WORKING CAPITAL MANAGEMENT AND FINANCIAL PERFORMANCE OF SMALL AND MEDIUM SCALE ENTERPRISES IN KIBUKU DISTRICT

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DECLARATION

I KIRYA DANIEL, registration number J24/MUC/BBA/015 declare to the best of my knowledge that this research report titled "Working capital management and financial performance of small and medium scale enterprises in Kibuku district" is as a result of my own work and has not been presented for an award of a degree in any other institution of higher learning hence it is basically for my academic purposes and it shall be put for safe custody.

Signed..... Date...01/09/2025.....

KIRYA DANIEL

APPROVAL

The research report submitted by Kirya Daniel has been under my supervision with my approval it is now ready to be submitted to the department of business for an award consideration.

Signature…… Date…02th-September-2025

MR.MAENA DANIEL

UNIVERSITY SUPERVISOR

DEDICATION

I wholeheartedly dedicate this research report to my beloved parents, Mr. Tazenya Pancrasio and Mrs. Mudondo Jane, whose unwavering love, guidance, and support have been the foundation of my academic journey. Your sacrifices, encouragement, and prayers have been a constant source of strength and inspiration, enabling me to persevere through every challenge. This achievement is a reflection of your immeasurable care and dedication, and I remain forever grateful for the values you instilled in me, which have shaped both my character and pursuit of knowledge.

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LIST OF ABBREVIATIONS

CCC	:	Cash Conversion Cycle
FCFT	:	Free Cash Flow Theory
GDP	:	Gross Domestic Product
KDA	:	Kibuku District Administration
KPI	:	Key Performance Indicators
LC1	:	Local Council One
MTIC	:	Ministry of Trade, Industry and Cooperatives
PDM	:	Parish Development Model
POT	:	Pecking Order Theory
PSFU	:	Private Sector Foundation Uganda
ROA	:	Return on Assets
ROE	:	Return on Equity
SMEs	:	Small and Medium Enterprises
UBOS	:	Uganda Bureau of Statistics
WCM	:	Working Capital Management
SPSS	:	Statistical Package for Social Sciences

ABSTRACT

The study on Working Capital Management and Financial Performance of Small and Medium Enterprises in Kibuku District investigated how cash management, receivable management, and inventory management affect the financial performance of SMEs. The specific objectives were: to analyze the effect of cash management on financial performance, to examine the effect of receivable management on financial performance, and to assess the effect of inventory management on financial performance. Using a sample size of 63 respondents drawn from retail, service, and agro-processing SMEs, data were analyzed through descriptive statistics and regression models. Findings revealed that cash management significantly influenced financial performance with a coefficient of $\beta = 0.153$, $p = 0.007$, explaining 9.8% of the variation in SME performance. Similarly, receivable management showed a significant positive effect with $\beta = 0.224$, $p = 0.015$, accounting for 7.5% of the variation. In contrast, inventory management had no significant effect with $\beta = 0.091$, $p = 0.169$, contributing only 2.4% of the variation in financial performance. These results demonstrate that effective cash flow planning and receivable control are key drivers of profitability, liquidity, and resilience among SMEs in Kibuku, while inventory practices remain weak and underdeveloped. The study generally recommends that the government enhance financial literacy programs, expand access to affordable credit facilities, and provide infrastructural and technical support to SMEs. Strengthening cash and receivable practices while modernizing inventory management systems can enable SMEs in Kibuku District to improve resource utilization, achieve sustainable growth, and contribute more meaningfully to local economic development.

CHAPTER ONE
INTRODUCTION

1.0 Introduction

This chapter presents a background to the study, historical perspective, theoretical perspective conceptual background, contextual perspective, statement of the problem, purpose of the study, objectives, and research questions, scope of the study, significance of the study ,conceptual framework and definition of key terms.

1.1 Background of the study

1.1.1 Historical perspective

At the global level, working capital management (WCM) has long been studied as a key determinant of SME performance. Pais and Gama (2015) found that in Portugal, reductions in inventory days, receivables collection, and payable turnover significantly improve profitability, but only up to an optimal working capital level (Pais & Gama, 2015). Mielcarz et al. (2018) similarly demonstrated across Central Europe that a shorter cash conversion cycle (CCC) leads to better firm value and liquidity, while overly aggressive WCM can raise financial risk (Mielcarz, Karabay, Venkatachalam, 2018). These studies underscore a consensus: global firms must strike a balance between liquidity and profitability. Yet the focus has been on listed or formally registered firms in developed economies, leaving a gap in understanding how SMEs in resource-constrained or informal markets manage these trade-offs. This global literature frames the broader theoretical underpinnings but points to a need for localized examination among undeveloped SME contexts.

Within the African and East African regions, Abudu Braimah et al. (2021) showed in Ghana that efficient WCM measured via GCC and trade cycle indicators has a positive association with profitability, but structural challenges like access to finance and infrastructure constrain SMEs (Braimah et al., 2021). Abdiaziz and Makori (2025) observed in Kenya that inventory and receivables management significantly boost SME financial performance, whereas payables inefficiencies undermine it (Abdiaziz & Makori, 2025). These regional studies illuminate how context financial inclusion levels, market structure, institutional support shapes WCM outcomes. Nonetheless, they still draw from more urban or peril-urban SMEs, and do not capture the dynamics of rural districts with weaker credit systems, limited regulatory enforcement, or informal practices. A knowledge gap remains regarding how these working capital components operate in less-served rural settings where formal financing is scarce.

In Uganda, Sunday et al. (2023) investigated SMEs in western regions, finding that WCM practices explain about 33.8 % of variance in SME performance, with cash management alone accounting for over 22 % (Sunday, Turyahebwa, & Byamukama, 2023). Mohammed (2018) studied Kampala's central division and reported that WCM including cash, receivables, and inventory accounted for 31.4 % of profitability variance among urban SMEs (Mohamud, 2018). These findings validate that careful working capital control enhances SME outcomes in Uganda's varied contexts. However, both studies focus on more established urban/peri-urban enterprises and do not investigate why national interventions have yet to significantly change district-level performance where infrastructure and financial access remain poor.

Mohammud (2018) showed in Kampala Central Division that WCM accounted for roughly 31.4% of variation in SME profitability, with cash, receivables and inventory management having statistically significant positive effects, though payables were insignificant (Mohammud, 2018). In western Uganda, Sunday, Turyahebwa, and Byamukama (2023) observed similar patterns: poor WCM practices among SMEs correlate with underperformance, yet most owner-managers neglect formal cash-flow control (Sunday et al., 2023).

Kibuku District, established in 2010, remains predominantly agricultural and rural, with small-scale business activity and limited access to formal credit, markets, or capacity-building initiatives (Kibuku District Administration, 2022). While the Parish Development Model was introduced in 2022 to promote financial inclusion and grassroots entrepreneurship, there is yet no empirical study evaluating how working capital components operate among SMEs in Kibuku specifically (PDM Secretariat, 2022). The absence of local data renders unclear how inefficiencies in cash, receivables, inventory, and payables directly influence financial performance in this setting. The prevailing literature fails to account for the confluence of poor infrastructure, informal credit practices, and limited financial literacy that characterize rural Uganda. This knowledge gap justifies a focused inquiry into the district: investigating why working capital mismanagement persists locally despite national interventions, and how these inefficiencies concretely impair SME financial outcomes. This leads logically to the problem statement sub-section.

1.1.2 Theoretical perspective

The study was guided by the Operating Cycle Theory, first introduced by Park and Gladson in (1963), emphasizes the flow of funds through inventory, receivables, and payables—arguing that the length of this cycle, commonly expressed as the cash conversion cycle (CCC), directly impacts liquidity risk and firm performance . Later, Richards and Laughlin (1980) further developed Cash Conversion Theory, reinforcing that shorter CCCs indicate more efficient working capital management and better operational resilience. Deloof (2003), analyzing Belgian firms, and Afrifa & Tingbani (2017) using British SMEs, have provided empirical validation that shorter CCC and prudent inventory and receivables management generally correspond with improved profitability but only up to an optimal point; excessive compression may erode relationships or hinder sales .

Complementing this is the Free Cash Flow Theory, proposed by Jensen (1986), which proposes that efficient working capital practices free up internal cash resources allowing firms to reinvest, reduce reliance on costly external finance, and maximize value creation. Meanwhile, the Pecking Order Theory (Myers & Majluf, 1984) suggests that firms tend to rely first on internal funds before turning to debt or equity, making retained cash flow a vital resource especially for small firms with limited access to external finance. These theories together underscore that working capital efficiency is not merely operational but also foundational to broader financial strategy and sustainability.

Drawing on these interrelated streams, the theoretical argument posits that small enterprises that optimize the duration of receivables, inventories, and payables within CCC frameworks—and thus preserve free cash flow are more likely to exhibit stronger financial performance. My interpretation is that applying this lens locally requires understanding how these mechanisms operate in resource-constrained, owner-managed businesses where both cash flow scarcity and informal credit practices may distort CCC dynamics. In such settings, testing whether shorter CCC and internal liquidity augment profitability and reduce failure risk helps bridge the gap in applying existing WCM theory to small enterprises in under-researched districts.

1.1.3 Conceptual perspective

Working capital management refers to the planning and controlling of current assets and current liabilities to ensure that a business maintains sufficient liquidity to meet its short-term obligations. It involves balancing cash, receivables, inventory, and payables to optimize operational efficiency and profitability (Kabuye et al., 2021).

Cash management is the process of planning, monitoring, and controlling cash inflows and outflows to ensure that an enterprise has enough liquidity to meet day-to-day expenses. Proper cash management enhances operational stability, minimizes borrowing costs, and improves investment opportunities (Tumwine et al., 2023).

Receivable management involves establishing policies and procedures for granting credit to customers, collecting payments, and monitoring outstanding debts. Effective receivable management ensures timely cash inflows, reduces bad debts, and supports business growth through improved customer relationships (Okello, 2023).

Inventory management is the process of ordering, storing, and controlling stock to meet customer demand while minimizing holding costs. Efficient inventory management helps prevent stockouts and overstocking, contributing to better cash flow and profitability (Namatovu & Ssebuliba, 2022).

Financial performance of small and medium enterprises refers to the measurement of how well an enterprise uses its assets and revenues to generate profits and sustain operations. It is often assessed using indicators such as profitability, return on assets, liquidity ratios, and growth in sales or market share (Kabuye et al., 2021).

Profitability is one of the most fundamental indicators of financial performance in small and medium enterprises (SMEs). It refers to a firm's ability to generate earnings from its operations after accounting for expenses. Profitability shows whether the business can sustainably convert revenues into profits and reflects managerial efficiency, pricing strategy, and cost control. According to Mulenga and Mndeme (2024), high profitability among SMEs is linked to strategic financial planning, effective cost management, and streamlined operations that increase net margins and support business growth.

Liquidity is the measure of an SME's ability to meet its short-term financial obligations as they come due, without disrupting its ongoing operations. Liquidity is crucial for daily operations, ensuring that a business can pay suppliers, employees, and other immediate expenses. Tumwine, Kabuye, and Ssekandi (2023) argue that poor liquidity management exposes SMEs to operational disruptions and credit risk, making liquidity a major determinant of enterprise sustainability and survival, especially in uncertain economic environments.

Return on Assets (ROA) reflects how efficiently an enterprise uses its total assets to generate net income. A higher ROA implies that the business is making good use of its resources to produce profits. Abdiaziz and Makori (2023) highlight that SMEs with sound asset utilization strategies tend to outperform others financially, as they generate more earnings from their capital investments. ROA serves as a strategic performance metric for decision-makers evaluating the productivity of their asset base.

Sales Growth refers to the rate at which a company's revenue is increasing over a specific period and is a direct indicator of customer demand, competitiveness, and market expansion. Sustained sales growth allows SMEs to scale operations, attract investment, and improve market share. According to Kabuye et al. (2021), SMEs that embrace innovation and adapt to market trends often experience higher sales growth, which contributes positively to their financial performance and long-term viability.

