WORKING CAPITAL MANAGEMENT AND FINANCIAL PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN KAMPALA CAPITAL CITY AUTHORITY:
A CASE STUDY OF KAWEMPE DIVISION URBAN COUNCIL

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DECLARATION

I, Mulajje Muhamadi, do declare that the Research Dissertation herein is presented in its original form and has not been presented to any other University or Institution for any academic award whatsoever.

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APPROVAL

This is to certify that this Research Dissertation titled ***''Working Capital Management and Financial Performance of Small and Medium Enterprises, a Case Study of SMEs in Kawempe Division''*** has been done under our supervision and submitted for examination with our approval.

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DEDICATION

This Research Dissertation is dedicated to my parents Mr. Abasi Mulindwa and Mrs Nabweteme Afuwa, My guardians, Mr Nsereko Simon Peter, Mummy Faihah , Sharon friend , Mr Brian Kazibwe and my workmates for always providing different support towards my academics. They are the reasons for what I am today and May the Lord reward them abundantly

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I would like with great honor to acknowledge the contribution of the following people in the effect to produce this work;

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TABLE OF CONTENTS

LIST OF ABBREVIATIONS

SMES	Small and Medium Enterprises
WC M	Working capital management
FP	Financial Performance
CM	Credit management
DM	Debts management
CM	Cash management
IM	Inventory management
PG	Profit margins
SG	Sales growth

LIST OF TABLES

LIST OF FIGURES

ABSTRACT

The study investigated the influence of working capital management on financial performance of Small and Medium Enterprises with in Kawempe Division, Kampala District. The general objective of the study was to examine the influence of working capital management on financial performance of Small and Medium enterprises with in Kawempe division , it was guided by four objectives ;assessing the influence of creditor management on the financial performance of small and medium enterprises, examining the influence of accounts receivables on the financial performance of small and medium enterprises, analyzing the influence of cash management on financial performance of small and medium enterprises and assessing the role of inventory management on financial performance of small and medium enterprises . A population of 250 employees from different small and medium sizes entities was targeted and a sample of 100 respondents was used. A simple random sampling technique was used and all the members of the finite population were given equal chances to be included in the sample since the target respondents were either engaged or had an idea about financial performance of small and medium enterprises, these were in a better position to respond to the research questions appropriately. This removed the possible bias that may have arisen as the result of research favoring some members of the population. Data was collected using Questionnaires as a research instrument. The study used an exploratory research design. A conclusion about the relationship of the variables found out that creditors management had a positive and significant (F=20.553, p- value <0.01) relationship with financial performance of small and medium enterprises with in Kawempe Division. Also it was revealed that accounts receivables management had a positive and significant (F=54.784, Sig level = 0.000) relationship with financial performance of small and medium enterprises with in Kawempe Division, Cash management was also presented and it established that there existed a positive significant (F=52.910, sig level = 0.000) relationship with financial performance of small and medium enterprises with in Kawempe Division. And lastly was the inventory management which showed a positive significant (F=70.69, p-value< 0.01) relationship with financial performance of small and medium enterprises with in Kawempe Division. The study recommended that working capital management affects the financial performance of Small and Medium Enterprises with positive significant relationship (F=23.095, p-value<0.01). The study recommends that Small and Medium Enterprises should manage their debts very well, manage their receivables, manage their cash and ensure that inventory retention is also well managed if they are to improve their financial performance

CHAPTER ONE

BACKGROUND OF THE STUDY

1.0 Introduction

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

1.1 Background to the Study

1.1.1 Historical Background

Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. According to Otley (2016), this term is also used as a general measure of firm's over all financial health over a given period. Analysts and investors use financial performance to compare similar firms across the same industry or to compare industries or sectors in aggregate. There are many ways to measure financial performance but all measures should be taken in aggregate such as revenue from operations, operating income or cash flows can be used as well as total units' sales. (Bastos and Pindado (2013). There are many stakeholders in a company including trade creditors, bond holders, investors, employees and management. Each group has its own interest in tracking the financial performance of the company. (Graham 2014)

Working capital management (WCM) is a managerial accounting strategy focusing on maintaining efficient levels of a firm's current assets and current liabilities. It deals with the administration of a firm's current assets and current liabilities (Harris, 2015). WCM ensures that a company has sufficient cash flow in order to meet its short-term debt obligations and operating expenses (Mekonnen, 2011). WCM is a very important component of corporate finance because it directly affects the liquidity and profitability of a company (Knauer & Wöhrmann, 2013)

Working capital management has gone through succession developmental stages, since introduction in early 20th century. In any stage mangers acts as problem provider and academics on to find solutions while it is true to assume that scholars provide new horizons while managers implement findings to prove usefulness. Research today and likely future directions requires an in-depth understanding of historical perspectives. The path way of development while vital for research exposes needs and responds that it is fundamental for forecast of future prospects of working capital management. There was the awareness era (1900-1920s) where working capital research was being established, followed by the pre and post-world war 11 era (1920-1950s), this led to the optimization and simulation approaches of working capital in the industrialization era (1950-1980s and eventually the globalization era (1990-2000s), working capital is very crucial in a way that it gives an impact on the liquidity and profitability of a given organization. The main emphasis hears is the current assets and current liabilities, it is vital to all businesses to have adequate management of working capital. Mann (1918)

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

firm's profitability.

Working capital management is important for many reasons. Usually, the current assets of a typical private entity accounts for over half of its total assets. Thus working capital represents a significant investment in the private firm. Excessive levels of current assets can easily result in a firm's realizing a substandard return on investment. However, too few current assets may occasion difficulties in maintaining smooth firm operations (Lu, 2013). Management of working capital, which aims at maintaining an optimal balance between each of the working capital components, that is, cash, receivables, inventory and payables, is a fundamental part of the overall corporate strategy to create value and is an important source of competitive advantage in businesses (Deloof, 2013). In practice, it has become one of the most important issues in organizations with many financial executives struggling to identify the basic working capital drivers and the appropriate level of working capital to hold so as to minimize risk, effectively prepare for uncertainty and improve the overall performance of their businesses (Gill, Biger & Mathur, 2010).

1.1.2 Theoretical Background

The study used the resource based theory that sight to explain that all active businesses including those that are fully equipped with all times of assets require working capital. In fact, working capital is like blood to a business. Without working capital expenses such as procurement of adequate supply of raw materials for processing, cash to pay power and wages, capacity to grant credit to its customers and creating a stock of finished goods to feed the market demand regularly will be un met. This curtails efficiency out of the day today activities of the business. (Lambarg & Valmang, 2009)

Working capital management is an area of corporate finance which directly affects the liquidity and profitability of the firm (Raheman & Nasr, 2007). It is the management of current assets and current liabilities to improve a firm’s performance. (Hill, Kelly and Highfields, 2010). It involves

maintaining an optimal balance among receivables, inventory and payables. Working capital management focuses mainly on the short-term financing and short-term investment decisions of a firm (Sharma and Kumar,2011). Given the above explanation working capital management is crucial for a firm particularly manufacturing, trading and distribution firms because in these firms working capital management directly affect the profitability and liquidity

According to Deloof (2003), efficient working capital management ensures an optimal level of working capital is maintained in order to maximize share holders' wealth. The objective of maximizing profit or shareholders value are some of the key objectives for a company. However certain levels of liquidity are essential to ensure short term maturing obligations are met when they arise. Profitability is essential for the operations and continuity of a company. However, it should be maintained to a manageable level of liquidity to prevent insolvency or bankruptcy (Rehaman & Nasr, 2007)

Efficient utilization of the firm's resources as it relates to working capital management means that managers should seek effective and efficient ways to deal with cash available for the day to day operations in order to achieve the optimum impact. Good working capital management leads to increased cash flows and there by leading to lesser needs for external financing, hence the probability of defaults for the firm is reduced. A key factor in the working capital management is the cash conversation cycle. (Deloof 2003). Cash conversation cycle is defined as the time lag between the purchasing of raw materials or rendering of services and the collection of cash from the sale of goods and services rendered. The longer the lag the greater interest expense. This leads to higher defaulter risk and lower profitability.

