THE EFFECT OF FINANCIAL MANAGEMENT ON PERFORMANCE OF PRIVATE ORGANIZATIONS IN UGANDA

CASE STUDY: STELLA MARIS COLLEGE NSUUBE

NALWADDA DOREEN

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UGANDA MARTRYS UNIVERISTY

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A DISSERTATION SUBMITTED TO THE FACULTY OF BUSINESS ADMINISTRATION AND MANAGEMENT IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF A DEGREE OF BACHELOR OF BUSINESS ADMINISTRATION AND MANAGEMENT

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DEDICATION

This dissertation is dedicated to my late auntie and teacher Philomena Nanziri for nurturing and showing me the importance of education and Auntie Sylivia Nalwoga for her continued sustenance in all walks of life.

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Glory, praise and thanks to Almighty God for the gift of life, wisdom, knowledge and understanding that He granted me throughout my course of study.

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GOD BLESS YOU ALL

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

ABBREVIATIONS

STEMACONS	Stella Maris College Nsuube
AP	Accounts Payable
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards

ABSTRACT

Financial management is considered to be one of the integral parts of overall management of financial resources in an organisation. The need for effective financial management comes from the fact that many private organisations have remained lagging behind amidst the available resources in the organisation which could be due to inadequate financial management systems. This study decisively looked at the effect of financial management on performance of private organizations as the major objective taking empirical case of Stella Maris College Nsuube.

The study was conducted using case study research design, descriptive-cross sectional approach and applying both qualitative and quantitative techniques. Data was collected using questionnaires, interviews, review of available documents and records targeting basically the Board of Directors, Management, Finance Committee, Teaching and Support staff. Data was analyzed using the Statistical Package of Microsoft Excel Software and interpretation of results was drawn from tables and figures in the form of pie charts and bar graphs.

The findings revealed that there exists a positive relationship between financial management and performance. The organization mobilizes its finance through school fees collection, loans and donations. However, it is faced with the challenges of inadequate funds due to dependency on school fees as the major source of income and lack of participatory budgeting; ineffective internal control system especially segregation of duties; poor inventory management and lack of receivable and payable management policies.

The study therefore, concludes and recommends that to ensure efficient and effective financial management, the top management needs to diversify the sources of income by establishing income generating projects and seeking for donor funds. The organization should establish and strengthen the receivable management policy, strengthen inventory management and institution of internal and external audits in financial management processes; staff development, segregation of duties and reinforcement of financial guidelines and procedures.

Therefore, it was concluded that good financial management is a necessary tool for the success of both public and private organizations (Stella Maris College Nsuube).

CHAPTER ONE

INTRODUCTION

1.0 General Introduction

Financial Management is concerned with the efficient use of financial resources in an organisation and therefore, it is an important element in the development and growth of an entity hence it acts as means to an end itself (Solomon, 2000).

In the business world of today which is full of competition and dynamic challenges, the tasks of raising and allocating funds need to be handled with caution. The impact of the investment, financing, working capital management and earnings, management decisions on the organization, makes financial management a very strategic function. If these decisions are not taken with caution and efficiency then an organisation and financing risk becomes unmanageable risk (Kakuru, 2007). Financial management involves functions such as: financial budgeting, financial analysis and planning, internal control and accounting, if appropriately fulfilled, the result is good performance of an organization. Financial management significantly affects the performance of an organization if not keenly handled.

The financial management function in organizations has evolved from being a subject area in economics to a strategic function as seen in most organizations today. Prior to the great depression of the 1930's, internal management of resources in organizations was not considered very critical; emphasis was then put on the functioning of the market system and the growth of the different economic models (Kakuru, 2007).

Many African countries such as Zambia, Senegal and Ghana struggle with the proper approach to financial management. Studies indicate that in the recent years, public financial management has become one of the key reform areas in developing African countries. The system is crucial for improving efficiency and effectiveness across all stages of the budget cycle like budget planning, execution reporting and external control. This has been done through introduction of integrated financial management systems to ensure quality of public finance as well as accountability and transparency of operations (Heindenhof et al, 2002).

Financial management in Uganda is still at the evolution stage; most finance executives are concerned with the routine functions of internal control and the utilisation of financial resources. However, the condition which accelerated the evolution of finance function in the developed countries is becoming more relevant in Uganda today. This is evidenced with privatization, trade liberalization of the economy, thus accelerating competition, technology, and globalization (Kakuru, 2007).

Effective financial management lies at the heart of a successful organization (Watson & Head, 2001). Therefore, the existence of an organization depends highly on the ability of its managers to manage and control their financial resources.

Financial management embraces the process taken for acquisition of funds to effective management of organizational desired activities. Kryzanowski et al (1990) state that finance deals with the generation and allocation of scarce resources. For any organization to grow in its operations there is need for efficient and effective allocation of its financial resources.

Therefore, financial management is one of the important elements in the performance of an organization and refers to the routine financial functions performed in an organization to ensure efficient use of financial resources. It is concerned with the raising and allocation of resources within an organization in order to meet the set goals and objectives in line with the strategic plan.

This research seeks to establish the effect of financial management on performance of private organisations by looking at various specific aspects involved in financial management

1.1 Background of the study

Stella Maris College Nsuube is a private "O" and "A" level Girls educational institution. It was started in 1967 by the Little Sisters of St.Francis of Assisi to assist the girl child who completed primary seven. The school is a full boarding secondary college with students' enrolment of 548. The institution is located 48km East of Kampala City in Buikwe District, Nkokonjeru Parish, in Lugazi Diocese. The schools mission statement states: "Discipline and Academic Growth of Women" and focused on the vision of "providing holistic formation to the girl-child in order to produce a lady who is self-fulfilled, with the highest academic standards seasoned with God-loving and God-fearing spirit, valuable to herself and other people".

1.2 Statement of the Problem

With the increasing need of resource management and especially finance, financial management has become one of the important elements in the performance of an organization both in the public and private sectors. However, it should be noted that many organizations are still struggling with poor performances despite the expertise in the financial management field. This raises the questions as to what could be the problem; could it be lack of proper qualitative and quantitative means of financial management like work plans and budget estimates and forecasts? Or lack of integrity by the personnel? The organization achieves its goals as a result of proper financial management and use of expertise skilled human resource in order to bring about efficiency and effectiveness.

Stella Maris College Nsuube is a private school which has been in existence for many years, and it has done fairly well in contributing to the delivery of quality services to the community. However, most private secondary schools outwardly appear to be performing well, yet in actual sense they are experiencing poor financial management, poor planning, mobilization, utilisation, inadequate internal controls and accounting for their finances as well as other financial management problems. It is therefore on this ground that the researcher intends to examine the effect of financial management on performance of private organizations.

Lack of knowledge of financial management combined with the uncertainty of the business environment often lead organisations to serious problems regarding financial performances. Regardless of whether the owner-manager or hired-manager, if the financial decisions are wrongly made, profitability of an organisation will be adversely affected. In summary, the problem that private organizations face appears to be inefficient financial management practices have adversely affected their profitability and growth.

1.3 Objectives of the study

1.3.1 Major objective

The main objective of the study is to examine the effect of financial management on the performance of a private organization.

1.3.2 Specific objectives

The study was guided by the following specific objectives:

1. To examine the processes of financial management in private organizations.
2. To examine the contribution of financial management on performance of private organizations.
3. To identify the challenges encountered in financial management of private organizations.

1.4 Research questions

The study was guided by the following research questions:

1. What are the processes involved in financial management in private organizations?
2. What is the contribution of financial management to the performance of private organizations?
3. What are the challenges encountered in financial management in an organization?
4. What is the relationship between financial management and performance?
5. What are the strategic measures to minimize the challenges so as to enhance performance?

1.4.1 Research hypothesis

The following are the hypotheses on which the study will be tested:

- Financial management has no effect on the performance of an organization.
- Proper financial management is an important determinant of organizational performance.

1.5 Scope of the study

The research centred on examining the effect of financial management on the performance of an organization (Stella Maris College). The researcher chose this organization to represent other private education institutions and much emphasis was put on: budgeting, financial planning, cash management, accounts payable, and accounts receivables management, inventory management, financial statements and internal controls (record keeping, auditing, authorization and approval, division and segregation of duties, sources and utilization of resources) and performance. This study was carried out for the period of three financial years (2010-2012).

1.6 Significance of the study

Financial management is a critical element in the successful performance of an organization. The managers of these organizations need to take charge of proper and effective financial management, other resources and how best to minimize the challenges faced in proper utilization of resources which affect the performance of an organization. It is hoped that the findings and recommendations from this study will assist the following parties:

The Board of directors: To plan within the limits of their resources and focus their resources only on priority activities which are feasible in improving the performance of the organization.

Management team: It will provide suggestions and solutions which will go a long way towards financial management performance improvement in an organisation. The research will offer the school, the possibility to plan the way to achieve the proposed objectives to cover a well defined path and take advantage of the new opportunities which come along.

Accountants: To be aware of the challenges involved in financial management and how better to management the resources entrusted to them by an organization and this will act as base line information to guide the management and staff in planning and management of their limited resources towards attainment of their desired goals and performance.

General public: will benefit from the quality of services as result of cost effective benefit from good financial management of resources.

The researcher: will widen the knowledge, understanding and improve on the skills and ability in research work which can be applied in future.

Other readers: will understand the effect of financial management on performance of an organization.

In practice, this study is significant for financial management practices in private organizations. Results will indicate relationships between financial management practices, and performance of an organization and will assist owners and financial managers to improve performance and profitability of the organization by managing financial matters efficiently and effectively.

1.7 Justification of the study

Financial management is a vital aspect that can never be underestimated and for that matter it is the central element in the performance of an organization. It is an operational activity of an organization that is responsible for obtaining and effectively utilizing resources. The findings from the research are hoped to assist management be aware of the practical procedures and policies involved in proper financial management processes such as financial planning, financial budgeting, cash management and internal control. This study will offer an image of the relationship between the organization's internal processes, the existing financial sources, their cost and way of appropriation, offering strategic recommendations to avoid unpleasant events that may occur.

1.8 Definition of key terms

Management

This is the process of using organizational resources to achieve organizational goals effectively and efficiently through planning, organizing, leading and controlling (Jones, George & Hill, 2000).

Financial management

Financial management in the broad sense is concerned with the raising and allocation of resources within the firm, in order to attain the firm's objectives. It also refers to the routine functions which are performed within the organization to ensure efficient use of funds (Kakuru, 2007).

Performance

This refers to the output resulting from the organization's efforts. It can be achieved through observation of the performance of departmental activities enabling managers get first hand information and written reports regarding performance (Starke & Sexty, 1992).

Organization

This is defined by Kinicki & Williams (2008) as the group of people who work together to achieve some specific purpose.

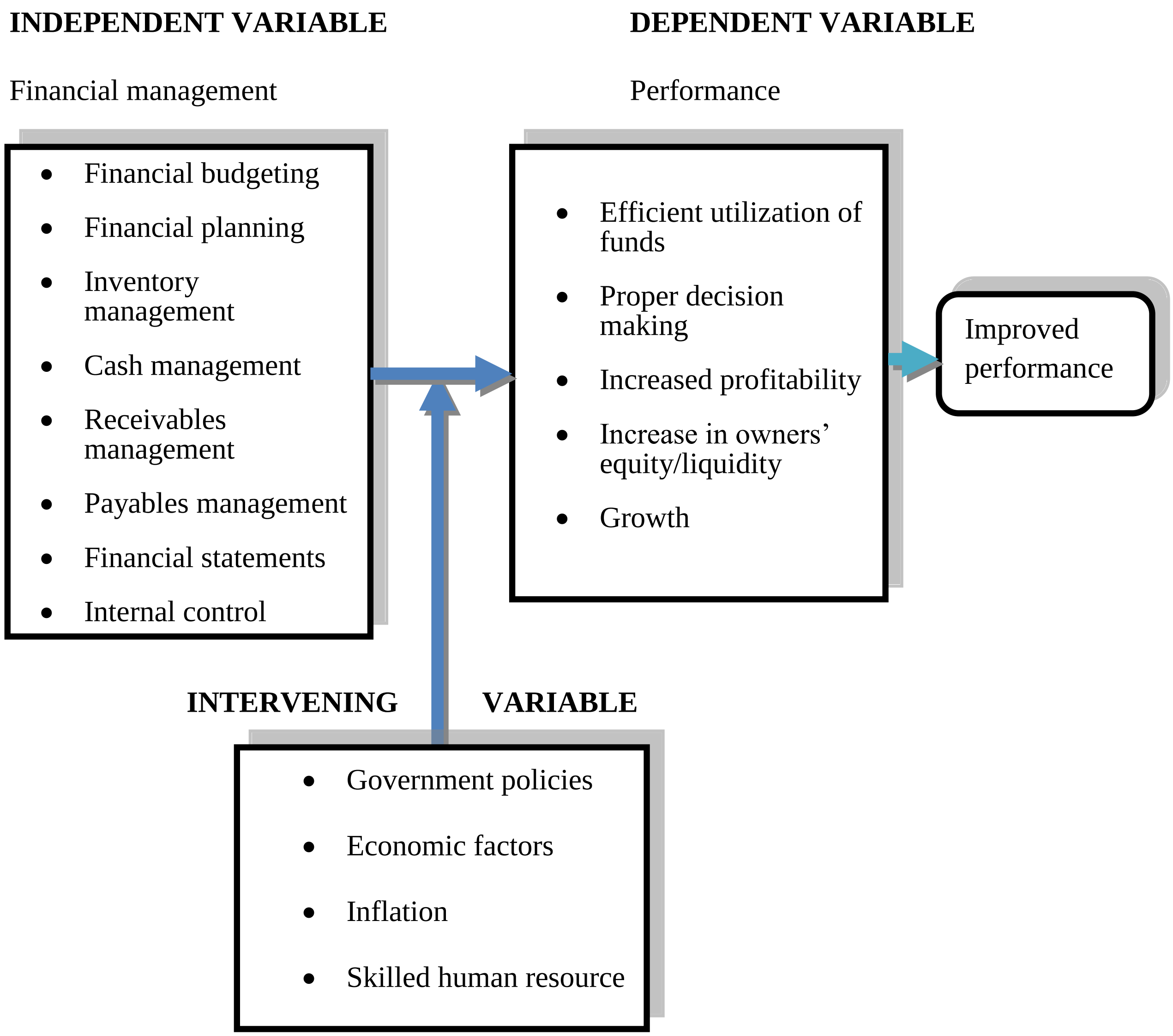
Private organizations

These are agencies which are public bodies and are operated for profit (www.definitions.uslegalcom: accessed on 12th March 2014).