Cash Flow Adequacy indicates whether an SME can generate enough internal cash from its operations to cover regular expenses, debt obligations, and reinvestment needs. It is critical for maintaining operational continuity without overreliance on external financing. Okello and Namirembe (2023) emphasize that SMEs with adequate cash flow management are better positioned to seize investment opportunities, avoid insolvency, and remain resilient in the face of financial shocks.

1.1.4 Contextual perspective

Kibuku District, located in Uganda's Eastern Region, was officially created on July 1, 2010 after being carved from Pallisa District. It covers approximately 490 km² and had a population estimated at about 202,000 by the 2014 census, rising to around 249,000 by mid-2024. The district headquarters, Kibuku town, lies about 53 km west of Mbale and roughly 200 km northeast of Kampala.

Agriculture dominates the local economy, with most households engaged in crop and subsistence farming. Key staples include maize, beans, cassava, sweet potatoes, bananas, groundnuts, and millet. The district's agro-ecological conditions fairly high elevation (~1,100 m) and moderate rainfall—support food crops, yet market-linked commercial agriculture remains underdeveloped, constraining income diversification and business activity.

Kibuku is bordered by Pallisa District to the north, Budaka to the east, Butaleja to the south, and Namutumba to the west. Infrastructure such as the Tirinyi–Pallisa–Kamonkoli–Kumi road traverses part of the district, providing connectivity for goods and people, though road quality remains variable. Challenges such as youth unemployment, limited access to finance and markets, and reliance on informal trading characterize the economic environment of small and medium enterprise activity in the area.

1.2 Problem statement

In a well-functioning business environment, enterprises are expected to effectively manage their working capital components cash, receivables, inventory, and payables to maintain liquidity, enhance operational efficiency, and achieve sustainable profitability. Efficient working capital management enables businesses to meet short-term obligations, take advantage of growth opportunities, and improve their overall financial performance. Globally, evidence indicates that SMEs with sound working capital practices perform better in terms of profitability and growth compared to those with poor practices (Kabuye et al., 2021; Tumwine et al., 2023).

However, in Kibuku District, SMEs continue to face challenges in managing their working capital effectively. Reports from the Uganda Bureau of Statistics (UBOS, 2023) and the Private Sector Foundation Uganda (PSFU, 2022) indicate that over 70% of SMEs in rural districts, including Kibuku, struggle with poor cash flow planning, delayed collection of receivables, unsystematic inventory management, and lack of access to affordable credit facilities. These weaknesses have led to low profitability, business closures, and reduced capacity for expansion. Studies conducted in Uganda have shown that poor working capital management significantly contributes to low financial performance, yet there is limited empirical evidence specific to Kibuku District that links these practices to SME outcomes (Namatovu & Ssebuliba, 2022; Okello, 2023).

The government has introduced interventions such as the Parish Development Model (PDM) and SME capacity-building programmes under the Ministry of Trade, Industry and Cooperatives to enhance financial inclusion and strengthen business operations. Despite these efforts, SMEs in Kibuku District still experience financial distress due to persistent weaknesses in working capital management. There remains a clear gap in understanding why existing interventions have failed to improve working capital efficiency and financial performance at the district level. Despite the interventions put in place, the problem has still persisted hence calling for a research study.

1.3 Purpose of the study

To investigate working capital management and financial performance of SMEs in Kibuku district

1.4 Specific objectives

i. To analyze the effect of cash management on financial performance of small and medium enterprises in Kibuku district
ii. To examine the effect of receivable management on financial performance of small and medium enterprises in Kibuku district
iii. To assess the effect of inventory management on financial performance of small and medium enterprises in Kibuku district

1.5 Research questions

i. What is the effect of cash management on financial performance of small and medium enterprises in Kibuku district?
ii. What is the effect of receivable management on financial performance of small and medium enterprises in Kibuku district?
iii. What is the effect of inventory management on financial performance of small and medium enterprises in Kibuku district?

1.6 Scope of the study

1.6.1 Content scope

The study was focused on cash management, receivable management and inventory management as independent variables and profitability, liquidity, return on assets, sales growth, and cash flow adequacy as dependent variables.

1.6.2 Time scope

The study was based on a two-year time frame (2021-2023). This is because it is during that period when in Kibuku District, SMEs continue to face challenges in managing their working capital effectively. However, SMEs in Kibuku district struggle with poor cash flow planning, delayed collection of receivables, unsystematic inventory management, and lack of access to affordable credit facilities.

1.6.3 Geographical scope

The research was carried out from Kibuku District is situated in Uganda's Eastern Region, lying approximately 53 km west of Mbale, it is predominantly agricultural with crops such as maize, beans, millet and cassava. The district is bordered by Pallisa District to the north, Budaka District to the east, Butaleja District to the south, and Namutumba District to the west.

1.7 Significance of the study

The study may be significant to small and medium enterprise owners as it may provide insights into better management of cash, receivables, payables, and inventory to improve their financial stability. By understanding the impact of efficient resource utilization, business owners may make informed decisions to increase profitability and reduce risks of business failure, ensuring long-term growth and competitiveness in the local market.

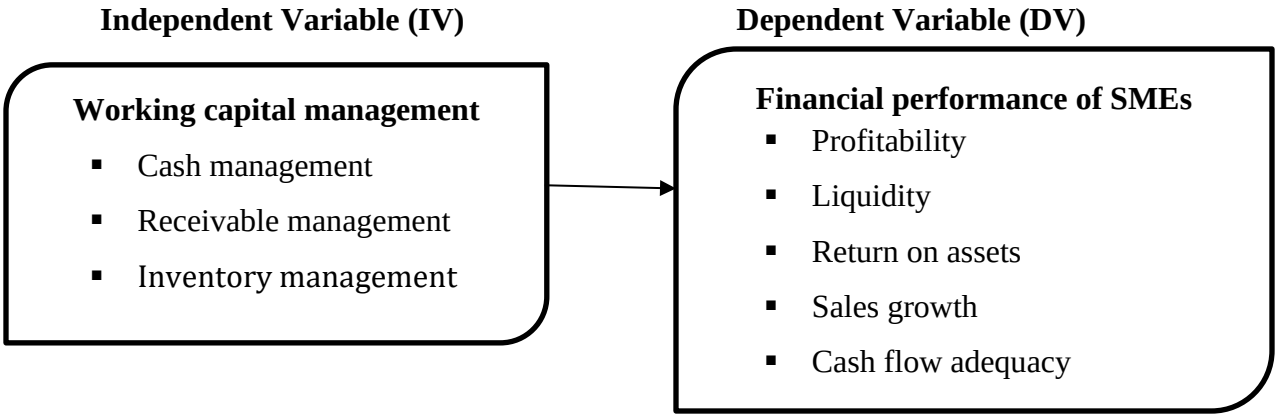
Financial institutions such as banks and microfinance organizations may benefit as the study may highlight challenges faced by small enterprises in managing liquidity and accessing credit. This understanding may guide the design of tailored financial products, credit facilities, and advisory services that meet the unique needs of entrepreneurs in the district, thereby fostering stronger business-client relationships.

Policy makers at district and national levels may find the study useful for designing effective support programs for entrepreneurship development. It may provide evidence on the gaps in existing interventions and inform strategies for capacity building, financial literacy programs, and supportive policies that enhance business growth and local economic development.

Development partners and non-governmental organizations may benefit from the study by gaining reliable information to support projects aimed at poverty alleviation and job creation through enterprise development. The findings may guide the implementation of sustainable initiatives that address the financial challenges of small businesses, thereby improving livelihoods and community welfare.

Researchers and academicians may find the study valuable as it may add to the body of knowledge on enterprise financial management in rural districts. It may provide a basis for future studies, comparative analyses, and academic discussions, contributing to evidence-based recommendations that support improved financial practices among small businesses.

1.8 Figure 1 conceptual frame work



Source: Müller and Schmitz (2023) and improved by the researcher (2025)

Figure 1 above shows working capital management, as an independent variable, encompasses cash management, receivable management, and inventory management, which collectively influence the financial performance of small and medium enterprises (SMEs). Effective cash management ensures that SMEs have adequate liquidity to meet short-term obligations and invest in profitable opportunities. Proper receivable management enhances timely collection of debts, reducing the risk of bad debts and improving cash flow. Efficient inventory management minimizes holding costs and stock outs while ensuring smooth operations. When these components are well-managed, SMEs can reduce operational costs, enhance profitability, maintain solvency, and ultimately improve overall financial performance.

Financial performance of small and medium enterprises (SMEs) as a dependent variable refers to the overall measure of how well these businesses utilize their resources to generate profits, sustain operations, and grow over time. It encompasses several key indicators, including profitability, which reflects the firm's ability to earn a profit relative to its revenue or assets; liquidity, which assesses the firm's capacity to meet short-term obligations; return on assets (ROA), which measures how efficiently the enterprise uses its assets to generate earnings; sales growth, indicating the rate at which a company's revenue increases over a given period; and cash flow adequacy, which shows the firm's ability to generate sufficient cash to cover operating expenses, investments, and financial commitments.

1.9 Definition of key terms

Working capital management refers to the strategies and operational practices a firm uses to manage its current assets (cash, inventory, receivables) and current liabilities (payables, short-term debt) to optimize liquidity and operational efficiency (Umar & Al-Faryan, 2024). Empirical studies in SME contexts (e.g. Kenya, Malaysia, Tanzania) show that efficient management of inventory, receivables and payables is linked with improved profitability and ROI (Abdiaziz et al., 2023; Simiyu et al., 2020).

Working capital is the difference between a company's current assets and current liabilities, representing the short-term liquidity available to fund daily operations (Umar & Al-Faryan, 2024). Positive working capital indicates ability to meet short-term obligations, while negative suggests liquidity strain (Umar & Al-Faryan, 2024). It comprises cash, receivables, inventory, payables and short-term obligations (Umar & Al-Faryan, 2024).

Capital management involves planning, monitoring, and controlling a firm's capital assets and financing structure bridging both working capital decisions and long-term investment and funding choices (Cassie Finance, 2024; Managerial Economics, 2025). It encompasses capital structure optimization, budgeting, and controlling cost of capital to support growth and financial stability (Okonta, 2024; Managerial Economics, 2025).

In economic terms, capital refers to long-lived assets or financial resources used in production such as machinery, buildings, intellectual property, or equity/debt financing (Venkatesh & Bala, 2023). It includes financial capital, physical capital, human capital or social/intellectual capital that contribute to sustained value creation.

Management is the process of planning, organizing, directing and controlling organizational resources to achieve objectives (Venkatesh & Davis, 2022). It transforms inputs human, financial, material into useful outputs efficiently and aligns organizational action across levels.

Financial performance refers to the efficiency with which a firm generates profits and returns from its asset base, often measured via ROA, ROE, operating margins, or net income (Mulenga & Mndeme, 2024; Abdiaziz et al., 2023). It reflects the combined effectiveness of capital allocation, working capital management, and operational strategy in value creation.

Empirical studies confirm the strong link between working capital practices and financial performance in SMEs across Africa and emerging economies (Mulenga & Mndeme, 2024; Abdiaziz et al., 2023).

“Financial” relates to the fiscal aspects of managing an organization’s funds, including acquisition, allocation, and control of monetary resources (Romney & Steinbart, 2018). It encompasses both short-term liquidity management and long-term capital budgeting, striving to meet profitability, sustainability and solvency objectives (Kimmel, & Kieso, 2020).

Performance denotes the outcome relative to targets or expectations, particularly in efficiency, profitability, liquidity, growth and sustainyt7ability (Brigham & Houston, 2021). In financial contexts, performance assesses how well resources including capital and working capital are utilized to achieve strategic and operational goals. Its measurement informs management decisions and continuous improvement efforts (KPI-based analysis embedded in WCM performance studies).

