

**WORKING CAPITAL MANAGEMENT AND FINANCIAL PERFORMANCE OF SMALL AND
MEDIUM ENTERPRISES IN MBALE CITY**

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**A DISSERTATION SUBMITTED TO THE SCHOOL OF BUSINESS, IN PARTIAL
FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF A DEGREE OF BACHELOR
OF BUSINESS ADMINISTRATION OF UGANDA CHRISTIAN UNIVERSITY**

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**UGANDA CHRISTIAN
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DECLARATION

I, Chebet Tabitha Marion, declare that this research report is my original work and has not been submitted or published to any University or Institution of higher learning for any partial fulfillment of any academic award.

Name:

Registration Number:.....

Signature

Date...../...../.....

APPROVAL

This is to certify that this research report was conducted under my supervision and guidance and is ready for submission to the Faculty of business Admission in partial fulfillment of the requirements for the award of a Bachelors degree of Business Administration of Uganda Christian University with my approval.

Signature..... Date..... /...../.....

Name.....

(SUPERVISOR)

DEDICATION

I would like to dedicate this research report to my lovely mother Cheptoyek Sarah who always encouraged, guided, motivated and supported me throughout the entire academic career.

ACKNOWLEDGMENT

I thank the Almighty God for His providence and protection throughout my entire academic career.

In a special way, I want to thank my supervisor Mr. Omache Henry for his tremendous support and supervision of my work in this research report and not forgetting all my siblings Chelangat Sheila and Mangusho Aggrey out forgetting all fellow BBA students that your support to my education will not go unnoticed.

Special appreciations to the entire SME managers of Mbale City for allowing me to conduct my data collection in their respective businesses and not forgetting the management of Uganda Christian University for the nurture and knowledge shared to me and an opportunity to acquire my Bachelor's Degree of Business Administration from such a mighty institution.

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ABBREVIATIONS AND ACRONYMS

BBA	Bachelor of Business Administration
MUC	Mbale University College
SMEs	Small and Medium Scale Enterprises
WCM	Working Capital Management
FP	Financial Performance
DM	Debt Management
CM	Credit Management
IM	Inventory Management
SG	Sales Growth
PM	Profit Margins

ABSTRACT

The main purpose of the study was to determine the effect of Working Capital Management on the Financial Performance of SMEs in Mbale City. The specific objectives were assess the influence of accounts payable management on the financial performance of small and medium enterprises in Mbale City, examining the influence of accounts receivables management on the financial performance of SMEs in Mbale City, to analyze the influence of cash management on the financial performance of SMEs in Mbale City. The study covered a period of 3 years and adopted descriptive research design. The data was collected from a sample of 66 respondents.

The study revealed that cash management has a positive significant influence on financial performance and it explains variances in financial performance by up to 34.4% (adjusted R square=0.344). The evidence presented showed that account receivable management affects financial performance (F=54.784, Sig level=0.000). It was also revealed that credit management affects financial performance. The findings indicate that the model fits well and significantly explain the variations in financial performance as a result of credit management (F=20.553, P-value<0.01).

It was also concluded that any increase in effort by SMEs to manage working capital, there would be an increase in financial performance. The study concluded that there is a significant and positive influence of credit management on financial performance. The study also portrays evidence that there exists positive significant relationship between account receivable management and financial performance of small and medium enterprises with in Mbale City.

The study recommends that SMEs should increase on then time lag of clearing bills, SMEs should manage their accounts receivables, monitoring petty cash, more research into how the other components of working capital management affects the financial performance of SMEs.

CHAPTER ONE

BACKGROUND OF THE STUDY

1.1 Introduction

This introduction chapter presents the background to the study, statement of the problem, research purpose, general and specific objectives of the study, research questions, and conceptual frame work, significant of the study and the definition of the key terms.

1.1.2 Background to the Study

Historical Background

Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. According to Otley (2019), this term is also used as a general measure of firm's over all financial health over a given period. Analysts and investors use financial performance to compare similar firms across the same industry or to compare industries or sectors in aggregate. There are many ways to measure financial performance but all measures should be taken in aggregate such as revenue from operations, operating income or cash flows can be used as well as total units' sales. (Bastos and Pindado, 2023). There are many stakeholders in a company including trade creditors, bond holders, investors, employees and management. Each group has its own interest in tracking the financial performance of the company. (Graham 2024)

Working capital management (WCM) is a managerial accounting strategy focusing on maintaining efficient levels of a firm's current assets and current liabilities. It deals with the administration of a firm's current assets and current liabilities (Harris, 2015). WCM ensures that a company has sufficient cash flow in order to meet its short-term debt obligations and operating expenses (Mekonnen, 2021). WCM is a very important component of corporate finance because it directly affects the liquidity and profitability of a company (Knauer & Wöhrmann, 2023)

Working capital management has gone through succession developmental stages, since introduction in early 20th century. In any stage managers acts as problem provider and academics on to find solutions while it is true to assume that scholars provide new horizons while managers implement findings to prove usefulness. Research today and likely future directions requires an in- depth understanding of historical perspectives. The path way of development while vital for research exposes needs and responds that it is fundamental for forecast of future prospects of working capital management. There was the awareness era

(1900-1920s) where working capital research was being established, followed by the pre and post-world war 11 era (1920-1950s), this led to the optimization and simulation approaches of working capital in the industrialization era (1950-1980s and eventually the globalization era (1990-2000s), working capital is very crucial in a way that it gives an impact on the liquidity and profitability of a given organization. The main emphasis here is the current assets and current liabilities, it is vital to all businesses to have adequate management of working capital. Mann (1918)

Working capital management is part of the financing considerations that a finance manager of a corporation needs to determine, besides capital structure and capital budgeting (Ross, Westfield and Jordan, 2010). In view that each company emphasized on maximizing profitability that can be generated from their business operation, many studies had been conducted on the effect of capital structure and working capital management in determining the financial performance, which the results varies based on the study undertaken. In this study, working capital management components and working capital management policy are analyzed on their effect towards the firm's profitability.

Working capital management is important for many reasons. Usually, the current assets of a typical private entity accounts for over half of its total assets thus working capital represents a significant investment in the private firm. Excessive levels of current assets can easily result in a firm's realizing a substandard return on investment. However, too few current assets may occasion difficulties in maintaining smooth firm operations (Lu, 2013). Management of working capital, which aims at maintaining an optimal balance between each of the working capital components, that is, cash, receivables, inventory and payables, is a fundamental part of the overall corporate strategy to create value and is an important source of competitive advantage in businesses (Deloof, 2019). In practice, it has become one of the most important issues in organizations with many financial executives struggling to identify the basic working capital drivers and the appropriate level of working capital to hold so as to minimize risk, effectively prepare for uncertainty and improve the overall performance of their businesses (Gill, Biger & Mathur, 2021).

1.1.2 Theoretical Background

The study used the resource based theory that sight to explain that 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 was unmet.

This curtails efficiency out of the day today activities of the business. (Lambarg & Valmang, 2019)

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. Working capital management focuses mainly on the short-term financing and short-term investment decisions of a firm (Sharma and Kumar, 2021). 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 (2023), efficient working capital management ensures an optimal level of working capital is maintained in order to maximize share holders' wealth. The objective of maximizing profit or shareholders value is 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, 2017).

Efficient utilization of the firm's resources as it relates to working capital management means that managers should seek effective and efficient ways to deal with cash available for the day to day operations in order to achieve the optimum impact. 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 2023). 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 which leads to higher defaulter risk and lower profitability.

1.1.3 Conceptual Background

This is a subjective measure of how well a firm uses asset from its primary mode of business and How it 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 is a measure of efficiency, it measures how effectively and efficiently a firm utilizes the resources (assets) at its disposal, in revenue generation. Quantitative measures of firm performance include profitability measures such as gross profit margin, net margin for example return on sales, return on equity, economic value added, return on equity less cost of equity, return on capital employed; cash flow measures such as free cash flow over sales; and revenue growth. One way of managers controlling the financial affairs of an organization is the use of ratios. Ratios are simply relationships between two financial balances or financial calculations which establish our references so that we can understand how well an entity is performing financially. Ratios also extend the traditional way of measuring financial performance; by relying on financial statements (Saliha, 2021).

Working capital management is essentially an accounting strategy with a focus on the maintenance of a sufficient balance between a company's current assets and liabilities. Taking an example of Afro Hayat limited which is an import company, they account for revenues more compared to any other factor ignoring the aspect of working capital management. Efficient working capital management means to plan and control current assets and current liabilities in a manner that eliminates the risks of inability of the organization to meet short term obligations on one hand and avoid excessive investment in these assets on the other hand Van Horne and wachowicz (2024).

Other financial performance measures used include return on equity (ROE), return on investment (ROI), and return on assets (ROA), along with their variability as measures of risk. Earlier studies typically measure accounting rate of return. These include: Return on investment (ROI), return on capital (ROC), return on assets (ROA) and return on sales. The idea behind these measures is perhaps to evaluate financial performance –how well is a firm's management using the assets to generate accounting return per unit of investment assets or sales.

The problems with these measures are well known. Accounting return includes depreciation and inventory costs affect the accurate reporting of earnings. Asset values are also recorded historically. Return on equity (ROE) is a frequent used variable in judging top management performance and for making 5 executive compensation decisions. ROE is defined as net income (income available to common stockholders) divided

by stockholders' equity. On the other hand, ROA is the most frequently used performance measure in previous studies. It is defined as net income (income available to common stockholders), divided by the book value of total assets (Donaldson & Preston, 2005).

1.1.4 Contextual Background

Many Small and medium enterprises still perform badly globally due to factors such as leadership, motivation, organization culture, poor demand for local market, and poor working capital management among other factors. Taking small and medium enterprises of Uganda specifically those with in Mbale City, financial reports of different years shows that however much they under value working capital management, it has contributed a lot for their poor performance. The main concerns here were the limited skills on how to manage working capital such that performance could be improved. Eventually obligations of the firms like paying creditors, purchase of raw materials, settling taxes are now hard to settle. Hence this discussion analyzed working capital management and financial performance in addition to problems facing small and medium enterprises with in Mbale City.