1.9 Conceptual framework

Odiya (2009) states that, a conceptual frame work provide a model for linking categories of possible variables or concepts in the study as perceived by the researcher. Therefore this framework shows the relationship between the two variables that is; independent and dependent.

Figure 1: Conceptual Framework



Source: Research data 2014

The above conceptual framework is composed of three variables that is the independent variable (financial management), the dependent variable (performance) and the intervening variables. This framework shows that performance depends on financial management although there are other intervening factors such as government policies, inflation rates, skilled human resource and economic factors which affect performance despite financial management measures such as planning, budgeting and internal control. These thus affect performance in terms of efficient utilization of funds, proper decision making, increased profitability and increase in owners' equity. Proper financial management supports management's decision making process in striving to achieve the organization's objectives. Internal control encourages adherence to prescribed managerial policies, and promotes efficiency that is productive use of resources; management is ensured that funds are used to carry out what they have planned for; that all the revenue to which is entitled is received and recorded and that no expenditure is made without proper authorization.

An inflationary economy distorts capital budgeting decisions; the presence of inflation results in lower real rates of return and fewer incentives for an organization to undertake capital investments. The skilled and competent human resource through the function of planning and budgeting, are able to utilize the finances efficiently and effectively leading to the growth and good performance of the organization.

1.10 Conclusion

Financial management is a significant and a fundamental part of an overall operations and management of financial resources and it act as a means to an end in its self and without it the attainment of organisational goals and objectives may not be possible. It therefore, plays an important role in helping managers in making informed economic decision in various aspects of it operations. Therefore, this chapter has precisely given a distinct overview of the study, which is further looked at in the next chapter on the literature review on financial management and performance of private organisations.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter discussed the different theories about financial management and performance of private organisations. A profound knowledge of these theories and procedures shall help the researcher in explaining clearly and precisely the importance of financial management in an organisation, which has highly contributed to the performance of the private organisations.

2.1. Financial management

Financial Management refers to the efficient and effective management of money (funds) in such a manner as to accomplish the objectives of the organization. It is the specialized function directly associated with the top management.

Different authors and websites have given different definitions for financial management, the most important one being, “the management of the organizational finances so as to accomplish its financial objectives.” As Pandley (1979) states that the firm exists in order to increase the wealth of its stockholders. Financial management is an integral part of overall management. It is concerned with the duties of the financial managers in the business firm.

According to Horne & Wachowcz (1995), the organization’s financial management is concerned with the acquisition, financing and management with some overall goal. The survival and the growth of the organization are attached to efficient planning, control and management of its resources. Management of the organizations finances needs vital mention in this case since all operations are stalled in the absence of finance. Thus it follow that “there are few if any, major decisions that a manager makes that don’t have financial implications” (Scott Jr. et al, 1999).

Davies & Boczko (2005) define financial management as the management of all the processes associated with the efficient acquisition and deployment of both short and long term financial resources. Therefore, this calls for all the managers of financial resources to be keen and conscious on the utilization and procedures by ensuring that they are all followed basing on the organisational financial manual and treated in accordance with International Accounting Standards.

However, Prof. Bradley says that financial management is the area of business management, devoted to a judicious use of capital and a careful selection of sources of capital, in order to enable a spending unit move in the direction of reaching its goals" (Gitman, 1986). This definition points out four essential aspects of financial management: financial management as a distinct area of business management, proper allocation and utilization of funds, careful selection of the source of capital and goal achievement. Therefore, the organisation with well management financial resources registers high owners’ equity.

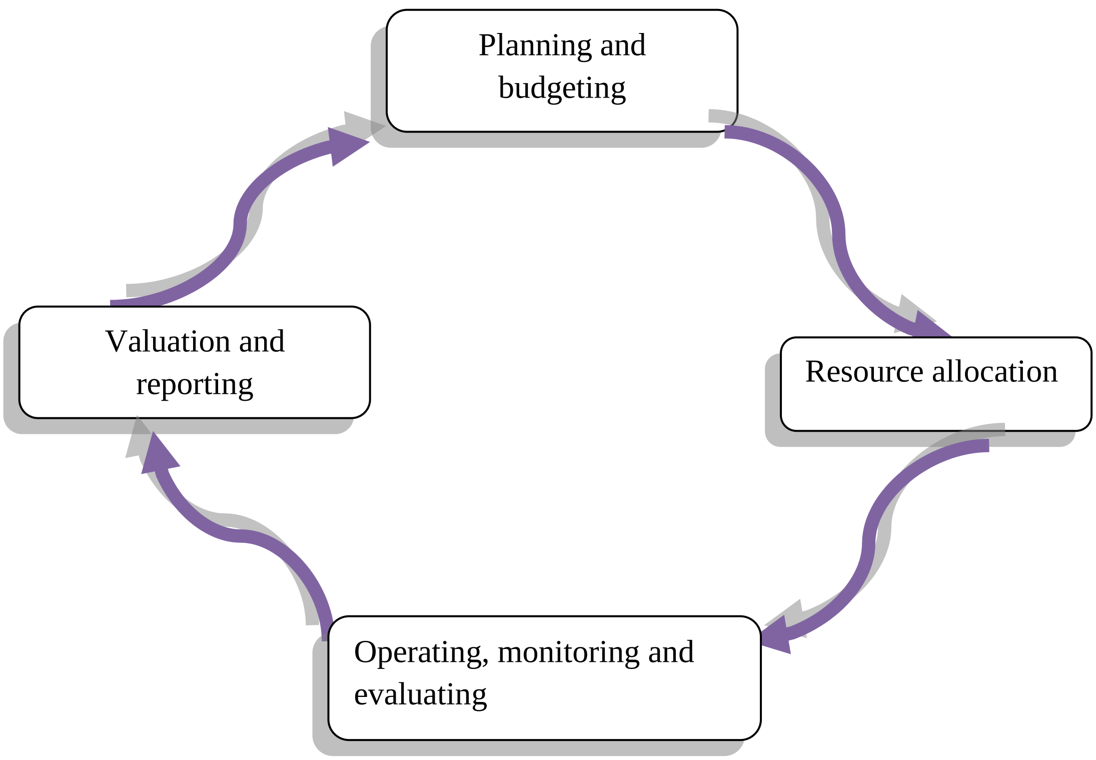
Berman et al (1994), conclude that financial management is viable for organisational operations making it imperative and necessary for effective and efficient utilization of financial resources as well as improvement of performance. It is therefore, sufficient to note that no organization can stand to operate without money because finances specialize in providing information (resources) that management in every organization will find useful for purposes of both internal and external decision making. This is in conformity with the argument of Giles et al, (1987) in Finance and Accounting that,

…. all businesses need to have good financial management for the most frequent causes of organization failure is lack of it…and without finances, the organization will not have information it needs to be able to run properly.

English (1990) argues that financial management is concerned with what is going to happen in the future. Its purpose is to look for ways to maximize the effectiveness of financial resources.

2.2 The financial management cycle

Figure 2: Financial Management Cycle



Source: Paramasivan, C. (2012). Theory of financial Management

2.2.1 Financial planning and budgeting

This section covers the first process in the financial management cycle. It explains how to draw up a budget and to set targets to measure achievements which are based on the work-plan.

2.2.2 Resource allocation

This section explains ways to allocate the received amount of financial resources. Because the amount allocated is usually less than what was estimated, it is important to distribute resources according to set priorities. Resource allocation means the economic management of natural resources. If there are certain limited resources that need to be divided among individuals or projects, this is where resource allocation comes into play. It is usually one of the forms of project management. When financial resources are well allocated, the organisation has high chances of improved performance.

2.2.3 Operating, monitoring and evaluation

This section reflects the activities that happen throughout the financial year of operation. It emphasises the importance of internal controls and covers the management of revenue, expenditure, assets and losses.

2.2.4 Valuation and reporting

This section describes possible approaches to account for performance according to the key requirements of the Regulatory Framework.

2.3 Objectives of financial management

Definitions mentioned above only emphasize areas or scopes of financial management, which financial management is concerned with, but they do not emphasize the objectives of financial management. However, English (1990) indicates that financial management consists of working simultaneously towards three objectives: liquidity, profitability and growth.

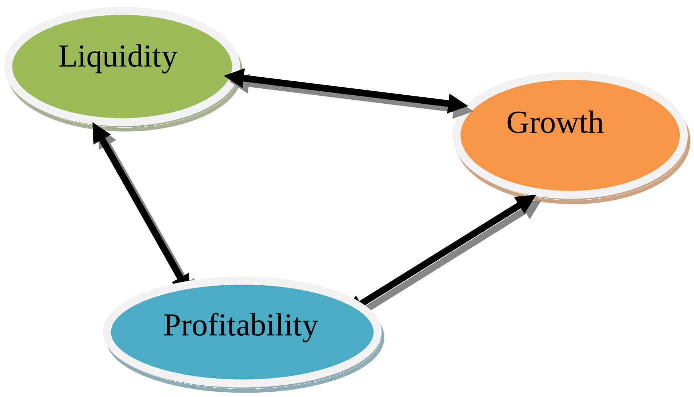
Like many other management sciences, financial management establishes its goals and objectives. Objectives of financial management are foundations or bases for comparing and evaluating the efficiency and effectiveness of financial management. The final goal of financial management is to maximize the financial wealth of the business owner (McMahon, 1995). This general goal can be viewed in terms of two much more specific objectives: profitability and liquidity.

Profitability management is concerned with maintaining or increasing a business's earnings through attention to cost control, pricing policy, sales volume, stock management, and capital expenditures. This objective is also consistent with the goal of most businesses.

Liquidity management on one hand ensures that the business's obligations such as wages, bills, loan repayments, and tax payments are paid. The owner wants to avoid any damage at all to a business's credit rating, due to a temporary inability to meet obligation by: anticipating cash shortages, maintaining the confidence of creditors, bank managers, pre-arranging finance to cover cash shortages. On the other hand, liquidity management minimizes idle cash balances, which could be profitable if they are invested (McMahon, 1995).

In addition to the two objectives mentioned by McMahon, English (1990) viewed growth as another objective of financial management. He also emphasizes the relationships between the three objectives by putting them on a triangle as illustrated in figure 2 below;

Figure 3: The relationship among financial management objectives



Source: Adopted from Financial Management for the organisations (1990)

While discussing the objective function of privately owned organisations, Ang (1992) indicates that its objective function is to maximize three components that is; current market price, to avoid unwanted mergers and to obtain outside financing in the securities market; long term or intrinsic value, if the two values diverge and non-owner manager's own pecuniary and non-pecuniary incomes by avoiding control rights.

In making decisions related to financial management, the owner-managers or the financial manager should remember objectives of financial management and balance between liquidity and profitability objectives, and between current and long-term (growth) objectives.

2.4 Elements of Financial Management

The key elements of financial management include:

2.4.1 Financial Planning

Financial planning, as an important element of financial management, ensures that adequate finances are available at the requisite time to meet both short and long term needs of a business. Short-term needs include; investing in equipment and stocks, employees' payments, fund sales made on credit and therefore, funding may be needed to invest in equipment, staff salaries and settlement of payables. The long-term funds on the other hand are needed for acquisitions and capital developments. The management needs to ensure that enough funding is available at the right time to meet all the planned activities of the organization.

2.4.2 Financial Control

Financial control is another critical element of financial management aimed at ensuring that the business meets its goals. The questions addressed by financial control include: Are the assets being utilized efficiently? Are the business' assets secured? Does the management act in the best interest of the shareholders and in accordance with the vision and mission of the organization?

2.4.3 Financial Decision-making

Financial decision making relates to financing, investment, and dividends. This aspect states that investments should be financed in some way or the other. However, other finance alternatives like sale of new shares, taking credit from suppliers, or borrowing from banks can be considered. One of the most crucial financing decisions is deciding on what is to be done with the profits earned by the organization whether to retain them or to distribute them among shareholders in the form of dividends.

2.5 Processes of financial management

As indicated in the scope of the study, emphasis is put on budgeting, financial planning, inventory management, cash management, accounts receivable management, accounts payable management, financial statements and internal control. These are presented in detail as below:

2.5.1 Budgeting and performance

Wood and Sangster (1999) define budgeting as the process of converting plans into budgets and they add that a budget is a plan that is expressed quantitatively. Budgets are prepared in order to try to guide the organization towards its objectives. The more the managers are brought in the budgeting process, the more successful financial management is likely to be apprehended.

Storey (1995) supports the idea, defining a budget as an operational plan expressed in money terms. He adds that the budget is prepared and approved prior to the budget period and may show income, expenditure and the capital to be employed. He still adds the aspect of budgetary control, which is the establishment of budgets relating the responsibilities of executives to the requirements of a policy, and the continuous comparison of actual with budgeted results.

Budgeting is the process of preparing a comprehensive, formal plan that estimates the probable expenditures, and income from an organisation over a specified period. According to Garrison and Noreen (2000), budgeting is detailed planning for the future, usually expressed in formal quantitative terms.

According to Horngren, Sundem and Stratton (1996), a budget is a formal quantitative expression of plans. It provides a benchmark against which to measure actual performance. They add that organizations use budgets to focus on operating or financial problems early, so that managers can take steps to avoid or remedy the problems. They too talk of the benefits of budgeting saying that; budgeting compels managers to think ahead by formalizing their responsibilities for planning; it provides definite expectations that are the best framework for judging subsequent performance; budgeting aids managers in co-ordinating their efforts so that the objectives of the organization as a whole match the objectives of its parts.