1.1.3 Conceptual Background

Working Capital deals and measures a firm's liquidity. The goal of effective working capital management is to ensure that a company has adequate ready access to the funds necessary for day to-day operating expenses, while at the same time making sure that the company's assets are invested in the most productive way (Norton, Parkinson and Drake, 2011). Efficient working capital management involves planning and controlling current assets and current liabilities in a manner that eliminates the risk of inability to meet due short term obligations on the one hand and avoid excessive investment in these assets on the other hand (Eljelly, 2014).

Working capital management is essentially an accounting strategy with a focus on the maintenance of a sufficient balance between a company's current assets and liabilities. Taking an example of Afro Hayat limited which is an import company, they account for revenues more compared to any other factor ignoring the aspect of working capital management. Efficient working capital management means to plan and control current assets and current liabilities in a manner that eliminates the risks of inability of the o9rganisation to meet short term obligations on one hand and avoid excessive investment in these assets on the other hand. Van Horne and wachowicz (2014)

1.1.4 Contextual Background

Many Small and medium enterprises still perform badly globally due to factors such as leadership, motivation, organization culture, poor demand for local market, and poor working capital management among other factors. Taking small and medium enterprises of Uganda specifically those with in Kawempe division, financial reports of different years shows that however much they under value working capital management, it has contributed a lot for their poor performance. The main concerns here were the limited skills on how to manage working capital such that

performance could be improved. Eventually obligations of the firms like paying creditors, purchase of raw materials, settling taxes are now hard to settle. Hence this discussion analyzed working capital management and financial performance in addition to problems facing small and medium enterprises with in Kawempe division

1.2 Financial Performance

This is a subjective measure of how well a firm uses asset from its primary mode of business and generates revenues. This term is also used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. Financial performance refers to a measure of the results of a firm's policies and operations in monetary terms. These results are reflected in the firm's sales growth, profit growth, return on investment (ROI), return on assets (ROA), shareholder value, accounting profitability and its components. Return on Assets is a measure of efficiency, it measures how effectively and efficiently a firm utilizes the resources (assets) at its disposal, in revenue generation. Quantitative measures of firm performance include profitability measures such as gross profit margin, net margin for example return on sales, return on equity, economic value added, return on equity less cost of equity, return on capital employed; cash flow measures such as free cash flow over sales; and revenue growth. One way of managers controlling the financial affairs of an organization is the use of ratios. Ratios are simply relationships between two financial balances or financial calculations which establish our references so that we can understand how well an entity is performing financially. Ratios also extend the traditional way of measuring financial performance; by relying on financial statements (Saliha, 2011).

Other financial performance measures used include return on equity (ROE), return on investment (ROI), and return on assets (ROA), along with their variability as measures of risk. Earlier studies typically measure accounting rate of return. These include: Return on investment (ROI), return on capital(ROC), return on assets(ROA) and return on sales. The idea behind these measures is perhaps to evaluate financial performance –how well is a firm's management using the assets to generate accounting return per unit of investment assets or sales. The problems with these measures are well known. Accounting return include depreciation and inventory costs affect the accurate reporting of earnings. Asset values are also recorded historically. Return on equity (ROE) is a frequent used variable in judging top management performance and for making 5 executive compensation decisions. ROE is defined as net income (income available to common stockholders) divided by stockholders' equity. On the other hand, ROA is the most frequently used performance measure in previous studies. It is defined as net income (income available to common stockholders), divided by the book value of total assets (Donaldson & Preston, 2005).

1.3 The Statement of the problem

The financial performance of Small and Medium Enterprises continues to be a going concern for Uganda (Auditor General's Report, 2017). Despite the increasing focus on these entities by the Government of Uganda and other development partners, recent reports continue to show limited progress among these enterprises to increase sales and achieve the necessary profitability, thus threatening their survival (BOU, 2018; PSFU, 2017; UIA, 2017). For instance, the recent data shows that out of 100 startups, only 35% survive to its second year of operation citing different areas in Uganda where Kawempe division was named among the worst performing small and medium enterprises hosts.

Amidst these performance challenges, Small and medium enterprises have endeavored to adopt strategies like working capital management but still their performance is still poor, there is limited understanding on how these Small and Medium Enterprises can enhance their financial performance especially by managing their working capital diligently and yet from the previous studies by Clayton & Micheal (2017), this has been considered as an important area in terms of enhancing performance of firms.

Therefore, basing on the above research gap, the researcher is prompted to examine the effect of working capital management on financial performance of Small and Medium Enterprises in Kampala Capital City Authority using Kawempe Division Urban Council as a case study

1.4 General Objective of the Study

The general objective of the study was to analyze the influence of working capital management on financial performance of Small and Medium Enterprises with in Kawempe Division Urban Council.

1.5 Specific Objectives

- To assess the influence of accounts payable management on the financial performance of small and medium enterprises in Kawempe Division Urban Council
- To examine the influence of accounts receivables management on the financial performance of small and medium enterprises in Kawempe Division Urban Council
- To analyze the influence of cash management on the financial performance of small and medium enterprises in Kawempe Division Urban Council

- To assess the role of inventory management on financial performance of small and medium enterprises in Kawempe Division Urban Council

1.6 Research Questions

- To what extent does accounts payables management affect the financial performance of small and medium enterprises with in Kawempe Division Urban Council
- To what extent does accounts receivables affect the financial performance of small and medium enterprises with in Kawempe Division Urban Council
- To what extent does cash management affect the financial performance of small and medium enterprises with in Kawempe Division Urban Council
- To what extent does inventory management on the financial performance of small and medium enterprises with in Kawempe Division Urban Council

1.7 Scope of the Study

1.7.1 Content Scope

The study aimed at analyzing the influence of working capital management on financial performance of Small and medium enterprises in Kawempe division. It focused on components such as accounts payables management, accounts receivables management, Cash management, inventory management, Profit growth and Sales growth (Garcia and Tervel 2017). I chose this study because it gave a deeper understanding of how to manage organizational funds.

1.7.2 Geographical Scope

The study was undertaken in Small and medium entities with in Kawempe Division; I believe that enough information was be available concerning aspects of working capital management in

relation to the financial performance of small and medium enterprises. Kawempe division is located with in Kampala Capital City Authority.

1.7.3 Time Scope

The study took a period of six (6) month since it is the maximum period granted to a post graduate student by the university to conduct and report on their findings. It considered literature review from 2014-2018. For the unit of analysis, the study considered data for the last Eight years (2012 to date)

1.8 Significance of the Study

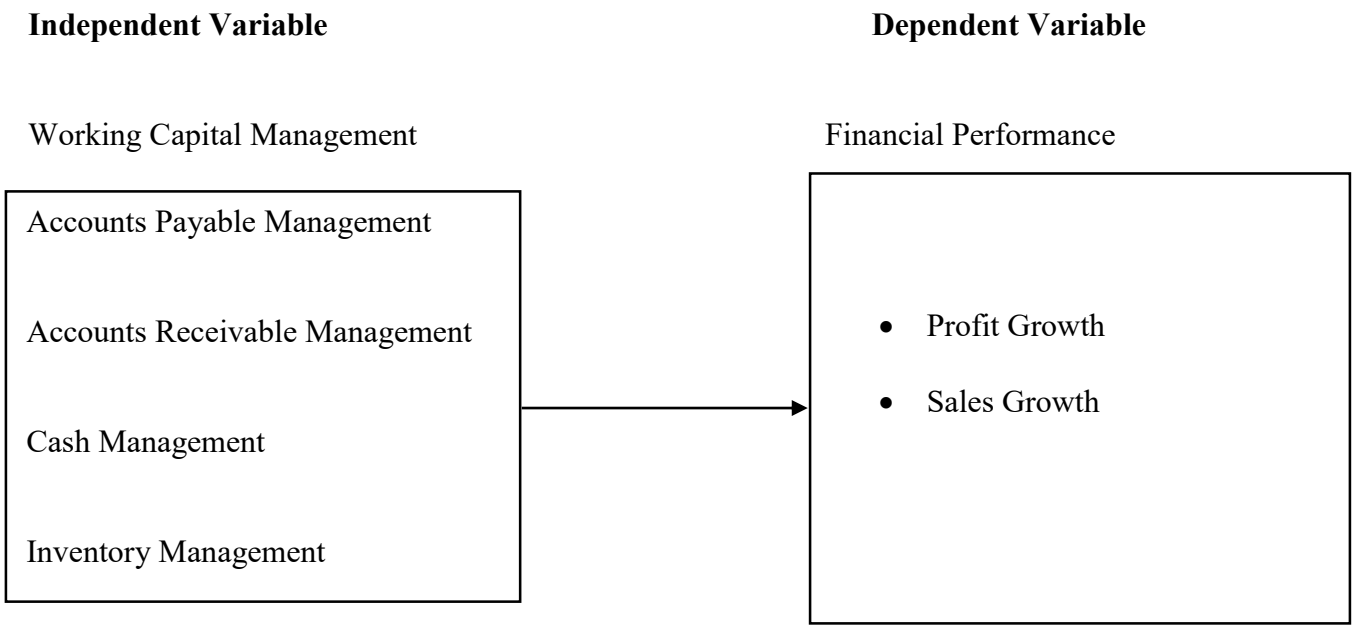
The study findings are to benefit the management and staff of Small and Medium Enterprises under study, by gaining insight into how their companies can effectively manage their working capital to enhance their financial performance. Management can gain the best policies for applications. This research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

