufacturing, trading and distribution firms because in these firms working capital management directly affect the profitability and liquidity according to Deloof (2003), efficient working capital management ensures an optimal level of working capital is maintained in order to maximize share holders' wealth. The objectives of maximizing profit or shareholders value are some of the key objectives for a company. However certain levels of liquidity are essential to

ensure short term maturing obligations are met when they arise. Profitability is essential for the operations and continuity of a company. However, it should be maintained to a manageable level of liquidity to prevent insolvency or bankruptcy (Rehaman & Nasr, 2007). Good working capital management leads to increased cash flows and there by leading to lesser needs for external financing, hence the probability of defaults for the firm is reduced. A key factor in the working capital management is the cash conversation cycle (Deloof, 2003). Cash conversation cycle is defined as the time lag between the purchasing of raw materials or rendering of services and the collection of cash from the sale of goods and services rendered. The longer the lag the greater interest expense. This leads to higher defaulter risk and lower profitability. The crucial part in managing working capital (WC) is maintaining sufficient liquidity for the day today business operation to ensure the firm's smooth running and meeting its obligations (Ganesan, 2017). A well calculated and employed working capital management is anticipated to add positively to the firm's performance (Padachi, 2016). Holding of excess amounts of working capital can cause a decline in the profitability of a business (Lu, 2013).

2.2 Understanding Working Capital Management

2.2.1 Accounts Payables management

The choice to balance the advantages of trade credit against the expenses of the credit is an aspect of payables management (Van-Home & Wachowicz, 2004). According to (Uremadu, Egbide, and Enyi 2012), effective management of accounts payables will maximize cash outflow, ensure that the firm's liquidity is not adversely affected, and ultimately ensure that the firm's profitability is not impacted over the long term. The firm is in charge of timely satisfying its obligations with respect to payables. Internal controls must be set up for cash disbursements in order to manage payables and guarantee that money is only spent when properly authorized by management and for legitimate business needs.

Credit management is implementing and maintaining a set of policies and procedures to minimize sthe amount of capital tied up in debtors and to minimize the exposure of the business to bad debts. (<http://www.smallbusiness.wa.gov.au/assets/small-Business-Briefs/small-business-brief-creditmanagement.pdf>)

2.2.2 Accounts Receivables management

Making sure that customers pay their invoices is the main goal of accounts receivables; doing so helps to avoid late or non-payment, and is a quick and efficient approach to improve the company's financial or liquidity status. A business must decide its strategy, including which clients to accept and under what circumstances, which customers to watch, which customers should no longer be accepted, and when to leave. Creating the necessary procedures, such as defining your invoicing process, your invoice, when you remind customers by phone, when you remind customers in writing, how the reminder looks, when you work with a debt collection agency, when you'll start legal action, and what the role of your accounting department is. (Raheman & Nasr 2017)

2.2.3 Cash management

The term "cash management" refers to the acquisition, storage, and distribution of cash (Mabonga, 2014). The objective is to maximize the amount of available cash that isn't invested in inventories or fixed assets that can be used by the business to pay its obligations. To reduce the risk of insolvency, cash collection should be accelerated while cash disbursement is strictly regulated (Padachi, 2006). According to Pandey (2005), the process of planning and controlling a company's cash flows both in and out as well as its internal cash flows and current cash balances is known as cash management. The cash conversion cycle is one of the common indicators of cash management, according to Mansoori & Muhammad (2012). It describes the time span between purchasing raw materials, turning them into completed commodities, selling those things, and collecting account receivables.

2.2.4 Inventory management

A complete inventory management system includes a system for identifying each inventory item and its associated information, such as bar code labels or serial numbers, as well as processes and procedures that oversee the monitoring and maintenance of stocked products, whether those products are company assets, raw materials and suppliers, or finished products ready to be sent to

vendors or end users. Along with the capacity for data analysis, report generation, demand forecasting, and process policies for labeling, documentation, and reporting, including methods like FIFO, LIFO, WACC ABC analysis, and just-in-time (Michalski, G. 2009).

2.3 Review of Related Literature

2.3.1 Accounts Payables management and financial Performance

The average period between purchasing goods and services and paying for them in cash is known as creditors' management. It is computed by dividing the amount owed by the daily average of credit purchases (Harris, 2005). Because delaying bill payments is one of the strategies used by management to access a cheap source of finance, account payables is crucial to managing working capital. However, if an early payment discount is provided, the opportunity cost of maintaining high account payables could harm the company (Lu, 2013). According to the working capital management guidelines, businesses should make an effort to pay creditors later than necessary in order to preserve their business relationship (Napompech, 2012). By demonstrating this, Mathuva (2009) in his study "The Influence of Working Capital Management Components on Corporate Profitability: A Survey on Kenyan Listed Firms" demonstrates the correlation between profitability and average payment period. According to the positive correlation, profitability rises when the number of days for accounts payable is increased by one. Sharma and Kumar (2011) investigated how working capital management affected Indian corporate profitability. The study's findings indicated a negative correlation between debtor management and firm performance whereas a favorable correlation existed between creditor management and firm performance. Ganesan (2017) studied the impact of working capital management on profitability in the communications equipment industry. His research sample consisted of 349 telecom equipment manufacturers from 2001 to 2007. The companies' yearly financial filings were used to get the data. Correlation, regression analysis, and analysis of variance (ANOVA) were some of the statistical tests employed. The findings demonstrated that days of the typical creditors had a positive effect on these enterprises' profitability to investigate the relationship between effective working capital management and business success. For the case of the Bahir Dar City Administration. Tirngo (2013) looked at the effect of working capital management on the profitability of micro and small businesses in Ethiopia. A sample of 67 micro and small businesses were included in the study. The financial accounts of the businesses listed

on Bahir Dar City Micro and Small Enterprise Agency for the year 2011 were the source of the data for this study. The study used a cross sectional analysis along with Pearson's correlation and OLS regression. The findings indicated a strong relationship between the number of accounts payable days and the profitability of the business.

2.3.2 Accounts Receivables Management and financial Performance.

The average amount of time needed to turn a sale's associated receivables into cash is referred to as the accounts receivables management cycle. It is determined by dividing the total amount of accounts receivable by the typical daily credit sales. This ratio measures how long it takes to turn regular sales into cash. According to GarciaTeruel and Martinez-Solano (2011), this measurement explains how accounts receivable and cash flow are related. A bigger investment in accounts receivable is necessary for a longer debtors' management term. Less cash is available to meet financial outflows, such as paying bills, when accounts receivable investments are larger (Sharma & Kumar, 2011). By reducing the number of days' worth of outstanding receivables, businesses can increase their profitability. This can be understood to mean that the quicker customers pay their bills, the more money is available to restock inventory, which in turn results in increased sales and higher profitability for the company. He used a case study approach with private businesses in Nigeria, and he made the argument that there is a negative correlation between debtors' management and profitability, meaning that an increase of just one day in the number of days' worth of accounts receivable leads to a decrease in profitability. By doing so, managers can increase profits by shortening the credit terms they give to their clients (Lazaridis & Tryfonidis, 2016). In a study of the Bahir Dar City Administration, Tirngo (2013) examined the effect of working capital management on the profitability of micro and small businesses in Ethiopia. They discovered that the number of days that accounts were past due had a significant negative influence on profitability.

