EFFECT OF WORKING CAPITAL MANAGEMENT ON PROFITABILTY OF ORGANISATIONS

A CASE STUDY OF FRESH CUTS (UGANDA) LIMITED

BY

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2013-B151-10011

A DISSERTATION SUBMITTED TO THE FACULTY OF SCIENCE IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF A BACHELOR OF SCIENCE DEGREE IN BUSINESS ECONOMICS OF UGANDA MARTYRS UNIVERSITY

MAY, 2016

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Dedication

This dissertation is dedicated to my dearest mother Lucy Lanyero who has shown me the real strength of prayer, dedication and perseverance, and to my darling brother Ethaneal Peter Jr. who i wish to follow in my footsteps.

Acknowledgement

I thank the Almighty God the provider of knowledge and wisdom for seeing me throughout my studies and for enabling me to undertake my research successfully, without His grace I wouldn’t have made it.

I extend my deep appreciation to my supervisor Mr. Mubinzi Geofrey for the guidance and advice provided during the study that made it possible for me to successfully complete the research.

Special thanks go to my parents Ekakoro Peter and Lanyero Lucy, my sisters Aloyo Fiona, Camryn and Joyce Ekakoro and brother Ethaneal Peter Jr, and my dearest friends Beatrice, Pearl and Raychel for the moral and financial support you gave me. Your effort was not in vain and may God bless you abundantly.

Special thanks go to Peter Etom Ekakoro for making tremendous contributions to this study, I extend my sincere gratitude and I appreciate your encouragement and moral support.

I also wish to thank the management and staff at Fresh Cuts for their support, encouragement and allowing to respondent to this study.

May the Almighty God bless you abundantly!

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List of Abbreviations

ACP: Average Collection Period

CCC: Cash Conversion Cycle

CVI: Content Validity Index

FCL: Fresh Cuts Ltd

ROA: Return on Asset

SPSS: Statistical Package for the Social Sciences

WCM: Working Capital management

Abstract

The study was aimed at assess the effect of working capital management on profitability of organizations using a case study of fresh cuts (Uganda) limited, The study objectives were; To establish the effect of accts receivable on organizations profitability, To find out the impact of accts payable on organizations profitability and to ascertain the impact of cash management on organizational profitability.

The study employed a case study design approach using quantitative and qualitative research paradigm in which a case study research design was employed to collect data from 30 (thirty) respondents using structured questionnaires, and interviews.

The study found out that organizations give out products on credit to attract new customers. Products with uncertain demands are normally given out to customers to pay later, the customers are always persuaded to acquire merchandises in a period of low demand and that the prices of the products are different for those who buy in cash and credit. Further, Organizations get goods quality goods on credit with a hope of paying later and that they make payments slowly to the creditors without damaging the relationship with the suppliers. It was also revealed that the purchases made on credit do not affect their cash flows. The cash position of the organization has improved and that cash management is done to improve the profitability and value. It was also revealed that cash management is done so as to avoid interruptions in operations done mostly in times of price fluctuations.

It was recommended that the Businesses should manage their Accounts Payable, in other words they should take full advantage of creditor payment terms, and use electronic funds transfer to make on-time payments on the last day they are due. They should consider both price and payment terms when choosing suppliers, as well as whether early payment discounts will reduce your overall vendor costs. Business entities should also manage their Inventory and Pricing. In other words they should avoid overstocking the inventory, and base the offerings on sales and profit margins. This can be done by cutting the products or services that perform poorly or have low profit margins and also not to forget to monitor and adjust their pricing.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

Corporate financial management is focused on the study of long term financial resources such as capital structure, investments, dividends and firm valuation. It also includes the short term investments of a firm that have a maturity period of less than a year in the form of current assets. The management of these short term assets is what we refer to as Working Capital management (WCM). Working capital management is very imperative because it affects a firm's risk, profitability and value (Smith 1980). Investment in working capital involves a balance between risk and profitability because investment decisions lead to increase in profitability thus increased risks and vice versa. Efficiency in working capital management is very important because more than half of a firms assets are current assets and in wholesale and retail businesses this proportion can go up to seventy percent of total assets.

