

**THE EFFECT OF WORKING CAPITAL MANAGEMENT ON FINANCIAL
PERFORMANCE OF MEDIUM-SCALE BUSINESSES IN LIRA CITY
A CASE OF MASS PLUMBING AND TILES HARDWARE, LIRA CITY
WEST ALONG OLWOL ROAD**

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**UGANDA CHRISTIAN
UNIVERSITY**

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DECLARATION

I, EDOLA SAMUEL, declares that this Research report titled: “The Effect of Working Capital Management on Financial Performance of Medium-Scale Businesses in Lira City: A Case of Mass Plumbing and Tiles Hardware,” is my original piece of work. It has never been presented anywhere in any institution of higher learning for any academic award.

Signed :  ----- :

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Date: 16/08/2024

APPROVAL

This research report has been done under my supervision and is hereby submitted for examination with my approval.

Signed :  Date : 

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(SUPERVISOR)

DEDICATION

In the name of the merciful and compassionate God. This report is dedicated to my parents, who have provided me with both material and moral support since I was a small child, and to my entire family, whose efforts to see to it that I succeed academically have demonstrated the highest degree of affection and concern. Many thanks for it

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For inspiration, fortitude, and vision to finish the course, as well as for insight and understanding, I give thanks to God. I will always be indebted to Him. I want to thank my dissertation advisor for everything. This study has been possible with the attentive supervision. In addition, lecturers of Uganda Christian University especially those from School of Business are appreciated for their timely feedback. Their academic support enabled work-in-progress from the proposal to this dissertation.

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TABLE OF CONTENTS

Declaration.....	i
Approval	ii
Dedication.....	iii
Acknowledgements.....	iv
Table of Content.....	v
List of Tables.....	ix
List of Figures.....	ix
Acronyms	x
Abstract	xi
CHAPTER ONE.....	1
INTRODUCTION	1
1.0 Introduction.....	1
1.1 Background.....	1
1.2 Problem Statement.....	2
1.3 Research Objectives.....	3
1.3.1 Main Objective.....	3
1.3.2 Specific Objectives	3
1.4 Study Hypotheses.....	3
1.5 Scope and Limitations.....	4
1.5.1 Subject Scope.....	4
1.5.2 Geographical Scope	4
1.5.3 Time Scope	5

1.6 Importance and Relevance of the Study	5
1.7 Conceptual Framework.....	7
CHAPTER TWO	8
LITERATURE REVIEW	8
2.0 Introduction.....	8
2.1 Definition of Key Concepts	8
2.2 Theories on Working Capital Management.....	11
2.2.1 Trade-off Theory.....	11
2.2.2 Pecking Order Theory.....	11
2.3 Empirical review.....	12
2.3.1 Working Capital Management Practices Adopted by Medium Scale Businesses..	12
2.3.2 Working Capital Management Practices and Financial Performance of Medium Scale Businesses	14
2.3.3 Inventory management and financial performance of Medium-Scale Businesses .	17
2.3.4 Receivables management strategies and financial performance of Medium-Scale Businesses.....	19
2.3.5 Cash management practices and financial performance.....	20
2.4 Financial performance Indicators	21
2.5 Summary of literature review	23
CHAPTER THREE	24
METHODOLOGY	24
3.0 Introduction.....	24

3.1 Research Design.....	24
3.2 Target Population.....	24
3.3 Sample Size Determination.....	25
3.4 Sampling Technique	25
3.5 Data Sources	26
3.5.1 Primary Data	26
3.5.2 Secondary Data	26
3.6 Procedures for Data Collection.....	26
3.7 Data Collection Methods	27
3.7.1 The Questionnaire Survey.....	27
3.8 Data Collection Instruments	27
3.8.1 Questionnaire	28
3.9 Quality/Error Control.....	28
3.9.1 Accuracy	28
3.9.2 Reliability.....	29
3.10 Data Presentation and Analysis	30
3.11 Measurement Levels	31
3.12 Ethical Considerations	31
CHAPTER FOUR.....	33
PRESENTATION, ANALYSIS AND INTERPRETATION OF RESULTS	33
4.0 Introduction.....	33

4.1 Response Rate	33
4.2 Demographic Characteristics of Respondent	34
4.3 The Financial Performance of Medium-Scale Businesses (Dependence Variable) ..	35
4.4 Inventory Management Practices and the Financial Performance of Medium-Scale Businesses	37
4.5 Receivables Management Strategies and the Financial Performance of Medium-Scale Businesses	41
4.6 Cash Management Practices and the Financial Performance of Medium-Scale Businesses	44
4.7.2 Regression analysis	46
CHAPTER FIVE	48
DISCUSSIONS, CONCLUSIONS AND RECOMMEDATIONS	48
5.0 Introduction	48
5.1 Discussion of Findings	48
5.1.1 Relationship between Inventory Management Practices and the Financial Performance of Medium-Scale Businesses	48
5.1.2 Relationship between Receivables Management Strategies and the Financial Performance of Medium-Scale Businesses	50
5.1.3 Relationship between Cash Management Practices and the Financial Performance of Medium-Scale Businesses	51
5.2 Conclusions	52
5.3 Recommendations	53

5.4 Limitations of the Study.....	55
REFERENCES	57
APPENDICES	60
APPENDIX A.....	60
APPENDIX B: CONSENT FORM FOR PARTICIPANTS	61
APPENDIX III: QUESTIONNAIRE	63

LIST OF TABLES

Table 3.1: Reliability indices for the questionnaire.....	29
Table 4.1: Summary of study response rates.....	32
Table 4.2: Demographic Characteristics of respondents.....	33
Table 4.3: Showing the Financial Performance of Medium-Scale Businesses.....	35
Table 4.4: Relationship between Inventory Management Practices and the Financial Performance of Medium-Scale Businesses.....	37
Table 4.5 Correlation between inventory management practices and the financial performance of medium-scale businesses.....	38
Table 4.6: A single regression analysis.....	39
Table 4.7: Relationship between receivables management strategies and the financial performance of medium-scale businesses.....	40
Table 4.8 Correlation between receivables management strategies and the financial performance of medium-scale businesses.....	41
Table 4.9: A single regression between receivables management strategies and the financial performance of medium-scale businesses.....	42
Table 4.10: Relationship between cash management practices and the financial performance of medium-scale businesses.....	44
Table 4.11: Correlation between cash management practices and the financial performance of medium-scale businesses.....	45
Table 4.12: A single regression between cash management practices and the financial performance of medium-scale businesses.....	4

LIST OF FIGURE

Fig 1: Conceptual framework	6
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LIST OF ACRONYMS

CCC	Cash Conversion Cycle
COGS	Cost Of Goods Sold
CVI	Content Validity Index
DV	Dependent Variable
ECM	Efficiency of Cash Management
ERM	Efficiency of Receivables Management
EIM	Efficiency of Inventory Management
IV	Independent Variable
ROA	Return on Assets
ROE	Return On Equity
SMEs	Small and Medium-Sized Enterprises
SPSS	Statistical Package for Social Scientists
WCM	Working Capital Management

ABSTRACT

This study aimed at establishing the effect of working capital management on financial performance of Medium-Scale Businesses in Lira City, with reference to Mass Plumbing and Tiles Hardware, Lira City West along Olwol Road. The objectives included; to establish the relationship between inventory management practices and the financial performance of medium-scale businesses in Lira City, to analyze the relationship between receivables management strategies and the financial performance of medium-scale businesses in Lira City, and to examine the relationship between cash management practices and the financial performance of medium-scale businesses in Lira City. The study employed a correlational research design. The study population comprised of Managing Directors, Finance Manager, Accounts Officers, Inventory Managers, Operational staff, and Cashiers; totaling to 24 respondents. These were simple randomly selected. Data was collected using questionnaires. Quantitatively data was collected by use of frequencies and percentages as well as inferential analysis. The results of objective one indicated that there is a significant relationship between inventory management practices and the financial performance of medium-scale businesses in Lira City (.686**). This implies that maintaining optimal inventory levels has positively impacted our business's cash flow, and the use inventory management software to track and manage our stock efficiently. Thus, therefore, there is 47.1 % variation in financial performance is explained by changes in inventory management practices. These results depict that inventory management practices is significantly related with improved financial performance in medium-scale businesses ($\beta_1 = 0.686$, $p < 0.01$). The study also indicated that there is a significant relationship between receivables management strategies and the financial performance of medium-scale businesses in Lira City (.589**). This implies that timely collection of receivables has positively impacted business's cash flow. Thus therefore, there is 34.6% variation in financial performance is explained by changes in reviewable management strategies. In the study results confirm that reviewable management strategies is significantly related to improved financial performance in medium-scale business ($\beta_1 = 0.589$, $p < 0.01$). The study finally indicated that there is a significant influence of cash management practices on the financial performance of medium-scale businesses in Lira City (.342**). This implies that in situations where there is cash management strategies, business experiences minimal cash shortages due to efficient cash management practices, and business regularly prepares cash flow forecasts to manage liquidity, then financial performance is likely to be affected. Thus therefore, there is 11.7% variation in financial performance is explained by changes in cash management practices. In the study results confirm that cash management practices significantly influence the financial performance of medium-scale businesses that practice it ($\beta_1 = 0.342$, $p < 0.02$). Basing on the above study findings, it was concluded that working capital management has a statistically significant relationship with financial performance of Medium-Scale Businesses in Lira City. The recommends that the management of medium-scale businesses should not over-concentrate on manipulating the levels of working capital with an attempt to increase the entrepreneurs' profitability. They should therefore focus other factors other than working capital, which improve profitability of the entrepreneur; and areas of further research were suggested.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter introduces the topic under study, "The Effect of Working Capital Management on the Financial Performance of Medium-Scale Businesses: A Case Study of Lira Town." The chapter consists of the background of the study, statement of the problem, objectives of the study, research questions, significance of the study, and the conceptual framework.

1.1 Background

The financial landscape of medium-scale businesses within Lira City is mainly woven into the broader economic fabric of the region. These enterprises, ranging from retail shops to manufacturing units, serve as the backbone of the city's economy, contributing significantly to employment opportunities, income generation, and economic diversity (Kabali & Mwesigye, 2023). However, the journey towards sustainable growth and prosperity is filled with obstacles. One of the most pressing challenges faced by these businesses pertains to the effective administration of their working capital. The ability to manage capital efficiently is crucial in ensuring liquidity, operational efficiency, and ultimately profitability (Kakuru, 2022). Despite the recognized importance of sound working capital management, many medium-scale businesses in Lira City struggle with implementing effective strategies, thereby hampering their financial performance.

A comprehensive study conducted by the Lira City Chamber of Commerce underscored the multifaceted nature of the challenges confronting medium scale businesses. Notably, deficiencies in debt management and inventory control were pinpointed as significant culprits behind cash flow disruptions and liquidity shortages (Kabali & Mwesigye, 2023). These issues, left unaddressed, can lead to a downward spiral in profitability, posing a threat to the viability

of individual businesses and hindering the economic growth prospects of the locality. The financial managers' capacity to efficiently handle payables, inventory, and receivables is crucial to business success, which has been found not the case with Hardware entrepreneurs. Indeed, the increase in current asset to total asset has a negative effect on profitability, while an increase in current liabilities to total liabilities will have a positive effect on profitability (Mutungi, 2020). Most of those Hardware entrepreneurs have continue to register low return on assets, decline in sales and net profit margin, and experienced low liquidity levels. Most of them do not celebrate their first anniversary. Therefore, it is crucial to address these shortcomings through strategic interventions aimed at improving working capital management, thereby improving the financial performance of medium scale businesses in Lira City and paving the way for a more vibrant entrepreneurial environment.