Using a sample of 30 companies registered on the Nairobi Securities Exchange (NSE) during the years 1993 to 2008, Mathuva (2009) investigated the impact of working capital management components on corporate profitability. To analyze the data, he employed fixed effects regression models, pooled ordinary least square (OLS), and Pearson and Spearman's correlations. The main conclusions of his research were that there was an extremely significant negative relationship

between firm profitability and how long it takes for businesses to recover money from their clients (debtors' management).

2.3.3 Cash Management and financial Performance.

According to Mekonnen (2011), cash management is the interval of time between a company's actual cash outlays for labor and other productive resources and its own cash receipts from the sale of goods. In other words, it is the interval of time between paying for resources and labor and collecting on receivables. Thus, the cash management depicts the typical amount of time a shilling is invested in current assets. According to Varal et al. (2012), it is computed as follows: (Average Collection Period + Inventory Turnover in Days - Average Payment Period).

Cash management essentially denotes the number of days a company's cash is tied up by its current operating cycle. Cash conversion cycle can be shortened in three ways: By reducing inventory conversion period by processing and selling goods more quickly, by reducing receivables period by speeding up collections from sales and by lengthening payables or deferral period through slowing down firm's own payments (Lu, 2013). The relationship between company profitability, cash management, and its components was examined by Lazaridis and Tryfonidis in 2016. They used a sample of 131 companies that were listed between 2001 and 2004 on the Athens Stock Exchange. The results of the study indicated a negative correlation between cash management, financial debt, and profitability, while a positive correlation existed for fixed financial assets. The authors came to the conclusion that businesses can increase their profits by managing their cash flow effectively and maintaining each component at its ideal level. In her investigation into "the impact of working capital management on profitability" of Bangladesh's pharmaceutical industry, Naimulbari (2012) found a negative correlation between cash management and profitability.

The cash management cycle should be as short as feasible without negatively affecting operations because cash management has an adverse relationship with profitability. Profits would increase as a result, as a longer cash management cycle increases the demand for external funding, which comes at a price (Naimulbari, 2012). Working capital management has an effect on a company's profitability and liquidity, according to a study by Dong and Su (2010). The

research revealed a strong adverse relationship between cash management and profitability. This indicated that the longer cash conversion cycles caused the profitability to decline.

2.3.4 Inventory Management and financial Performance.

The average amount of time needed to transform raw materials into finished goods is referred to as inventory management. For businesses with higher profitability, the inventory turnover ratio, which measures inventory management effectiveness, is anticipated to be high. Low inventory turnover ratios may be a sign of both weak sales and surplus inventory (Lu, 2013). According to Knauer and Wöhrmann's (2013) research, managers can increase firms' profitability by cutting the time they keep inventory on hand. The relationship between inventory and financial performance in manufacturing companies was investigated by Capkun, Hameri, and Weiss in 2009. In order to ascertain the relationship between financial performance and different inventory levels, the researchers utilized multiple regressions to examine 52,254 enterprises over a 25-year period, from 1980 to 2005. Utilizing operating and gross earnings as well as inventory levels for raw materials, partially made goods, and finished goods, they evaluated their financial success. The findings showed there is a correlation between a company's financial performance and how well its inventory is managed. Additionally, they noticed that the level of relationship varied according to the type of inventory and the metric of reference financial performance.

Zariyawati et al. (2012) empirically analyzed the relationship between working capital management and corporate performance using a case of Malaysia for the period 2003–2008. Using the regression and correlation analysis methods, they deduced that inventory management was positively correlated with firm performance. Ben-Caleb (2009) examined working capital management and profitability of listed companies in Nigeria. Using a descriptive research and a sample size of two hundred and forty eight (248) respondents, they established that there is significant relationship between good inventory management and organizational profitability. There was a high positive correlation between good inventory management and organizational profitability. They concluded that inventory management is very vital to the success and growth of Organizations.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter explains the research methodology that was used to conduct this study, and modalities of data collection. This includes; the research design, population, sampling methods, data sources, data collection methods, data analysis

3.1 Research Design

A research design can be thought of as a set of guidelines for data gathering and analysis that seeks to balance relevance with the study goal. It was the conceptual framework used to perform the investigation. It serves as the manual for gathering, measuring, and analyzing data (Kothari, 2003).

Data from respondents was gathered at a specific point in time from the representative population as part of the study's cross-sectional research approach. During the study, the mixed method technique, which combines quantitative and qualitative research approaches, was also applied (Creswell, 2012). Utilizing questionnaires with chosen small and medium scale business owners or operators, the quantitative investigation was carried out. To obtain a thorough understanding of the concept, a qualitative study was undertaken using interviews with a few small and medium scale business managers or owners.

3.2 Sample Design

The research used purposive and simple random sampling methods.

3:2.1 Simple random sampling

Under this technique, all the members of the finite population were given equal chances to be included in the sample (Ashley) since the target respondents are engaged or have an idea about

financial performance of Small and medium enterprises. This removed the possible bias that may have arisen as the result of research favoring some members of the population (Stephanie, 2014).

3.2.2 Purposive Sampling

With this technique, members were selected based on their technical knowledge about the purpose of the study and it was applied where they were few respondents in a given section (Tongro, 2007). This method was useful because it made it easier to reach a targeted sample quickly (Palys, 2008).

3.3 Study Population

The population for the study comprised of the employees of Small and medium size enterprises with in Mukono District especially those in positions which give them a chance to know about working capital management and financial performance of their organizations. The study was based on a population of 100 people.

Table 1: Type of business, sample size and sampling methods.

TYPES OF BUSINESS	NUMBER OF PEOPLE	SAMPLING METHOD
Retail shops	50	Simple random sampling
Whole sales	10	Purposive
Service rendering	10	Purposive
Small scale producers	10	Purposive
Total	80	

From the above table, the population size was 100 small and medium scale businesses in Mukono District but only 80 were used as a sample. This sample size was determined using Krejcie and Morgan Sample table (1970)

3.4 Data Collection Methods.

Questionnaires: The study used self-administered questionnaire as data collection instruments. In this case self-administered questionnaires were designed to be used by people who can read and write and these set of questions at the same time acted as response schedule. Close ended questionnaires were used because they enable the researcher to obtain full information concerning the study variables without bias. A set of questions were given to each respondent which were filled in by the respondent. The questionnaires were designed according to the objectives of the study and the study variables and responses were anchored on a five (5) point Likert scale ranging from 1 (Strongly disagree) to 5 (Strongly agree).

Interview guide: According to Ahuja (2009), an interview is a two-person conversation that is initiated by the interviewer with the express goal of gathering data for a particular piece of research. An interview guide, which is a set of prepared questions for which the interviewer will record his or her own responses, is used in this case as the instrument for gathering data. This instrument was utilized to gather relevant data for the research issue, which was based only on verified facts and respondent perceptions. The information gathered through the interview added to the information gathered through the questionnaire. A few small- and medium-sized business owners and managers were interviewed.

