

**IMPACT OF WORKING CAPITAL MANAGEMENT ON FINANCIAL
PERFORMANCE OF SMALL SCALE BUSINESS IN NAKAWA DIVISION**

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**UGANDA CHRISTIAN
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DECLARATION

I, Jacqueline Kyabishiki declare that this dissertation is my original work and has never been published and or submitted to any University or Institution of learning for any award.

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APPROVAL

This research proposal has been submitted with the approval of the supervisor.

Signature..........

Date.....^{1st} September 2024.....

NATUHWERA MAUREEN

(RESEARCH SUPERVISOR)

DEDICATION

This piece of work is dedicated to my parents, siblings, and my husband and May God continue to provide for you.

ACKNOWLEDGMENT

I thank The Highest God for his grace, blessings and the gift of life that made me complete this journey. I would also like to thank my supervisor, for getting me through all the struggles of this research project as well with words and lessons that made everything doable. Thanks to the Guidance of my father who was as well part of advising and help me in many ways through this project. I would like to offer my sincere thanks for providing me with their assistance and time in contributing whatever they can gave this project life, so thank you to all of those who are my friends and fellow classmates.

LIST OF ABBREVIATIONS

NWC : Net Working Capital

SME : Small and Medium Enterprises

WCM : Working capital management

ABSTRACT

This research focused on effect of working capital management on the financial performance of Small and Medium Enterprises operating in Nakawa Division. The specific aim of this study was to find out the effect of working capital management on financial performance of small and medium enterprises in Nakawa division, three objectives central to it however were achieved; determination of the impact of accounts receivable on the financial performance of small and medium enterprise, review of cash management as a provider of value in small and medium enterprises and evaluation of inventory management in enhancing the financial performance of small and medium enterprises. There were 200 total employees from different small and medium businesses and the sample used was 52 respondents. A simple random sampling technique was used in this research and all the members of the finite population had equal chances of being selected because the target respondents were either non engaged or engaged individuals who possess certain knowledge regarding any financial performance of small and medium enterprises, these were of better abilities to satisfactorily address the research questions. This eliminated the adverse selection bias that could have been caused when the population under study is favored by the research. The data was collected through Questionnaires as the research tool. The inferential analysis which sought to establish the relationship among the variables showed that there was a clear positive and significant relationship between accounts receivable management and the financial performance of small and medium enterprises in Nakawa Division as well as the Cash management which has also been presented and it was established that there was and there is a positive significant association with the financial performance of Small and Medium Enterprises within Nakawa Division. And lastly was the inventory management an effective tool for this purpose that it was positively and significantly related to the financial performance of Small and Medium Enterprises with in Nakawa Division. The study went further to recommend that working capital management has an impact on the financial performance of Small and Medium Enterprises and that there is a positive significant relationship, the study recommends that Small and Medium Enterprises need to management their debts very well, management their receivables, management cash and also retention of inventory should be effectively managed so as to enhance their financial performance.

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CHAPTER ONE

INTRODUCTION

1.0 Background of the study

To understand the meaning of working capital, it is important to understand the meaning of currently available assets and liabilities. It is true that liquid assets have a short life or can be easily converted into cash. These assets are used for the current activities of the business, mainly for short-term activities during the accounting period of the company: within twelve months. Two important features of these assets are their short life and their transferability to other assets. Balances may remain idle for a week or two, receivables will have a life of 30 to 60 days and inventories will be kept for 30 to 100 days and other assets expected to be converted into cash within a year or more in the normal course of business.

"The company creates short-term liabilities from creditors (sellers) from whom it purchases raw materials on credit. This obligation is also known as debts or credits and appears on the balance sheet until the debtor pays. In general, demands or obligations expected to be paid during the accounting period are called short-term liabilities. These can be defined as "products that are necessary for the use of existing resources that can be classified as current assets or that create other current assets or create other short-term liabilities" (ibid., p. 51, 2023)

At the same time, there are both current assets and short-term liabilities. But capital works in the same way as a car engine. A working capital is created and provided in the business. When this cycle stops, the business stops. Therefore, working capital is called working capital because it circulates in the business every day (Agarwal, 2000: 171-172). determines the efficiency and profitability and how well the company's resources are used (Erich A. Helfert, D.B.A., 2001).

In advanced financial management, the majority of companies have working capital and capital management is an important and difficult task due to some of its characteristics. The management of current assets (usually converted into cash in a financial year) and short-term liabilities (usually determined in a year) and the quality of the relationships that exist between them can be called capital management.

High levels of current assets will have a negative impact on the company's profit, while low current assets will lead to low profitability and productivity, making it difficult to maintain

good performance (Van Horne and Vachovich, 2004). The traditional concept of working capital is the difference between current assets and liabilities. Therefore, capital management is an attempt to control and manage current assets and current liabilities to maximize profitability and appropriate operating income.

Liquidity and profitability are two important and significant aspects of business life (Dr. K.S. Vataliya, 2009). The problem is that increasing revenue from revenue can cause serious problems for companies. Therefore, there must be a balance between the two business goals (cost and profitability). One goal should not be at the expense of the other because both are important. Businesses cannot survive for long if they do not care about profit. On the other hand, if a business does not care about revenue, it will face bankruptcy or bankruptcy. For these reasons, the company managers need to consider the management function because it ultimately affects the profit of the company.

