

**WORKING CAPITAL MANAGEMENT AND FINANCIAL
PERFORMANCE OF SMALL AND MEDIUM SCALE ENTERPRISES
IN HOIMA MUNICIPALITY**

BY

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**A RESEARCH REPORT SUBMITTED TO THE COLLEGE OF
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DECLARATION

I Kusiima Marion, hereby declare that this research report on “Working Capital Management Practices and Financial Performance of Small and Medium Enterprises” is an original compilation and has not been published or submitted to any institution of learning for any academic award. Throughout the compilation of this work, I have acknowledged all the sources.

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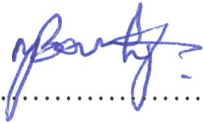
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APPROVAL

This is to certify that this report entitled “Working Capital Management Practices and Financial Performance of Small and Medium Enterprises” prepared by ~~K~~usiima Marion has been carried out by her under my supervision and is now ready for submission to the College of Economics and Management for the award of Bachelors Degree in Business Administration of Kampala International University with my approval.

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Date:



DEDICATION

This research project is dedicated to my parents, Kiiiza Leonard, Kiiiza Oliver and Kiiiza Jenifer, brothers and sisters who have worked tirelessly to make sure I get quality education.

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This research project in its present form has been made possible by God and a number of people to whom I am greatly indebted and to whom I would like to express my gratitude.

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LIST OF ACRONYMS

ACP:	Average Collection Period
APP:	Average Payable Period
CCC:	Cash Conversion Cycle
ECU:	European Currency Unit
EU:	European Union
ICP:	Inventory Conversion Period
IFC:	International Finance Corporation
GDP:	Gross Domestic Product
ROA:	Return on Assets
ROE:	Return on Equity
SMEs:	Small and Medium Enterprises
SSC:	SMEs Solution Center
UK:	United Kingdom
USA:	United States of America
WCM:	Working Capital Management

ABSTRACT

Working capital management plays a significant role in better performance of business entities. This paper analyses whether SMEs in Hoima Municipality carry out the recommended working capital management practices and the effect of Working Capital Management (WCM) on the financial performance of these enterprises. The study employs a quantitative research design which is useful in establishing the relationship of working capital management and financial performance. In addition, the study employs a cross sectional survey to establish whether SMEs in Hoima Municipality carry out WCM practices. A sample of 100 SMEs for a period of 2011 to 2016 is to be used. However, a total of 89 responses were received. The study relies on both primary data, collected through a questionnaire, and secondary data collected from annual reports and financial statements of SMEs in Hoima Municipality. The WCM components to be used for the purpose of this study are, Accounts Payable Period (APP), Inventory Conversion Period (ICP) and Average Collection Period (ACP). Return on Assets (ROA) was used as the proxy for financial performance. The study employs a regression analysis and the Pearson's' correlation analysis is to be used to test the significance of relationship between WCM and financial performance of SMEs in Hoima Municipality. The results of the study indicate that 62.9% of the SME's in Hoima Municipality do not have a written policy on WCM. However, they are informally adopting some of the WCM practices. The results further indicated there is a significant positive relationship between WCM components (APP, ACP and ICP) and financial performance of SMEs in Hoima Municipality at a 0.05 significance level. A positive correlation coefficient of 0.833 was established between ROA and the ACP indicating a significant positive relationship between ACP and ROA. A positive correlation coefficient of 0.869 was also established between ROA and ICP indicating a significant positive relationship between ROA and ACP. Finally a positive correlation coefficient was established between ROA and APP indicating a significant positive relationship between ROA and APP.

CHAPTER ONE

INTRODUCTION

Background to the study

Working capital management (henceforth, WCM) is a highly essential component in the management of daily activities of the firms. The continuous challenging economic and financial market environment has caused companies around the world to intensify efforts to extract efficiencies and eliminate risks in the management of their working capital. Consequently, WCM enables firms to be at par with maintaining an optimal performance in liquidity and performance. A conventional view is that there is likelihood of disparities of firm's assets as well as liabilities if WCM is inefficient and mismanaged / (Wikipedia, free encyclopedia journal)

Kithii,(2008) posted that firms are now taking a more strategic approach to WCM which helps in bringing about benefits beyond greater liquidity and reduced debt burdens. WCM also provides flexibility for growth, investment and increasing shareholder wealth through dividends. Managing working capital effectively and consistently prepares firms for any downturn without being forced into a crippling scramble for liquidity.

Investment decisions involve investment in non-current assets known as capital budgeting as well as investment in current assets known as working capital management. Financing decisions relate to the raising of finance from various resources which will depend upon decision on type of source, period of financing, cost of financing and the returns thereby. Dividend decisions involve decisions on the distribution of profits. This requires decisions to be made on how much to distribute to the shareholders and how much should be retained (Brealey& Myers, 2007). Sound financial management practices help to improve the profitability of an organization and ensure that it has a healthy statement of financial position.

1.1.1 Working Capital Management

WCM involves planning and controlling current assets and liabilities in a manner that eliminates the risk of inability to meet short term obligations and avoid excessive investment in these assets (Eljelly, 2004). WCM aims at maintaining an optimal balance between each of the working capital components, that is, cash, receivables, inventory and payables (Guthmann and Dougall, 1948). The goal of WCM therefore, is to ensure that the firm is able to continue in its operations and that it has sufficient cash flow to satisfy both maturing short-term debt and upcoming operational expenses (Brigham & Houston, 2007).

WCM is a therefore a fundamental part of any firm's overall corporate strategy to create value, to ensure financial health and provide competitive advantage (Deloof, 2003). WCM is also vital for the success and survival of businesses and for enhanced performance and contribution to economic growth (Padachi, 2006). In this sense, it is possible to regard working capital as the lifeblood of a firm (Padachi et al. 2008). The goal of WCM therefore, is to ensure that the firm is able to continue in its operations and that it has sufficient cash flow to satisfy both maturing short-term debt and upcoming operational expenses (Brigham and Houston, 2007).

1.1.2 Financial Performance

According to Metcalf and Titard (1976), financial performance is the process of measuring the results of a firm's policies and operations in monetary terms. Financial performance of a firm can be measured using variables such as profitability and liquidity. Profitability measures the extent to which a business generates a profit from the factors of production. Four useful measures of firms' profitability are Return on Assets (ROA), Return on Equity (ROE), Operating profit Margin and Net Income. Liquidity on the other hand, measures the ability of the firm to meet financial obligations as they fall due, without disrupting the owner equity, using the market value of assets. Liquidity can be measured using the current ratio which is the ratio of current assets to current liabilities.

According to McMahon (1995) financial performance can be defined as a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. Further this term is 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 of companies can be measured by use of accounting information or stock market values in a financial management practices context. When applying stock market values as a measure of performance, one is interested in analyzing the change in market value. Firm performance is measured over time by using the average stock market change per year. This value is usually obtained by calculating the yearly change in stock price.(Abor, and biekpe (2005)

When accounting information is used, accounting ratios are employed. Among the common accounting ratios used to measure profitability are: return on assets (ROA) and return on capital employed (ROCE). Return on assets is an indicator of how profitable a company is relative to its total assets. It gives an idea as to how efficient management is at using its assets to generate earnings. It is calculated by dividing a company's annual earnings by its total assets and it is shown as a percentage. Because of the limitations cited in using stock market prices, this study will employ Return on Assets (ROA) to measure the operating efficiency of the Shipping companies in Uganda (Brealey& Myers, 2007).

1.1.3 Relationship between WCM and Financial Performance

WCM has significant impact on both profitability and liquidity of firms (Shin and Soenen, 1998). In regards to liquidity, WCM seeks to ensure that the investment in working capital components is neither too little nor too great. The former could give rise to illiquidity, stock outs, and lost sales, whereas the latter amounts to waste Tully, 1994). With regards to profitability, the level of investment in working capital and the financing of this investment, at any particular level of output, involve a risk-return tradeoff (Madura and Veit, 1988). Generally the higher the risk the higher the return demanded by management and shareholders in order to finance any investment in working capital (Cooper et al. 1998, Gitman, 1997).

Therefore, for WCM to be effective there is need for clear specification of any firm's objectives. According to the mainstream economic theory, it is generally accepted that the main objective of any firm is to maximize profits. However, maintaining liquidity is also an important objective (Raheman& Nasr, 2007). The dilemma is that increasing profits at the cost of liquidity can bring

grave problems to the firm. Therefore, there must be a tradeoff between these two objectives (liquidity and profitability) of firms (Falope and Ajilore, 2009). This can be achieved through effective WCM since the two main objectives of WCM are; to increase the profitability of a company and to ensure that it has sufficient liquidity to meet short-term obligations as they fall due and so continue in business (Padachi, 2006).

Ultimately, WCM is a very crucial element in analyzing the firm's performance whilst performing day to day operations and achieving balance between liquidity and profitability. All individual components of working capital including cash, marketable securities, account receivables and inventory management play a vital role in the performance of any firm (Brigham & Hauston, 2007).

Accounting Information System indicate an integrated framework within an entity (such as a business firm) that employs physical resources (i.e., materials, supplies, personnel, equipment, funds) to transform economic data into financial information for; conducting the firm's operations and activities, and providing information concerning the entity to a variety of interested users. Indeed, the combination or interaction between human, technology and techniques would permit an organization to administer its knowledge effectively (Bhatt, 2001; Thomas and Kleiner, 1995).

Working capital is a part of a firm's current assets. Depending on the source, working capital can be defined in different ways. Working capital is defined as a company's total investment in current assets or assets that a company expects to be converted into cash within a year or less (Keown; Martin; Petty; and Scott, 2005). The investment in working capital involves carrying costs and shortage costs, so the firms have to find the tradeoff between them.

Capital structure is defined as the relative amount of debt and equity used to finance a firm. It's the relative amount of permanent short term debt, long term debt, preferred stock and common equity used to finance a firm. In contrast, financial structure refers to the amount of total current liabilities, long term debt, preferred stock and common equity used to finance the firm. Thus,

capital structure is part of financial structure, representing the permanent sources of a firm's financing (Boateng, 2004).

Accounting information systems assist in the analysis of accounting information provided by the financial statements. Romney (2009) purport that the biggest advantage of computer-based accounting information systems is that they automate and streamline reporting. As pertains to Financial Reporting Analysis (FRA), recording and organizing the accounting information systems will not meet objectives unless reports from systems are analyzed and used for making managerial decisions (Gitman, 2011). Working Capital Management (WCM) refers to decisions relating to working capital and short term financing (Garrison, 1999). These involve managing the relationship between a firm's short-term assets and short-term liabilities.

Fixed (non-current) assets management (FAM) is an accounting process that seeks to track non-current assets for the purposes of financial accounting, preventive maintenance and theft deterrence (Garrison, 1999). Capital Structure Management (CSM) according to (Romney, 2009) means overseeing the capital structure of an organization. A company's capital structure refers to the combination of its various sources of funding. Most companies are funded by a mix of debt and equity.