Efficiency in working capital management also increases cash flow to the firms which in turn increases the growth opportunities and returns to shareholders (Ganesan, 2007). Working capital management is a continuous function which is linked to the survival of firms. Firms where working capital is not given due consideration cannot survive for a longer period (Dong and Sue, 2010).

In developed countries like the United States, Canada, Australia and England, it has long been recognized that efficient Working capital management is critical for prosperity and survival of firms, especially small and medium enterprises (Grablowsky, 1984; McMahon and Holmes, 1991). (Berryman, 1983) indicated that poor and careless financial management is a major reason for failure of small businesses.

Pass and Pike (1984) emphasized that short term finance area particularly working capital management was given very less attention in contrast to long term investments. Working capital management played a very vital role in the growth of a firm and enhancement of profitability.

1.1 Historical background of the study

Background report provided different measures of a financial performance like net income, return on asset (ROA) or return on equity. Although not all business activities are for profit, business needs to support all its activities. Good business acumen dictate that business resources should be managed efficiently. Money tied up in working capital is one area worth looking into. Working capital, for most firms, constitutes a big chunk of their investment as its tying up cash which is as much as an investment as is tying up cash in plant and over equipment (Loudeighbank, et, al; 2000). It's therefore expected that a restricted lean –and-mean current asset investment policy generally provides the highest expected return, (Brighham and Gapensiii, 1997).

On this note business leaders cannot overlook workings capital management and its effect on profitability of the firm. The maintenance of cash at a desirable level for the purpose of selling liabilities on maturity and using the investment opportunities that are indicative of the flexibility of the economic entity, moreover the availability of materials needed for production in order to enable the entity to provide the needs of its customers is indicative of the importance of working capital.

As established by Padachi (2006), efficient management of which is vital for the success and survival of companies to enhance performance and contribution to the economic growth. Garcia-Temel and Marinez –Solaneo (2007) affirmed in their study of importance of which to corporate profitability of Spanish firms. They demonstrated in their study how managers can

improve profitability by shortening the cash conversion cycle through inventory reduction and reduction in the outstanding number of days receivable.

Managers have shortened the cash cycle through shortening the period of receivables collection and inventory turnover and lengthening the period of settling liabilities in order to increase company profitability (Nobanee and Alhajjav, 2009). Any decision made by managers of the entity in this context can significantly affect return on the entity stock which shall transform company value and ultimately increase shareholders wealth (Michalski, 2005). There is therefore need for a desirable working capital strategy that maximizes shareholders' interests and directs them in challenges that the entity faces (Michalski, 2005).

Any cash management effort has to be efficient he advises .Efficiency means tracking cash flows through a centralized platform that links financial data from businesses around the world Centralized cash management operations also helps reduce the risk of human errors, the risk of fraud and reduces the total cost of the operation.

1.1.1 Theoretical Perspective

Working capital management is concerned with the problems that arise in attempting to manage the current assets, the current liabilities and the interrelationship that exists between them the term current assets, which in the business sense will be easily transformed into cash within one year without undergoing a diminution in value and also without disrupting the operations of the firm. The major current assets include cash, marketable securities, accounts receivable and inventory. The current liabilities are those liabilities which are intended to be paid in the ordinary course of the business within a year, out of the earnings of current assets. The basic current liabilities include accounts payable, bills payable, bank overdrafts and outstanding expenses.

The goal of working capital management is to manage the firm's current assets and liabilities in such a way that a satisfactory level of working capital is maintained. The reason for this is that a firm cannot maintain a satisfactory level of working capital, it is likely to become insolvent and may even be forced into bankruptcy. The current assets should be large enough to cover its current liabilities in order to ensure a reasonable margin of safety. Each of the current assets must be managed efficiently in order to maintain liquidity of the firm.

The interaction between current assets and current liabilities, is therefore, the main theme of the theory of working capital management. As established by Padachi (2006), efficient management of working capital management is vital for the success and survival of microfinance institutions to enhance performance and contribution to economic growth .Garcia-Teruel and Marinez–Solano (2007) affirmed in their study of the importance of working capital management to corporate profitability by providing empirical evidence on the effects of working capital management on the profitability of microfinance institutions.

1.1.2 Conceptual Perspective

Working capital management is a managerial accounting strategy focusing on maintaining efficient levels of both components of working capital, current Assets and current liabilities, in respect to each other. It ensures that a company has sufficient cash flow in order to meet its short-term debt obligations and operating expenses.