1.2 Financial Performance

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1.3 The Statement of the problem

By managing business working capital effectively, it helps to make sure that business maintains adequate cash flow to fund its operations and cover costs for the short term. The financial performance of Small and Medium Enterprises continues to be a going concern for Uganda (Auditor General's Report, 2017). Despite the increasing focus on these entities by the Government of Uganda and other development partners, recent reports continue to show limited progress among these enterprises to increase sales and achieve the necessary profitability, thus threatening their survival (BOU, 2018; PSFU, 2017; UIA, 2017). For instance, the recent data shows that out of 100 startups, only 35% survive to its second year of operation citing different areas in Uganda where Mbale City was named among the worst performing small and medium enterprises hosts.

Amidst these performance challenges, small and medium enterprises have endeavored to adopt strategies like working capital management but still their performance is still poor, there is limited understanding on how these Small and Medium Enterprises can enhance their financial performance especially by managing their working capital diligently and yet from the previous studies by Clayton & Micheal (2017), this has been considered as an important area in terms of enhancing performance of firms. It’s upon the above research gap, that the researcher was prompted to examine the effect of working capital management on financial performance of Small and Medium Enterprises in Mbale City as a case study.

1.4.1 General Objective of the Study

The general objective of the study is to analyze the effect of working capital management on financial performance of Small and Medium Enterprises with in Mbale City.

1.4.2 Specific Objectives

- i. To assess the influence of accounts payable management on the financial performance of small and medium enterprises in Mbale City.
- ii. To examine the influence of accounts receivables management on the financial performance of small and medium enterprises in Mbale City.
- iii. To analyze the influence of cash management on the financial performance of small and medium enterprises in Mbale City.

1.3 Research Questions

- i. To what extent does accounts payables management affect the financial performance of small and medium enterprises with in Mbale City
- ii. To what extent does accounts receivables affect the financial performance of small and medium enterprises with in Mbale City
- iii. To what extent does cash management affect the financial performance of small and medium enterprises with in Mbale City

1.4 Scope of the Study

The scope of the study was reviewed using the content, time scope and geographical scope.

1.4.1 Content Scope

The study aimed at analyzing the influence of working capital management on financial performance of small and medium enterprises in Mbale City. 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 funds.

1.4.2 Geographical Scope

Mbale City is situated in eastern Uganda, approximately 245 kilometers (152 miles) northeast of Kampala, the capital city of Uganda. It lies at the foothills of Mount Elgon, a dormant volcano, which influences its geography and climate. The city's coordinates are approximately 1.064°N latitude and 34.179°E longitude.

The surrounding region is characterized by fertile lands suitable for agriculture, with coffee being a prominent crop. Mbale City serves as a commercial center and administrative hub for the region, playing a crucial role in eastern Uganda's economy and development.

1.4.3 Time Scope

The study took a period of three years (3) that is being effective from 2021 to 2023. This period was selected because first of all it was enough for the researcher to carry out a study because it covers sufficient period to conduct the study on Working Capital Management and Financial Performance of the SMEs in Mbale City.

1.5 Significance of the Study

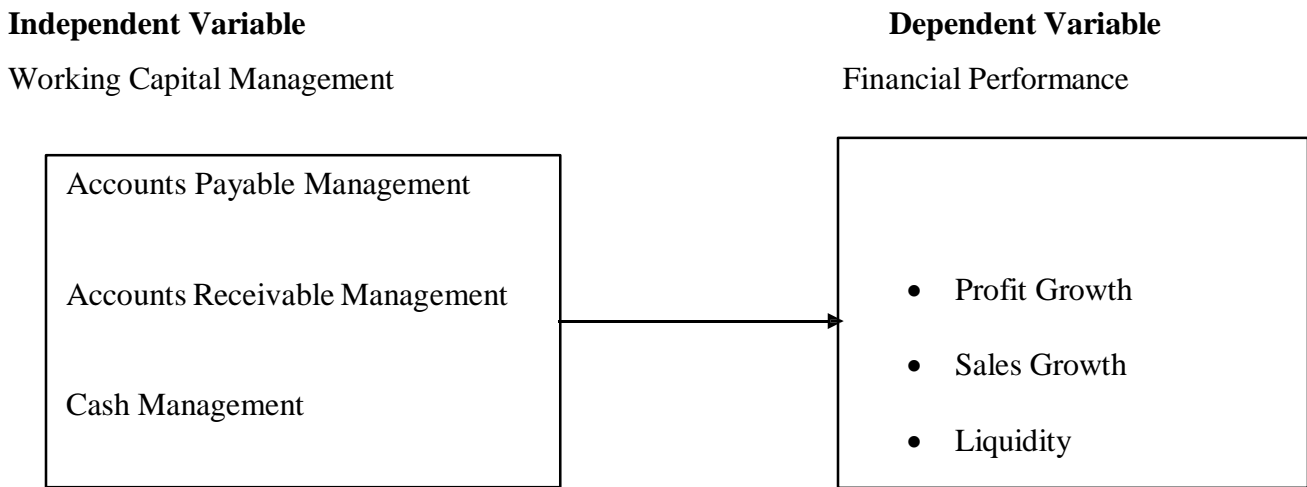
The study findings are to benefit the management and staff of Small and Medium Enterprises under study, by gaining insight into how their companies can effectively manage their working capital to enhance their financial performance. Management can gain the best policies for applications. This research has to improve on the existing theory and knowledge on the changes that Small and Medium Enterprises are going through in relation to working capital management. Regulatory bodies like Uganda investment authority can use this study to improve on the framework and regulation of Small and Medium Enterprises in Uganda.

The results of this study are to assist policy makers and regulators to implement new set of policies and regulations regarding working capital management with in Capital Markets Authority. This study was of use to security analysts, financial analysts, stock brokers and other parties whose knowledge of the relationship between working capital management and the financial performance is important input into investment analysis and portfolio construction.

1.8. Conceptual Frame Work

The conceptual framework illustrates the influence of working capital management on financial performance. Working capital management is the independent variable conceptualized by the accounts payables management, accounts receivables management, cash management and inventory management. Financial performance, the dependent variable in this study is conceptualized by profit growth and Sales growth (Garcia and Tervel 2017).

Figure 1: Conceptual Framework



Source: Adopted from Rathiranee, Y., Sangeetha, T., (2021) and modified by researcher (2024)

From Figure 1, the conceptual framework depicted working capital management dimension, the independent variable was hypothesized to influence financial performance. The frame work portrayed that Accounts Payables management, Accounts receivables management, Cash management and Inventory management affected the financial performance. on the other hand, financial performance as dependent variable as depicted in Fig 1 above was measured using Sales growth that is to say a metric that measures the ability of your sales team to increase revenue over a fixed period of time, conversely a high percentage growth in sales is a cause for optimism for all stake holders such as executives, the board of directors and shareholders. (Garcia and Travel, 2017)

Profit growth is the combination of profitability and growth, more precisely the combination of economic profitability and growth of free cash flows. Profitability growth is aimed at reducing the financial community, it emerged in the early 80s when shareholders value creation became firm’s main objective, Profit margin / Growth is one of the commonly used profitability ratios to gauge profitability

of a business activity. It represents how much percentage of sales has turned into profits. Simply put, the percentage figure indicates how many cents of profit the business has generated for each sale, (Nazir M.S. Afza 2019). The analysis shows that there is a relationship between the two variables because some time when you have working capital which is well managed it may positively affect the performance of the business.

1.10 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) is a managerial accounting strategy focusing on maintaining efficient levels of a firm's current assets and current liabilities. It deals with the administration of a firm's current assets and current liabilities (Harris, 2020).

Financial Performance; Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate 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 (Padachi, 2021)

Sales Growth; Sales growth is a metric that measures the ability of your sales team to increase revenue over a fixed period of time, conversely a high percentage growth in sales is a cause for optimism for all stake holders such as executives, the board of directors and shareholders. (Garcia and Tervel, 2017).

Profit Margin / Profit Growth; According to Knauer and Wohrmann (2019), Profit margin is one of the commonly used profitability ratios to gauge profitability of a business activity, it represents how much percentage of sales has turned into profits.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter presents the literature review on working capital management and financial performance covering 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.

2.1 Theoretical Review

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 was unmet. This curtails efficiency out of the day today activities of the business (Lambarg & Valmang, 2019).

Working capital management is an area of corporate finance which directly affects the liquidity and profitability of the firm (Raheman & Nasr, 2017). It is the management of current assets and current liabilities to improve a firm's performance (Hill, Kelly and Highfields, 2022). It involves maintaining an optimal balance among receivables, inventory and payables. Working capital management focuses mainly on the short-term financing and short-term investment decisions of a firm (Sharma & Kumar, 2021). 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 (2023), 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, 2020).

Efficient utilization of the firm's resources as it relates to working capital management means that managers should seek effective and efficient ways to deal with cash available for the day operations in order to achieve the optimum impact. 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, 2019). 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 which leads to higher defaulter risk and lower profitability.

Meanwhile, in determining the firm's performance, the finance manager also need to take into account the firm's working capital management, which basically means managing the firm's current assets and current liabilities at satisfactory level (Dong & Su, 2020; Gill, Biger & Mathur, 2019). Generally, in a balance sheet, current assets consist of raw materials, work in progress, finished goods or inventories, account receivables, cash and bank balances which are short term in nature that are used for production and sales; which are able to be converted to cash within the ear. On the other hand, current liabilities refer to obligations that need to be paid within the year or not beyond the business operating cycle, whichever is earlier (Ross, Westerfield & Jaffe, 2015). Generally, current liabilities comprise of 2 accounts payable, accrued wages, taxes and other expenses payable and short-term debt. Hence, it is vital in managing the working capital efficiently as it is able to increase the firm's profitability and shareholder value (Smith, 1980; Deloof, 2003, Dong & Su, 2010). Furthermore, the benefits of having an efficient working capital management are the firms able to meet its short term obligations and maintain adequate liquidity position in order to continue the operation of the firms (Eljelly, 2024). In view that working capital management decision is important.

The crucial part in managing working capital (WC) is maintaining sufficient liquidity for the day to- day 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, 2023).

Working capital management involves managing the firm's inventory, receivables and payables in order to achieve a balance between risk and returns and thereby contribute positively to the creation of firm value. Excessive investment in inventory and receivables reduces firm profits, whereas too little investment increases the risk of not being.