1.2 Problem Statement

The core issue at hand revolves around the poor financial performance exhibited by medium-scale businesses in Lira City, largely attributed to the poor management of working capital. This deficiency manifests itself in various forms, such as cash flow inadequacies, liquidity crunches, inefficient debt management, and flawed inventory management (Kakuru, 2022). Evidence of poor business performance in Uganda due to inadequate working capital management has been highlighted in various reports. For example, the World Bank's report on "Investigating the Financial Capabilities of SMEs" (2018) notes that many small and medium-sized enterprises (SMEs) in Uganda, particularly in urban areas like Kampala, Mbarara and Lira struggle with managing their working capital effectively. This results in liquidity problems, inability to meet short-term obligations, and ultimately poor financial performance.

Despite the adoption of working capital management among such hardware entrepreneurs, their financial performance has remained worrying. Most of them are characterized by operating with little working capital, and the net profit margin, stork level, liquidity ratio and

return on asset ratio have remained low. These have got more worsened by recent financial and economic crisis as a result of Covid-19 Pandemic (Mutungi, 2020). So with this in mind, most of hardware entrepreneurs do not even celebrate their first anniversary. Also a research done by Bisherurwa., Lule and Magunda (2023) revealed that working capital management practices have a collective effect of 40% on the financial performance other factors being constant. However no particular study has been done on this as regards Lira city. Therefor this study filled the gap by examining the effect of working capital management on financial performance of medium scale businesses in Lira town

1.3 Research Objectives

1.3.1 Main Objective

The principal aim of this investigation was to scrutinize the relationship between working capital management and the financial performance of medium-scale businesses in Lira City.

1.3.2 Specific Objectives

The study specifically achieved the following objectives:

- i. To establish the relationship between inventory management practices and the financial performance of medium-scale businesses in Lira City.
- ii. To analyze the relationship between receivables management strategies and the financial performance of medium-scale businesses in Lira City.
- iii. To examine the relationship between cash management practices and the financial performance of medium-scale businesses in Lira City.

1.4 Study Hypotheses

Three research hypotheses (corresponding to the research questions) were tested on the corrected quantitative data:

- i. Inventory management practices have a significant relationship with the financial performance of medium-scale businesses.
- ii. There is a significant relationship between receivables management strategies and the financial performance of medium-scale businesses.
- iii. Cash management practices have a positive relationship with the financial performance of medium-scale businesses.

1.5 Scope and Limitations

1.5.1 Subject Scope

The study confines its focus to medium scale businesses operating within Lira City, exploring there working capital management practices and there implications for financial performance. It encompasses an evaluation of inventory management, payables management and cashflow management, with ultimate goal of identifying actionable areas for improvement to enhance the financial performance of these businesses. The independent variable (working capital management practices) and the dependent variable (financial performance of medium-scale businesses) were examined.

1.5.2 Geographical Scope

The study focuses on medium-scale businesses within Lira City, located in Northern Uganda. Lira City serves as a regional hub for commerce and industry, making it a representative sample for understanding the financial challenges faced by medium-scale enterprises in the region. The City is characterized by a diverse mix of businesses, including retail, services, and medium manufacturing, providing a comprehensive overview of working capital management practices in a developing urban center.

1.5.3 Time Scope

The study focused on a medium-scale business in Lira City that has been operational for ten years, from 2015 to 2023. This ten-year period allows for an in-depth analysis of the business's working capital management practices over a significant duration, providing insights into how these practices have evolved and impacted financial performance over time. The research was conducted over a five-month period, from June to October 2024, allowing for a thorough examination of financial records, interviews, and analysis of trends to provide actionable insights.

1.6 Importance and Relevance of the Study

This study holds paramount significance as it seeks to address a critical challenge facing medium-scale businesses in Lira City.

By delving into the correlation between working capital management and financial performance, the study endeavors to offer insights and recommendations that could empower businesses to enhance their financial resilience and sustainability. This may be achieved by using the study's conclusions and recommendations as a case of reference necessary in identifying the potential gaps.

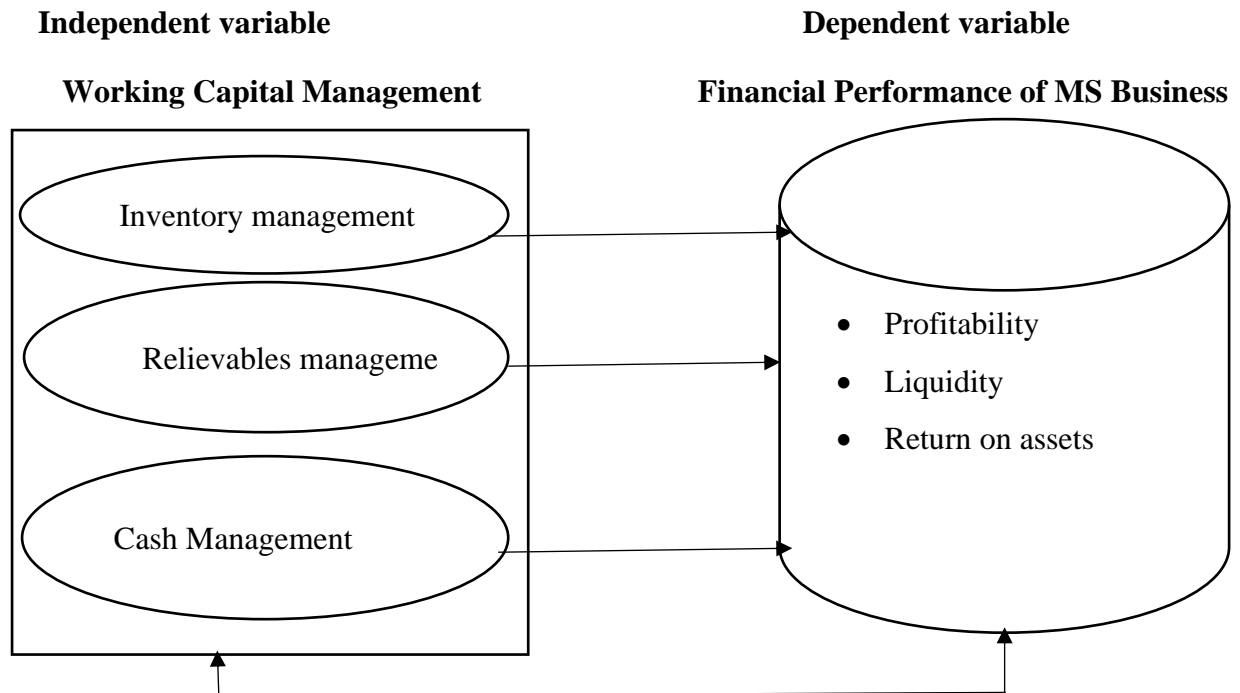
The study shall shed more light on how a firm is affected by the working capital management (WCM) and what steps can be taken to ensure the entrepreneurs' achieves its main objective which is maximizing shareholder wealth. Management of the entrepreneurs' can use this research to effectively manage their WC to enhance financial performance. This shall build up on existing knowledge and theories on the working capital management of small businesses. It shall therefore be upon this study that more forward policies can be designed and formulated.

Strengthening the financial performance of medium-scale businesses is not merely beneficial for individual enterprises; it contributes to the broader economic development of Lira City, fostering job creation, elevating income levels, and encouraging economic diversification. The insight derived from this study is expected to prove invaluable to business proprietors, policymakers, and other stakeholders committed to nurturing the growth and prosperity of medium-scale enterprises in Lira City.

The study finding is expected to add on the body of knowledge for other researchers. This future researcher may benefit from the study in making more critical analysis and find recommendations to the problem at hand. More so, the findings may help the researcher to attain a bachelor's degree.

1.7 Conceptual Framework

The conceptual framework is designed to highlight the direct effects of each independent variable related to working capital management on the dependent variable, which is the financial performance of medium-scale businesses. The framework is structured as follows:



Source: (Nguyen., Tran & Nguyen, 2016); Modified by the Researcher

Figure 1: Conceptual Framework

Figure 1 shows the concepts related to the two-study variables. This will be working capital management as an independent variable and financial performance of medium small businesses as a dependent variable. The figure above depicts how the independent variables do affect the dependent variable. In the same conceptual framework indicated above, it is noted that the working capital management include elements of cash management, inventory management and receivables management. When all these are in place, it leads to improved financial performance of medium small businesses. The financial performance of medium small businesses includes elements of profitability (net profit margin), liquidity level, and return on assets.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter explores the scholar's literature on the topic of working capital management on the financial performance of medium small businesses. The researcher begins by defining the key terminologies associated with working capital management, followed by a review of the relevant theories. The chapter then proceeds to explore literature reviews related to the specific objectives of the study as review of empirical literature as well as research gap. There is a provision for a summary of the review of literature depicting the possible gaps that was identify during this study.

2.1 Definition of Key Concepts

For the purpose of this study, the following terms that were frequently applied during the research process are accordingly explained:

Working capital management. Working capital management is the process of overseeing a company's short-term assets and liabilities to make sure it has enough cash on hand to cover its short-term commitments and operating costs (Kabali & Mwesigye, 2023). To maintain seamless business operations, this involves managing cash, inventory, receivables, and payables effectively.

Financial Performance. Over a certain time period, a company's profitability, efficiency, liquidity, and solvency are measured by its financial performance. It shows how successfully a company uses its resources to turn a profit (Mutungi, 2022). Return on equity (ROE), net profit margin, return on assets (ROA), and liquidity ratios like the quick and current ratios are common measures of financial performance.

Liquidity. The ability of a company to satisfy its short-term obligations with its most liquid assets is referred to as liquidity. It's an essential component of managing working capital (Bisherurwa et al., 2023). It's crucial to remember that key ratios including the cash, quick, and current ratios are frequently used to evaluate liquidity.

Inventory management. To guarantee that a company keeps the proper amount of stock to meet consumer needs without overstocking or understocking, inventory management entails supervising the ordering, storage, and use of components or completed items (Mwangi, 2023). Effective inventory control reduces holding expenses and stockouts, which has a direct effect on the cash flow and profitability of a business.

Receivables Management. A company's methods for obtaining unpaid customer invoices or credit sales are referred to as receivables management (Kulkanya, 2022). A company that manages its receivables well will always have enough cash flow. This could entail establishing credit guidelines, tracking past-due accounts, and providing early payment discounts.

Payables management. The process of managing an organization's debts to suppliers and other creditors is known as payables management (Ofunya, 2015). It entails managing financial flow while guaranteeing on-time payments. It can entail negotiating advantageous conditions for payments and preserving positive relationships with suppliers.

Cash Flow: Cash flow is the net amount of cash being transferred into and out of a business, particularly in relation to its operations, financing, and investments (Mwangi, 2023). There are several types which include operating cash flow, investing cash flow, and financing cash flow, each representing different aspects of the business's cash management.

Profitability: Profitability is the degree to which a business or activity yields profit or financial gain (Bisherurwa et al. 2023). It is a primary measure of a company's financial success. Common measures include gross profit margin, operating profit margin, and net profit margin.

Return on assets (ROA). ROA is a financial ratio that shows the percentage of profit a company earns relative to its total assets. It indicates how efficiently a company is using its assets to generate earnings, It's calculated by: $ROA = \text{Net Income} / \text{Total Assets}$.

Return on equity (ROE). ROE is a measure of the profitability of a business in relation to the equity held by its shareholders (Ofunya, 2015). It indicates how well the company is generating profits from shareholders' investments. It's calculated by: $ROE = \text{Net Income} / \text{Shareholder's Equity}$.