Thus, companies can achieve maximum profit and maintain sufficient capital through efficient and effective management. Poor financial management, including performance management, will harm the profitability of the company (Gebrehiwot and Wolday, 2006). Effective management of working capital is an important aspect of creating shareholder value for all business organizations (Nazir and Afza, 2008). Also, effective performance management can improve the performance of the company and help achieve short-term goals (C. Paramashivan T. Subramanian, 2009). Therefore, companies try to make the best use of their labor resources to increase their profitability (Deloof, 2003). In addition, performance management is very important because it affects the performance of the firm (Taleb et al., 2010). The main purpose of capital management is to obtain the optimal result of the capital management product (Gill, 2011). Excellent products and excellent marketing will lead to high sales. Large stocks also reduce the risk of stocks. Business credit will encourage sales as it allows companies to understand the quality of products before payment (Raheman and Nasr, 2007).

Another part of working capital is payments, Raheman and Nasr (2007) stated that delaying payments to suppliers allows the company to get good products and volunteering is cheap and flexible. On the other hand, if the company receives an early payment discount, the cost of delay, such as payment, can be high. Similarly, failure to obtain credit will cause the firm to experience financial distress. A popular measure of operational efficiency is the cash turnover ratio, which is the time it takes to spend money to purchase raw materials and turn finished goods into sales. Deloof (2003) found that the longer the lag, the longer the turnover.

1.2 Statement of the problem

Working capital management and its impact on the performance of small businesses have been widely studied and researchers have found a positive relationship between the two (Padachi, 2006; Finau, 2011; Anand and Gupta, 2002); Dhruv, 2003; Luo et al., 2009). However, some managers make investment decisions based on their own experiences rather than financial management (Emery, Finnerty, and Stowe, 2004), which results in poor management of working capital and over- or under-management of working capital. This may have negative consequences as Egbiide (2009) found that the inability of financial managers to plan and manage working capital is a major factor in business failure. Also, profit does not always reflect good management performance because if the company's assets cannot be easily converted into cash, the company may make profit but its capital remains inadequate (Eljelly, 2004), which leads to the possibility of insufficient funds and debt. negatively affect its long-term performance. Therefore, effective management is essential for the financial performance and stability of small enterprises, and managers should rely on financial management, not personal experience, to determine working capital.

1.3 Purpose of the study.

Evaluating the impact of inventory management on the financial performance of small and medium-sized enterprises in central Sichuan.

1.4 Specific objectives

- i. To examine the impact of cash management on the financial performance of small and medium-sized businesses.
- ii. To analyze the effect of inventory management on the financial performance of small-scale businesses.
- iii. To investigate the effect of accounts receivable management on the financial performance of small and medium-sized businesses.

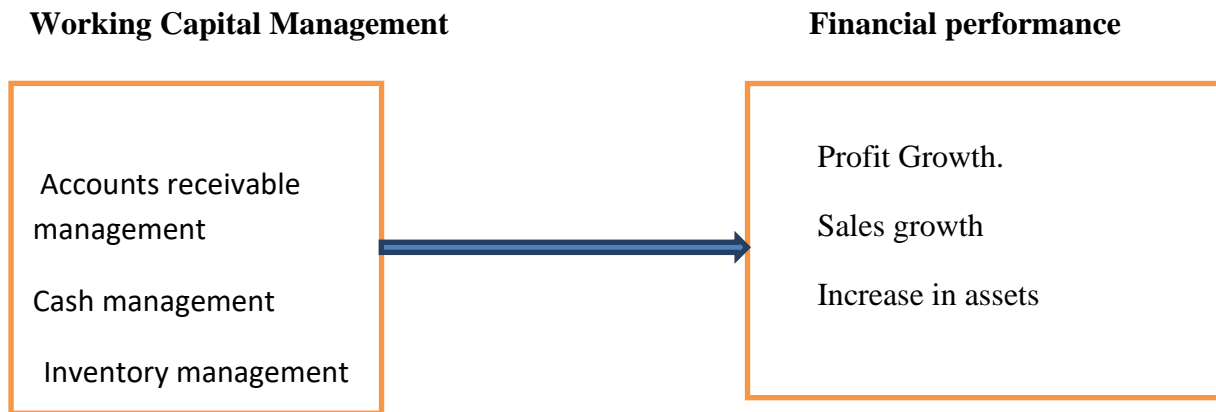
1.5 Research questions

- i. What is the impact of cash management on the financial performance of small and medium-sized businesses?
- ii. How does inventory management affect the financial performance of small-scale businesses?
- iii. What is the effect of accounts receivable management on the financial performance of small and medium-sized businesses?

1.6 Significance of the study

This finding will also help you understand the financial culture and the pros and cons of the process of managing working capital. Financial performance is important.

1.7 Conceptual Framework.



Source: Adapted from Rathirane, Y., Sangeetha, T., (2020) and edited by researchers.

The framework shows that receivables management, cash management and inventory management affect financial performance, while the performance of the relevant financial assets shown in the figure above is growth measured using assets, growth and sales growth. >Profit is a growth. The combination of profitability and growth, or rather the combination of economic profitability and free cash flow growth.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter presents a literature review on capital management and financial performance. It also includes content analysis of objective data conducted by previous researchers and gaps in previous research literature. The purpose of the literature review is to discuss the existing literature with the aim of revealing the contributions of previous researchers, weaknesses and commonalities in existing knowledge and studies.

