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Working capital management practices and performance of small and medium enterprises in western Uganda

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ABSTRACT

Managing working capital involves making decisions on the investment of available cash, maintaining a certain level of inventories, managing account receivables and account payables. Whereas working capital management is important because of its influence on profitability of SMEs, working capital management practices are not given due attention in Uganda by the owner managers of SMEs. Small and medium Enterprises (SMEs) are the drivers of Ugandan economy; they are the engine of growth for the economic development, innovation, spur economic prosperity and wealth creation of Uganda. Small and medium Enterprises (SMEs) are seen as a driving force for the promotion of an economy and they contribute immensely to the economic development of any country. Despite the significant contribution of small and medium enterprises to the Ugandan economy, the potentials of the SMEs have not been exploited fully and this is a concern of all stakeholders in the economy. Therefore, the purpose of the study was to establish the relationship between Working Capital management practices and performance of SMEs in Uganda a view to establishing a coherent model directed at improving performance. The study also examined factors for efficient Working Capital management practices for SMEs in Uganda. The study adopted a positivist quantitative paradigm with cross sectional and correlational designs. The findings in respect of the main purpose of this study indicated that in Working Capital management practices accounted for 33.8% percent of the variance in performance of SMEs. The results also indicated that Cash Management Practices influence highly since it predicts over 22% of the variance in SMEs performance. The study accepted the hypothesis that Working Capital management practices are positively related with SMEs performance. The present study supported a multi-theoretic approach in explaining performance of SMEs in Uganda. The study supports the pecking order theory in explaining the financing of SMEs together with resource-based view as the theories that help in explaining performance of SMEs. The study confirmed efficient Working Capital management practices positively influence and affect performance of SMEs in Uganda. It was recommended that SMEs should consider Working Capital management practices as an integral part in achieving SMEs performance. They need to give priority to Cash Management since it was found to have a big influence on SMEs performance. Since cash is a component of working capital, then, SMEs owners need to separate business transactions from their personal transactions so as to have financial discipline which would ensure sustainable working capital thus meeting short term needs SMEs.

Keywords: Working capital management, Performance, Small and Medium Enterprise

Introduction

Background

Managing working capital involves making decisions on the investment of available cash, maintaining a certain level of inventories, managing account receivables and account payables. Whereas working capital management is important because of its influence on profitability of SMEs (Garcia-Teruel, 2007),

Working capital management practices are not given due attention in Uganda by the owner managers of SMEs (Orobia *et al*, 2013). Small and medium Enterprises in Uganda are seen as a driving force for the promotion of an economy (Khan *et al* 2004) and they contribute immensely to the economic development of any country (Abor *et al*, 2010). In Uganda the SMEs sector contributes 20% to Gross Domestic Product and it provides employment to over 1.5 million people which accounts for 90% of total non-farming private sector workers (UIA, 2008). The benefits of the small and medium enterprises in Ugandan economy cannot be overemphasized. Small and medium enterprises play significant role in employment and income generation, producing import substituting products, mitigating rural-urban drift and mobilization of local resources (Ernst&Young, 2011). Despite the significant contribution of small and medium enterprises to the Ugandan economy, the potentials of the SMEs have not been exploited fully and this is a concern of all stakeholders in the economy (UNCTAD, 2002; Ekanem, 2010; Tushabomwe, 2006). These very concerns are abounding elsewhere (Cookey, 2001; Ihembe, 2000). At the height of a number of initiatives undertaken by the government of Uganda aimed at improving and promoting the business environment, reduce the cost of compliance with business regulations, the reforms have not improved the situation as the performance of SMEs in Uganda is still below the expectation (UIA, 2008; Ernst&Young, 2011) and this possess a threat to the Ugandan economy since SMEs are great contributors to the GDP.

The goal of Working Capital Management is to manage the firm's current assets and liabilities in such a way that a satisfactory level of working capital is maintained. The interaction between current asset and current liabilities is therefore the main theme of the theory of working capital management.

Some suggestions are advanced for the SMEs underperformance such as poor access to finances (Kasekende, 2003) and generally lack of strategic resources consistent with the resource dependency theory propounded by Barney (1991). Indeed, SMEs managed by owners with little knowledge (knowledge is considered a strategic resource) in business management (Grant, 1996) could suffer from this predicament. Barney's (1991) argument that firms could underperform due to inadequate resources could therefore be extended to SMEs financial performance. Moreover, extant studies (e.g., Degryse *et al*, 2011 and Raheman *et al*. 2007) explain performance trends in small and medium enterprises in Spain, Pakistan and identify efficient working capital as a major predictor of SMEs profitability and overall performance. Their findings are not at variance with Erasmus (2010) results that indicate that it is financing practices that determine the level of performance of SMEs. Other scholars like Nguyen (2001) share the same view and argue that efficient cash flow management practices enable SMEs to be profitable in Vietnam. However, other scholars like Abuzayed (2012) findings from his study on Cash Management Practices in Ghana, argue that cash management of SMEs depends on the mind set and experience of the owners.