Current ratio. The current ratio is a liquidity ratio that measures a company's ability to pay short-term obligations with its current assets. It's calculated by; $\text{Current Ratio} = \text{Current Assets} / \text{Current Liabilities}$.

Quick ratio. Also known as the acid-test ratio, the quick ratio measures a company's ability to meet its short-term obligations with its most liquid assets, excluding inventory (Bisherurwa et al. 2023). It's calculated by: $\text{Quick Ratio} = (\text{Current Assets} - \text{Inventory}) / \text{Current Liabilities}$.

Medium-Scale businesses. These are enterprises with a relatively medium workforce and limited revenue, typically defined by local laws and often characterized by personalized management and a high degree of owner control.

Debt management. Debt management refers to the strategies used by a business to manage its debt obligations efficiently to avoid financial distress (Ofunya, 2015). This includes maintaining an optimal debt-to-equity ratio and ensuring timely repayment of loans and credit.

Capital Structure. Capital structure refers to the mix of debt and equity that a company uses to finance its operations and growth. A well-balanced capital structure helps optimize financial performance by minimizing the cost of capital.

Operational Efficiency: Operational efficiency refers to the ability of a business to deliver products or services in the most cost-effective manner while maintaining high quality (Bisherurwa et al. 2023). Efficient operations contribute to better cash flow management and overall financial performance.

Economic Diversification: Economic diversification involves expanding a region's economy by introducing a variety of new businesses and industries to reduce dependency on a single sector. For medium-scale businesses in Lira City, diversification can provide stability and resilience against market fluctuations.

2.2 Theories on Working Capital Management.

2.2.1 Trade-off Theory

The trade-off theory of working capital management suggests that there is a trade-off between liquidity and profitability. Holding too much working capital can reduce profitability, as funds are tied up in unproductive assets. Conversely, holding too little can lead to liquidity problems.

2.2.2 Pecking Order Theory

The pecking order theory, proposed by Myers and Majluf (1984), suggests that firms prefer to finance their operations using internal funds rather than external debt or equity. This theory implies that businesses with poor WCM are more likely to face financing difficulties, as they may not generate sufficient internal funds to meet their working capital needs. This is often the case for medium businesses in Lira City, which struggle to access external financing and thus rely heavily on internal funds for working capital.

2.3 Empirical review

This section examines the body of research that is pertinent to the goal of the study, which is to evaluate the financial performance and working capital management of medium-sized enterprises in Uganda. The literature was gathered from document centers and university libraries, as well as from reports, dissertations, textbooks, and paper presentations. Based on the study themes that emerged from the study objectives, it was presented.

2.3.1 Working Capital Management Practices Adopted by Medium Scale Businesses

In order to ensure that a business has enough cash flow to cover its short-term debt commitments and operating expenditures, working capital management entails keeping an eye on its assets and liabilities (García-Teruel & Martínez-Solano, 2017). Working capital management, which makes effective use of a company's resources, can raise earnings and profitability. Stated differently, working capital management is a well-crafted business plan that makes sure a company runs smoothly by keeping an eye on and making the greatest use of its current assets and obligations. Furthermore, it was said by Raheman & Nasr (2017) that working capital management entails monitoring the current, collection, and inventory ratios to make sure a company runs smoothly and helps to enhance a company's profitability. In this sense, this typically assists businesses in maintaining enough cash flow to meet their

Deloof (2018). Enabling the company to maintain enough cash flow to cover its short-term obligations and operating costs is the basic goal of working capital management. The current assets less the current liabilities of a business equals its working capital. All assets that are quickly convertible into cash in less than a day are considered current assets. These are the most liquid assets of the company. Cash, short-term investments, inventories, and accounts receivable are a few examples of current assets. Any debts that are due within the next 12 months are considered current liabilities. These could include current components of long-term

debt payments and accruals for operating expenses.

Kulkanya (2022) further disclosed that working capital management often entails ratio analysis of the essential components of working capital, such as the working capital ratio, collection ratio, and inventory turnover ratio, in order to monitor cash flow, current assets, and current liabilities. The net operating cycle, sometimes referred to as the cash conversion cycle (CCC)—the shortest period of time needed to turn net current assets and liabilities into cash—is maintained in part via working capital management. Furthermore, Raheman & Nasr (2017) contended that through the effective use of a company's resources, working capital management can enhance cash flow management and earnings quality. Working capital management encompasses managing inventories in addition to accounts payable and receivable management. In this sense, the timing of payables, or the payment of suppliers, is also a part of working capital management. A company can choose to stretch out supplier payments, take full advantage of available credit, or spend cash by making purchases with cash. These decisions also have an impact on working capital management.

Managing the company's short-term assets and obligations is known as working capital management, or WCM, and it is done so to maintain both operational effectiveness and financial stability. Liquidity, profitability, and overall financial performance can all be impacted by effective WCM practices (Kakuru, 2022). The working capital management techniques listed below and their impact on financial success are as follows:

Inventory Management. Efficient inventory management ensures that capital is not tied up unnecessarily in inventory, which can improve liquidity and reduce holding costs. According to a study by Ahmed and Malik (2015), effective inventory management leads to improved profitability and liquidity in medium businesses.

Receivables Management. Prompt collection of receivables and effective credit policies can enhance cash flow and reduce the risk of bad debts. A study by Wang (2016) found that improved receivables management practices positively impact financial performance by boosting liquidity and reducing credit risk.

Payables Management. Balancing payables to take advantage of credit terms while maintaining good supplier relationships is crucial. Research by Iqbal and Manzoor (2018) highlighted that effective payable management helps in optimizing cash flow and enhancing profitability. Balancing payables involves negotiating favorable credit terms with suppliers and ensuring timely payments to maintain good relationships while optimizing cash flow. In Uganda, where suppliers might offer different credit terms, managing payables effectively can help in avoiding unnecessary interest costs and late payment penalties.

Cash management. Efficient cash management ensures that sufficient money exists to satisfy operating requirements while investing excess cash wisely. A study by Gupta and Kumar (2019) demonstrated that robust cash management practices improve financial performance by optimizing cash flow and minimizing the cost of capital.

2.3.2 Working Capital Management Practices and Financial Performance of Medium Scale Businesses

Effective WCM practices are linked to improved liquidity, which reduces the likelihood of financial distress. According to a study by Kasim and Mustafa (2020), medium businesses with sound WCM practices experience better liquidity ratios, leading to enhanced financial stability. Cost savings can result from managing working capital properly, savings and increased profitability. Research by Ameer and Al-Ghamdi (2021) showed that businesses with effective working capital strategies report higher profit margins and return on assets.

Because they can better manage their resources and cut expenses associated with operations, medium-sized enterprises that implement effective working capital management methods typically run more effectively. Improved WCM procedures have been linked to increased operational effectiveness and overall business success, according to a Zhang and Wang (2022) study. Charity. The study conducted by Lois and Santoso (2022) examined the impact of working capital management on the profitability of small businesses, using data from five regional beer brewing companies in Asia. They discovered that the cash conversion cycle, increased sales, and a shorter debtor collection duration are indicators of working capital management, which has an effect on the profitability of beer brewing companies. Nevertheless, neither the amounts nor the relative importance of the payables, receivables, and inventory turnover ratios to the total assets and liabilities were examined in this study. Additionally, the study only examined five regional bear companies in Asia, so it's possible that this isn't a representative sample of all companies. Furthermore, this report may not adequately represent small enterprises in Africa.

Deloof (2018) studied the relationship between the performance of the enterprises and working capital management for a sample of 75 Turkish manufacturing companies that were listed on the Istanbul Stock Exchange (ISE) market for nine years, from 2012 to 2019. Using dynamic panel data analysis, the relationship between working capital management components and business performance was the main focus. The results showed that companies might boost gross operating profit, a measure of profitability, by reducing the time it takes to gather cycle of cash conversion and accounts receivable. The study also found a substantial negative correlation between leverage and the value and profitability of businesses, i.e., an increase in leverage levels is associated with a decrease in both firm value and profitability. Total liabilities divided by total assets yields leverage. Thus, examining the impact of leverage on business performance obscures the unique influence of current assets and liabilities on the

performance of small enterprises. In order to close this information gap, the study additionally took into account the cash conversion cycle and accounts receivable collection time, whose effects on performance may not always be the same as those of the amount of current assets and liabilities.

Kirwa (2018) conducted research on the impact of working capital management on manufacturing companies that are listed on the Kampala Securities Exchange, as well as their profitability. Data for the following years ended in December were gathered through document analysis of consolidated financial reports: 2013, 2014, 2015, 2016, and 2017. To ascertain the connections between the elements of working capital management and the companies' gross operating profit, multiple regression and correlation analysis were performed on the data. The results of the study showed that there was a negative correlation between cash conversion cycle and gross operating profit and a positive correlation between average collection period and average payment period. It also demonstrated a strong correlation between gross operating profit and inventory turnover in days. Thus, this study's shortcoming was that it only paid attention to Average Payment Period, Average Collection Period, and Cash Conversion Cycle were mentioned, however the impact of working capital levels on the financial performance of small businesses was not mentioned.

The study conducted by Zariyawati, Taufiq, Annuar, and Sazali (2020) also examined the factors that influence working capital management. In order to investigate the relationship between working capital management and small business financial performance and generate predictions using two or more variables for each, the study used a correlational or prospective research design. The study's conclusions showed a positive relationship between financial performance and the effectiveness of inventory management (EIM), receivables management (ERM), and cash management (ECM). Her study was lacking since it was limited to agricultural firms. Additionally, similar to Mwangi (2013), their research concentrated on debt

ratio, average payables period, inventory collection period, and average collection period rather than current asset levels.

Between 2010 and 2013, Nyarige & Olweny (2014) found a connection between the performance of companies listed on the Kampala Securities Exchange and working capital management. To determine the connection between working capital management and business profitability, Pearson's correlation and Ordinary Least Squares regression models were employed. It was found that the number of days of accounts receivable and cash conversion cycle had a negative relationship with profitability, whereas the number of days of inventory and days of payable had a positive relationship with profitability. The study also discovered that the firm's profitability is significant. According to the study, the firm's profitability is also significantly impacted by the firm's size, current ratio, sales growth, and financial leverage. Nevertheless, the research only looked at the cash conversion cycle, the current ratio, and the number of days' accounts receivable. Yet, the study's primary focus was on the cash conversion cycle, the current ratio, and the number of days' accounts receivable.

2.3.3 Inventory management and financial performance of Medium-Scale Businesses

improved cash flow.

Effective inventory management ensures that capital is not unnecessarily tied up in excess inventory. By maintaining optimal inventory levels, Businesses can release capital investments that are applicable to other investments or operational needs. A study by Gaur and Fisher (2015) found that companies with efficient inventory management systems experienced a 15% improvement in cash flow. The reduction in excess inventory allowed businesses to better allocate their resources and invest in growth opportunities.

Reduced holding costs. Holding costs include expenses related to storing unsold goods, such as warehousing, insurance, and spoilage. Effective inventory management reduces the amount of inventory held, thereby lowering these costs. Research by Huang et al. (2017) demonstrated that businesses with optimized inventory levels saw a 20% reduction in holding costs. This

reduction was attributed to lower warehousing expenses and decreased risks of inventory obsolescence.

Enhanced profit margins. By minimizing excess inventory and reducing holding costs, businesses can increase their profit margins. Efficient inventory management helps in lowering operational costs, which translates to higher profitability. A study by Kumar and Jha (2018) showed that companies with effective inventory management practices experienced a 12% increase in profit margins. The study highlighted how reducing inventory-related expenses directly improved overall financial performance

Minimized stockouts and overstocking. Effective inventory management helps in balancing inventory levels to avoid stockouts (which can lead to lost sales) and overstocking (which can lead to excess holding costs). This balance improves customer satisfaction and reduces financial inefficiencies. A study by Thompson and Hill (2019) found that businesses with improved inventory management practices experienced a 25% reduction in stockouts and a 15% reduction in overstocking. This balance contributed to increased sales and reduced costs associated with managing excess inventory.

