

**THE EFFECT OF WORKING CAPITAL MANAGEMENT  
ON THE FINANCIAL PERFORMANCE OF SMEs  
(A case study of Mbale Municipality, Mbale District)**

**BY**

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**A RESEARCH REPORT SUBMITTED IN PARTIAL FULFILLMENT  
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## DECLARATION

I Gidudu Godfrey hereby declare that this research report has been my own effort and has never been submitted to any institution of higher learning for any academic award.

**GIDUDU GODFREY**

Sign: ..........

Date: .....12<sup>th</sup> / SEP / 2015.....

## APPROVAL

This research report on the effects of working capital management on the financial performance, a case study of SMEs in Mbale Municipality has been done under my supervision and is now ready to be submitted with my approval.

**Ebong Charles**

**SUPERVISOR**

Sign: 

Date: 12/09/2015

## DEDICATION

First and foremost, I dedicate this report to Almighty God who strengthened me throughout the training by providing the gift of life, wisdom and knowledge which was successfully done.

My appreciation also goes to my beloved parents Mr. Giduudu Eriabu, and Mrs. Agali Gamisya Gidudu and my wife Nakami Everlyn for the supported rendered to me and Uganda Revenue Authority especially Mr. Kisaale James AC Enforcement who encouraged me for upgrading.

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And lastly, to my friends whom I associated with during fieldwork placement like Okidi, Moses, Grace and Ojok. May God bless all the above for their kindly support they gave to me.

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## ABSTRACT

The study was on the topic “the effect of working capital management on the financial performance of SMEs (a case study Mbale Municipality). The study objectives were; to identify the various working capital management practices of SMEs, to assess the level of financial performance in SMEs, to establish the relationship between working capital management practices and the level of financial performance. The study used both qualitative and quantitative research design. Data was collected from primary and secondary sources through the use of questionnaire guide, interview guide and observation. The analysis was through the use of frequency, tables and percentages. The findings revealed that there is a significant relationship between working capital management and financial performance of SMEs. The researcher recommended segregation of duties, recording of daily incomes and expenses, incorporation of the use of source documents.

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## CHAPTER ONE

### INTRODUCTION

#### 1.0 Introduction

This chapter covers the background of the study, statement of the problem, purpose of the study, objectives of the study, research questions, and scope of the study as well as the significance of the study.

#### 1.1 Introduction

Small and Medium Enterprises play vital role in the development of the industrial and business sector. Besides, being one of the vehicles of economic progress, these have been found to be one of the most effective means of avoiding the ever increasing unemployment which is common and acute in developing countries like Uganda (Ssekatawa, 2010).

Broadbent & Cullen, (2003) defined small scale and medium enterprises as a private company or one person's business having less than or slightly higher than 10-20 employees or annual sales turnover between UGX 1,000,000 – 50,000,000.

In Uganda today, the foundation to development has been laid on several pillar keys, one of which is the establishment and management of small and medium enterprises. According to Ssekatawa (2010) approximately 80% of all business in Uganda are small scale and medium scale and almost represent 50% of the employment in the country. Consequently therefore, the Uganda Government is looking to the private sector

generally and the small and medium (SMEs) enterprises in particular to take the lead in future industrialization and has given them necessary support to take off through not all. This is evidenced in government promoted schemes like private sector foundation Uganda (PSFU) that offers financial expertise for purpose of becoming more productive and competitive.

According to Charles P. Fones (1992) working capital management is the management of both current assets and current liabilities. Working capital management involves decisions about the level of current assets to be held, the composition of those assets and how current assets are to be financed. Management of business enterprises has to pay much attention to the appropriate level of working capital that will maximize wealth.

Dixon et al (1990) defined financial performance as a measure of how well a firm can use assets from its primary mode of business and generate revenues and it is also used as a general measure of a firm's overall financial health over a given period of time. Financial performance is the level of performance of a business over a specified period of time; expressed in terms of overall profits and losses during that time (<http://www.truestorwords.com>). Getting on top of financial measure of your performance is an important part of running a growing business, especially in the current economic climate. It has been noted that a business enterprises' success depends on a developing and implementing sound financial and management systems. Financial performance is measuring the results of a firm's policies and its operation in monitoring terms (<http://www.businessdictionary.com.definition>). Mbale Municipal being a business

hub in the Eastern Uganda, has had a number of small and medium enterprises in operation, however many have failed to see their birthday (Samuel, 2006). This has been attributed to a number of factors ranging from lack of business skills to poor working capital means that funds are unnecessarily tied up in idle assets hence reducing liquidity and also reducing the ability to invest in productive assets such as stock (inventory) so affecting profitability. It is against the above background that the researcher would want to carry out this study.