3.5 Data Sources.

The researcher used both primary and secondary sources of data.

Primary source: Primary data, which in this case was gathered using questionnaires and an interview guide, is data that is gathered by a researcher from first-hand sources using techniques like surveys, interviews, or experiments (Stephanie 2018). To ensure data collection, validity, reliability, and in-depth understanding of the statistical variable, the questionnaire was split into two parts. The demographic information of the respondents, including their gender, age, education, and department of service, was taken into account in the first portion. The second section was made up of structured questions that were created in accordance with the study's objectives. Employees of small and medium-sized businesses were typically subject to this.

Secondary source: Secondary data was gathered by looking over previous Uganda Investment Authority reports, such as progress reports. Other secondary material was gathered from

newspapers, online journals, and written researches. This data was crucial since it allowed the researcher to expand on the information gathered from respondents, increasing the sampling size and the validity of the research's conclusions. (Tran et .al, 2013).

3.6 Data Validity.

The research instruments that the researcher used were questionnaires. Questionnaires were cross examined for approval by the supervisor to ensure that the information they would generate is appropriate and reliable. The researcher carried out a pre-test of the questionnaire before using it in the research. Content validity was established using expert judgment method provided by Amin (2005) who suggested that content validity can be calculated by finding the content validity index (CVI) which should not be less than 0.7. The content validity Index (CVI) method was calculated by using the formula below:

$$\text{CVI} = \frac{\text{Total number of items accepted and rated all respondents}}{\text{Total number of items in the research instruments}}$$

3.7 Data Collection Analysis.

Quantitative data was analyzed using Statistical Package for Social Science (SPSS) 2018, a computer program for data analysis, to reveal frequencies and percentages. In addition to being user-friendly, it is suitable for handling the study's regressions and correlation between the variables. The analysis of the data gathered from small and medium-sized businesses also used a regression model. Since the researcher was looking into the relationship between working capital management and financial performance of small and medium-sized businesses, regression analysis was the perfect choice.

Comparatively, qualitative data was revised and rearranged into appropriate stages. Otherwise, a thematic analysis of qualitative data was conducted using themes, categories, and patterns.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF FINDINGS

4.0 Introduction.

This chapter focuses on the presentation, analysis and interpretation of data collected from the field. The purpose of this study was to establish the effect of working capital management on financial performance of Small and Medium Enterprises in Mukono District, Uganda. The findings are presented in line with the sole objective of the study and are intended to give answers to the research questions which were asked in relation to the study. The tools used for presentation and analysis included tables and percentages.

4.1 Gender of Respondents.

In the table below, the researcher was interested in determining the ratio of male to female gender. *Table 1.1: Gender*

Gender	No. of respondents	Percentage (%)
Female	35	44
Male	45	56
Total	80	100

Source: Researcher 2023

From the table 4.1.1 above, among all the respondents interviewed, 35 were Females presented by 44% and 45 were Males represented by 56%. Therefore, the ratio of male to female 45:35 which implied that Small and Medium Enterprises in Mukono District, Uganda are dominated by Male than Female counterparts. This was based on the nature of the business that is why male are more than female.

4.2 Age of respondents.

The interest was centered on identifying if the respondents were of the right age in order to establish the basis for better quality control of the collected data. The age groups were distributed as follows.

Table 1.2: Age

Age group	No. of respondents	Percentage (%)
20 and Below	4	5
21-30 years	36	45
31-40 years	27	34
Above 40	13	16
Total	80	100

Source: Researcher 2023

From the table 4.1.2 above, respondents of age group below 20 years were 4 presented by 5%, 21-30 were 36 presented by 45%, 31-40 were 27 presented by 34% and above 40 years were 13 represented by 16% of the respondents. Therefore, for the success of this report, most data was got from respondents in the age bracket between 21-30 years which was presented by 45%. This age group is associated with experience in any work places due to perceived longer period in service, thereby ensuring quality feedback.

4.3 Level of education attained.

Here the objective was to determine different denominations or job positions of the respondents. The detailed breakdown can be seen below:

Table 1.3: Level of Education

Level of education	No. of respondents	Percentage (%)
Manager	35	43.75
Finance Officer	22	27.5
Cashier	8	10
Accountant	15	18.75
Total	80	100

Source: Researcher 2023

The results in the table 4.1.3 above showed that 35 respondents were managers presented by 43.75%, 22 respondents were finance officer representing 27.5% of the respondents and 8 of them were cashiers represented by 10% and 15 respondents' accountants represented by 18.75%. This therefore indicated that the most respondents of Small and Medium Enterprises in Mukono District were managers (43.75%) implies that most people key decision makers among the businesses were contacted.

4.4 Period spent in organization

The period of service among the Small and Medium Enterprises in Mukono District was very important in determining the experience about the institution's services. More experience has been attributed to the longevity of the periods served in businesses, that is to say, respondents with more years of experience most likely provided credible information about the institution that their counterparts with lesser years of service.

Table 1. 4: Period spent in organization

Period	No. of respondents	Percentage (%)
1-3 years	27	34
4-5 years	33	41
6-7years	20	25
Total	80	100

Source: Researcher 2023

From the table 4.1.4 above, from the research carried out, it was found out that 34% of the respondents have been working for 1-3 years, 41% for 3-5 years, 25% have been working for 5-7years. This meant the majority of employees have been working for a period of 3-5 years which were regarded as the best years in service for the employees to have better experience.

4.5 Staff in the Organization.

The number of staff in each of the businesses reached was very important in determining the level of working capital required to ensure efficiency. More capital has been attributed to the size of the staff in the businesses contacted, that is to say, businesses with more staffs most likely required a better working capital management than others.

Table 1.5: Staff in the organization.

No	No. of respondents	Percentage (%)
5-10	50	63
11-15	17	21
Above 15	13	16
Total	80	100

Source: Researcher 2023

From the table 4.1.5 above, from the research carried out, it was found out that 63% of the respondents have staff ranging for between 5-10, 21% had workers between 10-15 years, 16% had workers above 15. This meant the majority of businesses have workers between 5-10 which is regarded as the best number of workers in business.

4.6 Type / form of business.

The category was very important in determining the level of management practice required to keep the business running smoothly.

Table 1.6: Type/ form of business

Type	No. of respondents	Percentage (%)
Sole proprietorship	33	41
Partnership	27	34
Limited company	20	25
Total	80	100

Source: Researcher 2023. From the table 4.1.6 above, from the research carried out, it was found out that 41% of the respondents had sole proprietorship business. 34% had partnership business, 25% had limited company. This provided sufficient knowledge required to understand the management practice required for each category.

4.7 Working Capital Management Options.

Table 2: Working capital management options.