1.1.4 Small and Medium Enterprises (SMEs) in Uganda

Although WCM is the concern of all firms, it is of explicit importance to the Small Medium-sized Enterprises (SMEs) given the vulnerability of small firms to fluctuations in working capital since they cannot afford to starve of cash (Padachi, 2006). The SME Solutions Center (SSC, 2007) defines SME as a business formally registered, with an annual turnover of between Ushs.8 million to Ushs 100 million, an asset base of at least UshsFour million and 5 to 150 employees.

With limited access to the long-term capital markets, SMEs tend to rely more heavily on owner financing, trade credit and short-term bank loans to finance their needed investment in cash, accounts receivable and inventory (Chittenden et al. 1998; Saccurato, 1994). These sources of finance bare more risk and are more expensive as compared to equity making WCM an important financial management aspect in SMEs. Kwame (2007) noted that indeed WCM is

important to the SMEs' managers, because it is them who strive for finances and the opportunity cost of finances, for them is usually on the higher side.

In Uganda, SMEs play an important role in the Economy. According to the Economic Survey (2006), the sector contributed over 50 percent of new jobs created in the year 2005. In addition, Oketch (2000) noted that SMEs in Kenya contributed significantly to economic development through provision of job opportunities, reduction of poverty levels, nurturing the culture of entrepreneurship and providing a vital link in the economy through their supply chain and intermediary role in trade. However, despite their significance, past statistics indicate that three out of five businesses fail within the first few months of operation (Uganda National Bureau of Statistics, 2007). Finca Bank Report (2007) further highlights that SMEs exhibit both high birthrates and high death rates with 40% of the startups failing by year two and at least 60% failing by year four.

Mead (1998) observed that the health of the economy as a whole has a strong relationship with the health and nature of SMEs. Further, given SMEs importance to a nation's economic growth and the critical role that they play in poverty reduction, an understanding of the problems that negatively affect SMEs in Uganda is a fundamental step in managing and avoiding the enormous failure of these SMEs. Based on this background, this study is designed to establish the impact of Working Capital Management practices on the financial performance of SMEs in Uganda.

1.2 Statement of the problem

Efficient management of working capital is an important indicator of sound health of an organization. A firm should therefore formulate certain policies to control the working capital so as to meet financial distress, which may occur in future (Luther, 2007). In addition, being a part of investment in assets and directly affecting the financial performance of firms, WCM is a vital issue in the financial decision making process. It ensures adequate cash flow for business operation and expansion which in turn ensures that a firm has positive working capital and hence able to meet its short term obligations as and when they fall due (Joshi, 1994). However, Smith (1980) noted that WCM practices appear to have been neglected despite the high proportion of business failure being attributed to poor decisions regarding working capital.

SMEs pose as the efficient motor of every market economy. For example, in Europe 99.8 per cent of all businesses fall into the SME category. In addition, roughly 66 per cent of all workers are employed in this corporate size (Pichler, 1996). However, the failure rate among small businesses is very high compared to that of large businesses. Padachi (2006) noted that above 20% of small firm failures in the United Kingdom (UK) was due to irrecoverable debts or poor receivable management. Additional studies in the UK and the United States of America (USA) have shown that weak WCM and inadequate long-term financing, is a primary cause of failure among small businesses (Dunn and Cheatham, 1993). In other developed countries such as Canada, England, Australia and others, it has long been recognized that efficient management of working capital is crucial for prosperity and survival of small businesses (Deloof, 2003).

In Uganda, several studies have been carried out to establish the impact of WCM on the financial performance of firms. However, there have been contradicting findings by the different researchers. Mathuva (2010) carried out a study on the impact of WCM on the financial performance of firms in Kenya with a focus on 30 firms listed on the Nairobi stock Exchange. He established that there was differing impact of each WCM components on the financial performance of firms with some having a positive impact and others having a negative impact. On the other hand, Gakure, et al. (2012) carried out a similar study with a sample of 18 companies listed on the Nairobi stock exchange. They established that there was a strong negative impact of all WCM components on the financial performance of firms.

The studies specific to SMEs in Uganda also have contradictory findings. For instance, Kithii, (2008) established that there was a significant negative relationship between the components of WCM with the financial performance of SMEs in Kisumu City. On the other hand, Nyambaga, e al. (2012) established that there was a positive relationship between WCM components and the financial performance of SMEs in Kampala.

Given the; importance of WCM especially to small firms, the significance of the SME sector to the economy of developing countries and the contradictory findings of the various studies carried out in this area, it is important to get a clear understanding of the effect that WCM has on the financial performance of SMEs in Uganda. This study therefore, sought to answer the questions:

What are the working capital management practices in the SME sector in Uganda?

What is the effect of working capital management practices on the financial performance of SMEs?

1.3 Purpose of this Study

The broad purpose of the study was to establish the effect of working capital management practices on the financial performance of the SMEs in Hoima Municipality.

1.4 Specific Objectives

Specifically, the researcher tried to achieve the following objectives;

- i. To examine the contributions of WCM support to the financial performance of SMEs.
- ii. To examine the accounting systems used by the firms.
- iii. To establish cash management system of SMEs.
- iv. To examine how the Accounts receivable and Accounts payable (Creditors) were being carried out by SMEs.
- v. To examine how the inventory management were being practiced by SMEs.

1.5 Research questions

The research proposed to answer the following research questions;

- i. Does the working capital management system contribute to the effectiveness of financial performance?
- ii. How do the accounting systems being practiced affect financial performance and reporting?
- iii. How does cash management affect financial performance?
- iv. How does accounts receivable and accounts payable management contribute to financial performance?
- v. How does inventory management affect financial performance?

1.6 Scope of the Study

1.6.1 Geographical scope

This study was carried out in Hoima Municipality as area of concern for enterprises in Uganda. Uganda is considered to be a developing country with very limited market. It is therefore still at its stage of growing and developing its economy to compete in the global market for its products. This makes this country filled with SMEs who operate with very little capital.

1.6.2 Content coverage

The intent of this study was to investigate the selected WCM management practices on financial performance effectiveness; such as accounting systems used by the firms, cash management, and Accounts receivable and Accounts payable management and inventory management by SMEs. . The study, focus on the management practices that will contribute to financial reporting effectiveness would be more successful if it is conducted in all privately owned companies.

1.6.3 Time scope

The study covered a period of five years (2011 to 2015). But due to time and financial constraints it is out of the touch of the individual researcher, and due to the fact that during this time period enterprises are faced with financial difficulties.

1.7 Significance of the Study

The study was to provide an insight to finance practitioners on the WCM practices and their relationship with financial performance. It was also to provide vital information to business firms on how best to maximize on the usage of financial policies and practices. By gaining understanding of the most crucial financial practices applicable to their companies, organizations will have to organize themselves in a way that ensures success. With knowing such factors, organizations will be able to better prepare for any new challenges and thus operate successfully and be able to compete in the global market. This study should act as a reference point to other researchers in the same field as it is directly linked to the current interest in sustainable WCM practices in both the private and public enterprises.

The study also should add to the existing body of knowledge and stimulate further research on different aspects of financial management practices that have been adopted by different enterprises as they operate in a very dynamic business environment. The financial managers have a significant impact to control any non-compliance activity in line with the established policies, plans, procedures, laws and regulations, set by the government which could have a significant impact on the organization's operations. The financial managers are also essential to add or create value to the organizations, to avoid failure and to save the operating and administration costs in accordance with the organization's policies and procedures. Therefore, this research is very essential to show the effectiveness of the financial managers by assessing the factors which determines the financial reporting effectiveness. In addition this research is important for the empirical evidences for the companies to examine their policies and procedures, and for the future researchers also important to develop a conceptual literature development.

1.8 Operational definition of key terms

Working capital:

This is a financial metric which represents operating liquidity available to a a business or other entity including government entities.

Working capital management:

This refers to company's managerial accounting strategy designed to monitor and utilize the two components of working capital, current assets, and current liabilities to ensure the most financially efficient operation of the company.

Accounts receivable

These are amounts accompany has a right to collect because it sold goods or services on credit to a customer.

Inventory management

This is the supervision of non capitalized assets and stock items.

Accounting systems

This is a system of collecting, storing and processing financial and accounting data that are used by decision makers.

Cash management

Refers to a system of utilizing and monitoring the company's cash

Profit margin

This is a profitability ratios calculated as net income divided by revenue or net profits divided by sales.

Return on assets

This is an indicator of how profitable a company is relative to its total assets.

Return on equity

This is a measure of profitability that calculates how many dollars a company generates with each dollar of shareholders equity.

Financial performance

This is subjective measure of how well affirm can use assets from its primary mode of business and generate revenue

Enterprises

There are projects or undertakings that are especially difficult, complicated or risky intended to achieve specific objectives

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter reviews the literature which is related to and consistent with the objectives of the study. The literature covered the theoretical review, determinants of financial performance the measurement of WCM and financial performance and an empirical review of past studies. It then gave a summary of the literature review identifying the gap.

2.1 Theoretical Review

Over the years there have been many attempts at defining what constitutes small and medium enterprises. Researchers and policymakers have used a variety of criteria including; total worth; relatively size within industry; number of employees; value of products; annual sales or receipts; and net worth (Cochran, 1981).

The United Nations Industrial Development Organization (UNIDO) also used number of employees to define SMEs by giving different classifications for industrialized and developing countries (Elaian, 1996). The definitions for industrialized countries are given as follows: Large firms with 500 or more workers; Medium firms with 100-499 workers and Small firms with 99 or less workers.

It is evidenced from the above that Small businesses defy specific definition hence; there is no generally accepted definition for the concept. Whatever the definition and regardless of the size of the economy, the growth of the SMEs throughout the country is crucial to its economic growth. This study therefore defines SMEs as firms employing less than 20 employees.

2.1.1 Importance of SMEs in developing countries

There is consensus among policy makers, economists, and business experts that small SMEs are drivers of economic growth. A healthy SME sector contributes prominently to the economy through creating more employment opportunities, generating higher production volumes, increasing exports and introducing innovation and entrepreneurship skills. The dynamic role of SMEs in developing countries insures them as engines through which the growth objectives of developing countries can be achieved. Growing SMEs contribute to expand the size of directly

productive sector in the economy, generating tax revenue for the government as well as facilitating poverty reduction through fiscal transfers and income from employment and firm ownership (Prasad, et al, 2001).