## **1.2 Introduction**

It has been noted that the success of any business enterprises depends on how it manages its resources as most business struggle for success and growth. These resources include working capital in form of cash and other current assets like cash and cash equivalent, account receivable, petty cash and inventory. Despite the endeavour to maintain a good working capital by management of SMEs in Mbale Municipal, there has been a continuous decline on the level of performance of SMEs in Mbale Municipal. According to the chairman Business Community to the Municipal, in the financial year 2013-2014, 76 SMEs came up at the beginning of the year, however at the end of the year only 14 SMEs remained on operations. Furthermore cases of SMEs failure to settle short term obligations as well as operating expenses such as salaries, electricity, water and rent have been recorded. Many creditors have always taken legal cases against these business enterprises. This is a serious issue that needs to be addressed. It is upon these inefficiencies that the researcher seeks to establish the truth of the matter.

### **1.3 Purpose of the Study**

The purpose of the study was to establish the effect of working capital management on the financial performance of small scale enterprises in Mbale Municipality.

### **1.4 Objective of the Study**

The major objectives of the study include: -

- (i) To identify the various working capital management practices of SMEs in Mbale Municipality.
- (ii) To assess the level of financial performance in SMEs in Mbale Municipality.
- (iii) To establish the relationship between working capital management practices and the level of financial performance.

### **1.5 Introduction**

The study was guided the following research questions: -

- (i) What are the various working capital management practices of SMEs in Mbale Municipality?
- (ii) How is the level of financial performance in SMEs in Mbale municipality?
- (iii) What is the relationship between working capital management practices and the level of financial performance.

## **1.6 Scope of the Study**

### **1.6.1 Content Scope**

The study focused on effect of working capital management on the financial performance of SMEs. The independent variable being working capital management and the dependent variable being financial performance of SMEs.

### **1.6.2 Geographical Scope**

The study was based in Mbale Municipality a centre of businesses in Eastern Uganda. The choice of the area was due to the fact that Mbale is nearer to the researcher's area and therefore this would cut cost of the study.

### **1.6.3 Time Scope**

The study covered a period of 2 years ranging from 2013 – 2014 and 2014 – 2015. This enabled the researcher gathered the necessary information for the study.

## **1.7 Significance of the Study**

The study finding is of benefit to a number of stakeholders as enumerated below: -

- To the policymaker especially the Ministry of Industries to come up with the appropriate policy on investment strategies on small and medium enterprises in Uganda.
- To the owners of SMEs in Mbale Town, the study finding will enable them improve on their working capital management and make proper decisions on financial performance.

- To the researcher, the study will enable him widen his skills and knowledge in the field of research. This will be of benefit in future.
- To other researchers the study finding will act as a basis for further study especially for those who will want to carry out the study in the same or related areas.
- To the member of business association of Mbale Municipal, the study will enable them evaluate how their members have been managing their working capital and come up with appropriate adjustment necessary.



## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 Introduction**

This chapter discusses the already existing literature about working capital management and financial performance. The literature was obtained from textbooks, publications, the enterprise financial documents and internet among others.

#### **2.1 Working Capital Management**

Samuel, (2006) put forward that working capital management is the planning, controlling and the effective utilization of funds. Money can be earned not only through manufacture and distribution but also through management of all its assets that it employs.

The best working capital policy is through fund budgets. A company can decide on the working capital it will have available for short term investment at a particular time depending on the nature of the business and season.

If a business is seasonal, or trade is cyclical, fund budget will show that surplus funds will be available and what length of time will elapse before they are required. Some companies will borrow money in case to satisfy their seasonal needs.

Kakuru, (2000) argued that every organization must establish working capital management policies or guidelines to ensure that it has optimal fund balance at any time when it requires it.

This can be achieved by implementing the following working capital management policies an organization must ensure that it speeds up cash inflows through efficient credit policy. For example timely preparation and delivering of customers in voices, making customers to pay their outstanding by allowing discounts. This will enable the firm to keep in a liquid position and carry on its operation effectively.

According to Bodil, (1995) firms hold working capital for primary reasons. According to him, cash inflows and outflows are somehow unpredictable with the degree of predictability varying among firms and industries.

Therefore firms need to hold some funds, more often marketable securities in reserve for random, unforeseen fluctuations in inflows and outflows. These “safety stock” of funds are called the precautionary balance and the less predictable the firm’s inflows and outflows, the larger the necessary working capital balance.

Campsey, (2005) stated that working capital may also be held to enable the firms to take advantage of any bargain purchase that might arise; these are defined as speculative balance. For example, reduction in the price of raw materials, any profitable short term investment that may arise.

According to Campsey, (2008) lending institutions such as banks make money by lending out funds that have been deposited with it, so the larger its deposits, the better the bank financial performance. If a bank is providing services to a customer, it requires generally the customer to leave minimum balance on deposit to help offset the cost of providing the services.

Knott, (2008) discussed that working capital balance in form of cash are necessary in business operations because payments must be made in cash and receipts are deposited in the funds account. These balances are associated with routine payments and collection known as transaction balances.

Although carefully prepared fund budget is a necessary starting point for managing the firm's working capital, there are other elements of a good working capital management program.