Better demand forecasting: Effective inventory management systems use historical data and market trends to forecast demand more accurately. This leads to better inventory planning, reducing the risk of carrying unnecessary inventory and improving financial performance. Research by Carter and Morris (2020) indicated that businesses utilizing advanced inventory management systems for demand forecasting saw a 30% improvement in inventory turnover and a 20% increase in profitability. Accurate demand forecasting allowed businesses to align inventory levels with actual market needs.

2.3.4 Receivables management strategies and financial performance of Medium-Scale Businesses

Improved cash flow: Effective receivables management ensures timely collection of outstanding invoices, improving a company's cash flow. By shortening the collection period, businesses can have more liquid assets available for operations and investment. A study by Anandarajan and Kumar (2016) found that companies with efficient receivables management strategies experienced a 20% improvement in cash flow. Timely collections reduced the days sales outstanding (DSO), allowing for better liquidity and financial flexibility.

Reduction in bad debts: Effective receivables management strategies, such as stringent credit policies and regular follow-ups, help in reducing the risk of bad debts. This reduces financial losses and improves profitability. Research by Chen and Xie (2017) showed that businesses with strong receivables management practices saw a 15% decrease in bad debt expenses. Implementing robust credit evaluation procedures and collection strategies helped in minimizing defaults and improving financial stability.

Enhanced profit margins: Efficient management of receivables reduces the cost of financing and collection, leading to improved profit margins. By ensuring quicker payments, businesses can avoid the costs associated with long credit terms and late collections. A study by Patel and Patel (2018) indicated that businesses with effective receivables management practices saw a 10% increase in profit margins. Faster collection of receivables reduced the need for external financing and related interest expenses, thereby enhancing profitability.

Improved financial ratios: Effective receivables management positively impacts key financial ratios, such as the current ratio and the quick ratio. Improved collection practices lead to higher liquidity ratios, reflecting better financial health and stability. Research by Kumar and Gaur (2019) found that companies with improved receivables management had a 12%

improvement in their current ratio and a 15% increase in their quick ratio. Enhanced liquidity ratios indicate better financial health and operational efficiency.

Reduced financing costs: Timely collection of receivables reduces the need for short-term borrowing or overdrafts to cover operational expenses. This reduction in external financing needs helps in lowering interest costs and improving net profit. A study by Zhang and Li (2020) highlighted that businesses with effective receivables management strategies experienced a 20% reduction in financing costs. By reducing reliance on external financing, these businesses were able to improve their overall financial performance

2.3.5 Cash management practices and financial performance

Improved liquidity: Effective cash management ensures that a business maintains sufficient liquidity to meet its short-term obligations. Properly managing cash flows helps in avoiding liquidity crises and allows businesses to take advantage of investment opportunities. A study by Eljelly (2016) found that businesses with robust cash management practices experienced a 15% improvement in liquidity ratios. Enhanced liquidity helps businesses manage day-to-day operations efficiently and reduces the risk of financial distress.

Reduced financing costs: Effective cash management minimizes the need for short-term borrowing or overdrafts to cover operational expenses. By maintaining optimal cash reserves, businesses can reduce their dependence on external financing, thereby lowering interest costs. Research by Yao and Li (2017) showed that companies with effective cash management practices experienced a 20% reduction in financing costs. This reduction was due to decreased reliance on short-term loans and improved cash reserves.

Enhanced profitability: Proper cash management allows businesses to invest excess cash into profitable opportunities, such as expansion or new projects. Effective management of cash

flows also helps in reducing costs associated with short-term borrowing and late payment penalties. A study by Kermani and Moghadam (2018) found that businesses with effective cash management practices experienced a 10% increase in profitability. The ability to invest surplus cash and reduce financing costs contributed to higher net income

Improved operational efficiency: Effective cash management practices, such as cash flow forecasting and budgeting, help businesses optimize their operations by ensuring that sufficient funds are available for critical activities, reducing delays and improving overall efficiency. A study by Sharma and Kumar (2019) indicated that businesses with advanced cash management systems achieved a 15% improvement in operational efficiency. Accurate cash flow forecasting and budgeting enabled better planning and resource allocation.

Risk mitigation. Effective cash management helps businesses prepare for unexpected expenses or economic downturns by maintaining a reserve of liquid assets. This preparedness mitigates financial risk and ensures stability during economic fluctuations. Research by Bell and Sykes (2020) found that businesses with strong cash management practices experienced a 20% reduction in financial risk. Maintaining cash reserves provided a buffer against unforeseen expenses and market volatility.

2.4 Financial performance Indicators

Financial performance indicators are essential metrics used to evaluate a business's overall financial health and operational efficiency. These indicators provide valuable insights into how well a company utilizes its assets, manages its liabilities, and generates profit. By analyzing financial performance indicators, businesses can identify strengths, weaknesses, and areas for improvement, allowing for informed decision-making and strategic planning. Research by Brigham and Houston (2018) highlights the importance of financial performance indicators in

providing a comprehensive view of a company's financial position. The study emphasizes that consistent monitoring of these metrics is crucial for long-term financial stability and growth.

Current Ratio. The Current Ratio measures a business's ability to meet its short-term liabilities with its short-term assets. It is calculated as current assets divided by current liabilities. A ratio above 1 indicates good short-term financial health. Research by Ahmed and Hossain (2018) showed that medium businesses with a current ratio above 1.5 had a lower risk of liquidity issues and were better positioned to handle short-term obligations. The study found a positive correlation between a higher current ratio and improved financial stability.

Gross profit margin. Gross Profit Margin measures the percentage of revenue that exceeds the cost of goods sold (COGS). It is calculated as $(\text{Gross Profit} / \text{Revenue}) \times 100\%$. A higher margin indicates better control over production costs and pricing strategy. A study by Chien and Chen (2019) found that medium businesses with higher gross profit margins were more likely to experience positive financial outcomes. The research highlighted that a gross profit margin of over 30% was associated with improved profitability.

Debt-to-equity ratio. The Debt-to-Equity Ratio measures the relative proportion of shareholders' equity and debt used to finance a business's assets. It is calculated as total liabilities divided by shareholders' equity. A lower ratio indicates less financial risk and better financial stability. According to a study by Li and Zhao (2020), medium businesses with a lower debt-to-equity ratio were less likely to face financial distress and demonstrated more stable financial performance. The study highlighted that a ratio below 1.0 was generally favorable.

2.5 Summary of literature review

To sum up, chapter two reviewed the literature related to the influence of working capital management on the financial performance of medium-scale businesses. The researcher considered the theoretic review, empirical literature and acknowledged research gap. After the review of related literature, the researcher realized that the related studies are dealing with inventory administration practices, receivables management strategies, and cash administration practices on the financial performance of medium-scale businesses, but none of them was carried out in in Lira City. Theoretical review was also done to establish similar or varying theoretical perspectives. It was upon this background that the researcher decided to investigate the working capital management and its influence on the financial performance of medium-scale businesses in Lira City.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This section outlines the procedure that was employed to investigate the consequence of working capital management on the financial performance of SMEs in Lira Town, with a specific focus on Mass Plumbing and Tiles Hardware. The chapter included details on the research design, target population, sample size determination, sample selection, data sources, measurement levels, data collection methods, data collection instruments, procedures of data collection, data quality control (legitimacy and dependability of instruments), and data analysis procedures, as well as ethical considerations.

3.1 Research Design

According to Kothari (2014), a research design is the configuration of parameters for data collection, measurement, and analysis with the goal of integrating relevance to the study goal. In order to characterize and establish the relationship between working capital management and the financial performance of medium-sized enterprises, this study used a correlational methodology. Analyzing if there is a relationship between the independent and dependent variables is the goal of a correlation research (Amin, 2005). Because the study sought to analyze the results in terms of numbers, including frequencies, percentages, means, and standard deviations, a quantitative research approach was adopted (Creswell, 2018).

3.2 Target Population

The target population for this study consists of the entire management and staff involved in financial and inventory management at Mass Plumbing and Tiles Hardware. This population is chosen because they possess the necessary expertise and experience in managing the company's working capital, which is crucial for achieving the study's objectives. Target

population mainly included Managing Directors, Finance Manager, Accounts Officers, Inventory Managers, Operational staff, and Cashiers, totaling to 25 in number. Target population as described by Cooper and Schindler (2019) is the total group to be studied or described and from whom samples may be drawn. This definition emphasizes that the target population represents the broader population of interest from which samples may be selected for the research study.

3.3 Sample Size Determination

Sample size denotes to the amount of units or people that are chosen from which the researcher wishes to gather information or data (Hair et al. 2019). Given the focus on a single case study, the sample size consisted of 24 participants who play significant roles in the management of working capital at Mass Plumbing and Tiles Hardware. The study sample was chosen in accordance with the guidelines provided in the Morgan and Krejcie (1970) table for calculating sample size in order to represent a cross-section of the population under investigation. In this sense, 24 sample sizes were taken into consideration out of the 25 target populations. These people offered perceptions into how the company's financial performance is affected by working capital management procedures. The sample was deemed sufficient for a quantitative case study since it permits a thorough examination of the topic

3.4 Sampling Technique

The study utilized a simple random sampling method to select partakers who have direct involvement in the financial management of Mass Plumbing and Tiles Hardware. This technique was chosen to ensure that the sample consists of individuals with relevant knowledge and experience in working capital management. The selected informants included the Managing Director, Finance Manager, Accounts Officers, Inventory Managers, operational staff, and Cashiers. Specifically, the researcher used the lottery approach where names are

written on a tag and put in a basket of which one tag was picked until the required number was reached. This technique was preferred on the basis that these respondents were many and may not be accessed in a shortest period of time. The technique also minimized bias because every member of the population had equal chance to be nominated.

3.5 Data Sources

3.5.1 Primary Data

The researcher used primary data as a source of data. According to Bryman and Bell (2019), primary data refers to sources of data where raw facts are collected for the first time that is to say; data that is original in nature. In other words, it is the data that is obtained by the researcher from the respondents. It's through structured questionnaires with all target participants. The questionnaires were designed to gather detailed information on the components of working capital management and their perceived impact on the financial performance of the company.

3.5.2 Secondary Data

The researcher also used secondary data as a source of data. Secondary data refers to the data collected by someone other than the primary user. In other words, it is the already existing data or information collected by other researchers. Secondary data was sourced from the financial statements of Mass Plumbing and Tiles Hardware, as well as relevant published journals, articles, and reports. These secondary sources provided quantitative data on financial performance indicators such as profitability, liquidity, and efficiency.

3.6 Procedures for Data Collection

An introduction letter from School of Business, Uganda Christian University to ensure that the ethical guidelines were followed throughout the data collection process. The letter introduced the researcher to authorities at Mass Plumbing and Tiles Hardware requesting for permission to conduct the study in their organization. After, the management of Mass Plumbing and Tiles

Hardware was contacted with the view of seeking permission to collect data and to explain the purpose of the study. The researcher obtained verbal consent from prospective participants. Once this was done, questionnaires were physically self-administered to sampled respondents. Completed questionnaires were collected immediately, where not possible, arrangements were made to pick them on a later date. The questionnaires were only given with willing respondents. The respondents were further assured of confidentiality of the information they provided and that the study findings were used for academic purposes only.