In the same vein, Kayanuala and Quartey, (2000) observed that SMEs are able to withstand adverse economic conditions because of the flexible nature of their operations. They explained that since SMEs are labour-intensive, they are more likely to succeed in smaller urban centre's and rural areas, where they can contribute to the more even distribution of economic activity to curb the flow of migration from rural to large cities. With respect to rural urban employment, Agyei- Mensah (2012) noted that, given the vast number of very small enterprises in both rural and urban areas, it was clear that the small-scale industrial sector provides substantial employment opportunities for the benefit of the rural and urban poor, hence, mitigating the trends in labour migration from rural to urban, decreasing social unrest and congestion in urban centers of developing countries.

2.2 Conceptual Review

A conceptual review is a tool researchers use to guide their inquiry; it is a set of ideas used to structure the research, a sort of map that may include the research questions, the literature review, methods and data analysis (Sue, 2013). Researchers use a conceptual framework to guide their data collection and analysis. A conceptual framework also enables the researcher to find links between the existing literature and his own research goals. The conceptual framework for this research is as in the diagram below:-

Fig. 1.1 Conceptual Framework

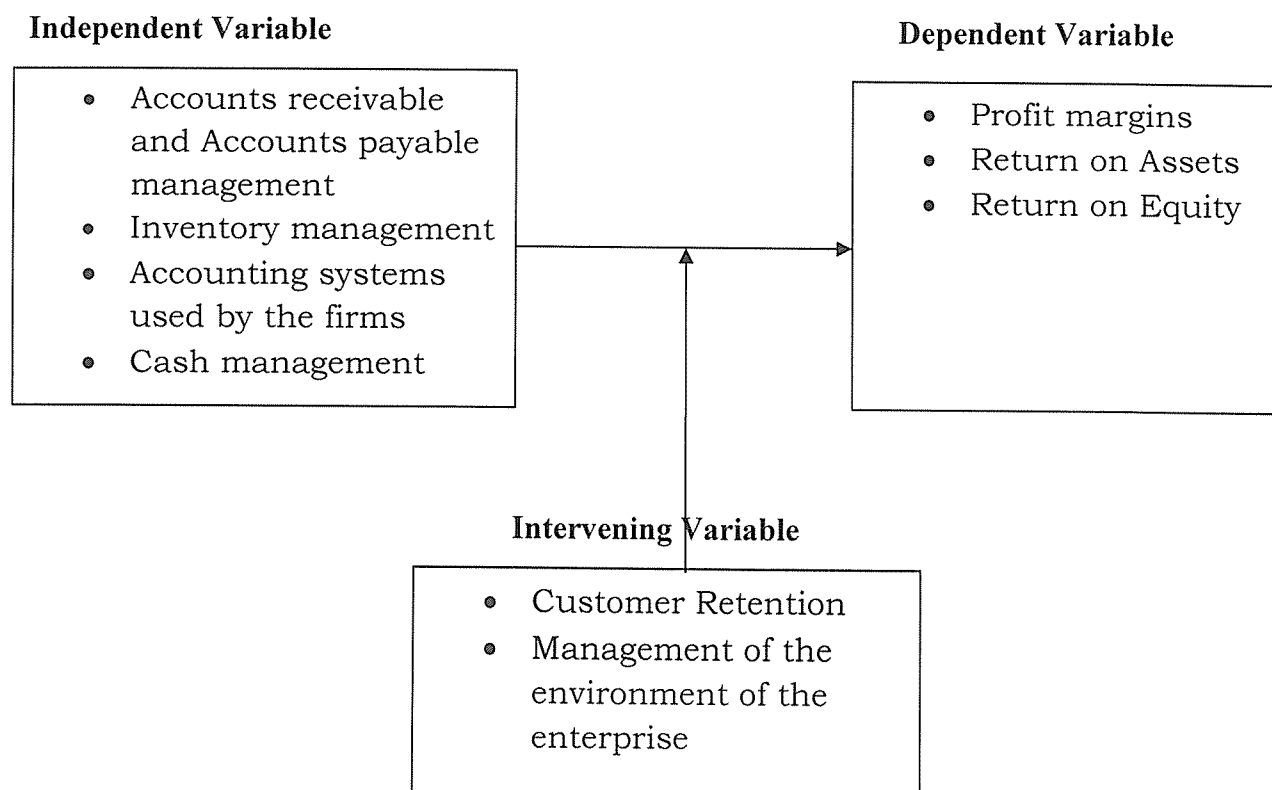


Figure 1: shows conceptual framework, Source: Ramaste (2001)

The diagram above is the conceptual framework that shows the break down of the variables as they were studied. The study was on the effects of working capital management practices on the financial performance. Working capital management practices forms the basis of independent variable and is broken down according to its dimensions such as accounting systems used by the firms, cash management, and Accounts receivable and Accounts payable management and inventory management. As the arrow points, the effect of working capital management practices is assumed to have a direct influence on financial performance that is indicated by aspects of profit margin, return on assets, and return on equity. There are other factors though that work in collaboration with working capital management practices to influence financial performance and as presented in the intervening variables; they include customer retention and management of the environment of the enterprise.

2.3 Related literature Review

This section discussed the theoretical underpinnings in relation to the components of WCM. Historically, WCM has passed through different management phases, i.e. the systematic approach of control, optimality management phase and value measurement phase.

2.3.1 Systematic Approach of Control

According to Scherr (1989), WCM originally started as a systematic approach also known as the traditional approach of controlling the incoming, outgoing and remaining balances of cash, receivables and inventories. The main objective was to ensure working capital is not misappropriated for personal benefits of those who are entrusted with its management. Practitioners therefore developed various control measures over the receipts and collections of cash, receipts and issuance of inventories as well as the increase of receivables through credit sales and decrease of receivables through cash collection.

2.3.2 Optimality Management Phase

Scherr (1989) states that the change in the business situation in the mid-1950, made the traditional approach to outlive its usefulness. The increase in market, the population growth, the management efficiency and future, during and after the mid-1950s necessitated efficient and effective utilization of the firm's resources. Therefore, under the optimality management phase, the main focus was not only on the physical safety of working capital items but also on the minimisation of related costs and maximisation of related income. At this stage particular models (e.g. Baumol (1952), miller-Orr (1966), Economic Order quantity (EOQ) (1934) and Just-In-Time (JIT) (1922) among others) were developed to ensure that firms do not get problems due to a lack of liquidity or incur too much cost by holding excesses of working capital levels. This approach also included the profit planning function. The term profit planning refers to operating decisions in the area of pricing, volume of output and the firm's selection of productive assets.

2.4 Inventory Management and Financial Performance

Capkun, Hameri, and Weiss found a positive correlation between inventory management and operational gains. Even more significantly, they show that effective inventory management also leads to better financial performance, which they measured by considering gross and operating profits. The separation of inventory into categories shows that there are three types of inventory that influence financial performance: raw materials, partially manufactured products, and

finished products. Degrees of correlation vary depending on the type of inventory and the financial performance reference.

2.4.1 Different Types of Inventory, Different Effects

There are majorly three different types of inventories that were considered to determine the root of the correlation between financial performance and inventory management quality.

- Raw materials: Management of raw material stock is most strongly related to financial performance, no matter how the latter is measured (gross profits or operating profits).
- Partially manufactured products: Strong correlation with gross profits.
- Finished products: Strong correlation with operating profits. The results of this study are consistent with the literature on operational management, which generally says that improvements in inventory management lead to significant value creation.

2.5 Accounts Receivable

Accounts receivable of a firm is a legally enforceable claim for payment from a business to its customers / clients for goods supplied and / or services rendered in execution of the customer's order. On the balance sheet, it is reported as a current asset and is considered part of an organization's working capital. The foundation behind accounts receivable is a firm's policies and procedures for sales. A system must be in place to track accounts receivable. This should include balance forwards, listing of all open invoices and generation of monthly statements to customers.

An aging of receivables should be used to collect overdue accounts. Many organizations today are faced with the problem of having huge accumulated balances owing to accounts receivables which are sometimes written off and thus interfering with the organizations operations. The purpose of the study is to establish how Accounts receivable management tries to minimize the amounts of money tied up in form of accounts receivables and thus takes the organization back to its original set goals.

2.6 Cash Management and Financial Performance

Managing cash is becoming ever more sophisticated in the global and electronic age of the 1990s as financial managers try to squeeze the last dollar of profit out of their cash management strategies (Block and Hirt 1992). Abel (2008) argues that cash is crucial in every business in terms of enhancing its survival and prosperity. Marfo-Yiadom (2002) also noted that cash is the hub and most coveted of all the assets of any business. Good cash management can have a major impact on overall working capital management. It is objectively used to manage and determine the optimal level of cash required for the business operation and invested in marketable securities, which is suitable for the nature of the business operation cycle (Gitman, 2005).

According to McInaney (2000), cash is much more than just one element of working capital. As the medium of exchange and store of value, cash provides the linkage between all financial aspects of the firm. More specifically it links short-and long-term financing decisions with one another, with decisions involving investment both in fixed assets and working capital. The term cash refers to the most liquid of assets, including demand deposits, money market accounts and currency holdings. Moyer, et al, (1992) observed that cash and marketable securities are the most liquid of the company's assets. Cash is the sum of currency a company has on hand and the funds on deposit in bank checking accounts. Cash is the medium of exchange that permits management to carry on the various functions of the business organization.

According to Keynes (1973), positions on the motive for holding cash are merely transaction, precautionary and speculative motives. Companies hold cash in order to bridge the interval between the time of incurring business cost and that of the receipt of the sale-proceeds. In other words, companies hold a certain amount of cash in order to meet the regular expenses of their activity. Therefore, the higher the firm's ability to schedule its cash flows (depending on their predictability), the weaker the transactions-motive for holding cash would be. The transaction motive illustrates the cash holding of firms and therefore more applicable to SMEs. Weston and Copeland (2008) stated that companies need a cash reserve in order to balance short term cash inflows and outflows since these are not perfectly matched. This they referred to as the transactions motive for holding cash, where the approximate size of the cash can be estimated by forecasting cash inflows and outflows and by preparing cash budgets. In addition to the cash

reserve held for day-to-day operational needs, cash may be built up to meet significant anticipated cash outflows, for example arising from an investment project or the redemption of debt.

Van Horne (2000) claimed that companies do not hold cash for this kind of speculative purpose and can be assumed that this estimation is valid especially for SMEs which usually do not have the resources to make such complex financial decisions. The key elements of cash management are cash forecasting, balances management, administration of cash receipts and disbursements, and internal control (i.e. bank reconciliation) (Gitman, 2009). All the above is consolidated into what is referred to in finance language as the cash budget. Cooley and Pullen (1979) have identified three basic components of cash management thus, cash forecasting practices, cash surplus investment practices and cash control practices.

2.7 Financial Performance

Financial performance refers to the subjective measures of how well firm use assets from its primary mode of business to generate revenue (Adekunel&Aghedo, 2014). There are ways of measuring financial performance of a firm. This study has selected profit margin, return on assets and returns on equity.

