

**WORKING CAPITAL MANAGEMENT AND PROFITABILITY OF SEMBULE
STEEL MILLS LTD, UGANDA**

A Thesis

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Master of Business Administration,

Finance Accounting

By:

**NAKASI ANNET
MBA/17443/111/DU**

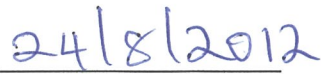
August, 2012

DECLARATION A

"This thesis is my original work and has not been presented for a degree or any other academic award in any university or institution of learning".

A handwritten signature in blue ink, appearing to read 'Nakasi', written over a horizontal line.

Nakasi Annet

A handwritten date '24/8/2012' in blue ink, written over a horizontal line.

Date

DECLARATION B

"I confirm that the work reported in this thesis was carried out by the candidate under my supervision".

A handwritten signature in black ink, consisting of a large loop followed by several horizontal strokes, written over a horizontal line.

Kasozi Geoffrey

24/08/12

Date

APPROVAL SHEET

This thesis entitled "Working Capital Management and Profitability of Selected Manufacturing Firms in Kampala " prepared and submitted by Nakasi Annet in partial fulfilment of the requirement for the degree of Masters of Business Administration (Finance and Accounting) has been examined and approved by the panel on oral examination with grade of PASSED.

Dr. Kelvin Hamunonda 24/1/2012

Name and Sig. of Chairman

[Signature]
Name and Sig. of supervisor

Dr. Manuel O. Simal
Name and Sig. of Panelist

[Signature]
Name and Sig. of panellist

Name and Sig. of Panelist

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ABSTRACT

The study examined the relationship between working capital management and profitability of manufacturing firms and it was based on four specific objectives: (a) to determine the demographic characteristics of the respondents in terms of age, gender, educational qualifications, and years in the present position; (b) to determine the current level of working capital management of the firms; (c) to determine the extent of profitability; and (d) to establish if there is a significant relationship between the levels of working capital management and the extent of profitability of selected manufacturing firms. The study employed a descriptive correlation research design. SAQ were used to collect primary data from 100 out of 134 employees, using simple random sampling. Data analysis was done using SPSS's frequencies and percentages; means and PLCC. Findings revealed that majority of the respondents were male, falling in the age bracket of 20 – 30 years, with bachelor's degree, and experience between 2 – 4 years. Also means and standard deviation showed that the level of both working capital management and profitability of the manufacturing firms were satisfactory. PLCC revealed a positive and significant relationship between working capital and profitability in the selected manufacturing firms while regression analysis showed that working capital contribute 49.6% to profitability. Basing on the above findings, the researcher made the following recommendations: (i) Manufacturing firms need to install automatic methods of inventory management and use bin cards to improve their efficiency and effectiveness; (ii) internal control system be strengthened i.e authorization, physical checking, and dispatch of goods should be controlled to ensure proper management of inventory management; (iii) firms should control costs in order to minimize the losses and (iv) firms should keep the price/earnings ratio of the organization high in order to optimise the working capital high.

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LIST ACRONYMS

CIE	: Control by Importance and Exceptional
CVI	: Content Valid Index
WCM	: Working Capital Management
PI	: Profitability
SPSS	: Statistical Package for Social sciences research
ROI	: Return on Investment
ROE	: Return on Equity
PLCC	: Pearson's' Linear Correlation Coefficients
UK	: United Kingdom
USA	: United States of America
JSE	: Johannesburg Stock Exchange
SAQ	: Self Administered Questionnaire
PVA	: Proportional Value Analysis

CHAPTER ONE

THE PROBLEM AND ITS SCOPE

Background of the Study

The efficient management of working capital is very vital for every business' survival. This is premised on the fact that having too much working capital signifies inefficiency, whereas too little working capital signifies that the survival of business is shaky (Padachi, 2006).

Over the years, there has been a big debate on the effect of working capital policy on profitability. Other researchers support companies to have a working capital policy because they believe that proper management of components of working capital can balance cost and benefits of the company and it will reduce the risk of default by raising the level of liquidity (Ali, 2010).

Some research studies have been undertaken on the working capital management practices of large companies, small firms, manufacturing companies, telecommunication companies, in UK, USA, and Belgium using either a survey based approach (Burns and Walker, 1991; Peal and Wilson, 1996) to identify the factors for firms to adopt good working capital management policies or econometric analysis to investigate the association between working capital management and profitability (Shin and Soenan, 1998; Anand, 2001; Deloef, 2003). In Sweden research was carried out with the purpose of exploring relationship between working capital policy and profitability of firms.

Some other researches were conducted especially in developing countries like Pakistan, India, and Taiwan. Ghosh and Maji, (2003) made an attempt to examine the efficiency of working capital management of the Indian cement companies during 1992 – 1993 to 2001 – 2002. For measuring the efficiency of

working capital management, performance, utilization, and overall efficiency, indices were calculated instead of using some common working capital management ratios, setting industry norms as target-efficiency levels of efficiency by an individual firm during the period of study. Findings of the study indicated that the Indian Cement Industry as a whole did not perform remarkably well during this period.

Smith and Begemann (1997) published an article on working capital management in Africa, specifically in South Africa where they emphasized that those who promoted working capital theory shared that profitability and liquidity comprised the salient goals of working capital management. The problem arose because the maximization of the firm's returns could seriously threaten its liquidity, and the pursuit of liquidity had a tendency to dilute returns. This article evaluated the association between traditional and alternative working capital measures and return on investment (ROI), specifically in industrial firms listed on the Johannesburg Stock Exchange (JSE). Also, research study was conducted exclusively on the impact of working capital management on corporate profitability of small manufacturing companies in Mauritius (Padachi, 2006).

It is within this context that this study will examine whether working capital management has an influence on the profitability and subsequently better performance of manufacturing firms.

Problem Statement

Firms endeavor to optimize the working capital; cash, inventory, debtors, creditors for efficient results thus maximizing returns. Managing working capital leads to full utilization of short and long-term assets and henceforth contributes to profitability of the firm (Sweetman, 2000).

Despite all the efforts to optimize resources, the profitability levels in manufacturing firms seem to be low and the default rates are high in terms of the debtors. It is upon this background that the study sought to find if there is a relationship between working capital and profitability in organizations.

Purpose of the Study

The study a) to test the hypothesis of no significant relationship between working capital management and profitability of manufacturing firms; b) validate existing information related to the theory to which the study is based; c) generate new information based on the findings of the study; and d) bridged the gaps identified in the previous studies.

Research Objectives

General objective

To examine the relationship between working capital management and profitability of manufacturing firms

Specific Objectives

1. To determine the demographic characteristics of the respondents in terms of age, gender, educational qualifications, and years in the present position.
2. To determine the current level of working capital management of the firms.
3. To determine the extent of profitability.
4. To establish if there is a significant relationship between the levels of working capital management and profitability of selected manufacturing firms.

Research Questions

1. What are the demographic characteristics of the respondents in terms of age, gender, educational qualifications, and years in the present

position?

2. What is the current level of working capital management of the firms selected?
3. What is the extent of working of profitability?
4. Is there a significant relationship between the level of working capital management and extent of profitability of manufacturing firms?

Null Hypotheses

There is no significant relationship between the level of working capital management and extent of profitability of manufacturing firms.

Scope

Geographical Scope

The study was conducted in selected manufacturing firms in Kampala.

Content Scope

The study intended to examine the levels of working capital management and profitability and to correlate if there is a significant relationship. It was conducted on officials in some selected manufacturing firms in Kampala, Uganda in 2012.

Time Scope

The study observed manufacturing firms since 2007 to 2011 and it was conducted from January 2012 to April 2012.

Theoretical Scope

This study was based on Prescriptive theory, advanced by McInnes, Angelique Nadia Sweetman in 2000 at Lincoln University, which contends that if working capital is managed according to prescriptive theory then it will be expected that businesses would invest in working capital, finance working capital, monitor factors that influence working capital, manage cash, accounts receivable, inventory, account payable, the cash conversion cycle, and measure and analyze performance to ensure that the long term assets are utilized effectively and efficiently.

Significance of the Study

The study can help government and policy makers to use this study as a guide to develop policies on how government entities and parastatals should come up with clear procedures of managing cash management especially in this period of the year where the government is advancing loans to youth development fund.

The study can help Sembule Steel Mills Ltd, to properly manage their working capital management leads to better maximization of returns hence increased profitability levels. Working capital management is the main stay of business firms, more especially manufacturing industries.

The study is also anticipated to help future researcher as source of references since it will be availed in libraries and other public places for literature review

The researcher will benefit in this study as it is a requirement for fulfillment for the award of Master of Business Administration.

Operational Definitions of Key Terms

For the purpose of this study, the following terms are defined as they are used in the study:

Working capital management is a financial metric which represents operating liquidity available to a business, organization or other entity, including governmental entity.

Profitability is meant to management's performance which is measured in terms of accounting profit.

Cash management is referred to the efficient management of cash in business in order to put the cash to work more quickly and to keep the cash in applications that produce income, such as the use of lock boxes for payment.

Debtors' management A unique strategy developed to help a debtor manage their debt. This strategy is usually developed and implemented by an

outside company on behalf of the debtors, usually because debtor is unable to sufficiently manage their debt due to lack of knowledge or because they are overwhelmed by the amount of debt.

Inventory management This is referred to the activities employed in maintaining the optimum number or amount of each inventory item.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

Concepts, Ideas, Opinions from Authors/ Experts

Working Capital Management; Working capital is that part of a firm's capital which is required to hold current assets of the firm. Examples of current assets are raw material, semi-finished goods, finished goods, debtors, bills receivable, prepaid expenses, cash at bank and cash in hand. The firm requires cash to pay various expenses like wages, salaries, rent; advertising etc. Current assets have a short life span. They are swiftly transformed into other current-asset forms and ultimately in cash. In other words, funds invested in current assets are constantly converted into cash. This cash again flows out in exchange for other current assets. There is an operating cycle. Cash is used to buy raw material. Various manufacturing expenses are incurred to convert raw material into semi-finished goods and then into finished goods. On sale of finished goods on credit, trade debtors or bills receivable result. On receipt of payment, trade debtors and bills receivable are converted into cash and a cycle of working capital is completed. In case of cash sales, finished goods will directly be converted into cash. The cash is once again used to buy raw material to start another cycle. (Shukla, Grewal, & Gupta, 2007). As current assets keep circulating or revolving fast, working capital is also called circulating capital, revolving capital or short-term capital.