2.1 Review of related literature

2.2.1 Accounts Payables management

Creditors' management represents the average length of time between the purchase of materials and labor and the payment of cash for them. It is calculated as the account payables divided by the average credit purchases per day (Harris, 2005). Account payables plays a critical role in managing working capital because delaying bill payments is one of the tools for management to have access to an inexpensive source of financing. However, the opportunity cost of keeping high account payables may hurt the business if an early payment discount is offered (Lu, 2013). Working capital management rule states that firms should strive to lag their payments to creditors as much as possible, taking care not to spoil their business relationship (Napompech, 2023). Through this, Mathuva (2019) in the study "the influence of working capital management components on corporate profitability: a survey on Kenyan listed firms" shows that average payment period has a positive relationship with profitability. The positive relationship suggests that an increase in the number of day's accounts payable by 1 day is associated with an increase in profitability. Sharma and Kumar (2021) examined the effect of working capital management on firm profitability in India. The finding of the study confirmed negative relation between debtor's management with firm performance while the creditor management had positive relation with firm performance. Ganesan (2017) selected telecommunication equipment industry to study the effectiveness of working capital management on profitability.

The sample used in his study was 349 Tele communication equipment companies covering the period 2001 to 2007. Data was gathered from the annual financial statements of the companies. The statistical tests used included correlation, regression analyses and Analysis of variance (ANOVA). The results showed that days of the average creditors positively affected the profitability of these firms. To test the relationship between working capital management and corporate profitability, Deloof (2023) used a sample of 1,009 large Belgian non-financial firms for a period covering 1992-1996. By using correlation and regression tests, he found significant positive relationship between gross operating income and the number of days of accounts payable of Belgian firms.

Based on the study results, he suggests that managers can increase corporate profitability by increasing the number of days of accounts payables.

Tirngo (2023) examined impact of working capital management on profitability of micro and small enterprises in Ethiopia for the case of Bahir Dar City Administration. The study had taken a sample of 67 micro and small enterprises. Data for this study was collected from the financial statements of the enterprises listed on Bahir Dar city micro and small enterprises agency for the year 2011. The study applied Pearson's correlation and OLS regression with a cross sectional analysis. The result showed that there is a strong positive relationship between number of day's accounts payable and enterprises profitability. Falope and Ajilore (2019) used a sample of 50 Nigerian quoted nonfinancial firms for the period 1996 -2005. Their study utilized panel data econometrics in a pooled regression, where time-series and cross-sectional observations were combined and estimated. They found a significant negative relationship between net operating profitability and the average collection period, inventory turnover in days, average payment period and cash conversion cycle for a sample of fifty Nigerian firms listed on the Nigerian Stock Exchange. Furthermore, they found no significant variations in the effects of working capital management between large and small firms.

2.2.2 Accounts Receivables Management

Accounts receivable's management refers to the average length of time required to convert the firm's receivables into cash following a sale. It is calculated by dividing accounts receivable by the average credit sales per day. This ratio measures the length of time it takes to convert the average sales into cash. This measurement defines the relationship between accounts receivable and cash flow (GarciaTeruel & Martinez-Solano, 2011). A longer debtors' management period requires a higher investment in accounts receivable. A higher investment in accounts receivable means less cash is available to cover cash outflows, such as paying bills (Sharma & Kumar, 2011). Firms can improve their profitability by reducing the number of day's accounts receivable outstanding. This can be interpreted as the less the time it takes for customers to pay their bills; the more cash is available to replenish inventory hence the higher the sales realized leading to high profitability of the firm. He adopted a case study design on private firms of Nigeria and he Suggested that the negative relationship between debtors' management and profitability suggests that an increase in the number of day's accounts receivable by 1 day is associated with a decline in profitability. Through this, managers can improve profitability by reducing

the credit period granted to their customers (Lazaridis & Tryfonidis, 2016).

The study by Deloof (2019) stated that managers can increase corporate profitability by reducing the debtors' management period. The longer the number of day's accounts receivable outstanding, the greater the chance that the firm may lose its profitability. Tirngo (2020) examined impact of working capital management on profitability of micro and small enterprises in Ethiopia for the case of Bahir Dar City Administration and found that number of days of accounts receivable had a significant negative impact on profitability (Tirngo, 2013). Padachi (2016) examined the trends in working capital management and its impact on firm 's performance. The results proved that a high investment in inventories and receivables is associated with lower profitability. Further, he showed that account receivables days correlated negatively with profitability.

Mathuva (2009) examined the influence of working capital management components on corporate profitability by using a sample of 30 firms listed on the Nairobi Securities Exchange (NSE) for the periods 1993 to 2008. He used Pearson and Spearman's correlations, the pooled ordinary least square (OLS), and the fixed effects regression models to conduct data analysis. The key findings of his study was that there existed a highly significant negative relationship between the time it takes for firms to collect cash from their customers (debtors' management) and firm profitability. On his part, Waweru (2011) carried out a study on the relationship between working capital management and the value of companies quoted at the NSE. The study used secondary data obtained from annual reports and audited financial statements of companies listed on the NSE. A sample of 22 companies listed on the NSE for a period of seven years from 2003 to 2009 was studied. The regression models indicated that there was some relationship between working capital management and the firm's value while the result of the Pearson correlation indicated a negative relationship between debtors' management period and the value of the firm.

2.2.3 Cash Management

According to Cooper and Schindler (2021), Cash management is the corporate process of collecting and managing cash, as well as using it for short term investment it's a key component of a company's financial stability and solvency. The term cash include coins, currency and cheques held by the firm and balances in its bank accounts. Sometimes near cash items such as marketable securities or bank time deposits are also included in cash. The basic characteristics of near assets are that they can readily be v-converted into cash. Generally, when a firm has excess cash, it invests it in marketable securities.

This kind of investment contributes some profits to the firm. Cash is both the beginning and the end of the working capital cycle, cash, inventories, and receivables. While management of all firms should strive hard to secure larger cash at the end of the working capital cycle than what had been invested in to it at its beginning, they must also make it a best possible minimum. This is required to optimally utilize the cash and to avoid the situation of idle cash balances. Its effective management is the key determinant of sufficient working capital balances, the motives of cash are transaction motive, precautionary motive, and speculative motive.

2.3.1 Accounts payable and Financial Performance

According to a study by Farooque et al. (2019), efficient accounts payable management is positively associated with the financial performance of SMEs. This is because effective management of accounts payable can improve cash flow, reduce costs, and enhance working capital management.

Fina et al. (2017) found that SMEs with better accounts payable management practices, such as timely payments to suppliers and negotiation of favorable payment terms, tend to have higher profitability and liquidity ratios.

A study by Shihab and Al-Karaghoul (2018) highlighted the importance of technology in accounts payable management for SMEs. Automation of the accounts payable process can help reduce errors and delays, leading to improved financial performance.

Lyrودي and Lazaridis (2000): The study highlights that efficient management of accounts payable can reduce the need for external financing and lower the cost of capital. SMEs should aim to negotiate favorable payment terms with suppliers, balancing the benefits of extended payment terms with the need to maintain healthy supplier relationships.

Nobanee, Abdullatif, and AlHajjar (2011): The research indicates that shorter accounts payable periods can negatively impact liquidity but may enhance profitability through better credit terms and discounts from suppliers. SMEs should assess the trade-offs between taking advantage of early payment discounts and maintaining liquidity.

Tauringana and Afrifa (2013): The study found that the length of the accounts payable period has a significant impact on the profitability of SMEs, with an optimal accounts payable period existing where profitability is maximized. Implications: SMEs should determine the optimal payment period that balances liquidity and profitability, avoiding both excessively short and long payment periods.

Deloof (2003): Efficient management of accounts payable can improve a firm's profitability. Firms that

take longer to pay their creditors tend to be more profitable because they can utilize the credit period to generate additional revenue. Implications: Maintaining an optimal balance in accounts payable is essential for liquidity and profitability. Overextension of payment terms can damage supplier relationships, while too short terms can strain cash flows.

Garcia-Teruel and Martinez-Solano (2007): A negative relationship exists between accounts payable and profitability, suggesting that SMEs should avoid delaying payments unnecessarily as it may harm profitability. Efficient management of accounts payable involves balancing the benefits of extended payment terms against the costs of potential penalties and damaged supplier relationships.

Raheman and Nasr (2007): Efficient working capital management, including accounts payable, significantly impacts the profitability of SMEs. The study emphasizes that delaying payments may improve liquidity temporarily but can reduce profitability in the long term. SMEs should aim for a strategic balance in accounts payable management to optimize liquidity without compromising profitability.

2.3.2 Accounts Receivable Management and Financial Performance

Petersen and Rajan (1997): The study emphasizes the importance of credit management policies, suggesting that firms with effective credit management practices tend to have better financial performance. SMEs should implement robust credit evaluation and monitoring systems to minimize the risk of non-payment and optimize cash flow.

Padachi (2006): Effective accounts receivable management significantly impacts the cash conversion cycle, which in turn affects profitability. Firms that manage their receivables efficiently can shorten the cash conversion cycle and improve financial performance.

SMEs should focus on reducing the days sales outstanding (DSO) by implementing effective collection strategies and regular follow-ups on outstanding invoices.

Enqvist, Graham, and Nikkinen (2014): The study found that during economic downturns, firms with better accounts receivable management practices performed better financially compared to those with lax practices. In times of economic uncertainty, efficient management of receivables becomes even more critical for maintaining cash flow and ensuring financial stability.

Zariyawati, Annuar, Taufiq, and Abdul Rahim (2009): The study highlights the combined impact of accounts payable and receivable management on the working capital management of SMEs. Efficient

management of both aspects leads to improved financial performance. SMEs should adopt an integrated approach to managing both accounts payable and receivable, ensuring that both sides of the cash flow equation are optimized for better financial health.

Haq, Sohail, Zaman, and Alam (2011): The research indicates that SMEs with better accounts management practices are more resilient to financial stress and can better withstand market fluctuations. SMEs should invest in training and technology to enhance their accounts management capabilities, thereby improving their overall financial resilience.

Afrifa (2016): The study suggests that SMEs can enhance their financial performance by reducing the cash conversion cycle through effective management of accounts payable and receivable. Regular monitoring and analysis of the cash conversion cycle can help SMEs identify areas for improvement and take proactive measures to optimize their working capital.

According to Agha et al. (2018), efficient accounts receivable management is crucial for the financial performance of SMEs. Timely collection of receivables can improve cash flow, reduce bad debts, and increase profitability.

