THE EFFECT OF FINANCIAL PLANNING ON FINANCIAL PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN ADJUMANI DISTRICT, A CASE STUDY OF PAKELE SUB COUNTY.

BY

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A RESEARCH REPORT SUBMITTED TO THE COLLEGE OF ECONOMICS AND MANAGEMENT IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF BACHELORS DEGREE OF BUSINESS ADMINISTRATION-ACCOUNTING AND FINANCE AT KAMPALA INTERNATIONAL UNIVERSITY

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DECLARATION

I, Thesame Berry Eruaga hereby declare that this research report is my own original work and a result of my effort in the study conducted on the effect of financial planning on financial performance of small and medium enterprises in Pakele Sub County, Adjumani district. It has not been submitted for any award of a degree in any other university.

Sign.. Date...04/09/2019...........

THESAME BERRY ERUAGA

APPROVAL

I certify that this research report has been done under my supervision and has been submitted for examination with approval as a university supervisor.

Sign.. Date....4th/09/2019...

MRS. FLORENCE IRAU

DEDICATION

I dedicate this work to my father Mr. Eruaga Joseph Simon and my Late mother Mrs. Grace Toroa Joseph, My Step mothers Mrs. Jackline Naito Joseph, Mrs. Stella Joseph, my brothers and sisters, my uncle Mr. Keri Mario Simon, and well-wishers for the tireless support they gave me in all aspects, i.e. spiritual, financial and material support which has motivated me to reach this far. I have to confess that all your efforts have not been wasted and I lastly assure and re-assure you that I have reached this wonderful period. Thank you for your kind support.

ACKNOWLEDGEMENT

I thank the Almighty God for enabling me maneuver through all the hardships and difficult times I have had in life. My dream of this award would not have become true without his guidance, protection and assurance that all things are possible if you believe in him.

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ABSTRACT

The purpose of this study was to find out the effect of financial planning on financial performance of SMEs in Pakele Sub County, Adjumani district. The specific objectives of the study was to determine the effects of accounts receivable management on financial performance of SMEs, to determine the effects of liquidity management on the financial performance of SMEs, and to determine the effects of cash disbursement management on the financial performance of SMEs. The study was conducted in Pakele Sub County in adjumani district, and Data was collected from 44 respondents using questionnaires.

The researcher used descriptive research design in collecting data from respondents where both qualitative and quantitative approaches were used. The findings indicated financial planning had a positive effect on the financial performance of SMEs. In conclusion, the study was carried to a much success out and all the objectives were fulfilled.

The first objective was accomplished where it was found that liquidity management has a positive, moderate significant effect on financial performance. The second objective was fulfilled where it was found that accounts receivables also had a positive and significant effect on financial performance of SMEs.

The final objective of the study sought to evaluate the effect of cash disbursement management on the financial performance of SMEs. The study also revealed that proper cash disbursement management had a positive effect on the financial performance of SMEs. The findings concluded that financial planning activities helped the businesses to keep capital, managed risks, increased the efficiency of operations, and expanded the capacity of the businesses to embrace opportunities.

The study found that some of the SMEs do not practice financial planning, which renders their business prone to anticipated business risks and some inefficiency.

Therefore it was recommended that awareness be created by policy makers and the relevant authorities of Uganda to the business owners in preparation of financial documents which are very important in financial planning in business operations.

LIST OF ABBREVIATIONS

SMEs	: Small and Medium Enterprises
IV	: Independent Variable
DV	: Dependent Variable
CFP	: Certified Financial Planner
A/R	: Account receivables

CHAPTER ONE

1.0 Introduction

This chapter presented and described the background of the study, research problems, research objectives (general objectives and the specific objectives), research questions, the scope of the studies (content scope, geographical scope and the time scope), and the significance of the study.

1.1 Background of the study

1.1.1 Historical perspective

The concept of financial planning as a distinct professional practice got its start in the United States in the 1960s with the introduction of the Certified Financial Planner certification program. However, the concepts of personal financial planning had its roots a hundred years prior with the Morrill Act of 1862. Financial planning as we know it today was born in December 1969 when thirteen financial services industry leaders gathered to discuss the creation of a new profession and therefore the first certified financial planners (CFP) graduates were in 1973. Since then, the financial planning community has grown to encompass professionals around the world who work in many businesses or firms.

At the end of 2013, there were over 150,000 CFP professionals practicing financial planning in 25 countries and territories around the world. The practice of financial planning has not only grown significantly since its beginnings; it has also had to change and adapt as the needs of consumers in various regions change; as products, markets and regulatory environments evolve; and as financial planners have had to develop new approaches and solutions to help their clients reach their financial and life goals during turbulent economic times.

Arnold and Chapman (2004) noted that output from financial planning takes the form of budgeting. Understanding past performance and translating that insight into forward-looking targets to align business results with the corporate strategy is key to driving shareholder values. According to (Hilton, Mahar, and Selto, 2006), the lack of financing resources and experience of financial management is currently one of the most serious issues. They claimed that inefficient financial management may damage firm's profitability and as a result complicate the difficulties of the firm's business.

Financial planning involves the process of setting objectives, assessing assets and resources, estimating future financial needs, and making plans to achieve monetary goals, smith, (2010). Research on small firms in Vietnam revealed that enterprises with a formal planning system appeared to be more profitable than those without, and also that smaller firms were less likely to have formal plans (Masurel & Smith 2000). They indicate that if any enterprise, which includes small business enterprises, wishes to be successful in the current market, it needs to rethink the role its planning practices play in the organization. In Africa, countries like Uganda, Burundi, Nigeria, and Ethiopia among others fall behind other third world countries with. Financial planning is required to monitor and indicate the financial capability of a firm over time (Beith and Goldreich 2000) in order to most profitably operate the organization.

According to World Bank Report, (2010), financial planning is an important factor in the success of a business, because creating a business plan forces small business owners to thoroughly examine every aspect of their company or business. Financial planning is very important survival tool both in the corporate and small business world. Financial planning practices should be used by all enterprises including Small and Medium Enterprises.

According to All Africa.com (2013), many business owners in Uganda do not practice financial planning. Generally, Small business enterprises are defined by the number of workers they employ, value of assets and sales turnover (Garikai, 2011).

1.1.2 Theoretical perspective

This study was based on the pecking order theory which was first suggested by Donaldson in 1961 and it was modified by Steward C. Myers and Nicolas Majluf in 1984. This theory states that firms or companies prioritize their sources of financing (from internal financing to equity) according to the cost of financing, preferring to raise equity as a financing means of last resort.

Hence, internal funds are used first, and when that is depleted, debt is issued, and when it is not sensible to issue any more debt, equity is issued. Pecking order theory starts with asymmetric information as managers know more about their company's prospects, risks and value than outside investors. Asymmetric information affects the choice between internal and external financing and between the issue of debt or equity. Therefore, there exists a pecking order for the financing of new business activities. When thinking of the pecking order theory, it is useful to consider the seniority of claims of assets.

1.1.3 Conceptual perspective

- **Financial planning** refers to the process of setting objectives, assessing assets and resources, estimating future financial needs, and making plans to achieve monetary goals (smith, 2010).
- Financial planning is the task of determining how a business will afford to achieve its strategic goals and objectives (Awino, Muturia & Oeba, 2011). Planning is a process which is concerned with deciding in advance what, when, why, how, and who shall do the work (Donald, Thomas & Rebecca, 2001).
- According to Eadie (2000), the purpose of financial planning is maintaining a favourable financial balance in the organisation.

- **Financial performance** according to Dyer and Reeves' (1995) definition consists of financial outcomes (return on invested capital or return on asset and stock value or shareholder return). Performance is the competency of an organization to transform the resources within the firm in an efficient and effective manner to achieve organizational goals (Daft, 1997).
- Financial performance of a business can be gauged via the degree of attainment of their pre-determined objectives like meeting both short term and long term objectives as and whenever they fall due.
- According to Campsey, (2010), financial performance about understands the numbers that comprise your business and then recognizing what is happening and knowing how to influence the results that are being achieved.

1.1.4 Contextual Perspective

Adjumani district is a district found in the northern region of Uganda and its inhabitants engages in a variety of enterprises both small and large enterprises. Many local entrepreneurs in Adjumani district start businesses with hardly any capital and in addition, often have little or no management training or skills. They do not know how to plan and control the activities of their businesses, and as a result they do not survive in the competitive market. The study will seek to study the planning and budgeting methods to be used and their influence on the financial performance of the SMEs in Adjumani district town council. The study shall be carried out in one of the sub counties in Adjumani district called Pakele Sub County. The businesses in Adjumani district include; Retail businesses, wholesale businesses, hotels, carpentry, salons and many others.

1.2 Problem Statement

Financial planning is an important factor in the success of businesses, because creating a business plan forces small business owners to thoroughly examine every aspect of their company or business.

Despite the above, it has been indicated in studies that the lack of proper financial planning is one of the major causes of SMEs failure in Adjumani district. In Adjumani district, many SMEs have failed to achieve sustainable growth, many stock markets have fallen, many small and medium financial institutions have collapsed or been brought out, and the government have to come up with rescue package to bail out their financial systems. Many local entrepreneurs start businesses with hardly any capital due to inadequate collaterals to secure loans, and in addition, they often have little or no management training or skills, they do not know how to plan and control the activities of their businesses, and as a result they do not survive in the competitive market. (Adjumani district annual financial Report, 2018)

1.3 Purpose of the study

The general purpose of the study was to find out the effect of financial planning on the financial performance of SMEs in Pakele Sub County, Adjumani district.

1.4 Specific objectives of the study

The specific objectives of the study were:

i. To determine the effect of accounts receivables management on financial performance of the businesses.

ii. To determine the effect of cash disbursement on the financial performance of the businesses.

iii. To determine the effect of liquidity management on the financial performance of the businesses.

1.5 Research questions

The research questions for the study were:

i. What is the effect of accounts receivable management on the financial performance of the businesses?

ii. What is the effect of cash disbursement on the financial performance of the businesses?

iii. What is the effect of liquidity management on the financial performance of the businesses?

1.6 The scope of the study

1.6.1 Geographical scope

This study was carried out in Adjumani district at pakele sub County. This place was chosen because many of the SMEs operators there are faced with financial planning problems and also its convenience for the researcher and also the willingness of staff to provide data which helped in the research.