The primary working capital management activities are performed jointly by the firm and its main bank but the financial manager is responsible for the effectiveness of the working capital management programs.

Van, (2000) argued that one way in which a firm can keep its working capital on hand for long would simply be by delay payments, but this would lead to such obvious difficulties as being labeled a "dead beat". Firms have always lengthened collection period for their cheques so as to delay cash outflows. Payable centralization permits the financial

manager to evaluate the payment for the entire firm and to schedule funds transfer in form of cash to meet the needs of the companywide basis.

Centralizing disbursement also permits more efficient monitoring of payables and float balances.

San Ford et al, (2001) explained that when a firm is actively trying to use floats, it will often arrange with its bank to have use of an overdraft system. In such a system the firm writes cheques in excess of the actual balance and its bank automatically extends loans to cover funds shortage.

The overdraft is sometime interest free, so the firm can use it to carry out its operations which can yield a return in the long run.

## **2.2 Financial Performance**

According to Alm, (2000) a customer is the most important visitor on business premises, he is not dependent on business, business is dependent on him. He is not an interruption in a business work, he is the purpose of it. He is not an outsider, he is part of it. Business is not doing him favour by serving him, he is doing them favour by giving them an opportunity to do so.

He further argued that the profit motive is not only fundamental to reward shareholders and pay employees, it is fundamental to excellent journalism. Far from corruption the

craft, profit enhance it. Expansion drive diversity and diversity protects and strengthens our craft.

Nevertheless, money is only used for two things: one, it is to make you comfortable, and the more comfortable you are, the more creative you will become. And the other purpose is it enables you to extend the services you provide far beyond your own presence.

Matovu and Titua, (2001) put forward that the country is now universally recognized as a nation on the move takes its place amongst the successful economies in the region. The future potential is enormous but the country's destiny is in our hands. Time has come to move from increment to bold, large initiatives.

According to them, the theories discussed so far all recognize that the attitudes and abilities of the business owners have an important impact on small firm growth and will be reflected in strategic choices and the way in which he or she operates the business. The business owners and attitudes and abilities also have impact on the financial performance of his business.

Sexton and Robinson, (1989) discussed that it has been proposed in the literature that women may have fewer opportunities to develop relevant experiences, may have fewer networks to get assistance and may have greater difficulty in assembling resources.

According to Riding and Swift, (1990) there is some evidence that banks may impose more stringent requirements on women business owners in regard to collateral for loans

and therefore limit their ability to grow and it limits the financial performance of the business.

Brush, (2002) also put that women may be more family oriented and be less keen in purchasing economic goals related to expansion of the firm.

Cooper et al, (2004) also found that being female had one negative impact on the growth of small ventures but it had no impact on the survival of the firm.

Boswell, (2003) stated that younger individuals may be more willing to assume risks and grow their business. A younger individual may have a higher need for additional income. The burden of supporting a family and meeting mortgage payment generally declines with age.

An older individual who continues to be the owner-manager of a small firm is more likely to have reached his/her aspirations. However, while younger individuals have more motivation to expand their business. They also may have fewer financial resources and fewer networks. The limited empirical evidence suggests that the owner-manager age tends to be negatively related to growth.

Borjas, (2006) suggested that immigrants are more likely to become self employed and they are more likely to create higher incomes from this activity than will natives entrepreneurs. The explanation for this differential is that immigrants create enclaves by

concentrating in a specific geographic areas, which in turn creates and expand opportunities for small entrepreneurial ventures.

In particular for immigrants of the same national background as the residents of the enclave. However, it is suggested that there may be limits to the growth of entrepreneurial ventures owned by immigrants as enclaves are in poor locations and offer limited access to the general market.

It is also suggested that they may have fewer contacts and more difficulties in obtaining insurance, credit from supplier and access to prosperous customers.

From the view of Cooper et al, (2004) no study was linked immigration status to business growth, however, there is some empirical evidence that suggested that being part of a racial minority is linked to lower profitability and both survival and growth of the firm.

Cooper et al, (2002) argued that the effect of education is presumably related to knowledge and skills, motivation, self confidence, problem solving ability, commitments and discipline. Higher education is expected to increase the ability of the entrepreneur to cope with problems and sieve opportunities that are important to the financial performance of a firm.

Cooper et al, (2004) stated that having a bachelor's degree has a positive impact on both survival and financial performance of small ventures.

Blatt, (2003) suggested that in an Ontario survey of small business start ups, half of new firms owners intended that their business would simply generate enough income to make a living for themselves. Therefore, for entrepreneurial ventures, the willingness of the owner-manager to grow is important as his ability to foster and manage growth and financial performance.

Mc Celland, (2001) put forward that entrepreneurial intensity refers to the willingness of the individual to assume risk and be pro active as an indicator of commitment to growth. The level of active risk taking by the owner-manager way also determine how willing he or she is to tap the various resources necessary for developing the firm and improve the firms financial performance.