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

1.8. Conceptual Frame Work

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

Figure 1: Conceptual Framework



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

From Figure 1, the conceptual framework depicted working capital management dimension, the independent variable was hypothesized to influence financial performance. The frame work portrayed that Accounts Payables management, Accounts receivables management, Cash management and Inventory management affected the financial performance. on the other hand, financial performance as dependent variable as depicted in Fig 1 above was measured using Sales

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

Profit growth is the combination of profitability and growth, more precisely the combination of economic profitability and growth of free cash flows. Profitability growth is aimed at reducing the financial community, it emerged in the early 80s when shareholders value creation became firm's main objective, Profit margin / Growth is one of the commonly used profitability ratios to gauge profitability of a business activity. It represents how much percentage of sales has turned into profits. Simply put, the percentage figure indicates how many cents of profit the business has generated for each sale, (Nazir M.S. Afza 2009). The analysis shows that there is a relationship between the two variables because some time when you have working capital which is well managed it may positively affect the performance of the business.

1.10 Definition of the Terms

For the purposes of the study, the following terms were defined to have meaning as used in the study

Working capital management (WCM); Working capital management (WCM) is a managerial accounting strategy focusing on maintaining efficient levels of a firm's current assets and current liabilities. It deals with the administration of a firm's current assets and current liabilities (Harris, 2015).

Financial Performance; Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as a general measure of a firm's overall financial health over a given period of time, and can be used to

compare similar firms across the same industry or to compare industries or sectors in aggregation (Padachi, 2016)

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

Profit Margin / Profit Growth; According to Knauer and Wohrmann (2013), Profit margin is one of the commonly used profitability ratios to gauge profitability of a business activity, it represents how much percentage of sales has turned into profits.

1.11 Conclusion

In the above chapter I have been in position to elaborate more about the background of the study which has been broken down into historical perspective, theoretical perspective, conceptual perspective and contextual perspective, I have explained the conceptual framework with the dimensions of independent and dependent variables that is to say creditors management, accounts receivables management, cash management and inventory management, sales growth and profit growth. The chapter explain the objectives as well among other issues.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

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

2.1 Theoretical Review

2.1.1. Resource Based Theory

All active businesses including those that are fully equipped with all times of assets require working capital. In fact, working capital is like blood to a business. Without working capital expenses such as procurement of adequate supply of raw materials for processing, cash to pay power and wages, capacity to grant credit to its customers and creating a stock of finished goods to feed the market demand regularly will be un met. This curtails efficiency out of the day today activities of the business (Lambarg & Valmang, 2009)

Working capital management is an area of corporate finance which directly affects the liquidity and profitability of the firm (Raheman & Nasr, 2007). It is the management of current assets and current liabilities to improve a firm's performance (Hill, Kelly and Highfields, 2010). It involves maintaining an optimal balance among receivables, inventory and payables. Working capital

management focuses mainly on the short-term financing and short-term investment decisions of a firm (Sharma & Kumar, 2011). Given the above explanation working capital management is crucial for a firm particularly manufacturing, trading and distribution firms because in these firms working capital management directly affect the profitability and liquidity

According to Deloof (2003), efficient working capital management ensures an optimal level of working capital is maintained in order to maximize share holders' wealth. The objectives of maximizing profit or shareholders value are some of the key objectives for a company. However certain levels of liquidity are essential to ensure short term maturing obligations are met when they arise. Profitability is essential for the operations and continuity of a company. However, it should be maintained to a manageable level of liquidity to prevent insolvency or bankruptcy (Rehaman & Nasr, 2007)

Efficient utilization of the firm's resources as it relates to working capital management means that managers should seek effective and efficient ways to deal with cash available for the day operations in order to achieve the optimum impact. Good working capital management leads to increased cash flows and there by leading to lesser needs for external financing, hence the probability of defaults for the firm is reduced. A key factor in the working capital management is the cash conversation cycle (Deloof, 2003). Cash conversation cycle is defined as the time lag between the purchasing of raw materials or rendering of services and the collection of cash from the sale of goods and services rendered. The longer the lag the greater interest expense. This leads to higher defaulter risk and lower profitability.

Meanwhile, in determining the firm's performance, the finance manager also need to take into account the firm's working capital management, which basically means managing the firm's

current assets and current liabilities at satisfactory level (Dong & Su, 2010; Gill, Biger & Mathur, 2010). Generally, in a balance sheet, current assets consist of raw materials, work in progress, finished goods or inventories, account receivables, cash and bank balances which are short term in nature that are used for production and sales; which are able to be converted to cash within the year. On the other hand, current liabilities refer to obligations that need to be paid within the year or not beyond the business operating cycle, whichever is earlier (Ross, Westerfield & Jaffe, 2005). Generally, current liabilities comprise of 2 accounts payable, accrued wages, taxes and other expenses payable and short-term debt. Hence, it is vital in managing the working capital efficiently as it is able to increase the firm's profitability and shareholder value (Smith, 1980; Deloof, 2003, Dong & Su, 2010). Furthermore, the benefits of having an efficient working capital management are the firms able to meet its short term obligations and maintain adequate liquidity position in order to continue the operation of the firms (Eljelly, 2004). In view that working capital management decision is important

The crucial part in managing working capital (WC) is maintaining sufficient liquidity for the dayto-day business operation to ensure the firm's smooth running and meeting its obligations (Ganesan, 2017). A well calculated and employed working capital management is anticipated to add positively to the firm's performance (Padachi, 2016). Holding of excess amounts of working capital can cause a decline in the profitability of a business (Lu, 2013). Working capital management involves managing the firm's inventory, receivables and payables in order to achieve a balance between risk and returns and thereby contribute positively to the creation of firm value. Excessive investment in inventory and receivables reduces firm profits, whereas too little investment increases the risk of not being

2.2 Understanding Working Capital Management

2.2.1 Accounts Payables management

Credit management is implementing and maintaining a set of policies and procedures to minimize the amount of capital tied up in debtors and to minimize the exposure of the business to bad debts. (http://www.smallbusiness.wa.gov.au/assets/small-Business-Briefs/small-business-brief creditmanagement.pdf) Credit management from a debtor's point of view is managing finances especially debts so as not to have a tail of creditors lurking behind your back. Credit management is a responsibility that both the debtors and the creditors should seriously take (http://www.selfgrowth.com/articles/Tabije3.html).When it functions efficiently, credit management serve as an excellent instrument for the business to remain financially stable.