1.6.2 Content scope

The study focused on financial planning as the independent variable and business performance as the dependent variable. The study focused more on the dimensions of liquidity management, cash disbursements, and accounts receivable management on the financial performance of the SMEs.

1.6.3 Time scope

The study helped to establish the effect of financial planning on the financial performance of small and medium scale businesses in Pakele Sub County, Adjumani district for a period of two years, between 2017- 2018.

1.7 The significance of the study

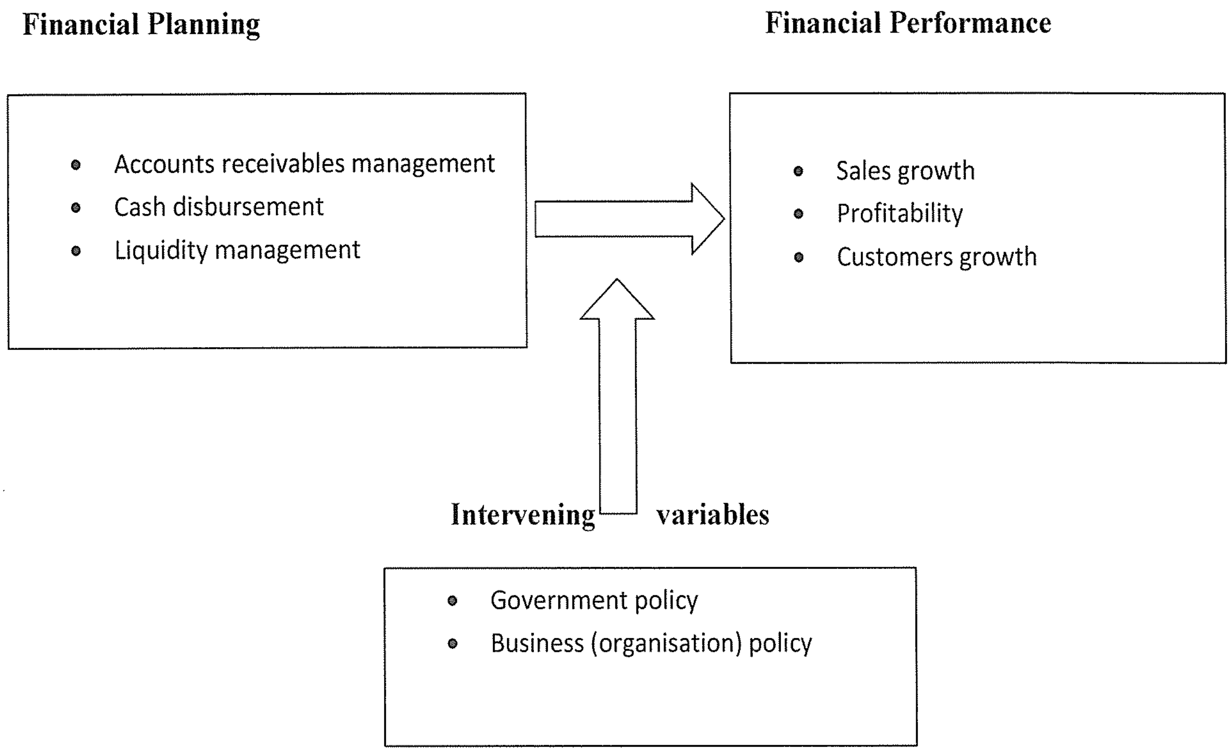
The study findings are going to help the management improve on its Financial planning which is going to contribute to good financial performance, prompt settlement of claims and further investment.

The study findings will be useful to future researchers to widen their understanding in matters of financial planning as a tool for good financial performance.

The study findings will be useful to students, companies and other interested parties who may need to understand more about financial planning and financial performance.

The study findings will be used by Government to promote investment in small and medium business enterprises in the country.

Conceptual framework



Source: Modified and Adopted from Peter and Pieroppa (2011).

As seen in the figure above, financial planning is an independent variable (IV) while financial performance is the dependent variable (DV). The tools of financial planning includes, accounts receivable management, liquidity management, and cash disbursements. The measures of financial performance are profitability, sales growth, and customer growth. The relationship is however influenced by the intervening variable which is the government and business policy.

Definition of key terms

Financial planning is the task of determining how a business will afford to achieve its strategic goals and objectives. Planning is a process which is concerned with deciding in advance what, when, why, how, and who shall do the work (Donald, Thomas &Rebecca, 2011).

Financial performance of a business can be gauged via the degree of attainment of their pre-determined objectives like meeting both short term and long term objectives as and whenever they fall due.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter covered the review of literature related to financial planning and their effect on the financial performance of SMEs. This chapter also represented the discussion of the theoretical and conceptual outcomes of the study based on specific research objectives.

2.1 Theoretical review

This study was based on the pecking order theory. The pecking order theory was grounded by Myers (1984) and Myers and Majluf (1984). According to Myers (1984) firms follow an order when deciding which funds to use in the financing of investments. First, firms prefer to finance projects with internal funds. Secondly, they will adjust their dividend levels, even if dividends tend to follow a sticky policy. Firms will thereafter choose to sell liquid assets and finally used external capital as a last resort. If external financing is needed, firms prefer debt, than hybrid securities such as convertibles, and finally the issuance of equity (Myers, 1984).

This order of financing comes from the theory of asymmetric information and the managers 'objectives should be to minimize the costs related to these issues. This is because; managers have more knowledge on investment needs and the net present value of those investments. Moreover, the managers are also assumed to act in favor of the firm's current owners and will therefore try to issue new shares at the highest possible price. Equity investors who are aware of this issue will demand a higher risk premium. This premium is consequently based on information asymmetry, which increases the costs of financing investments with new equity.

This is the logic for companies who prefer debt to equity (Myers and Majluf, 1984). The level of cash holding is a result of a firm's investment and financing decisions. Firms use their cash flow to finance their investment opportunities or projects, to repay debt when due and then accumulate unused cash flow as cash balance if possible. If cash flow cannot cover the above expenditure, firms may use cash reserves as a buffer to avoid external financing. If operating cash flow and cash are not enough to cover all expenses, additional financing is required. Thus, the level of cash holding is determined by cash inflow and outflow, suggesting that there is no optimal cash holding (Opler, 1999).

Although firms' cash holding is explained by the pecking order, there has been no empirical study until the ground breaking study. The pecking order explains why the most profitable firms generally borrow less-not because they have low target debt ratios but because they don't need outside money.

Less profitable firms issue debt because they do not have internal funds sufficient for their capital investment programs and because debt financing is first on the pecking order of external financing. In the pecking-order theory, the attraction of interest tax shields is assumed to be second-order. Debt ratios change when there is an imbalance of internal cash flow, net of dividends, and real investment opportunities. Highly profitable firms with limited investment opportunities work down to low debt ratios.

Firms whose investment opportunities outrun internally generated funds are driven to borrow more and more. This theory explains the inverse intra-industry relationship between profitability and financial leverage. Suppose firms generally invest to keep up with the growth of their industries. Then rates of investment will be similar within an industry. Given sticky dividend pay-outs, the least profitable firms will have less internal funds and will end up borrowing more.

2.2 Conceptual review

The study had three variables, the independent variable, dependent variable, and the intervening variable. The independent variable is Financial planning, which has factors such as; collection and disbursement, accounts receivables, credit control. The dependent variable is financial performance which is measured through profitability, sales growth, and customer growth. The intervening variables of the study are government policy and business or firm policy; the presence of a positive business and a supporting work environment stimulate the performance of the business.

2.2.1 Financial planning

Financial planning is a very important component of corporate finance because it directly affects the profitability and growth of a business and is important to the financial health of businesses of all sizes as the amounts invested in working capital are often high in proportion to the total assets employed. The following are some financial planning tools.

2.2.1.1 Accounts receivables management

Accounts receivables Collection (management) effort is a procedure adopted by firms (creditor) to collect money from its debtors when such amount becomes due after the expiry of credit period, Sexton, (2008). Mishra, (2010), States that a collection policy should always emphasize promptness, regulating and systematization in collection efforts. It should have a psychological effect upon the customers, in that it will make them realize the obligation of the seller towards the obligations granted.

2.2.1.2 Cash disbursements

This refers Cash out flow or payment of money to settle obligations such as operating outflows, cash purchases, payments of payables, advance to suppliers, wages and salaries and other operating expenses, capital expenditures, contractual payments, repayment of loan and interest and tax payments and discretionary payments. In case of credit purchases, a time lag will exist for cash payment.

2.2.1.3 Liquidity management

Liquidity is crucial for financial institutions because they are particularly vulnerable to unexpected and immediate payment demands. To stay in business, enterprises must be able to pay out legitimate withdrawals and credit requests instantly (Bald, 2007). Liquidity measures the ability of the business to meet financial obligations as they come due, without disrupting the normal, on-going operations of the business.

2.2.2 Financial performance

According to Campsey, (2010), financial performance refers to understanding the numbers that comprise your business and then recognizing what is happening and knowing how to influence the results that are being achieved. Once numbers are understood business managers begin to identify areas to improve efficiency whilst building effectiveness and client value. The following are some financial performance measures

2.2.2.1 Profitability

Profitability was defined by Mugerwa, (2007), as an income earned in the excess of the input cost after a sale of service or product. According to Limpsey (1993) organization profitability is affected by many factors and this include change in demand, change in prices of both inputs and output such as capital and labor then level of staff productivity. According to Pearce and Robinson (2002) profitability is the main goal of a business organization.

2.2.2.2 Sales growth

This refers to the amount by which the average sales volume of a firm's products or services has grown, typically within a given period of time. This is important because, as an investor, you want to know that the demand for a company's products or services will be increasing in the future.

2.2.2.3 Customer growth

This refers to the rate at which a firm's customer base grows during a given period of time. Customer growth reflects how a firm is performing and if what you are providing your market is something that is growing in demand. A firm should pay close attention to when your company has a spike or a lull in growth.