There are two concepts of working capital namely, gross working capital and net working capital management. Gross working capital is referred to total of all the current assets of the firm. Current assets are the assets which are meant to be converted into cash within a year or an operating cycle. Stock of raw materials, stock of semi-finished goods, stock of finished goods, trade debtors, bills receivable, prepaid expenses, cash at bank and cash in hand are examples of current assets. Net working capital arises when to finance current assets, in which long-term funds as well as short term funds are used. Short-

term funds are provided by current liabilities i.e. claims of outsiders which are expected to mature for payment within a year. Trade creditors, bills payable and outstanding expenses are examples of current liabilities. Net working capital refers to the excess of current assets over current liabilities.

Another aspect of the gross working capital points to the need of arranging funds to finance current assets. Whenever a need for working capital funds arises due to the increasing level of business activity or for any other reason, financing arrangement should be made quickly. Similarly, if suddenly, some surplus funds arise they should not be allowed to remain idle, but should be invested in short-term securities (Karthikeyan, 2011). The management of working capital is defined as the "management of current assets and current liabilities, and financing these current assets." Working capital management is important for creating value for shareholders. Management of working capital management was found to have a significant impact on both profitability and liquidity in studies in different countries.

Long, *et al*; (1984) developed a model of trade credit in which asymmetric information leads good firms to extend trade credit so that buyers can verify product quality before payment. Their sample contained all industrial (SIC 2000 through 3999) firms with data available from COMPUSTAT for the three-year period ending in 1987 and used regression analysis. They defined trade credit policy as the average time receivables are outstanding and measured this variable by computing each firm's days of sales outstanding, as accounts receivable per dollar of daily sales. To reduce variability, they averaged DSO and all other measures over a three year period. They found evidence consistent with the model. The findings suggest that producers may increase the implicit cost of extending trade credit by financing their receivables through payables and short-term borrowing.



Shin and Soenen researched the relationship between working capital management and value creation for shareholders. The standard measure for working capital management is the cash conversion cycle. Cash conversion period reflects the time span between disbursement and collection of cash. It is measured by estimating the inventory conversion period and the receivable conversion period, less the payables conversion period. In their study, Shin and Soenen used net-trade cycle as a measure of working capital management. Net-trade cycle is basically equal to the cash conversion cycle where all three components are expressed as a percentage of sales. Net-trade cycle may be a proxy for additional working capital needs as a function of the projected sales growth. They examined this relationship by using correlation and regression analysis, by industry, and working capital intensity. Using a COMPUSTAT sample of 58,985 firm years covering the period 1975 – 1994, they found a strong negative relationship between the length of the firm's net-trade cycle and its profitability. Based on the findings, they suggest that one possible way to create shareholder value is to reduce firm's net-trade cycle .

To test the relationship between working capital management and corporate profitability, Deloof used a sample of 1,009 large Belgian non-financial firms for a period of 1992 – 1996. By using correlation and regression tests, he found significant negative relationship between gross operating income and the number of days accounts receivable, inventories, and accounts payable of Belgian firms. Based on the study results, he suggests that managers can increase corporate profitability by reducing the number of day's accounts receivable and inventories.

Ghosh and Maji attempted to examine the efficiency of working capital management of Indian cement companies during 1992 – 93 to 2001 – 2002. They calculated three index values - performance index, utilization index, and overall efficiency index to measure the efficiency of working capital

management, instead of using some common working capital management ratios. By using regression analysis and industry norms as a target efficiency level of individual firms, Ghosh and Maji tested the speed of achieving that target level of efficiency by individual firms during the period of study and found that some of the sample firms successfully improved efficiency during these years.

Eljelly empirically examined the relationship between profitability and liquidity, as measured by current ratio and cash gap (cash conversion cycle) on a sample of 929 joint stock companies in Saudi Arabia. Using correlation and regression analysis, Eljelly found significant negative relationship between the firm's profitability and its liquidity level, as measured by current ratio. This relationship is more pronounced for firms with high current ratios and long cash conversion cycles. At the industry level, however, he found that the cash conversion cycle or the cash gap is of more importance as a measure of liquidity than current ratio that affects profitability. The firm size variable was also found to have significant effect on profitability at the industry level.

Lazaridis and Tryfonidis conducted a cross sectional study by using a sample of 131 firms listed on the Athens Stock Exchange for the period of 2001 - 2004 and found statistically significant relationship between profitability, measured through gross operating profit, and the cash conversion cycle and its components (accounts receivables, accounts payables, and inventory). Based on the results analysis of annual data by using correlation and regression tests, they suggest that managers can create profits for their companies by correctly handling the cash conversion cycle and by keeping each component of the conversion cycle (accounts receivables, accounts payables, and inventory) at an optimal level.



Raheman and Nasr studied the effect of different variables of working capital management including average collection period, inventory turnover in days, average payment period, cash conversion cycle, and current ratio on the net operating profitability of Pakistani firms. They selected a sample of 94 Pakistani firms listed on Karachi Stock Exchange for a period of six years from 1999 - 2004 and found a strong negative relationship between variables of working capital management and profitability of the firm. They found that as the cash conversion cycle increases, it leads to decreasing profitability of the firm and managers can create a positive value for the shareholders by reducing the cash conversion cycle to a possible minimum level. Garcia-Teruel and Martinez-Solano collected a panel of 8,872 small to medium-sized enterprises (SMEs) from Spain covering the period 1996 - 2002. They tested the effects of working capital management on SME profitability using the panel data methodology. The results, which are robust to the presence of endogeneity, demonstrated that managers could create value by reducing their inventories and the number of days for which their accounts are outstanding. Moreover, shortening the cash conversion cycle also improves the firm's profitability.

Falope and Ajilore used a sample of 50 Nigerian quoted non-financial firms for the period 1996 -2005. Their study utilized panel data econometrics in a pooled regression, where time-series and cross-sectional observations were combined and estimated. They found a significant negative relationship between net operating profitability and the average collection period, inventory turnover in days, average payment period and cash conversion cycle for a sample of fifty Nigerian firms listed on the Nigerian Stock Exchange. Furthermore, they found no significant variations in the effects of working capital management between large and small firms.

Mathuva examined the influence of working capital management components on corporate profitability by using a sample of 30 firms listed on the Nairobi

Stock Exchange for the periods 1993 to 2008. He used Pearson and Spearman's correlations, the pooled ordinary least square (OLS), and the fixed effects regression models to conduct data analysis. The key findings of his study were that there exists a highly significant negative relationship between the time it takes for firms to collect cash from their customers (accounts collection period) and profitability, there exists a highly significant positive relationship between the period taken to convert inventories into sales (the inventory conversion period) and profitability, and there exists a highly significant positive relationship between the time it takes the firm to pay its creditors (average payment period) and profitability.

In summary, the literature review indicates that working capital management impacts on the profitability of the firm but there still is ambiguity regarding the appropriate variables that might serve as proxies for working capital management. The present study investigates the relationship between a set of such variables and the profitability of a sample of American manufacturing firms. Many researchers investigated the relationship between working capital and profitability; however the study will show some of these articles which are similar to my study.

Shin and Sonen, (1998) investigated the relationship between net trade cycle (working capital) and the profitability on the sample that including 58,985 firms for 1975 to 1994. They found that a strong negative association exists between the firm's net trade cycle and its profitability. The explanation of this association, reducing the firm net trade cycle to a reasonable is one way to create shareholder value and should be a major concern for financial executives.

Deloof, (2003) found a significant negative relation between gross operating income and the number of days accounts receivable, inventories and accounts

payable of Belgian firms. These results suggested that managers can create value for their shareholders by reducing the number of days accounts receivable and inventories to a reasonable minimum. The negative relation between accounts payable and profitability inconsistent with the view that less profitable firms wait longer to pay their bills.

Eljelly, (2004) identified the relation between profitability and liquidity who was examined, as measured by current ratio and cash gap (cash conversion cycle) on a sample of joint stock firms in Saudi Arabia. The study found that the cash conversion cycle was of more importance as a measure of liquidity than the current ratio that affects profitability. The size variable was found to have significant effect on profitability at the industry level. The results were stable and had important implications for liquidity management in various Saudi firms. First, it was clear that there was a negative relationship between profitability and liquidity indicators such as current ratio and cash gap in the Saudi sample examined. Second, the study also revealed that there was great variation among industries with respect to the significant measure of liquidity.

Raheman and Nasr (2006) discussed working capital management and its effect on liquidity as well on profitability of the firm. They have studied the effect of different variables of working capital management including the Average collection period, Inventory turnover in days, Average payment period, Cash conversion cycle and Current ratio on the net operating profitability of Pakistani firms.

Debt ratio, size of the firm (measured in terms of natural logarithm of sales) and financial assets to total assets ratio have been used as control variables. The results found that there is a strong negative relationship between variables of the working capital management and profitability of the firm. It means that the cash conversion cycle increases it will lead to decreasing profitability of the

firm, and managers can create a positive value for the shareholders by reducing the cash conversion cycle to a possible minimum level. They found that there is a significant negative relationship between liquidity and profitability. They also found that there is a positive relationship between size of the firm and its profitability. There is also a significant negative relationship between debt used by the firm and profitability.

Lazaridis and Tryfonidis, (2006) investigated the relationship of corporate profitability and working capital management. The purpose of this paper was to establish a relationship that is statistically significant between profitability, the cash conversion cycle and its components for listed firms in the Athens stock exchange. The results of their research showed that there is statistical significance between profitability, measured through gross operating profit, and the cash conversion cycle. Moreover managers can create profits for their firms by handling correctly the cash conversion cycle and keep each different component (accounts receivables, accounts payables, inventory) to an optimum.

Padachi, (2006) examined the trends in working capital management and its impact on firm's performance. The results proved that high investments in inventories and receivables are associated with lower profitability. Further, he showed that inventory days and cash conversion cycle had positive relation with profitability. On the other hand, account receivables days and account payables days correlated negatively with profitability.

Vishnani and Shah, (2007) investigated the impact of working capital management policies on the corporate performance of the Indian consumer electronics industry. They noted that inventory holding period, debtors' collection period and net working capital cycle had negative relationship on the profitability of firms. Whereas, the average payment period had positive

correlation with profitability.

Samiloglu and Demirgünes (2008) analyzed the effect of working capital management on firm profitability in Turkey for period of 1998-2007. Empirical results showed that account receivables period, inventory period and leverage significantly and negatively effect on profitability, while, firm growth significantly and positively. And also they proved that cash conversion cycle, size and fixed financial assets had no statistically significant effect on profitability.