2.1. Key points.

Working Capital Management (WCM) is a way of managing the daily operations of companies. It focuses on keeping good things such as cash, debts to the company, goods sold, and invoices paid by the company.

This is to ensure that the company has a good balance between current assets and short-term liabilities (Harris, 2023). According to Wanjiku (2023), financial performance is a financial measure of the company's financial policies and operations, considering return on investment, return on equity, return on investment, and income levels.

Micheni (2022) defines financial performance as: a concept. It measures how well a company uses its assets to generate revenue. He also emphasized that financial performance is an overall measure of a company's financial responsibilities over a given period of time. . Small businesses are independent organizations that do not require large capital or large numbers of employees and use little or no technology (Faris, 2018).

2.2. The impact of cash management on financial performance of small and medium scale businesses.

Cash management is the process by which businesses collect and manage cash and use it for short-term investments, and is an important part of a company's financial stability and solvency (Cooper and Schindler, 2021). The term "cash" includes coins, currency, and checks held by the company, as well as bank accounts and sometimes things that are close to cash, such as securities or time deposits in banks, because they can be easily converted into cash. Generally speaking, when a company has a lot of cash, it is invested in business activities that can help the company make money, even if it has a beginning and an end to working capital, which includes cash, inventory, and promissory notes. Management should try to have more cash at the end of the cycle than is invested, while at the same time keeping it as low as possible to

improve cash flow, and not spending money is not enough. Management is an important factor in determining the adequacy of working capital. Incentives for cash flow are business support, preventive maintenance, and strategic thinking. The length of the product cycle - in other words, the time between the payment of the product and the receipt of the product (Mekonnen, 2022). The critical cash management period refers to the number of days that the company's cash, including inventory and accounts receivable, is tied up in the current operating cycle. The cash management period can be calculated by adding the average number of days it takes to collect payments from customers to the average number of days it takes to sell inventory, and then subtracting the average number of days it takes to pay the supplier (Vural et al. ., 2020). Cash management, in essence, refers to how long a company's cash remains relevant to its normal operations before it is repaid, and the goal is to reduce cash transfers. First, shorten the product cycle by producing and selling products faster. Second, reduce the income of money by ensuring that goods are sold quickly, and third, delay or delay payment by making the company's money underpaid (Lu, 2023).

Lazaridis and Tryfonidis (2016) studied the relationship between business profitability, cash management, and products. They used a sample of 131 companies traded on the Athens Stock Exchange between 2001 and 2004.

The research results show that cash management, fiscal responsibility, and profitability have a negative effect, while stable financial instruments have a positive effect. The authors conclude that companies can make more profits by managing their cash and producing more products at a good level. Naimulbari (2023) in his study on the Impact of Working Capital on Business in the Bangladeshi pharmaceutical industry shows that there is a relationship between cash management and results.

Since cash management does not affect profitability, the cash management cycle should be as short as possible without harming performance. This will increase profits because the longer the cash management cycle, the greater the need for external financing, which also has a cost (Naimulbari, 2020).

In the study conducted by Dong and Su (2020), it was reported that the profit and performance of the company are affected by the performance of management. Studies have shown that there is a negative relationship between cash management and income. This shows that the decrease in profitability is due to the increase in cash flow. Raheman and Nasr (2007) conducted a similar study based on corporate governance and profitability of Pakistani companies and

examined the impact of diversity on corporate governance performance including debt management, inventory management, credit management, cash management and its impact on the company's net operating profit. They selected a sample of 94 Pakistani companies listed on the Karachi Stock Exchange for a period of six years from 1999 to 2004 and found a strong negative relationship between diversity of working capital management and profitability. They found that when the cash turnover cycle increases, it will lead to a decrease in operating profits and managers can minimize the green changes in money and thus create good profits for the shareholders (Raheman and Nasr, 2023)

2.3 The effect of inventory management on financial performance of small and medium scale businesses.

A company's production inventory refers to the company's inventory of goods and materials that make up those products, including raw materials, labor, finished goods, and equipment (Ioannis and Alina, 2022). Inventory is a part of a company's current assets that are expected to be converted into other types of working capital, such as revenue or cash, within less than a year, and inventory usually constitutes a significant portion of the company's total assets (Nikola et al., 2022). Considering that maintaining inventory involves a significant financial investment, maintaining inventory levels is an important part of a company's operations because inventory represents a financial economic importance. Product quality management is important for the company because it affects its overall working capital and profitability. This leads to tying up cash or capital that could be better utilized. It seems that the corporate management is quite concerned about high inventory. Products are part of the organization's resources and are constantly reflected in the organization's reporting (Godana BE, Ngugi DK 2020). Monitor the demand level for consumers and track seasonal demands (Aloulou et al., 2023). The organization's ability to manage products to meet customer needs, including many factors such as exchange rate, transportation, government support and environmental circulation will affect the prices of goods, especially for agricultural companies in the United Kingdom. Yan (Fang et al., 2023). Proper inventory management is important for every organization because inventory shortages can cause loss of customers and sales. On the contrary, good product management can generate more sales, which can directly affect the overall performance of the organization (Greasley and Assi, 2023). Therefore, it is necessary to have a product management process that is supervised by a team of experts in the field. (2023) studied the topic of "Impact of inventory management on the financial performance of state-owned investment banks" in Kenya.