Statement	1		2		3		4		5		TOTAL
	F	%	F	%	F	%	F	%	F	%	
Creditor management											
1)Our suppliers allow to offer goods on credit	30	37.5	22	27.5	16	20	8	10	4	5	80
2) Always we delay to clear bills in our organization	31	38.8	21	26.3	15	18.8	8	10	5	6.3	80
3) We review suppliers reports regularly	29	36.3	25	31.3	13	16.3	8	10	5	6.3	80
4) In our organization we maintain good relationship with suppliers	27	33.6	23	28.8	17	21.3	7	8.8	6	7.5	80
5) The business always raise funds to pay our debts promptly	28	35	25	31.3	14	17.5	7	8.8	6	7.5	80
Accounts Receivables Management											
6) In our organization we give reminders to customers before their due dates	30	37.5	23	28.8	17	21.3	5	6.25	5	6.5	80
7) The organization gives discounts to encourage debtors pays in time	28	35	26	32.5	16	20	7	8.8	3	3.75	80
8) We rarely write off debts because we make sure we follow up such that customers pay in time	31	38.8	22	27.5	17	21.3	8	10	2	2.5	80
9) In our organization installments are allowed	30	37.5	23	28.8	16	20	8	10	3	3.75	80
Cash Management											
10) In our organization petty cash is monitored to avoid cash shortages	29	36.3	24	30	15	18.8	7	8.8	5	6.25	80
11) The organization regularly monitor cash flow	32	40	22	27.5	14	17.5	6	7.5	6	7.5	80
12) We balance cash on a daily basis	30	37.5	23	28.8	16	20	8	10	3	3.75	80
13) In our organization a cash budget is prepared on a regular basis	29	36.3	25	31.3	16	20	8	10	2	2.5	80

14) Only authorized individuals are allowed to access the cash office	30	37.5	24	30	17	21.3	6	7.5	3	3.75	80
15) Upon payments, people are supposed to sign for the cash taken	28	35	26	32.5	16	20	7	8.8	3	3.75	80
Inventory management											
16) In our company we make requisitions for all items in the store.	31	38.8	23	28.8	16	20	7	8.8	3	3.75	80
17) Mostly in the organization we choose quality suppliers for inventory needed	33	41.3	23	28.8	14	17.5	7	8.8	3	3.75	80
18) In our organization we monitor stock on regular basis	29	36.3	25	31.3	15	18.8	6	7.5	5	6.25	80
19) In our organization we verify manufacturing dates and expiry dates of all stock in stores	31	38.8	23	28.8	16	20	7	8.8	3	3.75	80
20) The stores managers makes sure store is cleaned every day to avoid dust which may affect our stock	29	36.3	26	32.5	16	20	7	8.8	2	2.5	80
21) In our organization we look for cheap suppliers of raw materials	34	42.3	20	25	15	18.8	6	7.5	5	6.25	80
22) We use inventory trucking systems like first in first out	28	35	26	32.5	16	20	7	8.8	3	3.75	80
23) In our organization we regularly carry out stock taking	40	50	15	18.8	10	8	3	3.75	2	2.5	80

From the research study carried out, it was revealed that 30 respondents represented by 37.5% strongly agreed that suppliers allow to offer goods on credit. This was followed by 27.5% who agreed with the statement, 20% were not sure whether suppliers allow to offer goods on credit, 10% disagreed that suppliers allow to offer goods on credit whereas 5% strongly disagreed that suppliers allow to offer goods on credit. This meant that with small and medium sized enterprises, the majority of respondents strongly agreed that suppliers allow to offer goods on credit as represented by 30(37.5%) above.

The finding of the study showed that 30 respondents represented by 38.8% strongly agreed that they delay to clear bills in our organization. This was followed by 26.3% who agreed with the statement, 18.8% were not sure whether they delay to clear bills in their organization, 10% disagreed that delay to clear bills in their organization whereas 5% strongly disagreed that they delay to clear bills in their organization. This meant that with small and medium sized enterprises, the majority of respondents strongly agreed that they delay to clear bills in their organization represented by 31(38.8%) above.

The finding of the study showed that 29 respondents represented by 36.3% strongly agreed that they review suppliers' reports regularly. This was followed by 31.3% who agreed with the statement 16.3% were not sure whether they review suppliers reports regularly, 10% disagreed that they review suppliers reports regularly whereas 6.3% strongly disagreed that they review suppliers' reports regularly. This meant that with small and medium sized enterprises, the majority of respondents strongly agreed that they review suppliers reports regularly represented by 29(36.3%) above.

The finding of the study showed that 27 respondents represented by 33.6% strongly agreed that in their organization they maintain good relationship with suppliers. This was followed by 28.8% who agreed with the statement 21.3% were not sure whether in their organization they maintain good relationship with suppliers, 8.8% disagreed that in their organization they maintain good relationship with suppliers whereas 7.5% strongly disagreed that in their organization they maintain good relationship with suppliers. This meant that with small and medium sized enterprises, the majority of respondents strongly agreed that in their organizations they maintain good relationship with suppliers represented by 27(33.6%) above.

The finding of the study showed that 28 respondents represented by 35% strongly agreed that the business always raise funds to pay their debts promptly. This was followed by 31.3% who agreed with the statement 17.5% were not sure whether the business always raise funds to pay their debts promptly, 8.8% disagreed that the business always raise funds to pay their debts promptly whereas 7.5% strongly disagreed that the business always raise funds to pay their debts promptly. This meant that with small and medium sized enterprises, the majority of respondents strongly agreed that the business always raise funds to pay their debts promptly represented by 31(35%) above.

The finding of the study showed that 31 respondents represented by 38.8% strongly agreed that in their organization they give reminders to customers before their due dates. This was followed by 27.5% who agreed with the statement 18.8% were not sure whether in their organization they give reminders to customers before their due dates, 8.8% disagreed that the business always raise funds to pay their debts promptly whereas 6.25% strongly disagreed that in their organization they give reminders to customers before their due dates. This meant that with small and medium sized enterprises, the majority of respondents strongly agreed that in their organization they give reminders to customers before their due dates represented by 31(38.8%) above.

The finding of the study showed that 30 respondents represented by 37.5% strongly agreed that they rarely write off debts because they make sure they follow up such that customers pay in time. This was followed by 23% who agreed with the statement 21.3% were not sure whether they rarely write off debts because they make sure they follow up such that customers pay in time, 6.25% disagreed that the organization gives discounts to encourage debtors pays in time whereas 6.25% strongly disagreed that the organization gives discounts to encourage debtors pays in time. This meant that with small and medium sized enterprises, the majority of respondents strongly agreed that the organization gives discounts to encourage debtors pays in time represented by 31(37.5%) above.

The finding of the study showed that 28 respondents represented by 35% strongly agreed that in their organization instalments are allowed. This was followed by 32.5% who agreed with the statement 20% were not sure whether in their organization instalments are allowed, 8.8% disagreed that in their organization instalments are allowed, whereas 3.75% strongly disagreed that in their organization instalments are allowed. This meant that with small and medium sized

enterprises, the majority of respondents strongly agreed that in their organization instalments are allowed represented by 28(35%) above.