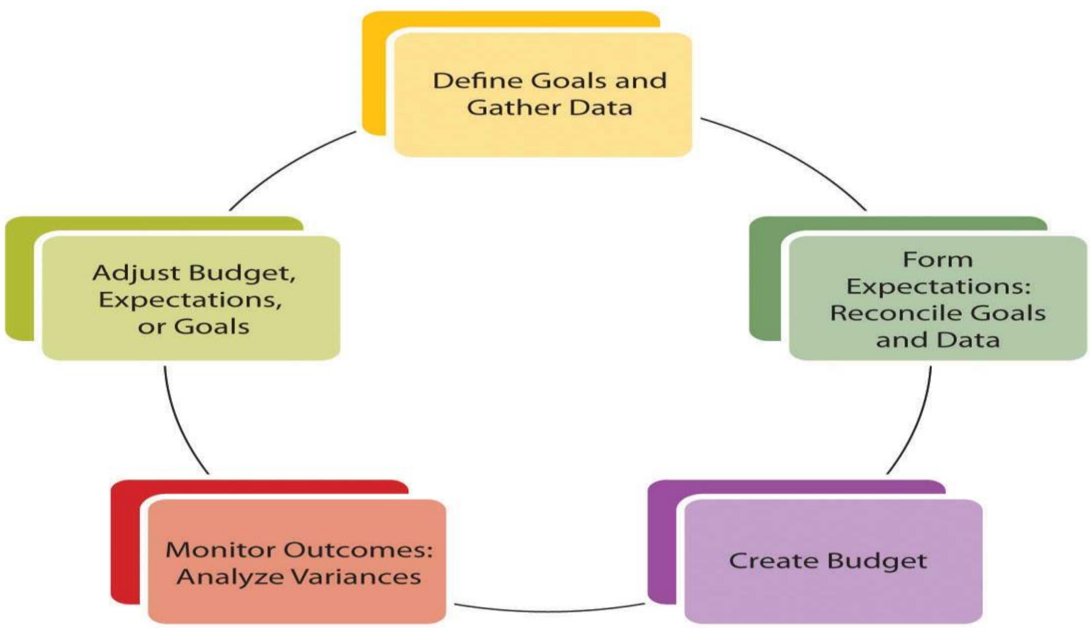
However, Meigs et al (1999) define a budget as a comprehensive financial plan setting forth the expected route for achieving the financial and operational goals of an organization, and as an essential step in effective financial planning. They continue to say that budgeting is often called financial forecasting, and it increases management’s awareness of the organization’s external economic environment. Budgets show the expected costs and expenses for the organization, thus they provide a yardstick with which the organization’s actual performance may be measured. To ensure a high level of performance, the organization should set budgeted amounts at reasonable and achievable levels. Failure to stay within the budget is viewed as an unacceptable level of performance.

Stickney & Weil (1997) agree with Meigs et al stating that a budget presents a comprehensive picture of the expected financial effects of management’s decisions on the firm as a whole. It is a tool for planning that provides estimates of expected performance. To be effective as tools for performance evaluation, budgets must initially be developed for individual responsibility centres;

that is divisions or departments in an organization responsible for managing particular group of activities in the organization.

In every organization there is need to make a review of the current use of available resources for financing, investing and operating activities in order to plan for the future use of the resources. Hence budgets are formulated and they reflect in detail the financial impact of the programme, which have been approved by top management. Thus budgeting is the process of identifying, gathering, summarizing and communicating financial information about organizations future activities. Budgets are drawn up for control purposes, which is an attempt to control the direction that the firm is taking (Wood & Sangster, 1999).

Figure 4: The Financial Budget cycle in an organisation



Source: Shapiro, A.C. (2011). Capital budgeting

According to Mukerj, (1990), budgeting is defined as:

"The process of predicting and controlling the spending of money within the organisation and consists of a periodic negotiation cycle to set budget (usually annual and the day to day monitoring) of current budgets".

Terry (2003) notes that there are reasons for preparing a budget such as aiding the planning of the annual and future operations; motivates workers to strive and achieve the organisation's goals; and also controls different activities through comparing the actual results with the budgeted amounts for different categories of expenses.

In the researcher's view budgeting is one of the vital elements of financial management as an agreement with the above authors. An organization that adopts formal budgeting usually becomes rapidly convinced of its helpfulness and would not consider regressing to its old fashioned, non-budgeting days. Budgeting aids in coordinating activities, implementing plans and evaluating performance. The benefit of budgeting outweighs the costs of not budgeting in any organization.

2.5.2 Financial Planning and performance

Garrison and Noreen (2000), define planning as a process that involves selecting a course of action and specifying how the action will be implemented. According to Bodie & Merton (2000), planning is a dynamic process that follows a cycle of making plans, implementing them and revising them in the light of actual results. While for Besley & Brigham, (2000), planning is the projection of sales and assets based on alternative production and marketing strategies as well as the determination of the resources needed to achieve these projections. Bateman & Snell, (2002) define planning as the process of specifying the goals to be achieved by an organization and deciding in advance the appropriate actions taken to achieve those goals.

Van Horne (2002) argues that planning involves the financial flows of a company; forecasting the consequences of various investments, financing and dividend decisions and weighing the effects of various alternatives. Through planning as a management function, management needs to ensure that enough funding is available at the right time to meet the needs of the organization.

Ross, Westerfield & Jaffe (2002) argue that financial planning establishes the guidelines for change in the organization. It includes putting forth the organization's goals to motivate and provide benchmarks for performance measurement. They continue to note that the guidelines should include an identification of the organization's financial goals; an analysis of the differences between the goals and the current financial status of the organization; statement of the actions needed for the organization to achieve its financial goals.

With regard to the above, Shapiro & Balbirer, (2000) contend that through financial planning, the organization is able to anticipate and thereby avoiding difficulties before they arise. The organization is also able to communicate with external stakeholders such as customers, suppliers, distributors, creditors and investors. To maximize effectiveness, the operating budget and the long range financial plan should be closely linked. Where operating budgets are not a specific part of the long-term plan, managers find it hard to relate their performance to the organization's long-term goals and objectives and tend to emphasize short run objectives; thus management has to weigh long-term goals more heavily in measuring managerial performance.

The thoughts of the above authors are relevant because planning is greatly an essential tool in financial management which when done properly, impacts positively on the performance of the organization. Planning is necessary for establishing the firm's goals, choosing operating and financial strategies, forecasting operating results against which to monitor and evaluate performance and creating contingent plans for dealing with possible future circumstances.

2.5.3 Inventory management and performance

Inventory management is a core operations management activity. Good inventory management is important for successful operation of most businesses and their supply chains and poor management hampers operations, diminishes customer satisfaction and increases operating costs. Stevenson (2009) defines an inventory as a stock or store of goods. Naturally, many of the items an organization carries in inventory relate to the kind of business it engages in. Thus education organizations carry supplies of stationery such as pens, papers, chalk; food stuffs; furniture and other items as deemed fit. Since inventories may represent a significant portion of total assets, a reduction in inventory can result in a significant increase in the return on investment, which can be used as a measure of managerial performance. Stevenson continues to contend that inventory decisions in service organizations can be especially critical. For example schools carry an array of stationery and food supplies that might be needed on short notice. Being out of stock can imperil the well-being of both the student and teacher.

Management has two basic functions concerning inventory that is establishing a system of keeping track of items in inventory, and making decisions about how much and when to order (Stevenson, 2009). For effectiveness, management however must have a system to keep track of the inventory on hand and on order; a reliable forecast of demand that includes an indication of possible forecast error; knowledge of lead times and lead time variability; reasonable estimates of inventory holding costs ordering costs and shortage costs and a classification system for inventory items.

Zipkin (2000) says that effective inventory management entails at least satisfying customers, keeping capital requirements modest, and avoiding excessive operational costs.

The researcher thus concludes that inventory management is therefore an important financial management process because of the primary objectives that is; minimizing the possibility of disruption in the production schedule of a firm for want of raw material, stock and spares and keeping down capital investment in inventories. So it is essential to have necessary inventories and the investment in inventories should be just sufficient in the optimum level.

2.5.4 Cash management and performance of private organisation

Cash is the important current asset for the operations of the organization. It is a basic input needed to keep the organization running on a continuous basis. Cash is the money which an organization can disburse immediately without any restriction. The term cash includes coins, currency and cheques held by the organization and balances in its bank accounts (Pandey, 2010). Cash management is concerned with the managing of cash flows into and out of the organization.

Mburu (2007) says that cash is an essential in an organization and must be properly managed and controlled in the following ways: ensuring that the physical cash is properly under lock all the time; ensuring that in making payments, the correct and only authorized amounts be paid out; checking in the bank that all amounts indicated as banked have actually been received and withdrawals have been authorized and are known; ensuring that only one person is in charge and actually handles cash in the organization and ensuring that payments are scheduled considering the receipts to prevent deficits.

Cash management involves the efficient collection and disbursement of cash and cash planning so as to avoid either cash surplus or deficits; both of which are of no benefit to the organization. Through cash planning, the organization can easily determine its cash needs, plan for financing of those needs and can be able to plan for investment of surplus cash into marketable securities to generate a return (Kakuru, 2007).

The fact that cash is an essential element in the management of an organization, proper management is highly required because it identifies the cash balance which allows the organization to meet the day to day expenses and also reduces cash holding costs.

2.5.5 Accounts Receivables management and performance of private organisation

Receivables are book debts which a firm is expected to collect in the near future. This investment in receivables will arise when there is a gap or time lag between the point of delivery of the goods and services, and when payment is received from the customer (Kakuru, 2007). Management of receivables is very important to an organization because it helps its sales from being eroded by competitors and also to attract potential customers to buy at favourable terms.

Brealey & Myers (1996) say that accounts receivables management involves establishing normal terms of sale; deciding the form of the contract with customers since most sales are made on open account; and assessing each customer's creditworthiness. Under this, the organization looks at its experience with the customers and other creditors, the assessment of a credit agency, a check with the customer's bank, the market value of the customer's securities and an analysis of the customer’s financial statements. Thus the organization should increase the customer’s credit limit as long as the probability of payment times the expected profit is greater than the probability of default times the cost of goods.

With regard to the above, Scott.Jr et al (1999) note that the size of the investment in accounts receivables is determined by several factors like; the factors of credit sales to total sales; credit and collection policies that is the terms of sale the quality of customer and collection efforts. The terms of sale specify both the time period during which the customer must pay and the terms such as penalties for late payments or discounts for early payments.

Kakuru (2007) says that investment in accounts receivables is not a matter of choice but a matter of survival; the finance personnel have to consider achieving the objectives of liquidity and profitability.

In a nut shell, accounts receivable is recorded in an organization’s accounting data as an asset. Effective accounts receivable management is crucial to an organization's financial health. If an organization has too many accounts receivable, it may not have the cash it needs to pay its bills as they fall due. It's important for an organization to setup a process for regularly invoicing its customers and reviewing the accounts receivable. The frequency at which it sends invoices typically dictates the frequency at which it will receive payment. Effective accounts receivable management will help the organization to collect money from its customers so that it can have enough cash on hand to pay the bills on time.

2.5.6 Accounts payables management and performance of private of organisation

Organizations usually benefit from being granted credit by their suppliers but because of the necessity of providing credit to their customers, they are burdened with additional costs (Arnold, 2005). The management of accounts payables involves a trade off which entails gains in sales versus costs of financing, liquidity risk, risk of default and costs of administration. There may be a strain on the company's liquidity with a large proportion of the company's assets tied up in debtors; risk of the customer defaulting on the payment and there are also considerable costs of administering and effective debtor management system. Credit is not inevitable in that many businesses especially service- based choose not to offer any credit. However, when an organization decides to allow delayed payment then it needs to set up a system and guidelines which amount to a debtor policy.

Arnold still asserts that an effective administrative system for debtors must be established. The organization needs clearly defined procedures and the customers need to be informed and/or warned that they are expected to conform to certain rules. Some organizations go bankrupt because they fail to collect the cash from customers something vital to sustain production and satisfy their own creditors. To ensure a good system the organization needs to be strict with the credit limits; insisting on payments of previous orders before dispatching more items if the credit limit is breached; send invoices promptly; ensuring there is no delay between delivery of the goods and dispatching of the invoice so that the customer is made aware of the due date for payment as early as possible.

Accounts payable are a current liability and are expected to be repaid to the suppliers within one year. The primary ways that accounts payable affect organization profitability are the organization's relationships with its suppliers or vendors and the cash flow. If an organization has a set of best practices in accounts payable management and follows them, accounts payable can have quite a positive impact on its profitability. First, the organization has to pay its bills on time and when payment is done, trust with suppliers is elicited thus the suppliers try to help in a number of ways including offering discounts which positively impact on the organization’s profitability in a big way. Therefore, proper accounts payable management impacts positively on the performance of an organization.

2.5.7 Financial statements and performance of private organisations

Subramanyam & Wild (2009) define financial statements as the application of analytical tools and techniques that relate data to derive estimates and inferences useful in the evaluation of an organization’s environment, its strategies, financial position and performance. The organization is required to report to its shareholders in four annual financial statements with relevant notes attached; that is statement of comprehensive income, statement of financial position, statement of cash flows and statement of changes in equity give a clear picture of the financial position of the organisation which information can be used in making informed decisions.

According to Subramanyam & Wild (2009), a statement of comprehensive income is a representation of the operating activities of an organization giving details of revenues, expenses, gains or losses for a given accounting period which can be used for evaluation of performance.

Pandey, (2010) argues that the statement of financial position indicates the financial condition or state of affairs of an organization at a particular moment of time. It contains information about resources (assets) and obligations (liabilities) of an organization and about its owners’ interests (owners’ equity) in the business at the close of the organization’s accounting period. He adds that the statement of changes in equity shows changes in issued capital and reserves. The changes may come about for a number of reasons like through the making of a profit or loss in the commercial operations of the business; and through unrealized changes in value in which the organization has decided to recognize in its accounts as with the revaluation of fixed assets.

Hodge, (2008) contends that the statement of cash flows is a detailed analysis of the cash flows into and out of an organization in the period between two balance sheets. It analyses cash flows from operating activities (regular activities in the creation and sale of goods and services); cash flows from investing activities (for example purchase and sale of fixed assets, purchase and sale of shares in other organizations. The purpose of the Cash flow statement is to provide useful information about a company's liquidity, solvency and financial adaptability.