More so, the studies done were not benchmarked on a theory that would explain performance of SMEs using individual predictors like Cash Management Practices. Nevertheless, literature on SMEs in Uganda (see for review Ernst & Young, 2011; Namatovu *et al*, 2010; Ishengoma *et al*, 2008; Tushabomwe, 2006; Lois *et al*, 2005 and Opondo, 2003) is deficient of studies on Working Capital management practices' predictive potential for performance of SMEs. Orobia *et al* (2013) – who are a notable exception - show how SMEs owners manage working capital in Uganda and conclude that Cash Management Practices practices in Ugandan businesses are driven by the attitude and motivation of the individual and contextual factors.

However, Orobia *et al*. (2013) study only provides a partial explanation as it ignores other Working Capital management practices' constructs mentioned above.

The current state of affairs of SMEs' performance might also stem from inadequacies in the theories applied. For example, contingency theory has been widely used in studies predicting performance and effectiveness of enterprises (Fiedler, 1964) and the theory argues that the most appropriate structure for an enterprise is one that greatly fits a given operating contingency, such as technology (Woodward, 1965) or environment (Burns & Stalker, 1961). As every company faces its own set of internal and external constraints it is not clear why Working Capital management practices internal to the enterprise and augmented by owner-manager inherent resources have not been given due attention in a developing country context. Besides, Myers (1984) pecking order theory which states that firms have a preferred hierarchy for financing decisions. The highest preference is to use internal financing which includes retained profits before resorting to any form of external funds. Myers (1984) argues that internal funds incur no flotation costs and require no additional disclosure of proprietary financial information that could lead to more severe market discipline and a possible loss of competitive advantage. If a firm must use external funds, the preference is to use the following order of financing sources: debt, convertible securities, preferred stock, and common stock. However, Myers (1984) theory does not sufficiently stand to explain the behaviour of financing SMEs in developing countries due to the unique circumstances. Yet application of resource-based view sees firms to have a set of resources at its disposal which can be utilized by firms to maximize profitability (Barney, 1991). More so Knowledge-based theory as advanced by Grant (1996) identifies knowledge as an important resource which SMEs owner-mangers can use to boost their performance. Empirically, Degryse *et al* (2010) used pecking order theory and Alfo (2006) used agency theory in explain SMEs' performance, but the results do not assure that SMEs are predicted to improve performance. Failure to provide solutions to performance-related problems of SMEs will continue to hurt the Ugandan economy.

Thus, this study employs resource-based view (Barney, 1991; Wernerfelt, 1984) since majority of the SMEs are owner managed and the owners are the providers of the resources to be used in business including finances. However, the resource-based view ignores the knowledge aspect and since the SMEs are owner-managed, then the study considers the extent to which knowledge and skills of owners boost performance, thus calling for the study to employ knowledge-based theory.

Although previous studies showed a relationship between working capital management and profitability of SMEs and other related constructs , these studies are from the developed nations and had looked mostly at working capital management without looking deeply on the multiplicative effect of various constructs of Working Capital practices; Whereas Orobia *et al*, 2013 studied how business owners manage working capital, the study employed action theory and the findings did not link working capital management to performance of SMEs. More so these studies had unresolved contradictions together with theoretical limitations applicable to SMEs thus, calling for a new study in a developing country setting like Uganda to be done and help in establishing the relationship between Working Capital and performance of SMEs.

Purpose of the study

Therefore, the purpose of the study was to establish the relationship between Working Capital management practices and performance of SMEs in western Uganda with a view of obtaining an appropriate model for improving SMEs performance in Uganda.

Objectives

i. To establish the relationship between Working Capital management practices and performance of SMEs in Western Uganda
ii. To examine the extent to which Working Capital management practices affect performance of SMEs in Uganda.

Hypotheses

i. H_1 There is a positive and significant relationship between Inventory Management and performance of SMEs in Uganda.
ii. H_2 Working Capital Management Practices positively influence performance of SMEs in Uganda.