Gutiérrez et al. (2016) found that SMEs with effective accounts receivable management practices, such as credit policies and collection procedures, tend to have better liquidity and profitability ratios.

Mendoza et al. (2020) highlighted the impact of economic conditions on accounts receivable management for SMEs. In times of economic downturn, managing accounts receivables becomes even more critical for maintaining financial stability and performance.

Deloof (2003): Firms that manage their accounts receivable efficiently tend to have higher profitability. Reducing the days sales outstanding (DSO) can improve cash flow and reduce the need for external financing. Efficient accounts receivable management ensures that cash is collected promptly, enhancing liquidity and reducing bad debt expenses.

Garcia-Teruel and Martinez-Solano (2007): A significant positive relationship exists between accounts receivable management and profitability. Reducing the time taken to collect payments from customers can enhance a firm's profitability. SMEs should implement effective credit policies and collection processes to minimize the DSO and improve cash flow management.

Lazaridis and Tryfonidis (2006): Effective accounts receivable management can lead to improved financial performance. Firms should focus on minimizing the collection period to maximize profitability. Implementing robust credit management practices and regularly reviewing customer creditworthiness are essential for optimizing accounts receivable.

2.3.3 Cash Management and financial Performance

Cash management represents the length of time between the firm's actual cash expenditures to pay for productive resources (materials and labor) and its own cash receipts from the sale of products (that is, the length of time between paying for labor and materials and collecting on receivables) (Mekonnen, 2021). The cash management thus represents the average length of time a shilling is tied up in current assets. It is calculated as; $(\text{Average Collection Period} + \text{Inventory turnover in days} - \text{Average Payment Period})$ (Vural et al., 2012). 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: One, by reducing inventory conversion period by processing and selling goods more quickly. Two by reducing receivables period by speeding up collections from sales and three by lengthening payables or deferral period through slowing down firm's own payments (Lu, 2013).

Lazaridis and Tryfonidis (2016) investigated the relationship between corporate profitability, the cash management and its components. They used a sample of 131 companies listed in the Athens Stock Exchange for the period of 2001-2004. The research findings showed negative relationship between cash management, financial debt and profitability, while fixed financial assets had a positive coefficient. The authors concluded that companies can create more profit by handling correctly the cash management and keeping each different component to an optimum level. Naimulbari (2012) in the study of "the impact of working capital management on profitability" of pharmaceuticals sector in Bangladesh" showed that there was a negative relationship between cash management and profitability. As cash management has a negative relationship with the profitability then the cash management cycle should be short as much as possible without hurting the operations. This would improve profits, because the longer the cash management cycle, the greater the need for external financing, and that financing has a cost (Naimulbari, 2012).

A study by Dong and Su (2010) reported that the firms' profitability and liquidity are affected by working capital management. From the research it was found that the relationship between cash management and profitability was strongly negative. This denoted that decrease in the profitability occurred due to increase in cash conversion cycle. In a similar study but based on working capital management and profitability in Pakistani firms carried out by Raheman and Nasr (2007) evaluated the effect of different variables of working capital management including debtor's management, inventory management, creditor management, cash management and current ratio on the firm's net operating profitability. They selected a sample of 94 Pakistani firms listed on Karachi Stock Exchange for a period

of six years from 1999 - 2004 and found a strong negative relationship between variables of working capital management and profitability of the firm. They found that as the cash conversion cycle increases, it leads to decreasing profitability of the firm and managers can create a positive value for the shareholders by reducing the cash conversion cycle to a possible minimum level (Raheman & Nasr, 2007).

2.4 Summary of Literature and Gaps

Basing on the draft report of October 2010 about SMEs proclamation No.46 which highlighted on the legal basis for investment in Small and medium enterprises. A number of SMEs are under establishment in Kampala district- Mbale City in particular and most of them are willing to extend branches to all regions as a strategy to build up market share.

However although a preliminary study is made in preparing the master business plan for the opening up of many branches, little work is done in studying the performance of working capital management of the enterprises that would alleviate the problems encountered and contribute to the growth of market share and income generation of small and medium enterprises, More still among the findings about the same topic, some researchers affirmed negative relationship while others affirmed positive relationship between working capital management and financial performance so it's a concern now to which a person may depend on to make the best decision, Hence the research is interested to the research area in particular and to assess the gaps in working capital management which is a crucial in business and its very vital in this prevailing stiff competition in line of the modern financial measurement.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

The chapter presents the study methodology. It consisted of the study design, study population, sample size, sampling technique, data collection techniques and tools, validity and reliability, procedure for data collection, data analysis, ethical consideration and study limitations.

3.1 Research Design

The researcher used cross sectional survey research design using a Case Study. “A case study is a thorough study of a specific unit under consideration” (Kothari, 2019). The researcher used this design because of its ability to provide a rich understanding of the study context and procedures being studied. A cross sectional survey design was used because there are many SMEs in the Mbale City and each with employees. It was exploratory because the nature of the study was in such a way that it was investigative and probing so that appropriate data is received.

The researcher used both quantitative and qualitative research approaches questionnaires and interviews were also used.

Interviews enabled to record data that was used for the qualitative approach where data analysis was done descriptively, whereas the questionnaires were used to gather data for the quantitative approach where the use of statistical analysis was convenient (Odiya 2009).

The quantitative approach was used to enable statistical analysis through generation of descriptive statistics and inferential statistics. The qualitative approach on the other hand was used to capture in ~~the~~ the opinions and ideas of the respondents.

3.2 Study Population

Amin, (2005) defined study population as a complete collection of all members of a group which is of interest in a specific study. It was consisted of 80 participants who was Brocken down into (12) Suppliers, (10) Cashiers,(12) Accountants,(20) Auditors,(2) supervisors,(5) customers and (7) vendors

The researcher used Slovene’s formula of obtaining sample size.

$$n = \frac{80}{1+80(0.05)^2} = \mathbf{66} \text{ respondents}$$

Table 1: Showing the Respondents

Category of Respondents	Population	Sample	Sampling Technique
Suppliers	12	10	Simple random
Cashiers	10	8	Simple random
Accountants	12	10	Purposive
Auditors	20	17	Purposive
Supervisors	2	2	Purposive
Customers	5	4	Simple random
Vendors	7	5	Simple random
Total	80	66	

Source: Field data (2024)

3.3 Sample Size and Selection

3.3.1 Sample Size

A sample according to Odiya (2019) refers to the portion of respondents selected for the study. It is a subset of the population from which a generalization about a population is made. A sample of 66 was selected from the accessible population of 80 in accordance with the Slovene formula of determining sample size .

3.3.2 Sampling Techniques

“Sampling technique is a procedure of choosing objects from a population in a way that the sample elements chosen stand for the study population” (Amin, 2005). The research used purposive and simple random sampling. Purposive sampling entailed selection of specific persons or elements in administration thought with knowledge issues that are researched about. According to Amin (2005), “purposive sampling technique allowed the researcher to use cases that are deemed to have necessary information in respect to the study variables”. This sampling strategy helped the researcher in selecting the managers/owners of SMEs as they are thought to be dependable and knowledgeable on the study topic, thus they gave reliable and comprehensive information. “Simple random sampling is a sampling technique that makes sure that every element of the study population has an equal chance of being selected” (Oso & Onen, 2019). Simple random sampling was employed in choosing employees in

different SMEs to participate in this study.

3.4 Data collection instrument

In order to collect both quantitative and qualitative data on the influence of working capital management on the Financial Performance of SMEs in Mbale City; the researcher used interviewing, questionnaire, and documentary review approaches of data collection. For selected methods, the following three instruments were used.

3.4.1 Interview guide for SME owners

A semi-structured set of questions related to the study variable was used to guide the process of data collection with the selected respondents. This was used to collect data from key informants, mainly the top manager of SMEs. In addition, the interview guide was containing both open and close-ended questions. The interview guide was prepared according to study objectives. In-depth interviews were employed because one can appreciate someone's impressions, or discover more about their responses to questionnaires.

3.4.2 Questionnaire to owners of SMEs/ Management

The researcher employed a self-administered questionnaire as a tool of data collection to collect quantitative data from respondents. The questionnaire was divided in 2 parts. 1) Was eliciting demographic features of the participants and 2) was containing questions relating to working capital management and financial performance. The researcher was use a closed ended Likert scale.

3.5 Validity and reliability of data collection Tool

3.5.1 Validity

“It is a degree to which a tool measures what it is meant to measure” (Carolel et al, 2019). The content validity of the tool was established commendable performing for the pilot test. After creating the questionnaire, the researcher discussed with the supervisors and 3 other experts to get professional judgment on validity of the tool. “The formulae below were used to run the CVI” (Polit,2016).

CVI = Number of items regarded relevant by researcher

Total number of items

3.5.2 Reliability of Instruments

Reliability is a level at which measures are free from mistakes and hence yield steady results. If a measurement procedure constantly gives similar scores with equal values, the tool is considered reliable. “Reliability comprises of consistency of test scores that is., the level at which one expects comparatively constant deviation scores of persons across testing conditions on the same, testing tools” (Ganesh, 2017).

3.6 Procedure of Data Collection

After writing the research proposal to the satisfaction of the supervisor, an introductory letter for seeking permission to proceed for data collection was obtained from Uganda Christian University and this was used to make respondents believe in the researcher. This letter was taken to area leaders to seek for permission before engaging the population for the study.

3.7 Data Processing and Analysis

3.7.1 Analysis of Quantitative Data

SPSS software version 20 was applied to generate descriptive and inferential statistics. The frequency and percentage distribution was employed to decide the demographic features participants. While mean and SD was used for different points of agreements in relation to the questions asked on the Likert scale. The effect of working capital management on Financial Performance of SMEs in Mbale City was evaluated using a simple regression analysis.

Strongly agree	Agree	Neutral	Disagree	Strongly disagree
5	4	3	2	1

The stated variables in the questionnaires were analyzed using descriptive statistics of reactions categorized as below:

By use of descriptive statistics, the mean values of 3 and above was indicate high levels of agreement with the statement while mean values of less than 3 showed high levels of disagreement with the statements as per the questionnaire.

3.7.2 Analysis of Qualitative Data

The inductive method was helpful as it replicates regularly reported patterns used in qualitative data analysis.