3.7 Data Collection Methods

3.7.1 The Questionnaire Survey

This data was collected using mainly a questionnaire survey since questionnaires had a large coverage of the respondent's sample which allowed a great degree of generalization of research findings. Managing Directors, Finance Manager, Accounts Officers, Inventory Managers, Operational staff, and Cashiers responded to the prepared questionnaire because it was easy to administered, saves time and was gathered or collected at the respondent's convenient time. The questionnaires focused on assessing various aspects of working capital management, including accounts receivable, inventory management, and cash management. They also evaluated the perceived impact of these practices on key financial performance indicators. The use of closed-ended questions facilitated the quantification of responses, while open-ended questions allowed for the exploration of additional insights.

3.8 Data Collection Instruments

The main data collection tools for the study were questionnaire. Questionnaires were physically self-administered to sampled respondents.

3.8.1 Questionnaire

The questionnaire was used to collect quantitative data from managing directors, finance manager, accounts officers, inventory managers, operational staff, and cashiers. The tool guarantees confidentiality and anonymity, and also encouraged honest responses to very personal questions. The questionnaire was structured with items rated on a Likert scale (1-5) that is; strongly disagree-1, disagree-2, Not sure-3, Agree-4 and strongly agree-5. Questionnaire administration was cost effective when collecting data from such a large section of respondents in a limited time. This instrument was considered simply because it was used to reach a large number of respondents within a short time, it gives the respondents adequate time to respond to the items, offers a sense of security (confidentiality) to the respondents (Katamba & Nsubuga, 2014).

3.9 Quality/Error Control

The The validity and reliability of the instruments served as the study's compass.

3.9.1 Accuracy

Validity is "the extent to which results were obtained from analysis-of the data actually to represent the phenomenon under study," according to Sekaran (2003). Pre-testing the instruments allowed for the determination of the questionnaires' validity. Ten (10) individuals from the study population who weren't in the sample were given the pretest. Pre-testing assisted in estimating the amount of time needed to complete the questionnaires as well as the questions' applicability and precision in measuring the subject of the study.

$$\text{CVI} = \frac{\text{No. Item}}{\text{Total No. Item}}$$

Where by' CVI= Content Validity Index

The number of pertinent items for the study was first counted and divided by the total number of items in the instruments by the researcher. Pilot testing of ten questionnaires was conducted in Lira City's small companies, which excluded Mass Plumbing and Tiles Hardware from the study's sample. There are forty-three items on each questionnaire.

$$\text{Total items} = 43 \times 10 = 430$$

$$\text{Invalid items} = 55$$

$$\text{Relevant items} = 430 - 55 = 375$$

$$\text{CVI} = 375/430 = 0.87$$

The instrument was said to be valid since the CVI was 0.85 which was far above 0.7 the recommended value for validity. Results from the field helped to identify gaps and made modifications to the instrument where it was necessary.

3.9.2 Reliability

Reliability The degree of consistency displayed by the instrument is its reliability (Stephanie, 2016). An alpha of more than or equal to 0.5, according to Mugenda and Mugenda, indicates a significant level of reliability in the research instrument. Amin (2005) suggests, however, that once a researcher's Cronbach alpha was consistently higher than 0.7, they were more reliable. The tool's reliability (which includes concerns with working capital management and the financial performance of medium-sized firms) aligned with the previously stated opinion. On the other hand, the Cronbach's Alpha co-efficient index produced by SPSS was used to guarantee the instrument's reliability. Following the instrument's pilot testing, the Cronbach's Alpha Method provided by SPSS was used to examine the instrument's reliability on multi-item variables. This was conducted among 10 respondents.

Table 3.1: Reliability indices for the questionnaire

Variable	No. of items	Cronbach Alpha Coefficient
Inventory management practices	10	0.78
Receivables management strategies	10	0.82
Cash management practices	08	0.89

The Cronbach's alpha coefficients as indicated in Table 3.1 are above 0.70, the recommended reliability value (Amin, 2005). The results implied that the questionnaire is suitable for data collection.

3.10 Data Presentation and Analysis

To maintain order, the information gathered from several questionnaires was arranged. To find mistakes and make fixes, editing and cross-checking were done. This made it possible for the researcher to assess the questionnaires' completeness. The data was edited and then coded. This entailed giving symbols to the responses in order to classify the data according to factors like gender, age, and educational attainment. Using descriptive statistics, quantitative data was entered into the Statistical Package for Social Sciences (SPSS) version 21 and then summarized and displayed in frequency tables. Descriptive analysis, correlation analysis, and multiple regression analysis were also used to analyze the study's variables. In certain instances, the results were displayed with the mean and standard deviation. The purpose of the Pearson correlation analysis was to see whether there is a substantial link between the methods of managing working capital and how they affect the bottom line. Generalizability and bolstering numerical strength are the goals of quantitative research (Creswell, 2018).

3.11 Measurement Levels

According to "A sound measurement level should meet the tests of validity and reliability," claims Kothari (2013). Measurement levels can be classified as ordinal, nominal, ratio, or interval. When answering a questionnaire, respondents can indicate how much they agree or disagree with a statement using a Likert scale. When asked to rate your level of emotion on a 5–1 scale for a specific topic, it is identifiable. The following response categories were included in the five-point scale: 5 for "strongly agree," 4 for "agree." The respondents were asked to rate their level of agreement with the statements on the study variables, with 3 being undecided/neutral, 2 representing disagreement, and 1 representing significant disagreement. The gender and education levels were measured using the nominal scale. The interval scale was also used for period one had been in organization.

3.12 Ethical Considerations

The researcher conducted her investigation according to certain principles. To conduct study, ethical approval was obtained from Uganda Christian University's School of Business. The Executive Manager was consulted in order to obtain permission to conduct the study at Mass Plumbing and Tiles Hardware Lira City West. All research participants completed an informed consent form (Appendix II) that outlines the objective and goal of the investigation in detail. Their involvement and participation rose as a result of the research's greater confidentiality. Additionally, the respondents were made aware of their freedom to decline or accept involvement in the study at any moment, as well as their obligation to withdraw from it entirely. The researcher provided in-depth justifications for the study's objectives and their entitlement to agree or disagree to take part in the interview or complete the surveys.

A unique ID number was assigned to each participant's record in an effort to maintain participant confidentiality. After convincing them to take part in the research, I asked them to sign the consent papers to indicate that they were willing to participate in the exercise. Additionally, the anonymity concept was adhered to scrupulously. Participants were disguised with pseudonyms. The poll remained anonymous (no way for a participant's identity to be revealed on the survey questionnaire), and participants were given sufficient information about the methods used to obtain the data. Maintaining confidentiality involved making sure that the report's reader couldn't identify a specific respondent.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF RESULTS

4.0 Introduction

This chapter provides presentation, analysis, and interpretation of the findings, emphasizing the goal and how it was addressed by the various objectives. The study objectives are followed by the presentation of the study findings, which include the following: the relationship between medium-sized businesses' financial performance and cash management practices; the relationship between medium-sized businesses' financial performance and receivables management strategies; and the relationship between medium-sized businesses' financial performance and inventory management practices.

4.1 Response Rate

The number of people who completed the survey divided by the total sample size is the response rate, sometimes referred to as the return rate or completion rate (Orodho, 2019). Usually, a percentage is used to express it. The statistics on the response rates are summarized in the subsection. Table 4.1 provides more information below.

Table 4.1: Summary of study response rates

Category	Targeted respondents	No. actually involved	Percentage of response rate
Managing Directors	4	4	100%
Finance Manager	1	1	100%
Accounts Officers	3	3	100%
Inventory Managers	2	2	100%
Operational staff	10	9	90%
Cashiers	5	5	100%
Total	25	24	96%

Source: Primary data (2024)

A total of 25 respondents (the target audience) were anticipated to engage in the survey, as shown in table 4.1 above; however, 24 respondents actually did, yielding a 96% response rate. Some claimed to be too busy to participate in the interviews, while others stated they were required to leave the company for official business. The Gutmacher Institute (2006) advised a response rate of 70% or more for a study to be deemed good. This response rate exceeds their recommendation.

4.2 Demographic Characteristics of Respondent

The demographic characteristics look at the respondents' distribution across sex of the respondents, highest education level, age bracket and working experience. This is indicated in the Table 4.2

Table 4.2: Demographic Characteristics of respondents

Variable	Category	Freq.	Percentage
Sex	Male	12	50
	Female	12	50
Highest Level of Education	High school or below	6	25
	Bachelor's Degree	15	62.5
	Master's Degree	2	8.3
	PhD or higher	1	4.2
Age Bracket	Under 20	2	8.3
	20 - 30	4	16.7
	31 – 40	8	33.3
	41 - 50	6	25
	Over 50	4	16.7
Working experience	Less than 1 year	4	16.7
	1-3 years	7	29.2
	3-6 years	5	20.8
	6-10 years	6	25
	More than 10 years	2	8.3

Source: Primary data (2024) (n=24)

One of the variables examined in the study was sex. The goal of this was to determine whether the sample's gender distribution was balanced. Table 4.2 shows that the respondents equivalent

to 12(50%) were male and female respectively. This implies that Mass Plumbing and Tiles Hardware consider gender balance during recruitment of their staff.

Majority 15(62.5%) of the respondents were Bachelor's degree holders, and the least 1(4.2%) were PhD holders. This implies that most of the staff employed by Mass Plumbing and Tiles Hardware are qualified at graduate level, with relevant skills in working capital management practices.

In terms of age bracket, majority respondent 8(33.3%) belongs to age bracket of 31 to 40 years, followed by 6(25%) in age bracket of 41 – 50 years, and the least 2(8.3%) were aged under 20 years. All of the respondents came from different age groups or different generations, according to the implication. This suggests even more that the majority of the staff members have worked in the hardware industry for a considerable amount of time, indicating that they have sufficient working experience and understanding of managed working capital.

In addition, respondents were asked to disclose how much time they had spent in Mass Plumbing and Tiles Hardware, with reference to Table 4.2 above. According to the information above, the majority of respondents (7, or 29.2%) said they have been dealing with Mass Plumbing and Tiles Hardware for one to three years. Moreover, just 2 (8.3%) of the respondents mentioned having more than 10 years, while 6 (25%) indicated having between 6 and 10 years. It follows that every respondent is conversant with Mass Plumbing and Tiles Hardware's working capital management system.

4.3 The Financial Performance of Medium-Scale Businesses (Dependence Variable)

The findings present the views of respondents on the financial performance of medium-scale businesses in Lira City. The responses from the questionnaire were based on a five-point Likert

scale of: 5=strongly agree, 4=Agree, 3=Neutral, 2=Disagree 1=strongly disagree. Table 4.3 provide in summary of their views in frequency and percentages.