2.7.1 Profit Margin:

This is a measure of the percentage of each dollar of sale that results in net income. This is computed by dividing net income by the net sales for the period (Needles, 2002)

2.7.2 Returns on Assets:

It is also known as Returns on Investment. It is the measure of the overall earning power, or profitability of a company. This ratio is computed by dividing the net income by the average assets (Needles, 2002). ROA measurement is used to show the ability of the company to utilize their assets in an efficient way that can be reflected in having high return.

2.7.3 Returns on Common Stockholder's Equity:

This ratio is also called Return on Equity (ROE). This is a popular ratio used to measure the company's profitability. It is the ratio that shows the relationship between net income and the common stockholder's investment in the company. This ratio shows how much income is earned

for every shillings invested by the common stockholders. ROE is computed by dividing the net income available with the average stockholder's equity during the year (Harrison, 2001).

2.8 Customer Retention

Cram (1994, p. 392) defines customer retention as a *“deeply held commitment to re-buy or repatronise a preferred product or service consistently in the future, despite situational influences and marketing efforts having the potential to cause switching behavior”*. For any company to develop there is need to serve customers' satisfactorily so that they build trust in the company.

Customer retention is inseparable from good customer care, which is defined as systems put in place to maximize customer satisfaction with a firm's goods and services (Cram, 1997). Customer care is one of the key values that a firm must practice in order to make high sales and profits (Cram, 1994). Customer care is more directly important in some roles than others (were, 2012). For receptionists, sales staff and other employees in customer-facing roles, customer care should be a core element of their job description and training, and a core criterion when recruiting (Were, 2012). It is also necessary not to neglect the impotence of customer care in other areas of business. Areas like warehousing and dispatch departments may have minimal contact with your customers – but their performance when fulfilling orders has a major impact on customers' satisfaction with your business (Brink & Berndt, 2008).

The firm can also care for its customers through effective listening, empathy, and acting in trustworthy manner, exhibiting good attitudes towards them, apologetic incase of mistakes, asking feedbacks from them (Cram, 1994). Care to customers can also manifest through rewarding their purchases and offering them after sales services. That is why Isa Ssetito-Spokesperson of Kampala City Traders Association says *“The customer is your boss, so it is important that you handle him with courteously if your business is to thrive... with good customer care, you do not need to advertise; your customers will inform others about how well your products and how good your services are”* (Naigino&Odyek, 2012). This quote sums up the centrality of customer care in customer retention.

2.9 Management of the internal environment of the enterprise

The micro environment consists of organization's immediate area of operations that affect its performance and decision-making. Micro aspects of the firm include; management of different department in the firm, distribution channels and suppliers to mention but a few (Kotler, 2008).

The management department: this is one of the internal forces that affect an enterprise. The company has various departments that include; finance, marketing, production and information technology research and development, and human resource departments be managed well if the firm is to achieve its objectives. Proper management will lead to productivity, competitiveness and business success (De George, 2002).

Suppliers: Suppliers are firms and individuals that provide a firm with resources used for production of goods and services. In most cases, one supplier can serve a company and its competitors. These suppliers can sometimes decide to hike the prices for their supplies or supply less of what is required (Kotler, 2008). They are also sometimes influenced by how big the quantity the buyer wants. Sometimes sources of supply can run out or raw materials and sometimes they can have in abundance. Establishing good relationship with a supplying firm or individual is essential in ensuring that there are constant supplies of good quality (Stanton, 1981).

Marketing Intermediaries: These are firms that help the company to promote, sell, and distribute their goods to the buyers. These marketing intermediaries includes resellers who serves as distribution channel firms that help the company to sell its products, physical distribution firms like ware houses that help the company to stock and move goods from their points of origin to their destinations. The other intermediaries include; the marketing service agencies such as marketing research firms and advertising agencies, financial intermediaries like banks, credit institutions, insurance companies that help finance transactions and insure against risks respectively (Stanton, 1981)

2.10 Research gaps

The role of Small and Medium Scale Enterprises (SMEs) in the world economy have been highly emphasized as the means through which rapid industrialization and other development goals of a nation can be realized. Despite their significance and the increased efforts by governments and

other stakeholders to ensure the success of small scale enterprises, they continue to exhibit high birthrates and high death rates. The significance of finance in promoting the growth of small businesses has been well recognized in prior studies on small business growth and development (Abor and Biekpe, 2006). Other studies have identified finance as the most important constraint to growth in the small business sector (Aryeetey, Baah-Nuakoh, Duggleby, Hettige, & Steel 1994; and Steel and Webster, 1992 and Sowa, Baah-Nuakoh, Tutu, and Osei, 1992).

Some of the most important internal problems identified by Grablowsky, and Rowell (1980) which contribute to SME failure are inadequate capital, cash flow management and inventory control. Several research works have already been conducted on working capital management practices of SMEs. The study is an attempt to explore the effect of effective working capital management practices on financial performance of sampled SMEs in Hoima Municipality, and its results are expected to contribute to the existing literature on working capital management practices of SMEs.

This study would be useful not only to small scale businesses in the Northern region but also to all owner/managers of small scale businesses throughout the country. This will also help stakeholders in business to formulate and implement policies as well as practices that will help them to manage capital better. It will also be useful to the academia and thus form the basis for further research.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This design satisfies the most suitable methods of investigation, the nature of the research instruments, the sampling plan and the types of data (De Wet, 1997). In this section the research design, sampling type, research instrument, the dependent and independent variables applied throughout the research, and finally the model specifications used for data analysis which are applicable and use in the study are included.

3.1 Research Design

The study employed a quantitative approach. This approach involves collecting and analyzing numerical data. It is a highly detailed and structured approach which allows results to be collected and presented statistically. This research applies the quantitative approach because it will enable the researcher to test the significance of the relationship between WCM and financial performance of SMEs in Uganda.

The researcher also used a cross- sectional survey designed to establish whether SMEs in Hoima Municipality carry out working capital management practices. Such cross-sectional survey research is descriptive in nature and as defined by Glass & Hopkins (1984), descriptive research design involves gathering data that describes events and then organizes, tabulates, depicts, and describes the data collection and often uses visual aids such as graphs and charts to help the reader in understanding data distribution. This is because surveys will allow for results to be aggregated and generalized back to the larger population.

3.2 Study Population

The targeted population for this study was 100 registered SMEs located in Hoima Municipality. This is based on the Ministry of trade and industry database which forms 96% of all formally registered private enterprises in different industries and sectors.

3.3 Sample size determination

A sample of 100 registered enterprises in Hoima Municipality was used. This sample was selected using stratified random sampling technique. The population will be segregated into several mutually exclusive subpopulations (strata) as per the different sectors in the economy. These sectors include manufacturing, general trade, agriculture and service. 25 companies are picked at random from each stratum to make a total of 100 companies. This technique reduces biasness and allows for representation of all business categories of SMEs in Hoima.

Table 1: Sample size of respondents

Category of Respondents	Accessible Population	Sample Size	Sampling Techniques
Top Managers	10	10	Purposive
Middle Level Manager	15	15	Purposive
Supervisors	25	25	Systematic
Workers	80	50	Systematic
TOTAL	130	100	

3.4 Sampling Techniques

Sampling is the procedure a researcher uses to gather people, places or objects to study, which must be representative of the study population (Kisilu& Tromp, 2011). Therefore, once the above designations are made, the researcher will use purposive and systematic sampling techniques.

3.4.1 Purposive sampling technique

This is where the researcher zeros on the respondents who can give the information that is needed (Oso, 2005). The researcher used purposive technique to sample top managers in order to get needed information on how working capital management is being carried out and how this affects their financial performance. This technique also helps in leading the researcher to respondents with needed information in the short time that is available.

3.4.2 Systematic sampling technique

This is a technique used to select participants in a given interval with a purpose of ensuring equality in representation (Blaxter, Hughes & Tights, 2010). The researcher will use this technique to select supervisors and other workers who participate in the study. The reason for the use of this technique is because supervisors and workers are a bit high in number and therefore the research finds it essential to select them systematically by giving those numbers and selecting them in interval of every second. The merit of this technique to the researcher is that it enables him utilize the little time available because the selection using numbers is simple.

3.5 Data Collection Methods

The study relied greatly on primary and secondary data. Secondary data includes; the amount of debtors, amount of creditors, amount of inventory and amount of cash which will be useful in calculating the ACP, APP and ICP respectively. Further, the Earnings before Interest and Taxes, the amount of total assets are collected to calculate the ROA. Secondary data are collected from the annual reports and audited financial statements of SMEs in Uganda.

In addition to the secondary data, self-administered questionnaires were used to collect primary data on the WCM practices carried out by SMEs in Hoima Municipality. This is because questionnaires reduce researcher bias, they are cost effective, easy to analyze and less intrusive.

3.5.1 Questionnaires

The other tool that was used was the questionnaires. They are printed questions that can be filled by respondents (Oso, 2005). Questionnaires shall be used because the sample size of the population is big and with big number of literates, who can read and write. The researcher will print out questionnaires to be answered by all categories of respondents. The researcher's self administered questionnaires will be closed ended. The issue of focus in the questions is how the dimensions of working capital management practices affect financial performance. The closed ended questions will require the respondents to tick alongside the scale of 5-strongly agree, 4-Agree, 3-Not sure, 2-Disagree and 1-Strongly Disagree.

3.6 Reliability and Validity

Data validity refers to how well the result of a research can give the right answer to the research question (Remenyi et al, 1998). To ensure validity, information from previous studies and different literatures which cover all the areas of the study are to be used. The theoretical

framework being a reflection of these previous studies, the questionnaire is based on the theoretical framework in order to arrive at the right answer to the research problem.

For data reliability, the researcher designed the questionnaire using an elaborate procedure of reviewing relevant literature. In order to measure internal consistency, the researcher used Cronbach's alpha method.

To increase the validity and reliability of the data collected using questionnaires, the researcher based the questions solely on the objectives of the research. In addition, the researcher ensured that the questions were not leading and that they are both open and closed ended. The questionnaire design and questions were then reviewed by peers and supervisors who offered objective suggestions on areas to improve on.

3.7 Data Analysis

The data collected edited for accuracy, consistency and completeness and arranged to enable coding and tabulation before final analysis. The data was then analyzed to generate descriptive statistics such as percentages, means and standard deviations. A Multiple Regression analysis was employed in the study to explore the combined effect of the variables of WCM on the financial performance of SMEs.

3.7.1 Qualitative data analysis

The researcher applied content analysis under qualitative data analysis. By definition, content analysis is the procedure for the categorization of verbal or behavioral data for the purpose of classification, summarization and tabulation. The content analysis in this study was used on descriptive and interpretive levels (Busha, 2008). Descriptive analysis presented what the data is about like on the gender, education levels or marital status of respondents. Interpretive analysis articulates the meaning of the data from the feedback of respondents.