Singh and Pandey, (2008) discussed the impact of working capital management in the profitability of Hindalco Industries Limited. Regression results showed that current ratio, liquid ratio, receivable turnover ratio and working capital to total assets had statically significant impact on profitability.

Ramachandran and Janakiraman (2009) analyzed the relationship between working capital management efficiency and earnings before interest and tax of the paper industry in India. The study revealed that cash conversion cycle and inventory days had negative correlation with earnings before interest and tax. While accounts payable days and accounts receivable days related positively with earnings before interest and tax.

Dong and Su (2010) examined the relationship between profitability, the cash conversion cycle and its component for listed firms in Vietnam stock market for period (2006-2008). They resulted that there is strong negative relationship between cash conversion cycle and the profitability. All previous studies had reached to the same results approximately, which had proved there is the negative relationship between the working capital, debt ratio, current ratio and profitability, and the positive relationship between sizes of the firm with profitability. This study tries to depend on previous studies to provide new

evidence on how working capital can effect on the profitability.

Eljelly, (2004) elucidated that efficient liquidity management involves planning and controlling current assets and current liabilities in such a manner that eliminates the risk of inability to meet due short-term obligations and avoids excessive investment in these assets. The relation between profitability and liquidity was examined, as measured by current ratio and cash gap (cash conversion cycle) on a sample of joint stock companies in Saudi Arabia using correlation and regression analysis. The study found that the cash conversion cycle was of more importance as a measure of liquidity than the current ratio that affects profitability. The size variable was found to have significant effect on profitability at the industry level. The results were stable and had important implications for liquidity management in various Saudi companies. First, it was clear that there was a negative relationship between profitability and liquidity indicators such as current ratio and cash gap in the Saudi sample examined. Second, the study also revealed that there was great variation among industries with respect to the significant measure of liquidity.

Deloof, (2003) discussed that most firms had a large amount of cash invested in working capital. It can therefore be expected that the way in which working capital is managed will have a significant impact on profitability of those firms. Using correlation and regression tests he found a significant negative relationship between gross operating income and the number of days accounts receivable, inventories and accounts payable of Belgian firms. On basis of these results he suggested that managers could create value for their shareholders by reducing the number of days' accounts receivable and inventories to a reasonable minimum. The negative relationship between accounts payable and profitability is consistent with the view that less profitable firms wait longer to pay their bills.

Ghosh and Maji, (2003) in this paper made an attempt to examine the efficiency of working capital management of the Indian cement companies during 1992 – 1993 to 2001 – 2002. For measuring the efficiency of working capital management, performance, utilization, and overall efficiency indices were calculated instead of using some common working capital management ratios. Setting industry norms as target-efficiency levels of the individual firms, this paper also tested the speed of achieving that target level of efficiency by an individual firm during the period of study. Findings of the study indicated that the Indian Cement Industry as a whole did not perform remarkably well during this period.

Shin and Soenen, (1998) highlighted that efficient Working Capital Management was very important for creating value for the shareholders. The way working capital was managed had a significant impact on both profitability and liquidity. The relationship between the length of Net Trading Cycle, corporate profitability and risk adjusted stock return was examined using correlation and regression analysis, by industry and capital intensity. They found a strong negative relationship between lengths of the firm's net trading Cycle and its profitability. In addition, shorter net trade cycles were associated with higher risk adjusted stock returns.

Smith and Begemann, (1997) emphasized that those who promoted working capital theory shared that profitability and liquidity comprised the salient goals of working capital management. The problem arose because the maximization of the firm's returns could seriously threaten its liquidity, and the pursuit of liquidity had a tendency to dilute returns. This article evaluated the association between traditional and alternative working capital measures and return on investment (ROI), specifically in industrial firms listed on the Johannesburg Stock Exchange (JSE). The problem under investigation was to establish whether the more recently developed alternative working capital concepts

showed improved association with return on investment to that of traditional working capital ratios or not. Results indicated that there were no significant differences amongst the years with respect to the independent variables. The results of their stepwise regression corroborated that total current liabilities divided by funds flow accounted for most of the variability in Return on Investment (ROI). The statistical test results showed that a traditional working capital leverage ratio, current liabilities divided by funds flow, displayed the greatest associations with return on investment. Well known liquidity concepts such as the current and quick ratios registered insignificant associations whilst only one of the newer working capital concepts, the comprehensive liquidity index, indicated significant associations with return on investment.

All the above studies provide us a solid base and give us idea regarding working capital management and its components. They also give us the results and conclusions of those researches already conducted on the same area for different countries and environment from different aspects. Working capital management consists of three major components namely: cash management, receivables management, and inventory management.

Cash Management

Cash is the most important current asset for the operations of the business. Cash is the basic input needed to keep the business running on a continuous basis; it is also the ultimate output expected to be realized by selling the service or product manufactured by the firm. The firm should keep sufficient cash, neither more nor less. Cash shortage will disrupt the firm's manufacturing operations, while excessive cash will simply remain idle without contributing anything towards the firm's profitability. Thus, a major function of the financial manager is to maintain a sound cash position.

Cash is the money which a firm can disburse immediately without any restriction. The term cash includes coins, currency and cheques held by the

firm, and balances in its bank accounts. Sometimes near-cash items, such as marketable securities or bank deposits, are also included in cash. The basic characteristic of near-cash assets is that they can readily be converted into cash. Generally, when a firm has excess cash, it invests it in marketable securities. This kind of investment contributes some profit to the firm (Mathur, 2010).

"One of the first things that successful businesses did during the recession was to look at their borrowing and renegotiate the terms to something that, while it may be over more years and ultimately more expensive, has lower payments now. Yes, adding more debt is probably a bad idea for most businesses, but if refinancing existing debt allows you to stay in business, there's a definite upside to doing it." Other businesses negotiated longer periods for making payments to suppliers, while at the same time requiring faster payments from customers."

Another way that recession-surviving businesses management cash flow was to manage how much inventory was being carried at any given time - inventory costs money, and inventory which sits on your stock-room floor for weeks has an opportunity cost which can bankrupt your business (Connor, 2011). "The least desirable expense control is always in human resources, but as orders reduced, many manufacturing businesses laid off staff, instituted freezes or cuts to pay and benefits, reduced investment in hiring and training."

Folks often receive misguided advice concerning cash flow management. Sales volume is important to a successful business, as is the timing of sales and payments. Cash flow is primarily the difference between cash coming into the business and cash going out of the business during a given time period. But every business has a cash cycle. The cash that comes into the business does not always correspond to the same time or same rate as the cash that goes

out. It is practically impossible to iron out all the discrepancies in cash inflows and outflows and do a perfect job of controlling and coordinating the movement of cash in a business. But it is possible to develop an understanding, appreciation and consciousness of cash flow. This is often the first critical step in managing the cash flow of a business (Rob, 1999).

Financial management educators often compare cash in a small business with blood in the human body. Cash is often described as the life-giving fluid that keeps a business going. So, if cash is the blood of a business, cash flow is the circulation of the blood throughout the system. Circulation involves both cash flowing in and out of the business.

However, just because blood circulates through the body does not ensure a good blood pressure. The same is true for cash and a business. Simply generating sales revenue does not ensure that the business is profitable. Therefore, the cash handled by a business must be monitored through proper cash flow management. Many small businesses note that cash flow is a big problem/obstacle to their business success. Lack of available cash can weaken a business and even lead to business failure.

Cash that flows irregularly and unpredictably can be as disastrous as no cash at all. Effective cash flow management addresses both short-term and long-term planning (Holland, 1999).

Managing cash flow is really nothing more than managing information. Cash flow management is critical to all businesses, but is probably most critical for businesses whose trading can be seasonal and unpredictable. Short-term cash flow management strategies rely on record-keeping systems that provide quick and accurate access to revenue and expenditure transactions. Important information for cash flow management can be obtained from a variety of

sources including procedure manuals, bank statements, cash flow forecasts, reports on debt collection and accounts payable. Routine cash management reviews must keep a close eye on debt collection, sales and deliveries, status of invoices, receipt of payments and depositing of payments.

The best cash flow management strategies usually result from systems that are fully understood by the cash flow manager. Sometimes such systems are computerized, while others are manual. Cash flow management does not need to be complex to be effective. It does, however, have to be performed. There is no magical solution to managing cash flow, while a computer and proper software program may expedite, simplify and standardize financial information, the information must be studied and monitored in a way that allows for adjustments to be made in the business' activities.

Receivables management

Company can sell goods on credit or cash. Cash sale is inflow of cash and it is controlled under cash flow analysis. But credit sale creates sundry debtors. Company has to receive money from them. If company starts to sell on return of cash, then it decreases the level of company's sale and profitability. On the other side, if company promotes credit sale, it can increase the risk of bad debts. So, it is required to control and to manage debtors.

It can be argued that revenue generation is the most crucial function of a company. Companies that created exciting raw products and failed to generate significant revenue burned through their cash and ceased operating. Every company expends substandard resources to generate increasing levels of revenue (John, 2005)

However, that revenue must be converted into cash. Cash is the lifeblood of any company. Every dollar of a company's revenue becomes a receivable that must be managed and collected. Therefore, the staff and process that manage your receivables should: Manage 100% of your company's revenue, Serve as a

service touch point for virtually all our customers (only sales and customer service speak mere with your customers), Can incur or save millions of dollars of bad debt and interest, and expense, Can injure or enhance customer service and satisfaction leading to increases or decreases in revenue.

Management of the receivables is demanding task. The vast majority of companies expect that over 99.9% of all billing will be collected. Collecting ninety five percent of revenue is not good enough. Companies will tolerate bad expenses of some but not much more. Which other departments are expected to perform at 99% plus percent effectiveness.

It is generally expected that a high percentage of invoices will be paid on time and over 90% within 30 days of the due date. Management expects that the asset will be managed to promote sales and that all customers will be served promptly, courteously, and professionally. Astoundingly, most firms also expect this all to be accomplished for a cost equal to about two to three tenths of a percent of revenue.

Inventory Management

Inventory for manufacturing firm, managing inventory is vital. Inventory may consist of raw materials, work in process, and finished goods. The raw materials are the components and parts that are to be processed into a final product. Work in process consists of goods under production. Finished goods are the completed units awaiting sale to customers. Each category will require special consideration and control. Failure to properly manage any category of inventory can be disastrous to a business. Overstocking raw materials or overproduction of finished goods will increase costs and obsolescence. Conversely, out-of-stock situations for raw materials will silence the production line at potentially great cost. Failure to have finished goods on hand might result in lost sales and customers (Larry and Christopher, 2009).