The assumption of inductive method is “data analysis is established through research objectives and multiple readings and interpretation of raw data”. “Therefore, results were got from both the research objectives outlined by the researcher and results arising from analysis of raw data”(Thomas, 2017).

3.8 Limitation of the Study

The researcher has anticipated some of the following limitations: Limited time for the study, constraints in convening respondents for focus group discussions, fear of being allowed to access confidential data especially data related to financial statements and loan performance reports. Some People might fear to reveal certain information due to fear of competition in the business. The costs of the study was rather be too high since it was involve a big respondents’ number coupled with constant travel between the study area upcountry and Uganda Christian University to meet the supervisor and in using of research assistants in data collection.

3.9 Ethical Considerations

An introductory letter for seeking permission to proceed for data collection was obtained from Uganda Christian University and this was the basis for the informed consent of respondents. Furthermore, respondents were assured of utmost confidentiality of the data given to the researcher, because these data was treated for purposes of academic study only and nothing else and this was explained to respondents. The researcher was try to guard against plagiarism. The researcher will not (as promised to respondents) reveal any information of confidential nature (as this may expose certain businesses due to an unhealthy competition) after the study. The researcher will discuss materials directly related to this study only with the research supervisor, and in any reports, papers and published materials by the researcher, obvious identifiers was first be removed.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1 Introduction

The chapter gives analyses and interpretations of study results. It begins with a presentation of the background information on the study respondents and the study response rate which is followed by the key study results. Study results were presented based on study objectives

4.1.1 Response rate

All the 66 questionnaires were returned fully constituting a 100% response rate. The score therefore suggests an overall response rate of 63% which according to Amin (2005) is a good representation of a survey population in a given study as it's above a response rate of 50%

4.2 Background Information about the Respondents

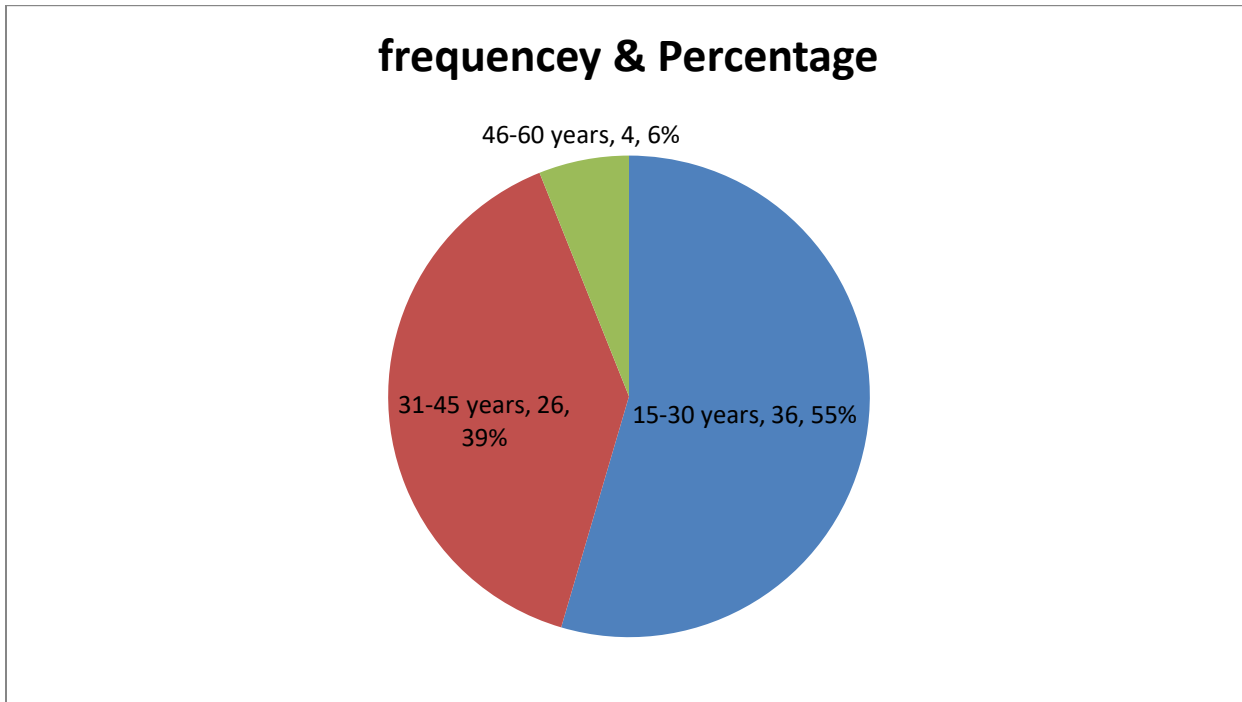
The first section of the questionnaire was meant to help the researcher gather background information about the respondents in the study. Such information was considered relevant in Understanding the composition of the respondents as regard the study and its variables. Participants were requested to give their age group, gender, and highest level of education attained, marital status, business ownership and the type of business industry that they fall. The results on these background variables are presented below:

Table 2. Showing the age of the respondents

Response	Frequency	Percent
15-30 years	36	55
31-45 years	26	39
46-60 years	4	6
Total	66	100.0

Source: Primary Data (2024)

Figure 2: Pie chart showing the age of the respondents



Source: Primary Data (2024)

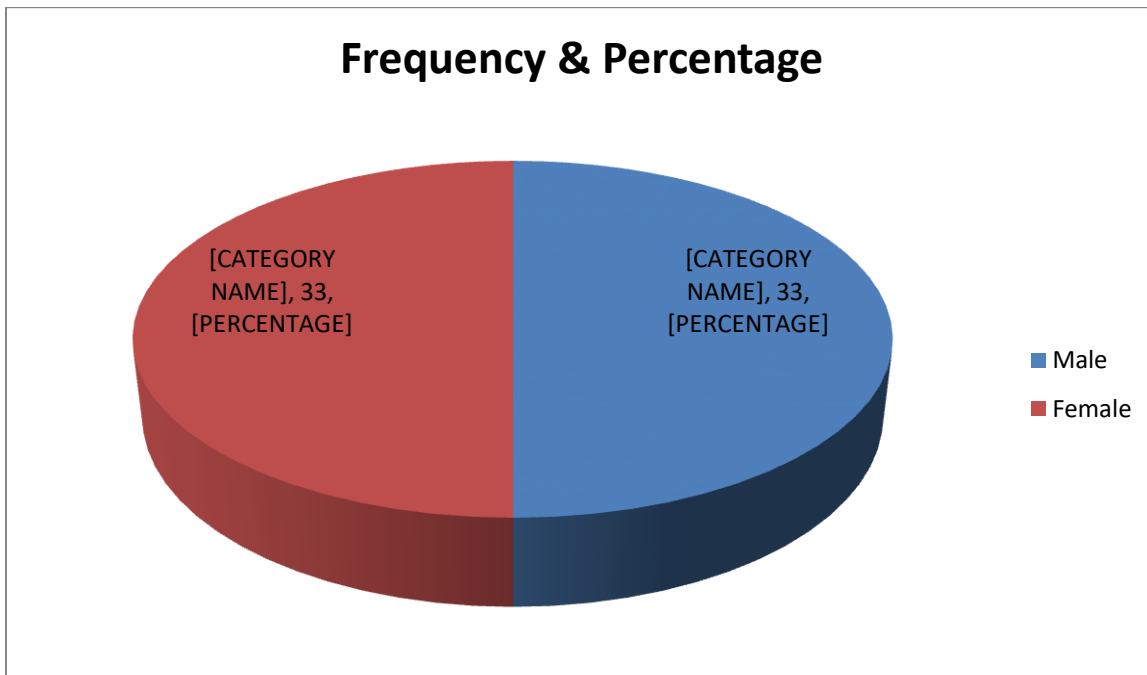
The study in table 4.1 showed that 55% respondents were the majority being between 15-30 years, 32-45 years came second with 39% response and 6% respondents came last as being between 46-60 years. This showed that most of the respondents were between 15-50 years who are still willing and able to accomplish assigned duties in the organization.

Table 3: Showing sex of the respondents

Response	Frequency	Percent
Male	33	50.0
Female	33	50.0
Total	66	100.0

Source: Primary data (2024)

Figure 3: Pie chart showing sex of the respondents



Source: Primary data (2024)

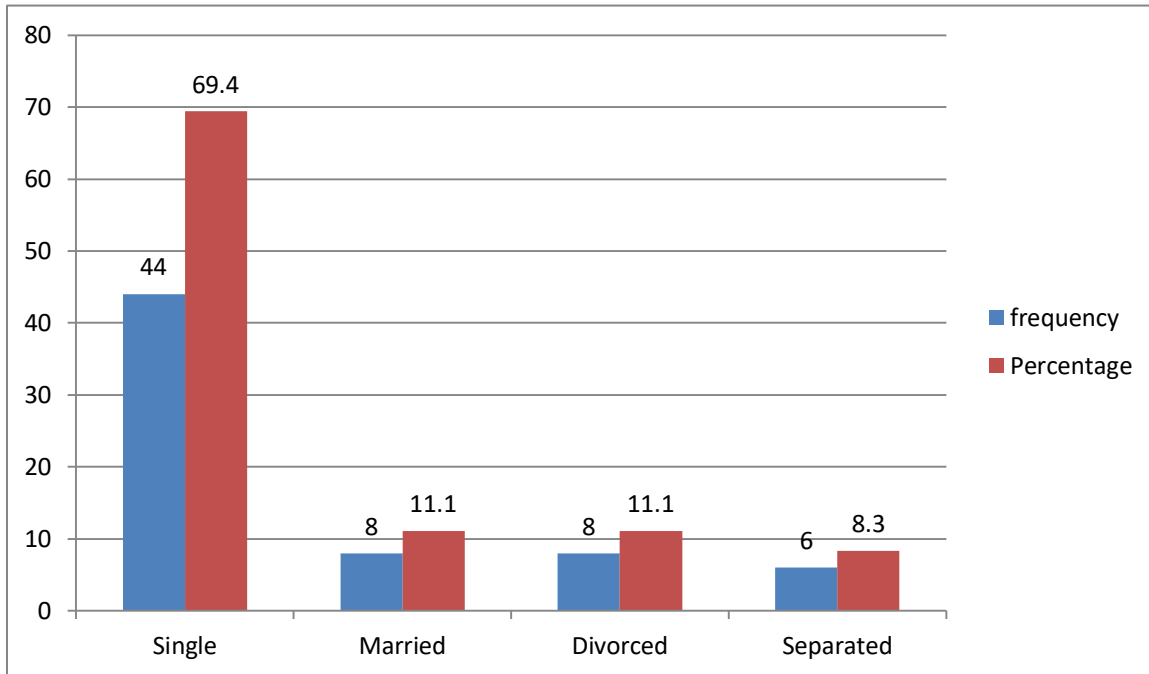
The findings shown in table 4.2 above revealed that 50.0% respondents were male and 50.0% respondents were also female. This shows that Mbale City is not gender sensitive and takes all people as equal as seen by the equality in employing both male and female equally which brings harmony and peace in the organization.