The finding of the study showed that 31 respondents represented by 38.8% strongly agreed that in their organization petty cash is monitored to avoid cash shortages. This was followed by 27.5% who agreed with the statement 21.3% were not sure whether in their organization petty cash is monitored to avoid cash shortages, 10% disagreed that in their organization petty cash is monitored to avoid cash shortages, whereas 2.5% strongly disagreed that in their organization petty cash is monitored to avoid cash shortages. This meant that with small and medium sized enterprises, the majority of respondents strongly agreed that in their organization petty cash is monitored to avoid cash shortages represented by 31(38.8%) above.

The finding of the study showed that 30 respondents represented by 37.5% strongly agreed that the organization regularly monitor cash flow. This was followed by 28.8% who agreed with the statement 20% were not sure whether the organization regularly monitor cash flow, 10% disagreed that the organization regularly monitor cash flow, whereas 3.75% strongly disagreed that the organization regularly monitor cash flow. This meant that with small and medium sized enterprises, the majority of respondents strongly agreed that the organization regularly monitor cash flow represented by 30(37.5%) above.

The finding of the study showed that 29 respondents represented by 36.3% strongly agreed that they balance cash on a daily basis. This was followed by 30% who agreed with the statement 18.8% were not sure whether they balance cash on a daily basis, 8.8% disagreed that they balance cash on a daily basis, whereas 6.25% strongly disagreed that they balance cash on a daily basis. This meant that with small and medium sized enterprises, the majority of respondents strongly agreed they balance cash on a daily basis represented by 30(37.5%) above.

The finding of the study showed that 32 respondents represented by 40% strongly agreed that in their organization a cash budget is prepared on a regular basis. This was followed by 27.5% who agreed with the statement 17.5% were not sure whether in their organization a cash budget is prepared on a regular basis, 7.5% disagreed that in their organization a cash budget is prepared on a regular basis, whereas 7.5% strongly disagreed that in their organization a cash budget is prepared on a regular basis. This meant that with small and medium sized enterprises, the

majority of respondents strongly agreed that in their organization a cash budget is prepared on a regular basis represented by 31(40%) above.

The finding of the study showed that 30 respondents represented by 37.5% strongly agreed that only authorized individuals are allowed to access the cash office. This was followed by 28.8% who agreed with the statement 20% were not sure whether only authorized individuals are allowed to access the cash office, 10% disagreed that only authorized individuals are allowed to access the cash office, whereas 3.75% strongly disagreed that only authorized individuals are allowed to access the cash office. This meant that with small and medium sized enterprises, the majority of respondents strongly agreed that only authorized individuals are allowed to access the cash office represented by 31(37.5%) above.

The finding of the study showed that 29 respondents represented by 36.3% strongly agreed that upon payments, people are supposed to sign for the cash taken. This was followed by 31.3% who agreed with the statement 20% were not sure whether upon payments, people are supposed to sign for the cash taken, 10% disagreed that upon payments, people are supposed to sign for the cash taken, whereas 2.5% strongly disagreed that upon payments, people are supposed to sign for the cash taken. This meant that with small and medium sized enterprises, the majority of respondents strongly agreed that upon payments, people are supposed to sign for the cash taken represented by 29(36.3%) above.

The finding of the study showed that 30 respondents represented by 37.5% strongly agreed that in their company they make requisitions for all items in the store. This was followed by 30% who agreed with the statement 21.3% were not sure whether in their company they make requisitions for all items in the store, 7.5% disagreed that in their company they make requisitions for all items in the store, whereas 3.75% strongly disagreed that in their company they make requisitions for all items in the store. This meant that with small and medium sized enterprises, the majority of respondents strongly agreed that in their company they make requisitions for all items in the store represented by 30(37.5%) above.

The finding of the study showed that 28 respondents represented by 35% strongly agreed that mostly in the organization they choose quality suppliers for inventory needed. This was followed by 32.5% who agreed with the statement 20% were not sure whether mostly in the organization they choose quality suppliers for inventory needed, 8.8% disagreed that mostly in the

organization they choose quality suppliers for inventory needed, whereas 3.75% strongly disagreed that in their company they make requisitions for all items in the store. This meant that with small and medium sized enterprises, the majority of respondents strongly agreed that mostly in the organization they choose quality suppliers for inventory needed represented by 28(35%) above.

The finding of the study showed that 31 respondents represented by 38.8% strongly agreed that in their organization they monitor stock on regular basis. This was followed by 28.8% who agreed with the statement 20% were not sure whether that in their organization they monitor stock on regular basis, 8.8% disagreed that that in their organization they monitor stock on regular basis, whereas 3.75% strongly disagreed that that in their organization they monitor stock on regular basis. This meant that with small and medium sized enterprises, the majority of respondents strongly agreed that that in their organization they monitor stock on regular basis represented by 31(38.8%) above.

The finding of the study showed that 33 respondents represented by 41.3% strongly agreed that in their organization they verify manufacturing dates and expiry dates of all stock in stores. This was followed by 28.8% who agreed with the statement 17.5% were not sure if in their organization they verify manufacturing dates and expiry dates of all stock in stores, 8.8% disagreed that that in their organization they verify manufacturing dates and expiry dates of all stock in stores, whereas 3.75% strongly disagreed that in their organization they verify manufacturing dates and expiry dates of all stock in stores. This meant that with small and medium sized enterprises, the majority of respondents strongly agreed that in their organization they verify manufacturing dates and expiry dates of all stock in stores represented by 33(41.3%) above.

The finding of the study showed that 29 respondents represented by 36.3% strongly agreed that the stores managers makes sure store is cleaned every day to avoid dust which may affect our stock. This was followed by 31.3% who agreed with the statement 18.8% were not sure if the stores managers makes sure store is cleaned every day to avoid dust which may affect our stock, 7.5% disagreed that the stores managers makes sure store is cleaned every day to avoid dust which may affect our stock, whereas 6.25% strongly disagreed that the stores managers makes sure store is cleaned every day to avoid dust which may affect our stock. This meant that with

small and medium sized enterprises, the majority of respondents strongly agreed that the stores managers make sure store is cleaned every day to avoid dust which may affect our stock represented by 29(36.3%) above.

The finding of the study showed that 29 respondents represented by 36.3% strongly agreed that in their organization they look for cheap suppliers of raw materials. This was followed by 32.5% who agreed with the statement 20% were not sure if in their organization they look for cheap suppliers of raw materials, 8.8% disagreed that in their organization they look for cheap suppliers of raw materials, whereas 2.25% strongly disagreed that in their organization they look for cheap suppliers of raw materials. This meant that with small and medium sized enterprises, the majority of respondents strongly agreed that in their organization they look for cheap suppliers of raw materials represented by 29(36.3%) above.

The finding of the study showed that 34 respondents represented by 42.3% strongly agreed that they use inventory trucking systems like first in first out. This was followed by 25% who agreed with the statement 18.8% were not sure if they use inventory trucking systems like first in first out, 18.8% disagreed that they use inventory trucking systems like first in first out, whereas 7.5% strongly disagreed that they use inventory trucking systems like first in first out. This meant that with small and medium sized enterprises, the majority of respondents strongly agreed that in their organization they look for cheap suppliers of raw materials represented by 34(42.3%) above.