The aim of this study is to determine the impact of inventory management on the financial performance of financial institutions from the Kenyan government. However, the study revealed that Kenya has more interest in inventory management, especially in terms of reviewing and processing according to inventory management and quality control rules. Managers can create value for shareholders by minimizing the day's inventory (Kilonzo et al., 2023). The aim of this study is to determine the impact of inventory management on the financial performance of Indian companies. Analysts believe that stock market is related to the income of the company.

Therefore, based on different findings, it can be concluded that inventory management has an impact on the financial health of the company (Vipulesh, 2023). (2023) investigated the impact of inventory management on the financial performance of sugar companies in Kenya. The research results show that there is generally more than a moderate relationship between product management and financial performance of sugar companies (Timothy et al., 2023). Institutional relationships in the Indian context. This study examines the relationship between the performance of discrete product inventory and the financial performance of the Indian manufacturing industry (Jighyasu and Sourabh, 2023). (2023) examined the relationship between inventory and financial performance in manufacturing companies. The researchers examined 52,254 businesses over a 25-year period from 1980 to 2005. They used multiple regression analysis to determine the impact of financial performance on goods at various levels.

They measure financial performance using total revenue, operating profit, and inventory levels of raw materials, labor, and finished goods. The results show that inventory management has a positive effect on financial performance. The researchers also noted a strong relationship between inventory and financial performance (Capkun et al., 2023). (2023) examined the impact of working capital on firm performance. This study found no positive relationship between sales date and revenue (Vural et al., 2023). However, a similar study conducted in Cyprus between 1998 and 2007 revealed that inventory dates were negatively related to profitability. This is consistent with the findings of Raheman and Nasr (2023), Lazaridis and Tryfonidis (2023), and Jayarathne (2023).

2.4. The effect of accounts receivable management on financial performance of small and medium scale businesses

Earnings management (debt) refers to the average time it takes for a company's receivables to

be converted into cash after sales. It is calculated by dividing revenue by average daily credit sales. This ratio measures the time it takes for average sales to be converted into cash. This measure shows the relationship between revenue and cash flow (Garcia, Teruel, & Martinez-Solano, 2022). The longer the debtor's management takes, the greater the investment that needs to be made in receivables. The greater the investment in receivables, the less money is left to pay cash outflows such as paying bills (Sharma and Kumar, 2020). Companies can increase profitability by reducing the number of days accounts receivable outstanding. This can be explained by the fact that the less time customers spend paying their fees to add products, the higher the sales, resulting in better profits for the department company.

He used a case study design on private companies in Nigeria and highlighted the relationship between debt management and profitability by showing that a 1-day increase in accounts receivable is associated with a decrease in profits. In this way, managers can increase their profits by reducing the credit period to customers (Lazaridis and Tryfonidis, 2020).

Deloof's research (2022) shows that managers can increase business profitability by reducing the management period of debt. The longer the receivables, the better, the greater the probability of the company losing profit. Tirngo (2020) used the Bahir Dar Municipal Government as an example to analyze the impact of management performance on the revenue of small and micro enterprises in Ethiopia and found that revenue recognition days had a negative impact on the results (Tirngo, 2020). Padachi (2022) examined trends in performance management and its impact on company performance.

It was found that high investment in inventory and receivables was associated with lower profits. It has also been shown that the number of successful days is negatively related to income.

Mathuva (2020) studied the impact of performance management on employee benefits from 1993 to 2008 using a sample of 30 companies listed on the Nairobi Stock Exchange (NSE). Coefficients, ordinary ordinary squares (OLS) and a combination of fixed effects models were used to analyze the data. The main finding of the study is that there is a negative relationship between the company's cash collection from its customers (debt management) and the company's profit. Waweru (2022) studied the relationship between management performance and value of companies listed on the NSE. The study used secondary data from annual reports and audited financial statements of companies listed on NSE. The study used a sample of 22 companies listed on NSE for a period of seven years from 2020 to 2023. The regression model

shows that there is some relationship between business management and business value, while the Pearson correlation results show a negative relationship between debt management period and business value. (2020) also analyzed the impact of corporate governance on the profitability of companies listed on NSE. They found that profitability is positively related to average payment period and collection period and negatively related to cash flow. Makori and Jagango (2020) while analyzing the impact of management practices on profits of Kenyan companies from 2023 to 2022, found a positive relationship between purchase date and cash flow and concluded. Instead, they found that inventory and wages were positively related to profitability. They also stated that corporate management can create value for shareholders by reducing the days of cash received. If the company does not intervene or interfere with the relationship between the two, it may take longer to pay its creditors.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

The methodology for the study, which includes the research design, study population sample size, sampling strategies, data sources, data collection methods, data collection tools, data, and data presentation and analysis, is presented in this chapter.

3.1 Research design

the goal of this study is to examine how working capital management affects the small and medium sized enterprises in Nakawa Division's financial performance. The main requirement for this study is to describe statistics using both qualitative and quantitative methods. The quantitative approach uses closed-ended questions to convert data into numbers, whereas the qualitative approach uses open-ended questions to allow respondents to share their thoughts, ideas, and recommendations about the study's goal.