2.2.2 Accounts Receivables Management

Accounts receivables is all about ensuring that customers pay their invoices, this helps to prevent overdue payment or non-payment, it is therefore quick and effective way to strengthen the company's financial or liquidity position. A company is supposed to determine the strategy like knowing which customers do you accept and under what conditions, which customers do you monitor, who should no longer be accepted, and when is the exit. Preparation of appropriate procedures like what is your invoicing process like, what is your invoice like, when do you remind a customer by phone, when do you remind a customer by writing, what does the reminder looks like, when do you engage debt collection agency, when will you start legal proceedings, what is the role of your employees in this respect, will you choose outsourcing or in house management (Raheman & Nasr 2017)

2.2.3 Cash Management

According to Cooper and Schindler (2011), Cash management is the corporate process of collecting and managing cash, as well as using it for short term investment it's a key component of a company's financial stability and solvency. The term cash include coins, currency and cheques held by the firm and balances in its bank accounts. Sometimes near cash items such as marketable securities or bank time deposits are also included in cash. The basic characteristics of near assets are that they can readily be v-converted into cash. Generally, when a firm has excess cash, it invests it in marketable securities. This kind of investment contributes some profits to the firm. Cash is both the beginning and the end of the working capital cycle, cash, inventories, and receivables. While management of all firms should strive hard to secure larger cash at the end of the working capital cycle than what had been invested in to it at its beginning, they must also make it a best possible minimum. This is required to optimally utilize the cash and to avoid the situation of idle cash balances. Its effective management is the key determinant of sufficient working capital balances, the motives of cash are transaction motive, precautionary motive, and speculative motive.

2.2.4 Inventory Management

An inventory management system is the combination of technology (hardware and software) and processes and procedures that oversee the monitoring and maintenance of stocked products, whether those products are company assets, raw materials and suppliers, or finished products ready to be sent to vendors or end consumers, a complete inventory management system consists of a system for identifying every inventory item and its associated information such as bar code labels or asset tags, hardware tools for reading bar codes labels, such as handheld barcodes scanner or smart phones with bar codes scanning apps, inventory management software which provides a

central database and point of references for all inventory, coupled with the ability to analyze data, generate reports, for -cast future demand, process polices for labelling, documentation and reporting like techniques such as FIFO , LIFO WACC ABC analysis, Just in time (Michalski, G. 2009).

2.3 Review of Related Literature

2.3.1 Accounts Payables Management and financial Performance

Creditors' management represents the average length of time between the purchase of materials and labor and the payment of cash for them. It is calculated as the account payables divided by the average credit purchases per day (Harris, 2005). Account payables plays a critical role in managing working capital because delaying bill payments is one of the tools for management to have access to an inexpensive source of financing. However, the opportunity cost of keeping high account payables may hurt the business if an early payment discount is offered (Lu, 2013). Working capital management rule states that firms should strive to lag their payments to creditors as much as possible, taking care not to spoil their business relationship (Napompech, 2012). Through this, Mathuva (2009) in the study "the influence of working capital management components on corporate profitability: a survey on Kenyan listed firms" shows that average payment period has a positive relationship with profitability. The positive relationship suggests that an increase in the number of day's accounts payable by 1 day is associated with an increase in profitability. Sharma and Kumar (2011) examined the effect of working capital management on firm profitability in India. The finding of the study confirmed negative relation between debtor's management with firm performance while the creditor management had positive relation with firm performance.

Ganesan (2017) selected telecommunication equipment industry to study the effectiveness of working capital management on profitability. The sample used in his study was 349

telecommunication equipment companies covering the period 2001 to 2007. Data was gathered from the annual financial statements of the companies. The statistical tests used included correlation, regression analyses and Analysis of variance (ANOVA). The results showed that days of the average creditors positively affected the profitability of these firms. To test the relationship between working capital management and corporate profitability, Deloof (2003) used a sample of 1,009 large Belgian non-financial firms for a period covering 1992-1996. By using correlation and regression tests, he found significant positive relationship between gross operating income and the number of days of accounts payable of Belgian firms. Based on the study results, he suggests that managers can increase corporate profitability by increasing the number of days of accounts payables.

Tirngo (2013) examined impact of working capital management on profitability of micro and small enterprises in Ethiopia for the case of Bahir Dar City Administration. The study had taken a sample of 67 micro and small enterprises. Data for this study was collected from the financial statements of the enterprises listed on Bahir Dar city micro and small enterprises agency for the year 2011.The study applied Pearson's correlation and OLS regression with a cross sectional analysis. The result showed that there is a strong positive relationship between number of day's accounts payable and enterprises profitability. Falope and Ajilore (2009) used a sample of 50 Nigerian quoted nonfinancial firms for the period 1996 -2005. Their study utilized panel data econometrics in a pooled regression, where time-series and cross-sectional observations were combined and estimated. They found a significant negative relationship between net operating profitability and the average collection period, inventory turnover in days, average payment period and cash conversion cycle for a sample of fifty Nigerian firms listed on the Nigerian Stock Exchange.

Furthermore, they found no significant variations in the effects of working capital management between large and small firms.

2.3.2 Accounts Receivables Management and financial Performance

Accounts receivable's management refers to the average length of time required to convert the firm's receivables into cash following a sale. It is calculated by dividing accounts receivable by the average credit sales per day. This ratio measures the length of time it takes to convert the average sales into cash. This measurement defines the relationship between accounts receivable and cash flow (GarciaTeruel & Martinez-Solano, 2011). A longer debtors' management period requires a higher investment in accounts receivable. A higher investment in accounts receivable means less cash is available to cover cash outflows, such as paying bills (Sharma & Kumar, 2011). Firms can improve their profitability by reducing the number of day's accounts receivable outstanding. This can be interpreted as the less the time it takes for customers to pay their bills; the more cash is available to replenish inventory hence the higher the sales realized leading to high profitability of the firm. He adopted a case study design on private firms of Nigeria and he Suggested that the negative relationship between debtors' management and profitability suggests that an increase in the number of day's accounts receivable by 1 day is associated with a decline in profitability. Through this, managers can improve profitability by reducing the credit period granted to their customers (Lazaridis & Tryfonidis, 2016).

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

a significant negative impact on profitability (Tirngo, 2013). Padachi (2016) examined the trends in working capital management and its impact on firm 's performance. The results proved that a high investment in inventories and receivables is associated with lower profitability. Further, he showed that account receivables days correlated negatively with profitability.

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

2.3.3 Cash Management and financial Performance

Cash management represents the length of time between the firm's actual cash expenditures to pay for productive resources (materials and labor) and its own cash receipts from the sale of products (that is, the length of time between paying for labor and materials and collecting on receivables) (Mekonnen, 2011). The cash management thus represents the average length of time a shilling is tied up in current assets. It is calculated as; (Average Collection Period + Inventory turnover in

days - Average Payment Period) (Vural et al., 2012). Cash management essentially denotes the number of days a company's cash is tied up by its current operating cycle. Cash conversion cycle can be shortened in three ways: One, by reducing inventory conversion period by processing and selling goods more quickly. Two by reducing receivables period by speeding up collections from sales and three by lengthening payables or deferral period through slowing down firm's own payments (Lu, 2013).

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

A study by Dong and Su (2010) reported that the firms' profitability and liquidity are affected by working capital management. From the research it was found that the relationship between cash management and profitability was strongly negative. This denoted that decrease in the profitability occurred due to increase in cash conversion cycle. In a similar study but based on working capital management and profitability in Pakistani firms carried out by Raheman and Nasr (2007) evaluated

the effect of different variables of working capital management including debtor's management, inventory management, creditor management, cash management and current ratio on the firm's net operating profitability. They selected a sample of 94 Pakistani firms listed on Karachi Stock Exchange for a period of six years from 1999 - 2004 and found a strong negative relationship between variables of working capital management and profitability of the firm. They found that as the cash conversion cycle increases, it leads to decreasing profitability of the firm and managers can create a positive value for the shareholders by reducing the cash conversion cycle to a possible minimum level (Raheman & Nasr, 2007)

2.3.4 Inventory Management and financial Performance

Inventory management refers to the average time required to convert materials into finished goods. Inventory turnover ratio, which represents the efficiency of inventory management, is expected to be high for firms with greater profitability. A low inventory turnover ratio could indicate either poor sales or an excess amount of inventory (Lu, 2013). Knauer and Wöhrmann (2013) on their study show that managers can improve firms' profitability by shortening their inventory period.

Vural *et al*. (2012) conducted a study on the effect of working capital on firm's performance. The study was based on a Sample of 75 manufacturing firms listed on Istanbul Stock Exchange Market for the period 2002-2009 with the aim of investigating the relationship between working capital management components and Istanbul firm's performance by Using dynamic panel data analysis. The study did not find any relationship between the number of days' inventory and the profitability. However, in a similar research conducted in Cyprus for the period between 1998 and 2007, the number of days' inventory was found to be negatively related to profitability. This is in conformity with the findings obtained by Raheman and Nasr (2007), Lazaridis and Tryfonidis (2006) and Jayarathne (2014).