2.3.1 Effects of Accounts Receivables Management on the Financial Performance of SMEs

Account receivables refer to money owed by entities to the firm on the sale of products or services on credit. In most business entities, accounts receivable is typically executed by generating an invoice and either mailing or electronically delivering it to the customer, who, in turn, must pay it within an established timeframe, called credit terms or payment terms (online oxford dictionary) (pedro and Martinez, 2010).

According to Jian, Yang and Tsung (2011), firms may extend credit more aggressively to promote sales, resulting in a positive correlation between sales and account receivables. Firms with more inventories are likely to extend more credit than other firms (Jian,Yang, and Tsung, 2011). Both inventories and accounts receivables are current assets and thus are substitutes from the viewpoint of asset management.

According to financial motives, firms benefiting from an easy access to credit markets are able to use this borrowing capacity and act as financial intermediaries in favor of firms that suffer from limited access to credit (Emery, 1984; Schwartz, 1974). Suppliers may be involved in credit activity as they hold a comparative advantage over traditional lenders in the resolution of information asymmetries. The supplier may have an advantage over traditional lenders in investigating the credit worthiness of his clients, as well as a better ability to monitor and force repayment of the credit. This may give him a cost advantage over other businesses in offering credit to a buyer for an early exposition of the financing advantage theory of trade credit (Schwartz, 1974).

The operational motive (Emery, 1987) stresses the role of trade credit in smoothing demand and reducing cash uncertainty in the payments (Ferris, 1981). In the absence of trade credit, firms would have to pay for their purchases on delivery. This makes it possible to reduce uncertainty about the level of cash that needs to be held to settle payments (Ferris, 1981) and provides more flexibility in the conduct of operations, since the capacity to respond to fluctuations is provided elsewhere (Emery, 1984, 1987). This was supported by Long, Malitz and Ravid (1993), who found that firms with variable demand, granted a longer trade credit period than firms with stable demand.

Credit receivables remain the most important and powerful engines for economic growth. Credit facilities transform the economic structure of countries from simple slow growing activities to more vibrant and industrialized economies. Business must ensure proper management of their accounts receivable to avoid finding their liquidity under considerable strain and to remain profitable (Foulks, 2005). Effective accounts management is important and strategic; it affects the financial performance of a firm and a firm's value. A firm's competency to synchronize cash inflows with cash outflows in formulating a cash flow management strategy is important to a firm's financial performance. The goal of accounts receivable management is to maximize shareholders wealth. Receivables are large investments in firm assets which are like capital budgeting projects measured in terms of their net present value (Emery et al 2004).

Receivables stimulate sales because it allows customers to assess product quality before paying but on the other hand, debtors involve funds which are opportunity costs. Based on the characteristics of accounts receivables; the element of risk, economic value and futurity explains the basis and need for efficient management of receivables.

Gill (2011) asserts that the main objective of accounts receivable is to reach an optimal balance between cash flow management components. Cash flow management is the process of planning and controlling cash flow both into and out of a business, that is, cash flows within the business and cash balance held by business at appoint in time (Samilogu, 2008).

Efficient accounts receivable management affords a firm to improve on its profitability by reducing the transaction costs of raising funds in case of liquidity crisis (Ahmet, 2012).

Accounts receivable as a component of cash flow has a direct effect on the profitability of a business. Cash flow management refers to the management of movement of funds into and out of a business and involves the management of accounts payable, accounts receivables, inventory as well as the cash flow planning (Joshi, 2007).

Efficient firms maintain an optimal level of cash flow that maximizes their value. Large inventories and generous credit policy may lead to high sales as well as reduce the risk of stock-out while at the same time stimulating sales (Lazaridis, 2005). Delaying payment of accounts payable to suppliers allow firms to access products or services and can be an inexpensive and flexible source of financing, but on the other hand, (Kaur, 2010) state that it can be expensive if a firm is offering discount for early payment while on the same token, uncollected accounts receivable can lead to cash inflow crisis.

Accounts receivable management is a dynamic financial management process and its effectiveness is directly correlated with a firm's ability to realize its mission, goals and objectives (Sherman, 2011). Despite the role cash flows management plays, many firms have not implemented effective cash flow management practices and the results can be dire, Ahm.

2.3.2 Effect of Liquidity Management on the Financial Performance of SMEs

Liquidity management as it were determines to a large extent the quantity of profit that results as well as the value of shareholders wealth (Ben-Carleb, 2008). This is because, a firm in order to survive must remain liquid as failure to meet its obligations in due time results in bad credit rating by the short term creditors, reduction in the value of goodwill in the market and may ultimately lead to liquidation (Bhavet,2011).

Unfortunately, the principal focus of most SMEs is profitability maximization while the need for efficient management of liquid assets is ignored. This approach is justified by the belief that profitability and liquidity are conflicting goals. Hence, a firm can only pursue one at the expense of the other, in consonance with the theory of liquidity and profitability trade-off. On the contrary, padachi (2006) advised that a firm is required to maintain a balance between liquidity and profitability while conducting its daily operations. This is because both inadequate liquidity and surplus liquidity directly affect profitability.

Liquidity and profitability are the two main purposes of working capital management (WCM) and relates to the matching of assets and liabilities movements overtime (Lamberg & Valming, 2019). The general claim in literature Centre around liquidity/probability tradeoff hypothesis which posit that these two financial terms pose conflicting ends to the business, hence a pursuit of one will mean a tradeoff of the other. However, the other side of thinking holds that managers can pursue both liquidity and profitability goals as these two objectives have a direct relationship.

Specifically, Shin & Seonen (1998) studied a sample of 58,985 listed companies in America for a period of twenty years and found a strong negative relationship between the net trade cycle (cash conversion cycle) and corporate profitability. On the basis of this finding, they concluded that managers can increase the value for their shareholders by reducing the cash conversion period to a reasonable minimum. In the same vein, Deloof (2003) also reached the same conclusion when he investigated this relationship on a sample of 1009 large Belgian non-financial firms. Garcia-Teruel & Martinez-Salano, (2004) investigated the effect of WCM on profitability using a sample of 8872 small and medium size Spanish firms and found that a shorter cash conversion cycle can improve the firm's profitability.

Pandey and Jaiswal (2011) examine the interrelationship between profitability and liquidity using NALCO as a case study and found out that the different working capital ratios have statistically insignificant impact on the ROCE of the company. Afeef M.(2011) analyzing the impac of Working Capital Management on the profitability of SMEs in Pakistan, found that the indicators of working capital management which were receivables collection period, inventory conversion period, payable Deferral period, cash conversion cycle, had a perceptible impact on profitability measured by return on assets of firms under study.

According to Nwankwo (1991), adequate liquidity enables a bank to meet three risks. First is the funding risk, the ability to replace the net outflows either through withdrawals of retail deposits of nonrenewal of wholesale funds. Secondly, adequate liquidity is needed to enable the bank to compensate for the non-receipt of inflow of funds if the borrower or borrowers fail to meet their commitments. The third risk arises from calls to honor maturity obligations or from request for funds from important customers.

Adequate enables the bank to find new funds to honor the maturity obligations such as sudden upsurge in borrowing under atomic or agreed lines of credit or to be able to undertake new lending when desirable. Liquidity measures the ability of the business to meet financial obligations as they come due, without disrupting the normal, on-going operations of the business. Liquidity can be analyzed both structurally and operationally. Structural liquidity refers to balance sheet measures of the relationships between assets and liabilities and operational liquidity refers to cash flow measures. A frequent cause of liquidity problem s occurs when debt maturities are not matched with the rate at which the business' assets are converted to cash.

Two recommended measures of liquidity are the current ratio and working capital. The current ratio measures the relationship between total current assets and total current liabilities and is a relative measure rather than an absolute monetary measure. The higher the ratio, the more liquid the business is considered to be. Working capital is a measure of the amount of funds available to purchase inputs and inventory items after the sale of current assets and payment of all current liabilities. Working capital is expressed in absolute monetary units; therefore, determining adequate working capital is related to the size of the business operation. Deshpande (2006) observed that excess liquidity in financial institutions limits incentives to mobilize additional deposits especially poor people's deposits, which tended to be perceived a priori as short term, unstable, and costly. At the institutional level, excess liquidity is caused by lack of suitable lending opportunities, Hull, (2009).et (2012).

2.3.3 Effects of Cash Disbursement on the Financial Performance of SMEs

Disbursement of fund is the most important aspect of project implementation. It is on this basis that scheduled project activities are translated into measurable outputs in the execution of the loans. Disbursement is a critical aspect of project financial management since projects are modeled.

In making capital expenditure of any magnitude, SMEs just like any other business entity considers cash flow as a critical component that must be properly analyzed for planning reasons. Funds must be clearly designated and committed to the project so as to ensure successful implementation of activities without the possibility of stalling and subsequent abandonment. Prior arrangement for procurement of finances both internally; such as appropriation-in-aid and externally, in form of loans and grants, must be done.

Cash disbursement refers to cash out flow or payment of money to settle obligations such as operating outflows, cash purchases, payments of payables, advance to suppliers, wages and salaries and other operating expenses, capital expenditures, contractual payments, repayment of loan and interest and tax payments and discretionary payments .In case of credit purchases, a time lag will exist for cash payment. This will depend on the credit terms offered by the suppliers. Generally different scholars argue that cash disbursements should be delayed as much as possible without hurting corporate image of the organization or defaulting on the obligations of the organization. The principle is that cash should be paid only at moment when delay is no longer necessary and possible and non-beneficial (Kakuru 2001, Van Horme 1995, Pandey (2003).

The way of delaying disbursements that were generally agreed upon by above scholars include, Predicting banking habits of the work force and paying out the wage bill accordingly. Wages should not be paid in advance when workers are willing to accept delayed payments. During this period the company will be able to make profits out of that money. In the same payments should be cheque as the bank clearance will always delay for some days. These banks should be such that cheques drawn on them will maximize the days the cheques remain uncollected. One way, in which a firm can keep its funds on hand longer, would simply be by delay payments, but this would lead to such obvious difficulties as being labeled "a dead beat".

Nkamelu (2011) in a study conducted in Botswana between 1990 and 2007 established that at inception of a project, there was considerable delay between the time of loan commitment and application for first disbursement of funds averaging to 20.1 months. This trend had adverse effect on the preliminary activities such as assembly of PIU and project launch. Donors sometimes provide technical experts to the project, mostly foreigners at the expense of the locals. This is also confirmed by Monaheng (2007) who argues that donors find expatriate technical staff as helpful in sensitive aspects of project management and control of budgets and are also knowledgeable about home office reporting requirements even when locals can competently handle the same tasks.