3.2 Study Population

Nakawa division a population over 200 registered small-scale enterprises, which comprises of 90 retail shops, 20 hardware shops, 40 groceries, and 50 dealers in general merchandise (URSB 2018/2019 FY report).

3.3 Sample Size

The small-scale business environment is too wide so there will be a need to choose a few manageable respondents to participate in the study. The sample size will be 52 from the total number of 70 respondents (Krejcie and Morgan' sample size table 1970).

Table 1: Sample size

TYPE OF BUSINESS	POPULATION	SAMPLE SIZE
Retail shops	20	12
Hardware shops	15	11
Groceries	20	15
General merchandise	15	12
TOTAL	70	52

3.4. Sampling method.

This study uses simple random sampling. This means that all participants in the study population have an equal chance of selection.

3.5 Data source.

There is a collection of primary and secondary data. Surveys and in-person interviews are used to gather primary data. The goal of employing primary data is to gather information that cannot be found in other sources. By looking through a variety of publications, including books, journals, magazines, and other published materials, secondary data can be retrieved.

3.5.1 Primary Data.

Primary data is a type of data that is collected for the first time and has not been reported anywhere before. Primary data is data collected by researchers from primary sources using methods such as surveys, interviews, and experiments.

3.5.2 Secondary data.

Secondary data is the type of data that is available and has already been reported by other scientists. Secondary data is data collected through research, surveys, and experiments conducted by others or collected for other research.

3.6 Data collection tools.

In this study, questionnaires are used as data collection tools.

3.6.1 Questionnaires

A questionnaire is a set of written questions that respondents answer, usually within fairly clearly defined alternatives. Also, questionnaires are used because information needs to be collected from a large sample within a short period of time. Questionnaires are used as a tool to collect data from respondents (small business owners).

3.7 Data presentation and analysis.

The collected data is checked for completeness, categorized, coded, entered into a computer, summarized into frequency tables, and edited and tabulated using SPSS software.

3.8. Ethical Considerations.

When it comes to the rights of people who are the subjects of your research or who are impacted by it, ethics in the context of research refers to how you should conduct yourself (Saunders, Lewis, & Thornhill, 2009). For all parties concerned, the researcher must therefore guarantee that the research design is both ethically sound and sound from a methodological standpoint. The researcher must guarantee that participants are not coerced into taking part in the study, that they are fully informed of the procedures and risks involved, that they give their consent to participate, and that the researcher will not put them in any circumstances that could put them in danger as a result of their participation.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.0 Introduction

This chapter is a section where data collected and analyzed was presented. The study topic was: Impact of working capital management on financial performance of small and medium businesses in Nakawa Division.

The statistical findings below come from data collected using questionnaires and interview guides. The data was collected from a total of 52 respondents whereby 46 filled questionnaires and six were interviewed face to face. The results were given in accordance with the goals of the investigation, in which the unprocessed data which took the form of questionnaires—was edited and interpreted to guarantee consistency, uniformity, and legibility. After copying the completed questionnaires, the data were tabulated and tallied in frequency polygons to determine the frequency of particular replies. An evaluation was then conducted. Subsequently, the data was documented using percentages. Additionally, the results of the interviews were classified and shown in this study as shown below using frequency tables that were computed as percentages.

4.1 Response rate

Unlike expected, the study did not have a response rate of 100 percent, and thus the turn up is indicated in table 4.1 below.

Table 4.1 showing the response rate

Category	Target sample	Percent
Male	26	56.5
Female	20	43.5
Total	46	100

Source: primary data 2022

According to the table above, the response rate was very good as it attained 100% results.

4.2 Demographics of respondents

This section includes cross cutting characteristics of all respondents involved in the study for instance, age, marital status and more.

4.2.1 Age of respondents

The study respondents were from varying age groups as indicated in table 4.2.1 below.

Table 4.2 Showing age group of respondent

Age group	Frequency	Percent
15-25 years	6	13.1
25-35 years	19	41.30
35-45 years	10	21.7
45-55 years	11	23.9
Total	46	100

Source: primary data2022

According to findings in the table above, it can be seen that majority of the respondents were in the age group of 25-35 years with 41.3%, these were followed by those in the age group of 45-55 years with 23.9% and the minority were between 15-25% years with only 13.1%.

4.2.2 Marital status of respondents

In this study, participants were from varying marital categories and these are indicated in table 4.2.2 below.

Table 4.3 Showing the marital status of respondents

Marital status	Frequency	Percent
Single	6	13.04
Married	23	50
Divorced	7	15.21
Separated	10	21.7
Total	46	100

Source: primary data 2022

According to the findings in table 4.3 above, it was revealed that majority of the respondents were married and these represented 50%, they were followed by those who were separated – representing a total of 21.7% and the minority were those who were single who represented

only 13.04%. This indicates that there is a lot of marital separation in the study area which was brought about by which craft in the region.

4.2.3 Education levels of respondents

Respondents who participated in the study were of different education levels as indicated in table 4.2.3 below.

Table 4.4 Showing the education level of respondents

Level	Frequency	Percent
Primary	27	58.6
Secondary	13	28.2
Institution/ university level	6	13.04
Total	46	100

Source: primary data2022

Given the statistics in the table above, it is evident that the majority of the respondents were of primary education representation of 58.6%, these were followed by those of secondary level with a representation of 28.2% and the minority was institution level that were represented by 13.04.