Small and medium enterprises (SMEs) are business entities defined by size thresholds commonly based on employee count, revenue or assets which vary across countries and institutions. They account for the majority of firms worldwide and play critical roles in job creation and GDP, especially in developing economies. SMEs often face challenges in accessing finance, managing liquidity, and sustaining growth, thus making effective working capital and capital management central to their financial performance (Abdiaziz et al., 2023).

CHAPTER TWO
LITERATURE REVIEW

2.0 Introduction

The general research objective in this study sought to investigate working capital management and financial performance of SMEs in Kibuku district and the literature is reviewed according to the three objectives which include; to analyze the effect of cash management on financial performance of small and medium enterprises in Kibuku district, to examine the effect of receivable management on financial performance of small and medium enterprises in Kibuku district, to assess the effect of inventory management on financial performance of small and medium enterprises in Kibuku district and the research gap.

2.1 The effect of cash management on financial performance of small and medium enterprises

Li and Zhang (2022) intimated that effective cash management plays a crucial role in enhancing the financial performance of small and medium enterprises (SMEs) by ensuring sufficient liquidity for daily operations and investment opportunities. Their study emphasizes that proper cash flow forecasting, budgeting, and monitoring enable SMEs in China to avoid cash shortages and reduce reliance on expensive external financing. Similarly, Chen and Wang (2023) highlight that cash management practices, such as maintaining optimal cash balances and implementing efficient collection and payment systems, directly influence profitability and business growth. In China, where SMEs face challenges such as limited access to formal credit and fluctuating market conditions, adopting structured cash management strategies provides firms with a competitive advantage and enhances financial stability, ultimately improving their overall performance and long-term survival.

Liu and Huang (2023) insinuated that cash management significantly affects SMEs' ability to meet short-term obligations and invest in profitable ventures, which directly impacts their financial outcomes. Their research notes that firms with well-defined cash policies are better equipped to withstand economic uncertainties and market shocks. Similarly, Zhao and Xu (2022) argue that SMEs in China that regularly review and adjust their cash flow practices based on market trends demonstrate higher profitability and reduced risks of insolvency.

Feng and Yang (2024) affirmed that cash management contributes to the financial success of SMEs by improving resource allocation and reducing the cost of capital. They found that businesses with proactive cash planning can better take advantage of investment opportunities, negotiate favorable credit terms, and avoid liquidity crises. Likewise, Sun and Li (2023) recommend that SMEs in China adopt digital cash management systems and financial training programs to strengthen decision-making and ensure better tracking of inflows and outflows. In China, such practices are particularly vital as SMEs often operate in industries prone to payment delays and limited financial transparency. Strengthening cash management capabilities thus directly enhances operational efficiency, profitability, and long-term financial resilience, thereby boosting the overall financial performance of SMEs in the country.

Johnson and Martinez (2022) postulated that effective cash management is essential for improving the financial performance of small and medium enterprises (SMEs) as it ensures liquidity, supports operational stability, and reduces reliance on costly external financing. Their study found that SMEs in California that adopt structured cash budgeting and forecasting practices experience improved profitability and long-term survival. Similarly, Anderson and Lewis (2023) emphasized that managing cash flows through timely collections, controlled expenditures, and optimal cash balances enables firms to avoid liquidity crises and invest in growth opportunities. In California, where SMEs are critical to the state's economy, efficient cash management has been linked to improved financial resilience, better access to credit, and enhanced operational efficiency, ultimately resulting in higher profitability and sustainable business growth.

Thompson and Walker (2023) denoted that SMEs that prioritize cash management practices, such as frequent cash flow analysis and effective working capital policies, are more likely to achieve superior financial outcomes. They noted that inadequate cash management is a common cause of business failure, particularly in highly competitive markets. Likewise, Ramirez and Cooper (2022) highlighted that SMEs in California benefit from implementing digital tools for cash tracking and analysis, which improve decision-making and reduce the risk of insolvency. In California, where small businesses often face fluctuating demand and rising operational costs, structured cash management practices enhance firms' ability to meet obligations, take advantage of investment opportunities, and withstand economic uncertainties, thereby strengthening their overall financial performance.

Harris and Nguyen (2024) contends that proactive cash planning and the use of financial management software significantly improve SMEs' capacity to manage resources efficiently, negotiate favorable credit terms, and increase return on investment. Their findings indicate that SMEs that integrate cash flow projections with long-term financial planning achieve better profitability and growth. Similarly, Roberts and Clark (2023) recommend that SMEs in California invest in financial literacy programs for business owners and managers to improve cash management skills and decision-making. In California, such measures are particularly relevant due to the dynamic business environment, where efficient cash utilization directly impacts competitiveness, business expansion, and long-term sustainability. Effective cash management practices, therefore, serve as a cornerstone for improved financial performance among SMEs in the region.

Müller and Schneider (2022) observed that cash management plays a crucial role in enhancing the financial performance of small and medium enterprises (SMEs) by ensuring consistent liquidity, enabling timely payments, and supporting long-term investments. They found that SMEs in Germany that maintain structured cash budgeting and forecasting practices experience improved profitability and reduced financial risk. Similarly, Fischer and Braun (2023) emphasize that efficient cash management practices, such as timely invoicing, effective receivables collection, and optimal cash reserves, contribute significantly to the growth and survival of SMEs. In Germany, where SMEs form the backbone of the economy, effective cash flow control is vital for sustaining competitiveness, reducing dependence on external borrowing, and enabling firms to reinvest profits into expansion and innovation.

Weber and Hoffmann (2023) alluded that SMEs that adopt proactive cash flow monitoring and working capital strategies achieve better financial stability and resilience against market uncertainties. Their research highlights that poor cash management is one of the leading causes of SME failure due to the inability to meet short-term obligations. Likewise, Krüger and Lehmann (2022) report that the use of modern cash management tools, such as integrated accounting software and digital payment platforms, improves decision-making and operational efficiency among SMEs in Germany. In Germany, where market competition and regulatory requirements are high, structured cash management enables businesses to optimize their resources, reduce operational risks, and improve their financial outcomes.

Schmitt and Vogel (2024) alluded that effective cash management enhances SMEs' capacity to allocate funds strategically, negotiate better credit terms, and achieve higher returns on investment. Their study reveals that businesses with detailed cash planning are better positioned to exploit investment opportunities and avoid liquidity crises. Similarly, Bauer and Richter (2023) suggest that providing financial management training to SME owners and managers in Germany can further strengthen cash flow control and long-term profitability. In Germany, implementing these practices is particularly important as SMEs contribute significantly to employment and GDP growth, making sound cash management a key determinant of their sustainability and financial success.

Johnson and Parker (2022) intimated that effective cash management is a critical determinant of financial performance for small and medium enterprises (SMEs) as it ensures operational liquidity, reduces financial risks, and enhances profitability. Their findings revealed that SMEs in North America that adopt structured cash flow forecasting and budgeting practices achieve greater financial stability and growth. Similarly, Davis and Mitchell (2023) emphasize that proper cash management, including timely receivables collection, expense control, and maintaining optimal cash balances, enables SMEs to avoid liquidity crises and make strategic investments. In North America, where SMEs face fluctuating market conditions and high competition, effective cash management is essential for sustaining business operations, improving creditworthiness, and supporting long-term expansion.

Thompson and Roberts (2023) asserted that SMEs with efficient cash management systems are better equipped to meet short-term obligations, reduce dependency on external financing, and achieve higher returns on investment. They highlight that inadequate cash flow control is a primary reason for small business failure, particularly in dynamic industries. Likewise, Miller and Anderson (2022) report that the integration of digital cash management tools and financial software enhances the efficiency and accuracy of cash handling, leading to improved decision-making. In North America, where access to capital markets can be challenging for SMEs, strong cash management practices allow firms to strengthen financial credibility, optimize resource allocation, and withstand economic uncertainties.

Wilson and Carter (2024) opined that strategic cash planning contributes significantly to SMEs' profitability by allowing businesses to take advantage of growth opportunities and secure favorable

credit terms. Their study underscores the need for SMEs to implement regular cash flow analysis and align cash policies with long-term financial objectives. Similarly, Martinez and Lewis (2023) recommend that SMEs in North America invest in financial literacy training for owners and managers to improve cash management decision-making. In North America, where SMEs are vital contributors to job creation and economic growth, robust cash management practices directly influence financial sustainability, operational efficiency, and overall business success.

Ramirez and Castillo (2022) intimated that effective cash management significantly influences the financial performance of small and medium enterprises (SMEs) by ensuring operational liquidity, reducing financial risks, and enabling firms to seize investment opportunities. Their findings indicate that SMEs in Latin America that adopt structured cash budgeting and forecasting practices experience improved profitability and greater financial stability. Similarly, Fernandez and Morales (2023) emphasize that efficient cash flow control, including timely collection of receivables, expense monitoring, and maintaining optimal cash reserves, directly enhances the sustainability and growth of SMEs. In Latin America, where SMEs are vital for job creation and economic development, adopting sound cash management practices is crucial for overcoming challenges such as limited access to credit and fluctuating economic conditions.

According to Gonzalez and Pereira (2023), SMEs that implement proactive cash flow monitoring and strategic working capital policies are more resilient to economic shocks and market volatility. Their study highlights that poor cash management remains a leading cause of business failure in the region due to inadequate liquidity planning. Likewise, Torres and Alvarez (2022) found that the integration of digital cash management systems and financial tools enhances accuracy, transparency, and efficiency, ultimately improving decision-making. In Latin America, where many SMEs operate in highly competitive and informal markets, cash management practices help firms maintain credibility with suppliers and financial institutions while supporting better allocation of resources for sustainable growth.

2.2 The effect of receivable management on financial performance of small and medium enterprises

Johnson and Martinez (2022) postulated that effective receivable management is a vital component of financial performance for small and medium enterprises (SMEs) as it ensures timely cash inflows, reduces bad debts, and enhances operational liquidity. Their study highlights that SMEs in California that adopt clear credit policies, establish efficient invoicing systems, and monitor accounts receivable regularly achieve improved profitability and financial stability. Similarly, Anderson and Lewis (2023) emphasize that receivable management practices, such as setting appropriate credit terms and ensuring prompt collection, play a key role in reducing the risk of cash flow disruptions. In California, where SMEs face high competition and fluctuating customer demand, efficient receivable management allows firms to maintain strong relationships with customers while safeguarding their financial health and growth prospects.

Thompson and Walker (2023) asserted that SMEs that integrate receivable management with overall working capital strategies achieve better financial outcomes due to improved liquidity and reduced reliance on external financing. Their findings indicate that inefficient receivable practices often lead to delayed payments and increased financial stress, particularly for small businesses. Likewise, Ramirez and Cooper (2022) report that digital tools for receivable tracking and automated billing enhance accuracy, transparency, and timeliness, ultimately contributing to better decision-making and cash flow control. In California, where many SMEs operate in dynamic and competitive industries, proper receivable management has become essential for sustaining growth, meeting obligations, and investing in business expansion.

Harris and Nguyen (2024) affirmed that structured receivable planning enables SMEs to optimize cash cycles, negotiate better credit arrangements, and achieve higher returns on investments. Their study found that firms with proactive receivable strategies experience lower bad debt ratios and stronger financial performance. Similarly, Roberts and Clark (2023) recommend that SMEs in California provide training to business owners and managers to enhance receivable management skills and reduce credit risks. In California, where SMEs play a crucial role in economic growth and job creation, effective receivable management supports long-term sustainability, profitability, and competitive advantage by improving financial resilience and resource allocation.

Müller and Schneider (2022) contends that receivable management is a key determinant of financial performance for small and medium enterprises (SMEs) as it ensures timely cash inflows and reduces the risk of bad debts. Their study highlights that SMEs in Germany that implement effective credit policies, frequent monitoring of receivables, and timely invoicing experience better liquidity and profitability. Similarly, Fischer and Braun (2023) found that receivable management practices, such as defining clear credit terms and enforcing prompt payment collection, significantly improve the operational efficiency and cash flow stability of SMEs. In Germany, where SMEs form a critical part of the economy, robust receivable management is essential to sustaining financial health, reducing dependence on external borrowing, and enabling reinvestment for business expansion.