A firm needs an inventory control system to effectively manage its inventory. There are several inventory control systems in vogue in practice. They range from simple systems to very complicated systems. The nature of business and the size dictate the choice of an inventory control system. For example, a small may operate a two-bin system. Under this system, the company maintains two bins. Once inventory in one bin is used, an order is placed, and meanwhile the firm uses inventory in the second bin. For a large departmental store that sells hundreds of items, this system is quite unsatisfactory. The departmental store will have to maintain a self-operating, automatic computer system for tracking the inventory position of various items and placing order (Pandey 2007). Below, there will be some focus on some inventory control systems:

- 1. ABC Inventory Control system.** Large numbers of firms have to maintain several types of inventories. It is not desirable to keep the same degree of control on all the items. The firm should pay maximum attention to those items whose value is the highest. The firm should, therefore, classify inventories to identify which items should receive the most effort in controlling. The firm should be *selective* in its approach to control investment in various types of inventories. This analytical approach is called the **ABC analysis** and tends to measure the significance of each item of inventories in terms of its value. The high-value items are classified as "A items" and would be under the tightest control. "C items" represent relatively least value and would be under simple control. "B items" fall in between these two categories and require reasonable attention of management. The ABC analysis concentrates on important items and is also known as control by importance and exception (CIE). As the items are classified in the importance of their relative value, this approach is also known as **proportional value analysis** (PVA).

Profitability of Firms

Performance in business can be accessed from the perspective of profitability. The definition of profitability basically tells us is the result obtained after carrying out any production process, this being positive when the company earns money on the transaction, or negative when the transaction is generating losses of money.

Can you think of the definition of profitability – return definition as the ability of an element to generate profits, i.e. a product or business is profitable if it generates far more revenue than expenses, while maintaining a positive balance.

Now if we want to clarify a little more definition of profitability – return definition, we can say that profitability is basically an index that measures the relationship between earnings or profits and the investment made to obtain such benefits.

Obviously, the definition of profitability in this measure will indicate whether a particular item or product is generating profits or losses, then help develop strategies to be implemented to exploit this valuable information.

However, to this extent the definition of profitability – return definition allows us as a company significantly strengthen our products, allowing us to achieve a very high quality, achieving high customer satisfaction by the client, which simply means great benefits for us (John, 2011).

Always remember that we are not dedicated specifically to generate money, this kind of thinking will eventually give advantages to our competitors, we are dedicated to meeting the needs of our customers, and this will bring us money to boot, so do not hesitate consider this definition of profitability – return

definition in each of their products and services and determine whether it is worthwhile to continue betting. In accounting, profit can be considered to be the difference between the purchase price and the costs of bringing to market whatever it is that is accounted as an enterprise (whether by harvest, extraction, manufacture, or purchase) in terms of the component costs of delivered goods and/or services and any operating or other expenses (Pyle, William, and Kermit, 1981).

Theoretical Perspective

The Prescriptive Theory, advanced by McInnes, Angelique Nadia Sweetman in 2000 at Lincoln University, contends that if working capital is managed according to prescriptive theory then it will be expected that businesses would invest in working capital, finance working capital, monitor factors that influence working capital, manage cash, accounts receivable, inventory, account payable, the cash conversion cycle, and measure and analyze performance to ensure that the long term assets are utilized effectively and efficiently. Theory and evidence from New Zealand listed limited liability companies, as a guide for the study. This theory of working capital management contends that if working capital is managed according to prescriptive theory then it would be expected that business would invest in working capital, finance working capital, monitor factors that influence working capital, manage cash, accounts receivable, inventory, accounts payable, the cash conversion cycle (aggregative approach), and measure and analyze performance to ensure that the long term (fixed) assets are utilized effectively and efficiently.

However given the theory of working capital management, there may be room for improvement regarding the strategies, tactics and techniques used to manage these components. Furthermore, the working capital management is also strategic as it impacts on the liquidity, solvency/bankruptcy, efficiency, profitability and shareholder wealth maximization of the business.

Related Studies

Working capital management has great influence on profitability, i.e., if the management takes good care of current assets in terms of their investment as well as finance and current liabilities, the firm surely will realize substantial profit. More exclusively, this means adequate investment in current assets which rules out excessive investment on one hand, and inadequate investment. Likewise, whenever financing is needed cash must be available to finance in current assets.

Nevertheless, if the management does well in that case, it also ought to care about the short term creditors and pay them when their debt is mature.

Firms should have excess of current assets (components of working capital) over current liabilities. The conventional rule is the current assets twice current liabilities. For example, Hindustan Manufacturing Firm has a current ratio of 1.2:1; therefore, it may be interpreted to be insufficiently liquid. This rule is based on that in a worse situation, even if the value of current assets becomes half, the firm will be able to meet its obligation (Pandey, 2007).

Working capital turnover ratio express the number of times a unit invested in working capital produces sales as the ratio is good since it shows up efficiency or inefficiency in the use of the whole of working capital and not merely a part of it, viz., that invested in stocks-it is the whole of the working capital that leads to sales (Shukla, Grewal, & Gupta, 2006).

No matter, how profitable a business is unless it is adequately liquid it may fail. A business should be adequately liquid; it is possible for it to have too high current ratio. If too many resources are being held as current asset, it would make these two ratios appear healthy, but those resources could have been used more profitably. You don't get any interest on inventory. Too high a balance in a current account at the bank also means that resources are being

wasted (Frank Wood & Alan Sangster, 2000).

Working capital management is a very important component of corporate finance because it directly affects the liquidity and profitability of the company. It deals with current assets and current liabilities (Abdul Raheman and Mohamed, 2007).

However firms with too few current assets may incur shortages and difficulties in maintaining smooth operations (Horn and Wachowiz, 2000). Efficient working capital management involves planning and controlling current assets and current liabilities in a manner that eliminates the risk of inability investment in these assets on the other hand Eljelly (2004). Management is a very sensitive area in the field of financial management Joshi (1994). It involves the decision of the amount and composition of current assets and the financing of these assets. Current assets include all those assets that in the normal course of business return to the form of cash within a short period of time, ordinarily within a year and such temporary investment as may be readily converted into cash upon need. The working capital management of a firm in part affects its profitability.

The ultimate objective of any firm is to maximize the profit. But, preserving liquidity of the firm is an important objective too. The problem is that increasing profits at the cost of liquidity can bring serious problems to the firm. Therefore, there must be a tradeoff between these two objectives of the firms. One objective should not be at cost of the other because both have their importance. If we do not care about profit, we cannot survive for a longer period. On the other hand, if we do not care about liquidity, we may face the problem of insolvency or bankruptcy. For these reasons working capital management should be given proper consideration and will ultimately affect the profitability of the firm.

Firms may have an optimal level of working capital that maximizes their value. Large inventory and a generous trade credit policy may lead to high sales. Larger inventory reduces the risk of a stock-out. Trade credit may stimulate sales because it allows customers to assess product quality before paying (Long *et al*, 1984), and Deloof and Jegers, (1996). Another component of working capital is accounts payable. Delaying payments to suppliers allows a firm to assess the quality of bought products, and can be an inexpensive and flexible source of financing for the firm. On the other hand, late payment of invoices can be very costly if the firm is offered a discount for early payment.

A popular measure of Working Capital Management is the cash conversion cycle, i.e. the time lag between the expenditure for the purchases of raw materials and the collection of sales of finished goods. The longer this time lag, the larger the investment in working capital (Deloof, 2003). A longer cash conversion cycle might increase profitability because it leads to higher sales. However, corporate profitability might also decrease with the cash conversion cycle, if the costs of higher investment in working capital rise faster than the benefits of holding more inventories and/or granting more trade credit to customers.

CHAPTER THREE

METHODOLOGY

Research Design

The study employed a descriptive correlation design. Descriptive design was used because the study was non-experimental researches that described the characteristics of a particular individual, or of a group. It was correlation because it measured the relationship between variables and tested the hypothesis and developed generalizations and used theories that had universal validity.

Research Population

The target population comprised of 134 respondents these were, operational staff and managerial staff of Sembule Steel Mills Ltd. The managerial staffs were involved because it was the planning body of the organizations and the operational staff being the implementers. Working capital management policies are basically established by the managerial body and generally utilized by the operational staff.

Table 1
Category of Respondents

Total Target Population		Sample size	
Operational Staff	Managers	Operational Staff	Managers
46	15	35	15
58	15	35	15
104	30	70	30
134		100	

Source: Staff Payroll 2012

Sample Size

The sample size was determined using Krejcie and Morgan (1970) tables (attached in the appendix). A total sample of 100 was selected out of the total population of 134 staff members. The sample size of 100 was derived by using

table 1 attached in the appendix.

Sampling Procedure

Using simple random sampling, staff members who were ready to provide information were selected. Simple random sampling technique was applied because each individual in the population were given equal chance of being selected.

Research Instruments

The research tool that was utilized in this study includes the following: (1) *closed questionnaires were used* to gather data on the respondents' demographic characteristics (gender, age, qualifications, and number of years working experience); (2) determine the levels of working capital management. These consist of options referring to *cash* management (10 items), receivables management (13 items) and inventory management (14 items) in terms of indicators management; (3) the extent of profitability. The response modes and scoring are as follows: strongly agree (4); agree (3); disagree (2); strongly disagree (1).

Validity of the Instruments

Content validity Index was ensured by subjecting the researcher devised questionnaires on profitability of firms to judgment by the content experts (who estimated the validity on the basis of their experience) such as managers (1), sales officers (2) and Accountants (3) Auditors (4) Supervisors. The validity and reliability of the research instruments was derived at by using content validity index (CVI) = 0.98. (*See appendix iv*)

The test-retest technique was used to determine the reliability (accuracy) of the researcher devised instruments to 3 qualified respondents, from organizations located in Kampala. These respondents were not included in the actual study. In this test-retest technique, the questionnaires were administered twice to the same subjects. If the test is reliable and the trait

being measured is stable, the results were to be consistent and essentially the same in both times.

Data Gathering Procedures

Before the administration of the questionnaires

1. An introduction letter was obtained from the College of Higher degrees and Research for the researcher to solicit approval to conduct the study from respective managers of medium-sized organizations.
2. When approved, the researcher secured a list of the qualified respondents from the selected manufacturing firms in charge and selected through simple random sampling from this list to arrive at the minimum sample size.
3. The respondents were explained to about the study and were requested to sign the Informed Consent Form (Appendix 1).
4. Reproduce more than enough questionnaires for distribution.
5. Select research assistants who would assist in the data collection; brief and orient them in order to be consistent in administering the questionnaires.