The finding of the study showed that 28 respondents represented by 35% strongly agreed that in their organization we regularly carry out stock taking. This was followed by 32.5% who agreed with the statement 20% were not sure if In their organization we regularly carry out stock taking, 8.8% disagreed that In their organization we regularly carry out stock taking In their organization we regularly carry out stock taking, whereas 3.75% strongly disagreed that In their organization we regularly carry out stock taking. This meant that with small and medium sized enterprises, the majority of respondents strongly agreed In their organization we regularly carry out stock taking represented by 28(35%) above.

The finding of the study showed that 40 respondents represented by 50% strongly agreed that in their organization we regularly carry out stock taking. This was followed by 18.8% who agreed with the statement 8% were not sure if In their organization we regularly carry out stock taking,

3.75% disagreed that In their organization we regularly carry out stock taking In their organization we regularly carry out stock taking, whereas 2.5% strongly disagreed that In their organization we regularly carry out stock taking. This meant that with small and medium sized enterprises, the majority of respondents strongly agreed In their organization we regularly carry out stock taking represented by 40(50%) above.

4.8 Financial Performance.

Table 2.1: Financial performance Options.

Statement	1		2		3		4		5		TOTAL
	F	%	F	%	F	%	F	%	F	%	
Sales Growth											
Our customers have been increasing over a time	32	40	26	32.5	14	17.5	5	6.3	3	3.75	80
In our organization product sales volumes have increased over the past periods	33	41.3	23	28.8	14	17.5	6	7.5	4	5	80
Our sales revenues for the business have increased over the past periods	29	36.3	25	31.3	14	17.5	9	11.3	3	3.75	80
Much space is being occupied by our business compared to last year	30	37.5	26	32.5	14	17.5	5	7.5	5	6.25	80
The number of employees in our organization has been increasing over a time	29	36.3	25	31.3	16	20	6	7.5	4	5	80
Profit Growth											
The proportion of the profits we save annually keeps increasing	28	35	26	32.5	16	20	7	8.8	3	3.75	80
Our incomes often exceed the expenses we incur	31	38.8	24	30	15	18.8	8	10	2	2.25	80
In our organization stock has been increasing the last few months	30	37.5	24	30	17	21.3	7	8.8	4	5	80
Our profits have been increasing over a time	30	37.5	25	31.3	15	18.8	6	7.5	4	5	80

Our organization is always ranked the best in division surveys	27	33.6	26	32.5	15	18.8	6	7.5	6	7.5	80
The organization has good will with in our location	29	36.3	25	31.3	15	18.8	6	7.5	5	6.25	80
We have been in business for a long period of time	30	37.5	23	28.8	16	20	6	7.5	5	6.25	80

From the research study carried out, it was revealed that 32 respondents represented by 40% strongly agreed that their customers have been increasing over a time. This was followed by 32.5% who agreed with the statement, 17.5% were not sure whether their customers have been increasing over a time, 6.3% disagreed that their customers have been increasing over a time whereas 3.75% strongly disagreed that their customers have been increasing over a time. This meant that with small and medium sized enterprises, the majority of respondents strongly agreed that their customers have been increasing over a time as represented by 32(40%) above.

The finding of the study showed that 33 respondents represented by 41.3% strongly agreed that in their organization product sales volumes have increased over the past periods. This was followed by 28.8% who agreed with the statement, 17.5% were not sure whether in their organization product sales volumes have increased over the past periods, 7.5% disagreed that in their organization product sales volumes have increased over the past periods, whereas 5% strongly disagreed that in their organization product sales volumes have increased over the past periods. This meant that with small and medium sized enterprises, the majority of respondents strongly agreed that they in their organization product sales volumes have increased over the past periods represented by 33(41.3%) above.

The finding of the study showed that 29 respondents represented by 36.3% strongly agreed that their sales revenues for the business have increased over the past periods. This was followed by 31.3% who agreed with the statement, 17.5% were not sure whether their sales revenues for the

business have increased over the past periods, 11.3% disagreed that their sales revenues for the business have increased over the past periods whereas 3.75% strongly disagreed that their sales revenues for the business have increased over the past periods. This meant that with small and medium sized enterprises, the majority of respondents strongly agreed that their sales revenues for the business have increased over the past periods represented by 29(36.3%) above.

The finding of the study showed that 30 respondents represented by 37.5% strongly agreed that much space is being occupied by their business compared to last year. This was followed by 32.5% who agreed with the statement, 17.5% were not sure whether much space is being occupied by their business compared to last year, 7.5% disagreed that much space is being occupied by their business compared to last year whereas 6.25% strongly disagreed that much space is being occupied by their business compared to last year. This meant that with small and medium sized enterprises, the majority of respondents strongly agreed that much space is being occupied by their business compared to last year represented by 30(37.5%) above.

The finding of the study showed that 29 respondents represented by 36.3% strongly agreed that the number of employees in their organization has been increasing over a time. This was followed by 31.3% who agreed with the statement 20% were not sure whether the number of employees in their organization has been increasing over a time, 7.5% disagreed that the number of employees in their organization has been increasing over a time whereas 5% strongly disagreed that the number of employees in their organization has been increasing over a time. This meant that with small and medium sized enterprises, the majority of respondents strongly agreed that the number of employees in their organization has been increasing over a time represented by 31(38.8%) above.

The finding of the study showed that 28 respondents represented by 35% strongly agreed that the proportion of the profits they save annually keeps increasing. This was followed by 32.5% who agreed with the statement, 20% were not sure whether the proportion of the profits they save annually keeps increasing, 8.8% disagreed that the proportion of the profits they save annually keeps increasing whereas 3.75% strongly disagreed that the proportion of the profits they save annually keeps increasing. This meant that with small and medium sized enterprises, the majority of respondents strongly agreed that the proportion of the profits they save annually keeps increasing represented by 28(35%) above.

The finding of the study showed that 31 respondents represented by 38.8% strongly agreed that their incomes often exceed the expenses they incur. This was followed by 30% who agreed with the statement 18.8% were not sure whether their incomes often exceed the expenses they incur, 10% disagreed that the organization gives discounts to encourage debtors pays in time whereas 2.25% strongly disagreed that their incomes often exceed the expenses they incur. This meant that with small and medium sized enterprises, the majority of respondents strongly agreed that their incomes often exceed the expenses they incur represented by 31(38.8%) above.

The finding of the study showed that 30 respondents represented by 37.7% strongly agreed that in their organization stock has been increasing the last few months. This was followed by 30% who agreed with the statement, 21.3% were not sure whether in their organization instalments are allowed, 8.8% disagreed that in their organization stock has been increasing the last few months, whereas 5% strongly disagreed that in their organization stock has been increasing the last few months. This meant that in their organization stock has been increasing the last few months, the majority of respondents strongly agreed that in their organization stock has been increasing the last few months represented by 30(37.7%) above.