Working capital management involves planning and controlling current assets and current liabilities in a manner that eliminates the risk of inability to meet due short term obligations on the one hand and avoid excessive investment in these Assets on the other hand (Eljelly, 2004)

Profitability in organizations is defined as the ability of a firm or organization to generate revenues or incomes than it spends or expends. Profitability is measured with income and expenses. Income is money generated from activities of the business and Expenses are the costs of resources used up or consumed by the activities of the business.

The independent variables are Accounts receivables, Accounts payable and Cash management. The dependent variables Profitability Return on Assets and Revenue Growth

1.1.3 Contextual perspective

The area of study will be Fresh Cuts Ltd (FCL) is the leader in the meat processing industry in Uganda offering its products and services to the clients within Uganda and all over East and Central Africa. The company operates under two core brands, “Fresh Cuts” and “Quality Cuts. All pre-packed vacuum sealed meats carry the Fresh Cuts brand and are distributed throughout supermarkets. Quality cuts are the butchery and deli retail chain, which also wholesales meat products for export as well as hotels and restaurants. Fresh Cuts (U) Ltd is a private limited company, incorporated in Kampala. It commenced operations, by taking over Meat Processors Limited, a company that was operating a meat processing plant and a restaurant along Ggaba Road, taking on the core business of processing, packing and selling meat. In May 2005 Fresh Cuts purchased a meat processing plant in Seguku, expanding it to the state of the art factory it is today.

1.2 Statement of the Problem

The failure of a large number of businesses can be attributed to the coefficient of working capital management (smith, 1973). Inadequate working capital leads the company to bankruptcy. On the other hand too much working capital results to wasting cash and ultimately decreases the profitability (Chakroborty, 2008). Organizations aim at good

performance in terms of market share, profitability, shareholder value, customer satisfaction and innovation. Most times, this situation is however not attainable and this could be attributed to poor working capital management (Deloof, 2003). Working capital management ensures a company has sufficient cash flow in order to meet its short-term debt obligations and operating expenses. However, organizations are still facing challenges like low sales, poor management, and lack of operating credit.

Empirical evidences suggest that the managers can create value by reducing the firms number of days accounts and receivables, inventory and shortening the cash conversion cycle. A number of studies have been conducted in Uganda on the effect of working capital management and profitability in organizations. However, these studies produced conflicting results .This is another modest contribution to bridge the gap in the working capital management and profitability or organizations using Fresh Cuts as a Case study.

1.3 Purpose of the study

The purpose of the study was to analyze the effects of working capital management on profitability.

1.4 Objectives of the study

1.4.1 Main Objective

To find out the effect of working capital management on profitability of organizations

1.4.2 Specific Objectives

i. To establish the effect of accts receivable on organizations profitability.

ii. To find out the impact of accts payable on organizations profitability.

iii. To ascertain the impact of cash management on organizational profitability.

1.5 Research Questions

i. What is the effect of accts receivable on organizations profitability?

ii. What is the impact of accts payable on organizations profitability?

iii. What is the impact of cash management on organizational profitability?

1.6 Scope of the study

1.6.1 Content scope

The study was confined to studying Working capital management and how it affects the organizational profitability. The dimensions of the independent variable included cash management, accounts receivables, accounts payables then the ones for the dependent variable include Return on Assets and Revenue Growth. Organizational and government policies will also be considered.

1.6.2 Geographical Scope

The research was carried out in Fresh Cuts Limited located along Entebbe Road in Kampala District Central Uganda

1.6.3 Time scope

The study considered a period of 2010 - 2015 to ensure that most recent details are obtained.