Table 4.3: Showing the Financial Performance of Medium-Scale Businesses

Variable Items	Extent of (dis)agreement			Mean	Std. Devt
	Accepted	Neutra l	Disagree		
	<i>f</i> (%)	<i>f</i> (%)	<i>f</i> (%)		
For the last 3 years, Mass Plumbing and Tiles Hardware have experienced an increase in her net income (profitability).	5 (20.8%)	2 (8.3%)	17 (70.9%)	3.93	0.895
For the past few years, Mass Plumbing and Tiles Hardware has collected almost all the amount due (debt) on time (debt recovery).	6 (25%)	3 (12.5%)	15 (62.5%)	3.91	0.847
Mass Plumbing and Tiles Hardware have for the past few years realized an increase in liquidity levels	6 (25%)	5 (20.8%)	13 (54.2%)	3.78	0.791
For the past 3 years, customers are satisfied with the quality of services delivered by Mass Plumbing and Tiles Hardware (customer satisfaction).	7 (29.2%)	6 (25%)	11 (45.8%)	3.64	0.695
Mass Plumbing and Tiles Hardware have for the past few years realized an increase in return on asset ratio	8 (33.3%)	7 (29.2%)	9 (37.5%)	3.61	0.677

Source: Primary data (2024)

Table 4.3 represents the descriptive statistics on the financial performance of medium-scale businesses in Lira City, clearly indicating that the for the last 3 years, Mass Plumbing and Tiles Hardware have experienced an increase in her net income (profitability), and this was indicated by 70.9% of the respondents who did not agree with the statement (Mean=3.93 and standard deviation 0.895); for the past few years, Mass Plumbing and Tiles Hardware has collected almost all the amount due (debt) on time (debt recovery), and this was disagreed by 62.5% of the respondents (Mean 3.91 and standard deviation .847); Mass Plumbing and Tiles Hardware

have for the past few years realized an increase in liquidity levels, and this was disagreed by 54.2% of the respondents (Mean 3.78 and standard deviation .791); and lastly, for the past 3 years, customers are satisfied with the quality of services delivered by Mass Plumbing and Tiles Hardware (customer satisfaction), and this was disagreed by 45.8% of the respondents (Mean 3.64) and standard deviation .695). One of the interviewed executive directors had these to say;

“.....the profitability of Mass Plumbing and Tiles Hardware has gradually increased in the last three years. It has been found that the last 3 years, the hardware has been noted to have lower savings and experienced shortages in net profit portfolio performance. The hardware has experienced inefficiencies in operational efficiency...” (Executive Director B)

This implies that the higher the net interest margin, the greater the profitability of business organization and the steadier the growth and expansion of Mass Plumbing and Tiles Hardware is. Profits are a buffer against which Mass Plumbing and Tiles Hardware can write off credit losses and a source of funds for rebuilding capital should hardware incur large losses.

It is clearly noted that debt recovery plans ensure that Mass Plumbing and Tiles Hardware are prepared to restore their viability in a timely manner even in periods of severe financial stress. Hardware have continue registering low return on assets, decline in sales and net profit margin, and experienced low liquidity levels. Notably, deficiencies in debt management and inventory control were pinpointed as significant culprits behind cash flow disruptions and liquidity shortages.

4.4 Inventory Management Practices and the Financial Performance of Medium-Scale Businesses

The study found out 24 respondents response on the relationship between inventory management practices and the financial performance of medium-scale businesses in Lira City. Table 4.4 provide in summary of their views in frequency and percentages.

Table 4.4: Relationship between Inventory Management Practices and the Financial Performance of Medium-Scale Businesses

Variable Items	Extent of (dis)agreement			Mean	Std. Devt
	Accepted	Neutral	Disagreed		
	<i>f</i> (%)	<i>f</i> (%)	<i>f</i> (%)		
Our business regularly conducts inventory audits to ensure accurate stock levels.	20 (83.3%)	4 (16.7%)	0 (0.0%)	3.96	0.877
We use inventory management software to track and manage our stock efficiently .	18 (75%)	5 (20.8)	1 (4.2%)	3.97	0.805
Maintaining optimal inventory levels has positively impacted our business's cash flow.	16 (66.7%)	3 (12.5%)	5 (20.8%)	3.87	0.745
Our business experiences minimal stockouts due to effective inventory management practices.	14 (58.3%)	6 (25%)	4 (16.7%)	3.83	0.835
Excess inventory levels have led to increased storage costs for our business.	13 (54.2%)	7 (29.2%)	5 (20.8%)	3.79	0.812
Inventory turnover rates in our business directly influence our overall profitability.	11 (45.8%)	4 (16.7%)	9 (37.5%)	3.77	0.897
Proper inventory management has reduced the risk of stock obsolescence in our business.	9 (37.5%)	5 (20.8%)	10 (41.6%)	3.71	0.883
We have a system in place to monitor and manage slow-moving inventory items	8 (33.3%)	7 (29.2%)	9 (37.5%)	3.69	0.731
The accuracy of our inventory records has a direct impact on our sales performance.	7 (29.2%)	9 (37.5%)	8 (33.3%)	3.64	0.715

Source: Primary data (2024) (n=24)

Table 4.4 represents the descriptive statistics on the relationship between inventory management practices and the financial performance of medium-scale businesses in Lira City. The results show that 20(83.3%) of the respondents accepted to the statements that business regularly conducts inventory audits to ensure accurate stock levels (Mean= 4.37); Mass Plumbing and Tiles Hardware use inventory management software to track and manage our stock efficiently, and this was accepted by 18(75%) of the respondents (Mean=3.97); maintaining optimal inventory levels has positively impacted our business's cash flow, and this was accepted by 16(66.7%) of the respondents (Mean=3.87); and lastly, hardware business experiences minimal stockouts due to effective inventory management practices, and this was accepted by 14(58.3%) of the respondents (Mean=3.83). This indicates that companies hold more inventory than is necessary, which helps to explain why most small and medium-sized

enterprises face high carrying costs that have a negative impact on their operations. Nevertheless, the high rates of product loss from theft and damage can be explained by the fact that Mass Plumbing and Tiles Hardware don't regularly take inventory for their companies.

4.4.1 Testing Hypothesis One: Inventory management practices have a noteworthy relationship with the financial performance of medium-scale businesses.

Results from correlation analysis were run between inventory management practices and the financial performance of medium-scale businesses in Lira City is presented in the table 4.5 below.

Table 4.5 Correlation between inventory management practices and the financial performance of medium-scale businesses

Correlations		Inventory management practices	Financial performance
Inventory management practices	Pearson Correlation	1	.686 **
	Sig. (2-tailed)		.000
	N	24	24
Financial performance	Pearson Correlation	.686 **	1
	Sig. (2-tailed)	.000	
	N	24	24

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

Results in the table above reveal a substantial relationship between inventory management practices and the financial performance of medium-scale businesses in Lira City. In this case, the correlation coefficient of .686 (**) and significance value of .000 provide an explanation for the nature of the association. This implies that maintaining optimal inventory levels has positively impacted our business's cash flow, and the use inventory management software to track and manage our stock efficiently.

4.5.2 Regression analysis

The financial performance of medium-sized enterprises in Lira City was subjected to a single regression analysis, the findings of which are displayed in table 4.6 below. The analysis focused on inventory management techniques.

Table 4.6: A single regression analysis

		Unstandardized Coefficients		Standardized Coefficients	
Model		B	Std. Error	Beta	Sig.
1	(Constant)	.725	.116		.000
	Inventory management practices	.249	.030	.686	.000

a. Dependent Variable: Financial Performance

According to the regression analysis displayed in the above table, changes in inventory management procedures account for 47.1% of the variation in financial performance, with a coefficient of determination of $R^2=0.47$. This suggests that there is a 47.1% risk that any modifications to inventory management procedures will affect financial performance. The findings indicate a substantial correlation between enhanced inventory management procedures and better financial performance in medium-sized enterprises ($\beta_1 = 0.686$, $p < 0.01$). This lends credence to the first hypothesis, which held that "the financial performance of medium-sized businesses is significantly correlated with inventory management practices." This indicates that better inventory management procedures are strongly and favorably correlated with better medium-sized firm financial performance in Lira City.

4.5 Receivables Management Strategies and the Financial Performance of Medium-Scale Businesses

The study found out 24 participants' response on the relationship between receivables management strategies and the financial performance of medium-scale businesses in Lira City.

Table 4.7 provide in summary of their views in frequency and percentages.

Table 4.7: Relationship between receivables management strategies and the financial performance of medium-scale businesses

Variable Items	Extent of (dis)agreement			Mean	Std. Devt
	Accepted	Neutral	Disagreed		
	<i>f (%)</i>	<i>f (%)</i>	<i>f (%)</i>		
Our business has a clear credit policy that is communicated to all customers.	22 (91.7%)	0 (0.0%)	2 (8.3%)	3.92	0.648
We regularly review the creditworthiness of our customers before extending credit	20 (83.3%)	1 (4.2)	3 (12.5%)	3.89	0.871
Timely collection of receivables has positively impacted our business's cash flow	19 (79.2%)	2 (8.3%)	3 (12.5%)	3.84	0.843
Our business experiences low levels of bad debts due to effective receivables management	17 (70.8%)	3 (12.5%)	4 (16.7%)	3.87	0.797
We offer discounts or incentives to encourage early payment from our customers	15 (62.5%)	2 (8.3%)	7 (29.2%)	3.79	.813
Our financial performance has been negatively affected by delays in collecting receivables	14 (58.3%)	4 (16.7%)	6 (25%)	3.69	.798
Effective receivables management has improved our business's profitability	13 (54.2%)	6 (25%)	5 (20.8%)	3.98	.817
The aging of receivables is closely monitored to prevent overdue accounts	10 (41.7%)	5 (20.8%)	9 (37.5%)	3.69	.767
We have a system in place for promptly following up on overdue accounts	9 (37.5%)	7 (29.2%)	8 (33.3%)	3.59	.759
The terms of credit we offer to customers are aligned with our cash flow needs	8 (33.3%)	9 (37.5%)	7 (29.2%)	3.39	.781

Source: Primary data (2024) (n=24)

Table 4.5 represents the descriptive statistics on the relationship between receivables management strategies and the financial performance of medium-scale businesses in Lira City.

The results show that 22(91.7%) of the respondents accepted to the statements that business has a clear credit policy that is communicated to all customers (Mean= 3.92); Mass Plumbing and Tiles Hardware regularly review the creditworthiness of our customers before extending

credit, and this was accepted by 20(83.3%) of the respondents (Mean=3.89); timely collection of receivables has positively impacted our business's cash flow, and this was accepted by 19(79.2%) of the respondents (Mean=3.84); and lastly, hardware business experiences low levels of bad debts due to effective receivables management, and this was accepted by 17(70.8%) of the respondents (Mean=3.87).

4.5.1 Testing Hypothesis Two: There is a significant relationship between receivables management strategies and the financial performance of medium-scale businesses.

Results from correlation analysis were run between receivables management strategies and the financial performance of medium-scale businesses in Lira City is presented in the table 4.8 below.

Table 4.8 Correlation between receivables management strategies and the financial performance of medium-scale businesses

Correlations		Receivables management strategies	Financial performance
Receivables management strategies	Pearson Correlation	1	.589 **
	Sig. (2-tailed)		.000
	N	24	24
Financial performance	Pearson Correlation	.589 **	1
	Sig. (2-tailed)	.000	
	N	24	24

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

The findings in the aforementioned table show a substantial correlation between medium-sized enterprises' financial success and their approaches for managing receivables. In this case, the correlation coefficient of .589 (**) and significance value of .000 provide an explanation for the nature of the association. Since the link is substantial, the p-value is 0.000 greater than 0.01. This suggests that prompt receivables collection has improved the cash flow of the company.

Before giving credit, Mass Plumbing and Tiles Hardware routinely assesses the creditworthiness of its clients. The company also makes its credit policy known to all of its clients.

4.5.2 Regression analysis

A single regression analysis was run between receivables management strategies and the financial performance of medium-scale businesses, and results are presented in the table 4.9 below.

Table 4.9: A single regression between receivables management strategies and the financial performance of medium-scale businesses

		Unstandardized Coefficients		Standardized Coefficients	
Model		B	Std. Error	Beta	Sig.
1	(Constant)	.989	.110		.000
	Receivables management	.204	.032	.589	.000

a. Dependent Variable: Financial Performance

Regression findings with a coefficient of determination of $R^2=0.346$ were derived from the above data, indicating that modifications in reviewable management methods account for 34.6% of the variation in financial performance. This suggests that if every part of reviewable management methods was properly addressed, any modifications would result in a 34.6% likelihood change in financial performance. The study's findings verify that enhanced financial performance in medium-sized businesses is substantially correlated with reviewable management practices ($\beta_1 =0.589$, $p<0.01$). The statement "There is a significant relationship between receivables management strategies and the financial performance of medium-scale

businesses" from hypothesis two is supported by this. This suggests that prompt receivables collection has improved the cash flow of the company.