During the administration of the questionnaires

1. The respondents were requested to answer completely and not to leave any part of the questionnaires unanswered.
2. The researcher and assistants were emphasized retrieval of the questionnaires within five days from the date of distribution.
3. On retrieval, all returned questionnaires were checked if all were answered.

After the administration of the questionnaires

The data gathered was collated, encoded into the computer and statistically treated using the Statistical Package for Social Sciences (SPSS).

Data Analysis

The frequency and percentage distribution were used to determine the

demographic characteristics of the respondents.

The mean and standard deviations were applied for the levels of working capital management, and managerial performance. An item analysis is to illustrate the strengths and weaknesses based on the indicators in terms of mean and rank. From these strengths and weaknesses, the recommendations were derived.

The following mean range was used to arrive at the mean of the individual indicators and interpretation:

Mean Range	Response Mode	Interpretation
3.26-4.00	Strongly agree	Very satisfactory
2.51-3.25	Agree	Satisfactory
1.76-2.50	Disagree	Fairly satisfactory
1.00-1.75	Strongly disagree	Unsatisfactory

Ethical Considerations

To ensure confidentiality of the information provided by the respondents and to ascertain the practice of ethics in this study, the following activities were implemented by the researcher:

1. Sought permission to adopt the standardized questionnaire through a written communication to the author.
2. The respondents and firms were coded instead of reflecting the names.
3. Solicited permission through a written request to the concerned officials of the selected firms in the study.
4. Requested the respondents to sign the Informed Consent Form (Appendix2)
5. Acknowledged the authors quoted in this study and the author of the standardized instrument through citations and referencing.
6. Presented the findings in a generalized manner.

Limitations of the Study

In view of the following threats to validity, the researcher claimed an allowable 5% margin of error are also indicated in order to minimize if not to eradicate the threats to the validity of the findings of this study.

1. *Extraneous variables* which were beyond the researcher's control such as respondents' honesty, personal biases and uncontrolled setting of the study.
2. *Instrumentation*: The research instruments on profitability are not standardized. Therefore a validity and reliability test were done to produce a credible measurement of the research variables.
3. *Testing*: The use of research assistants can bring about inconsistency in the administration of the questionnaires in terms of time of administration, understanding of the items in the questionnaires and explanations given to the respondents. To minimize this threat, the research assistants were oriented and briefed on the procedures to be done in data collection.
4. *Attrition/Mortality*: Not all questionnaires were returned completely answered nor even retrieved back due to circumstances on the part of the respondents such as travels sickness, hospitalization and refusal/withdrawal to participate. In anticipation to this, the researcher reserved more respondents by exceeding the minimum sample size. The respondents were reminded not to leave any item in the questionnaires unanswered and were closely followed up as to the date of retrieval.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF DATA

Respondents' Demographic Characteristics

Respondents in this study were described according to age, gender, working experience, and level of education. In each case, respondents were asked through a closed ended questionnaire, to provide their respective profile information, to enable the researcher analyse them well, frequencies and percentages have been used.

Table 2

Demographic Characteristics of Respondents

Category of Respondents		Frequency	Percent
Age	20 – 30 years	72	72
	30 – 40 years	28	28
	Total	100	100
Gender	Male	58	58
	Female	42	42
	Total	100	100
Education	Certificate	21	21
	Diploma	33	33
	Degree	43	43
	Masters	3	3
	Total	100	100
Experience	Below 1 year	16	16
	2-4 years	54	54
	6-8 years	30	30
	Total	100	100

Source: Primary data 2012

Table reveals that respondents between the age bracket of 20 – 30 years contributed the biggest percentage among all groups with 65 (72%), followed by those of 30 – 40 years with a slightly lower percentage of 28%. Based on the above results one may conclude that at least all the respondents were above 18 years of age. This shows that all respondents are grown ups and

therefore the information they give is highly reliable as regards the working capital management and profitability of business organizations.

In regard to gender distribution, the study revealed that majority of the respondents was male 58% and female were only 42%. This shows some form of gender balance. It forms an important part of the research in that demographic statistics are still the most commonly used in determining the level of working capital management and profitability.

Concerning education, most of the respondents were bachelor holders in different fields with 43%, these were followed by those with diploma with 33%. At sembule, 21% of the respondents were discovered to be having certificates. Only 3% of the respondents were having masters degree and above.

From the study it was discovered that most of the respondents (54%) had working experience of 2 – 4 years followed by those between 6 – 8 years with 30%. Those below 1 year were 16%. This shows that the information was gathered from people who had worked for the company for more than one year.

The level of working capital management in Sembule Steel Mills Ltd in Kampala

The independent variable in this study was set to determine the level of working capital management, for which the researcher intended to find out how satisfactorily working capital management and the degree at which they stand when compared to other practices. Working capital management was broken into three aspects (cash Management, inventory management and receivable management). All the three aspects were measured using qualitative questions in the questionnaire, with each question having four points answer range, where 1= strongly disagree; 2 = disagree; 3=agree; and 4 = strongly

agree. Respondents were required to rate how satisfactory each item by showing the degree to which they agree with each. In doing so each respondent was directed to tick a number corresponding to his or her own best opinion, perception and thinking. Their responses were analyzed using SPSS and summarized using means, as indicated in table 3;

Table 3

Level of Working Capital Management in Sembule Steel Mills Ltd in Kampala

Cash management	Mean	Interpretation	Rank
The firm uses a ledger system of accounting	3.36	Very satisfactory	1
Cash deposits are made by someone other than the cashier or book keeper	3.35	Very satisfactory	2
There is a withdraw cosignatory authority process	3.29	Very satisfactory	3
The cashier always investigates any debits made in the cash deposits	3.28	Very satisfactory	4
The firm has established lines of credit	3.23	Satisfactory	5
Cash entries are directly to the General ledger	3.22	Satisfactory	6
The cashier assumes full responsibility of receipts from the time when they are received until when they are deposited	3.18	Satisfactory	7
The cash within the facility is adequately safeguard (physically)	3.16	Satisfactory	8
The firm has safe locations for cash deposits for example safes, banks	3.16	Satisfactory	9
the firm has an accounting department separate from the cashier	3.07	Satisfactory	10
The mode of payment is by cheque	3.06	Satisfactory	11
Financial statements are prepared periodically	2.97	Satisfactory	12
Products are sold on cash basis	2.89	Satisfactory	13
You sell products on cash basis	2.88	Satisfactory	14
There are no procedures for requisition of cash	2.80	Satisfactory	15
The firm has a select group of individuals with the right to handle cash withdraws	2.79	Satisfactory	16
The firm has a threshold cash amount beyond which is banked	2.77	Satisfactory	17
You sell products on credit basis	2.73	Satisfactory	18
There are internal control systems/ measures for the management	2.70	Satisfactory	19
Background checks are always made before new employees who handle cash are employed	2.69	Satisfactory	20
Someone other than the cashier handles petty cash	2.69	Satisfactory	20

The cashiers duties are segregated from the recording of cash receipts or accounts receivables	2.65	Satisfactory	21
Accounting entries are supported by appropriate documents e.g purchase orders	2.56	Satisfactory	22
The accounting system is maintained by a trained book keeper/ accountant	2.56	Satisfactory	22
The firm maintains duplicate copies of receipts books are regularly reviewed by external auditors	2.39	Satisfactory	23
Average Mean	2.94	Satisfactory	
Inventory Management			
Continuous supply of raw materials/finished products	3.98	Very satisfactory	1
The firm adjusts level of buying/producing to level of sales	3.03	Satisfactory	2
Acquires inventory more frequently	2.99	Satisfactory	3
Inspection of goods	2.92	Satisfactory	4
Appropriate steps to safeguard goods	2.90	Satisfactory	5
An in-built system software of placing order	2.87	Satisfactory	6
Adequate provision made for obsolete and inactive items in inventories	2.85	Satisfactory	7
Item classification	2.82	Satisfactory	8
Overinvestment/investment	2.73	Satisfactory	9
Departments compare quantities received against reports	2.71	Satisfactory	10
Multiple unit of measure	2.61	Satisfactory	11
Materials are released from storerooms only on the basis of requisition	2.50	Fairly satisfactory	12
Receiving, recording, and storing responsibilities	1.12	Unsatisfactory	13
Inspection results	1.09	Unsatisfactory	14
Average mean	2.65	Satisfactory	
Receivables Management			
Analyses the variance in collection of receipts and payments	3.15	Satisfactory	1
Credit policy	3.12	Satisfactory	2
Level of bad debts	3.04	Satisfactory	3
Collects receivables faster than stated credit terms	2.96	Satisfactory	4
Level of firm's receivables	2.94	Satisfactory	5
Efforts on studying and sorting customers' credit worthiness	2.90	Satisfactory	6
Revenue, receivable, freight and tax	2.87	Satisfactory	7
Little slow-paying customers	2.85	Satisfactory	8
Collectors actively call customers on delinquent items	2.79	Satisfactory	9
Little returned invoices	2.77	Satisfactory	10
Sending customer statements	2.72	Satisfactory	11
Tracking and recording relationship of customers	2.70	Satisfactory	12
Reception of deposits or prepayments	1.14	Unsatisfactory	13
Average mean	2.77	Satisfactory	
Overall mean	2.79	Satisfactory	

Source: primary data 2012

From the study conducted, it was discovered that the level of working capital management is satisfactory in Sembule limited. This is because almost all the questions had a mean that is above 2.51 which indicates a satisfactory response that the level of working capital management is satisfactory. The researcher also discovered that not all respondents had the same view. For instance from the three constructs of working capital management; cash management was rated highest (average mean=2.94), followed by receivable management (average mean=2.77) and inventory management came last with (average mean=2.65) all giving us an overall mean of 2.79 (satisfactory level) which is an equivalent to agree on our rating scale.

Under cash management three highly rated items at very satisfactory level included; firm uses ledger system of accounting (mean = 3.36), Cash deposits made by someone other than the cashier/book keeper (mean = 3.35) and there is a withdraw cosignatory authority process (mean = 3.29). This ledger system help the firm to monitor and control business transactions and this eliminates chances of defrauding the firm and it makes the tasks of system users like auditors since systems is organised; withdraws having cosignatory authority leads to duo control which makes it difficult for staff to manipulate the system and defraud. On the other hand, items which scored less were; accounting entries are supported by appropriate documents (mean = 2.56), accounting system is maintained by a trained book keeper/ accountant (mean = 2.56) and firm maintains duplicate copies of receipts books are regularly reviewed by external auditors (mean = 2.39); findings revealed that these activities are performed at a satisfactory level though they did not score highly.