Literature Review

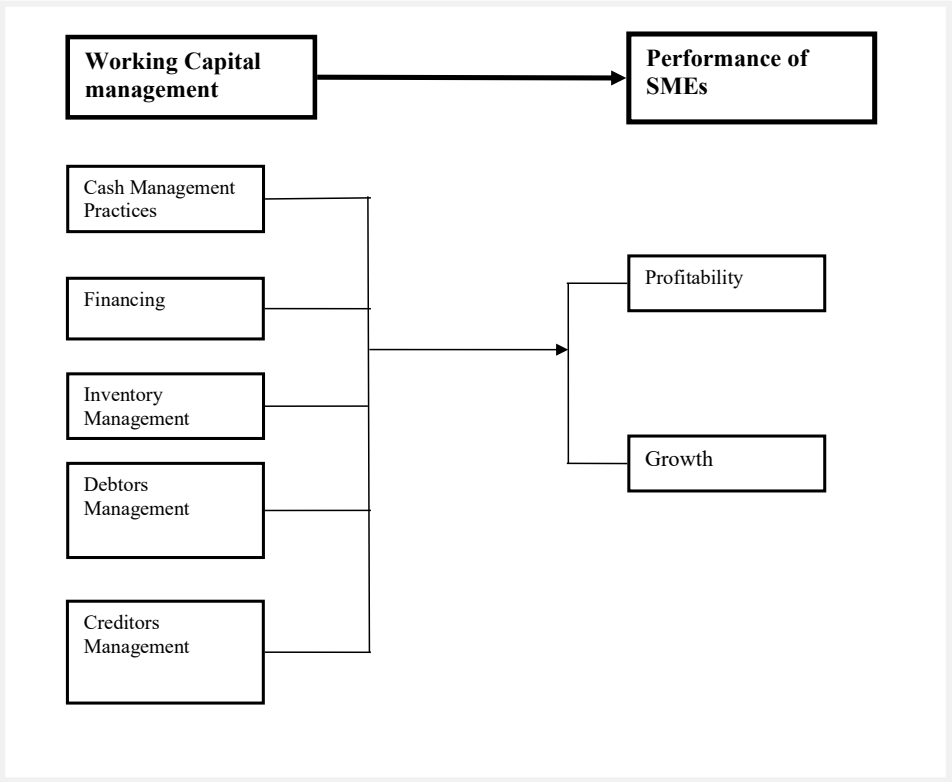
Theoretical Review

i. Various theories have been advanced to explain what influences performance of SMEs. Numerous theories which have been put forward to explain the SMEs performance include; Resource-Based View of the firm Wernerfelt, (1984); Barney, (1991), Pecking Order Theory Myers (1984); Shyam-Sunder and Myers (1999), Knowledge-Based view Grant (1996) and Dynamic Capabilities Theory Teece etal (1997). These theories try to explain SMEs performance irrespective of their limitations.

Theory	Details about content	Limitations	Source
Resource Based View	Suggests that in business, resources and products are two sides of the same coin. It links profitability with the resources used. The theory tries to give details on the internal sources of a business's sustained competitive advantage.	It has no managerial implications; it implies infinite regress. The definition of a resource is unworkable	Wernerfelt (1984), Barney (2002, 2001,1999,1996,1994, 1991a, 1991b), Connor (2002, Miller (2003)
Pecking Order Theory	A firm's financing is determined by the firm's preference to finance with internally generated funds instead of with external financing. If external financing is required, debt is preferred over equity. The highest preference is to use internal financing that is retained earnings and the effects of depreciation before resorting to any form of external funds.	Whereas the pecking order theory has an impact on finance capital structure, it is also criticized for its simplifying assumptions, where the firm's only financing choice is debt vs. equity	Myers (1984); Myers&Majluf (1984); Shyam-Sunder& Myers (1999)
Knowledge Based Theory	The knowledge-based theory considers knowledge as the most important of the firm's resources.	There is insufficient consensus as to its purpose. This theory does not give details about the nature of heterogeneous asset bases that are suitable to different businesses in conjuction with their objectives.	Grant (1996)
Dynamic Capabilities Theory	This theory attempts to provide details into how dynamic capabilities facilitate achievement of business performance by responding fast to external and internal environmental changes	Dynamic capabilities do not engage in the production of a marketable good or service. Instead, they build, integrate or reconfigure functional. competences.	Teece (2007 1997) Winter (2003)

Therefore, given the reviewed literature and the theories detailed above, a conceptual framework was designed for the study.

Figure 1: Conceptual Framework



The hypothesized model is based on the following main assumption:
There is relationship between Working Capital management practices (independent variables, X1, X2,…. Xn) and performance (dependent variable, Y) of SMEs.