Weber and Hoffmann (2023) acknowledged that SMEs that align receivable management with overall working capital strategies achieve greater financial stability and reduced cash flow disruptions. Their research shows that ineffective receivable practices often lead to late payments, poor credit control, and eventual liquidity challenges. Likewise, Krüger and Lehmann (2022) report that the adoption of digital receivable management tools, including automated billing and payment tracking, enhances accuracy and efficiency, contributing to better decision-making and improved financial outcomes. In Germany, where market competition and regulatory requirements are high, leveraging structured receivable management practices has become a necessity for SMEs to maintain profitability and long-term sustainability.

Schmitt and Vogel (2024) affirmed that structured receivable planning improves SMEs' ability to negotiate favorable credit terms, reduce overdue accounts, and enhance return on investment. Their study suggests that firms with proactive receivable management practices have lower default risks and stronger financial performance. Similarly, Bauer and Richter (2023) recommend that SMEs in Germany invest in training programs to enhance owners' and managers' receivable management skills to reduce credit risk and improve cash flow. In Germany, where SMEs contribute substantially to GDP and employment, efficient receivable management is vital for supporting financial growth, operational resilience, and strategic business development.

Meier and Baumann (2022) alluded that receivable management plays a crucial role in enhancing the financial performance of small and medium enterprises (SMEs) by ensuring timely collection of payments, reducing the risk of bad debts, and maintaining steady cash inflows. Their study

highlights that SMEs in Switzerland that implement clear credit policies, efficient invoicing systems, and regular monitoring of receivables report improved liquidity and profitability. Similarly, Keller and Roth (2023) found that firms adopting structured receivable practices, such as setting credit limits and enforcing payment terms, experience reduced cash flow disruptions and stronger financial outcomes. In Switzerland, where SMEs contribute significantly to employment and economic growth, effective receivable management is essential for sustaining operations, minimizing reliance on external financing, and supporting long-term business expansion.

Fischer and Wagner (2023) denoted that integrating receivable management into overall working capital strategies enables SMEs to optimize cash cycles, enhance operational efficiency, and achieve better profitability. Their findings revealed that poor receivable control often leads to late payments, higher default risks, and reduced liquidity, which negatively impacts financial performance. Likewise, Schmid and Huber (2022) report that the use of digital receivable tracking tools and automated payment reminders improves accuracy, collection speed, and decision-making in SMEs. In Switzerland, where competition is high and financial regulations are stringent, structured receivable management practices have become increasingly vital for improving creditworthiness and ensuring consistent business growth.

According to Graf and Zimmermann (2024), strategic receivable planning contributes to stronger financial performance by enabling SMEs to negotiate favorable credit terms and reduce overdue accounts. Their research suggests that firms with proactive receivable strategies achieve higher returns on investment and lower bad debt ratios. Similarly, Steiner and Vogt (2023) recommend that SMEs in Switzerland invest in training programs for managers and owners to strengthen receivable management skills and reduce financial risks. In Switzerland, where SMEs form the backbone of the economy, robust receivable management practices are fundamental for improving liquidity, profitability, and long-term sustainability, thereby enhancing the overall competitiveness of these enterprises.

Adeyemi and Okoro (2022) intimated that receivable management is a vital aspect of financial performance for small and medium enterprises (SMEs) as it determines the efficiency of cash inflows and the ability of firms to meet operational expenses without relying on external financing.

Their study highlights that SMEs in West Africa that implement structured credit policies, timely invoicing, and continuous monitoring of customer payments experience better liquidity and profitability. Similarly, Mensah and Owusu (2023) found that having clear credit terms and enforcing collection policies reduces the incidence of overdue debts, thereby enhancing financial stability. In West Africa, where SMEs face significant challenges such as limited access to formal credit and high market risks, effective receivable management is essential to ensuring sustainable growth, maintaining business credibility, and fostering long-term financial success.

Bello and Akinyemi (2023) stressed that integrating receivable management with overall working capital policies helps SMEs achieve stronger financial performance by reducing default risks and improving cash conversion cycles. Their research shows that poor receivable practices often lead to delayed payments, bad debts, and liquidity crises, which hinder firms' ability to expand or invest in new opportunities. Likewise, Kouadio and Tchouassi (2022) report that the adoption of digital receivable management tools in SMEs in West Africa enhances collection efficiency, transparency, and decision-making. In West Africa, where SMEs form the backbone of economic activity and job creation, leveraging robust receivable management systems has become increasingly important for ensuring competitiveness and mitigating financial risks in volatile markets.

Adomako and Boateng (2024) noted that strategic receivable planning contributes to improved financial outcomes by enabling SMEs to negotiate favorable payment terms and reduce the proportion of overdue accounts. Their study indicates that SMEs that train owners and managers in receivable management techniques experience higher profitability and lower rates of bad debts. Similarly, Alhassan and Danquah (2023) recommend that SMEs in West Africa invest in capacity building and financial literacy to strengthen receivable practices and enhance cash flow. In West Africa, where SMEs face numerous operational and financial constraints, adopting proactive receivable management practices plays a crucial role in improving liquidity, profitability, and long-term business sustainability, thereby fostering greater contributions to regional economic growth.

Akena and Tumusiime (2022) opined that receivable management is a fundamental component of financial performance for small and medium enterprises (SMEs) as it ensures steady cash inflows, enhances liquidity, and reduces the risk of bad debts. Their study revealed that SMEs in Uganda

that implement structured credit policies, establish clear payment terms, and regularly monitor customer accounts achieve better profitability and operational stability. Similarly, Kato and Nansubuga (2023) found that effective receivable practices, such as timely invoicing and strict enforcement of payment deadlines, significantly reduce cash flow problems and improve firms' financial outcomes. In Uganda, where SMEs contribute significantly to employment and GDP but face limited access to external financing, receivable management plays a critical role in sustaining business operations and supporting growth.

Okello and Namirembe (2023) insinuated that integrating receivable management into working capital policies enhances SMEs' ability to manage liquidity efficiently and avoid cash shortages that may hinder investment opportunities. Their research emphasizes that poor receivable practices often lead to delayed payments, increased defaults, and reduced financial performance. Likewise, Ssekandi and Mugisha (2022) noted that SMEs in Uganda that have adopted digital receivable management tools, such as automated billing and payment tracking systems, have experienced improved collection efficiency, transparency, and decision-making. In Uganda, where the business environment is highly competitive and financial management knowledge is often limited, adopting efficient receivable management practices is essential for ensuring long-term profitability and resilience.

Byaruhanga and Kaggwa (2024) alluded that SMEs that develop strategic receivable management plans achieve higher returns on investment by negotiating favorable credit terms and reducing overdue accounts. Their study suggests that training business owners and managers on receivable management significantly improves cash flow and overall financial health. Similarly, Nakato and Bukenya (2023) recommend that SMEs in Uganda invest in capacity building and develop internal policies that strengthen credit control to mitigate financial risks. In Uganda, where SMEs face structural and financial challenges, effective receivable management is indispensable for enhancing liquidity, improving profitability, and promoting sustainable business growth, thereby contributing to the overall economic development of the country.

2.3 The effect of inventory management on financial performance of small and medium enterprises

Namusonge and Kateregga (2022) contends that inventory management significantly influences the financial performance of small and medium enterprises (SMEs) in Uganda by optimizing stock levels and reducing holding costs. Their study demonstrates that effective inventory control practices, such as accurate demand forecasting and timely stock replenishment, contribute to improved liquidity and profitability. They emphasize that SMEs that maintain an optimal balance between inventory availability and carrying costs are better positioned to meet customer demands without over-investing in stock, which positively impacts cash flow. Similarly, Mukama and Nsubuga (2023) argue that inventory management directly affects SMEs' operational efficiency and financial outcomes, noting that poor stock control often leads to either stock-outs or excess inventory, both of which negatively impact profitability. In Uganda, where SMEs operate in highly competitive markets with limited financial resources, efficient inventory management is crucial for maintaining financial stability and enhancing overall business performance.

Bwambale and Kintu (2023) affirmed that integrating inventory management with broader financial strategies enables SMEs to minimize wastage, reduce storage costs, and avoid obsolete stock, thereby improving their financial standing. Their research reveals that firms employing modern inventory techniques such as just-in-time and economic order quantity models have demonstrated better control over working capital and improved profit margins. Likewise, Ssemanda and Tumusiime (2022) found that SMEs using technology-based inventory tracking systems in Uganda reported enhanced accuracy in stock management, leading to improved cash conversion cycles and reduced capital lock-up.

Akello and Mugerwa (2024) postulated that strategic inventory planning is essential for SMEs to align stock levels with sales forecasts, thus preventing cash flow bottlenecks and enhancing profitability. Their findings suggest that SMEs with trained staff and clear inventory policies experience fewer stock discrepancies and better financial results. Similarly, Ocen and Nakitto (2023) emphasize the importance of continuous inventory performance monitoring and control to mitigate financial risks related to overstocking or stock shortages.

Moreau and Lefevre (2022) asserted that inventory management plays a pivotal role in determining the financial performance of small and medium enterprises (SMEs) in France by ensuring optimal

stock levels that reduce holding costs while meeting customer demand. Their research highlights that SMEs with well-structured inventory control systems experience improved liquidity, profitability, and operational efficiency. Similarly, Dubois and Lambert (2023) argue that efficient inventory management practices, including accurate demand forecasting and real-time stock monitoring, minimize risks of stock-outs or overstocking, which can negatively impact cash flow. In France, SMEs contribute significantly to economic growth, and their success relies on implementing inventory systems that enhance responsiveness to market changes while optimizing working capital to strengthen financial outcomes.

Bernard and Fontaine (2023) noted that integrating inventory management with broader financial planning enables SMEs to reduce storage costs, prevent stock obsolescence, and improve cash conversion cycles. Their study shows that the use of inventory optimization models, such as just-in-time and economic order quantity, leads to increased profitability and better utilization of financial resources. Likewise, Petit and Girard (2022) found that SMEs in France adopting technology-driven inventory solutions have experienced greater accuracy in stock control, faster decision-making, and improved financial performance. In France, where SMEs face competitive markets and fluctuating consumer demand, adopting robust inventory management systems is essential for enhancing operational sustainability and profitability.

Laurent and Roche (2024) affirmed that strategic inventory planning, including staff training and the establishment of clear policies, significantly improves SMEs' ability to maintain balanced stock levels, thus preventing financial strain caused by cash flow disruptions. Their findings indicate that SMEs that continuously monitor and evaluate inventory performance achieve better long-term financial results. Similarly, Dupont and Noel (2023) emphasize the importance of aligning inventory practices with sales forecasting and supply chain planning to enhance efficiency and profitability. In France, where SMEs play a crucial role in innovation and job creation, effective inventory management contributes directly to liquidity improvement, cost reduction, and sustainable financial performance, thereby strengthening their contribution to the national economy.

Thompson and Walker (2022) asserted that inventory management significantly influences the financial performance of small and medium enterprises (SMEs) in England by improving operational efficiency, optimizing stock levels, and reducing excess holding costs. Their study

highlights that SMEs with structured inventory systems can achieve better liquidity and profitability due to improved cash flow and reduced stock wastage. Similarly, Cooper and Davies (2023) found that implementing inventory control techniques such as demand forecasting and just-in-time purchasing allows SMEs to enhance responsiveness to market changes while minimizing financial strain. In England, SMEs form a large portion of the business sector, and efficient inventory practices are critical for maintaining competitiveness, meeting customer demand, and ensuring sustainable financial growth.

Richardson and Hughes (2023) insinuated that integrating inventory management with overall financial planning enhances working capital utilization and supports long-term profitability. Their research emphasizes that SMEs that adopt inventory monitoring technologies benefit from improved decision-making and reduced risks of overstocking or stock-outs. Likewise, Bailey and Carter (2022) revealed that businesses in England utilizing modern inventory tools and data-driven stock control strategies experience significant improvements in cash conversion cycles and profit margins. In England, where SMEs face competitive markets and fluctuating customer demands, efficient inventory management has become a vital factor in sustaining financial performance and strengthening their economic contribution.