Inventory, items that scored highly included; continuous supply of raw materials/finished products (mean = 3.98) at a very satisfactory level, the firm adjusts level of buying/producing to level of sales (mean = 3.03) and acquires inventory more frequently (mean = 2.99) both at satisfactory level. This implies

that there is fine line between replenishment lead time, carrying costs of inventory, asset management, demand forecasting, valuation, visibility, future price forecasting, available physical inventory, space for inventory, quality management replenishment, returns and defective goods. However, respondents rated fairly satisfactory one activity and two at unsatisfactory level; materials are released from storerooms only on the basis of requisition (mean = 2.50), receiving, recording, and storing responsibilities (mean = 1.12) and inspection results (mean = 1.09) respectively. Respondents concurred that these three activities are not carried out well in Sembule.

Receivable management is the last construct where the three highly rated items include; analysis of variance in collection of receipts and payments (mean = 3.15), credit policy (mean = 3.12) and level of bad debts (mean = 3.04). These activities are done using sales ledgers because they record the sales the business has made, the amount of money received for good or services, since the amount of money owed at the end of each month varies. Consequently, this helps the firm to track bad debtors rated satisfactory. On the other hand, Sending customer statements (mean = 2.72), Tracking and recording relationship of customers (mean = 2.70), and reception of deposits or prepayments (mean = 1.14) are the three scored less during the rating. Results showed that it is a rare scenario for customers to effect payments or settle their bills when they are not taking goods there and then. Customers mostly settle their bills when they are picking their goods.

In general, five items/ activities were carried out at a very satisfactory level; four of which were in cash management and one inventory management. On the other hand, four items which were rated unsatisfactory, three belonged to inventory management and one receivable management.

The Level of Profitability in Sembule Steel Mills Ltd in Kampala

The dependent variable in this study was profitability, broken down into fifteen items. All these aspects on profitability were measured using qualitative questions in the questionnaire and each question had an answer scale ranging between one to four; where 1 = strongly disagree; 2 = Disagree; 3 =agree; 4 = strongly agree. Respondents were required to rate the firms profitability on each of the items by ticking the relevant number in the corresponding box in the table. Their responses were analyzed using SPSS and summarized using descriptive statistics showing means as indicated in table 4;

Table 4

The Level of Profitability of Sembule Steel Mills Ltd in Kampala

Profitability	Mean	Interpretation	Rank
The organization's earnings is satisfactory	3.66	Very satisfactory	1
The organization's net profit is adequate in the context to industry level	3.45	Very satisfactory	2
The price/earnings ratio of the organization is high	3.28	Very satisfactory	3
The firm adopts new technology or plans to draw profit	3.23	Satisfactory	4
The management of the firm gives interest to cash flow rather than sales	3.21	Satisfactory	5
The firm's management receives a report of every month's operation	3.04	Satisfactory	6
The recording system of the organization books only those sales which are rock solid	3.04	Satisfactory	6
Short-term cash forecast is done by the management	2.88	Satisfactory	7
Reduces spending in anticipation of losses	2.69	Satisfactory	8
The income statement of the organization shows high figures of gross profit	2.65	Satisfactory	9
The firm has the ability in attracting new investors	2.56	Satisfactory	10
There is a smart spending inside in the firm	2.55	Satisfactory	11
Feedback of the organization from investment in assets is acceptable	2.54	Satisfactory	12
Have a contingency plan for payroll when cash is tight	2.39	Fair Satisfactory	13
The expense ratio of the firm is low	2.36	Fair Satisfactory	14
Average mean	2.95	Satisfactory	

Source: primary data 2012

The dependent variable in this study was profitability, and the findings revealed that the overall level of profitability was satisfactory (mean=2.95) which is an equivalent to agree on the rating scale used in the questionnaire. Despite the overall satisfactory level of profitability, the study revealed that respondents had different perception while rating the profitability of their company and this is revealed by three items being rated very satisfactory, ten rated satisfactory and two rated fair.

Three items were rated very satisfactory and included the organization's earnings is satisfactory (mean=3.66), the organization's net profit is adequate in the context to industry level (mean=3.45) and the price/earnings ratio of the organization is high (mean=3.28). These results are equivalent to strongly agree on the rating scale used on the questionnaire and represent a very satisfactory level of profitability at Sembule. These findings are typical of any organization which is realising profits both in the short and long term. One of the indicators of profitable firm is comparing the firm's earning to the industry and since results revealed that the net profit is adequate in context of industry.

However, the two items ranked fairly satisfactory included; a company have a contingency plan for payroll when cash is tight (mean=2.39) and the expense ratio of the firm being low (mean=2.36). This implies that respondents were saying that Sembule's backup plan is not all that reliable. In case conditions are tight and the organization is experiencing some financial crisis, it becomes little difficult for the management to quickly respond and solicit for funds from other sources to pay staffs salary. Employees have to wait until conditions normalise and get paid. Secondly expense ratio of a firm being low was also rated fairly satisfactory and this implies that the expenditure is not proportional to the income or revenue generated. This could be associated to number of things; one, the organization could be wasting a lot of money on administration and consequently affects the profitability, however, in the actual sense, there is no

organisation which is just on the receiving end, it has to invest in order to earn and hence gain profits, unless in scenarios where management spend on none core ventures of the organization.

Relationship between Working Capital Management and Profitability

The fourth objective in this study was to establish whether there is a significant relationship between the working capital management and profitability in the selected manufacturing firms in Kampala. On this, the researcher stated a null hypothesis that there is no significant relationship between the working capital management and profitability in the selected manufacturing firms in. To achieve this last objective and to test this null hypothesis, the researcher correlated the means for working capital management and those on profitability using the Pearson's Linear Correlation Coefficient, as indicated in table 5

Table 5:
Pearson's Linear Correlation Coefficient for working capital management and profitability of selected manufacturing firms.

Variables Correlated	R- Value	Sig	Interpretation	Decision on Ho
Capital management Vs profitability	.734	.004	Significant relationship	Rejected

Level of significance at 0.05 (Source: primary data 2012)

The results in Table 5 show that working capital management is significantly correlated with profitability in the selected manufacturing firms in Kampala (sig. <0.05). This implies that an improvement in the working capital management is significantly improves profitability as per this study ($r=0.734$; $\text{sig.}=0.004$). Basing on these results, the stated null hypothesis is rejected at a 0.05 level of significance. These results lead to a conclusion that an improvement in the working capital management

To get the final picture on how working capital management affects profitability, profitability was regressed against the three aspects of working capital management, results of which are indicated in table 6 below;

Table 6

Regression Analysis Results for Working Capital Management and Profitability of Selected Manufacturing Firms in Kampala

Variables Regressed	Adjusted R²	F	Sig.	Interpretation	Decision on Ho
Profitability Vs Capital Management	.496	12.814	.004	Significant effect	Rejected
Coefficients	Beta	T	Sig.		
Constant)		-4.599	.001	Significant effect	Rejected
Cash management	1.064	6.387	.000	Significant effect	Rejected
Inventory management	.412	1.625	.139	No significant effect	Accepted
Receivable management	-.614	-2.753	.022	Significant effect	Rejected

Level of significance at 0.05

The Linear regression results in Table 6 above indicate profitability is significantly affected by Working Capital Management ($F=12.814$, $\text{sig.} = 0.004$). The results indicate that the four items of Working Capital Management included in the regression model contribute over 49% towards variations in profitability in the selected manufacturing firms in Kampala (Adjusted $R^2 = 0.496$). The coefficients section of this table indicates the level to which working capital management affect profitability and this is indicated by Beta values. For example, of all the three aspects in working capital management, Cash management has the biggest effect on profitability with a beta value of 1.064, suggesting that cash management contribute over 100% towards variations in profitability. This is followed by Inventory management (Beta=0.412), and lastly Receivable management (Beta=-0.614). This implies that for profitability to improve and flourish, Sembule Steel Mills Ltd should come up with conducive and attractive avenues of management cash flows and thus would in turn yield into increased profitability of the firm.

CHAPTER FIVE

SUMMARY, CONCLUSIONS, RECOMMENDATIONS

Findings

This chapter presents the summary of the findings, conclusions; recommendations following the study objectives and pertinent hypotheses and areas of future research, this study was conducted to establish the relationship between working management and profitability of selected manufacturing firms in Kampala district.

Respondents' profile

The findings of the study on demographic characteristics indicated that 72% of the respondents were between 20 – 30 years of age. While in terms of gender male respondents were more than the female. Regarding the education, majority of the respondents were having a bachelor's degree in different fields, followed by diploma, certificates and masters respectively. From the study it was discovered that most of the employees had working experience of 2 – 4 years, followed by 6 – 8 years and 1 year & below respectively.

Working Capital Management

It was discovered that the level of working capital management was satisfactory (mean=2.79) in selected manufacturing firms in Kampala district. This satisfactory level was as a result of all the three constructs of working capital management (cash management mean=2.94, inventory management mean=2.65 and receivable management mean=2.77) being rated satisfactory

Profitability

Still the study revealed that level of profitability I the selected manufacturing firms in Kampala district was satisfactory (mean=2.95) and this was brought about by the three aspects out of the fifteen being rated very satisfactory, ten

satisfactory and only two rated fair

Relationship between working capital management and profitability

The study revealed that there is a positive and significant relationship between working capital management and profitability of the manufacturing firms in Kampala (r -values = 0.734; Sig. 0.004) which was less than $\alpha=0.05$ or 5% level of significance thus, rejecting the null hypothesis which stated that there is no significant relationship between working capital management and profitability in the selected manufacturing firms in Kampala. These findings were backed by the regression analysis model which confirmed that all the three items (cash management, inventory management and receivable management) of working capital management included in the regression contribute over 49% towards variations in profitability in the selected manufacturing firms in Kampala (Adjusted R^2 =0.496). Therefore, the researcher infers that there is a significant relationship between the two study variables, basing on these results, the stated null hypothesis is rejected at a 0.05 level of significance.

Conclusions

The study revealed that majority of the respondents was male, falling in the age bracket of 20 – 30 years, majority with bachelor's degree with experience of between 2 – 4 years.

Both the level of working capital management and profitability of the selected manufacturing firms in Kampala district were satisfactory.

Lastly but not least, there is a positive and significant relationship between working capital and profitability in the selected manufacturing firms in Kampala with working capital contributing over 49 variations in the profitability level of a firm.