Table 4.: Showing marital status of the respondents

Response	Frequency	Percent
Single	44	69.4
Married	8	11.1
Divorced	8	11.1
Separated	6	8.3
Total	36	100.0

Source: Primary Data (2024)

Figure 4: Bar graph showing marital status of the respondents



Source: Primary data (2024)

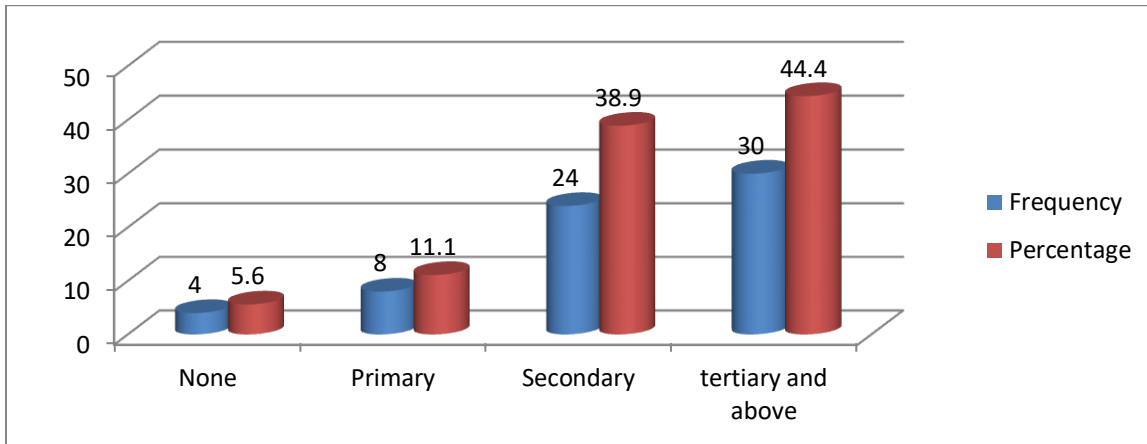
Finding revealed in table 3 above, that 69.4% respondents were singles, 11.1% respondents had married and divorced, and 8.3% respondents had separated this showed that most of the respondents were single who can move from one place to another without much family ties and much other responsibilities after worker and were the majority in taking part to fill the questionnaires.

Table 5: Showing levels of education

Response	Frequency	Percent
None	4	5.6
Primary	8	11.1
Secondary	24	38.9
tertiary and above	30	44.4
Total	66	100.0

Source: Primary data (2024)

Figure 5: Bar graph showing levels of education



Source: Primary data (2024)

Findings in table 4.4 showed that 44.4% respondents had attained tertiary institutions and above, 38.9% of the respondents were secondary holders, 11.1% of the respondents were primary holders and 5.6% of the respondents had not attained any level of education. This indicated that majority of the respondents had attained up to tertiary level of education.

4.3 Descriptive Statistics

4.3.1 Descriptive statistics on creditors management

In a bid to understand the level of adoption of credit management, respondents from the SMEs under study were required to indicate their perception of some issues that were adopted which included; Our suppliers allow to offer credit, always we delay to clear bills in our organization, we make consumers be aware of the new products on the market, we review supplier reports regularly, the business always raise funds to pay our debts. The descriptive results are presented in table 6 below

Table 6: Descriptive Statistics on creditor Management

Items	N	Mean	Std Deviation
In our company our suppliers allow to offer credit	66	3.32	1.406
Always we delay to clear bills in our organization	66	3.51	1.299
We maintain good relationships with our suppliers	66	3.46	1.403
Supplier's reports are reviewed regularly	66	3.50	1.382
Grand Mean		2.556	5.548

Note: These items were measured on a five point Likert scale where 1=strongly agree and 5=strongly disagree, S.D indicate the degree to which individual scores by respondents are far from the mean

From the findings its evidenced that the dimension of our suppliers allow to offer credit had a mean of 3.32 and this indicates that most of the respondents in the small and medium entities were disagreeing that suppliers allow to offer credit, the standard deviation was 1.406 and this implied that a big number of the respondents were either strongly agreeing or strongly disagreeing on the fact that the suppliers of the SMEs allows the offer credit. Always we delay to clear bills in our organization was represented with a mean of 3.51 which always follows in the range of above average hence most of the respondents disagreed and the standard deviation was 1.299 which also meant that respondents were either agreeing. We maintain good relationships with our suppliers was established with a mean of 3.46 and standard deviation of 1.403, this implies that still most of the respondents were disagreeing about the statement and for the standard deviation it also still showed that respondents were either strongly agreeing or strongly disagreeing. As evidenced, most of the respondents disagreed that supplier's reports are reviewed regularly as seen in the table with a mean of 3.50 and for the standard deviation it was still in the line of strongly agreeing or strongly disagreeing represented by 1.382, lastly was the business always raise funds to pay their debts promptly represented by the mean of 3.57 and the standard deviation =1.423

4.3.2 Descriptive Statistics on accounts receivables management

In a bid to understand the level of adoption of accounts receivable management, respondents from the SMEs under study were required to indicate their perception of some issues that were adopted which included, In our organization we give reminders to customers before their due dates, The organization gives discounts to encourage debtors pay in time, We rarely write off debts because we follow up such that customers pay in time, In our organization installments are allowed and the results were presented below.

Table 7: Descriptive Statistics on Accounts Receivables Management

Item	N	Mean	Std Deviation
In our organization we give reminders to customers before their due dates	100	2.67	1.393
The organization gives discounts to encourage debtors pay in time	100	2.53	1.367
We rarely write off debts because we follow up such that customers pay in time	100	2.33	1.326
In our organization installments are allowed	100	2.52	1.389
Grand mean		2.51	1.37

Note: These items were measured on a five point Likert scale where 1=strongly agree and 5=strongly disagree, S.D indicate the degree to which individual scores by respondents are far from the mean.

Basing on the findings about giving reminders to customers before their due date, the mean was 2.40 which still indicated that most of my respondents were agreeing with the statement and the standard deviation was 1.316 which implied that most of my respondents were either strongly agreeing or strongly disagreeing. Mean for the issue about the organization gives discount to encourage debtors pay in time was 2.53 and standard deviation =1.367, The entities also agreed that debts are rarely written off because customers are followed to ensure that they pay in time and the mean was 2.33 and standard deviation of 1.326. lastly was the organization allowing installments and here the mean was 2.52 still representing that most respondents were agreeing with the statement and the standard deviation was 1.389 which meant that most of the respondent were either strongly agreeing or strongly disagreeing.

4.3.2 Descriptive Statistics on Cash Management

In a bid to understand the level of adoption of cash management, respondents from the SMEs under study were required to indicate their perception of some issues that were adopted which included; In our organization petty cash is monitored to avoid shortages, upon payments people are supposed to sign for the cash taken, We balance cash on daily basis; In our organization a cash budget is prepared on regularly basis and Only authorized individuals are allowed to access safes of money. The results are presented below.

Table 8: Descriptive Statistics on Cash Management

Item	N	Mean	Std Deviation
In our organization petty cash is monitored to avoid shortages	100	2.47	1.314
Upon payments people are supposed to sign for the cash taken	100	2.46	1.396
We balance cash on daily basis	100	2.51	1.219
In our organization a cash budget is prepared on regularly basis	100	2.55	1.387
Only authorized individuals are allowed to access safes of money	100	2.56	1.29
Grand mean		2.51	1.32

Note: These items were measured on a five point Likert scale where 1=strongly agree and 5=strongly disagree, S.D indicate the degree to which individual scores by respondents are far from the mean

From the findings about organizations monitoring petty cash to avoid shortages, a mean of 2.47 was evidenced which implied that most respondents agreed with the statement and the standard deviation was 1.314 which clearly indicates that most respondent were either strongly agreeing with the statement or strongly disagreed with the statement, Further still findings discovered that the idea of upon payments people are supposed to sign for the cash taken showed a mean of 2.46 which still followed in line with agree, and the standard deviation was 1.396 which represents that respondents were either strongly agreeing or strongly disagreeing with the statements. Balancing of cash daily was also analyzed and findings indicated that 2.51 of the respondents agreed and the standard deviation is represented by 1.219, Cash budget being prepared by organization yielded a mean of 2.55 hence respondents agreed with the statement and the standard deviation was also in line with 1.387 and this still meant most respondent were in category of strongly agreeing or strongly disagreeing. Lastly was only authorized individuals are allowed to access safes of money, evidence showed that most respondents agreed with the statement as per the mean of 2.56 and for the standard deviation it was 1.290 meaning most respondent were either strongly agreeing or strongly disagreeing.

4.3.3 Descriptive Statistics on Inventory Management

In a bid to understand the level of adoption of inventory management, respondents from the SMEs under study were required to indicate their perception of some issues that were adopted which included; *In our company we make requisitions for all items in the store, Systems like fast in fast out are used in our organization, In our organization we monitor stock on regular basis and In our organization we verify manufacturing dates and expiry dates of all stock in stores.* The results are shown below;

Table 9: Descriptive Statistics on Inventory Management

Items	N	Mean	Std Deviation
In our company we make requisitions for all items in the store	100	2.54	1.283
Systems like fast in fast out are used in our organization	100	2.69	1.504
In our organization we monitor stock on regular basis	100	2.55	1.410
In our organization we verify manufacturing dates and expiry dates of all stock in stores	100	2.45	1.351
Grand Mean		2.556	5.548

Note: These items were measured on a five point Likert scale where 1=strongly agree and 5=strongly disagree, S.D indicate the degree to which individual scores by respondents are far from the mean

From the findings it was evidenced that in our company we make requisitions for all items in the store had a mean of 2.54 and this implies that most of the respondents were agreeing that requisitions are made before getting any item from the store and the Standard deviation was 1.283 which also implied that most of the respondents were represented in a way that they could either be on strongly agreeing or strongly disagree. Further still systems like fast in fast out are used in our organization was represented by a mean of 2.60 and standard deviation = 1.504, in our organization we monitor stock on regular basis was represented by a mean of 2.55 and standard deviation of 1.410 and lastly in our organization we verify manufacturing dates and expiry dates of all stocks in stores , this was represented by a mean of 2.45 which implied that most of the respondents were agreeing with the statement and the standard deviation was 1.351 which meant that respondents were either strongly agreeing or strongly disagreeing.