Table 4.3: The Impact of Cash Management on Financial Performance of Small and Medium Scale Businesses in a Nakawa Central Division.

Statements	SA		A		NS		D		SD	
	<i>f</i>	<i>%</i>	<i>f</i>	<i>%</i>	<i>f</i>	<i>%</i>	<i>f</i>	<i>%</i>	<i>f</i>	<i>%</i>
Petty cash is monitored to avoid cash shortages	20	43.47	15	32.60	6	13.04	3	6.52	2	4.3
The business regularly monitors cash flow	7	15.2	3	6.52	10	21.7	20	43.47	6	13.04
Cash is balanced on a daily basis	15	32.60	15	32.60	0	0	8	17.3	8	17.3
A cash budget is prepared on a regular basis	25	54.3	15	32.6	0	0	4	8.6	2	4.3
Only authorized individuals are allowed to access the cash office	10	21.7	5	10.8	6	13.04	15	32.6	10	21.7
Upon payments, people are supposed to sign for the cash taken	5	10.8	3	6.52	8	17.3	20	43.47	10	21.7

The findings from the table suggest that small and medium-scale businesses in Nakawa Central Division have a mix of effective and weak cash management practices. Regarding petty cash management, the majority of respondents (76.07%) reported that they monitor petty cash to avoid shortages, which is a positive indicator. However, a significant proportion of respondents (56.51%) do not regularly monitor their cash flow, which could lead to issues in managing their financial performance.

On a positive note, 65.20% of the respondents stated that they balance cash on a daily basis, and 86.90% prepare regular cash budgets, both of which are sound cash management practices. Nevertheless, controls over cash access seem to be lacking, as 54.30% of respondents indicated that unauthorized individuals are allowed to access the cash office.

Furthermore, the respondents appear to have inadequate documentation procedures for cash disbursements. A majority of respondents (65.17%) reported that people are not required to

sign for the cash taken upon payments, which could increase the risk of misappropriation of funds and make it difficult to track cash outflows.

Overall, the analysis suggests that while the respondents have some effective cash management practices in place, such as petty cash monitoring and cash budgeting, they face challenges in areas like cash flow monitoring, cash access controls, and cash payment documentation. These weaknesses in cash management may negatively impact the financial performance of these small and medium-scale enterprises in Nakawa Central Division.

4.4 The effect of inventory management on financial performance of small and medium scale businesses in Nakawa Central Division.

Responses were in form of ticking against statements in regards to the respondent's degree of acceptance.

Table 4.6 The effect of inventory management on financial performance of small and medium scale businesses in Nakawa Central Division.

Statements	SA		A		NS		D		SD	
	<i>f</i>	%	<i>f</i>	%	<i>f</i>	%	<i>f</i>	%	<i>f</i>	%
Quality suppliers for inventory needed are chosen	30	65.2	10	21.7	0	0	4	8.6	2	4.3
Stock is monitored on regular basis	10	21.7	10	21.7	5	10.8	15	32.6	6	13.04
Manufacturing dates and expiry dates of all stock in stores are verified.	6	13.04	2	4.3	2	43.4	15	32.6	3	6.5
The stores managers makes sure store is cleaned every day to avoid dust which may affect our stock	20	43.5	15	32.6			5	10.8	6	13.04

According to table 4.6 above, the effect of inventory management on financial performance of small and medium scale businesses in Nakawa Central Division.

The findings from the table suggest that small and medium-scale businesses in Nakawa Central

Division have a mix of effective and weak inventory management practices. Regarding supplier selection, the majority of respondents (86.90%) reported that they choose quality suppliers for their inventory needs, which is a positive indicator for maintaining product quality and financial performance.

However, the businesses seem to face challenges in other areas of inventory management. A significant proportion of respondents (45.64%) do not regularly monitor their stock levels, which could lead to issues like stock shortages or overstocking. Furthermore, a majority of respondents (82.50%) do not have effective processes in place to verify the manufacturing and expiry dates of their stock, which increases the risk of financial losses due to expired or spoiled inventory.

On a positive note, most businesses (76.10%) reported that the store manager ensures the storage facilities are cleaned daily to avoid dust, which can affect the quality of the inventory. This suggests that these businesses have good practices in place to preserve the condition of their stock.

Overall, the analysis indicates that while the small and medium-scale businesses in Nakawa Central Division have an effective supplier selection process, they face weaknesses in areas such as stock monitoring, expiry date verification, and store cleanliness. These inventory management challenges may negatively impact the financial performance of these enterprises, as they could lead to issues like stock shortages, spoilage, and quality problems.

Table 4.7 The effect of accounts receivable management on financial performance of small and medium scale businesses in Nakawa Central Division.

Statements	SA		A		NS		D		SD	
	<i>f</i>	%	<i>f</i>	%	<i>f</i>	%	<i>f</i>	%	<i>f</i>	%
Reminders are issued to customers before their due dates	30	65.2	10	21.7	0	0	4	8.6	2	4.3
Discounts are allowed to debtors who pay in time	4	8.6	5	10.8	0	0	9	19.56	30	65.2
Most of the sales are cash sales to avoid bad debtors	6	13.04	2	4.3	8	17.3	20	43.4	10	21.7
Paying in installments is allowed	20	43.5	15	32.6	0	0	5	10.8	6	13.04

According to the table 4.7 above the study investigated the effect of accounts receivable management on financial performance of small and medium scale businesses in Nakawa Central Division and we came up with the following findings’

The findings from the table suggest that small and medium-scale businesses in Nakawa Central Division have a mix of effective and weak accounts receivable management practices. Regarding the timely collection of receivables, the majority of respondents (86.90%) reported that they issue reminders to customers before their due dates, which is a positive indicator for improving cash flow.