From the hypothesized model $Y = \alpha+\beta_1X_1+\beta_2X_2+\beta_3X_3+\beta_4X_4+ \beta_5X_5+e$

Where Y is the Dependent Variable – Performance of SMEs
α = Constant
X = representing the components of the Independent Variable- Working Capital management practices.
X_1 = Cash Management
X_2 = Financing
X_3 = Investment
X_4 = Debtors Management
X_5 = Creditors Management
$ß_{1-5}$ = Coefficients of beta
e = error term

The model shows that a multiplicative effect of a number of Working Capital management practices may improve the multiplicative effect of perceived performance dimensions than individually. Moreover, Working Capital management practices will have a positive effect on the overall performance of SMEs.

Empirical Studies and related Literature

Working capital management and performance.

According to Van Horne (1995) managing working capital involves making decisions on the investment of available cash, maintaining a certain level of inventories, managing account receivables and account payables. The same view is shared by many other scholars see (Chakraborty, 2008; Garcia-Teruel *et al*, 2007; Raheman *et al*, 2007; Lazaridis & Tryfonidis, 2006; Padachi, 2006). Garcia-Teruel and Martinez-Solano (2007) investigated the effects of working capital management on the profitability of a sample of small and medium-sized Spanish firms. Their findings revealed that managers can create value by reducing their inventories and the number of days for which their accounts are outstanding. Moreover, shortening the cash conversion cycle may improve the business profitability. Chakraborty (2008) investigated the relationship between working capital and profitability of Indian pharmaceutical companies. According to Chakraborty (2008) there are two different schools of thought on working capital and profitability: as per one school of thought, working capital is not a factor of improving profitability and there may be a negative relationship between them, while according to the other school of thought, investment in working capital plays a vital role to improve corporate profitability, and unless there is a minimum level of investment of working capital, output and sales cannot be maintained. However, Mathuva (2009) examined the influence of working capital management components on corporate profitability by using a sample of 30 firms listed on the Nairobi Stock Exchange (NSE) for the periods 1993 to 2008. The findings from his study revealed that there exists a highly significant negative relationship between the time it takes for firms to collect cash from their customers. The results also revealed that 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 and profitability. The same results are not at variance with Uyar (2009) results which showed statistical significant between working capital and firm performance.

It is noted however, that whereas working capital management is important because of its influence on profitability of SMEs (Garcia-Teruel, 2007), SMEs owners do not concertrate on the cash conversion cycle. Working capital management practices are not given due attention in Uganda by the owner managers of SMEs (Orobia *et al*, 2013). Thus, this may lead to increased costs as majority of SMEs maintain high levels of inventory which ties up the little capital available to SMEs. Blinder *et al* (1991) shares the same view and argue that minimal inventories need to be kept so as to maintain profitability levels of SMEs. He further says that granting trade credit favors the firm's sales, but it needs to be done with caution such that the business money is not tied up in receivables.

A closer look at the studies done in Uganda (see Ernst&Young, 2011) shows that SMEs have no formula they follow in determining their short-term financing needs. Thus, in Uganda it is necessary to come up with a framework to help SMEs on determining the appropriate working capital so as SMEs can enjoy profits (Ernst&Young, 2011). The findings from the study done by Garcia-Teruel (2007) indicate that there is a significant negative relationship between working capital management and firm performance among SMEs in Spain. The study goes ahead to show that firm's profitability can be improved by reducing the number of days of inventory, having restrictive credit policies to customers so as to reduce the time they take to pay. Similarly, his findings indicated a negative association between accounts payable days and profitability. This

is because majority of the SMEs do not give attention to their creditors. Garcia-Teruel (2007) accords special attention to the importance of working capital which is evidenced in the time and efforts most business owners devote to its management. Their findings established that a large number of business failures have been traced to mismanagement of working capital composition and application by most firms. Shin *et al* (1998) and Petersen *et al* (1997) are not at variance with the above findings since in their separate studies, it was observed that poor management of working capital has contributed to bankruptcy of many firms.

Garcia-Teruel *et al* (2004) in their study of the effect of working capital management on profitability which examines a sample of 8872 small and medium size Spanish companies also observes that a shorter cash conversion cycle may improve a firm's profitability. KPMG (2000) is not at variance with the above results and observes that a reduction in the cash conversion cycle releases liquidity and impacts directly on the business's financial position thereby leading to rise in returns. This study conceptualized working capital management as cash management, accounts receivable management and inventory management practices. Since majority of the studies done showed a significant negative relation between working capital management and firm profitability (see Garcia-Turuel, 2007, Blinder *et al*, 1991, Elliehausen, 1993) with the exception of Deloof (2003) who found a significant relationship between working capital and profitability in Belgium. Danielson *et al* (2000) established that trade credit has a significant relationship with firm performance. Shin and Soenen (1998) stressed that a business could have increased sales with a liberal credit policy that allows a long cash cycle. In that case, the longer cash conversion cycle may result in higher profitability. In the same view, Deloof (2003) argues that extended cash conversion cycle is likely to increase profitability as a result of higher sales generated. Lyroudi *et al* (2002) is not at variance with the above view, since in their study of working capital management and profitability among food industries in Greece, a positive and significant relationship between cash conversion cycle and profitability was established. All these studies are in developed nations, thus there is need to establish how working capital management practices affect SMEs performance in Uganda which leads to the hypothesis below.