Perren, (2000) stated that in sixteen case studies of micro-enterprises, it was found that active risk taking was a key factor that conditions the owner-manager's willingness to tap physical, material, financial and intangible resources necessary for firm's financial performance beyond the micro enterprise phase.

Riding et al, (2008) suggested that it is likely that individuals who hold concurrent paid employment job may have neither the time nor motivation to invest in the financial performance of their business and the growth of the business.



### **2.3 The Relationship between Working Capital Management and Financial Performance**

Shaw, (2006) explained that, if an organization properly manages its working capital and maintains positive balance especially on bank accounts in form of fund deposits, it may increase on the financial performance through the interest earned. Having a positive funds balance enables the firm to take advantage of fund discounts from suppliers, purchases input and enable the company to carry on further investment in profitable venture.

Wilkes, (2006) and Samuel, (2006) share the same view as Shaw, (2006) on the relationship between working capital management and financial performance of a firm.

Wilkes, (2006) argued that if a firm does not manage its working capital properly, it can easily go into liquidation as a result of failing to pay the outstanding liabilities and meeting the day to day operations. This has an adverse impact on the profitability of an organization.

He adds that a firm which keeps too much funds in form of working capital fore goes returns. Working capital can be lent out even for a short period of time and interest is earned, hence impacting on the financial performance of an organization.

Campsey, (2005) explained that there are good reasons for holding adequate funds balance in form of working capital. And there is an important reason for not holding excess working capital balances. Since working capital is a non earning asset, excessive

fund balance simply lower the total asset turn over thereby reducing both the firm's rate of return on equity and value of its stock.

Therefore, firms are interested in establishing procedures for increasing the efficiency of their working capital management and the higher the level of short term interest, the greater the opportunity cost associated with holding excess working capital. This implies that holding excess working capital means that returns are foregone hence adversely impacting on the financial performance of the firm.

Khazi, (2002) pointed out that the relationship between working capital management and financial performance by giving the effect of excess and shortage of funds. Holding excess working capital means that there is an opportunity cost in form of a return foregone because of holding it.

On the other hand, shortage will disrupt the firm's operations for instance failing to acquire inventory for sale, input and meeting customer orders. Such situations require that an enterprise capital management policy must be designed appropriately to ensure that the best is derived from every single coin held at any period of time.

Wilkes, (2006) argued that management of small and medium scale businesses should establish and strengthen the internal controls over working capital and other financial resources to reduce on mismanagement and misappropriations.

The internal control to be established among others include; segregation of duties, approval and authorization, physical control, accuracy arithmetic's, supervision of lower employees and daily banking of funds received to reduce on the theft and mismanagement of fund resources.

He further noted that small scale business should introduce motivation incentives for example, increased salaries, wages and other non monetary rewards like presents or gifts to all employees with good performance records, this will reduce on cases of embezzlement and theft of business funds and develop a heart to commitment hence efficient management of working capital.

Knott, (2008) suggested that management of small scale and medium business should employ competent staffs that have experiences and skills in working capital management. Employees must be trained to acquire the skills to manage business funds.

The management should acquire funds from a financial institutions so as to supplement its capital base and to expand the scale of operations since lack of capital is one of the major causes of low financial performance.

Kakuru, (2000) argued that management of small scale and medium business must always prepare fund budgets and books of accounts such as cashbook, income statement and the balance sheet in order to ascertain their financial performance and design ways of making improvements.

## **2.4 Conclusion**

Organizations should hold working capital to keep the liquidity level balanced so as to maximize profitability and improve financial performance. However, care must be taken to avoid excess of it. Because of its effects such as theft, misappropriation and misallocation and still foregoing return that could have been earned through investing the working capital resources elsewhere in a profitable venture.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.0 Introduction**

This chapter presents the methodology that was used to collect data from the field while carrying out the research more specifically research design, study population, sampling design, sources of data, data collection instruments, data collection procedures and finally data analysis techniques.

#### **3.1 Research Design**

The researcher used both qualitative and quantitative research design. The qualitative design was used because it involved describing the variables under investigation while quantitative design was used since it involved numerical data that was analyzed for better interpretation.

#### **3.2 Study Population**

The study population covered management of SMEs in Mbale Municipality, officials of Mbale business association as well as the customers to these businesses. A total of 60 respondents were considered as study population.

### 3.3 Sample Design

#### 3.3.1 Sample Size

The study considered a representative sample size of 54 respondents as represented in table 3.1 below: -

**Table 3.1 Sample size distribution**

Category	Population	Sample size
SMEs association officials	10	10
Management	20	18
Customers	30	26
<b>Total</b>	<b>60</b>	<b>54</b>

*Source: Survey data, 2015*

The sample size above was taken with consideration of time constraints, convenience and funds available among others.

#### 3.3.2 Sampling Techniques

Both purposive and simple random sampling techniques was used to select the above respondents. Purpose sampling was used as it enabled the researcher to select respondents who are knowledgeable with the problem under the study while simple random sampling enabled each selected respondents to have equal chance to be selected.