Bagoole (2011), in a review of periodic technical and financial reports on disbursements was affected by funds accountability requirements by financial partners prior to disbursement of funds thereby affecting effectiveness of agricultural projects. This tends to increase chances of failure to avail funds on schedule if such reporting is not done hence adversely affecting the implementation of activities. The existence of intermediary institutions between donors and PIUs has led to delays compounded by protocols or inadequacies between funding agency and the PIUs.

Besides, some projects do not submit financial accountability reports to the Auditor General for review and subsequent expression of opinion. This prompts donors to withhold disbursement until the audit on financial statements is done. Donkor (2011) observes that government pay a lot of money in form of interest due to delayed payments to contractors and should be committed in managing projects to ensure that there is adequate flow of funds provision. This increases project costs and disrupts budget implementation as these were never factored in budgets and in effect are ineligible expenditures that donors would reject.

The donors have placed rigorous reporting requirements for PIUs in certain specific formats at different timelines for monitoring and evaluation purposes as pointed out by Monaheng (2007). This enables control of the project and assessing whether it is on course in realizing its set target. According to Bagoole (2011), a weak monitoring system contributes to incidences of unprofessional conduct and disclosure of false information which translates to wide variation in quality hence poor utilization of funds disbursed. This always leads to fund disbursement being suspended by donors there by impending implementation activities.

Kaufmann (2012) argued that cash disbursements are sometimes viewed as promoting their own self-interests when setting conditions for the aid recipients. Conditions are imposed on unwilling recipients at the time of contract signing where both parties know that these are only paper conditions whose outcome is determined by the fact that both parties need to maintain a sustainable normal relationship and flow of aid. A case in hand is the austerity measures introduced by World Bank in early 1990s such as structural Adjustment Programs (SAP), which it has admitted as having failed and hurt African economies. At the end of it all, aid flows have not helped in developing Africa, neither have they helped in development of policies they were meant to be conditioned on.

2.4 Relationship between financial planning and Financial Performance of SMEs

According to Shaw, (2011), if an organization properly manages its capital and maintains a positive balance especially on bank accounts in form of funds deposits, it may increase on the profitability position through the interest earned. Having positive funds balance enables a firm to take advantage of funds discounts from suppliers, purchases input and enables the company to carry on further investment in profitable ventures.

He adds that interest rates, profit margin, advance payment by customers, credit from suppliers, and prompt payment by customers determine the relationship of working capital and financial performance. Wilkes (2010) and Samuels (2011), share the same view as Shaw

(2010), on the relationship between capital management and the profitability of a firm. Wilkes (2010) argues that if a firm does not manage its funds properly it can easily go into liquidation as a result of failing to pay the outstanding liabilities (suppliers, wages) and meeting the day to day operation. This has an adverse impact on the profitability of an organization.

He adds that, a firm which keeps too much funds fore goes a return if it invested in other profitable ventures. Funds can be lent out even for a short period of time and interest is earned, hence impacting on the profitability position of an organization. The organization must establish and install funds management programs to ensure that there is a balance between benefits and costs. However, these programs may be expensive to operate for example use of remote collection and disbursement centers, involve additional costs and banks involved will require the firm to maintain adequate deposit balance or pay sufficient fees to justify the services. All these costs impact on the profitability position of the firm most especially small scale and medium enterprises. Campsey, (2010) explains that while there are good reasons for holding adequate funds balances, there is an important reason for not holding excess funds balance. Since fund is a non-earning asset, excessive funds balances simply lower the total asset turnover there by reducing both the firms" rate of return on equity and value of its stock. Therefore firms are interested in establishing procedures for increasing the efficiency of their funds management and the higher the level of short-term interest, the greater the opportunity cost associated with holding excess funds.

This implies that holding excess fund means that returns are foregone hence adversely impacting on the profitability position of the firm. Khazi (2009), points out the relationship between funds management and profitability by giving the effect of excess and shortage of funds. Holding excess funds means that there is an opportunity cost in form of a return foregone because of holding it. On the other hand funds shortage will disrupt the firms operation for instance failure to acquire inventory for sale, inputs and meeting customer's orders. Such situation requires that an organization must design an appropriate funds management policy to ensure that the best is derived from every single coin held at any period of time. Management of small scale and medium businesses should establish and strengthen the internal controls over funds and other financial resources to reduce on mismanagement and misappropriations.

The internal controls to be established among others may include; segregation of duties, approval and authorization, physical controls, accuracy and arithmetic, supervision of lower employees, and daily banking of funds received to reduce on theft and mismanagement of funds resources Wilkes (2006). Profit margin is an accounting measure designed to gauge the financial health of the business or industry. It is the ratio of profit earned to the sales receipts or costs. Profit margin provides an indication of efficiency in that it captures the amount of surplus generated per unit of the products or service sold. In order to generate a sizeable profit margin, accompany must operate efficiently enough to recover not only the cost of the product or service sold, operating expenses, and costs of debt but also provide compensation for the owners in exchange for their acceptance of risk. Frank wood (2011).

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter covered the research methodology that was used in the study and provided a general framework for the research study. It presents details of the research design, target population, sample and sampling technique, description of the research instruments, validity and reliability of instruments, data collection procedures, data analysis techniques and ethical considerations and limitations while carrying out the research study.

3.1 Research Design

The study adopted a descriptive research design, and both qualitative and quantitative approaches were used. This design was used because the researcher was interested in understanding the facts regarding financial planning and how they influence the performance of SMEs. The descriptive design was chosen because it provides more detailed information for the study. The descriptive research was developed to attain the relationship between financial planning and financial performance of firms. The design also included the individual analysis of the mean and standard deviations on the individual constructs of the independent variable and dependent variable. This study adopted a descriptive study that described the population using measures of central tendencies' such as mean, mode and median, and measures of dispersion and standard deviation.

3.2 Research Population

According to Ogula, (2005), a population refers to any group of people, institutions, or objects that have common characteristics.

The study population of 50 operators of small and medium enterprises in Pakele Sub County, Adjumani district was considered. The SMEs involved in the study are in the categories of wholesale, retail, hotel, salon, and carpentry businesses.

3.3 Sample size

The sample population of the study used Slovene's formula to determine the minimum sample size.

$$n = \frac{N}{1 + Na^2}$$

Where

n = Sample size

N = Total population size.

a = Correlation coefficient (0.05)

$$n = \frac{50}{1 + 50(0.05)^2}$$

$$n = \frac{50}{1.125}$$

$$n = 44 \text{ respondents}$$

Therefore a sample of 44 respondents was selected to participate in the study.

3.3.1 Table showing the sample of Respondents that participated in the study

Category	Population	Sample	Sampling techniques
Wholesale business operators	12	11	Purposive
Retail business operators	20	19	Purposive
Hotel business operators	8	7	Purposive
Salon business operators	5	4	Purposive
Carpentry business operators	5	3	Purposive
Total	**50**	**44**	

Source: Human resource manual, 2018

3.3.2 Sampling techniques

The respondents were selected using purposive sampling techniques. Purposive sampling is a sampling technique in which the researcher relies on his or her judgment when choosing members of the population to participate in the study. Purposive sampling is a non-probability sampling method and it occurs when elements selected for the sample are chosen by the judgment of the researcher. Researchers often believe that they can obtain a representative sample by using a sound judgment, which will result in saving time and money.

3.4 Sources of data

Data was collected using both primary and secondary data collection techniques.

3.4.1 Primary data

Primary data are information collected by a researcher specifically for a research assignment. In other words, primary data are information that a company must gather because no one has compiled and published the information in a forum accessible to the public. Companies generally take the time and allocate the resources required to gather primary data only when a question, issue, or problem presents itself that is sufficiently important or unique that it warrants the expenditure necessary to gather the primary data. Primary data are original in nature and directly related to the issue or problem and current data. Primary data are the data which the researcher collects through various methods like interviews, surveys, questionnaires etc.

3.4.2 Secondary data

Secondary data are the data collected by a party not related to the research study but collected these data for some other purpose and at different time in the past. If the researcher uses these data then these becomes secondary data for the current users. These may be available in written, typed or in electronic forms. A variety of secondary information sources is available to the researcher gathering data on an industry, potential product applications, and the market place. Secondary data is also used to gain initial insight into the research problem. Secondary data is classified in terms of its source either internal or external. Internal, or in-house data, is secondary information acquired within the organization where research is being carried out. External secondary data is obtained from outside sources.

3.5 Research instruments

The researcher obtained data from the field using the following important instruments:

3.5.1 Questionnaires

These are inter-related questions designed by the researcher and given to the respondents in order to fill in data/information. Here, self-administered questionnaires were employed containing both open-ended and close-ended questions. This was intended to reduce costs of movement and also because the researcher was dealing with literate people who have the capacity of filling the forms. The questionnaire was used in attaining the data that was majorly analyzed quantitatively. The questionnaire was used because it attains more information necessary and required by the researcher to attain data that can be easily quantifiable. The questionnaire was used because it can enable data collection at a close and wider range for the researcher.

3.6 Validity and Reliability

3.6.1 Validity

Validity refers to the degree to which evidence and theory supports the interpretation of test scores entailed by use of tests. The validity of instrument is the extent to which it does measure what it is supposed to measure. According to Mugenda and Mugenda (1999), Validity is the accuracy and meaningfulness of inferences, which are based on the research results. Tool validity was checked and confirmed using the retest method for content validity index (CVI) judges was used to establish the validity for each item. Where by judges were selected to judge each item. The inter judge coefficient validity were computed to be CVI= (number of judges declared item valid) (total no of judges to arrive at an average acceptable for the study using the research instrument.

According to Amin (2005) validity of instrument is determined by the formula:

CVI = RQ/TQ,

Where; CVI = Content Validity Index.

RQ = Relevant Questions.