> *There is a positive and significant relationship between working capital management practices and performance of SMEs in Uganda*

Research Methodology

Research Approach and Philosophical Assumptions

Given that this study is concerned with the relationship between Working Capital management practices and performance of SMEs, then a quantitative approach suits this study. The study follows a positivist view which is quantitative in nature and which believes that the objects under study are unaffected by their research activities and will persist even when the study is completed. This is because this study placed an early commitment to theoretical constructs formulated before gathering data and thereafter employed the quantitative designs based on an objective view of the world, which follows the positivist model of testing pre-specified hypotheses as commended by Denzin *et al*, (1998). The study used logical positivism quantitative designs and these were very helpful in data collection, analysis and presentation which also helped to test hypothetical deductive generalizations. This method was adopted because it is not biased since it relates to phenomenon and relies a lot on statistics. Burns *et al*, 2009).

Research Design

The study adopted a quantitative paradigm since it involved theory testing and was made of variables which were measured in numbers and they were later analyzed with statistical tools as required in positivist realm (Creswell, 2006; Collis *et al* (2003). The study used a number of designs in order to obtain meaningful results as Katrina (2007) observed that no single design should be seen as a universal panacea. The study employed exploratory study design (Cooper & Schindler, 2008). The exploratory study was used to determine the concepts to be included in the study theory and to support the foundation and background of the study. This was an intensive exploratory study on the existing literature and secondary data available on Working Capital management practices and SMEs performance which involved review of literature. The study used a descriptive design in order to describe the profile of the respondents in terms of age group of owners, level of education, number of years in present business and the perceptions of respondents regarding Working Capital management practices as well as SMEs performance (Miller, 1998). The study also used a cross sectional research design as the study intended to obtain a random sample as well as understand a cross section of interest at a particular time. Cross-sectional studies are useful for generating and clarifying hypothesis and they help in laying the ground work for decisions about future follow up studies (Kraemer, 1994). However, cross-sectional studies cannot answer questions about the stability of a characteristic or process overtime (Miller, 1998). Furthermore, the correlation design was used to establish relationships between Working Capital management practices and performance of SMEs.

Study Population and Sample Size Selection

The study population consisted of 10,730 trading and manufacturing SMEs in Mbarara, Sheema and Bushenyi (Uganda Bureau of Statistics – Uganda Business Register 2020/1). The SMEs were the units of analysis. Owners/ Managers of SMEs were the units of inquiry. The SMEs industry is a multiservice-sector population and it was preferred since within-sector studies are useful for controlling the influence of context-specific norms. This also enabled the researcher to deal with the issue of test-retest reliability. It was assumed that the sectors in which SMEs fall presume the incidence of certain behaviors and practices of the study variables.

Many scholars propose different ways of arriving at an appropriate and representative sample. Sekaran (2000) recommends a rule of thumb of between 30 – 500 samples depending on sampling design. Field (2005) in reference to sample size in regression analysis indicates the most common rules of thumb being 10 or 15 cases per each predictor in the model. However, the text qualifies the rules as pervasive and in harmony MacKinnon (2008) suggests the size of the sample depends on the strength of the relationship required for the study; but the bigger the sample the better. It is important to note however, that there are no definitive prescriptions about the adequate size of a sample for a study, but larger samples are preferred in quantitative studies (Brink, 2006).

The sample size revolves around 387 since the total population was 10,730. This is almost the same with the computed sample size using Yamane's formula.
Yamane (1973) formula was used to determine the minimum sample size.

Sources of data

Primary and secondary data sources were used in the study. The primary source was obtained with the use

of the Self-administered Questionnaire. The secondary data was obtained through the reports of some the SMEs which had some information. It is important to note that the SMEs record keeping is poor, thus majority of the reports are not available.

Data Collection Instruments

The instruments that were used in the study included the face sheet to gather data on the respondents' profile characteristics and unstandardized questionnaires to investigate Working Capital management practices among SMEs and level of SME's Performance. Reliability of 77.4% of the instruments was determined using Cronbach's alpha. Content validity of the two instruments was ensured through use of valid concepts which measure the study variables. Content validity was used to ensure that the questionnaire was content valid. The content validity results were obtained and for all the constructs were above 0.7 as recommended by Sakaran (2000).