Capkun, Hameri, and Weiss (2009) studied the relationship between inventory and financial performance in manufacturing companies. The researchers studied 52,254 businesses for a period of 25 years between 1980 and 2005; they used multiple regressions to determine the correlation between financial performance and various inventory levels. They measured financial performance using gross profits and operating profit results and Inventory levels in regard to raw materials, partially manufactured products, and finished products. The results revealed a positive correlation between

a company's inventory management and its financial performance. They also noted that degrees of correlation vary depending on the type of inventory and the financial performance reference.

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

2.3 Gaps in the Literature

Basing on the draft report of October 2010 about SMEs proclamation No.46 which highlighted on the legal basis for investment in Small and medium enterprises. A number of SMEs are under establishment in Kampala district- Kawempe Division in particular and most of the them are willing to extend branches to all regions as a strategy to build up market share. However although a preliminary study is made in preparing the master business plan for the opening up of many branches , little work is done in studying the performance of working capital management of the enterprises that would alleviate the problems encountered and contribute to the growth of market share and income generation of small and medium enterprises, More still among the findings about the same topic, some researchers affirmed negative relationship while others affirmed positive relationship between working capital management and financial performance so it's a concern now to which a person may depend on to make the best decision, Hence the research is interested to the research area in particular and to assess the gaps in working capital management which is a crucial in business and its very vital in this prevailing stiff competition in line of the modern financial measurement.

Methodological Research Gap

Some scholars like Garcia Tervel and Martinez Solano (2011) in their study about working capital management and financial performance , they adopted a case study design where they focused on the private firms of Nigeria and ended up getting varying results for example he found out that there is a negative relationship between working capital management and financial performance so I decided to adopt my exploratory research design which made me really establish, discover how does working capital management affect SMEs in Uganda particularly those of Kawempe Division

A gap with the sample size for example Mathuva 2009, His study about working capital management and financial performance he used a sample of only 30 firms with in Nairobi and he found out a negative significant relationship between working capital management and financial performance, Raheman and Nasir (2007) used a sample of 94 Pakistan firms and he found out a negative relationship between working capital management and financial performance

Basing on that I decided to adopt a higher population to try to close the gap and mine was 100 respondents

Conceptual Research Gap

For Example, some scholars in my literature say Naimulbari (2012) who only evaluated the effect of cash management and performance of pharmaceutical sector in Bangladesh where he found out negative relationship between the two variables, hence in his study he ignored Trade receivables, Trade Payables and inventory management so seriously I bridged the gap by considering all the four dimensions

Another Gap was about some scholars for example Vurial et al (2012) who specifically looked at the effect of working capital and performance of firms of firms with in Istanbul and found out a negative relationship between the two variables, he didn't give much details about financial part which I see as a gap therefore me I zeroed down to working capital management and financial performance hence I still recommend my findings were superb

Contextual Research Gap

Basically studies in my literature were looking at other areas actually some different countries not Uganda for example Zariyawati et al (2012) looked and working capital management and financial performance of firms in Nigeria, Ben Caleb (2009) looked at working capital

management and financial performance of firms in Malaysia hence it means that non had findings for my case study of Kawempe Division, this is also a gap I tried to close.

2.8 Conclusion

The literature reviews above expressly detailed the different determinants of working capital and attributions of financial performance around the globe. However, there are less direct references to the effects of working capital management on financial performance among Small and medium enterprises in Uganda, therefore a research gap exists. To fill the existing gap, this study sought to establish the influence of working capital management on financial performance of small and medium enterprises with in Kawempe Division.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the research methodology that was used during the study. This included the research design, study population, sample size and selection, sampling techniques, data collection methods, data collection methods, data collection instruments, procedure of data collection, reliability and validity of instruments, data analysis, measurement of variables, data presentation and analysis and the limitations the study.

3.2 Research Design

According to Orodho (2000), a research design as the scheme, outline or plan that is used to generate answers to the research problems. A research design can be regarded as an arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance with the research purpose. It was the conceptual structure within which research was conducted. It constitutes the blueprint for collection, measurement and analysis of data (Kothari, 2003).

An exploratory research design was used in the study. According to Robin and Babbie (2009), exploratory researches aim to establish insights into a problem to provide a better understanding of a phenomenon. It established how working capital management influences financial performance of small and medium enterprises. Both qualitative and quantitative methods were used because they supplement each other. The qualitative approach mainly be used to describe subjective assessments, analyses and interpretation of attitudes, opinions, and behaviors of the respondents as expressed verbatim from interviews and focus group discussions (Mugenda & Mugenda, 1999).

The quantitative methods help in generating numerical data, which was statistically manipulated to meet required objectives through descriptive statistics (frequencies and percentages) and inferential statistics, which tested hypotheses using correlations and coefficients of determination (Amin, 2005). This is because there was need to outlay some information statistically in order to bring out the statistical aspects of the study clearly. Using a combination of qualitative and quantitative data allows triangulation by ensuring that the limitations of one type of data are balanced by the strengths of another.

3.3 Study Population

The population for the study comprised of the employees of Small and medium size enterprises with in Kawempe Division Urban Council especially those in positions which give them a chance to know about working capital management and financial performance of their organizations. The study was based on a population of 250 people.

3.4 Sampling Size and Design

The research sample size covered 100 respondents from Small and medium enterprises of Kawempe division Urban Council currently working in the different departments. This sample size was determined using Krejcie and Morgan (1970).

3.5 Sampling Technique and Procedure

Simple random and purpose sampling method were used in the selection of the respondent

3:5.1 Simple Random Sampling

Under this technique, all the members of the finite population were given equal chances to be included in the sample (Ashley) since the target respondents engaged or have an idea about financial performance of Small and medium enterprises, they were in a better position to respond to the research questions appropriately. This removed the possible bias that may have arisen as the result of research favoring some members of the population (Stephanie, 2014).

3.5.2 Purposive Sampling

With this technique, members were selected based on their technical knowledge about the purpose of the study and it was applied where they were few respondents in a given section (Tongro, 2007). This method was useful because it made it easier to reach a targeted sample quickly (Palys, 2008). For this reason, this technique was preferred when getting the information from the respondents with in department of accounting, internal audit and administration.

3.6 Source of Date

The researcher used both secondary data and primary data sources for the study

3.6.1 Primary data

Primary data is data that is collected by a research from first hand sources, using methods like surveys, interviews or experiments and in this case it was collected using questionnaires and checklist (Stephanie 2018). The questionnaire was divided into two sections to ensure data collection, validity, reliability and deep insight on the statistical variable. The first section considered respondents' demographic profile such as gender, age, education, department of

service, the second section comprised of structured questions which will be developed according to the objectives of the study. This was generally being applied to the employees working in the small and medium enterprises.

3.6.2 Secondary Data

Secondary data was collected through review of past reports from Uganda Investment authority such as progress reports. Other secondary data was collected from written researches, electronic journals, Newspapers. This information was very important because it helped the researcher to supplement his data that was collected from respondents, hence helping him to increase sampling size and the reliability of the research findings. (Tran et.al, 2013).

3.7 Research Instrument

A questionnaire is a set of techniques of data collection in which individuals are asked to respond to a standard set of questions in a predetermined order. The researcher used structured questionnaires which helped to elicit responses specifically for this study and also to reduce costs since it was economical and time saving as they were easily administered. These structured questions were presented in a Likert scale questions for respondents' analysis about the relationships between the variable under the study. The structured questionnaire was administered using a drop and pick later method (Zohrabi, 2013), I also used a checklist document to enable me get more information.

3.8 Validity and Reliability of the instruments

3.8.1 Validity

Data validity refers to the ability of research instruments to elicit the desired response from the target population (Kothari, 2003). To ensure the correctness of the instruments, the research tools were presented to the supervisors so as to ensure that all vague questions are eliminated before the final document will be approved. Also to ensure this desired response, the questionnaire in this study was subjected to scrutiny by like 5 experts in the field of study prior to their deployment in the field to eliminate vague and ambiguous questions and streamline the content structure, flow and conciseness, in other wards to ensure content validity .it was calculated using

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

3.8 Data collection procedure

The researcher obtained a letter of recommendation to conduct the research from the School of Management of Kyambogo University (KYU) to ensure that the ethical guidelines are followed throughout the data collection process and to help access the owners and employees at their place of work. Each questionnaire contained an introductory letter requesting for the respondent 's collaboration in providing the required information for the study. The study used both primary and Secondary data which was be collected through use of questionnaires and interviews.