TQ = Total number of questions

3.6.2 Reliability

Reliability is the ability of the research instrument to consistently measure characteristics of interests over time. It is the degree to which a research instrument yields consistent results or data after repeated trials. If a researcher administers a test to a subject twice and gets the same score on the second administration as the first test, then there is reliability of the instrument (Mugenda and Mugenda, 1996). Reliability is concerned with consistency, dependability or stability of a test (Nachmias and Nachmias, 1996). The researcher measured the reliability of the questionnaire to determine its consistency in testing what they are intended to measure. The test re-test technique was used to estimate the reliability of the instrument. This involved administering the same test twice to the same group of respondents who have been identified for this purpose.

3.7 Data Collection procedures

Prior to the commencement of data collection, the researcher obtained all necessary documents, including an introduction letter from the University. The study incorporated self-completion data collection method where all the identified respondents were given a questionnaire to complete and follow-up was made to ensure that there is an adequate completion rate. The instrument was a semi-structured questionnaire having both open and close-ended questions. Data on financial planning was collected using questionnaires filled by the small and medium business operators while data on the financial performance was gathered from past records and financial statements of the businesses which took part in the study.

3.8 Data Processing, Analysis, and Presentations

3.8.1 Data processing

Upon collecting data, several methods were used to process and analyze the data. All the data collected were checked for results on completion of the procedure, compiled, sorted, edited, classified, and coded to improve on data accuracy and relevancy. They were tabulated to reveal the frequencies and percentage scores of different study attributes. This then were analyzed by calculating the financial ratios to reveal the financial performance of small scale business

3.8.2 Data Analysis

Since the instrument of choice for this research was a semi-structured questionnaire, data collected was in both quantitative and qualitative forms. The analysis was done to establish the measures of central tendency that included the mean, mode, and median highlighting the key findings. Inferential statistics was used to establish the relationship between the variables of the study and qualitatively by content analysis. Analysis of variance (ANOVA) was used to determine the significance relationship of the variables. The study used regression to study how the financial planning affects the financial performance.

3.8.3 Data presentation

Here data showing figures was presented both in tables, graph and pie-charts whereas data on relationships between variables was presented in both essay form and through the use of correlation table.

3.9 Ethical consideration

The researcher was issued clearance from the University to be able to collect data in the target area of study. The topic of the research had been submitted to the college of economics and management, and it was subsequently approved by the university supervisor. This research project is a legal requirement for the partial fulfillment for the award of bachelor degree in Kampala international University. With the authority from department of accounting and finance, the data and information that will be relevant to this research topic, were obtained from SMEs operators in Pakele Sub County, Adjumani district. The voluntary participation of the respondent in this research was highly recognized, and the use of offensive, discriminatory, or other unacceptable language were avoided in the formulation of the questionnaire and in carrying out interviews in the process of collecting research data. The researcher assured the respondents that all the information or data collected from them will be treated as confidential and of value in this research project.

CHAPTER FOUR

PRESENTATION, INTERPRETATION AND ANALYSIS OF FINDINGS

4.0 Introduction

This chapter involves the presentation, interpretation and analysis of findings of data collected using the methodologies discussed in chapter three. The chapter provides findings on the demographic data of the respondents, and the effects of financial planning activities on the financial performance of the SMEs. Presentations and interpretations of data in this chapter have been done with the aid of quantitative and qualitative methods for example the use of tables and personal analysis and interpretations are all presented.

4.1 Response rate of Respondents

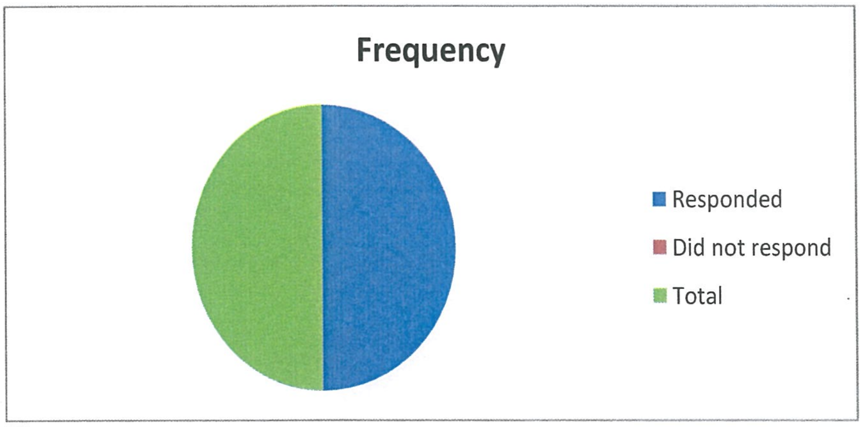
This shows the frequency or percentage of respondents that filled and returned the questionnaires.

Table 1: Showing response rate of respondents

Response	Frequency	Percentage
Responded	44	100
Did not respond	0	0
Total	**44**	**100**

Source: Field Data, 2019

Figure 1: Showing response rate of respondents



Source: primary data

As shown in the table and chart above, the study administered a total of 44 questionnaires to the respondents and all of them responded positively. According to Mugenda & Mugenda (2003), a response rate of 50% is adequate for a study, 60% is good and 70% and above is excellent for a study. Therefore this response rate (100%) was considered excellent and reliable for the study.

4.2 Demographic information of Respondents

This was based on age, gender, marital status, level of education, and the nature of business.

4.2.1 Findings on Age of respondents

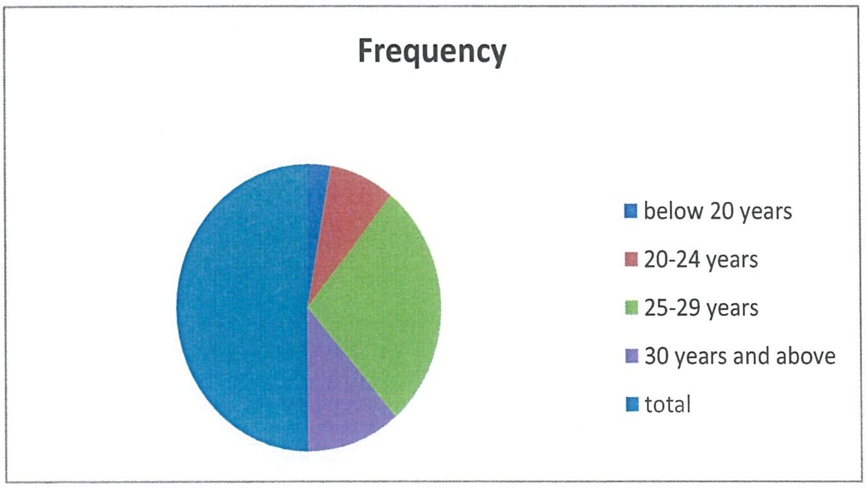
Here the researcher was interested in gathering information on the age of respondents and information got was presented in the table below.

Table 2: showing age of respondents

Response	Frequency	Percentage
Below 20 years	4	9
20-24years	7	16
25-29years	23	52
30 years and above	10	23
Total	**44**	**100**

Source: Primary Data

Figure 2: Showing age of respondents



Source: Primary data

The table and chart above clearly shows majority of the respondents were in the age bracket, 25-29 years. This implies that respondents were the very people who make business plans which ensured quality data. This was so because mature people are known to think better and faster than the young folks.

4.2.2 Findings on Gender of Respondents

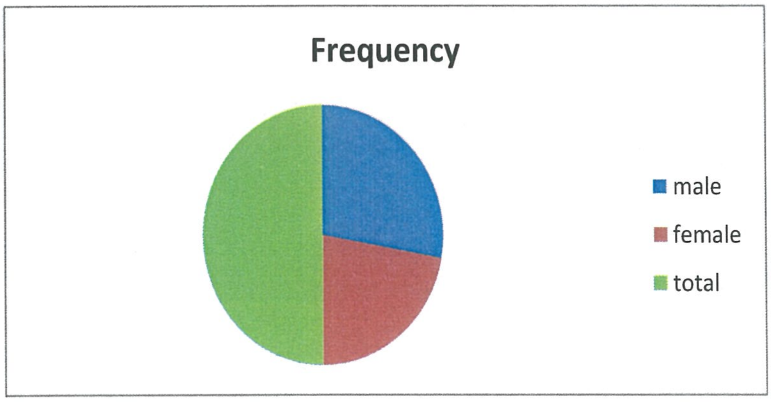
Here the researcher was interested in gathering information on the gender of respondents and information got was presented in the table below

Table 3: Showing Gender of Respondents

Response	Frequency	percentage
Male	24	55
Female	20	45
Total	**44**	**100**

Source: Primary Data

Figure 3: Showing Gender of Respondents



Source: Primary data

The table and chart above shows that there was gender imbalance with males (55%) more than female (45%); however this implies that the study is enriched with business views of both men and women in reference to the questions that were asked.

4.2.3 Findings on Marital status of Respondents

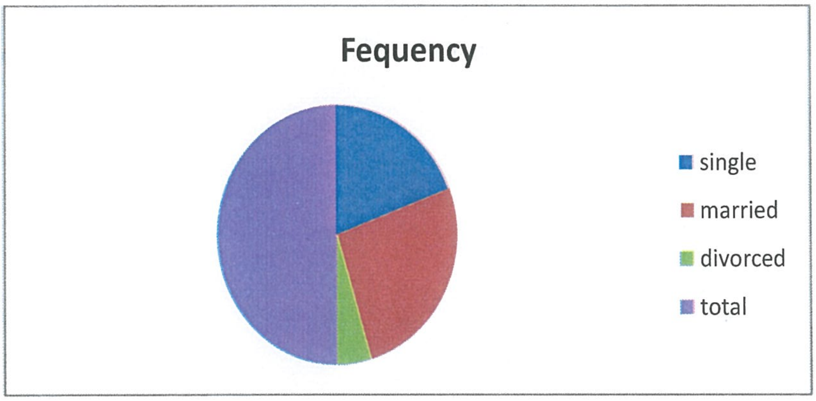
Here the researcher was interested in finding the marital status of the respondents; the information collected was presented as follows.

Table 4: Showing marital status of Respondents

Response	Frequency	Percentage
Single	18	41
Married	23	52
Divorced	3	7
Total	**44**	**100**

Source: Primary Data

Figure 4: Showing marital status of respondents



Source: Primary data

The table and chart above has indicated clearly that 41% of the respondents were single and 52% were married, while 7% were divorced. This implies that information was got from cross section of people making it more reliable.