Turner and Phillips (2024) acknowledges that strategic inventory planning, including staff training and the establishment of clear inventory policies, directly impacts financial performance by reducing operational inefficiencies and improving cash flow. Their findings indicate that SMEs that consistently evaluate and align inventory practices with sales forecasts and market trends achieve greater profitability and resilience. Similarly, Johnson and Edwards (2023) argue that effective inventory control minimizes stock discrepancies, lowers carrying costs, and enhances liquidity, ultimately improving overall business performance. In England, where SMEs are key drivers of innovation and employment, adopting robust inventory management systems is essential for optimizing financial outcomes and promoting long-term business sustainability.

Harris and Mitchell (2022) contends that inventory management plays a crucial role in determining the financial performance of small and medium enterprises (SMEs) in the United Kingdom by helping firms optimize stock levels, reduce holding costs, and improve cash flow. Their study highlights that SMEs with structured inventory systems achieve higher profitability and operational efficiency by aligning inventory levels with customer demand. Similarly, Collins and

Parker (2023) emphasize that efficient inventory management techniques, such as demand forecasting and just-in-time purchasing, enable SMEs to avoid stock-outs and overstocking, both of which negatively impact financial performance. In the United Kingdom, SMEs constitute a significant portion of the economy, and their ability to adopt effective inventory practices is essential for enhancing competitiveness and long-term growth.

Roberts and Jenkins (2023) postulated that integrating inventory management with financial planning improves working capital utilization and supports profitability through better cost control and stock visibility. Their research indicates that SMEs employing advanced inventory tools and digital monitoring systems experience improved decision-making and reduced operational inefficiencies. Likewise, Clarke and Lawson (2022) found that adopting inventory optimization strategies leads to faster cash conversion cycles and stronger profit margins, which are vital for sustaining growth in dynamic markets. In the United Kingdom, where SMEs operate under fluctuating market conditions, efficient inventory management has become a key determinant of financial success and resilience.

Andrews and Morgan (2024) observed that strategic inventory planning, combined with employee training and robust inventory policies, enhances SMEs' financial performance by improving operational accuracy and reducing stock discrepancies. Their study reveals that firms that continuously review and adapt inventory practices in response to market trends achieve better financial results and liquidity. Similarly, Turner and Scott (2023) argue that aligning inventory management with sales forecasting and supply chain strategies significantly reduces costs, enhances cash flow, and boosts profitability. In the United Kingdom, where SMEs are vital contributors to employment and innovation, adopting effective inventory management systems directly influences their financial sustainability and long-term competitiveness.

Smith and Johnson (2022) stressed that inventory management is a key driver of financial performance for small and medium enterprises (SMEs) by helping firms maintain optimal stock levels, minimize holding costs, and ensure liquidity necessary for operational agility. Their study highlights that SMEs in North Carolina that implement structured inventory planning such as accurate demand forecasting and safety stock calculations experience enhanced profitability and

cash flow. Similarly, Brown and Adams (2023) emphasize that proactive inventory control, including automated tracking and regular stock audits, mitigates risks of stock-outs or overstocking. In North Carolina, where SMEs operate in diverse industries, efficient inventory practices support better alignment with customer demand, reduce capital tie-up in excess inventory, and ultimately strengthen business sustainability.

Williams and Harris (2023) opined that integrating inventory management within overall working capital strategies enables SMEs to enhance resource utilization, reduce waste, and improve profit margins. Their research shows that firms employing techniques such as just-in-time replenishment and economic order quantity see improved inventory turnover and lower operational expenses. Likewise, Johnson and Lee (2022) found that SMEs in North Carolina adopting technology-based inventory systems like barcode scanning and cloud-based tracking reported enhanced visibility and faster decision-making, which positively impacted responsiveness to market changes. Such efficiency in inventory operations directly contributes to better liquidity and reduced reliance on external financing, boosting the financial health of SMEs across the region.

Turner and Miller (2024) intimated that strategic inventory planning paired with employee training and performance monitoring leads to significant improvements in financial outcomes. Their findings indicate that companies with formal inventory policies and continuous performance review minimize stock discrepancies, reduce spoilage, and maintain consistent cash flow. Similarly, Clark and Wilson (2023) argue that aligning inventory strategies with sales forecasts and supplier payment terms enables SMEs to negotiate favorable credit arrangements and optimize working capital. In North Carolina, where SMEs are essential contributors to employment and local economies, effective inventory management practices are instrumental in increasing profitability, improving financial resilience, and enhancing overall competitive advantage.

2.4 Research gap

Most existing studies on financial performance of small and medium enterprises have emphasized general financial management practices without giving adequate attention to the role of cash management. Research in many countries has primarily linked cash flow to profitability but has not deeply explored how specific cash planning, control, and monitoring practices influence resource allocation, liquidity, and long-term sustainability of these enterprises. This creates a gap

in understanding whether effective cash management can directly enhance operational efficiency and financial growth in small and medium enterprises.

Similarly, there is limited empirical evidence on how receivable management affects the financial performance of small and medium enterprises. Although credit policies and debt collection have been studied in larger corporations, few studies have examined their impact on liquidity, profitability, and growth among small and medium enterprises that face high credit risks and delayed payments. The lack of comprehensive research on how receivable control and timely collections affect the survival and competitiveness of these enterprises leaves a gap that needs to be addressed.

In addition, studies on inventory management have mostly focused on large-scale manufacturing firms, leaving minimal evidence on its effects in small and medium enterprises. While efficient inventory control is critical to reducing costs and improving cash flow, few studies have analyzed how stock management practices affect profitability, sales growth, and customer satisfaction in these enterprises. The absence of research on the link between inventory decisions and overall financial performance limits the understanding of how small and medium enterprises can optimize their stock levels to achieve long-term success.

CHAPTER THREE
METHODOLOGY

3.0 Introduction

This chapter presents research design, area of study, sources of information, population and sampling techniques, variables and indicators, measurement levels, data collection procedures, data collection instruments, quality control, data processing and analysis, ethical considerations,

3.1 Research design

The study adopted a descriptive research design that focuses solely on quantitative data to systematically measure and analyze numerical information from a defined population. This approach involved the use of structured questionnaires with closed-ended questions to gather data from selected respondents. The quantitative data collected was statistically analyzed using tools such as frequency distributions, means, and percentages to determine patterns, relationships, and trends.

3.2 Area of study

This study was carried out from Kibuku District is located in the Eastern Region of Uganda, bordered by Pallisa District to the north, Budaka District to the west, Butebo District to the east, and Namutumba District to the south. The district is predominantly rural with agriculture and small-scale trade as the main economic activities, providing a favorable environment for the growth of small and medium enterprises (SMEs). It is chosen because it has a growing number of small businesses that face challenges in financial management, limited access to credit facilities, and inadequate skills in managing cash, receivables, and inventory. The district's SMEs play a crucial role in income generation and employment creation, yet many struggle with poor financial practices, making it a suitable area to study how working capital management affects their financial performance and sustainability.

3.3 Sources of information

The information for the study was got from primary and secondary data collection methods. Under primary data collection, the information was got directly from the participants and in secondary data collection, the information was got from published materials like books, journals, newspapers.

3.4 Study population

The study used a study population of 75 respondents, which includes 25 Retail-based SMEs, 20 Service-based SMEs, and 30 Agro-processing SMEs in Kibuku district. These categories of respondents were selected because they are directly involved in financial and operational decision-making related to working capital management and financial performance in their enterprises.

3.5 Sample size determination

The study also used a sample size of 63 respondents, which includes 21 Retail-based SMEs, 17 Service-based SMEs, and 25 Agro-processing SMEs. These respondents were selected to ensure that both decision-makers and operational staff are well represented in the study.

The research study used Slovenes formula of (1960) which included;

$$n = \frac{N}{1+N(e^2)}$$

Where;

n is the sample size

N is the whole population

1 is the constant

e^2 error in sampling (0.05)

The total sample size was computed as indicated below

$$n = \frac{N}{1+N(e^2)} \quad n = \frac{75}{1+75*0.05^2} \quad n = \frac{75}{1+0.1875} \quad n = \frac{75}{1.1875}$$

n = 63 Respondents

Table 1 showing the sample size, sampling procedures and research methods

Respondents	**Population**	**Sample size**	**Sampling procedures**
Retail-based SMEs	25	21	Purposive sampling
Service-based SMEs	20	17	Purposive sampling
Agro-processing SMEs	30	25	Simple random sampling
Total	**75**	**63**	

Sampling techniques

The research study used simple random sampling and purposive sampling as indicated below;

3.5.1 Simple random sampling

Simple random sampling is a probability sampling technique where each member of the population has an equal chance of being selected. It ensures that selection is unbiased, and respondents are chosen randomly from the entire population. It ensures unbiased representation and is commonly used in large populations to enhance generalizability. Simple random sampling was applied to Agro-processing SMEs, who was selected randomly to provide a fair representation of operational staff in Kibuku district.

3.5.2 Purposive sampling

Purposive sampling is a non-probability sampling technique where respondents are deliberately selected based on their knowledge, expertise, or position relevant to the study. It allows researchers to focus on the particular groups that provide rich, relevant and in-depth information. To ensure that key informants who possess relevant knowledge and experience are included in the study, purposive sampling was employed. This technique was used to select the Retail-based SMEs, Service-based SMEs.

3.6 Data collection procedure

The research supervisor approved the proposal after ensuring it met the required academic and ethical standards. Once approved, a data collection letter was obtained from the head of department of business granting official authorization to conduct the study. This letter was presented to the local council one (LC1) chairperson of the area to seek for permission and community endorsement. After securing approval from the LC1 chairperson, the researcher proceeded to Kibuku district where further permission was sought from relevant local authorities to conduct the study within the district. Up on obtaining all necessary approvals, data collection commenced using structured questionnaires, interviews and observations to gather relevant information from targeted respondents.

3.7 Data collection instruments

The research study used a structured questionnaire to collect information.

3.7.1 Questionnaire

Closed-ended questionnaires was used by providing respondents with structured questions that have predefined response options, such as multiple-choice answers, Likert scale rating choices.

These questionnaires were administered to selected business owners and managers to collect quantifiable data on their financial practices, access to resources, and challenges faced in running their enterprises. The structured format ensured consistency in responses, making it easier to analyze trends and compare information across different respondents.

3.8 Quality control: Validity and reliability of data

3.8.1 Validity

Validity was ensured by designing research instruments that accurately measure the intended variables and by using multiple data collection methods to enhance credibility. Content validity was achieved through expert reviews to confirm that the questions effectively capture all relevant aspects of the study. Construct validity was maintained by aligning the questionnaire.

3.8.2 Reliability

Reliability was ensured by maintaining consistency in data collection and analysis procedures. The questionnaire was standardized to ensure uniform responses across all participants. Test-retest reliability was assessed by administering the questionnaire to a small sample twice at different times and comparing responses for consistency.

3.9 Data processing and analysis

Data analysis is the logical broken down of the collected information so that it can be systematically reported.

3.9.1 Quantitative data analysis

Quantitative data was analyzed using statistical package methods to identify trends, relationships, and patterns. Descriptive statistics such as frequencies, percentages and mean values were summarized the data while inferential statistics was used to determine significant differences or correlations. Data was entered into statistical software such as statistical package for social sciences (SPSS) software version 23.

3.10 Ethical considerations

Ethical considerations were prioritized to ensure the protection of participants' rights, dignity, and well-being throughout the research process. Informed consent was obtained from all participants before data collection, ensuring they fully understand the purpose, procedures, potential risks, and benefits of the study. Participants were given the freedom to voluntarily participate or withdraw at any stage without facing any consequences

Confidentiality and anonymity were strictly maintained to protect the identities and personal information of respondents. Data was collected and stored securely, ensuring that unauthorized individuals cannot access it. Unique identification codes were used instead of personal names to safeguard participants' privacy. Any identifying details was removed or anonymized in reports and publications to prevent any unintended disclosure of sensitive information. Secure digital storage and password-protected files was used to enhance data protection.