1.7 Significance of the study

The study will be significant in that it will help Fresh Cuts Limited to examine where it went wrong in working capital management in order to improve on its performance and profitability. The study will also help other companies having the same problems to learn from working capital mistakes and perform better. The study will in addition provide an

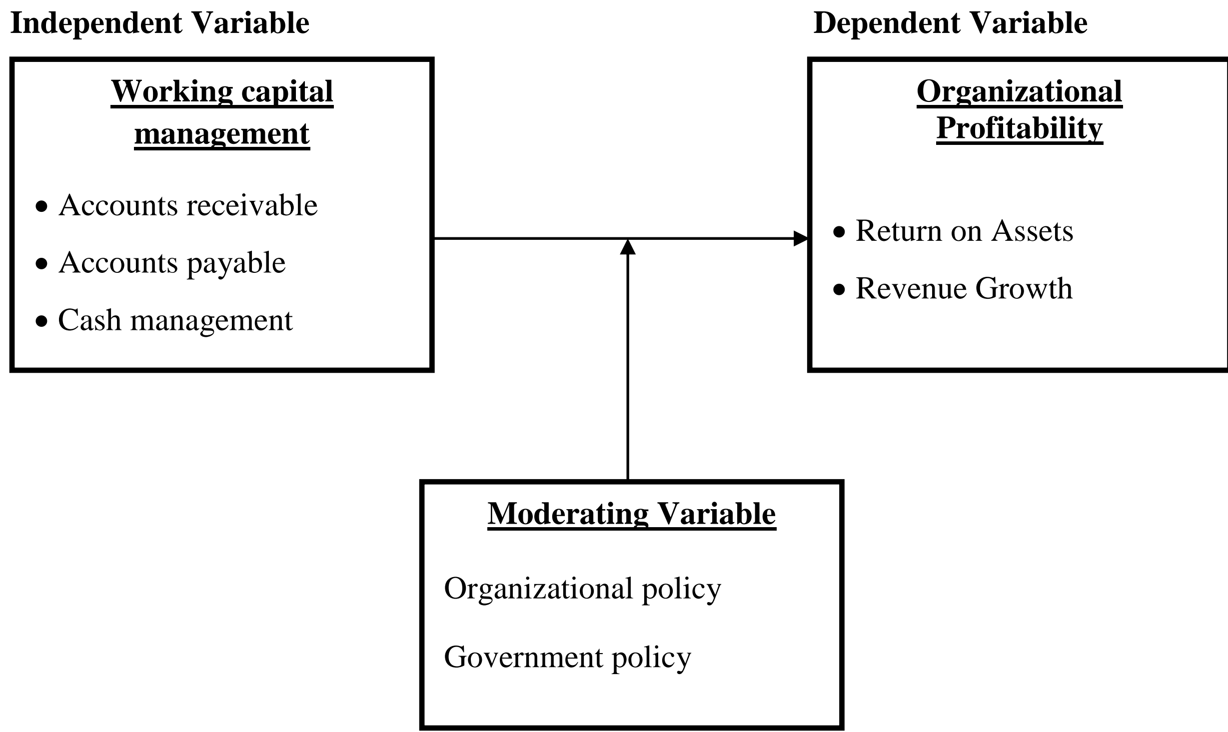
addition piece of literature which can be referenced in future for further studies by other researchers. The study is partial requirement for the award the researcher is pursuing therefore it is a pre-requisite for the degree award.

1.8 Justification

Concerned with working capital management practices, most previous researchers have concentrated on examining, investigating and describing the behavior of organizations in practicing working capital management. Five specific areas of financial management practices including accounting information systems, financial reporting and analysis, working capital management (including cash management, receivables management, inventory management and payables management), fixed asset management and capital structure management have long attracted the attention of researchers (McMahon, et al. 1993). Their findings are mainly related to exploring and describing the behavior of organizations towards working capital management practices. Although they provided much descriptive statistical data and empirical evidence on organizational working capital management practices, it appears that there still are some gaps in the literature, which need to be addressed.

1.9 Conceptual Framework

Figure 1.1: Conceptual Framework



The conceptual framework describes the relationship between the independent variable and the dependent variable. In this conceptual framework, working capital management (WCM) is the independent variable while organizational profitability is the dependent variable. . In this study, it is assumed that WCM has a big role in improving the organizational profitability of an organization. In the conceptual frame work, working capital will be studied in terms of inventories, accounts receivable, accounts payable and Cash management. On the other hand organizational profitability will be studied in terms of Return on Assets and Revenue Growth. However there are intervening variables that influence the improvement of productivity. These include the organizational policy, and Government policy.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter presents with the review of the related literature on the study variables of working capital management and its effect on organizational profitability. The review focused on the major themes of the study which are; to assess the effect of Accounts receivable on organizational profitability; to assess the role of Accounts payable on organizational profitability; to establish the relationship between Cash management and organizational profitability.