### **3.4 Source of Data**

The researcher used two major sources of data, these included primary and secondary sources.

Primary source was data collected for the first time direct from the source through the use of questionnaire, interview guide as well as observation. This source helped the researcher to collect reliable information about research variables under the study.

Secondary sources included data collected, data got from existing sources. This was collected from textbooks, publications, business reports, newspapers, internet among others.

### **3.5 Data collection instruments**

Data was collected by the use of the following instruments: -

#### **- Questionnaire guide**

Questionnaire is a data collection instrument in which respondents respond to a number of items in writing. For this study, the questionnaire consisted of a number of questions printed in relation to the variables of the study. A closed ended questions that require respondents to tick the correct answer was used.

#### **- Interview Guide**

This involved a face to face interaction of the researcher with the respondents. The method was appropriate because it enabled the researcher to get immediate feedback

as well as from illiterate respondents. This method enables the researcher to supplement the finding from the field.

- **Observation**

Under this method, the researcher obtained data by watching and noting the phenomena as they occurred. This was done through direct observation. The researcher applied the method to directly observe the number of customers received by these SMEs in Mbale Municipality and the volume of their purchase. The researcher also observed how record keeping is done in these business enterprises.

### **3.6 Data collection Procedures**

Before going to the field, briefing was done by the center coordinator KIU Lira Branch. The introductory letter was then obtained from the research coordinator which the researcher used to introduce himself to the study area. After being granted permission, the researcher distributed the questionnaire to the selected respondents to be filled, thereafter collected them ready for analysis. The filled questionnaires were later sorted, coded and tabulated.

### **3.7 Data collection instruments**

The analysis of data was carried out through the use of frequency tables and percentage. The method was appropriate because it enabled proper display of the results and it facilitated description of the finding basing on the research variables.



## CHAPTER FOUR

### PRESENTATION, ANALYSIS AND DISCUSSION OF THE FINDINGS

#### 4.0 Introduction

This chapter presented the presentation of the finding, analysis and discussion of the findings in relation to the stated objectives mentioned earlier. These include;

- (i) To identify the various working capital management practices of SMEs in Mbale Municipality.
- (ii) To assess the level of financial performance in SMEs in Mbale Municipality.
- (iii) To establish the relationship between working capital management practices and the level of financial performance.

#### 4.1 Response Rate

Out of the 54 questionnaires distributed to the selected respondents, 50 respondents were returned fully filled hence giving a response rate as below: -

$$\frac{50}{54} \times 100 = 95.59\%$$

This means that the response rate was very high.

#### 4.2 Background characteristics of respondents

The background of the respondents was deemed necessary because the ability of the respondents to give information on the study variables greatly depended on the

background information. The background information of the respondents was collected on the age, sex, marital status, level of education and duration with the organization.

#### 4.2.1 Age distribution of respondents

The results on the age distribution of respondents was as below in the table

**Table 4.1: Age distribution of respondents**

Age bracket	Frequency	Percentage
Below 20 years	4	8
20 – 30 years	22	44
31 – 40 years	12	24
41 – 50 years	10	20
Above 50 years	2	4
<b>Total</b>	<b>50</b>	<b>100.0</b>

*Source: Survey data, 2015*

From the table above, 44% of the respondents were in the age group of between 20 – 30 years, 24% were between 31 – 40 years, 20% were between 41 – 50 years, 8% were below 20 years and 4% were above 50 years. The finding implies that majority of the respondents were mature enough to answer questions in the questionnaire.

#### 4.2.2 Sex distribution of respondents

This was very vital for the study and the results were are below in the table: -

**Table 4.2: Sex distribution of respondents**

<b>Sex</b>	<b>Frequency</b>	<b>Percentage</b>
Male	14	28
Female	36	72
<b>Total</b>	<b>50</b>	<b>100.0</b>

*Source: Survey data, 2015*

The finding in table 4.2 above clearly indicated that 72% of the respondents are female, while 28% of the respondents were male. This showed that majority of the respondents were female hence show a greater percentage of female participation in businesses in Mbale Municipality.

#### **4.2.3 Marital status of the respondents**

This study establishes the marital status of the respondents and the results were as below in table.

**Table 4.3: Marital status of the respondents**

<b>Marital status</b>	<b>Frequency</b>	<b>Percentage</b>
Single	15	30
Married	25	50
Divorced	3	6
Widow / widower	7	14
<b>Total</b>	<b>50</b>	<b>100.0</b>

*Source: Survey data, 2015*

From the above table 4.3, the results showed that 50% of the respondents were married, 30% were single, 14% were widow/widower and 6% were divorced. The finding implies that majority of the respondents were mature and hence responsible.