However, the businesses seem to lack other effective accounts receivable management strategies. Most respondents (84.76%) do not offer early payment discounts to incentivize customers to pay on time, which could be a missed opportunity to enhance cash flow. Furthermore, a majority of businesses (65.10%) rely more on credit sales than cash sales, which increases their exposure to the risk of bad debts and could negatively impact their financial performance.

On a positive note, most businesses (76.10%) indicated that they allow customers to pay in installments. While this can help accommodate customer needs and potentially improve sales,

it may also increase the risk of late or non-payments, which could adversely affect the businesses' financial performance.

Overall, the analysis suggests that while the small and medium-scale businesses in Nakawa Central Division have an effective practice of issuing reminders to customers, they face weaknesses in areas such as offering early payment discounts and managing the balance between credit sales and cash sales. These accounts receivable management challenges may negatively impact the financial performance of these enterprises, as they could lead to issues like delayed payments, bad debts, and cash flow problems.

CHAPTER FIVE

DISCUSSIONS OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter provided the conclusion and recommendations of the study. Specifically, it contains the discussion of the study findings, conclusion, recommendations, and the areas suggested for future research.

5.1 Discussions of findings

5.1.1 The impacts small and medium sized businesses' financial performance with regard to accounts receivable management scale businesses in Nakawa Central Division

The findings from the table suggest that small and medium-scale businesses in Nakawa Central Division have a mix of effective and weak cash management practices. Regarding petty cash, the majority of respondents (76.07%) strongly agreed or agreed that they monitor petty cash to avoid shortages, which is a positive indicator. However, a significant proportion of respondents (56.51%) disagreed or strongly disagreed that they regularly monitor their cash flow, which could lead to issues in managing their financial performance.

On a more positive note, 65.20% of the respondents stated that they balance cash on a daily basis, and 86.90% strongly agreed or agreed that they prepare regular cash budgets, both of which are sound cash management practices. Nevertheless, controls over cash access seem to be lacking, as 54.30% of respondents disagreed or strongly disagreed that only authorized individuals are allowed to access the cash office. Furthermore, the respondents appear to have inadequate documentation procedures for cash disbursements, as a majority (65.17%) disagreed or strongly disagreed that upon payments, people are supposed to sign for the cash taken, which could increase the risk of misappropriation of funds and make it difficult to track cash outflows.

Overall, the analysis suggests that while the respondents have some effective cash management practices in place, such as petty cash monitoring and cash budgeting, they face challenges in areas like cash flow monitoring, cash access controls, and cash payment documentation. These weaknesses in cash management may negatively impact the financial performance of these small and medium-scale enterprises in

Nakawa Central Division. Addressing these issues could help these businesses improve their overall financial stability and performance.

5.1.2 The effect of inventory management on financial performance of small and medium scale businesses in Nakawa Central Division.

The findings from the table suggest that small and medium-scale businesses in Nakawa Central Division have a mix of effective and weak inventory management practices. Regarding supplier selection, the majority of respondents (86.90%) reported that they choose quality suppliers for their inventory needs, which is a positive indicator for maintaining product quality and financial performance.

However, the businesses seem to face challenges in other areas of inventory management. A significant proportion of respondents (45.64%) do not regularly monitor their stock levels, which could lead to issues like stock shortages or overstocking. Furthermore, a majority of respondents (82.50%) do not have effective processes in place to verify the manufacturing and expiry dates of their stock, which increases the risk of financial losses due to expired or spoiled inventory.

On a positive note, most businesses (76.10%) reported that the store manager ensures the storage facilities are cleaned daily to avoid dust, which can affect the quality of the inventory. This suggests that these businesses have good practices in place to preserve the condition of their stock.

Overall, the analysis indicates that while the small and medium-scale businesses in Nakawa Central Division have an effective supplier selection process, they face weaknesses in areas such as stock monitoring, expiry date verification, and store cleanliness. These inventory management challenges may negatively impact the financial performance of these enterprises, as they could lead to issues like stock shortages, spoilage, and quality problems.

5.1.3 The effect of accounts receivable management on financial performance of small and medium scale businesses in Nakawa Central Division.

The findings from the table suggest that small and medium-scale businesses in Nakawa Central Division have a mix of effective and weak accounts receivable management practices. Regarding the timely collection of receivables, the majority of respondents (86.90%) reported that they issue reminders to customers before their due dates, which is a positive indicator for improving cash flow.

However, the businesses seem to lack other effective accounts receivable management strategies. Most respondents (84.76%) do not offer early payment discounts to incentivize

customers to pay on time, which could be a missed opportunity to enhance cash flow. Furthermore, a majority of businesses (65.10%) rely more on credit sales than cash sales, which increases their exposure to the risk of bad debts and could negatively impact their financial performance.

On a positive note, most businesses (76.10%) indicated that they allow customers to pay in installments. While this can help accommodate customer needs and potentially improve sales, it may also increase the risk of late or non-payments, which could adversely affect the businesses' financial performance.