4.3.4 Descriptive Statistics on Sales Growth

Table 10: Descriptive Statistics on Sales Growth

Item	N	Mean	Std Deviation
Our customers have been increasing over a time	100	2.58	1.304
In our organization product sales volumes have increased over the past periods	100	2.49	1.283
Our sales revenues for the business have increased over the past periods	100	2.69	1.398
Our income often exceeds the expenses we incur	100	2.49	1.337
Grand mean		2.562	1.331

Source: primary data (2024)

From the findings it is evidenced that the dimension of our customer have been increasing over a time had a mean of 2.58 which implied that most of the respondents were agreeing with the statement and it had a standard deviation of 1.304, in our organization product sales volumes have increased over the past periods was represented by a mean of 2.49 which also implied that people agreed with the statement and it had a standard deviation of 1.283 which showed that people were either strongly agreeing or strongly disagreeing. About our sales revenues for the business have increased over the past periods was represented by a mean of 2.69 still this followed in the agree line therefore most respondents were in agreement with the statement where as the standard deviation was at 1.398. Lastly was our incomes often exceeding the expenses we incur, this was evidenced by a mean of 2.49 and standard deviation = 1.337.

4.3.5 Descriptive Statistics on Profit Growth

Table 11: Descriptive Statistics on Profit Growth

Item	N	Mean	Std Deviation
The proportion of the profits we save annually keeps increasing	100	2.48	1.344
Our incomes often exceed the expenses we incur	100	2.50	1.403
In our organization stock has been increasing in the last few months	100	2.46	1.267
Our profit have been increasing over a time	100	2.64	1.322
Grand mean		2.52	1.334

Source primary data (2024)

Findings revealed that the proportion of the profits we save annually keeps increasing had a mean of 2.48 which implied that most of the respondents agreed with the statement and the standard deviation was 1.344 which implied that most respondents were either strongly agreeing or strongly disagreeing, Further still our incomes often exceeds the expenses we incur was represented by a mean of 2.50 which also showed that respondents agreed with the statement and the standard deviation was 1.403 and this showed the researcher that respondents were either strongly agreeing or strongly disagreeing. In our organization stock has been increasing in the last few months was also analyzed and it showed a mean of 2.46 as well which is in line with agreeing and the standard deviation of 1.267. Lastly our profits have been increasing over a time showed us a mean of 2.64 which also implied that respondents were in agreement with the statement and the standard deviation was 1.322 and this meant that respondents were either strongly agreeing or strongly disagreeing.

4.4 Regression Analysis on the variables

4.4.1 The influence of Accounts Payables management on financial performance

In a bid to address the first objective, a linear regression model was run to establish the effect of Accounts Payable management on financial performance and the results were presented in tables below.

Table 12: Regression results on the effect of Accounts Payable management on financial performance

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.416 ^a	.173	.165	.74344

a. Predictors: (Constant), Accounts Payables management

Source: primary data (2024)

According to the findings in Table above, it was revealed that credit management affects financial performance. The findings indicate that the model fits well and significantly explain the variations in financial performance as a result of Accounts Payables management (F=20.553, P-value<0.01). It is further observed that credit management explains variances in financial management by up to 16.5% (Adjusted R²=0.165). In addition, it was also revealed any increase in effort taken by firm to manage credit will result into 0.348 increase in financial performance (B=0.348). The results therefore indicated that Accounts Payables management contributes to the changes in financial performance and should not be taken slightly.

4.4.2 The influence of Account receivable management on financial performance

In a bid to establish the influence of account receivable management on financial performance, a linear regression model was run to establish the effect of account receivable management on financial performance and the results were presented in table 13 below.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.599 ^a	.359	.352	.65489

a. Predictors: (Constant), account receivable management

Source: primary data 2024

The findings above indicate that model fitted well the data and significantly explains the variances in financial performance. Therefore, the evidence presented in the tables show that account receivable management affects financial performance (F=54.784, Sig level=0.000). It was also revealed that changes in account receivable management explain variances in financial performance up to only 35.2 % represented by adjusted R² of 0.352. Furthermore, the results indicated B= 0.506 which implied that any increase in effort to improve account receivable management would result into 0.506 increase in financial performance. This showed that accountreceivable is a good predictor of financial performance.

4.4.3 The influence of Cash management on financial performance

In a bid to address the third objective, a linear regression model was run to establish the effect of cash management on financial performance and the results were presented in tables below.

Table 14: Regression results on the effect of cash management on financial performance

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.592 ^a	.351	.344	.65894

a. Predictors: (Constant), cash management

ANOVA ^a						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	22.974	1	22.974	52.910	.000 ^b
	Residual	42.552	98	.434		
	Total	65.526	99			
a. Dependent Variable: financial performance						
b. Predictors: (Constant), cash management						

Coefficients						
Model		Unstandardized		Standardized	T	Sig.
		Coefficients		Coefficients		
		B	Std. Error	Beta		
1	(Constant)	1.114	.206		5.400	.000
	Cash management	.566	.078	.592	7.274	.000

a. Dependent Variable: financial performance

Source: primary data 2024

The findings above indicated that the model fits and can be used to significantly explains the variances in financial performance as a result of cash management ($F=52.910$, Sig level= 0.000). It further indicates that cash management is a good predictor of financial performance because any increase in effort to improve cash management would increase financial performance by 0.566 ($B=0.566$). In addition, the findings indicated that changes in cash management explain changes in financial management up to 34.4 % ($\text{Adjusted } R^2=0.344$).

4.4.4 The influence of working capital management on financial performance

The bid to determine the influence of working capital on financial performance, a multiple regression was used and all construct of working capital that were considered in this study were all regressed with financial performance. The findings are presented in tables below.

Table 15: Multiple regression results on the effect of working capital management on financial performance

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.702 ^a	.493	.472	.59135

a. Predictors: (Constant), inventory management, credit management, cash management,

accountreceivable management

ANOVA^a						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	32.305	4	8.076	23.095	.000 ^b
	Residual	33.221	95	.350		
	Total	65.526	99			
a. Dependent Variable: financial performance						
b. Predictors: (Constant), inventory management, credit management, cash management, account receivable management						
Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.669	.239		2.794	.006
	credit management	.080	.071	.096	1.131	.261
	account receivable management	.163	.093	.193	1.747	.084
	cash management	.175	.104	.183	1.689	.095
	inventory management	.292	.089	.354	3.275	.001
a. Dependent Variable: financial performance						

Source: primary data 2024

The findings revealed that generally, working capital management has a positive effect on financial performance and therefore can be significantly predict changes in financial performance. This is represented by F-value of 23.095, P-value<0.01 which implied that the model was a good fit. It was also observed that a combination of predictor constructs of working management would predict changes in financial performance by up to 47.2% which is represented by Adjusted R² of 0.472.

However, it with consideration of individual contribution of each construct of working capital management, it was observed that inventory management contributes more to the financial performance (B=0.292) as compared to credit management (B=0.08), Account receivable management (B=0.1630) and cash management with (B=0.175).

CHAPTER FIVE

SUMMARY, DISCUSSION, CONCLUSION, RECOMMENDATION AND AREAS OF FURTHER STUDY

5.0 Introduction

The purpose of the study was to analyze the relationship between working capital management and financial performance of small and medium enterprises, Mbale City as a case study. This chapter focuses on the summary of the findings, discussion of the findings of the study and their relation to the research objectives, the conclusion of the study, recommendations derived from the findings of the study as well as the areas of further research or study.

5.1 Summary of the findings

The findings indicated that out of the 66 respondents who were targeted, only 45 were able to complete the questionnaires and return them, resulting in a response rate of 40% which is considered to be representative and fair to make conclusions for the study. The findings showed that the respondents were familiar with working capital management in Mbale City, therefore being in position to understand and provide the right information for the study.

5.1.1 Creditors management and financial performance

The study established that there exists a relationship between creditor's management and financial performance of small and medium enterprises with in Mbale City. It was also established that credit management influences financial performance by up to only 16.5% as indicated by adjusted R square of 0.165. It was also established that majority of the SMEs in Mbale City had a low adoption of credit management with an overall mean on all issues considered to measure adoption of credit mean being above the average hence an indication of disagreement (Mean=3.472). The study also revealed that any effort taken to improve credit management would increase financial performance by 0.348 (B=0.348).

The study findings were in agreement with the findings by Mathuva (2019) who also investigated the effect of working capital management on firm's performance and established that there exists a significant positive effect of credit management on firm's performance.

The findings are also in line with the findings of Ganesan (2017) who established that if credit management is well managed through reducing credit days, it would have a positive effect on financial performance.

However, the findings are contradicting the findings by Kumar (2021) where it was established that there is a negative relationship between credit management and financial performance. Therefore, this study determined that there is a positive and significant effect of credit management on financial performance though it was to a low extent.

5.1.2 Accounts Receivables management and financial performance

The findings indicate that model fitted well the data and significantly explains the variances in financial performance. Therefore, the evidence presented showed that account receivable management affects financial performance ($F=54.784$, Sig level=0.000). It was also revealed that changes in account receivable management explain variances in financial performance up to only 35.2 % represented by adjusted R^2 of 0.352. Furthermore, the results indicated $B= 0.506$ which implied that any increase in effort to improve account receivable management would result into 0.506 increase in financial performance. This showed that account receivable is a good predictor of financial performance. Accounts receivables was looked at in terms of giving reminders to customers before theirs due dates, giving discounts to encourage debtors pay in time, rarely writing off debts because we make sure we follow up such that customers pay in time among others.