4.2.4 Findings on Level of Education of Respondents

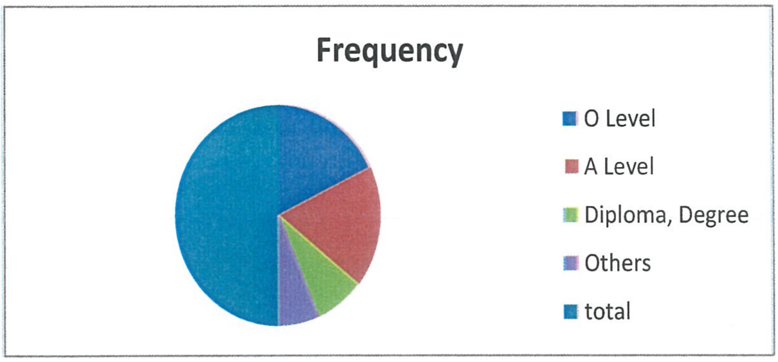
Here the researcher is interested in gathering information on the level of education of respondents and the information got was presented in the table below.

Table 5: Showing Level of education of respondents

Response	Frequency	percentage
O'Level	15	34
A'Level	13	30
Diploma, degree	8	18
Others	8	18
Total	**44**	**100**

Source: Primary Data

Figure 5: Showing Level of education of respondents



Source: Primary data

The table and chart above shows that majority of the respondents studied O'level (34%) and A'level (30%) followed by the degree and diploma holders (18%), and others (18%) which implies that they have the capacity to plan well for their business funds and they could read and write which enriched the data which was collected. According to Compsey (2005), financial planning is not about the level of education but rather how one understands his or her business.

4.2.5 Findings on the nature of the business

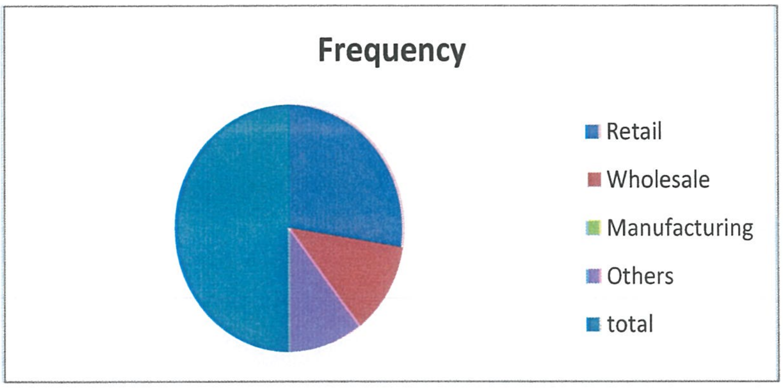
Here the researcher was interested in gathering information about the nature of the business; and the information was presented as follows.

Table 6: Showing the nature of the business

Response	Frequency	percentage
Retail	25	57
Wholesale	10	23
Manufacturing	0	0
Others	9	20
Total	**44**	**100**

Source. Primary data.

Figure 6: Showing nature of the business



Source: Primary data

The table and chart above shows that majority of the businesses in pakele Sub County are retail business. This implies that the level of business development has not been achieved to the highest level. However the study also shows that there has been development as the number of the wholesale businesses has increased compared to the previous years.

4.3 Effect of liquidity management on the financial performance of SMEs

The first objective was to determine the effect of liquidity management on the financial performance of SMEs. The data collected from the field in regard to the objectives are provided below.

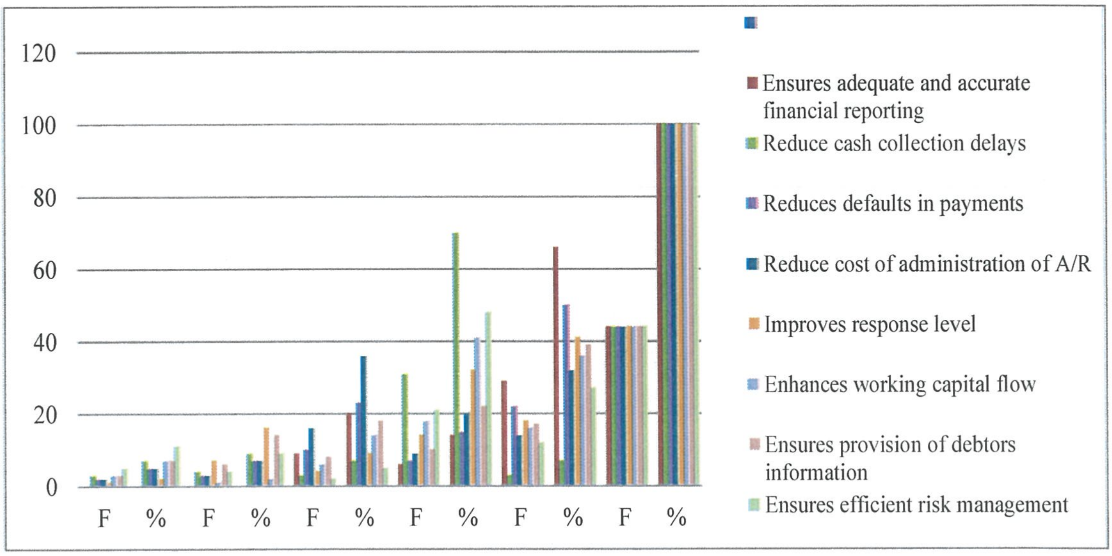
Table 7: Showing findings on the effects of liquidity management on the financial performance of SMEs.

Statements	F	%	F	%	F	%	F	%	F	%	F	%
	SD		D		NS		A		SA			
Ensures adequate and accurate financial reporting	0	**0**	0	**0**	9	**20**	6	**14**	29	**66**	**44**	**100**
Reduce cash collection delays	3	7	4	**9**	3	7	31	**70**	3	7	**44**	**100**
Reduces defaults in payments	2	**5**	3	7	10	**23**	7	**15**	22	**50**	**44**	**100**
Reduce cost of administration of A/R	2	**5**	3	7	16	**36**	9	**20**	14	**32**	**44**	**100**
Improves response level	1	**2**	7	**16**	4	**9**	14	**32**	18	**41**	**44**	**100**
Enhances working capital flow	3	7	1	**2**	6	**14**	18	**41**	16	**36**	**44**	**100**
Ensures provision of debtors information	3	7	6	**14**	8	**18**	10	**22**	17	**39**	**44**	**100**
Ensures efficient risk management	5	**11**	4	**9**	2	**5**	21	**48**	12	**27**	**44**	**100**

SD- Strongly disagree, D- Disagree, NS- Not sure, A- Agree, SA- Strongly agree

Source: Primary data, 2019

Figure 7: Showing findings on the effects of Liquidity management on the financial performance of SMEs.



Source: Primary data, 2019

Results in table 7 indicated that, liquidity management affects the financial performance of SMEs in Pakele Sub County. It was found that statements; Liquidity management ensures adequate and accurate financial reporting, had, 66% of the respondents who strongly agreed, 14% agreed, 20% were not sure, none disagreed, and none also strongly disagreed.

Reduces cash collection delays, had, 7% of the respondents who strongly agreed, 70% agreed, 7% were not sure, another 9% disagreed and 7%strongly disagreed.

Reduce defaults in payment, had, 50% of the respondents who strongly agreed, 15% agreed, 23% were not sure, 7% disagreed, and 5% strongly disagreed.

Reduce cost of administration of A/R, had, 32% of the respondents who strongly agreed, 20% who agreed, 36% were not sure, 7% disagreed, while 5% strongly disagreed.

Improves response level, had, 41% of the respondents who strongly agreed, 32% agreed, 9% were not sure, 16% disagreed, and 2% strongly disagreed.

Enhances working capital flow, had, 36% of the respondents who strongly agreed, 41% agreed, 14% were not sure, 2% disagreed, while 7% strongly disagreed.

Ensures provision of debtors information, had, 39% of the respondents who strongly agreed, 22% agreed, 18% were not sure, 14% disagreed, while 7% strongly disagreed.

Ensures efficient risk management, had, 27% of the respondents who strongly agreed, 48% agreed, 5% were not sure, 9% disagreed and 11% strongly disagreed.

The study findings on the effects of liquidity management on the financial performance of SMEs: Liquidity management ensures accurate financial reporting had 80% Agreed, reduce cash collection delays had 77% Agreed, reduce defaults in payment had 65%, reduce cost of administration had 52%, improves response level had 73%, enhance working capital flow had 77%, ensures provision of debtors information had 61%, and finally ensures efficient risk management had 75%.

On average, **70%** of respondents contend that liquidity management influences the performance of SMEs.

4.4 Effects of accounts receivables management on the financial performance of SMEs

The second objective of the study was to determine the effects of accounts receivable management on the financial performance of SMEs. The study objectives on the data collected from the respondents are provided below.

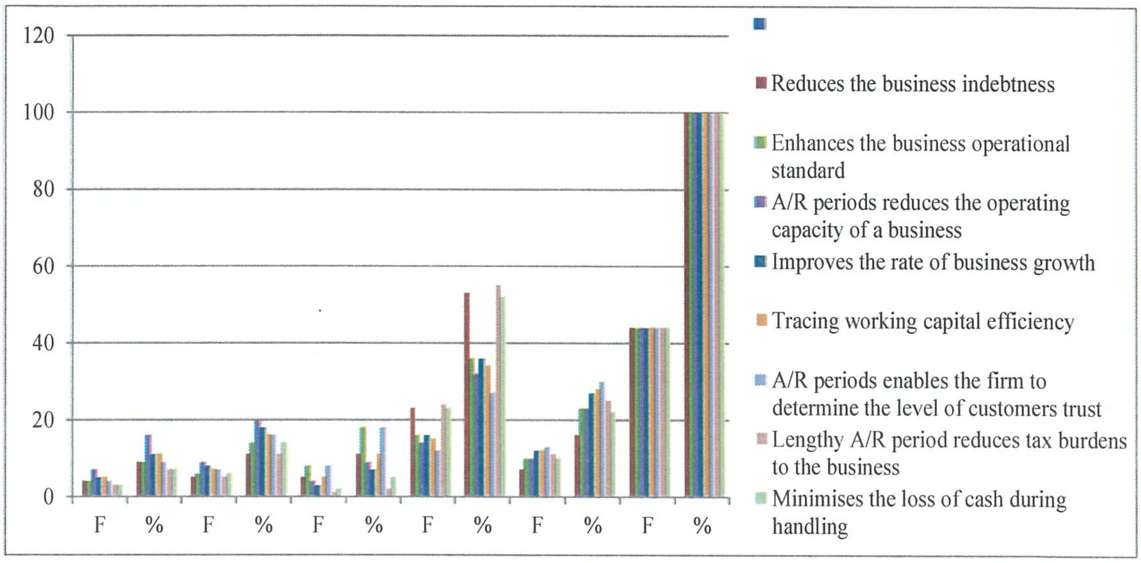
Table 8: Showing findings on the effects of accounts receivables management on the financial performance of SMEs.