Brealey, Myers & Allen (2008) note that financial statements are prepared not only help an organization to understand the past performance but they also provide the starting point for developing a financial plan for the future. They continue to contend that managers use financial statement to monitor their own organization's performance, to help understand the policies of a competitor, or to check on the health of a customer.

Most organizations prepare a financial plan that describes the organization's strategy and projects its future consequences by means of pro forma statements of financial position, comprehensive income statements and statements of sources and uses of funds. The plan thus establishes financial goals and is a benchmark for evaluating subsequent performance.

2.5.8 Internal control and performance of private organisations

This is a process employed by the entity's board of directors, management and other personnel designed to provide reasonable assurance regarding the achievement of reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations (Whittington & Pany, 1998). Internal control varies significantly from one organization to another depending on factors like size, nature of operations and objectives.

The internal control system involves division of authority, responsibilities and duties among members of an organization; segregation of duties among the various departments in the form of authorization of transactions, recordkeeping for transactions and custody of assets. This process enables the organisation to monitoring effective flow of the financial resources in an organisation; lack of effective financial internal control may result to misappropriation of resources.

2.5.8.2 Division and segregation of duties and performance of private organisations

This is a fundamental concept of internal control in which no one department or person handles all aspects of a transaction from beginning to end (Whittington & Pany, 1998). No one individual should perform more than one of the functions of authorizing transactions, recording transactions, and maintaining custody over assets; and individuals executing the specific transaction should be segregated from these functions. The goal is to reduce the opportunities for any one person to be in a position to both perpetrate and conceal errors or irregularities in the normal course of his or her duties. Whittington & Pany, continue to note that the personnel within an organization need to have a clear understanding of their responsibilities and the rules and regulations that govern their actions. Therefore management develops employee job descriptions and clearly defines authority and responsibility within the organization. Policies may also be established describing appropriate business practices, knowledge and experience of key personnel, and the use of resources. The effective system of segregation of duties in an organisation minimises the element of fraud and misallocation in an organisation

2.5.8.3 Sources and uses of funds in a private organisations

Sources of funds are items that increase an organization's cash while uses of funds are items that decrease an organization's cash. Both are necessary for the organization to function effectively. The organization needs cash to pay bills and the net working capital is necessary in seasonal businesses to provide a financial cushion for the payment of bills due in the future. The basic sources of cash include; decrease in an asset; increase in a liability; net profits after taxes; depreciation and other non cash charges; sale of shares while uses of cash include; increase in an asset; decrease in a liability; net loss; payment of cash dividends; repurchase or retirement of shares (Kryzanowski, Gandhi & Gitman, 1982). The authors note that the importance of the sources and uses of funds statement lies in the ability it gives the financial manager to evaluate and analyze past or projected sources and uses of funds.

2.5.8.4 Record keeping and performance of a private organization

This is a procedure that ensures that proper and up to date records of organizational resources like cash, inventories and other valuable property are kept and maintained. Record keeping and management in an education institution could involve the use stock cards for stationery, food stuffs, vehicle log books, receipt books, payment vouchers, delivery notes, ledger books, analysis books and cash books for financial records. The role of recording is fundamental because it defines the locations and availability of assets and other resources; it provides information for analyzing trends of events thus facilitating decision making. For example the record of stationery consumption assists in predicting future consumption and planning successive procurements.

2.5.8.5 Auditing and performance of private organisations

Carmichael, Willingham & Schaller (1996) define auditing as the systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between those assertions and established criteria and communicating the results to interested users. Organizations achieve their goals through the use of human and economic resources entrusted to the organization by outside groups or individuals. As a result, stewardship reports on resource administration, allocation, accumulation and depletion are presented and an audit takes place to examine the performance of the management.

The benefits of auditing are numerous; it improves an organization's efficiency and profitability by helping the management better understand their own working and financial systems. Management and other stakeholders are assured that the risks in their organization are well-studied, and effective systems are in place to handle them. Auditing also identifies areas in an organization's financial structure that need improvement, and how to implement the proper changes and adjustments.

2.5.8.6 Financial performance

One of the most fundamental facts about businesses is that the operating performance of the firm shapes its financial structure. It is also true that the financial situation of the firm can also determine its operating performance. Bernardin (2010) defines performance as the record of outcomes produced on specified activities during a specified time period. Measures to assess performance depend on the objectives to be achieved. An organization needs to develop measures that predict likely performance – steering controls that influence future performance.

Govindarajan & Anthony (2004), highlight that the goal of performance measurement systems is to implement strategy. In setting up such systems, senior management selects measures that best represent the organization's strategy. Organizations use non financial measures at lower levels in the organization for task control and financial measures at higher levels for management control. A blend of financial and non financial measurements is in fact needed at all levels in the organization. The authors continue to say that it is important for senior executives to track not only financial measures which indicate the results of past decisions, but also non financial measures which are leading indicators of future performance. Similarly, employees at lower levels need to understand the financial impact of their operating decisions.

Historically, organizations have always measured performance in some way through the financial performance, success by profit or failure through liquidation. However, traditional performance measures, based on cost accounting information, provide little to support organizations on their quality journey, because they do not map process performance and improvements seen by the customer. In a successful organization, performance will be measured by the improvements seen by the customer as well as by the results delivered to other stakeholders. The primary measures of performance include; Return on Investment; Earnings Per Share and Return on Equity.

2.6 Contribution of financial management to the performance of private organisations

Financial management helps to determine the financial requirement of the business concern and leads to take financial planning of great concern. The planning process can expose inconsistencies in decision making methods. For example when the managers differ in their forecasts of future conditions, the more optimistic manager's plan will look better even if there is no other difference between the plans (Emery, Finnerty & Stowe 2007).
Planning forces the organization to think about the future; hence generating new ideas and eliminating the unhealthy ones. Therefore financial management prevents bankruptcy and helps the organization understand its profitability. Through effective financial planning, the organization is enabled to evaluate performance. A financial plan provides a benchmark against which to identify reasons for the differences between outcomes and forecasts.

Financial management involves the acquisition of required finance to the organization. Acquiring needed funds play a major part of the financial management, which involves possible sources of finance at minimum cost. Through the budgeting process, the organization manages its funds effectively, allocates appropriate resources to activities, meets its objectives, improves decision making, plans for the future and monitors performance.

Profitability of the organization purely depends on the effectiveness and proper utilization of funds. Financial management helps to improve the profitability position of the organization with the help of strong financial control devices such as budgetary control, ratio analysis and cost volume profit analysis.

Effective financial management helps to promote and mobilize individual and corporate savings. Savings are possible only when the organization earns higher profitability and maximizing wealth.

Effective inventory management helps the organization to; maintain sufficient stock of raw material in the period of short supply and anticipate price changes; minimize the carrying cost and time; ensure smooth sales operation and efficient customer service.

Additionally, through proper inventory management, the organization is able to minimize investment in inventories; protect the inventory against deterioration, obsolescence and unauthorized use. Thus efficient management and effective control of inventories helps in achieving better operational results and has a significant influence on the profitability of a concern.

With accounts receivable management the organization is able to determine effective credit policy that increases the efficiency of the organization's credit and collection department and contributes to the maximization of value of the firm. The organization is also enabled to evaluate the creditworthiness of customers before granting or extending the credit; minimize the cost of investment in receivables; minimize the possible bad debt losses; and formulate the credit terms in such a way that results into maximization of sales revenue.

2.7 The challenges of financial management and performance of private organizations

If the organization does not have a stable inventory management system, it finds the difficult task of balancing the costs of holding inventories against the costs which arise from having both low and high inventory levels. These costs may include; additional storage costs, management costs, insurance costs and the risk of obsolescence. A low stock level calls for frequent reordering. In the world of uncertainty there is a risk of stock-outs when production is halted for want of raw materials or work in progress; this makes the profits to fall in the short term and loss of customer goodwill in the long term (Arnold, 2005).

An organization is faced with a challenge of maintaining a considerable level of cash and incurring many costs. Holding too little cash can cause annoyance to those whom payment is due if payments are not made on time thus reluctance to supply and eventually liquidation; inability to cope with emergencies like strikes; loss of discounts from suppliers; higher cost of borrowing because unexpected cash needs have to be met from temporary borrowing rather than drawing on cash balances and making regular payments to top up the cash balances like transaction cost of selling securities to release cash and arrangement fees for overdrafts (Arnold, 2005).

2.8 The relationship between financial management and performance

Considering the contribution of financial management through the discussed processes above, it is probable that there exists a relationship between financial management and performance of an organization. When an organization carries out effective and efficient financial management, its performance is anticipated to be high, and low or poor with ineffective and inefficient financial management practices.

Conclusion

The literature discussed in the chapter highlights a number of issues related to processes, functions, and effects of financial management on the performance of private organisations. Financial management is concerned with making investment decision, financial decision and asset management decisions. However, if the above decisions are effectively implemented to the interest of the organisation there is no doubt that the performances of the organisation will automatic improve and there is need for strategic planning. Financial manger should provide standards to evaluate performance in various sections. This assists in rewarding better performance as a means of motivating staff hence leading to increased output which leads to improve owner's equity in a long run.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter presents a detailed description of research methodology. Methodology refers to a detailed procedure to be followed to realize the research objectives (Oso & Onen, 2008). The chapter pointed out the research design, area of the study, study population, sampling procedures, sample size, sampling techniques, data collection methods and instruments, quality control methods, data management and processing, data analysis, ethical considerations and limitations of the study.

3.1 Research design

The study used a descriptive-cross sectional approach, utilizing both qualitative and quantitative techniques of data collection which involved classification, analysis, comparison, measurement and interpretation of data. The researcher used the case study design, which is the intensive, descriptive and holistic analysis (Oso & Onen, 2008). The methods used, facilitated the collection of the empirical data required for the study. The sources of data included; documents, financial statements, records, reports, and other materials used in the management of the organizations resources. The method that the researcher used to understand the research theme is through looking separately at what constitutes proper financial management on performance of an organisation. It covered the period of 2010-2012 financial years.

3.2 Area of the study

The research used private secondary schools (Stella Maris College Nsuube) as a case study. A case study according to Eusernat (1989) is a research study, which focuses on understanding the dynamics present within a single setting and particularly looking at financial processes and practices in relation to performance. The reason of choosing this case study is for purposes of convenience, and more so for understanding of how private educational organisations manage their financial resources to attain their set goals and objectives.

3.3 Study population

The study population was 73 participants drawn using a specific sample with a targeted group of 60 staff, which included the accountants, staff and management team, finance committee and some key informants in the organization as shown in table 1 below. The study was conducted in Stella Maris College Nsuube - Nkokonjeru. The selection of the above key respondents was done with a rationale of obtaining objective information on the effect of financial management on performance of private organisations. This method lessened biasness and distortion within the population that was studied.

Table 1: Showing the study population

Category	Target	Actual number	Response %
Board of directors	6	4	6.7
Finance committee	5	3	5
Management team	7	5	8.3
Teaching staff	35	32	53.3
Support staff	20	16	26.7
Total	**73**	**60**	**100**

Source: Research data 2014

3.4 Sampling Procedures

The sampling instruments were constructed and given to the supervisor for approval. The supervisor ascertained the face validity and language of the instrument. All necessary changes were effected as suggested by the supervisor. After the approval, the researcher went to the field. Using the authority letter from the University, the researcher introduced herself to the school management authority to seek permission to sample the staff. The researcher explained the purpose of the research and its benefits to the school and to the girl child and the society at large. The researcher assured the respondents of confidentiality in relation to the information they provided. The researcher then distributed the questionnaires to the selected sample of the respondents and collected them later on.

3.4.1 Sample size

The sample size of 73 was used to get the required information needed. The researcher used the statistical formula to compute the sample size that was interviewed. The formula for sample size is;

The formula used: $\frac{PQZ^2}{E^2}$

Where: n = population estimate that is taken for the study out of the total in case 5% Considered from the total i.e single proportion

Q = 100- P (95%)

Z = confidence level value that can be at 95% = 1.69

E = Maximum deviation that can be tolerated is 5

$$\frac{5x95X1.69^2}{5^2} = \frac{475\ X3.8416}{25} = 73 \text{ respondents}$$

The sample size was 73 according to the calculation but the researcher was able to get only 60 respondents from the total distributed questionnaires which were completely filled. The balance of 13 was not received back because the respondents could not be traced and unwilling to answer.

3.4.2 Sampling techniques

Sampling refers to the method used to select a given number of people or things from the population (Mertens, 1998). It is the selection of some part of an aggregate or totality on the basis of which judgement is made (Kothari, 1987). Therefore, the researcher applied the non probability sampling when selecting the 73 respondents. This method aimed to find out how a small group is doing for purposes of illustration or explanation. The researcher also applied purposive sampling technique to consciously decide who to include in the sample so as to collect reliable information.

3.5 Data collection methods and instruments

The researcher used both primary and secondary methods of data collection.

Primary data: This refers to the first hand information acquired direct from the field. It is original information, which had certainly not been collected before. This consists of:

Interviews: In this method, selected participants were asked questions in order to get their views and what they know about the situation on the ground. It constituted oral face to face interviews with each member of the management team, finance department, heads of departments, some few members of finance committee and selected staffs. The responses were spontaneous and clear. Besides using interviews, some questions were generated from the answers given earlier to the respondents. The researcher used interviews so as to obtain information that could not be directly observed and got from questionnaires.

Questionnaires: This is a collection of items to which a respondent is expected to react in writing (Oso & Onen 2008). The lists of carefully structured questions were chosen after considerable testing with a view to obtain consistent responses from a chosen group of people. Both closed and open ended questions were used by the researcher. The questions were meant for particular categories of respondents (management team, finance committee and few selected staff). The target was to find out what the selected group of participants or respondents do, think or feel about the variables indentified and presented. The choice was based on the ground that respondents were involved in administering financial resources and have direct control over them and also have informed knowledge about the study. The questionnaires were delivered in person by the researcher to ensure that intended respondents received them and at the same time appointments were made for the collection if it was not possible to answer instantly. The researcher assured the respondents of the confidentiality of any information obtained; hence many showed interest to participate in giving informed information which helped the researcher to come up with good findings and recommendations on the study.

Secondary data: This is the data gathered from existing sources. The researcher captured data information from related text books on financial management, journals, annual reports, internet and other related documents.