5.1.3 Cash Management and Financial performance

The findings indicated that the model fits and can be used to significantly explains the variances in financial performance as a result of cash management ($F=52.910$, Sig level=0.000). It further indicates that cash management is a good predictor of financial performance because any increase in effort to improve cash management would increase financial performance by 0.566 ($B=0.566$). In addition, the findings indicated that changes in cash management explain changes in financial management up to 34.4 % (Adjusted $R^2=0.344$). Respondents agreed that petty cash is monitored to avoid cash shortages, upon any payment, people are supposed to sign for cash taken, organizations regularly monitoring cash flows, balancing of cash on daily basis, preparation of cash budget on daily basis among others.

5.3 Discussion of the findings

This section presents the discussion of the major findings of the study and this was done basing on the findings of the objectives which were under the study. The study applied a self-administered questionnaire and this instrument ensured that valuable information was provided upon the findings of the study were based on discussed in this section.

5.3.1 Creditors management and financial performance

Basing on the findings, it was revealed that credit management affects financial performance. The findings indicate that the model fits well and significantly explain the variations in financial performance as a result of credit management ($F=20.553$, $P\text{-value}<0.01$).

It is further observed that credit management explains variances in financial management by up to 16.5% (Adjusted $R^2=0.165$). In addition, it was also revealed any increase in effort taken by firm to manage credit will result into 0.348 increase in financial performance ($B=0.348$). The results therefore indicated that credit management contributes to the changes in financial performance and should not be taken slightly. The study revealed that there exists a positive relationship between creditor's management and financial performance of Small and Medium enterprises with in Mbale City. It was discovered that the financial performance of entities basically rotates around creditor management

This was in line the findings of Mathuva (2009) in the study "the influence of working capital management components on corporate profitability: a survey on Kenyan listed firms" shows that average payment period has a positive relationship with profitability. The negative relationship suggests that an increase in the number of day's accounts payable by 1 day is associated with a decrease in profitability. Sharma and Kumar (2021) examined the effect of working capital management on firm profitability in India. The finding of the study confirmed positive relation between debtor's management with firm performance while the creditor management had negative relation with firm performance. However, Deloof 2003 disagreed with the findings because his established a positive relationship between creditors management and financial performance.

5.3.2 Accounts receivables management and financial performance

In the study carried out, it was revealed that accounts receivables management has a positive significant influence on financial performance with 35.2% of variances in financial performance being explained by account receivable management (adjusted R square=0.352). This implied that better accounts

receivables management leads to improvement in financial performance of entities.

This is in line with the findings of the study by Deloof (2003) stated that managers can increase corporate profitability by reducing the debtors' management period. The shorter the number of day's accounts receivable outstanding, the greater the chance that the firm may gain its profitability. Tirngo (2013) also examined impact of working capital management on profitability of micro and small enterprises in Ethiopia for the case of Bahir Dar City Administration and found that number of days of accounts receivable had a significant positive impact on profitability (Tirngo, 2013).

Padachi (2016) examined the trends in working capital management and its impact on firm's performance. The results proved that a high investment in inventories and receivables is associated with increase in profitability. Further, he showed that account receivables days correlated positively with profitability which is also in line with the findings of this current study.

However, the current study findings studies are contrary to the prior studies by Mathuva (2009) who examined the influence of working capital management components on corporate profitability by using a sample of 30 firms listed on the Nairobi Securities Exchange (NSE) for the periods 1993 to 2008. He used Pearson and Spearman's correlations, the pooled ordinary least square (OLS), and the fixed effects regression models to conduct data analysis. The key findings of his study was that there existed a highly significant negative relationship between the time it takes for firms to collect cash from their customers (debtors' management) and firm profitability.

5.3.3 Cash management and financial performance

The study revealed that cash management has a positive significant influence on financial performance and it explains variances in financial performance by up to 34.4% (adjusted R square=0.344). Items like monitoring petty cash to avoid cash shortages, preparation of cash budget, upon payments people are supposed to sign for cash taken among others give a true picture that cash management was adopted by SMEs of Mbale City (grand mean=2.51).

However, the findings are in contrary to Lazaridis and Tryfonidis (2016) who investigated the relationship between corporate profitability, the cash management and its components. They used a sample of 131 companies listed in the Athens Stock Exchange for the period of 2001-2004. Their research findings showed negative relationship between cash management, financial debt and profitability, while fixed financial assets had a positive coefficient.

The authors concluded that companies can create more profit by handling correctly the cash management and keeping each different component to an optimum level.

In addition, it also disagrees with the findings of Naimulbari (2012) in the study of “the impact of working capital management on profitability” of pharmaceuticals sector in Bangladesh” showed that there was a negative relationship between cash management and profitability. As cash management has a negative relationship with the profitability then the cash management cycle should be short as much as possible without hurting the operations.

5.4 Conclusion

The study generally revealed that working capital management has a positive and significant influence on financial performance. It was also concluded that any increase in effort by SMEs to manage working capital, there would be an increase in financial performance. This has been low amongst SMEs of Mbale City.

The study concluded that there is a significant and positive influence of credit management on financial performance. However, the contribution of credit management is low as compared to cash management, account receivable management and inventory management. It is therefore observed that if SMEs increase their effort to manage credit, they would register an increase in financial performance.

The study also portrays evidence that there exists positive significant relationship between account receivable management and financial performance of small and medium enterprises with in Mbale City and therefore this study concluded that accounts receivables management has a significant relationship with financial performance of SMEs. The study looked at giving reminders to customers before their due dates, giving discounts to encourage debtors pay in time, rarely writing off debts to make sure they follow up such that customers pay in time and organization allowing giving installments. It is therefore concluded that all this issue are good measures of account receivable management.

In addition, the study revealed that there exists a positive relationship between cash management and financial performance of Small and Medium Enterprises. This looked at monitoring petty cash to avoid cash shortages, preparation of cash budget, signing for all money taken and allowing only authorized individuals to access the cash office. The study concluded that any effort to manage cash leads to an increase in the financial performance of an SME.

5.5 Recommendations

The study makes a number of recommendations. First, the study recommends that small and medium enterprises should increase on then time lag of clearing bills, allowing suppliers to offer goods on credit, business should always raise fund to clear debts promptly. This will help to improve their performance. Secondly, the study recommends that for small and medium enterprises to improve their financial performance there is need to manage their accounts receivables by giving reminders to customers before their due dates, encouraging organization to give discounts to encourage debtors pay in time, promoting the issue of installment and making sure that debts are not always written off, this will lead to higher financial performance.

Thirdly the study recommends that small and medium enterprises should improve their cash management circles by monitoring petty cash to avoid shortages, signing on every transaction that needs money, only authorizing few people to access the safe for money among others. This improve their financial performance.

5.6 Areas of Further Research

The study proposes an investigation that will elaborately uncover the reasons to why most managers in Mbale City are reluctant adopt better components of working capital management yet it guides in decision making.

The study has only covered only four components of working capital management (creditor's management. Accounts receivables management, cash management and inventory management) yet there many others that affect financial performance of small and medium enterprises. As such the study recommends more research into how the other components of working capital management affects the financial performance of small and medium enterprises, another study can regroup the sample into other sectors of the economy and establish whether there exist any unique variations.

APPENDIX I: QUESTIONNAIRE

Research Title: “Working Capital Management and Financial performance of small and medium enterprises in Mbale City”.

Dear Respondent,

I am a student of Uganda Christian University pursuing a Bachelors’ in Business Administration (Accounting Option). The questionnaire is intended to help the researcher get information on working capital management and financial performance of small and medium enterprises with in Mbale City. The purpose of the study is purely academic and information given was 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,

.....

CHEBET TABITHA MARION

Participant

PART A: BACKGROUND INFORMATION

1: Email of the respondent..... (Optional)

2: Age:

- (i) Below 20 years
- (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) Finance Officer
- (iii) Cashier
- (iv) Accountant
- (v) Bursar
- (v) Others

5: For how long have you been employed in Mbale City? (Optional)

- (i) 0-3 Year
- (ii) 1-3 Years
- (iii) 3-5 Years
- (iv) 5-7 Years

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

(i) 5 – 10

(ii) 10 – 15

(iii) 15 and above

7: What form / type is your business?

(i) Sole proprietorship

(ii) Partnership

(iii) Limited company

PART B: WORKING CAPITAL MANAGEMENT OPTIONS

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 managements					
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 mangers 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 firs in first out					
23) In our organization we regularly carry out stock taking					

PART 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

APPENDIX 2: INTERVIEW GUIDE

Section A: Working Capital Management and Financial Performance

1. Can you provide examples of how managing working capital has led to improved profitability or liquidity?
2. What are the major components of Working Capital used by the SMEs to ensure better financial performance?
3. How does effective Working Capital influence the business performance?

Section B: Accounts receivable management influences Financial Performance

1. How do you manage accounts receivable in your business?
2. How do late payments from your customers affect your cash flow?
3. Have you implemented strategies to improve accounts receivable management?

Section C: Accounts payable Management influences financial performance

1. How do you manage accounts payable in your business to ensure better financial performance?
2. What are the typical payment terms with suppliers?
3. What tools do you use to manage accounts payable?

Section D: Cash Management and Financial Performance

1. How do you manage cash flow in your business?
2. How do you handle cash shortages or surpluses?
3. What tools do you use for cash flow management in your business?

Thank you for your participation!

Appendix 3: Introductory Letter



UGANDA CHRISTIAN UNIVERSITY, MBALE UNIVERSITY COLLEGE.
A Centre of Excellence in the Heart of Africa

BUSINESS DEPARTMENT

To

Dear Sir/Madam,

Re: Academic Research


Christian greetings!



We are honored to introduce to you Mr. Mrs./Miss. CHEBET TABITHA MARION
Of Registration Number; M22/MUC/BB7/009 pursuing a Masters' Degree/Postgraduate Diploma / Bachelor's Degree

He/ she is required to carry out an academic research on the topic Working Capital Management And Financial Performance of Small and Medium Enterprises in Mbale City and thereafter produce a well bound hard cover research report (MAROON) in color for undergraduate and three (BLACK) copies for Postgraduate students as a University requirement for the award of a degree/diploma in the academic discipline that he / she is pursuing.

We shall be grateful for the help you may offer to him or her accordingly.
Thank you.
Yours faithfully,


Henry Omache
Head of Business Department UCU-MUC



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