3.7.2 Quantitative analysis

In analyzing quantitative data, Pearson Correlation test and regression tests was ran to establish the relationship between working capital management practices and financial performance while regression tests was conducted to find out the level in which working capital management practices predicts financial performance.

The Regression Equation for the sample is:-

$$ROA_{ot} = \beta_0 + \beta_1 (ACP_{ot}) + \beta_2 (ICP_{ot}) + \beta_3 (APP_{ot}) + \varepsilon$$

Where:

ROA_{ot} = Return on Assets of firm o at time t ; $o = 1, 2$,

β_0 = The intercept of equation

t = Time = 1,2,3, ..., Years

ACP = Average Collection Period

ICP = Inventory Conversion Period

APP = Average Payable Period

ε = The Error Term

Pearson's Correlation analysis helped on the variables, used to assess the significance of the effect of WCM on financial performance. This was done for each of the independent variables (ACP, ICP, APP) in relation to the dependent variable (ROA).

3.8 Ethical consideration

In the process of carrying out this research, the following were to be considered:-

.So as to ensure anonymity of all respondents, they were not obliged to give their names while filling in the questionnaires. In this way, the respondents are assumed of being unidentified with particular questions throughout the study.

.The researcher informed the respondents of the intentions and purpose of the study being carried out so as to enable the respondent that information being collected is strictly for study purpose and nothing else.

.The researcher also accorded maximum confidentiality to all information obtained in the field of research.

CHAPTERFOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the analysis of study findings of the e impact of WCM practices on the financial performance of the SMEs based on the following research questions: What are the WCM practices in the SME sector and what is the impact of working capital management practices on the financial performance of SMEs in Uganda? This chapter analyses the variables involved in the study and estimates of the model presented in the previous chapter.

4.2 Data Presentation

The data used in this study was obtained from the annual financial statements for a selected sample of 89 registered SMEs in Uganda for the period between 2011 and 2015. This was out of an initial target sample of 100 registered SMEs in Uganda. The collected data was analyzed and interpreted with the help of different statistical tools including financial ratios, regression analysis and Pearson's correlation analysis. For the purpose of this study, financial performance was measured using the ROA.

4.2.1 Response Rate

Table 4.1: Response rate

Response rate	Frequency	Percentage
Responded	89	89
Did not Respond	11	11
Total	100	100

Source: Primary Data, 2018

The total number of questionnaires that were distributed to the field was 100 but 89 questionnaires which represent 89% were returned fully answered while 11 questionnaires which

represent 11% were not returned. From table 4.1 and figure 4.1 it can be inferred that there was good response rate.

4.2.2 Type of Business:

Table 4.2: Type of Business:

	Frequency	Percent	Cumulative Percent
Limited Liability Company	12	13.5	13.5
Sole Proprietorship	43	48.3	61.8
Partnership	34	38.2	100.0
Total	89	100.0	

Source: Primary Data, 2018

Table 4.2 shows that 13.5% were in limited liability company, 48.3% were in sole proprietorship, 38.2% in partnership.

4.2.3: Nature of Business

Table 2.3: Nature of Business

	Frequency	Percent	Cumulative Percent
Manufacturing	21	23.5	213
Wholesale	22	24.7	47.1
Retailing	24	2.9	819
Provision of services	22	24.7	1000.0
Total	89	100.0	

Source: Primary Data

Table 4.3 results show the nature of SMEs among sample category 26.9% of the SMEs were in retailing, 24.7% were in provision of services, while 24.7% and 23.5% were in wholesaling and

manufacturing respectively. From table 4.5, it can be concluded that there was a good response rate across the sample categories.

4.2.4 Number of Employees

Table 4.4: Number of employees in the firm

Category	Frequency	Percent	Cumulative Percent
01 – 04	27	30.3	30.3
05 – 49	22	24.7	55.0
50 – 99	19	21.4	76.4
100 – 150	14	15.7	92.0
Over 150	07	7.9	100.0
Total	89	100.0	

Source: Primary Data, 2018

Results shown on table 4.4 indicate that majority (30.3 %) of the total SME's under study had between 1-4 employees, while the least (7.9%) number of business had a number of employees of over 150. From Table 4.4 it can be deduced that majority of the SME's had a smaller number of employees.

4.2.5 The annual Gross turnover

Table 4.5: Annual Gross Turnover

Category (UGX)	Frequency	Percent	Cumulative Percent
1 – 5,000,000	37	41.6	41.6
5,000,001 – 25,000,000	24	27.1	68.7
25,000,001 – 50,000,000	11	12.4	81.1
50,000,001 – 75,000,000	09	10.1	91.2
75,000,001 – 100,000,000	05	6.1	97.3
Over 100,000,000	02	2.7	100.0
Total	89	100.0	

Source: Primary Data, 2018

The findings of the study indicate that most (41.6 %) of the total SMEs under study had annual Gross turnover of between 1-5,000,000 Uganda shillings , while the least (2.7%) were in the category of annual Gross turnover of Over 100,000, 001 Uganda Shillings. From Table 4.5 it can be deduced that majority of the SME's had annual Gross turnover of between 1-5,000,000 Uganda shillings.

4.2.6 Number of Years in Business

Table 4.6: Number of Years in Business

Category	Frequency	Percent	Cumulative Percent
1 – 3	28	31.5	31.5
4 – 6	26	29.2	60.7
7 - 10	21	23.6	84.3
Over 10	14	15.7	100.0
Total	89	100.0	

Source: Primary Data, 2018

Majority (31.5%) of the SMEs under study had been in business for a period between 1-3 years and the least number (15.7%) of SMEs had been in business for a period of over 10 years, while 29.2% and 23.7% had been in business for a period between 4-6 and 7-10 years respectively. From table 4.5, it can be concluded that most of the SMEs had been in business for a period between 1-3 years.

4.2.7 Policy Statement on Working Capital Management

Table 4.7: Written Policy Statement Regarding Working Capital Management

Category	Frequency	Percent	Cumulative Percent
Yes	33	37.1	37.1
No	56	62.9	100.0
Total	89	100.0	

Source: Primary Data, 2018

Results in table 4.7 show that; 62.9% of the SMEs do not have written policy statements regarding WCM, while 37.1% indicated they have written policy statements regarding WCM resources. Based on Table 4.7 above it can be inferred that majority of the SMEs do not have any written policy statement regarding working capital management.

Table 4.8: Areas that Written Policy Statement Covers

	Frequency	Percent	Cumulative Percent
Cash	12	13.5	13.5
Inventory	13	14.6	28.1
Debtors	10	11.2	39.3
Creditors	15	16.9	56.2
All of the above	39	43.8	100.0
Total	89	100.0	

Source: Primary Data, 2018

Table 4.8 shows that 43.8% of the SMEs under study indicate that their written policy statement on working capital covers all of the above (cash, inventory, debtors and creditors), while 11.2% indicated that their written policy statement on working capital covers cash, inventory, debtors and creditors. Based on the study can be inferred that written policy statement on working capital covers for most of the businesses cover cash, inventory, debtors and creditors.

4.2.8 Accounting System used by the Firm

Table 4.9: Type of Accounting System Used by the firm

	Frequency	Percent	Cumulative Percent
Computerized	21	23.6	23.6
Manual	37	41.6	65.2
Combination	31	34.8	100.0
Total	89	100.0	

Source: Primary Data, 2018

Findings of the study indicated that 41.6% of the SMEs under study indicate that they use manual accounting system, while 23.6% indicated that they use computerized accounting system. Based on table 4.9 it can be inferred that majority of the SMEs use manual accounting system.

Table 4.10: Type of computerized software used for accounts

	Frequency	Percent	Cumulative Percent
quick Books	6	28.6	28.6
Sage	8	38.1	66.7
Pastel	7	33.3	100.0
Total	21	100.0	

Source, primary data, 2018

Most (38.1%) of the SMEs who use computerized accounts indicated that use sage software, while 28.6% indicated that they use QuickBooks software. Based on the results on table 4.10 it

can be inferred that majority of the SMEs that use computerized accounts use sage accounting software.

Table 4.11: Rate working capital management in terms of the number of problems faced

Area of working capital	LP	FP	MP	SP
Cash	19.1	49.3	9.1	22.3
Inventory	10.9	28.1	36.0	25.0
Debtors	32.7	32.6	20.3	12.4
Creditors	23.6	20.0	20.2	36.2

Source: Primary Data, 2018

Majority (49.3%), (36.0%), (32.7%) and (36.2%) of the SMEs under study indicated that they have faced few problems in regards to cash; faced most problems in inventory; least problems with debtors, while faced significant problems with regards to creditors. From the table 4.11 it can be concluded that creditors had significant problems, inventory had most problems, and cash had few problems, while debtors had least problems in most firms.

Table 4.12: Areas That Need Most Training

	Frequency	Percent	Cumulative Percent
Cash management	14	15.7	15.7
Inventory management	28	31.5	47.2
Debtors management	13	14.6	61.8
Creditors management	34	38.2	100.0
Total	89	100.0	

Source: Primary Data, 2018

Table 4.12 shows that 38.2% of the SMEs under study indicate that the area that needs training the most was creditors' management, while 14.6% indicated that the area that needs training the most was debtors' management. Based on the study it can be inferred that the area that needs training the most was creditors' management.

4.2.9 Cash Management

Table 4.13: Used of formal Cash Management Models

Category	Frequency	Percent	Cumulative Percent
Yes	26	29.2	29.2
No	63	70.8	100.0
Total	89	100.0	

Source: Primary Data, 2018

Results of the study indicated 70.8% of the SMEs under study do not use formal cash management models, while 29.2% use formal cash management model. Based on Table 4.13 above it can be inferred that majority of the firms do not use formal cash management models.

Table 4.14: Cash Management Technique That Firms Use

	Frequency	Percent	Cumulative Percent
Baumol Model	8	30.7	30.7
Miller Orr Model	7	26.9	57.6
Stone Model	6	23.2	80.8
Break Neck Model	5	19.2	100.0
Total	26	100.0	

Source: Primary Data, 2018

Results on table 4.14 show that 30.8% of the SMEs use Baumol Model, while the least (14.6%) number of SMEs use Break Neck Model. From the findings it can be concluded that most firms use Baumol Model.

Table 4.15: How often Does the Firm Plan for Cash Inflows and Outflow.

	Frequency	Percent	Cumulative Percent
Daily	10	11.3	11.3
Weekly	23	25.8	37.1

Fortnightly	22	24.7	61.8
Monthly	24	38.2	100.0
Total	89	100.0	

Source: Primary Data, 2018

Table 4.15 shows that majority (38.2%) of the SMEs plan for cash inflows and outflows on monthly basis, while the least (11.3%) number of SMEs indicated that they plan for cash inflows and outflows on daily basis. From the findings it can be concluded that most firms plan for cash inflows and outflows on monthly basis.