Data Management and Analysis

The collected data was screed and checked for completeness, cleaned and well coded so as to reverse negatively worded scale items. Data screening was carried out so as to establish the distribution of data and be able to assess whether the assumptions of parametric data were met. The test for normality was done so as to check whether the data was normally distributed. Other tests conducted included homogeneity of variance, linearity of the data independence of errors and multi-collinearity. SEM and AMOS were used in analysis. The frequency and percentage distribution was computed to determine the profile characteristics of the respondents. The mean and standard deviation were computed, Analysis of Variance was used in cross tabulation, Pearson Linear Correlation Coefficient was used to test the relationship between variables and Zero order correlations and hierarchical regression were done to test the set hypotheses.

Results: Data Presentation, Analysis and Interpretation of Findings

Respondent's demographic characteristics

Demographic characteristics of respondents regarding the level of education, age and sex of respondents are provided in tables below.

Table 4.1 (a): Level of education of owner-managers.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	High School	101	30.1	30.1	30.1
	College Certificate	54	16.1	16.1	46.3
	Diploma	48	14.3	14.3	60.6
	Degree	59	17.6	17.6	78.2
	Others-Primary	73	21.8	21.8	100.0
	Total	335	100.0	100.0	

Source: Primary Data

From Table 4.1 (a), it is clearly seen that 3.1% of respondents are high school leavers, 21.8% are primary school leavers, 17.6% are degree holders, and 16.1% hold college certificates and 14.3% are diploma holders. Thus from the above results its evident that majority of SMEs owners are high school leavers.

Table 4.1 (b): Sex of respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	196	58.5	58.5	58.5
	Female	139	41.5	41.5	100.0
	Total	335	100.0	100.0	

Source: Primary Data

From table 4.1 (b), it is indicated that majority of respondents were male representing 58.5% and female were representing 41.5%. This shows that males own more SMEs than their female counterparts.

Table 4.1 (c): Age of owners.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	20-39	232	69.3	69.3	69.3
	40-59	94	28.1	28.1	97.3
	60-above	9	2.7	2.7	100.0
	Total	335	100.0	100.0	

Source: Primary Data.

From Table 4.1 (c), it is clear that 69.3% of respondents fall in the age bracket of 20-39, 28.1% are in early adult hood and 2.7% are in late adult hood. This clearly shows that the youth are actively participating in the small and medium enterprises probably as an alternative to secure themselves employment.

Table 4.1 (e): Ownership of business.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Family business	118	35.2	35.2	35.2
	Sole Proprietorship	183	54.6	54.6	89.9
	Partnership	27	8.1	8.1	97.9
	Limited Company	7	2.1	2.1	100.0
	Total	335	100.0	100.0	

Source: Primary Data.

Results from gable 4.1 (e) shows that 54.6% of SMEs are owned by sole proprietors, 35.2% are owned by families, 8.1% are partnerships and 2.1% are limited companies. Thus majority of SMEs are single owned enterprises.

Table 4.1 (f): Number of years in business.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1-3	142	42.4	42.4	42.4
	4-6	123	36.7	36.7	79.1
	7-10	49	14.6	14.6	93.7
	11-above	21	6.3	6.3	100.0
	Total	335	100.0	100.0	

Source: Primary Data.

Table 4.1 (f) reveals that 42.4% of SMEs have been in business for three years and below, 36.7% have been in business between 4-6 years and 6.3% have been in business for over 11 years. This clearly shows that majority of SMEs are newly startup businesses. The study used Means and standard deviations in order to summarize the results. The means were used because they show a summary of data and standard deviation clearly shows how well the means represent the data. It was important to use means and standard deviation in order to determine whether the statistical means were a good fit of the results.

Table 4.2: Descriptive Statistics.

Variables	Minimum	Maximum	Mean		Std. Deviation	Variance
			Statistic	Std. Error		
Debtors Management	1.00	3.75	2.1004	.02698	.49376	.244
Inventory Management	1.00	3.56	2.1619	.02404	.43998	.194
Creditors Management	1.17	3.67	2.1915	.02001	.36621	.134
Financing	1.40	3.00	2.2233	.01882	.34441	.119
Cash Management	1.37	3.44	2.3477	.01629	.29816	.089
SMEs Performance	2.03	3.83	2.6913	.01535	.28092	.079

Source: Primary Data.