#### 4.2.4 Level of Education

There was need to assess the level of education of respondents and the results were as below: -

**Table 4.4: Level of respondents**

Education level	Frequency	Percentage
Certificate	26	52
Diploma	20	40
Degree	4	8
Masters	-	-
<b>Total</b>	<b>50</b>	<b>100.0</b>

*Source: Survey data, 2015*

The above results in table 4.4 indicated that 52% of the respondents were certificate holders, followed by 40% who were diploma holders and lastly 7% of the respondents were degree holders. The finding clearly implies that business owners in Mbale Municipality are educated. This finding is in relation to Knott, (2008) assertion that management of SMEs require competent and experienced as well as skills in business management.

#### 4.2.5 Duration with the organisation

This was necessary to establish the time spent with the organization, the results were as below: -

**Table 4.5: Duration in the enterprise**

<b>Duration</b>	<b>Frequency</b>	<b>Percentage</b>
Less than 3 years	10	20
3 – 5 years	18	36
Above 5 years	32	64
<b>Total</b>	<b>50</b>	<b>100.0</b>

*Source: Survey data, 2015*

Finds in the table above 4.5 indicated that 65% of the respondents have been with the enterprise for above 5 years, followed by 36% of the respondents who have been between 3 – 5 years and 20% of the respondents have been with the organization for less than 2 years. This implies that these are people with experience with the organization and hence knowledgeable with the study problem.

### 4.3 Empirical Results

#### 4.3.1 Identifying the various working capital management practices of SMEs

The study seek to establish whether there is recording of cash and its by one person. The results was as below: -

**Table 4.6: There is recording of cash and its done by one person**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Strongly disagree	18	36
Disagree	14	28
Neutral	6	12
Agree	10	20
Strongly agree	02	4
<b>Total</b>	<b>50</b>	<b>100.0</b>

*Source: Survey data, 2015*

Table 4.6 above showed that 64% of the respondents disagree with the statement that there is recording of cash and its done by one person, while 24% of the respondents agreed. However 12% of the respondents were neutral. This therefore implies that recording to cash in most SMEs is very poor. This finding is in odds with Wilkes (2006) who argued that management of SMEs should establish a system of recording cash received and that the recording should be done by one person. This he said will reduce on mismanagement and misappropriation.

As to whether daily cash receipts by SMEs is banked on the same day, the results was as below: -

**Table 4.7: Daily cash receipt banked on the same day**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Strongly disagree	14	28
Disagree	26	52
Neutral	0	0
Agree	06	12
Strongly agree	4	08
<b>Total</b>	<b>50</b>	<b>100.0</b>

*Source: Survey data, 2015*

The finding above in table 4.7 above revealed that 80% of the respondents disagree with the statement that daily cash receipts by SMEs is banked on the same day, followed by 20% of the respondents who agree with the statement. This implies that SME owners do not bank daily cash receipts on the same day. This finding contradicts the finding of Wilkes (2006) who asserts that daily banking of funds received reduce on theft and mismanagement of cash resources.

As regards whether purchase order is first issued for goods bought, the results were as below: -

**Table 4.8: Purchase order is issued for goods bought**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Strongly disagree	20	40
Disagree	16	32
Neutral	02	04
Agree	07	14
Strongly agree	05	10
<b>Total</b>	<b>50</b>	<b>100.0</b>

*Source: Survey data, 2015*

From the table above, it can be seen that 72% of the respondents disagree with the statement that purchase order is issued for goods bought, 24% agree with the statement while 4% of the respondents were neutral. This implies that there is no use of purchase order by owners of SMEs. This is a clear sign that there is little or no record keeping by SMEs in Mbale Municipality.

The questionnaire further seek to establish whether purchase order is made when re-order level have been reached. The results were as under: -

**Table 4.9: Purchase order is made when re-order level has been reached**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Strongly disagree	26	52
Disagree	14	28
Neutral	-	-
Agree	05	10
Strongly agree	05	10
<b>Total</b>	<b>50</b>	<b>100.0</b>

*Source: Survey data, 2015*

The finding in table 4.9 above indicated that majority of respondents represented by 80% disagree with the statement that purchase order is made when re-order level have been reached while 20% of the respondents agree with the statement. This implies that purchase order is not made when re-order level has been reached.



### 4.3.2 Assessing the level of financial performance of SMEs

Finding on the level of financial performance of SMEs were considered under the study and this was as under. The respondents were asked whether more sales were made by SMEs during the year. The results were as below: -

**Table 4.10: More sales were made by SMEs during the year**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Strongly disagree	02	04
Disagree	04	08
Neutral	-	-
Agree	24	48
Strongly agree	20	40
<b>Total</b>	<b>50</b>	<b>100.0</b>

*Source: Survey data, 2015*

From the above table 4.10 the results showed that majority of respondents represented by 88% agree with the statement that more sales were made during this year, while 12% of the respondents disagree with the statement. This implies that more sales were made by the SMEs in Mbale Municipality during the year.