3.9 Measurement of Variables

In the quantitative methods of data collection, the questions were divided into scale of five categories of strongly agree, agree, not sure, disagree and strongly disagree where the examinee selected the response that best described his or her reaction to each statement. The response

categories were weighed from 1-5 where 1= strongly agree, 2 = agree, 3 = not sure, 4= disagree and 5= strongly disagree.

3.10 Data Analysis

A Statistical Package for Social Scientists (SPSS) 2018, a computer package of data analysis was employed to analyze the data to reveal frequencies and percentages. Regression model were used to analyze data collected from small and medium enterprises. Regression analysis were also ideal since the researcher is investigating the effect of working capital management and financial performance of Small and medium enterprises.

3.11 Data processing

Data collected from the field was classified, edited, coded and filtered to ensure completeness and accuracy of the findings using manual and computerized methods. The research findings were analyzed using statistical tables and percentages. Data was organized and contrasted to establish the influence of working capital management on financial performance of small and medium enterprises.

3.12 Data presentation

Data presentation in a form of a report in both narrative word-processed form and tables showing the finding of the study shall be prepared.

CHAPTER FOUR
PRESENTATION OF DATA, ANALYSIS AND INTERPRETATION OF THE FINDINGS

4.0 Introduction

The study examined the relationship between working capital management and financial performance of small and medium enterprises with in Kawempe Division Urban Council. This chapter presents the analysis and interpretations of the study findings. The chapter presents the analysis as per the specific objectives that guided the study by first presenting response rate, followed by means, frequencies, descriptive statistics and lastly the regressions.

4.1 Response rate

The study population of the study was 250 SMEs with in Kawempe Division Urban Council from which data was to be collected. However, out of that sample the researcher managed to collect only 100 answered questionnaires giving the response rate of 40%. This response rate was as a result of unwillingness of most of the medium firms to avail information. However, the researcher engaged three more research assistants and eventually he was in position to achieve the stated response rate there by enabling the researcher to achieve his study target.

4.2 Background information

Background information was required in this study to determine whether the respondents and firms from which data was collected possess the right qualification with those of the targeted population. Respondents were asked to indicate their gender, age, education level and job position in the firm. In addition, the respondents were also asked to indicate the business type, years of operation and number of employees.

4.2.1 Respondents characteristics

All respondent's characteristics in terms of their gender, age bracket, years spent in the business and the position occupied in the firm were presented. This information was critical in order to determine whether the respondents were familiar with the working capital management matters and financial performance of the small and medium enterprise. This data is summarized in the Table 1 below

Table 1: Personal characteristics of respondents

Gender	**Frequency**	**Percent**
Male	44	44
Female	56	56
Total	**100**	**100**
Age bracket	**Frequency**	**Percent**
21 – 30 years	55	55
31- 40 years	38	38
Above 40 years	7	7
Total	**100**	**100**
Marital Status of respondent	**Frequency**	**Percent**
Married	51	51
Singles	36	36
Others	13	13
Total	**100**	**100**

Source: Primary data

The results in Table 1 about gender distribution of respondents indicates that majority of the participants in the study were females constituting 56 percent while male constituted 44 percent. Findings about the age bracket of the respondents indicate that majority of the respondents were between 21 – 30 years which constituted 55 percent, those between 31-40years constituted 38 percent and only 7 percent were the respondents who were above 40 years of age. In terms of marital status of the respondents, 51 percent of the respondents were married, 36 percent of the

respondents were single and only 13 percent represented the other side for they were neither married nor singles.

Table 2: Job related characteristic of respondents

Job position	**Frequency**	**Percent**
Manager	3	3
Accountant	29	29
Finance Officer	10	10
Bursar	8	8
Cashiers	13	13
Others	37	37
Total	**100**	**100**
Duration at Work	**Frequency**	**Percent**
0-3 years	25	25
1-3 years	37	37
3-5 years	30	30
5-7 years	8	8
Total	**100**	**100**
Employees in department	**Frequency**	**Percent**
5-10 years	3	3
10-15 years	3	3
15 and above	94	94
Total	**100**	**100**

Source: Primary data (2019)

From table 2, that presented findings about the job related characteristics of respondent in terms of position of the respondents, duration at work and number of employees in the small and medium

size enterprises. Majority of the respondents were respondents who were in others positions like human resource managers of the small and medium enterprises that were surveyed which comprised of 37%. Part of the respondents who occupied 29% were the accountants, Cashiers were 13%, 10% were financial officials, 8% were for the bursars and lastly those that belonged to manage positions constituted only 3%. The study was also interested in the duration of working in a given small and medium entity. Majority of the respondents have been in their organization for a period 1-3years represented by percentage of 37, those for a period between 3-5years were 30%, those between 0-3 years were 25% and those who have spent between 5-7 years were represented by 8%.

Lastly the study presented the number of employees with in a department and it was established that 94% of the employees with in a department were 15 and above, those for who were between 10-15 employees with in a department were represented by 3% and those who were between 510 years were also represented by 3%.

4.3 Descriptive Statistics

4.3.1 Descriptive statistics on creditor management

In a bid to understand the level of adoption of credit management, respondents from the SMEs under study were required to indicate their perception of some issues that were adopted which included; Our suppliers allow to offer credit, always we delay to clear bills in our organization, we make consumers be aware of the new products on the market, we review supplier reports regularly, the business always raise funds to pay our debts. The descriptive results are presented in table 2 below

Table 3: Descriptive Statistics on Creditor Management

From the findings its evidenced that the dimension of our suppliers allow to offer credit had a mean of 3.32 and this indicates that most of the respondents in the small and medium entities were disagreeing that suppliers allow to offer credit, the standard deviation was 1.406 and this implied that a big number of the respondents were either strongly agreeing or strongly disagreeing on the fact that the suppliers of the SMEs allows the offer credit. Always we delay to clear bills in our organization was represented with a mean of 3.51 which always follows in the range of above average hence most of the respondents disagreed and the standard deviation was 1.299 which also meant that respondents were either agreeing. We maintain good relationships with our suppliers

was established with a mean of 3.46 and standard deviation of 1.403, this implies that still most of the respondents were disagreeing about the statement and for the standard deviation it also still showed that respondents were either strongly agreeing or strongly disagreeing. As evidenced, most of the respondents disagreed that supplier's reports are reviewed regularly as seen in the table with a mean of 3.50 and for the standard deviation it was still in the line of strongly agreeing or strongly disagreeing represented by 1.382, lastly was the business always raise funds to pay their debts promptly represented by the mean of 3.57 and the standard deviation =1.423

4.3.2 Descriptive Statistics on accounts receivables management

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

Table 4: Descriptive Statistics on Accounts Receivables Management

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

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

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

4.3.3 Descriptive Statistics on Cash Management

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

Table 5: Descriptive Statistics on Cash Management

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

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

From the findings about organizations monitoring petty cash to avoid shortages, a mean of 2.47 was evidenced which implied that most respondents agreed with the statement and the standard deviation was 1.314 which clearly indicates that most respondent were either strongly agreeing with the statement or strongly disagreed with the statement, Further still findings discovered that the idea of upon payments people are supposed to sign for the cash taken showed a mean of 2.46 which still followed in line with agree, and the standard deviation was 1.396 which represents that respondents were either strongly agreeing or strongly disagreeing with the statements. Balancing of cash daily was also analyzed and findings indicated that 2.51 of the respondents agreed and the

standard deviation is represented by 1.219, Cash budget being prepared by organization yielded a mean of 2.55 hence respondents agreed with the statement and the standard deviation was also in line with 1.387 and this still meant most respondent were in category of strongly agreeing or strongly disagreeing. Lastly was only authorized individuals are allowed to access safes of money, evidence showed that most respondents agreed with the statement as per the mean of 2.56 and for the standard deviation it was 1.290 meaning most respondent were either strongly agreeing or strongly disagreeing.