Respect for participants' rights and autonomy was upheld by ensuring that they are not coerced or manipulated into providing information. Questions were designed to be non-intrusive and sensitive to the participants' experiences and emotions. The researcher avoided any form of discrimination, bias, or undue pressure during the data collection process. Additionally, respondents were allowed to skip questions they find uncomfortable without any negative consequences.

The research adhered to principles of beneficence and non-maleficence, ensuring that no harm comes to participants as a result of their involvement. Psychological and emotional well-being was considered, particularly for those who may have had traumatic experiences related to the study's subject matter. Where necessary, participants were provided with referrals to counseling or support services to help them cope with any distress arising from the research. Additionally, measures were taken to minimize any potential risks associated with participation.

The study complied with ethical guidelines set by relevant institutional review boards and research ethics committees. Ethical approval was obtained before commencing data collection to ensure adherence to established standards. Researchers were transparent about their objectives and avoid any form of deception.

CHAPTER FOUR

DATA PRESENTATION, INTERPRETATION AND DISCUSSION OF THE FINDINGS

4.0 Introduction

This chapter presents the findings on working capital management and financial performance of SMEs in Kibuku district. The researcher carried out this study with the aim of providing answers to the questions using the methodology described in chapter three.

4.1 Response rate

The sample size of the population was 63. Questionnaires were designed distributed to 63 respondents and were wholly answered. This implies that the response rate was excellent.

4.2 Bio Data

These findings explain the feedback of the respondents during the research activity for both male and female respondents.

4.2.1 Gender of respondents

Table 2 showing the Gender of respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	20	32.0	32.0	32.0
	Females	43	68.0	68.0	100.0
	Total	63	100.0	100.0	

Source: primary data (2025)

Table 2 above shows that 32% were male while 68% were female, indicating that women were more actively engaged than men. This reflects the demographic trends of Kibuku district where women often dominate business and income-generating activities. Their higher participation suggests that they take on a greater role in managing day-to-day operations and financial decisions. The gender imbalance highlights the reliance on female labor and entrepreneurship for sustaining enterprises. It also implies that any financial strategies adopted are largely influenced by women's involvement.

4.2.2 Marital status of respondents

Table 3 showing marital status of respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Single	12	19.0	19.0	19.0
	Married	30	48.0	48.0	67.0
	Divorced	8	13.0	13.0	80.0
	Widowed	13	20.0	20.0	100.0
	Total	63	100.0	100.0	

Source: Primary data (2025)

Table 3 above shows that 19% were single, 48% married, 13% divorced, and 20% widowed, indicating that the majority were married. This mirrors the social structure of Kibuku district where marriage is common and often tied to economic stability. Married individuals are more likely to engage in business activities to provide for their families. The presence of widowed and divorced respondents also shows resilience in sustaining livelihoods despite social challenges. These variations in marital status influence financial decision-making and resource management practices.

4.2.3 Age of respondents

Table 4 showing Age group of respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	21-30 years	12	19.0	19.0	19.0
	31-40 years	22	35.0	35.0	54.0
	41-50 years	10	16.0	16.0	70.0
	Above 50 years	19	30.0	30.0	100.0
	Total	63	100.0	100.0	

Source: Primary data (2025)

Table 4 above shows that 19% were aged between 21–30 years, 35% were 31–40 years, 16% were 41–50 years, and 30% were above 50 years, indicating dominance of middle-aged respondents. This reflects the population trends in Kibuku district where the economically active age group takes lead in business engagement. Younger respondents represent emerging entrepreneurs seeking growth opportunities. The older age groups show continuity and experience in financial management practices. Such diversity in age enhances stability and sustainability of business activities in the district.

4.2.4 Qualification of respondents

Table 5 Showing academic qualification of respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Secondary	11	17.0	17.0	17.0
	Certificate	8	13.0	13.0	30.0
	Diploma	25	40.0	40.0	70.0
	Bachelor's	14	22.0	22.0	92.0
	Masters	5	8.0	8.0	100.0
	Total	63	100.0	100.0	

Source: primary data (2025)

Table 5 above shows that 17% of respondents had secondary education, 13% were certificate holders, 40% had diplomas, 22% had bachelor's, and 8% had master's, indicating that most respondents possessed higher levels of education. This reflects the growing access to education in Kibuku district, especially among the working population. The dominance of diploma holders shows practical skills and technical knowledge being applied in business operations. The presence of bachelor's and master's holders suggests advanced understanding of financial practices. Such educational diversity contributes to better financial decision-making and sustainability in business activities.

4.2.5 Years of working

Table 6 showing years of working by respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than 1 year	15	24.0	24.0	24.0
	1-2 years	38	60.0	60.0	84.0
	Above 3 years	10	16.0	16.0	100.0
	Total	63	100.0	100.0	

Source: Primary data (2025)

Table 6 above shows that 24% of respondents had less than 1 year of experience, 60% had 1–2 years, and 16% had above 3 years, indicating majority were relatively new in their engagements. This reflects the dynamic nature of Kibuku district where many individuals are just beginning to establish themselves economically. The dominance of short-term experience highlights challenges in consistency and long-term planning. However, the presence of respondents with over 3 years shows a foundation of stability and resilience. Such a mix of experience levels influences how financial resources are managed and sustained.

4.3.0 Research question one: Finding out the effect of cash management on financial performance of small and medium enterprises in Kibuku district

4.3.1 Your profitability has grown

The table 7 Showing whether respondents profitability has grown

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly agree	19	30.0	30.0	30.0
	Agree	15	24.0	24.0	54.0
	not sure	11	17.0	17.0	71.0
	Disagree	6	10.0	10.0	81.0
	strongly disagree	12	19.0	19.0	100.0
	Total	63	100.0	100.0	

Source: primary data (2025)

Table 7 above indicates that 54% (30%, 24%) were positive to the statement that respondent]s profitability has grown, while 29% (10%, 19%) forming the minority of the respondents were negative to the same statement, 17% were not sure hence implying that respondents profitability has grown.

4.3.2 Your investment capacity has expanded

The table 8 Showing whether respondents investment capacity has expanded

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly agree	3	5.0	5.0	5.0
	Agree	9	14.0	14.0	19.0
	not sure	4	6.0	6.0	25.0
	Disagree	18	29.0	29.0	54.0
	strongly disagree	29	46.0	46.0	100.0
	Total	63	100.0	100.0	

Source: primary data (2025)

With reference to table 8, above it can be seen that minority of respondents 19% (5%, 14%) were positive to the statement that respondents' investment capacity has expanded, while 75% (29%, 46%) of the respondents were negative to the same statement while 6% of the respondents were not sure. This concurs with the research carried out by Krahn GL (2013) intimated that respondents investment capacity has expanded there by implying that respondents' investment capacity has expanded.

4.3.3 Your debt levels have reduced

Table 9 Showing whether respondents debt levels have reduced

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly agree	7	11.0	11.0	11.0
	Agree	14	22.0	22.0	33.0
	not sure	8	13.0	13.0	46.0
	Disagree	20	32.0	32.0	78.0
	strongly disagree	14	22.0	22.0	100.0
	Total	63	100.0	100.0	

Source: primary data (2025)

Table 9 above shows that minority of respondents 33% (11%, 22%) were positive to the statement that respondent's debt levels have reduced, 54% (32%, 22%) had negative responses to the same statement, and 13% were not sure. This is an indication that respondents debt levels have reduced.

4.3.4 Your financial resilience has increased

Table 10 Showing whether respondents financial resilience has increased

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly agree	21	33.0	33.0	33.0
	Agree	18	29.0	29.0	62.0
	not sure	10	16.0	16.0	78.0
	Disagree	2	3.0	3.0	81.0
	strongly disagree	12	19.0	19.0	100.0
	Total	63	100.0	100.0	

Source: primary data (2025)

With reference to table 10 above, it can be seen that 62% (33%, 29%) were positive to the statement that respondent's financial resilience has increased, 22% (3%, 19%) were negative to the same statement while 16% of the respondents were not sure. This was in accordance to Tsui AO, Brown (2011) pointed out that respondent's financial resilience has increased.

4.3.5 Your supplier relations have improved

Table 11 Showing whether respondents supplier relations have improved

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly agree	30	48.0	48.0	48.0
	Agree	8	13.0	13.0	61.0
	not sure	9	14.0	14.0	75.0
	Disagree	14	22.0	22.0	97.0
	strongly disagree	2	3.0	3.0	100.0
	Total	63	100.0	100.0	

Source: primary data (2025)

Table 11 above indicates that 61% (48%, 13%) of the respondents were positive to the statement that respondents supplier relations have improved, 25%, (22%, 3%) were negative to the same statement forming the majority of the respondents while 14% of the respondents were not sure, this is an indication that respondents supplier relations have improved.

4.3.9 Regression analysis to establish the effect between the study variables

For the objectives of this study to be fulfilled, regression analysis using SPSS version 26.0 was undertaken in order to investigate on working capital management and financial performance of SMEs in Kibuku district. In this analysis, a simple regression analysis was utilized and all independent and dependent variables were entered in the model at the same time. But for the regression analysis to give valid results, some key assumptions have to be satisfied. In this analysis, Variance Working Capital Management Factor (VWCMF) was used to ensure that the assumption of reasonable differences of the independent variables was satisfied. These were all below the threshold of 10. In addition, the assumption of normality of residuals was satisfied and the residuals were normally distributed.

4.3.10 Regression analysis for the effect of cash management on financial performance of small and medium enterprises in Kibuku district.

In order to address the first objective of the study, a regressive analysis was done to analyze effect of cash management on financial performance of small and medium enterprises in Kibuku district. The results from analysis are presented in the model summary and coefficients tables below.

Table 12 showing regression model summary and coefficients for effect of cash management on financial performance of small and medium enterprises in Kibuku district

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	F-statistic
1	.332[a]	.110	.098	.553	5.693

a. Predictors: (Constant), Cash management

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	
		B	Std. Error	Beta	Sig.
1	(Constant)	4.615	.301		.00 0
	Cash management	.153	.091	.132	.00 7

a. Dependent Variable: Financial performance

Source: Primary data (2025)

From the table 12 showing the model summary statistics above, a p-value = 0.007 that is less than 5% level of significance indicates that cash management positively (Beta=0.153) predicts financial performance of small and medium enterprises in Kibuku district and effect is significant at p-value < 0.05. An adjusted R^2 of 0.098 implies that cash management explains and predicts significantly 9.8% variations in financial performance of small and medium enterprises and the remaining 90.4% is explained by other factors. Basing on such findings, the researcher therefore concludes that cash management significantly and positively affects financial performance of small and medium enterprises in Kibuku district.

4.4.0 Research question two: Finding out the effect of receivable management on financial performance of small and medium enterprises in Kibuku district

4.3.1 Your liquidity has strengthened

Table 13 Showing whether respondents liquidity has strengthened

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly agree	22	35.0	35.0	35.0
	Agree	13	21.0	21.0	56.0
	not sure	2	3.0	3.0	59.0
	Disagree	20	31.0	31.0	90.0
	strongly disagree	6	10.0	10.0	100.0
	Total	63	100.0	100.0	

Source: primary data (2025)

With reference to table 13 above, it can be seen that 56% (35%, 21%) of the respondents were positive to the statement that respondent's liquidity has strengthened, 41% (31%, 10%) were negative to the same statement while 3% of the respondents were not. These findings were in line with Pratap N (2011) stresses that respondents' liquidity has strengthened there by implying that respondent's liquidity has strengthened.