4.6 Cash Management Practices and the Financial Performance of Medium-Scale Businesses

The study found out 24 participants response on the relationship between cash management practices and the financial performance of medium-scale businesses in Lira City. Table 4.10 provide in summary of their views in frequency and percentages.

Table 4.10: Relationship between cash management practices and the financial performance of medium-scale businesses

Variable Items	Extent of (dis)agreement			Mean	Std. Devt
	Accepted	Neutral	Disagreed		
	<i>f (%)</i>	<i>f (%)</i>	<i>f (%)</i>		
Our business regularly prepares cash flow forecasts to manage liquidity	23 (95.8%)	- (0.0%)	1 (4.2%)	3.87	0.487
We maintain an optimal cash reserve to meet unexpected expenses.	21 (87.5%)	1 (4.2%)	2 (8.3%)	3.77	0.842
Effective cash management has led to a reduction in our business's borrowing costs	19 (79.2%)	2 (8.3%)	3 (12.5%)	3.49	0.764
Our business experiences minimal cash shortages due to efficient cash management practices	17 (70.8%)	3 (12.5%)	4 (16.7%)	3.47	0.785
We prioritize payments to suppliers based on cash availability and business needs	15 (62.5%)	3 (12.5%)	6 (25%)	3.53	0.574
The timing of our receivables and payables is carefully managed to optimize cash flow	13 (54.2%)	4 (16.7%)	7 (29.2%)	3.48	0.635
Our financial performance has improved since implementing structured cash management practices.	12 (50%)	5 (20.8%)	7 (29.2%)	3.29	0.937
We use cash flow statements to regularly assess our business's financial health	10 (41.6%)	7 (29.2%)	7 (29.2%)	3.31	0.338

Source: Primary data (2024) (n=24)

Table 4.5 represents the descriptive statistics on the relationship between cash management practices and the financial performance of medium-scale businesses in Lira City. The results show that 23(95.8%) of the respondents accepted to the statements that business regularly prepares cash flow forecasts to manage liquidity (Mean= 3.87); Mass Plumbing and Tiles Hardware maintain an optimal cash reserve to meet unexpected expenses, and this was accepted by 21(87.5%) of the respondents (Mean=3.77); Effective cash management has led to a reduction in our business's borrowing costs, and this was accepted by 19(79.2%) of the respondents (Mean=3.49); and lastly, hardware business experiences minimal cash shortages due to efficient cash management practices, and this was accepted by 17(70.8%) of the respondents (Mean=3.47). implying that because there is usually more than enough stock available, there are little to no stock outs and ordering prices are not a problem for the majority of enterprises. Because orders are placed only once during a set period, ordering costs are likewise minimal.

4.6.1 Testing Hypothesis Three: Cash management practices have a positive relationship with the financial performance of medium-scale businesses.

Results from correlation analysis were run between cash management practices and the financial performance of medium-scale businesses in Lira City is presented in the table 4.11 below.

Table 4.11: Correlation between cash management practices and the financial performance of medium-scale businesses

Correlations		Cash management practices	Financial performance
Cash management practices	Pearson Correlation	1	.342 **
	Sig. (2-tailed)		.000
	N	24	24
Financial performance	Pearson Correlation	.342 **	1
	Sig. (2-tailed)	.000	
	N	24	24

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

The aforementioned table presents correlation results that demonstrate a noteworthy impact of cash management procedures on the financial performance of medium-sized enterprises located in Lira City. The positive correlation between the two variables is explained by the computed correlation co-efficient of .342 (**), which has a significance value of .000. This suggests that financial performance is likely to be impacted in circumstances where there are cash management techniques, businesses have few cash shortages as a result of effective cash management procedures, and businesses routinely create cash flow predictions to manage liquidity.

4.7.2 Regression analysis

The financial performance of medium-sized enterprises and cash management techniques were the subject of a single regression analysis, the results of which are shown in table 4.12 below.

Table 4.12: A single regression between cash management practices and the financial performance of medium-scale businesses

		Unstandardized Coefficients		Standardized Coefficients	Sig.
		B	Std. Error	Beta	
Model					
1	(Constant)	1.137	.167		.000
	Cash management practices	.177	.055	.342	.002
a. Dependent Variable: Financial performance					

Results The regression table presented above yielded results with a coefficient of determination of $R^2=0.117$, indicating that modifications in cash management methods account for 11.7% of the variation in financial performance. This suggests that any modifications to cash management procedures would result in an 11.7% likelihood modification to the financial performance of medium-sized companies in this region. The study's findings verify that the financial performance of medium-sized enterprises that employ cash management techniques is greatly impacted by those practices ($\beta_1 = 0.342$, $p < 0.02$). This lends credence to hypothesis three, which claimed that "Cash management practices have a positive relationship with medium-sized businesses' financial performance." This suggests that effective cash management techniques result in minimal cash shortages for businesses, and that it is important to consistently create cash flow projections to manage liquidity.

From the field study, different measures were suggested by the participants that should be adopted to improve on working capital management and the financial performance of medium-scale businesses in Uganda and Lira City in particular so as it is indicated in chapter five and six of this report.

CHAPTER FIVE

DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

Based on the study findings, this chapter discusses the findings of the investigation into how working capital management affects the financial performance of medium-sized businesses in Lira Town, Uganda. These are in line with the order in which the research questions were derived from the study goals. In order to determine whether the study's goals were met and to address the research questions, this chapter also includes the study's conclusion and suggestions, which were first offered in chapter four. This chapter presents the research areas in an equitable manner.

5.1 Discussion of Findings

The The findings are discussed based on the goals of the study as stated in the first chapter and the outcomes in the fourth chapter of this report. The results are discussed in the following thematic order, based on the findings given in Chapter 4:

5.1.1 Relationship between Inventory Management Practices and the Financial Performance of Medium-Scale Businesses

The Following was the discussion of the aforementioned study theme, which sought to determine the connection between inventory management techniques and the bottom line of medium-sized enterprises in Lira City:

Inventory management procedures and the financial performance of medium-sized enterprises in Lira City were shown to be significantly correlated by the study (.686**). This is consistent with the findings of García-Teruel & Martínez-Solano (2017), who claimed that effective resource management through working capital management can increase a company's earnings and profitability. In other words, working capital management is a well-designed business plan that makes sure a company runs smoothly by keeping an eye on and making the most use of its

current assets and obligations. As per Raheman & Nasr's (2017) assertion, managing working capital necessitates monitoring current, collected, and inventory ratios to ensure that a business operates effectively, thereby assisting in optimizing a company's profitability. This generally aids businesses in keeping up enough cash flow to cover their short-term debt obligations as well as operating expenses. It contributes to keeping the net operational cycle running smoothly. This suggests that keeping our inventory levels at ideal levels has improved our company's cash flow, and we use inventory management software to effectively track and manage our stock. The study noted that there is 47.1 % variation in financial performance is explained by changes in inventory management practices. This implies that any changes in inventory management practice is would lead to 47.1% chance change in the financial performance. These results depict that salary is significantly related with improved financial performance in medium-scale businesses ($\beta_1 = 0.686$, $p < 0.01$). This supports hypothesis one which stated that “Inventory management practices have a significant relationship with the financial performance of medium-scale businesses”. This concurs with Ahmed and Malik (2015) who argued that effective inventory management leads to improved profitability and liquidity in medium businesses. Efficient inventory management ensures that capital is not tied up unnecessarily in inventory, which can improve liquidity and reduce holding costs. Research by Ameer and Al-Ghamdi (2021) showed that businesses with effective working capital strategies report higher profit margins and return on assets. This means that any improvement in inventory management practices is significantly and positively associated with improved financial performance of medium-scale businesses in Lira City.

5.1.2 Relationship between Receivables Management Strategies and the Financial Performance of Medium-Scale Businesses

The above study theme of analyze the relationship between receivables management strategies and the financial performance of medium-scale businesses in Lira City ranges from:

The results show that there is a significant relationship between receivables management strategies and the financial performance of medium-scale businesses in Lira City (.589**). This concurs with Chen and Xie (2017) who showed that prompt collection of receivables and effective credit policies can enhance cash flow and reduce the risk of bad debts. A study by Wang (2016) found that improved receivables management practices positively impact financial performance by boosting liquidity and reducing credit risk. This implies that timely collection of receivables has positively impacted business's cash flow. Mass Plumbing and Tiles Hardware regularly review the creditworthiness of our customers before extending credit, and the business has a clear credit policy that is communicated to all customers.

The study's conclusions indicate that variations in reviewable management methods account for 34.6% of the variance in financial performance. This suggests that if every part of reviewable management methods was properly addressed, any modifications would result in a 34.6% likelihood change in financial performance. The study's findings verify that enhanced financial performance in medium-sized businesses is substantially correlated with reviewable management practices ($\beta_1 = 0.589$, $p < 0.01$). The statement "There is a significant relationship between receivables management strategies and the financial performance of medium-scale businesses" from hypothesis two is supported by this. This concurs with Patel and Patel (2018) who indicated that effective receivables management ensures timely collection of outstanding invoices, improving a company's cash flow. By shortening the collection period, businesses can have more liquid assets available for operations and investment. A study by Anandarajan

and Kumar (2016) found that companies with efficient receivables management strategies experienced a 20% improvement in cash flow. Timely collections reduced the days sales outstanding (DSO), allowing for better liquidity and financial flexibility. This implies that timely collection of receivables has positively impacted business's cash flow.

5.1.3 Relationship between Cash Management Practices and the Financial Performance of Medium-Scale Businesses

The above study theme of examining the relationship between cash management practices and the financial performance of medium-scale businesses in Lira City; and these ranges from:

The study noted that there is a significant influence of cash management practices on the financial performance of medium-scale businesses in Lira City (.342**). This is in line with Kermani and Moghadam (2018) who argued that effective cash management ensures that a business maintains sufficient liquidity to meet its short-term obligations. Properly managing cash flows helps in avoiding liquidity crises and allows businesses to take advantage of investment opportunities. A study by Eljelly (2016) found that businesses with robust cash management practices experienced a 15% improvement in liquidity ratios. Enhanced liquidity helps businesses manage day-to-day operations efficiently and reduces the risk of financial distress. A study by Gupta and Kumar (2019) demonstrated that robust cash management practices improve financial performance by optimizing cash flow and minimizing the cost of capital. This implies that in situations where there is cash management strategies, business experiences minimal cash shortages due to efficient cash management practices, and business regularly prepares cash flow forecasts to manage liquidity, then financial performance is likely to be affected. Efficient cash management ensures that there is enough liquidity to meet operational needs while investing excess cash wisely.

The study finally indicated that there is 11.7% variation in financial performance is explained by changes in cash management practices. This implies that any changes in cash management

practices would lead to 11.7% chance change in financial performance in medium-scale businesses in this area. In the study results confirm that cash management practices significantly influence the financial performance of medium-scale businesses that practice it ($\beta_1 = 0.342$, $p < 0.02$). This supports hypothesis three which stated that “Cash management practices have a positive relationship with the financial performance of medium-scale businesses”. This is in line with Sharma and Kumar (2019) who indicated that proper cash management allows businesses to invest excess cash into profitable opportunities, such as expansion or new projects. Effective management of cash flows also helps in reducing costs associated with short-term borrowing and late payment penalties. A study by Kermani and Moghadam (2018) found that businesses with effective cash management practices experienced a 10% increase in profitability. The ability to invest surplus cash and reduce financing costs contributed to higher net income. This implies that cash management strategies leads to business experiences minimal cash shortages due to efficient cash management practices, and to regularly prepare cash flow forecasts to manage liquidity.