Table 4.16: Cash Management

	Never	Hardly ever	Sometimes	Mostly	Always
Does the firm budget its cash?	13.5	14.6	15.7	39.6	16.9
Does the firm control disbursements and receipts of cash?	12.6	11.0	19.3	21.3	35.7
Does the firm invest any excess cash?	8.1	6.7	20.1	26.1	29.2

Source: Primary Data, 2018

According to the study shown in table above majority (39.6%), (35.7%) and (29.2%) of the SMEs indicated that they mostly and always budget their cash, control disbursements and receipts of cash and invest any excess cash respectively. From table 4.16 it can be concluded that most firms always budget their cash, control disbursements and receipts of cash and invest any excess cash.

Table 4.17: Frequency of Cash Banking

	Frequency	Percent	Cumulative Percent
Daily	62	69.7	69.7
Weekly	17	19.1	88.8

Fortnightly	9	10.1	98.9
Monthly	1	1.1	100.0
Total	89	100.0	

Source: Primary Data, 2018

Majority (69.7%) of the SMEs indicate that they bank cash daily, while 1.1% of SMEs indicated that they bank cash on monthly basis. From the findings shown on table 4.17 it can be concluded that majority of SMEs bank their cash daily.

Table 4.18: Areas the Firm Invest Excess Cash

	Frequency	Percent	Cumulative Percent
Bank Deposit	26	29.2	29.2
Securities	28	31.5	60.7
Lending	9	10.1	70.8
Real Estate	26	29.2	100.0
Total	89	100.0	

Source: Primary Data, 2018

Results of the study indicate that 31.5% of the SMEs invest in securities, while 10.1% of SMEs indicated that they lend the excess cash. From the findings shown on table 4.18 it can be concluded that majority of firms invest their cash in marketable securities.

Table 4.19: Rate ease of access of resources of funds that the firm can access.

Area of working capital	EA	ME	E	D	MD
SACCOS	47.2	52.8	-	-	-
Friends and Relatives	36.1	30.6	11.1	8.3	14
Banks	14.0	19.0	8.3	25.0	33.3
Microfinance Institutions	8.3	11.1	17.0	33.1	30.5

Source: Primary Data, 2018

Majority (52.8%), (36.1%), (33.3%) and (33.1%) of the SMEs under study indicated that they had moderately easy access to SACCO funds easy access to funds from friends and relatives, most difficult access to funds from banks and difficult access to funds from microfinance institutions. Based on the results from table 4.19 it can be concluded that relatively SMEs have access to funds from SACCOS, friends and relatives and difficulties accessing funds from banks and microfinance institutions.

4.2.10 Management of Accounts Receivable

Results of the study presented under Appendix I show that (24%), (34.1%), (42.7%), (36.1%) (38.9%), (42.2%), (50.0%), (33.3%), (33.3%), (28.4%), (34.1%) and (35.4%) of the SMEs indicated that they mostly have a credit policy, sometimes the SMEs offer some sales on credit, sometimes firms offer cash discounts, most debtors hardly ever stick to the credit period ,mostly some of the debtors default in payment, sometimes SMEs suffer bad debts, sometimes legal action taken to recover bad debts, mostly SMEs screen customers or do client reference before giving credit, mostly SMEs analyze and report on debtors aging, mostly SMEs monitor receivables, always firms factor debtors and always there a credit collection policy.

4.2.11 Management of Accounts Payable (Creditors)

Under Appendix II, most (35%), (38.9%), (30.1%), (36.1%) (33.3%), (33.3%) of the total SMEs indicated that sometimes they obtain services on credit, their suppliers mostly offer cash discounts and sometimes offer quantity discounts, all creditors are hardly paid on time, they sometime use ratios in monitoring trade credit and they always exploit trade credit as much as possible.

In addition, most (30.2%), (36.1%), (38.3%) and (37.1%) of the SMEs under study indicated that they have difficulties in accessing bank loans, they have most difficulties in accessing overdrafts, have easy access to Bills discounting and letters of credit and have difficulties in accessing working capital loans. Based on the results, the SME's have at least some access to funds.

4.2.12 Management of Inventory

Table 4.20: Kind of Stock Firms Deal With

	Frequency	Percent	Cumulative Percent
Fast moving	21	23.6	23.6
Slow moving	20	32.6	56.2
Services	10	11.2	67.4
All the above	38	32.6	100.0
Total	89	100.0	

Source: Primary Data, 2018

According to the study 23.6% of the total SMEs under study indicated that they deal with first moving stocks, 32.6% indicated slow moving, while 11.2% and 32.6% indicated services and all the above respectively. From Table 4.20 above majority of the SMEs deal with first moving, slow moving and services.

Table 4.21: Stock management Model used By the Firm

	Frequency	Percent	Cumulative Percent
Just In Time	16	18.0	18.0
Economic Order Model	26	29.2	47.2
Both	43	48.3	95.5
Ad Hoc/Gud Feeling	4	4.5	100.0
Total	89	100.0	

Source: Primary Data, 2018

Results of the study show that 18% and 29.2% of the SMEs use Just In Time and Economic Order stock management models respectively, 48.3% of SMEs use both Just In Time and Economic Order stock management models, while 4.5% of the SMEs use ad Hoc/Gud Feeling. From Table 4.21 it can be concluded that most of the SMEs use both Just in Time and Economic Order stock management models.

Table 4.22: Type of Inventory System Used

	Frequency	Percent	Cumulative Percent
Manual	24	27.0	27.0
Computerized	17	19.1	46.1
Both Manual and Computerized	48	53.9	100.0
Total	89	100.0	

Source: Primary Data, 2018

From the study 27% and 19.1% of the SMEs use manual and computerized inventory system respectively, 38.2% use both Manual and Computerized of inventory system. From Table 4.22 above majority of the firms use both manual and computerized of inventory system.

From Appendix III, majority of the SMEs (29.7%, 32.4% 43.2 %, 24.3% and 35.1%; 36.1%; 29.0% and 37.8) indicated that mostly they have adequate stock to meet demand at all times; there is never any time when the SMEs is under stocked; sometimes there are times when the SMEs is over stocked; the firm maintain safety stock always; mostly the SMEs offer quantity discounts; sometimes the SMEs use economic order quantity each time it orders stock, SMEs maintain up to date stock records always and that there are always controls over security and authorization of stock.

4.2.13: Descriptive Analysis of WCM practices by SMEs

Results of the study presented under Appendix IV, show an improvement in return on assets from 2009 (-4.85%) to 2010 (-1.79) for most firms. The ACP was 35 days in 2010 and 41 day in 2009 showing an improvement? The time taken to convert inventory held into sales took an average of 22 days in 2010 while in 2009 it 27 days. The SMEs paid their suppliers in an average period of 33 day in 2010 a slight improvement from 2009 during which they were paying their suppliers after an average of 38 days. The SMEs also collected cash from their customers within 25 day in 2010 and 29 days in 2009. Results show variation from the mean exhibited in all the performance indicators. From these results, we can infer that on average there was an improvement in profitability and that the financial position was stable.

4.2.14 Relationship between Working Capital Management and Return on Assets

Table 4.23: Regression Model Summary

Model	R	R ²	df	P-Value	Sig.
1	0.859 ⁴	0.737 ⁴	5	0.128 ⁴	0.037 ⁴

a. Dependent Variable: Return On Assets

Table 4.24: Regression Coefficients

Variables	B	Beta	t	Sig.
Constants	1.640	-	7.752	0.000

Average Collection Period	0.160	0.155	0.902	0.720
Inventory Conversion Period	0.084	0.209	1.213	0.003
Average Payable Period	0.051	0.127	0.696	0.040

Dependent Variable: Return on Assets

Results of the study on table 4.23 and 4.24 based on the significance level (alpha) of 0.05 (95%), degrees of freedom (df) of 5, and two-tailed test, shows the degree of the relationship between return on assets and working capital tools (average collection period, inventory conversion period, average payable period). The findings established a positive correlation coefficient (r), = 0.859, (r^2) = 0.737 (indicating that 73.7% probability of return on assets is influenced by average collection period, inventory conversion period, average payable period. In addition, the computed t-value ($t=2.002$) is smaller than the critical t-value ($t= 2.57$), while the p-value of 0.128 is larger than the significance level of 0.05. This then indicate that there is a relationship between return on assets and working capital tools (average collection period, inventory conversion period, and average payable period).

4.2.15 Level of Significance of WCM on Financial Performance

4.2.15.1 Return on Assets and average collection period

Table 4.25: Correlation Model

R	R ²	Df	Sig.
0.833 ⁴	0.693	5	0.028

a. Dependent Variable: Return on Assets

Results on table 4.25 above shows the correlations between Return on Assets and average collection period, while holding the correlation coefficient (r) value at between plus and minus one (-1.00 and +1.0). The study used the significance level of alpha = .05. (95%), Degrees of freedom (df) of 5, and two-tailed test. Based on the study, correlation coefficient (r) was .833 and the coefficient of determination (r^2) was .693 indicating that 69% of Return on Assets is influenced by average collection period. Since the correlation of .693 is positive it can be

concluded that the correlation is statistically significant, hence there is a positive relationship between Return on Assets and average collection period.

4.2.15.2 Inventory Conversion Period and Return on Assets

Table 4.26: Correlation Model

	R	R²	Df	Sig.
1	0.869^a	0.755	5	0.023

Dependent Variable: Return on Assets

Tables 4.26 above, shows whether ICP is different from 0 so that it has an effect on ROA, or if any apparent differences from 0 are due to random chance. The study used a significance level (alpha) of 0.05 (95%), Degrees of freedom (df) of 5, and two-tailed test. The relationship between ICP and ROA is expressed in the positive correlation coefficient (r) = 0.869, (r^2) = 0.755 indicating that 75% probability of the existence of a relationship between ICP and ROA.

4.2.15.3 Average Payable Period and Return on Assets

Table 4.27: Correlation Model

R	R²	df	P-Value	t- Value	Sig.
0.883^a	0.779	5	0.219	2.010	0.044

a. Dependent Variable: Return On Assets

Table 4.27 indicated whether average payable period is different from 0 so that it has an effect on return on assets or if alternatively any apparent difference from 0 is just due to random chance. The study used a significance level (alpha) of 0.05 (95%), Degrees of freedom (df) of 5, and two-tailed test. The degree to which average payable period is related to return on assets is expressed in the positive correlation coefficient (r) = 0.883, (r^2) = 0.779 indicating that 77.9% probability of return on assets is influenced by average payable period.