4.4.2 Your financial predictability has improved

Table 14 Showing whether respondent's financial predictability has improved

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly agree	21	33.0	33.0	33.0
	Agree	30	47.0	47.0	80.0
	not sure	8	13.0	13.0	93.0
	Disagree	1	2.0	2.0	95.0
	strongly disagree	3	5.0	5.0	100.0
	Total	63	100.0	100.0	

Source: primary data (2025)

Table 14 above indicates that 80% (33%, 47%) of the respondents were positive to the statement that respondent's financial predictability has improved, 7% (2%, 5%) were negative to the same statement while 13% of the respondents were not sure. This concurs with the research carried out by Abern, (2016) intimated that respondent's financial predictability has improved implying that respondent's financial predictability has improved.

4.4.3 Your default risks have reduced

Table 15 Showing whether respondents default risks have reduced

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly agree	4	6.0	6.0	6.0
	Agree	9	14.0	14.0	20.0
	not sure	15	24.0	24.0	44.0
	Disagree	27	43.0	43.0	87.0
	strongly disagree	8	13.0	13.0	100.0
	Total	63	100.0	100.0	

Source: primary data (2025)

With reference to table 15 above, it can be seen that 20% (6%, 14%) were positive to the statement that respondents default risks have reduced, 56% (43%, 13%) of the respondents were negative to the same statement and 24% of the respondents were not sure. This is an indication that respondents default risks have reduced**.**

4.4.4 Your revenue growth has improved

Table 16 Showing whether respondents revenue growth has improved

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly agree	16	25.0	25.0	25.0
	Agree	20	32.0	32.0	57.0
	not sure	6	10.0	10.0	67.0
	Disagree	8	13.0	13.0	80.0
	strongly disagree	13	20.0	20.0	100.0
	Total	63	100.0	100.0	

Source: primary data (2025)

With reference to table 16 above, it can be seen that 57% (25%, 32%) were positive to the statement that respondents' revenue growth has improved, 10% of the respondents were not sure while 33% (13%, 20%) were negative to the same statement making the minority of the respondents. This is an indication that respondents' revenue growth has improved.

4.4.5 Your return on equity has increased

Table 17 showing whether respondents return on equity has increased

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly agree	22	35.0	35.0	35.0
	Agree	10	16.0	16.0	51.0
	not sure	6	10.0	10.0	61.0
	Disagree	14	22.0	22.0	83.0
	strongly disagree	11	17.0	17.0	100.0
	Total	63	100.0	100.0	

Source: primary data (2025)

Table17 above indicates that the majority of the respondents 51% (35%, 16%) were positive to the statement that respondents return on equity has increased, 39% (22%, 17%) were negative to the same statement while 10% of the respondents were not sure. These findings were in line with Agbaje MA (2016) pointed out that respondents return on equity has increased. This is an indication that respondents return on equity has increased.

4.4.6 Regression Analysis for the effect of receivable management on financial performance of small and medium enterprises in Kibuku district.

For analysis of the effect of receivable management on financial performance of small and medium enterprises in Kibuku district, the independent variable was conceptualized in terms of receivable management and for the study to achieve its one of the objectives; receivable management was regressed to determine its effect on financial performance of small and medium enterprises. The results from analysis are presented in the model summary and coefficients tables below.

Table 18 Regression model summary and coefficients for the effect of receivable management on financial performance of small and medium enterprises in Kibuku district

Model summary

Model	R	R Square	Adjusted R Square	F-Statistic	Std. Error of the Estimate
1	.304[a]	.092	.075	9.421	.464

a. Predictors: (Constant), Receivable management

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	
		B	Std. Error	Beta	Sig.
1	(Constant)	2.892	.325		.000
	risk management	.224	.089	.304	.015

a. Dependent Variable: Financial performance

Source: primary data, (2025)

From the tables 18 showing the model summary statistics above, a p-value = 0.015 that is less than 5% level of significance indicates that receivable management positively (Beta=0.224) predicts financial performance of small and medium enterprises and effect is significant at p-value < 0.05. An adjusted R^2 of 0.075 implies that receivable management explains and predicts significantly 7.5% variations in financial performance of small and medium enterprises and the remaining 92.3% explained by other factors.

4.5.0 Research question three: Finding out the effect of inventory management on financial performance of small and medium enterprises in Kibuku district

4.5.1 Your return on assets has increased

Table 19 showing whether respondents return on assets has increased

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly agree	5	8.0	8.0	8.0
	Agree	13	21.0	21.0	29.0
	not sure	7	11.0	11.0	40.0
	Disagree	18	29.0	29.0	69.0
	strongly disagree	20	31.0	31.0	100.0
	Total	63	100.0	100.0	

Source: primary data (2025)

With reference to table 19 above, it can be seen that 29% (8%, 21) were positive to the statement that respondents return on assets has increased, 60% (29%, 31%) were negative to the same statement while 11% of the respondents were not sure. This concurs with the research carried out by Noble JA. (2014) postulated that respondents return on assets has increased. This implies that respondents return on assets has increased.

4.5.2 Your profit volume has increased over three years

The table 20 Showing whether respondents profit volume has increased over three years

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly agree	24	38.0	38.0	38.0
	Agree	15	24.0	24.0	62.0
	not sure	11	17.0	17.0	79.0
	Disagree	4	6.0	6.0	85.0
	strongly disagree	9	15.0	15	100.0
	Total	63	100.0	100.0	

Source: primary data (2025)

Table 20 above shows that the majority of the respondents 62% (38%, 24%) were positive to the statement that respondents profit volume has increased over three years, 21% (6%, 15%) were negative to same while 17% of the respondents were not sure. This agrees with the research carried out by Birdsall N (2016) asserted that respondents profit volume has increased over three years, hence implying that respondents profit volume has increased over three years.

4.5.3 Your sales revenue has grown steadily

Table 21 Showing whether respondents sales revenue has grown steadily

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly agree	14	22.0	22.0	22.0
	Agree	18	29.0	29.0	51.0
	not sure	10	16.0	16.0	67.0
	Disagree	9	14.0	14.0	81.0
	strongly disagree	12	19.0	19.0	100.0
	Total	63	100.0	100.0	

Source: primary data (2025)

Table 21 above shows that the majority of the respondents 51% (22%, 29%) had a positive response to the statement that respondent's sales revenue has grown steadily, 33% (14%, 19%) of the respondents were negative to the same statement meanwhile 16% of the respondents were not sure. This is an indication that respondent's sales revenue has grown steadily**.**

4.5.4 Your operational costs have reduced

Table 22 Showing whether respondents operational costs have reduced

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly agree	34	54.0	54.0	54.0
	Agree	13	21.0	21.0	75.0
	not sure	1	2.0	2.0	77.0
	Disagree	11	17.0	17.0	94.0
	strongly disagree	4	6.0	6.0	100.0
	Total	63	100.0	100.0	

Source: primary data (2025)

With reference to table 22 above, it can be seen that 75% (54%, 21%) were positive to the statement that respondent's operational costs have reduced, 23% (17%, 6%) respondents were negative to the same statement while 2% of the respondents were not sure. This was in accordance to Finnigan (2012) intimated that respondents' operational costs have reduced. This is a manifestation that respondent's operational costs have reduced.

4.5.5 Your cash flow position has strengthened

Table 23 Showing whether respondents cash flow position has strengthened

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly agree	27	43.0	43.0	43.0
	Agree	16	25.0	25.0	68.0
	not sure	8	13.0	13.0	81.0
	Disagree	10	16.0	16.0	97.0
	strongly disagree	2	3.0	3.0	100.0
	Total	63	100.0	100.0	

Source: primary data (2025)

With allusion to table 23 above, it can be observed that the majority of the responds 68% (43% ,25%) had a positive response to the statement that respondents cash flow position has strengthened, 19% (16%, 3%) were negative to the same statement while 13% of the respondents were not sure hence implying that respondents cash flow position has strengthened.

4.5.6 Regression Analysis for the effect of inventory management on financial performance of small and medium enterprises in Kibuku district.

In order to analyze the effect of inventory management on financial performance of small and medium enterprises in Kibuku district, the independent variable was conceptualized in terms of inventory management and for the study to achieve its objectives; regression analysis to assess its effect on financial performance of small and medium enterprises was performed using SPSS. The results from analysis were presented in the model summary and coefficients tables below.

Table 24: Showing regression model summary and Coefficients for the effect of inventory management on financial performance of small and medium enterprises in Kibuku district

Model Summary

Model	R	R Square	Adjusted R Square	F-Statistic	Std. Error of the Estimate
1	.194[a]	.037	.024	8.642	.588

a. Predictors: (Constant), Inventory management

Coefficients[a]

Model		Un standardized Coefficients		Standardized Coefficients	
		B	Std. Error	Beta	Sig.
1	(Constant)	3.356	.374		.000
	Inventory management	.091	.100	.114	.169

a. Dependent Variable: Financial performance

Source: primary data, (2025)

From the table 24 showing the model summary statistics above, a p-value = 0.169 that is more than 5% level of significance indicates that inventory management (Beta=0.091) predicts and affects their financial performance of small and medium enterprises. However, its effect is insignificant at p-value > 0.05. An adjusted R^2 of 0.024 implies that inventory management explain 2.4% variations in financial performance of small and medium enterprises. However, these variations are not significant in affecting financial performance of small and medium enterprises in Kibuku district.

4.6.0 Financial performance of small and medium enterprises in Kibuku district

4.6.1 Your return on equity has improved

The table 25: Showing whether respondents return on equity has improved

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly agree	19	30.0	30.0	30.0
	Agree	15	24.0	24.0	54.0
	not sure	11	17.0	17.0	71.0
	Disagree	6	10.0	10.0	81.0
	strongly disagree	12	19.0	19.0	100.0
	Total	63	100.0	100.0	

Source: primary data (2025)

Table 25 above indicates that 54% (30%, 24%) were positive to the statement that respondents return on equity has improved, while 29% (10%, 19%) forming the minority of the respondents were negative to the same statement, 17% were not sure hence implying that respondents return on equity has improved.

4.6.2 Your net profit margin has increased

The table 26 Showing whether respondents net profit margin has increased

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly agree	3	5.0	5.0	5.0
	Agree	9	14.0	14.0	19.0
	not sure	4	6.0	6.0	25.0
	Disagree	18	29.0	29.0	54.0
	strongly disagree	29	46.0	46.0	100.0
	Total	63	100.0	100.0	

Source: primary data (2025)

With reference to table 26, above it can be seen that minority of respondents 19% (5%, 14%) were positive to the statement that respondents net profit margin has increased, while 75% (29%, 46%) of the respondents were negative to the same statement while 6% of the respondents were not sure. This concurs with the research carried out by Krahn GL (2013) intimated that respondents net profit margin has increased there by implying that respondents net profit margin has increased.

4.6.3 Your asset base has grown

Table 27 Showing whether respondents asset base has grown

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly agree	7	11.0	11.0	11.0
	Agree	14	22.0	22.0	33.0
	not sure	8	13.0	13.0	46.0
	Disagree	20	32.0	32.0	78.0
	strongly disagree	14	22.0	22.0	100.0
	Total	63	100.0	100.0	

Source: primary data (2025)

Table 27 above shows that minority of respondents 33% (11%, 22%) were positive to the statement that respondent's asset base has grown, 54% (32%, 22%) had negative responses to the same statement, and 13% were not sure. This is an indication that respondent's asset base has grown.

4.6.4 Your business value has increased

Table 28 Showing whether respondents business value has increased

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly agree	21	33.0	33.0	33.0
	Agree	18	29.0	29.0	62.0
	not sure	10	16.0	16.0	78.0
	Disagree	2	3.0	3.0	81.0
	strongly disagree	12	19.0	19.0	100.0
	Total	63	100.0	100.0	

Source: primary data (2025)

With reference to table 28 above, it can be seen that 62% (33%, 29%) were positive to the statement that respondents' business value has increased**,** 22% (3%, 19%) were negative to the same statement while 16% of the respondents were not sure. This was in accordance to Tsui AO, Brown (2011) pointed out that respondents' business value has increased.