Statements	F	%	F	%	F	%	F	%	F	%	F	%
	SD		D		NS		A		SA			
Reduces the business indebtedness	4	9	5	**11**	5	**11**	23	**53**	7	**16**	**44**	**100**
Enhances the business operational standard	4	9	6	**14**	8	**18**	16	**36**	10	**23**	**44**	**100**
A/R periods reduces the operating capacity of a business	7	**16**	9	**20**	4	**9**	14	**32**	10	**23**	**44**	**100**
Improves the rate of business growth	5	**11**	8	**18**	3	**7**	16	**36**	12	**27**	**44**	**100**
Tracing working capital efficiency	5	**11**	7	**16**	5	**11**	15	**34**	12	**28**	**44**	**100**
A/R periods enables the firm to determine the level of customers trust	4	**9**	7	**16**	8	**18**	12	**27**	13	**30**	**44**	**100**
Lengthy A/R period reduces tax burdens to the business	3	**7**	5	**11**	1	**2**	24	**55**	11	**25**	**44**	**100**
Minimises the loss of cash during handling	3	**7**	6	**14**	2	**5**	23	**52**	10	**22**	**44**	**100**

SD- Strongly disagree, D- Disagree, NS- Not sure, A- Agree, SA- Strongly agree

Source: Primary data, 2019

Figure 8: Showing findings on the effects of accounts receivables management on the financial performance of SMEs.



Source: Primary data, 2019

Results in table 8 indicated that accounts receivables management also has a positive effect on the financial performance of SMEs. It was found out that statements; A/R management reduces the business indebtedness, had, 16% of the respondents who strongly agreed, 53% agreed, 11% were not sure, 11% disagreed, and 9% strongly disagreed.

Enhancing the business operational status, had, 23% of the respondents who strongly agreed, 36% agreed, 18% were not sure, 14% disagreed, and 9% strongly disagreed.

A/R periods reduce the operating capacity of a business, had, 23% of the respondents who strongly agreed, 32% agreed, 9% were not sure, 20% disagreed, 16% strongly disagreed.

Improves the rate of business growth, had, 27% of the respondents who strongly agreed, 36% strongly agreed, 7% were not sure, 18% disagreed, while 11% strongly disagreed.

Tracing working capital efficiency, had, 28% of the respondents who strongly agreed, 34% agreed, 11% were not sure, 16% disagreed, while 11% strongly disagreed.

A/R period enables the firm to determine the level of customers trust, had, 30% of the respondents who strongly agreed, 27% agreed, 18% were not sure, 16% disagreed, while 9% strongly disagreed.

Lengthy A/R period reduces tax burdens to the business, had, 25% of the respondents who strongly agreed, 55% agreed, 2% were not sure, 11% disagreed, and 7% strongly disagreed. Minimizes loss of cash during handling, had, 22% of the respondents who strongly agreed, 52% agreed, 5% were not sure, 14% disagreed, and 7% strongly disagreed.

The study findings on the effect of accounts receivables management on the financial performance of SMEs: A/R management reduces the business indebtedness had 69% agreed, enhancing the business operational status had 59%, A/R periods reduces the operating capacity of a business had 55%, improves the rate of business growth had 63%, tracing working capital efficiency had 62%, A/R periods enables the firm to determine the level of customer trust had 57%, lengthy A/R period reduces tax burden to the business had 80% and finally minimizes the loss of cash during handling had 74%.

On average, **65%** of the respondents contend that accounts receivables management influences the performance of SMEs.

4.5 Effects of cash disbursements management on the financial performance of SMEs

The third objective of the study was to establish the effect of cash disbursement management on the financial performance of SMEs. The study objectives on the data collected from the respondents are provided below.

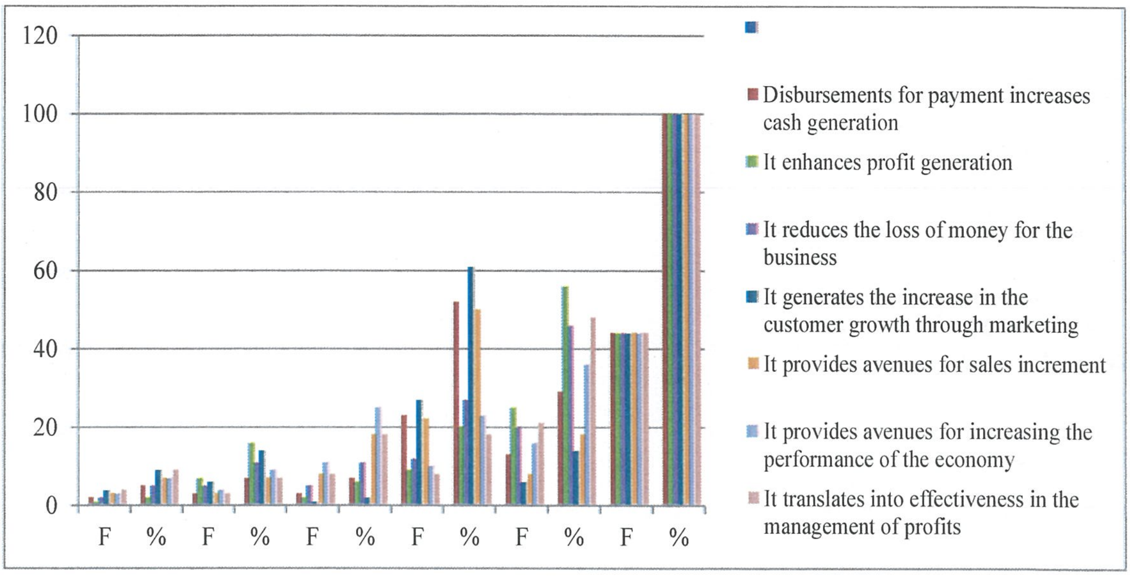
Table 9: Showing findings on the effects of cash disbursement management on the financial performance of SMEs

Statements	F	%	F	%	F	%	F	%	F	%	F	%
	SD		D		NS		A		SA			
Disbursements for payment increases cash generation	2	**5**	3	7	3	7	23	**52**	13	**29**	**44**	**100**
It enhances profit generation	1	**2**	7	**16**	2	**6**	9	**20**	25	**56**	**44**	**100**
It reduces the loss of money for the business	2	**5**	5	**11**	5	**11**	12	**27**	20	**46**	**44**	**100**
It generates the increase in the customer growth through marketing	4	**9**	6	**14**	1	**2**	27	**61**	6	**14**	**44**	**100**
It provides avenues for sales increment	3	7	3	7	8	**18**	22	**50**	8	**18**	**44**	**100**
It provides avenues for increasing the performance of the economy	3	7	4	**9**	11	**25**	10	**23**	16	**36**	**44**	**100**
It translates into effectiveness in the management of profits	4	**9**	3	7	8	**18**	8	**18**	21	**48**	**44**	**100**

SD- Strongly disagree, D- Disagree, NS- Not sure, A- Agree, SA- Strongly agree

Source: primary data, 2019

Figure 9: Showing findings on the effects of cash disbursement management on the financial performance of SMEs



Source: Primary data, 2019

Results in table 9 indicated that proper cash disbursement management has a positive influence on the performance of SMEs. It was found out that statements; Disbursements for payments increases cash generation, had, 29% of the respondents who strongly agreed, 52% agreed, 7% were not sure, 7% disagreed, and 5% strongly disagreed.

Enhances profit generation, had, 56% of the respondents who strongly agreed, 20% agreed, 6% were not sure, 16% disagreed, and 2% strongly disagreed.

Reduces the loss of the money for the business, had, 46% of the respondents who strongly agreed, 27% agreed, 11% were not sure, 11% disagreed, and 5% strongly disagreed.

Generates the increase in the customer growth through marketing, had, 14% of the respondents who strongly agreed, 61% agreed, 2% were not sure, 14% disagreed, while 9% strongly disagreed.

Provides avenues for sales increment, had, 18% of the respondents who strongly agreed, 50% agreed, 18% were not sure, 7% disagreed, and then 7% strongly disagreed.

Provides avenues for increasing the performance of the economy, had, 36% of the respondents who strongly agreed, 23% agreed, 25% were not sure, 9% disagreed, 7% strongly disagreed.

Translates into effectiveness in the management of profits, had, 48% of the respondents who strongly agreed, 18% agreed, another 18% were not sure, 7% disagreed, and lastly 9% of the respondents strongly disagreed.

The study findings on the effects of cash disbursement management on the financial performance of SMEs: Disbursements for payments increases cash generation had 81% agreed, enhances cash generation had 76%, reduces the loss of money for the business had 73%, generates the increase in the customer growth through marketing had 75%, provides avenues for sales increment had 68%, provides avenues for increasing the performance of the economy had 59%, and finally translates into effectiveness in the management of profits had 66%.

On average, cash disbursement had **71%** influences on the financial performance of AMEs

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter involves the summary of findings of the study based on the research objectives, conclusions based on the problem statement, and the study recommendations based on the conclusion.

5.1 Summary of the findings

5.1.1 The effects of liquidity management on the financial performance of SMEs

Findings revealed that liquidity management has a great, positive effect on the financial performance of SMEs.