Review of records was done to determine the revenue and on what it was spent on. Review of records was also used to determine the quality of record keeping and completeness of the records when it comes to preparation of statements of comprehensive income and financial position. The basic records assessed were cash books, payment vouchers, financial reports, local purchase order and the goods received note among others. Checklists were used when reviewing records so as not to forget important records of interest. Records of accounts for at least three financial years (2010-2012) were viewed.

3.6. Quality Control

In order to ensure quality control, all the questionnaires were pre-numbered and pre-tested to check for vagueness and varied interpretation. On spot editing of questionnaires was done in times and check lists were used in order not to forge important information as a means of ensuring completeness of the data collected.

The researcher made sure that the questionnaires administered were properly monitored and easily kept truck of and avoid double inclusion, errors and incompleteness. Affinity was first built to guard against bias by proper and careful communication to the respondents on guaranteed confidentially of the data obtained. Interviews and observation where necessary, were used concurrently to supplement each other and improve the quality of information.

3.7 Data Analysis and Management

The researcher used qualitative and quantitative techniques in analyzing data procured to derive meaningful information and make it more valid to management in decision making process. Thematic analysis was used in analyzing and coding the data. Data was then analyzed using the statistical package in Microsoft Excel software to summarize data into meaningful patterns for analysis. This involved the use of frequency distribution tables, pie charts and bar charts to present the data into meaningful information. This helped to give precision to the research, add objectivity, facilitate identification of patterns and relationships, and enable accurate policy response development on financial management policy thus supporting the hypothesis. The data management and analysis was done in order to bring out the meaning of the responses that were attached to various questions that were asked. The purpose aimed at avoiding misinterpretation of the data and misinterpretation of what the respondents meant.

Validity

Validity refers to the extent to which the data collection instruments employed (to measure variables) in a study actually measures what they are intended to measure (Siegel, 2004). In this regard, attention was put on the content validity of the data collection instruments which deals with the degree to which the instruments relevantly and adequately explored the variables under investigation and how well the constituent elements of the instruments are arranged for the purpose of accurately eliciting the data required for the study respectively.

Therefore validity was measured using the formula below;

$$CVI = \frac{\text{Items rated relevant}}{\text{Total number of items}} \times 100\ \%$$

The above method (Coefficient of Validity Index) was used because it enabled the researcher to know the extent to which tools such as a questionnaire were free from error.

Reliability

Reliability is the description of precision, consistency, repeatability and dependability with which the instrument elicited the data that was required for the study (Amin, 2005). An instrument is reliable if it produces the same results whenever it is repeatedly used to measure trait or concept for the same respondents even by other researchers. The reliability was established through test-retest of the questionnaire and interview guide.

3.8 Ethical consideration

The researcher first sought authorization from the top management of the school. As this study required the participation of human respondents, specifically human resource professionals and non professionals, certain ethical issues were addressed. The consideration of these ethical issues was necessary for the purpose of ensuring the privacy as well as the safety of the participants. Among the significant ethical issues that were considered in the research process include the consent and confidentiality. In order to secure the consent of the selected participants, the researcher relayed all important details of the study, including its aim and purpose, by explaining these important details, the respondents were able to understand the importance of their role in the completion of the research. The researcher used identification numbers so that no information was traced to any respondent and the researcher ensured voluntary participation that is; informed the respondents of their right to participate voluntarily, and of their freedom to withdraw from the participation in the study.

The confidentiality of the participants was also ensured by not disclosing their names or detailed information in the study. Only relevant details that helped in answering the research questions were included.

3.9 Limitation of the Study

The researcher faced difficulties and experienced a number of limiting factors during the study.

One of the most limiting factors in this study was inadequate time. The researcher had to continue to attend lectures while working on the research.

The busy schedules of the staff; most of the respondents were busy with students marking, texts and setting exams and others were for various workshops, it was not easy to get their questionnaires finished in time however, the researcher applied constant reminding to the respondents to return the questionnaires and they eventually finished though others could not.

Uncalled for fear from some respondents especially support staffs were not ready to give information about the element of financial management for fear that it might backfire on them and lose their jobs. This made some of the respondents to give false information which could affect the accuracy but the researcher tried to explain the purpose of the study and its importance to the organisation and some eventually responded positively and accepted and felt free to filling the questionnaires and also to be interviewed.

Another limitation was difficulty in fixing appointment with some financial personnel due to the busy work schedules and this delayed the collection of information. The time was insufficient for both the researcher and the respondents. Some of the respondents could not honour appointment times as a result the researcher had to move more than once to have an audience with the respondents for interviews. Sometimes the questionnaires were not ready and done hurriedly on sighting the researcher. The time factor affected the quality and the quantity of the data collected.

Lastly, as any other research would experience was lack of funds. Most the community members seemed in need of financial facilitation before accepting to be interviewed. However, explaining my financial state and the value of the research to the school they changed their attitude and willingly co-operated all the necessary information was got.

3.10 Conclusion

The chapter has discussed in depth the methodology and the design that were used to collect the data. The instruments used, the way of presentation analysis and discussions. In the next chapter, the findings from the field, and records based on objectives and questions are presented and analyzed.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS

4.0 Introduction

This fourth chapter includes the presentation, discussion, interpretation of empirical data and analysis of the results and findings in relation to the research objectives, literature review and the researcher's conceptual framework.

4.1 Background information of the respondents

This was assessed by the use of the questionnaires which were administered to seventy three respondents in order to ascertain the category of the respondents to take part in the study. The findings were reflected as in table 2 below;

Table 2: Showing the background information of the respondents

Category	Target	Actual	Response %	Rank
Board of directors	6	4	6.7	4
Finance committee	5	3	5	5
Management team	7	5	8.3	3
Teaching staff	35	32	53.3	1
Support staff	20	16	26.7	2
Total	**73**	**60**	**100**	

Source: Research Data 2014

The above table clearly depicts the category of the respondents involved in the study. According to the category of the respondents, the researcher was enabled to obtain adequate information because the questionnaires were properly answered and the interviews were conducted fluently.

This enabled the researcher to come up with un- biased results used in drawing up the conclusion and the way forward on the performance of an organisation.

4.1.1 Gender of the respondents

The questionnaires were administered to sixty respondents to ascertain the gender and the findings are as indicated in the table 3 below;

Table 3: Showing the gender of the respondents

Gender	Frequency	Percentage %	Rank
Female	27	45	2
Male	33	55	1
Total	**60**	**100**	

Source: Research data 2014

The above table shows clearly that 45% of the respondents were female and 55% were male. Therefore it shows that there was gender balance and the information obtained was objective which helped the researcher in the study.

4.1.2 Education Levels of the Respondents

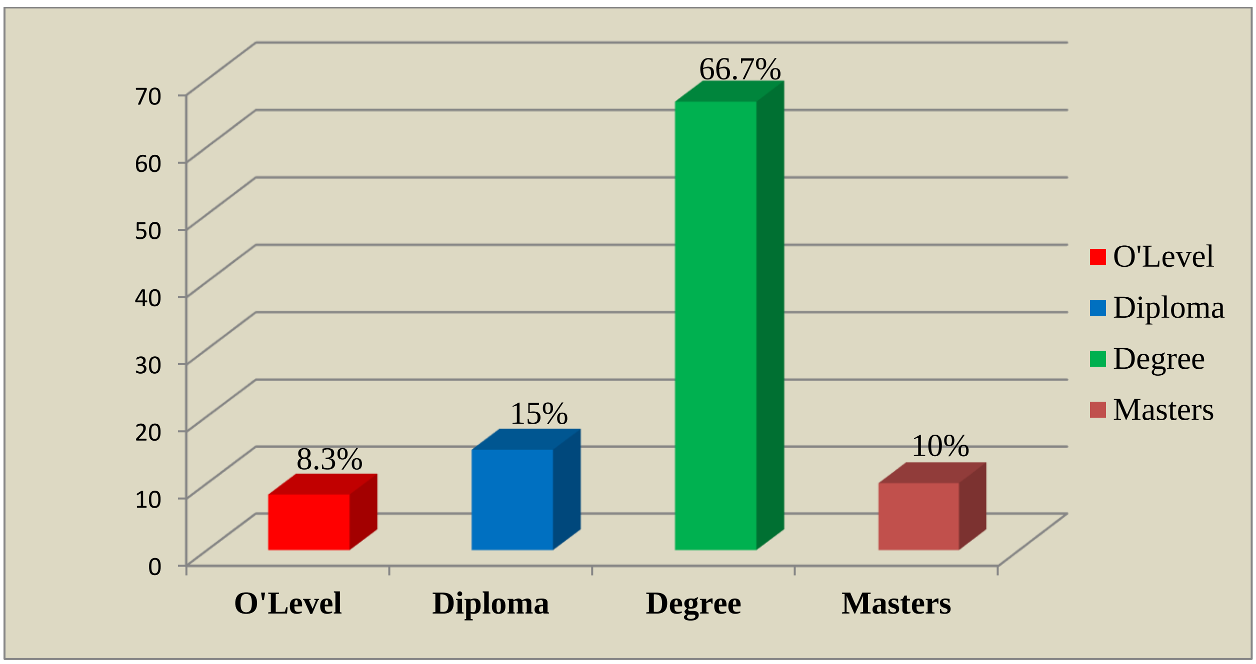
The results from sixty (60) respondents out of a sample size of seventy three (73) indicate that the education levels of the respondents employed at Stella Maris College Nsuube were between O'level and masters as indicated in table 4 below:

Table 4: Showing the educational levels of the respondents

Education level	Frequency	Percentage %	Rank
O Level	5	8.3	4
Diploma	9	15	2
Degree	40	66.7	1
Masters	6	10	3
Total	**60**	**100**	

Source: Research data 2014

Figure 5: The bar graph showing the educational level of the respondents.



Source: Research data 2014

The Figure above shows that the majority of the respondents are degree holders with (66.7%); the 15% of the respondents had the standard of the diploma. The 10% of the respondent's education level had masters. The study found out that the majority of the staff of Stella Maris College are well educated although they had some O'level levers still working with the college. The level of the education above according to the statistics enabled the researcher to obtain all the information needed for the research and they were aware of the organisational objectives and goals when asked. This is an indication that they are working towards the achievement of the organizational goals and objectives which can be reflected through good performance.

4.2 Processes of Financial management and performance

Financial management is one of the managerial activities concerned with the planning and controlling of the organisational financial resources which are economically obtained and used towards achievement of the organisational goals. This was assessed through questionnaires and interviews with various respondents and the findings about the processes of financial management were as indicated in table 5 below:

Table 5: Showing the processes of financial management in a private organization (STEMACONS)

Processes	No. of Respondents	Percentage	Rank
Budgeting	15	25	1
Planning	13	21.7	2
Cash management	12	20	3
Financial Statements	8	13.3	4
Internal control	7	11.7	5
Inventory management	5	8.3	6
Total	**60**	**100**	

Source: Research data, 2014

The findings shown in table 5 above reveal that the organization has various financial management processes in place and these include; budgeting (25%) and the respondents stated that budgeting contributes to proper financial management because all the spending is based on the budget line and according to the work plans thus standing as the major process of financial management, planning (21.7%) agree that planning if done well leads to profit maximization, cash management(20%) believe that proper cash management limits misappropriation and fraud , financial statements (13%) support that financial statements help the management in making informed decisions on either acquisitions or disposal of equipments, internal controls (11.7%) assert that effective internal control protects the resources of the organisations from being misallocated to none priority areas and inventory management(8.3%) agree that inventory can be convertible to liquid cash and needs to be monitored . The study through interviews also showed receivable and payable management as some of the processes in financial management in an organisation.

4.2.1 Budgeting and performance of a private organization (STEMACONS)

This aspect was assessed using both questionnaires and interviews and the researcher came up with the findings shown in table 6 below:

Table 6: Showing importance of budgeting on the performance of an organisation (STEMACONS)

Factors	**Frequency**	**Percentage %**	**Rank**
Allocation of financial resources	17	28.3	1
Ensuring conformity with plans	6	10	5
Identify the priority	10	16.7	3
Management tool	15	25	2
Record keeping	12	20	4
	60	**100**	

Source: Research data, 2014

Table 6 above clearly shows that Stella Maris College takes budgeting to be an important activity in financial management of their resources. Allocation of funds was ranked first with 28.3% and the respondents agreed that budgeting assists management in the distribution of the meagre resources according to the set targets. The college budgeting also aims at ensuring conformity with work plans (10%), identifying the priority activities (16.7%), (25%) agreed that budget is a management tool which helps in directing the management on the allocation of resources and while (20%) asserted that budget plays a role in proper record keeping because all the work plan are maintained and followed in line with the budget. Horngren, Sundem & Stratton (1996) in chapter two stress that organizations use budgets to focus on operating or financial problems early, so that managers can take steps to avoid or remedy the problems.

The findings also showed that the organization makes an operating budget quarterly in accordance with the government financial year July-June. The budgeting committee, which comprises of core management team, the headmistress, accountants do the budgeting. A budget is made depending on the proposed income. According to the schools financial manual, the budget team reviews the past budget in order to guide them in making forecast for the next budget. The budget proposal is then submitted for approval to the board members. The resources for financing the budget are raised from various sources like school fees, loans among others.

From the findings, it can be analyzed that Stella Maris College has a relatively fair budgeting system for its resources. This is evidenced by not involving all the sections on the initial stages of budgeting. The management consults various departments to find out the consumption of items in the previous term, and this is used to draw the budget for the following term.

As an organization, when making budget estimates, expenditure items are valued using current market prices. Changes in the market prices of some products and services procured by the school affects the financial performance of the school in that the estimates are either under rated or overrated and in the end the activities are either run effectively or not. In case of a budget deficit in a budget item, budget re-allocation is done to bridge the gap. These control measures depict a good financial management and performance of an organisation.

Therefore, the research revealed that budgeting has been a major means towards improved performance of the college although much still needs attention especially involvement of the heads in budgeting at the initial stage not at the later stage. This encompasses efficiency, effectiveness, impact assessment and reputation of proper accounting systems as means for controlling activities and all financial resources in an organisation.