5.2 Conclusions

From the findings and discussion in chapter four and five respectively, the following conclusions were drawn.

Reference to the study objective one, it is concluded that there is a significant relationship between inventory management practices and the financial performance of medium-scale businesses in Lira City (.686**). This implies that maintaining optimal inventory levels has positively impacted our business's cash flow, and the use inventory management software to track and manage our stock efficiently. Thus, therefore, there is 47.1 % variation in financial performance is explained by changes in inventory management practices. These results depict

that inventory management practices is significantly related with improved financial performance in medium-scale businesses ($\beta_1 = 0.686$, $p < 0.01$).

The study also concluded that there is a significant relationship between receivables management strategies and the financial performance of medium-scale businesses in Lira City (.589**). This implies that timely collection of receivables has positively impacted business's cash flow. Thus therefore, there is 34.6% variation in financial performance is explained by changes in reviewable management strategies. In the study results confirm that reviewable management strategies is significantly related to improved financial performance in medium-scale business ($\beta_1 = 0.589$, $p < 0.01$).

Basing on the objective three, it is also concluded that there is a significant influence of cash management practices on the financial performance of medium-scale businesses in Lira City (.342**). This implies that in situations where there is cash management strategies, business experiences minimal cash shortages due to efficient cash management practices, and business regularly prepares cash flow forecasts to manage liquidity, then financial performance is likely to be affected. Thus therefore, there is 11.7% variation in financial performance is explained by changes in cash management practices. In the study results confirm that cash management practices significantly influence the financial performance of medium-scale businesses that practice it ($\beta_1 = 0.342$, $p < 0.02$).

5.3 Recommendations

In the light of the findings of the study and discussions above, the researcher makes the following recommendations:

The study suggests that medium-sized businesses should take into account other factors like quality control, competition, and tax planning to avoid paying unnecessary taxes, rather than focusing solely on inventory management as the factor that affects profitability.

It is recommended that the management of medium-scale businesses should not over-concentrate on manipulating the levels of working capital with an attempt to increase the entrepreneurs' profitability. They should therefore focus other factors other than working capital, which improve profitability of the entrepreneur.

Given that this study has demonstrated a positive relationship between return on asset and Current Asset to Total Asset ratio, the study advises medium-sized business management that still feel the need to influence the return on asset through working capital management to think about increasing current assets.

According to the study, management should instead concentrate on a conservative approach that calls for high cash balances and high stock reserves for a given level of activity or sales, rather than an aggressive working capital management policy that forces an entrepreneur to operate with lower levels of inventory and trade receivables. This is due to the fact that, for 87% of Uganda's medium-sized business owners, the current ratio and return on assets are positively correlated.

According to the study, medium-sized enterprises should choose to utilize the Just in Time method, which orders exact quantities based on client demand at a given time, as an inventory management strategy. Because there would be no inventory handling, this will help to reduce the amount of stock held and the carrying expenses associated with it.

5.4 Limitations of the Study

Extraneous variables. The researcher had no control over extraneous variables like the honesty of respondents, individual biases, or the study's uncontrolled environment. The investigator encountered uncooperative subjects who declined to provide pertinent data. But the investigators resolved this by providing them with a copy of an authorization letter and an introduction, as well as by assuring them that the pertinent information provided would be kept private.

Testing: Using research assistants may result in inconsistent interview administration and conduct, including irregularities in the timing of administration, the respondents' explanations, and their comprehension of the items on the interview schedule. The research assistants were trained and educated on the steps involved in data collection in order to reduce this threat.

Time factor: The amount of time the researcher used wasn't enough to carry out a more comprehensive study and could not provide more significant and real-life views of respondents, this was also coupled in collection of data especially the interviews where some respondents were not readily available and others did not want to be recorded or access any audio recording from them. In addition to the above, the researcher made sure; she followed the scheduled work plan.

Attrition:: Due to respondent conditions including travel, illness, hospitalization, and refusal or withdrawal, not all of the selected participants were willing to participate in this study. The researcher reserved a larger number of responses by going above the required minimum sample size in anticipation of this.

Time and financial constraints: These restricted the study's covering region and intensity of spread. The researcher was able to address this by taking out loans from friends and relatives.

Areas for Further Research

The researcher carried this study in order to examine the “The Effect of Working Capital Management on Financial Performance of Medium-Scale Businesses in Lira City: A Case of Mass Plumbing and Tiles Hardware, Lira City West along Olwol Road” but the study was not exhaustive owing to constraints in terms of scope, time and finance. Further research is therefore needed in areas such as:-

1. The Effect of Taxation on Financial Performance of Medium-Scale Businesses in Lira City.
2. The Effect of Working Capital on Financial Performance of Medium-Scale Businesses in Lira City.
3. The Effect of Budgeting on Financial Performance of Medium-Scale Businesses in Lira City.

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APPENDICES

APPENDIX A
Table for Determining Sample Size for a Finite Population

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

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

Source: Krejcie & Morgan, 1970

APPENDIX B: CONSENT FORM FOR PARTICIPANTS
TOPIC: THE EFFECT OF WORKING CAPITAL MANAGEMENT ON FINANCIAL PERFORMANCE OF MEDIUM-SCALE BUSINESSES IN LIRA CITY: A CASE OF MASS PLUMBING AND TILES HARDWARE, LIRA CITY WEST ALONG OLWOL ROAD

Introduction: I am Edola Samuel, a researcher from Uganda Christian University. I am conducting a study entitled “The Effect of Working Capital Management on Financial Performance of Medium-Scale Businesses in Lira City: A Case of Mass Plumbing and Tiles Hardware, Lira City West along Olwol Road”

Purpose of the Study: The principal aim of this investigation was to scrutinize the relationship between working capital management and the financial performance of medium-scale businesses in Lira City.

Procedure of Study: You have been identified to participate in the study and I wish to ask a few questions regarding the “The Effect of Working Capital Management on Financial Performance of Medium-Scale Businesses in Lira City: A Case of Mass Plumbing and Tiles Hardware, Lira City West along Olwol Road”. Your responses/answers will help us to establish how best we can improve on improving financial performance of Medium-Scale Businesses in Lira City. The responses will be recorded on the questionnaire.

Confidentiality: Your Your responses will be interpreted generally as one participant's contribution. The responses will be kept private and utilized exclusively for this study's objectives. Your identity is not required, and the utilized questionnaires will be gathered right away and retained by the lead investigator alone, so no one else will be able to access them.

Benefits and Risks: The results of this study will be beneficial to the Medium-Scale Businesses in Lira City, entire region and country at large as they will go a long way in promoting financial performance of Medium-Scale Businesses in Lira City. There are no anticipated risks as a result of your participation in this study.

Voluntary Consent: You are free to decide whether or not to participate in this study. Refusing to participate in the study won't result in any kind of persecution or negative consequences for you at work. We won't go any farther until you agree to participate in the study. Additionally, if you get uncomfortable throughout the research, you are free to end it at any time. You can reach the study's primary investigator, Edola Samuel, via phone at any point if you have any queries about it. "0751429999"

Consent Statement: I have been informed about the study on the "The Effect of Working Capital Management on Financial Performance of Medium-Scale Businesses in Lira City: A Case of Mass Plumbing and Tiles Hardware, Lira City West along Olwol Road". I've been given an explanation of the study's nature, goals, advantages, and dangers. I've been told that the information I provide will be kept private, that I can choose to participate in the study at any time, and that there won't be any repercussions if I do not want to

_____	_____
Participants Signature/thumb print	Date
_____	_____
Name of Researcher	Signature/thumb print
	Date

Section B: Inventory Management Practices and the Financial Performance of Medium-Scale Businesses

Apply a tick where applicable using the following key.

SA – Strongly Agree, A- Agree, NS – Not Sure, D – Disagree, SD – Strongly Disagree

No. Qns	Questions	5 SA	4 A	3 NS	2 SD	1 D
1.	Our business regularly conducts inventory audits to ensure accurate stock levels.					
2.	We use inventory management software to track and manage our stock efficiently .					
3.	Maintaining optimal inventory levels has positively impacted our business's cash flow.					
4.	Our business experiences minimal stockouts due to effective inventory management practices.					
5.	Excess inventory levels have led to increased storage costs for our business.					
6.	Inventory turnover rates in our business directly influence our overall profitability.					
7.	Proper inventory management has reduced the risk of stock obsolescence in our business.					
8.	We have a system in place to monitor and manage slow-moving inventory items					
9.	The accuracy of our inventory records has a direct impact on our sales performance.					
10.	Any other (specify)					

Section C: Receivables Management Strategies and the Financial Performance of Medium-Scale Businesses

Apply a tick where applicable using the following key.

SA – Strongly Agree, A- Agree, NS – Not Sure, D – Disagree, SD – Strongly Disagree

No. Qns	Questions	5 SA	4 A	3 NS	2 D	1 SD
1.	Our business has a clear credit policy that is communicated to all customers.					
2.	We regularly review the creditworthiness of our customers before extending credit					
3.	Timely collection of receivables has positively impacted our business's cash flow					
4.	Our business experiences low levels of bad debts due to effective receivables management					
5.	We offer discounts or incentives to encourage early payment from our customers					
6.	Our financial performance has been negatively affected by delays in collecting receivables					
7.	Effective receivables management has improved our business's profitability					
8.	The aging of receivables is closely monitored to prevent overdue accounts					
9.	We have a system in place for promptly following up on overdue accounts					
10.	The terms of credit we offer to customers are aligned with our cash flow needs					

Section D: Cash Management Practices and the Financial Performance of Medium-Scale Businesses

Apply a tick where applicable using the following key.

SA – Strongly Agree, A- Agree, NS – Not Sure, D – Disagree, SD – Strongly Disagree

No. Qns	Questions	5 SA	4 A	3 NS	2 D	1 SD
1.	Our business regularly prepares cash flow forecasts to manage liquidity					
2.	We maintain an optimal cash reserve to meet unexpected expenses.					
3.	Effective cash management has led to a reduction in our business's borrowing costs					
4.	Our business experiences minimal cash shortages due to efficient cash management practices					
5.	We prioritize payments to suppliers based on cash availability and business needs					
6.	The timing of our receivables and payables is carefully managed to optimize cash flow					
7.	Our financial performance has improved since implementing structured cash management practices.					
8.	We use cash flow statements to regularly assess our business's financial health					

Section D: The Financial Performance of Medium-Scale Businesses

Apply a tick where applicable using the following key.

SA – Strongly Agree, A- Agree, NS – Not Sure, D – Disagree, SD – Strongly Disagree

No.	Questions	5	4	3	2	1
Qns		SA	A	NS	D	SD
1.	For the last 3 years, Mass Plumbing and Tiles Hardware have experienced an increase in her net income (profitability).					
2.	For the past few years, Mass Plumbing and Tiles Hardware has collected almost all the amount due (debt) on time (debt recovery).					
3.	Mass Plumbing and Tiles Hardware have for the past few years realized an increase in liquidity levels					
4.	For the past 3 years, customers are satisfied with the quality of services delivered by Mass Plumbing and Tiles Hardware (customer satisfaction).					
5.	Mass Plumbing and Tiles Hardware have for the past few years realized an increase in return on asset ratio					

END

THANK YOU VERY MUCH