4.3.4 Descriptive Statistics on Inventory Management

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

Table 6: Descriptive Statistics on Inventory Management

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

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

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

4.3.5 Descriptive Statistics on Sales Growth

Table 7: Descriptive Statistics on Sales Growth

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

Source: primary data

From the findings its evidenced that the dimension of our customer have been increasing over a time had a mean of 2.58 which implied that most of the respondents were agreeing with the statement and it had a standard deviation of 1.304, in our organization product sales volumes have increased over the past periods was represented by a mean of 2.49 which also implied that people

agreed with the statement and it had a standard deviation of 1.283 which showered that people were either strongly agreeing or strongly disagreeing. About our sales revenues for the business have increased over the past periods was represented by a mean of 2.69 still this followed in the agree line therefore most respondents were in agreement with the statement where as the standard deviation was at 1.398. Lastly was our incomes often exceeding the expenses we incur, this was evidenced by a mean of 2.49 and standard deviation =1.337.

4.3.6 Descriptive Statistics on Profit Growth

Table 8: Descriptive Statistics on Profit Growth

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

Source primary data

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

deviation of 1.267. Lastly our profits have been increasing over a time showed us a mean of 2.64 which also implied that respondents were in agreement with the statement and the standard deviation was 1.322 and this meant that respondents were either strongly agreeing or strongly disagreeing.

4.4 Regression Analysis on the variables

4.41 The influence of Accounts Payables management on financial performance

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

Table 9: Regression results on the effect of Accounts Payable management on financial performance

Model Summary

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

a. Predictors: (Constant), Accounts Payables management

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	11.360	1	11.360	20.553	.000[b]
	Residual	54.166	98	.553		
	Total	65.526	99			

a. Dependent Variable: financial performance

b. Predictors: (Constant), Accounts Payable management

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.328	.277		4.801	.000
	Credit management	.348	.077	.416	4.534	.000
a. Dependent Variable: financial performance						

Source: primary data

According to the findings in Table above, it was revealed that credit management affects financial performance. The findings indicate that the model fits well and significantly explain the variations in financial performance as a result of Accounts Payables management (F=20.553, P-value<0.01). It is further observed that credit management explains variances in financial management by up to 16.5% (Adjusted R^2=0.165). In addition, it was also revealed any increase in effort taken by firm to manage credit will result into 0.348 increase in financial performance (B=0.348). The results therefore indicated that Accounts Payables management contributes to the changes in financial performance and should not be taken slightly.

4.42 The influence of Account receivable management on financial performance

In a bid to establish the influence of account receivable management on financial performance, a linear regression model was run to establish the effect of account receivable management on financial performance and the results were presented in table 9 below.

Table 10: Regression results on the effect of account receivable management on financial performance

Model Summary

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

a. Predictors: (Constant), account receivable management

ANOVA[a]						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	23.496	1	23.496	54.784	.000[b]
	Residual	42.030	98	.429		
	Total	65.526	99			
a. Dependent Variable: financial performance						
b. Predictors: (Constant), account receivable management						

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.265	.184		6.889	.000
	Account receivable management	.506	.068	.599	7.402	.000
a. Dependent Variable: financial performance						

Source: primary data

The findings above indicate that model fitted well the data and significantly explains the variances in financial performance. Therefore, the evidence presented in the tables show that account receivable management affects financial performance (F=54.784, Sig level=0.000). It was also revealed that changes in account receivable management explain variances in financial performance up to only 35.2 % represented by adjusted R^2 of 0.352. Furthermore, the results indicated B= 0.506 which implied that any increase in effort to improve account receivable management would result into 0.506 increase in financial performance. This showed that account receivable is a good predictor of financial performance.

4.4.3 The influence of Cash management on financial performance

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

Table 11: Regression results on the effect of cash management on financial performance

Model Summary

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

a. Predictors: (Constant), cash management

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

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

Source: primary data

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

4.4.4 The influence of Inventory management on financial performance

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

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

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.647[a]	.419	.413	.62324
a. Predictors: (Constant), inventory management				

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	27.460	1	27.460	70.695	.000[b]
	Residual	38.066	98	.388		
	Total	65.526	99			

a. Dependent Variable: financial performance
b. Predictors: (Constant), inventory management

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.182	.173		6.843	.000
	Inventory management	.534	.064	.647	8.408	.000
a. Dependent Variable: financial performance						

The findings revealed that any increase in effort to improve inventory management would lead to increase in financial performance by 0.534. This is represented by B=0.534. It was also observed that the findings presented well the evidence to explain that inventory management is a predictor of financial performance. This is because the model was a good fit and significant explains the changes in financial management as a result of inventory management. (F=70.695, P-value<0.01). The results further indicated that changes in inventory management would lead to increase in financial performance up to 41.3% (Adjusted R^2=0.413).

4.4.5 The influence of working capital management on financial performance

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

Table 13: Multiple regression results on the effect of working capital management on financial performance

Model Summary

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

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

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	32.305	4	8.076	23.095	.000[b]
	Residual	33.221	95	.350		
	Total	65.526	99			

a. Dependent Variable: financial performance

b. Predictors: (Constant), inventory management, credit management, cash management, account receivable management

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.669	.239		2.794	.006
	credit management	.080	.071	.096	1.131	.261
	account receivable management	.163	.093	.193	1.747	.084

	cash management	.175	.104	.183	1.689	.095
	inventory management	.292	.089	.354	3.275	.001
a. Dependent Variable: financial performance						

Source: primary data

The findings revealed that generally, working capital management has a positive effect on financial performance and therefore can be significantly predict changes in financial performance. This is represented by F-value of 23.095, P-value<0.01 which implied that the model was a good fit. It was also observed that a combination of predictor constructs of working management would predict changes in financial performance by up to 47.2% which is represented by Adjusted R^2 of 0.472.

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

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

5.1 Introduction

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

5.2 Summary of the findings

The findings indicated that out of the 250 respondents who were targeted, only 100 were able to complete the questionnaires and return them, resulting in a response rate of 40% which is considered to be representative and fair to make conclusions for the study. The findings showed that the respondents were familiar with working capital management in Kawempe Division, therefore being in position to understand and provide the right information for the study.

5.2.1 Creditors management and financial performance

The study established that there exists a relationship between creditors management and financial performance of small and medium enterprises with in Kawempe Division. It was also established that credit management influences financial performance by up to only 16.5% as indicated by adjusted R square of 0.165. It was also established that majority of the SMEs in Kawempe division had a low adoption of credit management with an overall mean on all issues considered to measure adoption of credit mean being above the average hence an indication of disagreement

(Mean=3.472). The study also revealed that any effort taken to improve credit management would increase financial performance by 0.348 (B=0.348).

The study findings were in agreement with the findings by Mathuva (2019) who also investigated the effect of working capital management on firm's performance and established that there exists a significant positive effect of credit management on firm's performance. The findings are also in line with the findings of Ganesan (2017) who established that if credit management is well managed through reducing credit days, it would have a positive effect on financial performance.

However, the findings are contradicting the findings by Kumar (2011) where it was established that there is a negative relationship between credit management and financial performance. Therefore, this study determined that there is a positive and significant effect of credit management on financial performance though it was to a low extent.

5.2.2 Accounts Receivables management and Financial performance

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

5.2.3 Cash Management and Financial performance

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

5.2.4 Inventory Management and financial performance

The findings revealed that any increase in effort to improve inventory management would lead to increase in financial performance by 0.534. This is represented by B=0.534. It was also observed that the findings presented well the evidence to explain that inventory management is a predictor of financial performance. This is because the model was a good fit and significant explains the changes in financial management as a result of inventory management. (F=70.695, P-value<0.01). The results further indicated that changes in inventory management would lead to increase in financial performance up to 41.3% (Adjusted R^2=0.413). Respondents agreed that systems like fast in fast out are used in the organizations, monitoring stock levels on regular basis, verifying the manufacturing date and expiry date all items with in the store among others.