4.3 Summary of findings and discussions

4.3.1 Working capital Management practices

In relation to cash management, results of the study indicated that majority (70.8 %) of the SMEs do not use formal cash management models. Majority (30.8) of the SMEs that used formal cash

management models, used the Baumol Model and the least (14.6%) used the Break Neck Model. In regards to planning for cash inflows and outflows, most of the SME's planned on a monthly basis while the least planned on a weekly basis. The results of the study further indicated that most SMEs always budget for their cash, control disbursements and receipts and invest in any excess cash. Most of the SMEs banked their cash on a daily basis and most invested excess cash in securities. From these results findings, most SMEs do not use the formal cash management practices, but are keen in managing their cash in informal practices.

Regarding management of accounts receivables, results of the study show that 62.9% of the SMEs do not have written policy statement. Majority (24%), (34.1%), (42.7%), (36.1%) (38.9%), (42.2%), (50.0%), (33.3%) (33.3%), (28.4%), (34.1%) and (35.4%) of the SMEs indicated that they mostly have a credit policy, they sometimes offer sales on credit, sometimes offer cash discounts, most debtors hardly ever stick to the credit period, mostly some of the debtors default in payment, sometimes firm suffer bad debts, sometimes legal action taken to recover bad debts, mostly firm screen customers or do client reference before giving credit, mostly firms analyze and report on debtors aging, mostly firms monitor receivables, always firms factor debtors and always there a credit collection policy. 48.3% of firms use both Just In Time and Economic Order stock management models.

In relation to management of accounts payable, results show that majority (35%) of the SMEs sometimes obtain services on credit, 38.9% mostly offer suppliers cash discounts and 30.1 % offer quantity discounts. In addition, majority of the SMEs indicated they never pay their creditors on time, majority also stated that they sometimes use ratios in monitoring trade credit and majority indicated that they always exploit trade credit as much as possible.

Regarding management of inventory, results shows that majority, (29.7%, 32.4% 43.2 %, 24.3% and 35.1%; 36.1%; 29.0% and 37.8) of the firms have adequate stock to meet demand at all times; there is never any time when the firm is under stocked; there are times when the firm is over stocked; the firm maintains safety stock always; mostly the firms offer quantity discounts; sometimes the firms use economic order quantity each time it orders stock, firms maintain up to

date stock records always and that there are always controls over security and authorization of stock.

The findings above are in line with the findings of Nyabwaga et al. (2012) that WCM practices were low amongst SSEs as majority had not adopted formal WCM routines and their financial performance was on a low average.

4.3.2 Effect of Working Capital Management on Financial Performance of SMEs

Results of the study show an improvement in return on assets from 2009 (-4.85%) to 2010 (-1.79) for most firms. Average collection period was 35 days in 2009 and 41 day in 2010 showing an improvement. This is in line with the views of Filbeck and Krueger (2005) who observed that the ability of financial managers to effectively manage receivables, inventories, and payables has a significant impact on the success of the business.

Results of the regression analysis shows a correlation coefficient (r), = 0.859, (r^2) = 0.737, computed t-value ($t=2.002$), critical t-value ($t= 2.57$) and p-value of (0.128). This indicates that there is a significant positive relationship between ROA and working capital components (ACP, ICP and APP). This in line with the findings of Nyabwagaet. al., (2012) who established that SSE financial performance was positively related to efficiency of cash management, efficiency of receivables management and efficiency of inventory management.

Results of the pearsons' correlations analysis between ROA and ACP, indicates a positive correlation coefficient (r) was 0.833 and the coefficient of determination (r^2) of 0.693 indicating a positive relationship between ROA and ACP. These findings do not concur with those of Mathuva (2010) who established a negative relationship between ROA and ACP. However, the results are in line with the findings of Nyabwagaet. al., (2012) who established a positive relationship between profitability of SMEs and Management efficiency of accounts receivable.

The relationship between inventory conversion period and return on assets is expressed in the positive correlation coefficient (r) = 0.869, (r^2) =0.755 indicating that 75% probability of the existence of a relationship between ICP and ROA. This is in line with the study by Kithii (2008) who established that there is a statistical significant negative relationship between variables of WCM and the profitability of firms.

The degree to which APP is related to ROA is expressed in the positive correlation coefficient (r) = 0.883, (r^2) = 0.779 (indicating that 77.9% probability of return on assets is influenced by APP). The findings of the study do not concur with findings of Lazaridis and Tryfonidis, (2006) who established that there is negative relation between the APP and financial performance. However, it's in line with the findings of Mathuva (2010) who found a positive relationship between inventory turnover in days and profitability.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of findings, conclusions drawn from the findings, policy recommendations and recommendations for further studies.

The chapter also highlights the limitations of the study.

5.2 Summary of findings

The first objective of this study was to establish which SMEs WCM practices are carried out in the SME sector in Hoima Municipality. The study established that most SMEs have not established a formal WCM policy. However, some SMEs carry out informal WCM, as was revealed by responses in regards to WCM components (ACP, ICP and APP). These results are in line with the findings of Nyabwaga et-al. (2012) who established that WCM practices were low amongst SSEs as majority had not adopted formal WCM routines and their financial performance was on a low average.

The second objective of this study was to establish the effect of WCM on the financial performance of SMEs in Hoima Municipality. The study established that SMEs who have adopted WCM practices have showed an improvement in ROA as evidenced by duration of ACP, APP and ICP. This is in line with the findings of Brigham &Hauston, (2007) who established that all individual components of working capital including play a vital role in the financial performance of any firm. In addition, the results are in line with the findings of Deloof (2003) who noted that WCM is a fundamental part of any firm's overall corporate strategy to create value, to ensure financial health and provide competitive advantage.

From the pearsons' correlation analysis, there is a significant relationship between ROA and WCM practices (ACP, ICP and APP).

5.3 Discussion of findings

5.3.1 Accounts Receivables Effects on Financial Performance

A significant positive relationship between ROA and ACP was established. This means that SMEs can improve their ROA by increasing the number of days accounts receivables are outstanding. The positive coefficient means that an increase in the number of days accounts receivables are outstanding will lead to an increase in ROA. This finding implies that a less stringent accounts receivable policy giving customers more time to make their payments improves financial performance. This is in line with the findings of Nyabwaga et al. (2012).

5.3.2 Accounts Payables Effects on financial Performance

A significant positive relationship was also established between ROA and APP. This suggests that an increase in the number of days of accounts payable will lead to an increase in the ROA of the firm. Contrary to deloof (2003) and Raheman and Nasr (2007), this finding holds that more profitable firms wait longer to pay their bills. This implies that SMEs withhold their payment to suppliers so as to take advantage of cash available for their working capital needs. However, this finding is in line with the rules of WCM that firms should strive to lag their payments to creditors as much as possible, taking care to maintain their business relationships with them (Mathuva, 2010).

5.3.3 Inventory Management Effects on Financial Performance

A significant positive relationship was established between ROA and ICP. This means that maintaining high levels of inventory reduces the cost of possible interruptions in the production process. In addition, a high level of inventory also helps reduce on the cost of supplying the products and protects the firm against price fluctuations.

5.3.4 Customer Retention and Internal Management of Firm and Financial Performance

On the selected intervening variables of customer retention and management of the internal aspects of the firm, most respondents agreed that they strive to retain their customers. Most of the respondents however at the same time agreed that sometimes customers are derailed by terms and conditions of operating outlets. Majority of respondents showed that sometimes they don't make a follow up on clients and get their feedback. And also their ability of customer retention has negatively impacted on their financial performance.

It was found out that not all individuals in the financial department were competent and inline to that, respondents' finances are normally not well managed. It was discovered that most enterprises were rigid to disclose their accounting information's.

In relation to the above, it is to the contrary to the expectation of good customer care which is prerequisite for customer retention (Brink & Berndt, 2008). It is possible to argue that because of the limited customer care that is most respondents' strongly agreed that sometimes are derailed by terms and conditions of operating outlets.

The results that of individual competency in financial department, management of workers' finances and rigidity in disclosing accounting information is in disagreement to the requirements of recording and management of accounting policies that requires much competent individuals to manage firm's finances.

5.3 Conclusion

The study concluded that most SMEs in Hoima Municipality do not carry out formal WCM practices. However, SMEs in Hoima Municipality carry out some of the WCM practices in an informal manner where they do not have a written down policy statement on WCM practices.

The study also concluded that there is a significant positive relationship between financial performance and WCM of SMEs in Hoima Municipality. These results suggest that managers can create value for their shareholders by increasing the number of accounts receivable days, accounts payable days and inventories collection days.

In addition, the study concluded that management need to develop an understanding and appreciation of how the day-to-day activities of managing working capital in relation to the SMEs financial performance. At the same time, managers involved in the day-to-day working capital operations need to become conversant with the language of management relating to working capital operations so as to put in place a process that ensures high impact on firms' performance.

These results are in line with the findings of, (Nyabwaga et al. 2012, deloof 2003 and Raheman& Nasr 2007) who established a positive relationship between WCM components and the financial performance of firms.

5.4 Limitations

The sample used for this study was small compared to the population of all registered SMEs in Hoima Municipality. This study applied a sample of 100 registered SMEs in Hoima Municipality while the population of all registered SMEs in Hoima Municipality stands out even more than that as per the Ministry of Trade and Industrialization database.

This study applied both primary and secondary data. The collection of primary data through a questionnaire posed a challenge since there was reluctance from staff of various organizations in providing some specific information. In addition, the collection of secondary data from the annual reports of the SME's was also a challenge since some SME's did not have proper financial records and some of those that had, were reluctant to share them. The researcher however, assured the respondents of anonymity and confidentiality of the information provided to enhance the response rate.

The time period for collection of data was limited and this posed a challenge in enhancing the response rate. Data for this study was collected within a period of one month and given the depth of the study, one month was not adequate. Due to the limited time period, secondary data from the financial statements was collected for a period of 2011 and 2015. This limited the scope of the study.

A multiple regression model was applied to test the effect of working capital management on the financial performance of SME's in Hoima Municipality. Financial performance in this regression analysis was represented by ROA. There many financial ratios that can represent financial performance. These include return on equity, gross profit, and net operating profit, among others. Therefore, the use of ROA to represent financial performance was limiting.

This study was restricted to SMEs in Hoima Municipality and therefore caution should be taken in generalizing the findings of this study to other sectors in Hoima Municipality.

5.5 Recommendations

5.5.1 Policy Recommendations

To increase financial performance among the SMEs there is need for these firms to reduce the inventory conversion period by producing and selling goods faster and reducing the receivables collection period by accelerating collections .firms need to invest in their delivery and collection process of their finances a gradual decrease in the amount of inventory, and to be involved in effective planning of the working capital. To establish the link between effective working capital management and improved financial performance, management must commit to developing an understanding in the firm on how working capital management affects financial performance.

There is need for both management and staff responsible for managing working capital to be trained in the management of financial performance metrics so that decisions made at the operational level are tied to expected outcomes. General educational programme need to be undertaken among the SMEs manager to raise their level of awareness on the role of working capital in their business the impact of the of other staff daily activities on the firm's overall performance.