Results show that all the mean scores for both the independent and dependent constructs that is to say for Working Capital management practices which comprised of Debtors Management with a mean of 2.1004, investment with a mean of 2.1619, Creditors Management with a mean of 2.1915, financing with a mean of 2.2233 and Cash Management Practices with the highest mean of 2.3477. The respective standard deviations are in the range of 0.29816 and 0.49376. The mean scores for SMEs performance were 2.6913 and the standard deviation was 0.28092. The results indicate small standard deviations as compared to their respective means. Thus, it is clearly understood that that the data points are close to the means. It is important to note that the calculated means for Working Capital management Practices and SMEs performance shows a moderate presentation of reality.

The standard error values computed showed relatively small values. The values ranged from 0.01629 to 0.02698 for Working Capital management practices constructs and for SMEs performance, the standard error was 0.01535 which was also considerably very small. Thus, this shows that most sample means are similar to the population mean and this clearly shows that study's sample was likely to be an accurate reflection of the population. Confirming evidence is provided by the variance which is the average error between the mean and the observations and the variance ranged from 0.089 to 0.244 for Working Capital management practices constructs and variance for SMEs performance was 0.079 and variance is a good measure of how well the model fits actual data.

The mean values on working Capital management Practices constructs, it is clearly seen that perceptions from respondents showed that the Working Capital management practices among SMEs are low and SMEs performance was perceived to be low among SMEs. Thus if due attention is given to Working Capital management practices, performance of SMEs may be improved. The findings are in agreement with Nguyen (2001). The same view is shared by Panda (2012) who argues that Cash Management Practices influence sales. Similarly, findings of Mian *et al* (2009) show that Cash Management Practices affects the overall profitability of the firm.

Relationship between Working Capital management practices and performance of SMEs.

Pearson Linear Correlation Coefficient was used to establish whether there is a linear relationship between predictor variables (Cash Management, Financing, Inventory Management, Creditors Management and Debtors Management) and the criterion variable (SMEs performance). Correlation analysis is important since it determines the relationships between two or more variables and shows the levels of significance of the relationship. Correlation analysis shows the direction of the relationship between the variables at the same time showing the magnitude of the relationship. It should be noted however, that correlation analysis does not show causation.

The hypotheses tested in the study include; H_1 : There is a positive and significant relationship between Working Capital Management (Cash Management, Financing, Inventory Management, Creditors Management and Debtors Management) and performance of SMEs in Uganda.

The findings indicate that there is a positive and significant correlation between Working Capital management practices and performance of SMEs ($r= 0.427$, $p< 0.05$). The effect of all working capital management practices including Cash management, financing, Inventory Management Debtors and Creditors Management have a strong association with performance of SMEs. Since all correlation coefficients were positive and significant it shows that all Working Capital management practices were positively related to performance of SMEs. This implies that efficient Working Capital management practices combined together are associated with high performance levels among SMEs. This therefore gives support to the set hypothesis that there is a relationship between Working Capital management practices and performance of SMEs. However, since some of the coefficients of Working Capital management practices were moderate, it is necessary to conduct a regression analysis in order to establish the existence of a predictive power of Working Capital management practices on performance of SMEs.

Testing predictive power of study variables

In order to establish the effect of Working Capital management practices on performance of SMEs multiple regressions were performed in order to ascertain the influence and percentage of causation of Working Capital management on performance of SMEs

Table 4.4.1: Model Summary Hierarchical regression with Working Capital management practices elements on performance of SMEs.

Model Summary[f]					
Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**	**Durbin-Watson**
1	.471[a]	.222	.219	.24820	
2	.561[b]	.314	.310	.23333	
3	.566[c]	.321	.315	.23258	
4	.573[d]	.329	.320	.23157	
5	.581[e]	.338	.328	.23034	1.467

a. Predictors: (Constant), CM

b. Predictors: (Constant), CM, DTM

c. Predictors: (Constant), CM, DTM, INVT

d. Predictors: (Constant), CM, DTM, INVT, FIN

e. Predictors: (Constant), CM, DTM, INVT, FIN, CRM

f. Dependent Variable: SMEP

Source: Primary Data

Squared Multiple Estimate (R^2): (Default model)

	Estimate
BP	.339

The estimate implies that one unit increase in the multiplicative effects of Working Capital management practices leads to 33.9% positive variance in performance of SMEs. This path is significant ($p < .001$)
From the model details above, Working Capital management and performance of SMEs confirms the earlier results obtained using the multiple regressions where the predictive power of all the elements of Working Capital management practices was 33.8%. As clearly seen from the squared estimate, the total effect of Working Capital management practices on performance of SMEs represents 33.9%.