4.2.1.0 Sources of revenue for the private organisation (STEMACONS)

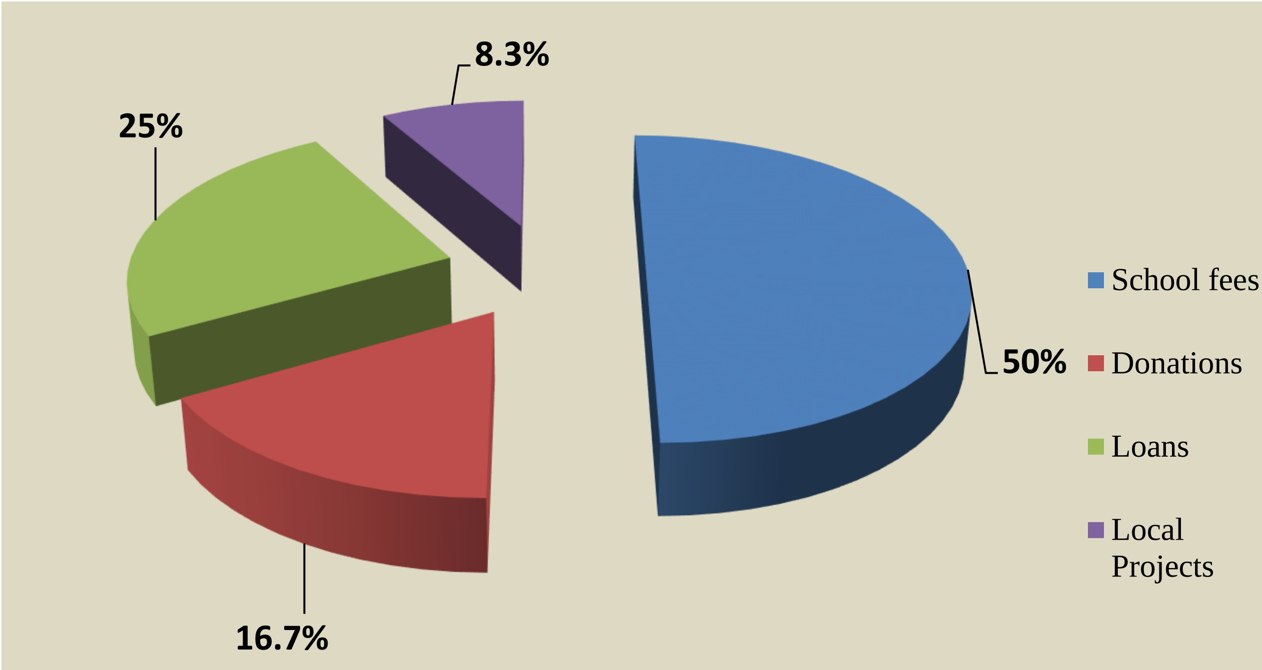
Revenue is one of the main elements in running any organization. This was examined using questionnaires and the interviews and the findings are as indicated in table 7 below:

Table 7: Showing sources of revenue in the organization (STEMACONS)

Sources of Income	Frequency	Percentage/%	Rank
School fees	30	50	1
Donations	10	16.7	3
Loans	15	25	2
Local Projects	5	8.3	4
Total	**60**	**100**	

Source: Research data 2014

Figure 6: The pie chart showing the sources of income in STEMACONS



Source: Research data 2014

According to the table and figure above, it can be clearly seen that the main source of income for the organization is school fees with the highest percentage of 50%. 25% stated that loans are another source of income although to a small extent, donations 16.7% and local projects with 8.3%. This is a clear indication that the organization depends mainly on school fees, and partly on donations and local loans. Therefore, this calls the organization to diversify its sources of income to subsidize the school fees and also seek for more donations to increase the funds since it does not receive government aid.

The main books of account used by the organization: The respondents were examined on this aspect and the respondents strongly agreed on the following as the main books of accounts maintained by the organisation: requisition vouchers, cash books, ledger books, payment vouchers, receipt books, cheque payment vouchers, and analysis books. These books play a big role in the reporting process and tracing of organizational incomes and expenditures which can be used in measuring the performance of an organization.

4.2.1.1 Uses of financial Resources for the private organisation (STEMACONS)

According to the interviews with the top management of the organisation regarding the main areas where their financial resources are utilized, the researcher came up with the following areas: employment costs 69%, capital development 65%, scholastic materials 64%, well fare and student's meals 67%. This constitutes the critical area where attention and priority should be given regarding allocation and management of resources so as to minimize the deviation in most of the budget items. Thus answering the question raised on the main uses of funds in the organisation.

The findings also showed that the organisation controls its expenses through a set procedure of payment and authorization. The requisition is made by the heads of departments and approved by the head teacher. Although the procedures used are definitely good, there are still some loopholes on the authorization of payments which need to be looked at as a way to reduce negative impact on the performance of an organisation. There must be segregation of duties among the bursar and the head teacher. The researcher observed that it was one cashier doing the billing, and receiving cash and bank slips from the students. This creates a risk of fraud and misuse of the organisational resources and thus necessitating the organisation to recruit more accounts assistants or train more staff in financial management to reduce on such incidences.

4.2.2 Financial Planning and performance of an organization (STEMACONS)

According to table 5 above, 21.7% of the respondents indicated that financial planning is an essential process of financial management as it ensures that all the resources are well allocated in accordance with the budget and work plan. Through planning, the budgeting process is brought to reality. This is supported by Van Horne (2002) who argues that planning involves the financial flows of an organization; forecasting the consequences of various investments, financing and dividend decisions and weighing the effects of various alternatives. Through planning as a management function, management needs to ensure that enough funding is available at the right time to meet the needs of the organization.

4.2.3 Cash Management and performance of a private organization (STEMACONS)

Cash is one of the important areas in financial management as stressed earlier on by Berman et al., (2000). The researcher observed that the organisation has one collection point which is the Bursars office. Daily collections are submitted to the accountant. It was also observed that Stella Maris College cash/cheques are handled in the Bursar’s Office. The bursar issues a general receipt in acknowledgment of payments. However, cash deposits are done monthly because the funds collected are not much, and the banks are far away to Mukono. The cash is controlled by the Head Teacher who releases it to the bursar on request to meet the recurring expenditures. The college operates an imprest system whereby the accountant requests the petty cash to be reimbursement on presentation of the previous accountability. Posting and balancing the cashbook and physical cash count is done regularly creating an efficient and effective record keeping system. Bank statements are collected monthly and reconciled with cashbook and the ledgers.

According to the interview with the bursar, she prepares vouchers for cheques payments to the creditors, wages and allowances. These are verified and approved by the head teacher and payments are made to the creditors. It was also noted that for the past three years (2010-2012), cash received could pass through many hands and as a result, much funds were not realised creating a high rate of receivables and fraud. However, a new system of allowing only bank deposits was invented to improve on cash management. A school mobile money line was also availed to the parents to reduce on the loss of funds, although this could also be risky.

Despite the above hurdles, (20%) of the respondents in table 5 indicated that cash management is among the important processes of financial management of an organization. This is supported by Pandey, (2010) who noted that cash is one the important current asset for the operations of the organization. It is a basic input needed to keep the organization running on a continuous basis.
Given the fact that the college is far away from the banking centres, some cash is used to meet daily administrative recurrent activities with the approval of the head teacher. There are two signatories to the accounts, one from within and one board member. The principle is the two must sign for withdrawal. A formal requisition is made, examined and approved before authorization. The head teacher is responsible for the authorization of all payments. Large amounts are paid through cheques. However, for all the cheques payments made the cashier raises the payment voucher followed by the process of approval by responsible parties.

The findings clearly showed that Stella Maris College still needs to put strong internal controls in place so that all the financial resources are well managed, and payments supported with clear and explicit explanation as a way of minimizing fraudulent instances.

4.2.4 Inventory Management and performance in private organizations (STEMACONS)

The objective of inventory management is to provide uninterrupted production, sales, and/or customer-service levels at the minimum cost. This makes it one of the critical areas of financial management. The efficiency of operation depends largely on timely availability of supplies. Jae & Joel (1999) echoed the purpose of inventory management as to develop and create a sound inventory control system and policies to achieve optimal inventory investment.

The findings show that the organization lacks a procurement officer and a store's manager for proper records. The procurement activities are mainly done by the head teacher and there are no procurement policies in place. The forecasted purchasing takes place monthly and though projections can be made for the next purchase, no proper records are maintained once the supplies are received by the staff in-charge. It was observed that stock or inventory management in Stella Maris College is not effective. There were no proper records apart from the audited accounts. Additionally, most times what is purchased is consumed there and then.

It was hard to decide on the method used because the consumption rate is high and yet the stock is low. Inadequate records of stock items might result in discrepancies in stores department. It should be noted that proper stock records reflect efficient control of operations and help avoid frequent abuse of organizational resources.

The trend of inventory management in Stella Maris College (STEMACONS) is not very good; this is depicted by a small percentage of the respondents. 8.3% of the respondents in table 5 asserted that as a process of financial management, inventory management is at a lower rate. It is therefore, through this fair inventory management that an organization is able to achieve its objectives and improve performance in regards to financial management because acquisition of stock involves an element of finances.

Good inventory management is important for successful operation of most organizations. Stevenson (2009) strongly emphasizes that part of the organization's working capital is invested in inventory. Since inventories represent a significant portion of total assets, and a reduction in inventory can result in a significant decrease in the return on investment, which can be used as a measure of managerial performance. The purpose of inventory management is to develop and create a sound inventory control system and policies to achieve optimal inventory investment.

4.2.5 Receivables management and performance of a private organization (STEMACONS)

Accounts receivable are created when organization offers services on credit terms. However, many organizational transactions are often tracked through accounts receivable, the analysis of the structures used to manage accounts receivable warrants detailed attention.

STEMACONS, receivables management is gradual given the fact that many students do not pay in time. There is fees payment failure causing the rate of receivable impairment to be high. Invoicing accurately and in time is not so easy because some students tend to keep their pay slips until when they are being sent home. The findings showed that prompt collection of receivables has not been so effective in the past three years 2010-2012 because the fees could pass many hands and much of it could not be forward to the right financial personnel making the organization incur losses.

According to the interview held by the bursar and head teacher, the receivables are recovered on a monthly basis. Once the students report to school, they are given a period of one month, and the parents are notified. Then after visitation day, a follow up is made and before exams students with a bigger balance especially above Shs.100, 000 are sent home to collect the fees. Some parents who cannot pay fees in monetary terms are obliged to offer the school with foodstuff which is valued to cover up the fees for their respective students.

However, it was found out that there is a high rate of students’ failure to pay fees in spite of all the measures the administration has tried to put in place. Some parents pay half fees and only complete the fees when the student is sent home; while others make commitments as to when to pay fees, but completely fail to fulfil their promises. This results into failure to pay teachers’ salary on time, and this affects the general performance of the organisation.

4.2.6 Payables management and performance of private organizations (STEMACONS)

Accounts payable are debts that must be paid off within a given period of time in order to avoid default. Accounts Payable (AP) is an important factor in an organization and a key indicator of overall operational effectiveness. If it’s too high, the organization may soon have trouble paying bills on time, leading to costly penalties; if it’s too low, the organization could unwisely be paying bills early, rather than enjoying the full grace period and investing any surplus cash into the business. Considering the findings, payables management in STEMACONS, the rate of creditors is always high by the time the school closes a given year. It was realized that the changes in the administration contributed to this problem. Many creditors go unmentioned by the administrator handing over and when the in-coming administrator takes over, a challenge of long term creditors is encountered.

From the interview held with the bursar and head teacher, payables are cleared on a gradual process as a result of limited financial resources. Normally supplies like food stuffs are purchased and services like vehicles maintenance are sought on credit. Payments are made in instalments according to the contract terms and conditions. When the funds are available, some suppliers are paid instantly and all costs are cleared. The findings clearly indicated that the college has no payment policy for the creditors this in a long run affects the performance of the organisation and the performance of an organisation.

4.2.7 Financial Statements and performance of a private organization (STEMACONS)

One of the questions was to ascertain whether the organization prepares financial statements. The findings showed that financial statements are prepared quarterly and submitted to the finance committee. According to the findings as indicated in table 5, 13.3% of the respondents said financial statements are important in the financial management cycle of an organization as they give information on the performance of an organisation. The basic financial statements and reports recommended by International Accounting Standard (IAS 1) for any organization include; statement of comprehensive income, statement of financial position, Cash flow statement and statement of changes in equity.

The fact that the organization does not maintain all the four major financial statements implies inadequate reporting and presentation of financial statements. This makes it difficult to determine the financial position and the operating performance of the income generated by the activities. As stated earlier by Brealey, Myers & Allen (2008) in chapter two, financial statements are prepared not only to help an organization understand the past performance but also provide the starting point for developing a financial plan for the future. Managers therefore use financial statements analysis to discover the strengths and weaknesses of the organization and reveal underlying trends in its performance. However, lack of relevant financial statements and reports is an indication of insufficient information for proper financial management and effective decision making which affects the performance of the organization.

4.2.8 Internal control and performance of a private organization (STEMACONS)

Internal control is the whole system of controls designed by the management to provide an adequate procedure for protecting cash and cash equivalents and also ensuring that the objectives of the organisation are achieved. The responses are as shown in table 8 below;

Table 8: Showing the components of internal control on performance of an organisation

Internal control components	Frequency	Percentage %	Rank
Internal auditing	15	25	1
Accountability and reporting	12	20	2
Segregation of duties	9	15	4
Authorization and approval	10	16.7	3
Allocation of responsibilities	6	10	6
Supervision	8	13.3	5
Total	**60**	**100**	

Source: Research Data 2014

From table 8 above, it can be noted that the organization has various internal controls. Internal auditing (25%) is the most relied on method of internal control where annual financial reports are audited to ascertain the reliability of the financial statements and whether they portray true and fair view of organisation financial position. This is one of the requirements according to IASs that organisations should audit their accounts as a legal requirement.

From the interviews held with the people in-charge of the various departments and some key informants, Stella Maris College has audit exercise annually. This was evidenced by the filed audit reports although they operate cash basis of accounting. However, the respondents emphasized the need for comprehensive auditing in an organisation since the organization underwent consecutive administrative changes, which caused a lot of discrepancies.