Lastly, the theory which contends that if working capital is managed according prescriptive theory, it would be expected that business would invest in working

capital, manage cash, account receivables. Inventory and account receivable was approved, however, there is room for improvement regarding the strategies, tactics and techniques used in managing these components. In this regard, the theory was proven to be correct.

Recommendations

The firm should install Automatic methods of inventory management that is whether FIFO (first in first out) or LIFO (last in last out). Bin cards should also be used in order to be efficient and effective in inventory management.

The internal control system over stock should be strengthened. That is Authorization, physical checking, and departure should be controlled in order to ensure proper management of inventory management.

The firm should reduce spending in order to minimize the losses. This will help them to avoid big losses and keep the organization on track of profitability.

Manufacturing firms should keep the price/earnings ratio of the organization high in order to keep the working capital high.

Areas for further study

Perhaps the most pressing area for further research is to establish the effect of accounting information systems on profitability of manufacturing firms. Another study should look at Working capital management and survival of commercial banks. In addition further research should also be done in adherence to central bank regulations to survival of commercial banks.

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APPENDICES

APPENDIX I A: TRANSIMITTAL LETTER



**KAMPALA
INTERNATIONAL
UNIVERSITY**

Ggaba Road - Kansanga
P. O. Box 20000, Kampala, Uganda
Tel: +256- 414- 266813 / +256- 772 322563
Fax: +256- 414- 501974
E- mail: admin@kiu.ac.ug
Website: www.kiu.ac.ug

OFFICE OF THE COORDINATOR, BUSINESS AND MANAGEMENT COLLEGE OF HIGHER DEGREES AND RESEARCH (CHDR)

March 5, 2012

Dear Sir/Madam,

RE: REQUEST FOR NAKASI ANNET MBA/I7443/111/DU TO CONDUCT RESEARCH IN YOUR ORGANIZATION

The above mentioned is a bonafide student of Kampala International University pursuing a Masters of Business Administration (Finance and Accounting).

She is currently conducting a field research of which the title is "**Working Capital Management and Profitability of Manufacturing Firms in Kampala.**"

Your organization has been identified as a valuable source of information pertaining to her research project. The purpose of this letter is to request you to avail her with the pertinent information she may need.

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

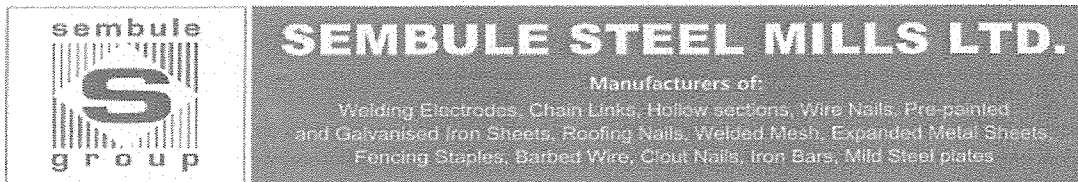
Any assistance rendered to her will be highly appreciated.

Yours truly,


Mr. Malinda Ramadhan
Coordinator
Business and Management (CHDR)

"Exploring the Heights"

APPENDIX I B: TRANSMITTAL LETTER



Nalukolongo, off Masaka Road, P.O. Box 15182 Kampala, Uganda, Tel: 0414 272 670, 0414 272 215, Fax: 0414 235 214
Email: sembule@sembule.com, sembule@sembule.co.ug, sembule@afrisaale.com

Our Ref. SSM/IT/04/12

Date: 17th April, 2012

Coordinator,
Business and Management (CHDR)
KAMPALA INTERNATIONAL UNIVERSITY

Dear Sir / Madam,

RE: MS. ANNET NAKASI

This is to certify that the above named person carried out her research with SEMBULE STEEL MILLS LTD.

It has always been and will remain our duty to both learners and our nation as a whole to contribute to growth of knowledge and development of skills.

Yours faithfully,
SEMBULE STEEL MILLS LTD.


SEMBUYA FRANCIS
EXECUTIVE DIRECTOR

TIN NO. 1000027389

VAT NO. 11647-V



APPENDIX II: INFORMED CONSENT

In signing this document, I am giving my consent to be part of the research study of Ms. Nakasi Annet that will focus on Working Capital Management and Profitability in Selected Manufacturing firms in Kampala District.

I shall be assured of privacy, anonymity and confidential and that I will be given the option to refuse participation and the right to withdraw my participation any time

I have been informed that the research is voluntary and that the results will be given to me if I ask for them.

Initial: _____

Date: _____

APPENDIX III: RESEARCH INSTRUMENT
KAMPALA INTERNATIONAL UNIVERSITY
COLLEGE OF HIGHER DEGREES AND RESEARCH
MASTERS PROGRAM

DEAR RESPONDENT,

I am a candidate for Masters of Business Administration, Finance Accounting at Kampala International University and presently embarking on my dissertation entitled **working capital management and profitability Sembule steel mills in Kampala**. In view of this requirement, am requesting you to be part of this study by answering the questionnaire. The information you provide shall be kept with utmost confidentiality and will be used for academic purposes only.

Thank you in advance

Yours faithfully

.....

NAKASI ANNET

FACE SHEET: PROFILE OF RESPONDENTS

Part A

GENDER (Please tick)

4. Male

5. Female

AGE:

1. Under-20

2. 20 - 30

3. 30 - 40

4. 40 - 50

5. 50 - 60

6. 60 and above

Education Qualifications

1. Certificate
2. Diploma
3. Bachelors
4. Masters
5. PH.D
6. Others (please specify)

Experience

- Under – 1 year
- 2 – 4years
- 6- 8 years
- 10 and above

Part 2

QUESTIONNAIRE TO DETERMINE WORKING CAPITAL MANAGEMENT

Direction

As honestly as you can, rate according to the scoring system given according to the extent to which the following statements may be applicable to your organisation as regards to cash management. Use a tick or circle against each item.

Scoring guide

Score	response	description
4	strongly agree	you agree without any doubt
3	agree	you agree but with some doubt
2	disagree	you disagree with some doubt
1	strongly disagree	you disagree with no doubt at all.

CASH MANAGEMENT				
1.the firm has an accounting department separate from the cashier	1	2	3	4
2.the firm uses a ledger system of accounting	1	2	3	4
3. the accounting system is maintained by a trained book keeper/ accountant	1	2	3	4
4. The firm has safe locations for cash deposits for example safes, banks.	1	2	3	4
5. cash deposits are made by someone other than the cashier or book keeper	1	2	3	4
6. the cashier always investigates any debits made in the cash deposits	1	2	3	4
7. the cashiers duties are segregated from the recording of cash receipts or accounts receivables	1	2	3	4
8. someone other than the cashier handles petty cash	1	2	3	4
9. the firm has a select group of individuals with the right to handle cash withdraws	1	2	3	4
10. there is a withdraw cosignatory authority process	1	2	3	4
11. the cashier assumes full responsibility of receipts from the time when they are received until when they are deposited when	1	2	3	4
12. the cash within the facility is adequately safeguarded(physically)	1	2	3	4
13. You sell products on cash basis.	1	2	3	4
14. products are sold on credit basis	1	2	3	4
15. There are internal control systems/ measures for the management of cash in your company. i.e bank reconciliation, vouchers, petty cash	1	2	3	4
16. You sell products on credit basis.	1	2	3	4
17. there are no procedures for requisition of cash	1	2	3	4

18. The firm has a threshold cash amount beyond which cash is banked.	1	2	3	4
18. the mode of payment is by cheque	1	2	3	4
19. Cash entries are directly to the General Ledger (i.e. Cash Receipt or Non-accounts Receivable Cash)	1	2	3	4
20. financial statements are prepared periodically	1	2	3	4
21 the firm has established lines of credit	1	2	3	4
22. accounting entries are supported by appropriate documents e.g purchase orders	1	2	3	4
23. the firm maintains duplicate copies of receipts	1	2	3	4
receipt books are regularly reviewed by external auditors	1	2	3	4
25. background checks are always made before new employees who handle cash are employed	1	2	3	4

Part 3

QUESTIONNAIRE TO DETERMINE INVENTORY MANAGEMENT

Direction

As honestly as you can, rate according to the scoring system given according to the extent to which the following statements may be applicable to your organisation as regards to cash management. Use a tick or circle against each item.

Scoring guide

Score	response	description
4	strongly agree	you agree without any doubt
3	agree	you agree but with some doubt
2	disagree	you disagree with some doubt
1	strongly disagree	you disagree with no doubt at all.

INVENTORY MANAGEMENT				
1. Item classification in the firm is raw materials, work in process and finished goods.	1	2	3	4
2. Your firm uses multiple units of measures for the same item-for buying, storing and selling	1	2	3	4
3. The inspection of goods takes place before unloading	1	2	3	4
5. Receiving, recording, and storing responsibilities are properly segregated	1	2	3	4
6. Firm's management takes appropriate steps to safeguard goods against the risk of loss	1	2	3	4
7. The firm codes all materials.	1	2	3	4
8. the firm groups items for example by region, local, or imports	1	2	3	4
9. the firms inventory is supervised by an independent manager	1	2	3	4
10. the firm uses multiple units of measurement depending on the items	1	2	3	4
11. inspection is always carried out on receipt of inventory or materials	1	2	3	4
12. the inspection team always samples items while inspecting	1	2	3	4
13. adequate inventory levels are maintained	1	2	3	4
14. goods are inspected before storing to the final place	1	2	3	4
15. the firm at times receives materials more than it has ordered for	1	2	3	4
16. the firm sends back excess materials.	1	2	3	4
17. there is acknowledgement to the vendor upon receipt of goods.	1	2	3	4
18. the firm accepts goods before their scheduled date of receipt	1	2	3	4
19. raw materials, work in progress and finished goods are stored separately	1	2	3	4

20. the firm has expiry dates of raw materials	1	2	3	4
21. the firm uses ABC analysis for inventory management	1	2	3	4
22. the firm uses XYZ analysis for inventory management	1	2	3	4
23. the firm does analysis for inventory management	1	2	3	4
24. the firm always carries out physical inventory checks.	1	2	3	4
25. the inventory checks carried out are always at 100% level	1	2	3	4
26. Departments compare quantities received against reports	1	2	3	4
27. Materials are released from storerooms only on the basis of requisition which are approved by a responsible official of the department	1	2	3	4
28. There is in-built system software of placing order as the computer notices that the recorder point is reached	1	2	3	4
29. Adequate provision made for obsolete and inactive items in inventories	1	2	3	4
30. The firm adjusts level of buying/producing to level of sales	1	2	3	4
31. There is an overinvestment in inventories	1	2	3	4
32. There is underinvestment in inventories	1	2	3	4
33. There is a continuous supply of raw materials/finished products	1	2	3	4
34. The firm acquires inventory more frequently	1	2	3	4

Part 4

QUESTIONNAIRE TO DETERMINE RECEIVABLES MANAGEMENT

Direction

As honestly as you can, rate according to the scoring system given according to the extent to which the following statements may be applicable to your organisation as regards to cash management. Use a tick or circle against each item.