As to these SMEs in Mbale Municipality uses loans as a source of their capital, the results were as below: -

**Table 4.11: SMEs in Mbale Municipality use loans as a source of their capital**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Strongly disagree	04	08
Disagree	06	12
Neutral	04	08
Agree	16	32
Strongly agree	20	40
<b>Total</b>	<b>50</b>	<b>100.0</b>

*Source: Survey data, 2015*

The results above in table 4.11 showed that majority of the respondents agree with the statement that SMEs in Mbale Municipality use loans as a source of their capital, while 20% of the respondents disagree. However 8% of the respondents were neutral. This implies that SMEs in Mbale Municipality use loans as a source of their capital. This finding is related to Knott (2008) assertion that most SMEs acquire funds from financial institution so as to supplement their capital base to expand their scale of operation. He however noted that these loans have highly affected their performance as a result of stringent terms and conditions.

Regarding whether the capital of these SMEs have improved overtime, the results were as below: -

**Table 4.12: Capital of SMEs has improved overtime**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Strongly disagree	2	4
Disagree	2	4
Neutral	0	0
Agree	26	52
Strongly agree	20	40
<b>Total</b>	<b>50</b>	<b>100.0</b>

*Source: Survey data, 2015*

Table 4.12 above revealed that 72% of the respondents agree that capital of SMEs has improved overtime as represented by 92%, while 8% of the respondents disagree with the statement. This means that capital of SMEs has improved overtime. This is in line with Broadbent and Cullen (2003) who asserts that improvement in capital of SMEs overtime is an indication of improved performance.

The study further seek to establish whether SMEs in Mbale Municipality have attracted more customers, the results was as under.

**Table 4.13: SMEs in Mbale have attracted more customers**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Strongly disagree	10	20
Disagree	8	16
Neutral	-	-
Agree	12	24
Strongly agree	20	40
<b>Total</b>	<b>50</b>	<b>100.0</b>

*Source: Survey data, 2015*

The above finding in table 4.13 showed that 68% of the respondents agree with the statement that SMEs in Mbale Municipal has attracted more customers, while 36% of the respondents disagree with the statement. This implies that SMEs in Mbale Municipal has attracted more customers. This finding relates to Alm (2000) assertion that a customer is the most important visitor of the business enterprises, he is not dependent on the business, businesses is dependent on him. He is not an interruption in the business work, he is doing them a favour by giving them an opportunity to do so.

#### **4.3.3 Establishing the relationship between working capital management practices**

Finding on the relationship between working capital management and financial performance of SMEs were considered and this can be evidenced as below: -

As to whether daily recording of cash affects financial performance of this enterprises, the results were as below in the table.

**Table 4.14: Daily recording of cash affects financial performance of this enterprise**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Strongly disagree	02	4
Disagree	02	4
Neutral	02	4
Agree	20	40
Strongly agree	24	48
<b>Total</b>	<b>50</b>	<b>100.0</b>

*Source: Survey data, 2015*

The results in table 4.13 showed that majority of respondents as represented by 88% agree with the statement that daily recording of cash affects financial performance of this enterprise, while 8% disagree. However 4% of the respondents were neutral. This therefore implies that daily recording of cash affects financial performance of SMEs.

The study further asked respondents whether financial performance of this enterprise is affected by management of fund. The results was as under: -

**Table 4.15: Financial performance of these enterprises is affected by management**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Strongly disagree	-	-
Disagree	-	-
Neutral	-	-
Agree	32	64
Strongly agree	18	36
<b>Total</b>	<b>50</b>	<b>100.0</b>

*Source: Survey data, 2015*

The results in table 4.14 clearly indicated that all respondents as represented agree with the statement that financial performance of SMEs is affected by management of fund. This is in line with Shaw (2006) who asserts that if any organization properly manages its fund and maintain a positive balance especially on book account in form of cash deposits, it may improve on the financial performance through the interest earned.

The study seek to establish whether purchase order issued for all goods bought affects financial performance of this enterprises. The results were as below: -

**Table 4.16: Purchase order issued affects financial performance of this enterprise**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Strongly disagree	4	8
Disagree	10	20
Neutral	6	12
Agree	16	32
Strongly agree	14	28
<b>Total</b>	<b>50</b>	<b>100.0</b>

*Source: Survey data, 2015*

Results above in table 4.16 indicated that 60% of respondents agree that purchase order issued affects financial performance of these enterprises while 28% disagree with the statement. However 12% of the respondents were neutral. This implies that purchase order issued affects financial performance of these enterprises.

As regard whether current income and expenses recorded in the books of account affects financial performance of these enterprises, the results are as below: -

**Table 4.17: Current income and expenses recorded in the books of account affects financial performance**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Strongly disagree	08	16
Disagree	02	4
Neutral	-	-
Agree	22	44
Strongly agree	18	36
<b>Total</b>	<b>50</b>	<b>100.0</b>

*Source: Survey data, 2015*

The results are as seen from above table showed that 80% of the respondents agree that current income and expenses recorded in the books of accounts affect financial performance, while 20% disagree with the statement. Implying that recording of both income and expenses affects financial performance of SMEs.