The finding of the study showed that 30 respondents represented by 37.5% strongly agreed that their profits have been increasing over a time. This was followed by 31.3% who agreed with the statement 18.8% were not sure whether their profits have been increasing over a time, 7.5% disagreed that their profits have been increasing over a time, whereas 5% strongly disagreed that their profits have been increasing over a time. This meant that with small and medium sized enterprises, the majority of respondents strongly agreed that their profits have been increasing over a time represented by 30(37.5%) above.

The finding of the study showed that 27 respondents represented by 33.6% strongly agreed that their organization is always ranked the best in division surveys. This was followed by 32.5% who agreed with the statement, 18.8% were not sure whether their organization is always ranked the best in division surveys, 7.5% disagreed that their organization is always ranked the best in division surveys, whereas 7.5% strongly disagreed that their organization is always ranked the best in division surveys. This meant that with small and medium sized enterprises, the majority of respondents strongly agreed that their organization is always ranked the best in division surveys represented by 27(33.6%) above.

The finding of the study showed that 29 respondents represented by 36.3% strongly agreed that the organization has good will with in their location. This was followed by 31.3% who agreed with the statement, 18.8% were not sure whether the organization has good will with in their location, 7.5% disagreed that the organization has good will with in their location, whereas 6.25% strongly disagreed that the organization has good will with in their location. This meant that with small and medium sized enterprises, the majority of respondents strongly agreed the organization has good will with in their location represented by 29(36.3%) above.

The finding of the study showed that 30 respondents represented by 37.5% strongly agreed that they have been in business for a long period of time. This was followed by 28.8% who agreed with the statement, 20% were not sure whether they have been in business for a long period of time, 7.5% disagreed that they have been in business for a long period of time, whereas 6.25% strongly disagreed that they have been in business for a long period of time. This meant that they have been in business for a long period of time, the majority of respondents strongly agreed that they have been in business for a long period of time represented by 30(37.5%) above.

CHAPTER FIVE

DISCUSSION AND SUMMARY OF FINDINGS

5.0 Introduction

This section presents the summary and discussion of findings. The preceding four chapters have laid down a basis on which the report milestones can be reached. This chapter focuses on the findings as compared to the purpose and objectives that the study is intended to achieve.

5.1 Discussion of the Findings

Referring to the study objectives presented in chapter four, discussion of findings was drawn to provide more evidence about the two study variables that is to say, working capital management and financial performance of Small and Medium Sized Enterprises, Mukono.

5.2 Summary of findings.

5.2.1 Working capital Management options.

From the research study carried out, it was revealed that 30 respondents represented by 37.5% strongly agreed that suppliers allow to offer goods on credit.

The finding of the study showed that 30 respondents represented by 38.8% strongly agreed that they delay to clear bills in our organization.

The finding of the study showed that 29 respondents represented by 36.3% strongly agreed that they review suppliers' reports regularly.

The finding of the study indicated that 27 respondents represented by 33.6% strongly agreed that in their organization they maintain good relationship with suppliers.

The finding of the study indicated that 28 respondents represented by 35% strongly agreed that the business always raise funds to pay their debts promptly.

The finding of the study revealed that 31 respondents represented by 38.8% strongly agreed that in their organization they give reminders to customers before their due dates.

The finding of the study revealed that 30 respondents represented by 37.5% strongly agreed that they rarely write off debts because they make sure they follow up such that customers pay in time.

The finding of the study indicated that 28 respondents represented by 35% strongly agreed that in their organization instalments are allowed.

The finding of the study showed that 31 respondents represented by 38.8% strongly agreed that in their organization petty cash is monitored to avoid cash shortages.

The finding of the study indicated that 30 respondents represented by 37.5% strongly agreed that the organization regularly monitor cash flow.

The finding of the study revealed that 29 respondents represented by 36.3% strongly agreed that they balance cash on a daily basis.

The finding of the study revealed that 32 respondents represented by 40% strongly agreed that in their organization a cash budget is prepared on a regular basis.

The finding of the study showed that 30 respondents represented by 37.5% strongly agreed that only authorized individuals are allowed to access the cash office.

The finding of the study showed that 29 respondents represented by 36.3% strongly agreed that upon payments, people are supposed to sign for the cash taken.

The finding of the study indicated that 30 respondents represented by 37.5% strongly agreed that in their company they make requisitions for all items in the store.

The finding of the study showed that 28 respondents represented by 35% strongly agreed that mostly in the organization they choose quality suppliers for inventory needed.

The finding of the study indicated that 31 respondents represented by 38.8% strongly agreed that in their organization they monitor stock on regular basis.

The finding of the study revealed that 33 respondents represented by 41.3% strongly agreed that in their organization they verify manufacturing dates and expiry dates of all stock in stores.

The finding of the study indicated that 29 respondents represented by 36.3% strongly agreed that the stores managers makes sure store is cleaned every day to avoid dust which may affect our stock.

The finding of the study indicated that 29 respondents represented by 36.3% strongly agreed that in their organization they look for cheap suppliers of raw materials.

The finding of the study indicated that 34 respondents represented by 42.3% strongly agreed that they use inventory trucking systems like first in first out.

The finding of the study indicated that 28 respondents represented by 35% strongly agreed that in their organization we regularly carry out stock taking.

The finding of the study showed that 40 respondents represented by 50% strongly agreed that in their organization we regularly carry out stock taking.

5.2.2 Financial performance.

From the research study carried out, it was revealed that 32 respondents represented by 40% strongly agreed that their customers have been increasing over a time.

The finding of the study indicated that 33 respondents represented by 41.3% strongly agreed that in their organization product sales volumes have increased over the past periods.

The finding of the study indicated that 29 respondents represented by 36.3% strongly agreed that their sales revenues for the business have increased over the past periods.

The finding of the study revealed that 30 respondents represented by 37.5% strongly agreed that much space is being occupied by their business compared to last year.

The finding of the study indicated that 29 respondents represented by 36.3% strongly agreed that the number of employees in their organization has been increasing over a time.

The finding of the study indicated that 28 respondents represented by 35% strongly agreed that the proportion of the profits they save annually keeps increasing.

The finding of the study showed that 31 respondents represented by 38.8% strongly agreed that their incomes often exceed the expenses they incur.

The finding of the study showed that 30 respondents represented by 37.7% strongly agreed that in their organization stock has been increasing the last few months.

The finding of the study showed that 30 respondents represented by 37.5% strongly agreed that their profits have been increasing over a time.

The finding of the study revealed that 27 respondents represented by 33.6% strongly agreed that their organization is always ranked the best in division surveys.

The finding of the study indicated that 29 respondents represented by 36.3% strongly agreed that the organization has good will with in their location.

The finding of the study showed that 30 respondents represented by 37.5% strongly agreed that they have been in business for a long period of time.