5.3 Discussion of the findings

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

5.3.1 Creditors management and financial performance

Basing on the findings, it was revealed that credit management affects financial performance. The findings indicate that the model fits well and significantly explain the variations in financial performance as a result of credit management (F=20.553, P-value<0.01). It is further observed that credit management explains variances in financial management by up to 16.5% (Adjusted R^2=0.165). In addition, it was also revealed any increase in effort taken by firm to manage credit will result into 0.348 increase in financial performance (B=0.348). The results therefore indicated that credit management contributes to the changes in financial performance and should not be taken slightly. The study revealed that there exists a positive relationship between creditors management and financial performance of Small and Medium enterprises with in Kawempe Division. It was discovered that the financial performance of entities basically rotates around creditor management This was in line the findings of Mathuva (2009) in the study "the influence of working capital management components on corporate profitability: a survey on Kenyan listed firms" shows that average payment period has a positive relationship with profitability. The negative relationship suggests that an increase in the number of day's accounts payable by 1 day is associated with a decrease in profitability. Sharma and Kumar (2011) examined the effect of working capital management on firm profitability in India. The finding of the study confirmed positive relation between debtor's management with firm performance while the creditor management had negative

relation with firm performance. However, Deloof 2003disagreed with the findings because his established a positive relationship between creditors management and financial performance.

5.3.2 Accounts receivables management and financial performance

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

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

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

However, the current study findings studies are contrary to the prior studies by Mathuva (2009) who examined the influence of working capital management components on corporate profitability by using a sample of 30 firms listed on the Nairobi Securities Exchange (NSE) for the periods

1993 to 2008. He used Pearson and Spearman's correlations, the pooled ordinary least square (OLS), and the fixed effects regression models to conduct data analysis. The key findings of his study was that there existed a highly significant negative relationship between the time it takes for firms to collect cash from their customers (debtors' management) and firm profitability.

5.3.3 Cash management and financial performance

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

However, the findings are in contrary to Lazaridis and Tryfonidis (2016) who investigated the relationship between corporate profitability, the cash management and its components. They used a sample of 131 companies listed in the Athens Stock Exchange for the period of 2001-2004. The research findings showed negative relationship between cash management, financial debt and profitability, while fixed financial assets had a positive coefficient. The authors concluded that companies can create more profit by handling correctly the cash management and keeping each different component to an optimum level.

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

5.3.4 Inventory Management and financial performance

From the findings it was revealed that inventory management have a strong and positive influence on financial performance with 41.3% changes in financial performance being relationship explained by inventory management (Adjusted R square=41.3). The findings also revealed that any effort taken to improve on inventory management would increase financial performance by 0.534 (B=0.534).

Findings revealed that an attempt to manage inventory very well brings about a positive increase in the financial performance of the organization because it will reduce wastage of stock. In the same line, Capkun, Hameri, and Weiss (2009) studied the relationship between inventory and financial performance in manufacturing companies. The researchers studied 52,254 businesses for a period of 25 years between 1980 and 2005; they used multiple regressions to determine the correlation between financial performance and various inventory levels. The results revealed a positive correlation between a company's inventory management and its financial performance. They also noted that degrees of correlation vary depending on the type of inventory and the financial performance reference.

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

was a high positive correlation between good inventory management and organizational profitability. They concluded that inventory management is very vital to the success and growth of Organizations.

5.4 Conclusion

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

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

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

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

The study also concluded that inventory management contributes highly to financial performance as compared to the other constructs of cash management, credit management and account receivable management. However, their contribution should not be taken slightly since the combined contribution of all the four resulted into high positive influence on financial performance.

5.5 Recommendations

The study makes a number of recommendations. First, the study recommends that small and medium enterprises should increase on then time lag of clearing bills, allowing suppliers to offer goods on credit, business should always raise fund to clear debts promptly. This will help to improve their performance.

Secondly, the study recommends that for small and medium enterprises to improve their financial performance there is need to manage their accounts receivables by giving reminders to customers before their due dates, encouraging organization to give discounts to encourage debtors pay in time, promoting the issue of installment and making sure that debts are not always written off, this will lead to higher financial performance.

Thirdly the study recommends that small and medium enterprises should improve their cash management circles by monitoring petty cash to avoid shortages, signing on every transaction that

needs money, only authorizing few people to access the safe for money among others. This improve their financial performance.

Fourthly the study recommends on inventory management and financial performance and basing on the findings using the dimensions of stock taking, using inventory systems like FIFO among others. These also indicated that inventory management affects the financial performance of small and medium entities.

5.6 Areas of Further Research

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

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

APPENDIX I: QUESTIONNAIRE

Research Title: "Working Capital Management and Financial performance of small and medium enterprises in Kawempe Division Kampala District".

Dear Respondent,

I am a student of Kyambogo University, Kampala pursuing a Master's in Business Administration (Accounting and Finance Option). The questionnaire is intended to help the researcher get information on working capital management and financial performance of small and medium enterprises with in Kawempe division. The purpose of the study is purely academic and information given will be treated with the highest degree of confidence. You have been selected as a key respondent for this study. Kindly, complete the questionnaire to enable the researcher complete the study. Please tick the answer which represents your opinion on the subject.

I appreciate your participation in this effort.

Thank you,

……..

Muhamadi Mulajje

Participant

PART A: BACKGROUND INFORMATION

1: Email of the respondent …… (Optional)

2: Age:

(i) Below 20 years ☐

(ii) 21 – 30 years ☐

(iii) 31 – 40 years ☐

(iv) Above 40 years ☐

3: Gender

(i) Male ☐

(ii) Female ☐

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

(i) Manager ☐ (iii) Finance Officer ☐

(ii) Cashier ☐ (1v) Accountant ☐ (v) Bursar ☐

(v) Others

5: For how long have you been employed in Kawempe division? (Optional)

(i) 0-3 Year ☐

(ii) 1-3 Years ☐

(iii) 3-5 Years ☐

(iv) 5-7 Years ☐

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

(i) 5 – 10 ☐

(ii) 10 – 15 ☐

(iii) 15 and above ☐

7: What form / type is your business?

(i) Sole proprietorship ☐

(ii) Partnership ☐

(iii) Limited company ☐

PART B: WORKING CAPITAL MANAGEMENT OPTIONS

You are requested to show the extent to which you agree or disagree on the statement given.

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

Statement	**1**	**2**	**3**	**4**	**5**
Creditor management					
1)Our suppliers allow to offer goods on credit					
2) Always we delay to clear bills in our organization					
3) We review suppliers reports regularly					
4) In our organization we maintain good relationship with suppliers					
5) The business always raise funds to pay our debts promptly					
Accounts Receivables Management					
6) In our organization we give reminders to customers before their due dates					
7) The organization gives discounts to encourage debtors pays in time					
8) We rarely write off debts because we make sure we follow up such that customers pay in time					
9) In our organization installments are allowed					
Cash Management					
10) In our organization petty cash is monitored to avoid cash shortages					

11) The organization regularly monitor cash flow					
12) We balance cash on a daily basis					
13) In our organization a cash budget is prepared on a regular basis					
14) Only authorized individuals are allowed to access the cash office					
15) Upon payments, people are supposed to sign for the cash taken					
Inventory managements					
16) In our company we make requisitions for all items in the store.					
17) Mostly in the organization we choose quality suppliers for inventory needed					
18) In our organization we monitor stock on regular basis					
19) In our organization we verify manufacturing dates and expiry dates of all stock in stores					
20 The stores mangers makes sure store is cleaned every day to avoid dust which may affect our stock					
21) In our organization we look for cheap suppliers of raw materials					
22) We use inventory trucking systems like firs in first out					
23) In our organization we regularly carry out stock taking					

PART C: FINANCIAL PERFORMANCE

Statement	**1**	**2**	**3**	**4**	**5**
Sales Growth					
Our cutomers have been increasing over a time					
In our organization product sales volumes have increased over the past periods					
Our sales revenues for the business have increased over the past periods					
Much space is being occupied by our business compared to last year					
The number of employees in our organization has been increasing over a time					
Profit Growth					
The proportion of the profits we save annually keeps increasing					
Our incomes often exceed the expenses we incur					
In our organization stock has been increasing the last few months					
Our profits have been increasing over a time					
Our organization is always ranked the best in division surveys					
The organization has good will with in our location					
We have been in business for a long period of time					

Thank you for your cooperation

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