The 20% of the respondents stated clearly that accountability and reporting as an internal control is used by the organization and it helps to ensure that the funds received are spent according to the budgeted lines and in line with the organisational goals and objectives. However, it was observed that all the funds secured were not fully accounted for, thus a financial management problem because unaccounted for funds means that they have not been spent or have been used to execute other unauthorized activities which are not in line with the budget and this in a long run affects the performance of an organisation.

From the held interviews, 13.3% of the respondents agreed that supervision is vital because it reduces the misuse and abuse of the organization's resources; it is a motivation to staff and it acts as learning tool although, the small rate shows limited supervision. Where supervision is effected, corrective measures are taken and staff members are able to learn from their weaknesses, they feel their work is recognized by their superiors and they are motivated to perform above self. On the other hand, reports showed that last year Stella Maris lost property without recovery, in areas less supervised. In such departments, the morals of staff are reportedly low, predominantly sub-standard work, frequent absenteeism and poor performance. The staff involved in the exercise complained that supervision is cumbersome because it interferes with departmental programmes.

According to the interviews with the respondents, (16.7%) indicated that authorisation and approval is one of the vital internal controls in an organisation. However, the findings showed that financial issues of the organisation are handled by the bursar and under the supervision of the head teacher. When it comes to issue of funds, the individual member for example from a department makes a requisition that is approved by the head of department. It is sent to the Director of Studies, then to the Deputy Head teacher Academics. After all have signed, the requisition is forwarded to the Head teacher who finally commissions the bursar to issue the approved sum of money. This is acceptable and recommended accounting control because all the expenses pass through normal procedures. Records have helped the organisation maintain fairly adequate internal control which is an essential prerequisite for efficient management of an organization.

4.3 The contribution of financial management to the performance of private organizations

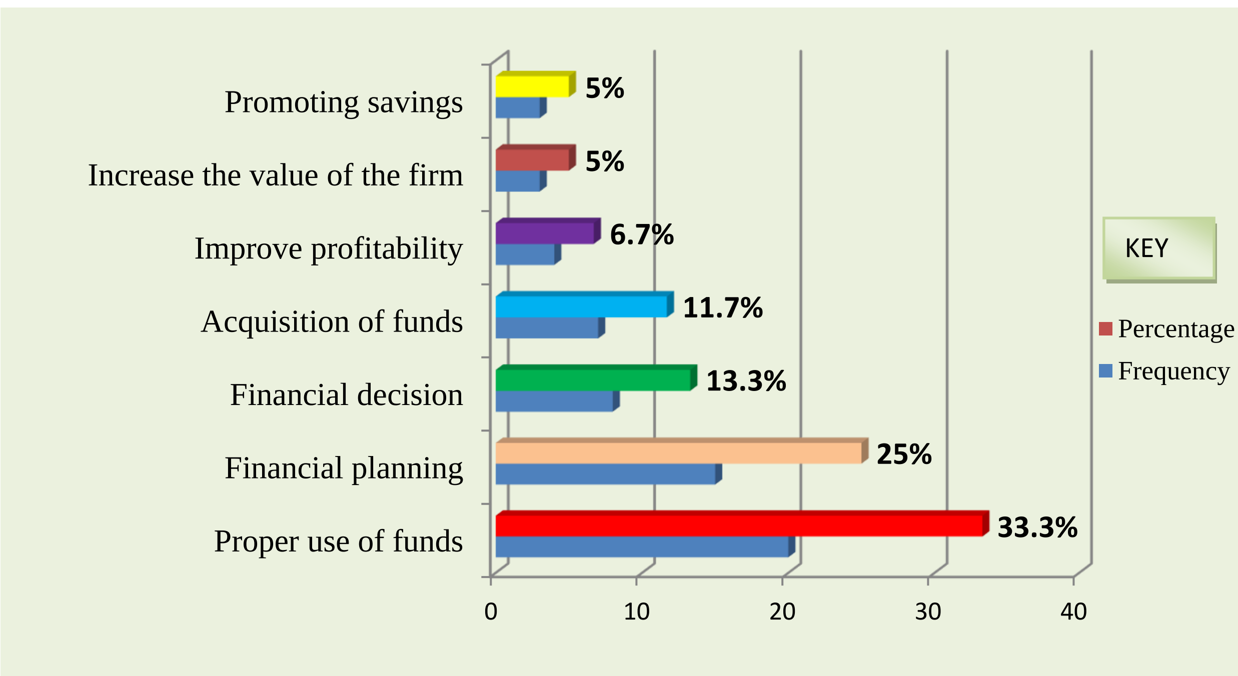
The contribution of financial management has assessed through questionnaires and the interviews and the responses from the respondents were as indicated in table 9 below;

Table 9: Showing the contribution of financial management to the performance of a private organisation (STEMACONS)

Factors	Frequency	Percentage %	Rank
Financial planning	15	25	1
Acquisition of funds	7	11.7	4
Proper use of funds	20	33.3	1
Financial decision	8	13.3	3
Improve profitability	4	6.7	5
Increase the value of the firm	3	5	6
Promoting savings	3	5	7
Total	**60**	**100**	

Source: Research data, 2014

Figure 7: A bar graph showing the contribution of financial management to the performance of STEMACONS



Source: Research data, 2014

According to the above analysis, majority of the respondents accepted that practice of good financial management system in an organisation leads to proper use of funds because all the funds are allocated according to the budget line (33.3%), the 25% strongly accepted that it aids in financial planning since all the activities are monitored basing on the activity plan, while 13.3% affirmed that it motivates management when making financial decisions because the information got is reliable,11.7% considered good financial management to acquisition of funds to run the organization's operations, 6.7% stated that proper financial management helps the organization to improve its profitability through strict monitoring and evaluation, and 5% noted the financial management increases the value of the organization as well as promoting savings.

The above analysis is supported by Emery, Finnerty & Stowe (2007) in chapter two who assert that financial management helps management in financial planning; the planning process can expose inconsistencies in decision making methods and helps the organization understand its profitability. Thus, financial management by the organizations acts as a basis for gradual growth and improvement of performance. Basing on the above values of financial management, the managers have a task of ensuring that it is upheld.

4.4 The challenges encountered in financial management and performance of a private organization (STEMACONS)

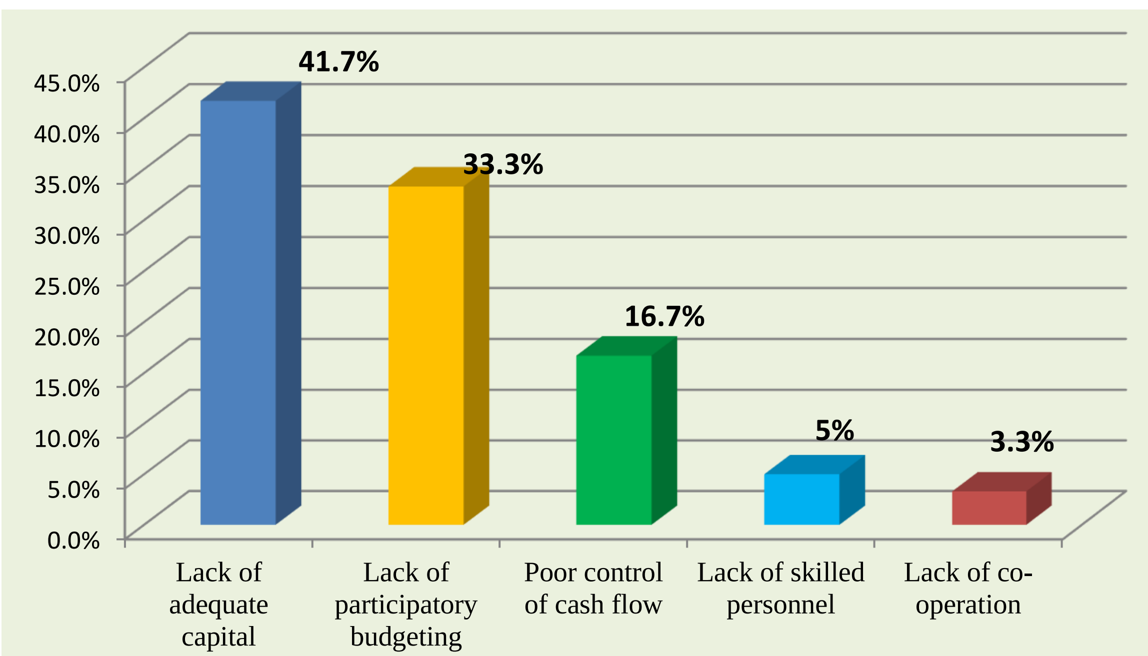
Several factors affect the performance of an organization. This was examined using questionnaires and interviews with the sixty respondents. The findings obtained were as indicated in table 10 below;

Table 10: Showing the challenges of financial management and performance of a private organization (STEMACONS)

Challenge	Frequency	Percentage %	Rank
Lack of adequate capital	25	41.7	1
Poor control of cash flow	10	16.7	3
Lack of participatory budgeting	20	33.3	2
Lack of skilled personnel	3	5	4
Lack of co-operation	2	3.3	5
Total	**60**	**100**	

Source: Research data, 2014

Figure 8: A bar graph showing the challenges of financial management and performance of a private organization (STEMACONS)



Source: Research data, 2014

From the table and figure above, majority (41.7%) of the respondents strongly stated that practice of financial management system in STEMACONS is greatly affected with inadequate capital to facilitate both capital and current expenditures as planned, 33.3% accepted that lack of participatory budgeting affects the implementation of various activities because the staff may not own the budget and work plan activities, while 16.7% affirmed that there is poor control of cash flow which could like to misuse and fraud, 5% considered lack of skilled personnel as a challenge in the sense that the forecasts and budget may not reflect realistic figures and this may affect decision making and 3.3% stated that poor financial management is due to lack of cooperation in the organization.

The findings from the interviews conducted further stated that ineffective record keeping and inventory management are some of the challenges that affect the performance of an organization. This creates a big loophole of fraud to the financial managers and heads of departments. Therefore, the system in existence is not fully efficient to protect all the financial resources of an organization. Accrued liabilities on staff rentals and low fees payments by the parents due to the current economic situation in the country have contributed to inadequate capital. Another challenge is a high rate of defaulting from parents which results to a high rate of outstanding debts carried forward each term. The high accumulated figure of doubtful debts turns into bad debts hence affecting the performance of an organization. It is worth noting that these challenges if not considered by the top management team may affect the performance of the organization, which may lead to poor quality services, and in a long run, loss of goodwill and a drop in students numbers.

4.5 The relationship between financial management and the performance of a private organization (STEMACONS)

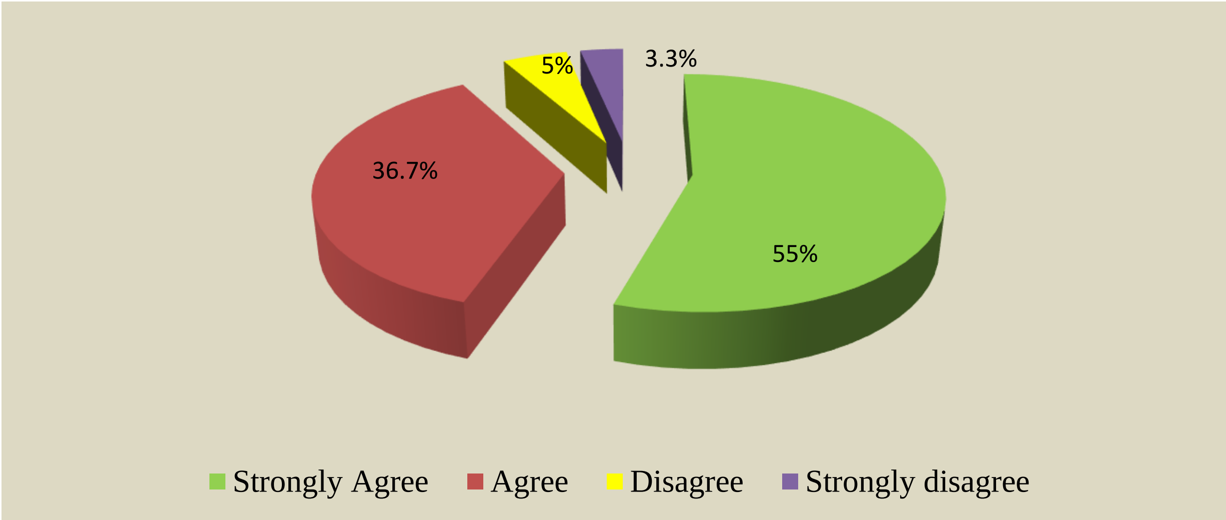
The researcher used the scale rating to ascertain the perception of 60 respondents on the relationship between financial management and performance and the findings from the questionnaires administered are as reflected in table 11 below;

Table 11: Showing the relationship between financial management and the performance of a private organization (STEMACONS)

Response	Frequency	Percentage %	Rank
Strongly Agree	33	55	1
Agree	22	36.7	2
Disagree	3	5%	3
Strongly disagree	2	3.3%	4
Total	**60**	**100**	

Source: Research data 2014

Figure 9: A pie chart showing the relationship between financial management and performance of a private organization (STEMACONS)



Source: Research data 2014

From the research findings in the figure above, 55% of the respondents strongly agreed that financial management plays a great in the performance an organization. The 36.7% agreed that without proper financial management, the organizational performance is likely to be affected because the activities on the work plan may not be matched with the budget. 5% disagreed and 3.3% strongly disagreed of the relationship between the two variables under study. This observable fact is an insight analysis of the organization's staff awareness of the financial management system link and contribution to effective performance of the organization. Therefore, the results affirm the hypothesis that proper financial management is an important determinant of organizational performance.

4.6 Strategic measures to minimize the challenges in private organizations

The management of the organisation has the responsibility to ensure that all finances are banked intact before use and organization adapts the use of imprest system with a flooding figure for a week and the paying cashier is reimbursed weekly upon the submission of the previous accountability of the funds advanced which acts as a means of financial management in a private organization.

The organisation carries out budgeting which is a good control tool towards management of financial resources. The participatory budgeting needs to be emphasized as this enables the staff to own the budget and facilitate its implementation.