Discussion of findings

The results confirmed that a positive and significant relationship exists between working capital management and performance of small and medium enterprises. This indicates that a positive change in working capital management practices is highly associated with good performance of SMEs. Therefore, this means that the more efficient the working capital management practices the better the performance of SMEs. This finding is consistent with that of Bhunia *et al*, (2012, Caballero (2011) and Mohamad *et al*, (2010), who found out that working capital is positively related with high firm performance. More so this finding is further supported by the study done by Onwumere (2012) which posits that working capital management have a positive correlation on profitability in Nigerian firms measured by return on assets .This finding implies that SMEs needs to pay attention to components of working capital management like cash management which involve the cash conversion cycle, accounts receivables management like debtors days and inventory control since they are highly associated with performance. This finding hence lends support to hypothesis which states there is a positive and significant relationship between working capital management and performance of SMEs.

The results are at variance with Panda (2012) in his study status of working capital and its relationship with sales in India, observed that working capital of the company had a statistically insignificant relationship with sales. Garcia-Teruel *et al* (2007) observed that working capital management is negatively associated with firm performance in terms of return on assets. The empirical finding also contradicts the previous research a number of scholars see (Kulkanya, 2012; Sebastian, 2012; Abuzayed, 2011; Nazir, 2009 and Padachi, 2006) who found working capital negatively associated with firm's performance. This has been attributed holding of too much stock which ties capital, selling too much on credit and little is converted into cash as it eventually becomes bad debts which reduces profitability. Thus SMEs needs to control stock so as not to tie in capital and also vet credit customers and also regulate the sales made on credit so as to reduce bad debts in order to achieve desired performance of SMEs

Conclusions

In providing the path for improvement in performance of SMEs, the current study has provided support for a multi-theoretic approach in the explanation of performance of SMEs. The study applied theories of resource-based view, knowledge-based theory and dynamic capabilities theory and this has shown that

utilization of a multi-theoretic approach offers an appropriate route to performance of SMEs by identifying the most critical resources required by the firm supported with the relevant knowledge and skills of the desired practices working capital. Thus, in circumstances where these practices are inefficient, performance of SMEs is likely to suffer.

The study established the correlation between Working Capital management practices and performance of SMEs in Uganda. The emphasis was put on assessing the predictive power of the individual working capital management on SMEs performance. The study indicated that the level of performance among SMEs is low. This is through the indicators of return on assets, return on equity and return on investment.

The study established the correlation between Working Capital Management practices and performance of SMEs in Uganda. The emphasis was put on assessing which one of individual Working Capital Management practices has a positive and significant relationship with performance. This means that the elements of efficient Working Capital are highly associated with better performance of SMEs. This rendered the support to the earlier set hypotheses which were accepted. Thus, SMEs poor performance can be associated with poor Working Capital Management practices. This is because the study established that the application of Working Capital Management practices are low

Major emphasis was put on assessing the predictive power of the individual Working Capital Management practices on performance of SMEs. This study confirmed that Working Capital Management practices combined cause a multiplicative effect of 33.8% variance in performance of SMEs. Though there are other factors that affect performance of SMEs, this study indicated that Working Capital Management practices are paramount in explaining performance of SMEs. The other factors affecting SMEs performance may stem from the size of the business and the number of years the SMEs have been in business.

The study findings provide support to the resource-based view, this was in line with the necessary resources required by SMEs such as finances to ensure smooth running of business activities. Whereas some support to the pecking order theory is seen with in the study findings, SMEs in Uganda do not follow fully the theory as part of it is inapplicable in the local situation of SMEs here in Uganda. This is because none of the SMEs are listed on the stock exchange and thus issuing of equity is out of question for SMEs thus not following the order recommended by Myers (1984) in his pecking order theory of firms. Similarly, the study gave considerable support to the knowledge-based view. This is because owners-managers of SMEs need to have knowledge about business skills and how to manage working capital so as to be able to know the l status of their business.

Recommendations

Owners of SMEs should consider Working Capital management practices as an integral part in achieving performance of SMEs. They need to give priority to the cash management and financing since they were found to have a big influence on performance of SMEs. Since cash is a component of working capital, then, owners need to separate business transactions from their personal transactions so as to have financial discipline which would ensure sustainable working capital thus meeting short term needs SMEs.

Practioners should provide a platform for training the SMEs owners on how to adopt and implement efficient working capital management Practices particularly on cash management since cash is the life blood of every business so as to ensure improved performance in their businesses. This training should focus on how easily and feasible the Cash Conversion Cycle of SMEs can be reduced so as to have sustainable liquidity to help SMEs finance their short-term obligations.

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