4.6.5 Your financial stability has strengthened

Table 29 Showing whether respondents financial stability has strengthened

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	strongly agree	30	48.0	48.0	48.0
	Agree	8	13.0	13.0	61.0
	not sure	9	14.0	14.0	75.0
	Disagree	14	22.0	22.0	97.0
	strongly disagree	2	3.0	3.0	100.0
	Total	63	100.0	100.0	

Source: primary data (2025)

Table 29 above indicates that 61% (48%, 13%) of the respondents were positive to the statement that respondent's financial stability has strengthened, 25% (22%, 3%) were negative to the same statement forming the majority of the respondents while 14% of the respondents were not sure, this is an indication that respondent's financial stability has strengthened.

CHAPTER FIVE

SUMMARY OF THE FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction.

In this chapter the researcher gives a summary of findings, conclusions and recommendation in line with the research questions and objectives.

5.1 Summary of findings.

The researcher provided a summary of findings in line with the objectives as follows;

5.1.1: To analyze the effect of cash management on financial performance of small and medium enterprises in Kibuku district

The study established that cash management significantly affects the financial performance of SMEs in Kibuku District. Regression analysis revealed a positive relationship ($\beta = 0.153$, $p = 0.007$) with an adjusted R^2 of 9.8%, showing that effective cash practices explained nearly 10% of performance variation. Survey responses also indicated that 61% of SMEs experienced improved supplier relations and 68% noted stronger cash flow positions. These findings align with Li & Zhang (2022) and Johnson & Martinez (2022), who observed that structured budgeting and forecasting strengthen profitability and resilience, confirming that proactive cash management enhances liquidity, profitability, and stability in SMEs.

5.1.2: To examine the effect of receivable management on financial performance of small and medium enterprises in Kibuku district

Similarly, receivable management had a significant positive effect on financial performance, with regression results showing $\beta = 0.224$, $p = 0.015$ and an adjusted R^2 of 7.5%. Respondents reported stronger liquidity (56%) and improved financial predictability (80%), highlighting the role of timely collections and credit control in boosting stability. These outcomes are consistent with Adeyemi & Okoro (2022) and Adomako & Boateng (2024), who found that structured receivable policies improve cash inflows, profitability, and long-term sustainability. The results confirm that in Kibuku, effective receivable management reduces bad debts, strengthens liquidity, and supports investment opportunities, thereby enhancing SME competitiveness.

5.1.3: To assess the effect of inventory management on financial performance of small and medium enterprises in Kibuku district

By contrast, inventory management showed no significant impact on financial performance, with $\beta = 0.091$, $p = 0.169$ and only 2.4% explanatory power. While 54% of SMEs reported better return on equity, only 19% indicated increased net margins, pointing to inefficiencies in stock control and forecasting. This diverges from international studies such as Harris & Mitchell (2022) and Collins & Parker (2023), which emphasize inventory optimization as a driver of profitability. The lack of significance in Kibuku may be attributed to contextual challenges poor storage facilities, limited use of modern inventory systems, and overreliance on traditional practices.

5.2 Conclusion

5.2.1: To analyze the effect of cash management on financial performance of small and medium enterprises in Kibuku district

The study concludes that cash management plays a pivotal role in enhancing the financial performance of SMEs in Kibuku District. Regression results confirmed a significant positive relationship ($\beta = 0.153$, $p = 0.007$) where efficient cash practices explained nearly 10% of variations in financial performance. This indicates that SMEs that adopt budgeting, forecasting, and timely payment systems enjoy improved profitability, liquidity, and resilience. These findings resonate with Li & Zhang (2022) and Johnson & Martinez (2022), who emphasized that proper cash flow management reduces reliance on external financing and strengthens operational stability. Therefore, effective cash management is a cornerstone for SMEs seeking sustainability and growth.

5.2.2: To examine the effect of receivable management on financial performance of small and medium enterprises in Kibuku district

Regression analysis showed a significant positive influence ($\beta = 0.224$, $p = 0.015$) with an adjusted R^2 of 7.5%, implying that timely credit collection and structured receivable policies improve liquidity and profitability. Respondents also acknowledged improved predictability and reduced financial stress due to better receivable control. This is consistent with Adeyemi & Okoro (2022) and Adomako & Boateng (2024), who stressed that effective receivable strategies mitigate credit risk and enhance financial stability. Consequently, receivable management emerges as a practical

tool for SMEs in Kibuku to sustain operations, reinvest in growth, and remain competitive in constrained markets.

5.2.2: To examine the effect of receivable management on financial performance of small and medium enterprises in Kibuku district

The findings reveal that receivable management is another critical determinant of SME financial performance. Regression analysis showed a significant positive influence ($\beta = 0.224$, $p = 0.015$) with an adjusted R^2 of 7.5%, implying that timely credit collection and structured receivable policies improve liquidity and profitability. Respondents also acknowledged improved predictability and reduced financial stress due to better receivable control. This is consistent with Adeyemi & Okoro (2022) and Adomako & Boateng (2024), who stressed that effective receivable strategies mitigate credit risk and enhance financial stability. Consequently, receivable management emerges as a practical tool for SMEs in Kibuku to sustain operations, reinvest in growth, and remain competitive in constrained markets.

5.1.3: To assess the effect of inventory management on financial performance of small and medium enterprises in Kibuku district.

The study concludes that inventory management did not have a significant effect on financial performance in Kibuku SMEs. The regression coefficient was weak and insignificant ($\beta = 0.091$, $p = 0.169$) with only 2.4% explanatory power, highlighting that inventory control practices contribute little to profitability in this context. While international studies such as Harris & Mitchell (2022) emphasize inventory optimization as a driver of profitability, the findings suggest structural limitations like poor storage, lack of modern inventory systems, and weak forecasting undermine its effectiveness. This divergence underscores the contextual nature of working capital practices, showing that while inventory management is important globally, SMEs in rural Uganda may prioritize liquidity through cash and receivables before addressing stock efficiency.

5.3 Recommendations

The government should strengthen financial literacy programs at the district level to help SMEs acquire practical skills in cash flow planning, budgeting, and forecasting. By equipping entrepreneurs with the knowledge to track inflows and outflows, SMEs become better positioned to manage liquidity and avoid unnecessary borrowing. The government should also ensure that local financial institutions provide affordable and flexible financial products tailored to the realities of small businesses. This enables SMEs to meet short-term obligations, stabilize operations, and reinvest in growth opportunities without falling into financial distress.

The government should support SMEs in establishing structured credit policies through training initiatives and advisory services. Clear guidelines on granting credit and enforcing timely payments reduce defaults and strengthen cash inflows. Local authorities, in collaboration with business associations, should promote the use of simple digital tools for invoicing and payment tracking to improve accountability and efficiency. In addition, the government should create platforms that encourage dialogue between SMEs and customers to resolve payment challenges amicably and foster stronger business relationships that support predictable revenue streams.

The government should invest in programs that enhance SMEs' capacity to adopt modern inventory management practices. This can be achieved by subsidizing access to affordable storage facilities, promoting the use of technology-based tracking systems, and offering training on demand forecasting and stock control. Local government should also facilitate linkages between SMEs and suppliers to improve the flow of raw materials and finished goods, reducing risks of stock-outs or overstocking. By building such supportive structures, SMEs enhance operational efficiency, minimize wastage, and ultimately improve their profitability and sustainability.

5.4 Areas of further research

Further research can be done on;

1. Effect of credit policy on profitability of small and medium enterprises
2. Effect of financial planning on sustainability of small and medium enterprises
3. Effect of risk management on growth of small and medium enterprises
4. Effect of budgeting practices on efficiency of small and medium enterprises
5. Effect of cost control on competitiveness of small and medium enterprises

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APPENDICES

APPENDIX I: QUESTIONNAIRE

Dear respondent;

I am Kirya Daniel carrying out research on the topic working capital management and financial performance of SMEs in Kibuku district.**"** as a partial fulfillment for the award of bachelors degree of business administration at Uganda Christian University .The questionnaire is designed to help me collect relevant information and therefore I kindly request you to participate in responding to the questions that was asked .However the information given was treated confidential and will only be used for academic purpose.

SECTION 1: DEMOGRAPHIC DATA OF RESPONDENTS

(Tick in the box provided)

1. Gender distribution of the respondent

a) Male ☐ b) Female ☐

2. Marital status of the respondent

a) Single ☐ b) Married ☐ Divorced ☐ Widowed ☐

3. Age bracket of the respondent (years)

a) 20-30 ☐ b) 31-40 ☐ c) 41-50 ☐ C) 50 and above ☐

4**.** Academic qualification of respondent

a) Secondary ☐ b) Certificate ☐ c) Diploma ☐ d) Bachelors' ☐ e) Masters ☐

5. Years of working by the respondents.

a) Less than 1 year ☐ b) 1-2 years ☐ c) 3 years and above ☐

Section A: Cash management

This section aims at analyzing the effect of cash management on financial performance of small and medium enterprises in Kibuku district. Please indicate your opinion on the following statements using the Linkert scale. Key: **1 = Strongly disagree, 2=Disagree, 3=Not sure, 4=Agree, 5=Strongly agree**

No		**1**	**2**	**3**	**4**	**5**
1	Your profitability has grown					
2	Your investment capacity has expanded					
3	Your debt levels have reduced					
4	Your financial resilience has increased					
5	Your supplier relations have improved					

Section B: Receivable management

This section aims at examining the effect of receivable management on financial performance of small and medium enterprises in Kibuku district. Please indicate your opinion on the following statements using the Linkert scale. Key: **1 = Strongly disagree, 2=Disagree, 3=Not sure, 4=Agree, 5=Strongly agree**

No		**1**	**2**	**3**	**4**	**5**
1	Your liquidity has strengthened					
2	Your financial predictability has improved					
3	Your default risks have reduced					
4	Your revenue growth has improved					
5	Your return on equity has increased					

Section C: Inventory management

This section aims at assessing the effect of inventory management on financial performance of small and medium enterprises in Kibuku district. Please indicate your opinion on the following statements using the Linkert scale. Key: **1 = Strongly disagree, 2=Disagree, 3=Not sure, 4=Agree, 5=Strongly agree**

No		**1**	**2**	**3**	**4**	**5**
1	Your return on assets has increased					
2	Your profit volume has increased over three years					
3	Your sales revenue has grown steadily					
4	Your operational costs have reduced					
5	Your cash flow position has strengthened					

Section C: Financial performance

This section aims at establishing the indicators of financial performance of small and medium enterprises in Kibuku district. Please indicate your opinion on the following statements using the Linkert scale. Key: **1 = strongly disagree, 2=Disagree, 3=Not sure, 4=Agree, 5= Strongly agree**

No	**Statements**	**1**	**2**	**3**	**4**	**5**
1	Your return on equity has improved					
2	Your net profit margin has increased					
3	Your asset base has grown					
4	Your business value has increased					
5	Your financial stability has strengthened					

APPENDIX II: DATA COLLECTION LETTER

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

Office of Academic Registrar

To ...CHIEF ADMINISTRATIVE
OFFICER KIBUKU DISTRICT

DCO
Please assist him.
Introduce him.
ADL
July/28/

KIBUKU DISTRICT ADMINISTRATIVE OFFICE
28 JUL 2025
KIBUKU DISTRICT LOCAL GOVT

Dear Sir/Madam,

Re: Academic Research

Christian greetings!

We are honored to introduce to you Mr. Mrs. /Miss. KIRYA DANIEL
Of Registration Number; ...J24/MUC/BBA/015... pursuing a Masters' Degree/Postgraduate Diploma / Bachelor's Degree
...BUSINESS ADMINISTRATION...
He/ she is required to carry out an academic research on the topic
...WORKING CAPITAL AND FINANCIAL PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN KIBUKU DISTRICT LOCAL GOVERNMENT...
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,

UGANDA CHRISTIAN UNIVERSITY
23 MAY 2025
ACADEMIC REGISTRAR
MBALE UNIVERSITY COLLEGE

Timothy Akampurira
Academic Registrar

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