The strengthening of the internal control system such as annual audits, and cherishing the organisational values of transparency, reliability and integrity result into good performance. Through this, proper record keeping, accountability and analysis done according to International

Financial Reporting Standards (IFRS) 2013, act as a means to an end on organisational performance and profitability.

Conclusion

According to the findings, it can be ascertained that STEMACONS has been using financial management system and procedures although there are still some loopholes, which need to be strengthened to minimize resource wastage, misallocation and chances of fraud. Thus, a private organization cannot achieve its goals and objectives without an element of proper financial management system in place.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

From the findings and analysis carried out in the study, financial management affects the performance of private organizations. Therefore, this chapter is to draw conclusions, recommendations and suggestions on the application and importance of managing financial resources in an organization.

5.1 Summary of findings

The findings are expressed in the three objectives of the study;

5.1.1 Processes of financial management in private organizations

It can be argued that many factors contribute to the proper financial management and performance of an organization. According to the findings of the study the following processes of financial management are considered important; Budgeting, financial planning, cash management, inventory management, receivables and payables management, financial statements and internal controls. The findings showed that to a large extent the organisation has some of the above processes of financial management in place.

The budgeting is done and reviewed quarterly depending on the forecasted income, school fees being the main source of income. Much as the majority of the respondents stated that budgeting is an important process of financial management, they however advocated for participatory budgeting which is not effective in the organization. Although the organization runs a fairly planned budget system, budget monitoring is not strictly adhered to as a tool to avoid misallocation of funds to none priority votes. Budgeting is a yardstick for planning, and the majority of the respondents indicated that planning is an essential process which leads to proper financial management.

Cash management in the organization is relatively well managed, which was shown by the presence of procedures of approvals done before the cash is paid out. This makes it easy for the organization to trace all expenditure and monitor the different expenditures so as to keep within the budgetary requirements. All the incomes are acknowledged by issue of receipts to the concerned party and the deposits are done monthly. The cash is controlled by the Head Teacher who releases it to the bursar on a request to meet the recurring expenditures. The findings showed it clearly that the organization uses more of cash basis accounting than accrual and this calls to the attention of the top management to shift the accounting system to the current recommended accounting standards and encourage the use of accrual basis of accounting.

The inventory management is the most critical area of financial management and the findings clearly showed that inventory management is not effective especially on the food stuff stores. This was observed where stocks from the stores are issued without verification and no updates on the ledger cards and one staff managing the stores creates a gap and room for fraud. The findings also indicated that goods are released without proper records, no store ledgers are maintained. In adequate records of stock items may result in discrepancies in stores hence creating loses to the organization.

Accounts receivable is one of the important factors in the organizations financial management. When too high, the organization may be lax in collecting what is owed too it and may struggle to find the cash to clear its obligations in time. Receivables management in STEMACONS is gradual given the fact that many students do not pay in time. The organization has no fees payment policy which has caused poor fees recovery from the parents hence causing high figure of bad debts and this no doubt affects the performance of the organization. The top management needs to take caution and have collective efforts as being proactive than reactive and have target collection efforts from every member of staff.

Accounts payable or "payables" are those amounts of money that a business or organization must put aside to be paid for on-going debts. The study findings showed the organization has many outstanding payables which is a critical area in financial management and affects the financial position of the organization. It was noted that the organization has no payable policy on settlement its obligations.

The findings further showed that financial statements are reports that analyze and assess an organization's financial position and performance. The findings showed that the major financial statements produced include: statement of comprehensive income, statement of financial position, cash flow statements and statement of changes in equity which play a vital role in decision making. However, the findings also indicated that the organization does not maintain all the four sets of financial statements. This makes it difficult to determine the financial position and the operating performance of the income generated by the activities in a given period.

The effective internal control system in an organization is one of the important tools in the management of financial resources. The findings from the study showed that the organization carries annual audit but there is need for an extensive audit beyond financial statements.

Therefore, effective internal controls in an organization is essential elements in financial management which requires keen interest to be on strict procedures and segregation of duties which aid in achievement of organizational values of transparency, reliability and integrity, which result in good performance.

5.1.2 Contribution of financial management to the performance of private organizations

According to the findings, the good practice of financial management in an organization leads to proper use of funds according to priority areas, supports in financial planning, motivates management in making economical financial decisions, facilitates acquisition of funds to run the organization's operations, improves profitability of the organizational equity, leading to increased value of the organization assets as well as promoting savings. All these are as a result of good financial management which in turn leads to improved performance of the organization. According to the findings, the entire above can only be achieved if the organization has a sound human resource recruitment policy.

5.1.3 Challenges of financial management and performance of private organizations.

The study depicted the following challenges encountered in the practice of financial management in STEMACONS; inadequate capital to facilitate both capital and current expenditures as planned, lack of participatory budgeting which affects the implementation of various activities, poor control of cash flow due to lack of integrity and transparency, lack of skilled personnel, lack of cooperation in the organization and ineffective internal control system especially segregation of duties between the accounts and the top management.

It was further noted that ineffective record keeping, outstanding receivables and inventory management are also challenges to performance and management of financial resources. This affects the operations and performance of the organization as the resources are not well allocated according to the priority areas.

5.2 Conclusions

Throughout the entire research report, the general objective was to examine the effect of financial management on performance of organizations. This has been the main aim, trying to state the possible ways through which financial management processes can be practiced and improved, to enhance good performance in organizations.

The report shows an ardent need for effective and efficient financial management processes if an organization is to have good performance. The top management should realize the usefulness and contribution of financial management towards organizational performance which leads to attainment of the organizational goals and objectives. This necessitates that the organization improves on its budgetary process by including all the heads of the departments from the initial stage to enable them own it hence leading to effective and efficient implementation of the budget for the good of every department hence improving on the performance.

However, improved service of a private organization (STEMACONS) can only be realized if the management strictly institutes strong payable and receivable collection policy. The management needs to cooperate with parents and development mutual trust such that although many parents are affected by the economical factors they can still have a policy to direct them.

The receivable collection policy should be strengthened to guard the organization against running into cash flow problems. The management needs to be more assertive, proactive than reactive. It is also clear that financial management is a vital aspect that can never be underestimated and it is the central element in the performance of an organization. Therefore, the management of the private organization (STEMACONS) should focus on the discussed concept of financial management so that they can build competitive advantage which results to excellent performance.

5.3 Recommendations

To ensure high level of performance, private organizations (STEMACONS) should promote participatory budgeting. Therefore, the budgeting and budgetary controls need to be improved to include monitoring of expenditure of all sources of funds against the work-plan activities. Heads of departments should be involved in the initial budgeting and be given chance to come up with their various activities and work plan which could be incorporated in the master budget. This makes budget be implemented in accordance with the work plan.

The organization needs to diversify its sources of income than depending mostly on the students fees, which may limit capital developments and staff salary increment of the staff and this in a long run affects the performance. There is need for diversification of financial resources by the organization so as to subsidize the school fees.

Cash is the blood of an organization and must be properly managed and controlled. Basing on the current personnel, there is need for the organization to recruit and train more accounting staff on financial related courses as a way to improve on their performance and promote segregation of duties. The cash management policy and procedures need to be strengthened whereby all the cash received is deposited before use.

The organizational top administration should ensure that all departments comply with proper record keeping and management of their various inventories and well trained staff should be recruited. Improvement on current record keeping as a means to an end and avoid misappropriation and loss of organization resources.

Introduction of organizational receivable policy with well stipulated time frame for payment and clearing of school fees. Within the fees policy there could be a clause allowing parents to have a discussion with the top administration and come up with the payment schedule based on a given time frame.

The inventory management still needs a lot of attention from the top management. There is need to introduce stores ledger cards and control account with much emphases on procurement procedures and periodical evaluation of inventory.

Due to the distance, the use of new technology could be encouraged whereby the parents may use mobile money mode of payment as a fastest means and also helps to avoid transport expenses to the parents.

IAS 1 recommends that all organization should prepare their accounts according to the International Accounting Standards. This standard requires an organization to have four sets of financial reports which include; statement of comprehensive income, financial position, cash flows and statement of changes in equity which the organization currently does not have. Therefore, as a legal requirement, management should ensure that it follows the new accounting standards. According to International Accounting Standards, all organizations should recognize their incomes and expenses using accrual basis of accounting and therefore the organization should emphasize the use of accrual basis of accounting.

In most cases, the financial managers neglect the importance of receivable and payable management in an organization as in the case of STEMACONS. Therefore, the researcher recommends that as a strategy of improving organizational performance and attainment of set objectives of the organization, the policy on fees receivable management and payables should be instituted as a measure and internal control tool.

5.4 Suggestions for further research

Although the results of this study contribute to the knowledge of the effect of financial management on performance of private organizations (educational institutions), there are limitations that need further investigation or research. These include;

- Impact of financial efficiency and performance of an organization.
- Effect of cash management, owner's equity and performance of an organization.

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Appendices

Appendix I: Research Questionnaire

Dear Respondent:

I am Doreen Nalwadda a student of Uganda Martyrs University Nkozi pursuing a bachelor's degree in Business Administration and Management. I am carrying out this study to find out the impact of financial management on the performance of private organizations. I kindly ask you to answer the questions with all your cooperation wherever possible. The study is purely academic and the information will be treated with confidentiality and will help to answer the research problem. It will also help improve financial management and the performance of organizations. Thank you for your cooperation.

INSTRUCTIONS:

Fill the spaces provided or indicate the response corresponding to appropriate choice of response where applicable.

SERIAL NO---

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1. Name of the respondent (optional) ---

Sex: Male: ☐ Female: ☐

Age: 18-25 ☐ 25-35 ☐ 35-70 ☐ Post held--------------------------

Education O level ☐ Occupation Employed ☐

Diploma ☐ Unemployed ☐

Degree ☐

Masters ☐

2. How long have you been in this organization? 2 years ☐ 4 years ☐ 6 and above ☐

3. What are the objectives and goals of your organization? --

4. What are the main sources of income in your organization?

a) School fees b) Donations c) Loans d) Local projects

Specify others---

5. Do you get government funds? Yes ☐ No ☐

6. What are the main books of accounts which are kept in your organization?

a) Cash book b) Cash analysis c) General ledger

Please add others if any and specify their uses --

7. How many staffs collect cash in your organization? --

8. How is this cash accounted for in the central pool? --

9. How often do you deposit cash in the bank? Weekly ☐ Monthly ☐

10. Do you first deposit all the cash in the bank before withdrawal for use?

Yes ☐ No ☐ explain the reasons as to why. ---------------------------------

11. Do you have in place any of the following types of financial management control systems?

a) Receipting of cash and cheque payment b) Record keeping and management

c) Division and segregation of duties d) Authorization and approval of transactions

e) Supervision of transactions and activities

12. What is the importance of financial management in your organisation? Tick the most appropriate ones.

a) Financial Planning
b) Proper Use of Funds
c) Improve Profitability
d) Promoting Savings
e) Acquisition of Funds
f) Financial Decision
g) Increase the Value of the Firm
h) All the above

13. Do you prepare financial plans in the organization? Yes ☐ No ☐

If Yes how often?

a) Monthly b) Semi annually c) Quarterly d) Annually

14. What do you think are the major stages in financial planning?

a) Formulation b) Implementation

c) Evaluation d) All the above

15. What are different components of financial management cycle?

a) Planning

b) Resource allocation

c) Management of operation, monitoring and safeguarding

d) Evaluation and reporting

e) All the above

16. Which of the financial planning tools commonly used in your organization?

a) Budgets c) Forecasts

b) Financial ratios d) All the above

17. To what extent is financial management being practical in your organization?

a) Very large extent b) Large extent c) Some extent

18. Is there any formal budgeting done in the organization? Yes ☐ No ☐

19. Does your organization prepare financial statements? Yes ☐ No ☐

If yes how often? --

20. What are the major financial control tools in your organization?

a) Budgetary control

b) Cash control

c) Inventory Management

Please add others if any --

21. Briefly mention some of the financial management problems that your organization is facing currently? Tick the most appropriate ones

a) Lack of adequate capital b) Poor control of cash flow

c) Lack of participatory budgeting d) Lack of skilled personnel

e) Lack of cooperation f) All the above

Specify others---

In your opinion how can these problems be solved. --

22. Do you think there is any relationship between financial management and performance of an organization? Yes ☐ No ☐

If yes give reasons for your answer. --

23. Does your organization make decisions based on the available financial reports?

Yes ☐ No ☐

24. Do you think the financial management process of your organization can be improved in any way? Yes ☐ No ☐

If Yes how best---

25. What are the key elements to the process of financial management in your organisation? Tick the most appropriate ones.

a) Financial Planning
b) Financial Decision-making
c) Financial Control
d) All the above

26. Do you agree that without financial management performance of an organization is affected? Please tick the most appropriate option

a) Strongly agree b) Agree c) Disagree

Give any other information you deem important in financial management and performance of an organization ---

27. Is there any relationship between financial management and performance of an organisation?

Agree ☐ strongly agree ☐ disagree ☐ strongly disagree ☐

28. What are the processes of financial management in your organization? Tick the most appropriate ones.

a) Budgeting b)Cash management c) Inventory management d) Financial statements

e) All the above

29. What are main objectives of financial management in your organization? Tick the most appropriate ones?

a) Liquidity b) Profitability c) Growth d) All the above

30. Basing on your observation, do you think the organization resources are properly utilized in line with the budgeted activities? Yes ☐ No ☐

If No, what could be the reason?

Appendix II: Interview Guide

1. What are the sources of income in your organization? ....

2. What are some of the uses of finances collected in your organization? ....

3. How do you manage your debtors and creditors? …………………………………………

4. How many people are involved in budgeting? ……………………………………….

5. What kind of procedures do you follow when making payments? …………………………

6. How are the finances accounted for? ……………………………………..

7. What are the internal controls employed in your organization? ………………………..

8. What could be the contribution of financial management to the performance of an organization? ....

9. What challenges do you encounter when managing the finances in your organization?

10. Explain why you think there is a positive relationship between financial management and performance of an organization. ………………………………………………………….

Appendix III: Map showing the study area

Appendix IV: Pictures

Main entrance gate

Stella Maris College's Beauty on the Hill