SMEs Managers need to focus on WCM in order to increase their profitability by taking seriously and professionally issues arising from the number of days accounts payable, the number of days accounts receivable, and the number of days of inventories. Besides SMEs managers need to reduce the number of days of accounts receivable and inventories so as to can increase their companies' financial performance.

5.5.2 Areas for further research

This research study was limited to data collected from the sampled population. However, there are many other registered SMEs spread throughout the country. Hence there is need for other researchers to consider larger and different sample sets so to take into consideration the different

environment in which some of them operate. This will allow for comparison between the results of the different studies.

Due to the limited time period, it was not possible to collect comprehensive data needed to measure the relationship between WCM and financial performance of SME's in Hoima Municipality. In this regard, there is need for other researchers to widen the study by including collecting secondary data covering a wider period of time, for instance ten years. Compared to the five years used for this study, different results may be arrived at by use of a wider time period.

This study was limited by the reluctant responses to the questionnaire and also reluctance to availing the financial statements. In this regard, there is need for researchers to explore the use of different data collection techniques which will enhance the response rate. With an enhance response rate, the researchers may come up with different findings.

The model used in this study has various limitations. This includes the use of ROA as a proxy for financial performance. Further studies should be carried out on the effect of WCM on the financial performance of SME's in Hoima Municipality and an expansion of the model used, where it can apply more than one proxy for financial performance. In addition, a different model can be applied to analyze this relationship. The researchers may come up with different results.

The study was also restricted to the SMEs in Hoima Municipality. This can cause limitations in regards to the generalization of results to the economy. In this regard, further studies can be performed on other sectors of the economy which may result in different findings.

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APPENDICES

Appendix I: QUESTIONNAIRES

Dear Respondent,

I am Kusiima Marion, a student of Kampala International University pursuing Bachelors Degree in Business Administration and Management. I am carrying out research on the Effects of Working Capital Management Practices on Financial Performance on SMEs in Hoima Municipality.

You have been selected as one of the respondent and I therefore request that you help answer the following questions. The responses you provide will be strictly confidential. No reference will be made to any individual(s) or organization in the report of the study. The questionnaire is entirely for academic purposes.

SECTION A: ORGANIZATION BACKGROUND

1. Name of Enterprise (Optional).....
2. Position of Respondent

Experience of staffs (Please Tick where appropriate)

3. How many years have you worked with this firm?

- | | | | |
|-------------------|--------------------------|----------------|--------------------------|
| a) Less than 5yrs | <input type="checkbox"/> | b) 5 to 10yrs | <input type="checkbox"/> |
| c) 10 to 15yrs | <input type="checkbox"/> | d) Above 15yrs | <input type="checkbox"/> |

SECTION B: GENERAL

4. Select type of business:

- ☐ Sole proprietorship
- ☐ Partnership
- ☐ Limited Liability Company

5. Kindly select the nature of business and specify the business carried out

- ☐ Manufacturing
- ☐ Wholesale
- ☐ Retailing
- ☐ Provision of services e.g. restaurant, security

6. How many employees does the firm have?

- ☐ 0 to 4
- ☐ 5 to 49
- ☐ 50 to 99
- ☐ 100 to 150
- ☐ Over 150

7. What is the annual Gross turnover?

- ☐ UShs 0 to UShs 5,000,000
- ☐ UShs 5,000,001 to UShs. 25,000,000
- ☐ UShs 25,000,001 to UShs 50,000,000
- ☐ UShs 50,000,001 to UShs 75,000,000
- ☐ UShs 75,000,001 to UShs 100,000,000
- ☐ Over UShs. 100,000,000

8. How many years has the company been in business?

- ☐ 0-3
- ☐ 4-6
- ☐ 7-10
- ☐ Over 10

9. Does your enterprise have any written policy statement regarding working capital management strategy?

☐ Yes

☐ No

10. If yes, kindly indicate the areas it covers

☐ Cash

☐ Inventory

☐ Debtors

☐ Creditors

☐ All of the above

12. What accounting system does the firm use?

☐ Computerized

☐ Manual

☐ A combination of computerized and manual

13. If the firm uses computerized software for its accounts, which of the following does it use?

☐ QuickBooks

☐ Sage

☐ Pastel

☐ Other

14. Rank each single area of working capital management in terms of the number of problems faced. Use the following scale:

1 = Least problems

2 = Few Problems

3 = Many problems

4 = Most problems

Area of Working Capital	Ranking
Cash	
Inventory	

Debtors	
Creditors	

15. Of the above areas of working capital, which area would the firm need training? Kindly tick all that is appropriate.

- ☐ Cash management
- ☐ Inventory management
- ☐ Debtors management
- ☐ Creditors management

SECTION C: CASH:

16. Does the firm use formal cash management models?

☐ Yes

☐ No

17. If YES, what technique does the firm use? (Please specify)

☐ Baumol Model

☐ Miller Orr Model

☐ Stone Model

☐ Break Neck

☐ None of the above (Please give what is used)

18. How often does the firm plan for cash inflows and outflows?

☐ Daily

☐ Weekly

☐ Fortnightly

☐ Monthly

☐ Others (specify)

Please tick in the appropriate box

Question	Never	Hardly ever	Some times	Mostly	Always
19. Does the firm budget its cash?					
20. Does the firm control disbursements and receipts of cash?					
21. Does the firm invest any excess cash?					

22. How frequently does the firm bank its cash? (Tick one)

- ☐ Daily
- ☐ Weekly
- ☐ Fortnightly
- ☐ Monthly
- ☐ Other (specify)

23. In which of the following areas does the firm invest excess cash?

- ☐ Bank deposits
- ☐ Marketable securities (shares, commercial paper,)
- ☐ Lending
- ☐ Real Estate
- ☐ Other investment. Please state

24. Rank the ease of access of sources of funds that the firm can access using the following scale:

1 = Easiest to access

2 = Moderately easy

3 = Easy

4 = Moderately difficult

5 = Most difficult

Source of funds	Ranking
SACCOS	
Friends and Relatives	
Banks	
Microfinance Institutions	

C: ACCOUNTS RECEIVABLE (Debtors)

Please tick in the appropriate box

Question	Never	Hardly ever	Some times	Mostly	Always
25. Does the firm have a credit policy?					
26. Does the firm offer some sales on credit?					
27. Does the firm offer cash discounts?					
28. Do most debtors stick to the credit period?					
29. Do some of the debtors default in payment?					
26. Does the firm suffer bad debts?					
30. Is legal action taken to recover them?					
31. Does the firm screen customers or do client reference before giving credit?					
32. Does the enterprise analyze and report on debtors aging?					
33. Does the firm monitor receivables?					
34. Does the firm factor debtors?					
35. Is there a credit collection policy?					

SECTION E: ACCOUNTS PAYABLE (Creditors)

Please tick in the appropriate box

Question	Never	Hardly ever	Some times	Mostly	Always
36. Does the firm obtain services on credit?					
37. Do the firm's suppliers offer cash discounts?					
38. Do they also offer quantity discounts?					
39. Are all creditors paid in time?					
40. Does the firm use ratios in monitoring trade credit?					
41. Does the firm exploit trade credit as much as possible?					

42. Rank the ease of access of the following sources of funds on the following scale:

1 = Easiest to access

2 = Moderately easy to access

3 = Easy to access

4 = Slightly difficult to access

5 = Very difficult to access

6 = Most difficult to access

Source of funds	Ranking
Banks loans	
Overdraft	
Bills discounting	
Letter of credit	
Working capital loan	

SECTION F: INVENTORY CONTROL (Stock Control)

43. What kind of stock does the firm deal with?

- ☐ Fast moving consumer goods
- ☐ Slow moving consumer goods
- ☐ Services
- ☐ All of the above

44. What stock Management Model does the firm use?

- ☐ Just in Time
- ☐ Economic Order Model
- ☐ Both
- ☐ Ad hoc/Gut feeling
- ☐ None of the above

45. What type of inventory system is in use?

- ☐ Manual
- ☐ Computerized
- ☐ Both Manual and compute

Question	Never	Hardly ever	Some times	Mostly	Always
46. Does the firm have adequate stock to meet demand at all times?					
47. Are there times when the firm is under stocked?					
48. Are there times when the firm is over stocked?					
49. Does the firm maintain safety stock?					

50. Does the firm offer quantity discounts?					
51. Does the firm know the economic order quantity?					
52. Does it use it each time it orders stock?					
53. Does the firm maintain up to date stock records?					
54. Is the reorder level known?					
55. Does the firm use accounting ratios in monitoring stock?					
56. Are there controls over security and authorization of stock?					
57. Is the system used in controlling stock movement effective?					

Thank you for taking your time to fill in the above questionnaire. Your efforts are highly appreciated.

APPENDIX II: ACTIVITY CHART

Activity	Time in months			
	April	May	June	July
Proposal writing				
Data collection				
Data analysis				
Submission				

APPENDIX 111: ANTICIPATED BUDGET

ITEM	AMOUNT
Library	50,000
Transport	100,000
Communication	20,000
Photocopying	290,000
Printing	300,000
Binding	50,000
Internet	50,000
miscellaneous	30,000
TOTAL	890,000



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**COLLEGE OF ECONOMICS AND MANAGEMENT
DEPARTMENT OF ACCOUNTING AND FINANCE**

June, 4th 2018

To whom it may concern

Dear Sir/Madam,

**RE: INTRODUCTORY LETTER FOR KUSIIMA MARION
REG NO 1153-05014-01386**

This is to introduce to you the above named student, who is a bonafide student of Kampala International University pursuing a Bachelor's Degree in Business Administration, Third year Second semester.

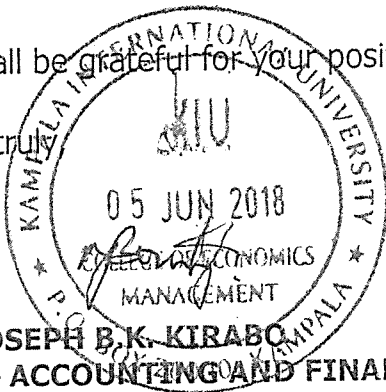
The purpose of this letter is to request you avail her with all the necessary assistance regarding her research.

**Topic: - THE EFFECTS OF WORKING CAPITAL MANAGEMENT ON
THE FINANCIAL PERFORMANCE OF SMALL AND
MEDIUM SCALE ENTERPRISES IN HOIMA
MUNICIPALITY.**

Any information shared with her from your organization shall be treated with utmost confidentiality.

We shall be grateful for your positive response.

Yours truly,



**DR. JOSEPH B.K. KIRABO
HOD – ACCOUNTING AND FINANCE
0772323344**