It was revealed that the statements; Liquidity management ensures accurate financial reporting had 80% Agreed, reduce cash collection delays had 77% Agreed, reduce defaults in payment had 65%, reduce cost of administration had 52%, improves response level had 73%, enhance working capital flow had 77%, ensures provision of debtors information had 61%, and finally ensures efficient risk management had 75%.

On average, **70%** of respondents contend that liquidity management influences the performance of SMEs.

5.1.2 The effects of Accounts receivables management on the financial performance of SMEs

Findings revealed that accounts receivables management also has a great, positive effect on the financial performance of SMEs. It indicated that A/R management reduces the business indebtedness, and this statement had 69% agreed, enhancing the business operational status had 59%, A/R periods reduces the operating capacity of a business had 55%, improves the rate of business growth had 63%, tracing working capital efficiency had 62%, A/R periods enables the firm to determine the level of customer trust had 57%, lengthy A/R period reduces tax burden to the business had 80% and finally minimizes the loss of cash during handling had 74%.

On average, **65%** of the respondents contend that accounts receivables management influences the performance of SMEs.

5.1.3 The effects of cash disbursement management on the financial performance of SMEs

Findings revealed that most respondents believed that cash disbursement management also has a great and positive effect on the financial performance of SMEs.
It was revealed that disbursements for payments increases cash generation and this statement had 81% agreed, enhances cash generation had 76%, reduces the loss of money for the business had 73%, generates the increase in the customer growth through marketing had 75%, provides avenues for sales increment had 68%, provides avenues for increasing the performance of the economy had 59%, and finally translates into effectiveness in the management of profits had 66%.
On average, cash disbursement had **71%** influences on the financial performance of SMEs

5.2 Conclusions

In conclusion, the study was carried to a much success and all the objectives fulfilled. The objectives were accomplished where it was found that liquidity management, accounts receivables management, and cash disbursement management all have significant positive influence on the financial performance of SMEs.

This means that most of the SMEs that practiced the financial planning activities experienced positive impacts on the financial performance of their businesses in Pakele Sub County.

The findings concluded that financial planning activities helped the businesses to keep capital, manage risks, increased the efficiency of operations, and expanded the capacity of the businesses to embrace opportunities. Further financial planning activities has eased financial crisis, made credit accessible, reduced losses caused by human errors, provided collaterals for securing loans and act as a frame work to guide the activities of the businesses.
The study also concluded that some of the SMEs do not practice financial planning, which renders their business prone to anticipated business risks and some inefficiency.

5.3 Recommendations

5.3.1 Effects of Liquidity management on financial performance of SMEs

The results revealed that liquidity management positively affects the financial performance of SMEs. However it is recommended that there is need to improve on the policy on working capital management because efficient working capital management has got a positive relationship with a firm's profitability and return of assets

5.3.2 Effects of accounts receivables management on financial performance of SMEs

The results revealed that accounts receivable management has a positive influence on the financial performance of SMEs. However there is need to enhance the management of the receivables through establishing stringent policy on collections. The A/R management needs to be effectively managed amidst strong view of the means of negotiating for the better results.

5.3.3 Effects of cash disbursement management on financial performance of SMEs

Results indicated that effective cash disbursement management also positively affects the performance of SMEs. However there is need for ensuring more accurate budget planning for the SMEs activities. If budgets are prepared based on more conservative figures of estimates, there would be greater consistency between actual disbursement and budget projections.

5.4 Recommendations for further studies

The study collected data from the SMEs which are operating in Pakele sub County, Adjumani district. However, the findings on the financial planning practices in Pakele Sub County could be different compared with other regions. Therefore a similar study should be undertaken in other regions to get a better understanding of the effect of financial planning and performance of the SMEs.

The study also recommends that the same kind of study be done on the large enterprises which have different practices and use different strategies to increase their market share and the effect of financial planning strategies could be different from that on the SMEs.

5.5 Limitations of the study

Some respondents did not provide authentic information but instead provided general information making it difficult to obtain some of the required information. However, the researcher alternated closed and open-ended questions in order to get direct answers.

Owing to the nature of the subject respondents, some reluctance was experienced from some respondents in terms of disclosing information with regards to the financial planning arising from fear of being reprimanded by the managers in the business who are responsible for handling issues related to the matter under study.

However, the researcher assured the respondents of the confidentiality of the information that they provided and sought authority from management to undertake research in the SMEs. The researcher also attached the letter of authority from both the university and Sub County to the questionnaire so as give further assurance on the purpose of the study.

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APPENDICES

APPENDIX I: QUESTIONNAIRE

Dear respondent,

I am Thesame Berry Eruaga, a student pursuing Bachelor degree of Business Administration-Accounting and Finance at Kampala International University. Currently am conducting a research study on a topic "The effects of financial planning on financial performance of Small and Medium enterprises (SMEs) in Adjumani district in partial fulfillment of the requirement for this prestigious award. Your acceptance to be part of this study is highly appreciated. This questionnaire is intended purely for academic purposes. The findings of the study will be highly treated with confidentiality. Please, kindly answer those questions in either the space provided or tick the right choice. Thank you for your cooperation.

SECTION A: DEMOGRAPHIC INFORMATION

(Tick as Appropriate)

1. **Age**

   Below 20 yrs. [ ] 20yrs-24yrs [ ] 25yrs-29yrs [ ] 30yrs and above [ ]

2. **Gender**

   Male [ ] Female [ ]

3. **Marital status**

   Single [ ] Married [ ] Divorce [ ]

4. **Highest Level of education**

   O" level [ ] A" level [ ] Diploma, Degree [ ]

   Others (specify)................................

5. **Nature of your business**

   Retail [ ] Wholesale [ ] manufacturing [ ] others [ ]

SECTION B: Effects of liquidity management on the financial performance of SMEs

Instructions: Use of likert scale of 1-5 to rank the following alternatives were 1= strongly disagree (SD), 2= Disagree (D), 3= Not sure (NS), 4= Agree (A), 5= Strongly Agree (SA).

	Rankings				
Statements	**1**	**2**	**3**	**4**	**5**
Ensure adequate and accurate financial reporting					
Reduces cash collection delays					
Reduces defaults in payment					
Reduces cost of administration of A/R					
Improves response level					
Enhances working capital flow					
Ensures provision of debtors information					
Ensures efficient risk management					

SECTION C: Effects of accounts receivables management on the financial performance of SMEs

	Rankings				
Statement	**1**	**2**	**3**	**4**	**5**
Reduces the business indebtedness					
Enhancing the business operational status					
Accounts receivables periods reduces the operating capacity of a business					
Improves the rate of business growth					
Tracing working capital efficiency					
Accounts receivables period enable the firm to determine the level of customers trust					
Lengthy account receivables period reduces tax burdens to					

the business					
Minimizes loss of cash during handling					

SECTION D: Effects of cash disbursements on the financial performance of SMEs

	Rankings				
Statement increases	**1**	**2**	**3**	**4**	**5**
Disbursements for payments cash generation					
It enhances profit generation					
It reduces the loss of money for the business					
It generates the increase in the customer growth through marketing					
It provides avenues for sales increment					
Provides avenues for increasing the performance of the economy					
It translates into effectiveness in the management of profits					

APPENDIX II: RESEARCH BUDGET ESTIMATE

ITEMS	TOTAL COST (UGX)
Stationeries, Printing, and Typing services	100,000
Data Collection, Coding and Entry	60,000
Transport and Communication	100,000
Contingencies	20,000
Binding of Research Report	45,000
TOTAL	**325,000**

APPENDIX III: RESEARCH TIME FRAME

ACTIVITY	PERIOD (IN MONTHS) 2019			
	JUNE	JULY	AUGUST	SEPTEMBER
Submission and Approval of Research Proposal				
Data Collection, analysis, and interpretation				
Evaluation, assessment of research report by Supervisor				
Final Copy Formulation, Binding, Submission, and approval of Report by Supervisor				

ADJUMANI DISTRICT LOCAL GOVERNMENT
OFFICE OF THE CHIEF ADMINISTRATIVE OFFICER
P.O. Box 2, Adjumani

District Chairperson 0787930220
Chief Administrative Officer 0781560782/0754420579
Email: cao.adjumani@gmail.com

IN ANY CORRESPONDENCE ON THIS SUBJECT
PLEASE QUOTE NO: CR/164/01/19

27th June, 2019

THESAME Berry Eruaga 1161-05014-04269
Applicant

Thru: Academic Registrar
Kampala International University
P.O. Box 20000,
KAMPALA, Uganda

RE: FIELDWORK PLACEMENT

I am pleased to inform you that your request to carry out research on **Financial Planning and Financial Performance of Small and Medium Enterprises in Adjumani District,** particularly in **Pakele Sub-county Local Government** has been granted.

Fieldwork placement/carrying out research is a learning forum. Learners are NOT entitled to any monetary benefits for the work they may be assigned.

By copy of this letter, the Senior Assistant Secretary/Sub-county Chief of Pakele Sub-county is required to render you the necessary support.

Welcome to the community of Adjumani District Local Government.

Edema Richard Draciri
FOR: CHIEF ADMINISTRATIVE OFFICER

Copy to: LCIII Chairperson, **Pakele Sub-county**
" Senior Assistant Secretary/Sub-county Chief, **Pakele**

THE REPUBLIC OF UANDA

PAKELE SUB COUNTY LOCAL GOVERNMENT
OFFICE OF THE SUB-COUNTY CHIEF
P.O. BOX 148
ADJUMANI
Tel SAS 0773070743

DATE: 03RD JULY, 2019

To

Small and Medium Enterprises

In Pakele Sub-County Adjumani District

RE: INTRODUCTION LETTER FOR MR. THESAME BERRY ERUAGA 1161-05014-04269

I am writing to introduce the above referenced person who is a student of Kampala International University and he was granted permission to carry out research on **"financial planning and financial performance of small and medium enterprises"** in Adjumani district particularly in Pakele sub-county as a partial requirement for award of his academic papers.

The information he will collect will be used purely for academic purpose and will be treated with utmost confidentiality.

Your generous support towards his academic endeavors shall highly be appreciated

Thank you

For SUB-COUNTY CHIEF
03 JUL 2019
PAKELE SUB-COUNTY
P.O. BOX 148, ADJUMANI

VUCHIRI Bosco

For Sub County Chief/Pakele

Cc: sub-county Chairperson,

Cc. File.