Overall, the analysis suggests that while the small and medium-scale businesses in Nakawa Central Division have an effective practice of issuing reminders to customers, they face weaknesses in areas such as offering early payment discounts and managing the balance between credit sales and cash sales. These accounts receivable management challenges may negatively impact the financial performance of these enterprises, as they could lead to issues like delayed payments, bad debts, and cash flow problems.

5.3 Conclusions

The findings of this study provide valuable insights into the impact of inventory management and accounts receivable management on the financial performance of small and medium-scale businesses in Nakawa Central Division. The analysis suggests that while these enterprises exhibit some effective practices in both areas, they also face significant weaknesses that can negatively affect their overall financial performance.

In terms of inventory management, the businesses demonstrate strengths in supplier selection, but struggle with stock monitoring, expiry date verification, and store cleanliness. These challenges can lead to issues such as stock shortages, spoilage, and quality problems, ultimately impacting the financial performance of the enterprises. Regarding accounts receivable management, the businesses exhibit an effective practice of issuing reminders to customers before due dates, which can help improve the timely collection of receivables. However, they lack other critical strategies, such as offering early payment discounts and managing the balance between credit sales and cash sales. These weaknesses can result in delayed payments, bad debts, and cash flow problems, undermining the financial performance of the businesses.

5.4 Recommendations

Regarding inventory management, these businesses should prioritize implementing robust stock monitoring and control systems. This could include regular stock checks, the use of

inventory management software, and the establishment of clear policies and procedures for verifying expiry dates and maintaining store cleanliness. By addressing these weaknesses, the businesses can minimize the risks of stock shortages, spoilage, and quality problems, ultimately enhancing their financial performance.

In the realm of accounts receivable management, the businesses should consider offering early payment discounts to customers as an incentive to pay on time. This strategy can help improve the timely collection of receivables and strengthen the businesses' cash flow. Additionally, these enterprises should carefully monitor and manage the balance between credit sales and cash sales, ensuring that credit sales do not expose them to excessive bad debt risks. Implementing clear policies and procedures for installment payments can also help mitigate the risks associated with delayed or non-payments.

To support the implementation of these recommendations, policymakers and business support organizations should consider providing training, mentorship, and access to financing for small and medium-scale businesses in Nakawa Central Division. This can help these enterprises acquire the necessary skills, resources, and tools to effectively manage their inventory and accounts receivable, ultimately strengthening their financial performance and long-term sustainability.

By implementing these recommendations, small and medium-scale businesses in Nakawa Central Division can enhance their competitiveness, improve their financial resilience, and contribute more effectively to the economic development of the region.

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APPENDICES

APPENDIX I: QUESTIONNAIRE

QUESTIONNAIRE.

UGANDA CHRISTIAN UNIVERSITY

Faculty of Business and Administration

A questionnaire for the owners of Small Scale Businesses in Nakawa Division

I am Ayebare a student of Uganda Christian University conducting a research study on the “Impact of working capital management on financial performance of small scale businesses” in Nakawa Division as a requirement for the award of Bachelor’s degree in Business Administration of Uganda Christian University.

I am kindly requesting you to assist me in this study by answering the following questions. I assure you that your information will be treated with utmost confidentiality.

SECTION A: Demographic Data

Please tick (✓) in the appropriate box as the most agreed answer to the following statements.

BIO - DATA

SECTION A

1. Age

(a) 15-25 (c) 25-35

(b) 35-45 (d)45-55

2. Marital status

(a) Single (b) Married

(c) Divorced (d) separated

Others specify.....

3]. Level of education

(c) Primary

(d) Secondary

3. Institution/University level

If others specify.....

SECTION B: The impact of cash management on financial performance of small and medium scale businesses in Mukono Municipality.

(Please tick most appropriate of: Strongly agree =1, Agree=2, Not sure=3 Disagree=4, and strongly disagree=5)

Statements	1	2	3	4	5
Petty cash is monitored to avoid cash shortages					
The business regularly monitors cash flow					
Cash is balanced on a daily basis					
A cash budget is prepared on a regular basis					
Only authorized individuals are allowed to access the cash office					
Upon payments, people are supposed to sign for the cash taken					
The effect of inventory management on financial performance of small and medium scale businesses.					
Quality suppliers for inventory needed are chosen					
Stock is monitored on regular basis					
Manufacturing dates and expiry dates of all stock in stores are verified.					
The stores managers makes sure store is cleaned every day to avoid dust which may affect our stock.					
Effect of accounts receivable management on financial performance of small and medium scale businesses.					

Reminders are issued to customers before their due dates.					
Discounts are allowed to debtors who pay in time					
Most of the sales are cash sales to avoid bad debtors					
Paying in installments is allowed.					

Thank you so much.

APPENDIX 2: DATA COLLECTION LETTER



**UGANDA CHRISTIAN
UNIVERSITY**

A Centre of Excellence in the Heart of Africa

SCHOOL OF BUSINESS

27th Aug, 2024

TO WHOM IT MAY CONCERN

Name: KYABISHIKYI JACQULINE

Reg. M22B05/084

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

Impact of working Capital Management on Financial Performance of Small Scale Businesses in Nakawa Division

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

The Uganda Christian University School of Business thanks you in advance

Mukisa Simon Peter
Research coordinator



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