## **CHAPTER FIVE**

### **SUMMARY OF THE FINDING, CONCLUSION AND RECOMMENDATIONS TO THE STUDY**

#### **5.0 Introduction**

In this chapter, the researcher represents the summary of the findings, conclusion and recommendation basing on the finding in the previous chapter.

#### **5.1 Summary of the findings**

The study finding revealed that majority of the respondents were aged between the age group of 20-30 years, were female married, educated and have stayed with the organization for a period above 5 years.

Regarding the working capital management of SMEs, the study revealed that, there is no recording of cash by most SMEs and that daily cash receipt are not banked on the same day. The study further revealed that purchase order is not used by most SMEs. Further more, the study showed that purchase order is not made when re-order level have been reached.

Concerning the level of financial performance of SMEs, the study revealed that more sales were made by SMEs in Mbale Municipality. The study also showed that SMEs in Mbale Municipality use loans as a source of their capital. Further still the results



indicated that capital of these SMEs has improved overtime and also that SMEs have attracted more customers.

On the relationship between working capital management practices and the level of financial performance, the study revealed that daily recording of cash affects financial performance of SMEs. The study also recorded that financial performance of SMEs is affected by management of fund. The study also revealed that purchase order issue affects financial performance of SMEs. The study further noted that current income and expenses recorded in the books of accounts affects financial performance of SMEs.

## **5.2 Conclusion**

From the findings, the researcher came up with the following conclusion: -

As much as the working capital management practices in SMEs is effective, the challenges faced were that cash was not being recorded by one person, daily cash received was not banked on the same day.

As much as the financial performance of SMEs have improved, the challenges were that SMEs in Mbale Municipal have over relied on loans as a source of finance, this tends to affect their performance due to stringent conditions.

On the relationship it can be concluded that there is a significant relationship between working capital management practices and the financial performance of SMEs.

### **5.3 Recommendations:**

Following the analysis of the study, the study recommends the following: -

- There should be segregation of duties in SMEs especially in areas of financial management, where one would act as check to another.
- Daily income and expenses need to be recorded in accounting packages / books for easy detection of over spending, errors, fraud, etc.
- SME owners should ensure that daily incomes received is banked on the same day to reduce cases of theft, robbery and other risks associated with keeping of money in the house.
- SME owners should incorporate the use of source documents such as purchase order, purchase day book, cash book, journals, etc. All these help in accountability and stimulate auditing of their books of accounts.

### **5.4 Limitation of the study**

The researcher was faced with the following problems during the course of the study: -

- Financial constraints, especially finance for typing, photocopying, transport, accommodation, meals and airtime. However this was solved through borrowing from friends and relatives.
- Lack of corporation was another problem more especially from business owners who were not willing to reveal certain information which they considered confidential. The researcher solved this by explaining to them the importance of carrying out this study.

- A time constraint was another problem bearing in mind the time allocated for the study. This was solved by balancing the class work together with field work.
- There was delay in answering the questionnaires and further more some of the respondents did not return the questionnaires to the research.

### **5.5 Areas for further research**

The researcher suggested the following areas for future research: -

- Account receivable management and financial performance of SMEs in Uganda.
- Total quality management and the financial performance of SMEs in Uganda.

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## APPENDIX A: QUESTIONNAIRE

Dear Respondents

I am Gidugu Godfrey a student of KIU currently carrying out a research for the purpose for the award of a Bachelor Degree in Business Administration, under the topic “the effect of working capital management on the financial performance of SMEs in Mbale Municipality”. You have been selected to participate in this study. The study is purposely for academic and the information given will be treated with confidentiality. Please feel free and answer all the questions.

### SECTION A: Background of the respondents> (Tick where appropriate).

1- Age

Below 20 years

Between 20-30 years

Between 31-40 years

Between 41-50 years

Above 50 years

2- Sex: Male  Female

3- Marital status

Single  Married  Divorced  Widow/er

4- Level of education

Certificate  Diploma  Degree  Masters

5- Duration with the enterprise

Less than 3 years  3 – 5 years  above 5 years

**SECTION B:**

Indicate the level of your disagreement and agreement by ticking the following

1- Strongly disagree      2- Disagree      3- Neutral      4- Agree      5- Strongly disagree

<b>Cash management practices</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
6- There is recording of cash and it is done by one person					
7- In my organization, daily cash receipt is banked on the same day					
8- Purchase order is issued for goods bought					
9- Purchase order is made when re-order level have been reached					
10- More sales were made by SMEs during the year					
11- SMEs in Mbale municipality use loans as a source of their capital					
12- Capital of SMEs has improved overtime					
13- SMEs in Mbale municipality have attracted more customers					
14- Daily recording of ash affects financial performance of SMEs					



15- Financial performance of SMEs is affected by management of funds					
16- Purchase order issued affects financial performance of SMEs					
17- Current income and expenses recorded in the books of accounts affect financial performance					

**APPENDIX B: INTRODUCTORY LETTER FROM THE UNIVERSITY**