Scoring guide

Score	response	description
4	strongly agree	you agree without any doubt
3	agree	you agree but with some doubt
2	disagree	you disagree with some doubt
1	strongly disagree	you disagree with no doubt at all

RECEIVABLES MANAGEMENT				
1. There is a reception of deposits or prepayments	1	2	3	4
2. Efforts of your firm is focused on tracking and recording relationship of customers	1	2	3	4
3. Level of the firm's efforts on studying and sorting customers' credit worthiness is very good	1	2	3	4
4. The firm sends customer statements to the concerned customers	1	2	3	4
5. Revenue, receivable, freight and tax accounts configured for each invoice	1	2	3	4
6. Collectors actively call customers on delinquent items	1	2	3	4
7. Level of bad debts in your organization is very low	1	2	3	4
8. There are little returned invoices	1	2	3	4
9. Level of firm's receivables is high	1	2	3	4
9.1 High interest rates	1	2	3	4
9.2 Recession	1	2	3	4
10. Your firm analyzes the variance in collection (actual collection period against standard	1	2	3	4
11. The firm has little slow-paying customers	1	2	3	4
12. The firm sells to customers on:	1	2	3	4
12.1 Very liberal term and standard	1	2	3	4
12.2 Selective basis, i.e. to specific customers whose creditworthiness has been proven	1	2	3	4
13. Collects receivables faster than stated credit terms	1	2	3	4

Part 5

QUESTIONNAIRE TO DETERMINE PROFITABILITY

Direction

As honestly as you can, rate according to the scoring system given according to the extent to which the following statements may be applicable to your organisation as regards to cash management. Use a tick or circle against each item.

Scoring guide

Score	response	description
4	strongly agree	you agree without any doubt
3	agree	you agree but with some doubt
2	disagree	you disagree with some doubt
1	strongly disagree	you disagree with no doubt at all.

PROFITABILITY				
1. The firm's management receives a report of every month's operation	1	2	3	4
2. There is a smart spending inside in the firm	1	2	3	4
3. The expense ratio of the firm is low (leaving enough amounts to PAT: Profit After Tax)	1	2	3	4
4. Short-term cash forecast is done by the management	1	2	3	4
5. The management of the firm gives interest to cash flow rather than sales	1	2	3	4
6. The recording system of the organization books only those sales which are rock Solid.	1	2	3	4
7. The firm adopts new technology or plans to draw profit	1	2	3	4
8. The firm has the ability in attracting new investors	1	2	3	4
9. Have a contingency plan for payroll when cash is tight	1	2	3	4
10. Reduces spending in anticipation of losses	1	2	3	4
11. The organization's earnings is satisfactory	1	2	3	4
12. The price/earnings ratio of the organization is high	1	2	3	4
13. The organization's net profit is adequate in the context of industry level.	1	2	3	4
14. The income statement of the organization shows high figure of gross profit.	1	2	3	4
15. Feedback of the organization from investment in assets is acceptable	1	2	3	4

APPENDIX IV: CONTENT VALIDITY INDEX

Cash management	No. of Judges	No. of judges declared valid	CVI
The firm has an accounting department separate from the cashier	3	3	1
The firm uses a ledger system of accounting	3	3	1
The accounting system is maintained by a trained book keeper/ accountant	3	3	1
The firm has safe locations for cash deposits for example safes, banks.	3	3	1
Cash deposits are made by someone other than the cashier or book keeper	3	3	1
The cashier always investigates any debits made in the cash deposits	3	3	1
The cashiers duties are segregated from the recording of cash receipts or accounts receivables	3	3	1
Someone other than the cashier handles petty cash	3	3	1
The firm has a select group of individuals with the right to handle cash withdraws	3	3	1
There is a withdraw cosignatory authority process	3	3	1
The cashier assumes full responsibility of receipts from the time when they are received until when they are deposited when	3	3	1
The cash within the facility is adequately safeguarded(physically)	3	3	1
You sell products on cash basis.	3	3	1
Products are sold on credit basis	3	3	1
There are internal control systems/ measures for the management of cash in your company. i.e bank reconciliation, vouchers, petty cash	3	3	1
You sell products on credit basis.	3	3	1
There are no procedures for requisition of cash	3	3	1
The firm has a threshold cash amount beyond which cash is banked.	3	3	1
The mode of payment is by cheque	3	3	1
Cash entries are directly to the General Ledger (i.e. Cash Receipt or Non-accounts Receivable Cash)	3	3	1
Financial statements are prepared periodically	3	3	1
The firm has established lines of credit	3	3	1

Accounting entries are supported by appropriate documents e.g purchase orders	3	3	1
The firm maintains duplicate copies of receipts	3	3	1
receipt books are regularly reviewed by external auditors	3	3	1
Background checks are always made before new employees who handle cash are employed	3	3	1
Average	3	3	1
Inventory management			
Item classification in the firm is raw materials, work in process and finished goods.	3	3	1
Your firm uses multiple units of measures for the same item-for buying, storing and selling	3	3	1
The inspection of goods takes place before unloading	3	3	1
Receiving, recording, and storing responsibilities are properly segregated	3	3	1
Firm's management takes appropriate steps to safeguard goods against the risk of loss	3	3	1
The firm codes all materials.	3	2	0.67
The firm groups items for example by region, local, or imports	3	3	1
The firms inventory is supervised by an independent manager	3	3	1
The firm uses multiple units of measurement depending on the items	3	3	1
Inspection is always carried out on receipt of inventory or materials	3	3	1
The inspection team always samples items while inspecting	3	3	1
Adequate inventory levels are maintained	3	3	1
Goods are inspected before storing to the final place	3	3	1
Average	3		0.97
Receivable management			
There is a reception of deposits or prepayments	3	3	1
Efforts of your firm is focused on tracking and recording relationship of customers	3	3	1
Level of the firm's efforts on studying and sorting customers' credit worthiness is very good	3	3	1
The firm sends customer statements to the concerned customers	3	3	1
Revenue, receivable, freight and tax accounts configured for each invoice	3	3	1
Collectors actively call customers on delinquent items	3	3	1
Level of bad debts in your organization is very low	3	3	1

There are little returned invoices	3	3	1
Level of firm's receivables is high	3	3	1
Your firm analyzes the variance in collection (actual collection period against standard	3	3	1
The firm has little slow-paying customers	3	3	1
The firm sells to customers on:	3	2	.67
Collects receivables faster than stated credit terms	3	3	1
Average	3		0.98
Overall average			0.98
Profitability			
The firm's management receives a report of every month's operation	3	3	1
There is a smart spending inside in the firm	3	3	1
The expense ratio of the firm is low (leaving enough amounts to PAT: Profit After Tax)	3	3	1
Short-term cash forecast is done by the management	3	3	1
The management of the firm gives interest to cash flow rather than sales	3	3	1
The recording system of the organization books only those sales which are rock Solid.	3	3	1
The firm adopts new technology or plans to draw profit	3	2	0.67
The firm has the ability in attracting new investors	3	3	1
Have a contingency plan for payroll when cash is tight	3	3	1
Reduces spending in anticipation of losses	3	3	1
The organization's earnings is satisfactory	3	3	1
The price/earnings ratio of the organization is high	3	3	1
The organization's net profit is adequate in the context of industry level.	3	3	1
The income statement of the organization shows high figure of gross profit.	3	3	1
Feedback of the organization from investment in assets is acceptable	3	3	1
Average	3		0.98

CVI = No. of items declared valid (N) ÷ Total no. of items (n)

Where:

CVI = Content Validity Index

CVI = 0.98 + 0.98 ÷ 2

CVI = 0.98

APPENDIX V: RESEARCHER'S CV

CURRICULUM VITAE

Personal information

Name	:	NAKASI ANNET
Sex	:	FEMALE
Phone number	:	0712-054063
Nationality	:	UGANDAN
Marital Status	:	SINGLE
Date of birth	:	29 TH SEPTEMBER 1977
Place of birth	:	NSAMBYA
Home district	:	MPIGI
Email	:	anne.nakasi@boa-uganda.com
Health	:	EXCELLENT

Personal profile & career objective.

I am a highly self motivated and result oriented person with excellent commercial approach to solving problems and optimizing team potentials whilst proactively developing new customer care strategies and ideas. Having an objective to prioritize, complete multiple tasks and follow through to achieve project and organizational goals.

Educational background

YEAR	INSTITUTION	AWARD
2011-2012	Kampala International University	MBA - Finance & Accounting
2007-2010	Kampala International University	BBA - Accounting
2001-2002	Kyambogo University	Certificate in Computer Science
1999-2001	Makerere Business Institute	Diploma in Business Admin
1997-1998	Mackay College Natete	U.A.C.E
1991-1994	ST Balikudembe S.S.S	U.C.E
1988-1990	Rev John Foundation School	P.L.E

Working experience

PERIOD	INSTITUTION AND POST HELD
2010- date	Bank of Africa (U) Branch Manager Kabalagala
2008-2010	Bank of Africa (U) Branch Operations Officer, Mbarara
2007 – 2008	Bank of Africa, Teller
2004-Oct to 2006-Dec	Allied Bank International (U) Ltd, Teller.
2004 (Jan-Oct)	Cashier, Book bazaar (Uganda house)
2003	Cashier Payless Supermarket

Responsibilities held

6. Chapel prefect st. Balikuddembe S.S.S

Major Strength

7. supportive
8. self motivated, honest and disciplined individual with the ability to work towards delivery of services
9. very innovative and creative individual

Languages

English	good
Luganda	good
French	fair

Hobbies

making friends
touring
sports
further research
music

Referees

1. Sam Kizza
Security Department
MTN (U)
Phone: 0772120070

2. Rogers Segawa
Nexus (U)
Phone: 0392966507

CERTIFICATION

I, the undersigned, certify to the best of my knowledge and belief that the above bio-data correctly describes my qualifications, my experience and myself.

Signature: _____
2012

Date: August 23,