5.3 Conclusion.

The low levels of financial performance in Small and Medium Sized Enterprises in Mukono have been attributed to the better working capital management as reflected in the feedback from the responses generated from the respondents. Respondents were asked to suggest the level of financial performance in Small and Medium Sized Enterprises. Regular interviews, focus groups, comment cards and surveys result into a better working capital management. It turned out that working capital management has been associated with a number of challenges such as lack of proper management practices, employing none professional staffs among others.

5.4 Recommendations.

Proper management of Accounts Payables

With regard to payables, the businesses should pay the obligations on a timely basis. Management of payables requires the establishment of internal controls for cash disbursements to ensure that cash is disbursed only upon proper authorization of management for valid business purposes.

Proper handling of Accounts Receivables

Businesses should ensure that customers pay their invoices, this helps to prevent overdue payment or non-payment and it is also a quick and effective way to strengthen the company's financial or liquidity position. A company is supposed to determine the strategy like knowing which customers you accept and under what conditions, which customers do you monitor, who should no longer be accepted and when is the exit.

Cash Management

Businesses should ensure proper management of cash balances in such a way as to maximize the availability of sufficient cash not invested in fixed assets or inventories for meeting its obligation.

Inventory Management

There should be a proper monitoring and maintenance of stocked products, whether those products are company assets, raw materials and suppliers, or finished products ready to be sent to vendors or end consumers. A complete inventory management system consists of a system for identifying every inventory item and its associated information such as bar code labels or asset tags, hardware tools for reading bar codes labels.

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APPENDICES

APPENDIX I

Population and sample size determinant by Kregcie and Morgan 1970

<i>N</i>	<i>S</i>	<i>N</i>	<i>S</i>	<i>N</i>	<i>S</i>
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	100000	384

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

Source: Kregcie & Morgan, 1970

APPENDIX II
WORK PLAN

TASKS	JUNE	JULY	AUG
1. Topic suggestions			
2. Problem statement			
3. Chapter one			
4. Chapter two			
5. Chapter three			
6. Data collection			
7. Data presentation			
8. Discussion of finding			
9. Conclusion and recommendation			

Work plan.

APPENDIX III

BUDGET

ITEMS	QUANTITY	UNIT	AMOUNT
1. Rims	2	15,000	30,000
2. Printing	3 booklets	25,000	75,000
3. Transport	-	150,000	150,000
4. Binding	3 booklets	10,000	30,000
5. Communication	-	100,000	100,000
		TOTAL	385,000

Budget.

APPENDIX IV

QUESTIONNAIRE.

Research Title: “Effect of Working Capital Management on Financial performance of selected small and medium enterprises in Mukono District”.

Dear Respondent, I am a student of Uganda Christian University, Mukono pursuing a Bachelor of Science in Accounting and Finance. The questionnaire is intended to help the researcher get information on working capital management and financial performance of small and medium enterprises with in Mukono district.

The purpose of the study is purely academic and information given will be treated with the highest degree of confidence. You have been selected as a key respondent for this study. Kindly, complete the questionnaire to enable the researcher complete the study. Please tick the answer which represents your opinion on the subject.

I appreciate your participation in this effort.

Thank you,

.....

Owomugisha Patience.

SECTION A: BACKGROUND INFORMATION.

1: Email of the respondent (Optional)

2: Age: Kindly tick your age group.

- (i) 20 and Below
- (ii) 21 – 30 years
- (iii) 31 – 40 years
- (iv) Above 40 years

3: Gender.

- (i) Male
- (ii) Female

4: What position do you hold in the organization (optional) -----?

- (i) Manager
- (ii) Cashier
- (iii) Finance Officer
- (iv) Accountant
- (v) Others

5: For how long have you been employed in Mukono District? (Optional)

- (i) 1-3 Year
- (ii) 4-5 Years
- (iii) 6-7 Years
-

6: How many staff members do you have in your small and medium size enterprise?

-
- (i) 5 – 10
- (ii) 11 – 15
- (iii) Above 15

7: What form / type is your business?

- (i) Sole proprietorship
- (ii) Partnership
- (iii) Limited company

SECTION B:

WORKING CAPITAL MANAGEMENT OPTIONS. (RESEARCH QUESTIONS)

You are requested to show the extent to which you agree or disagree on the statement given. (Please tick most appropriate of: Strongly agree =1, Agree=2, Not sure=3 Disagree=4, and strongly disagree=5)

Statement	1	2	3	4	5
Creditor management					
1)Our suppliers allow to offer goods on credit					
2) Always we delay to clear bills in our organization					
3) We review suppliers reports regularly					
4) In our organization we maintain good relationship with suppliers					
5) The business always raise funds to pay our debts promptly					
Accounts Receivables Management					

6) In our organization we give reminders to customers before their due dates					
7) The organization gives discounts to encourage debtors pays in time					
8) We rarely write off debts because we make sure we follow up such that customers pay in time					
9) In our organization installments are allowed					
Cash Management					
10) In our organization petty cash is monitored to avoid cash shortages					
11) The organization regularly monitor cash flow					
12) We balance cash on a daily basis					
13) In our organization a cash budget is prepared on a regular basis					
14) Only authorized individuals are allowed to access the cash office					
15) Upon payments, people are supposed to sign for the cash taken					
Inventory management					
16) In our company we make requisitions for all items in the store.					

17) Mostly in the organization we choose quality suppliers for inventory needed					
18) In our organization we monitor stock on regular basis					
19) In our organization we verify manufacturing dates and expiry dates of all stock in stores					
20) The stores managers makes sure store is cleaned every day to avoid dust which may affect our stock					
21) In our organization we look for cheap suppliers of raw materials					
22) We use inventory trucking systems like first in first out					
23) In our organization we regularly carry out stock taking					

SECTION C: FINANCIAL PERFORMANCE

Statement	1	2	3	4	5
Sales Growth					
Our customers have been increasing over a time					
In our organization product sales volumes have increased over the past periods					
Our sales revenues for the business have increased over the past periods					

Much space is being occupied by our business compared to last year					
The number of employees in our organization has been increasing over a time					
Profit Growth					
The proportion of the profits we save annually keeps increasing					
Our incomes often exceed the expenses we incur					
In our organization stock has been increasing the last few months					
Our profits have been increasing over a time					
Our organization is always ranked the best in division surveys					
The organization has good will with in our location					
We have been in business for a long period of time					

Thank you for your cooperation.



UGANDA CHRISTIAN UNIVERSITY

A Centre of Excellence in the Heart of Africa

SCHOOL OF BUSINESS

1st Aug 2023

TO WHOM IT MAY CONCERN

Name: *Owomugicha Patience* Reg. No. *S20B33/256*

A bachelor's student who is seeking permission from your office to collect data for his/her dissertation titled

"EFFECT OF WORKING CAPITAL MANAGEMENT ON FINANCIAL PERFORMANCE OF SELECTED SMALL AND MEDIUM ENTERPRISES IN MUKONO"

We shall be grateful if you could render assistance to him/her in collecting the necessary data for his/her dissertation

The Uganda Christian University School of Business thanks you in advance

Mukisa Simon Peter
Research coordinator