2.1 Theoretical review

The theory of working capital management contends that if working capital is managed according to prescriptive theory then it would be expected that businesses would invest in working capital, finance working capital, monitor factors that influence working capital, manage cash, accounts receivable, inventory, accounts payable, the cash conversion cycle (aggregative approach), and measure and analyze performance to ensure that the long term (fixed) assets are utilized effectively and efficiently (Michaelas, 2004).

Greater emphasis is normally placed on the financing decision, with the investment decision largely taken for granted. Some effort is made prima facie to manage cash, accounts receivable, inventory and accounts payable independently of each other. However given the theory of working capital management, there may be room for improvement regarding the strategies, tactics and techniques used to manage these components. Working capital management is also strategic as it impact on the liquidity, solvency/bankruptcy, efficiency, profitability and shareholder wealth maximization of the business.

2.2 Working Capital Management and organizational profitability

According to Michaelas, (2004), working capital meets the short-term financial requirements of a business enterprise. It is a trading capital, not retained in the business in a particular form for longer than a year. The money invested in it changes form and substance during the normal course of business operations.

Mansoori, (2012) defines working capital as the cash a business requires for day-to-day operations, or, more specifically, for financing the conversion of raw materials into finished goods, which the company sells for revenue. Among the most important items of working capital are levels of inventory, accounts receivable, and accounts payable. The better organizations manage their working capital, the lesser the need to borrow. Even companies with cash surpluses need to manage working capital to ensure that those surpluses are invested in ways that will generate suitably high returns for the business.

Eljelly, (2004) agreed that a popular measure of Working Capital Management (WCM) is the cash conversion cycle, that is the time lag between the expenditure for the purchases of raw materials and the collection of sales of finished goods. The longer this time lag, the larger the investment in working capital. A longer cash conversion cycle might increase profitability because it leads to higher sales. However, corporate profitability might also decrease with the cash conversion cycle, if the costs of higher investment in working capital rise faster than the benefits of holding more inventories and/or granting more trade credit to customers.

Working capital cycle involves conversions and rotation of various constituents/components of the working capital. Initially cash is converted into raw materials. Even a business which is fully equipped with all types of fixed assets required is bound to collapse without adequate supply of raw materials for processing, cash to pay for wages, power and other costs. Working capital requires creating a stock of finished goods to feed the market demand

regularly and the ability to grant credit to its customers. Working capital is thus like the lifeblood of a business. The business will not be able to carry on day-to-day activities without the availability of adequate working capital.

Implementing an effective working capital management system is an excellent way for many organizations to improve their earnings. The difficulty in gaining access to resources and financial markets is due largely to the fact that these organizations usually having little or no collateral securities. The few financial institutions, the Microfinance institutions that do give credit to organizations charge very high interest rates to make up for the high risk of granting credit to organizations (Mathuva, 2010). This prompts entrepreneurs to look for other avenues to fund themselves and such include resorting to borrowing from friends and family, using their own savings among others to attain funds which are usually inadequate to fund their business operations and activities. Due to the challenges organizations go through in securing funds to operate the activities of the firm, it will be prudent for them to effectively and efficiently manage the components of working capital to generate funds to support business operations (Mathuva, 2010).

The management of working capital requires consideration for the tradeoff between return and risk. The decisions that enhance return may increases risk at the same time while decision taken with a view to reduce risk may decrease return. Different researchers have different viewpoint about WCM, some have emphasized the importance of effective management of account receivables, while others are proponents of effective and efficient inventory management in formulating sound WCM policy that results in profits.

According to Leng, (2004), for effective working capital management, inventory needs to be managed effectively. The level of inventory should be such that the total cost of ordering and holding inventory is the least. Simultaneously, stock out costs should also be minimized.

Business therefore should fix the minimum safety stock level, re-order level and ordering quantity so that the inventory cost is reduced and its management becomes efficient maximization.

According to (Rehman and Nasr, 2007), WCM directly affects the profitability and liquidity of firms. The main instrument of measuring WCM is Cash Conversion Cycle (CCC) that refers to the length of time from the payment for raw materials and labor to the collection of account receivable generated by the sale of the final product (Brigham and Ehrhardt, 2004). Generally, the shorter the CCC, the more profitable the company and vice versa

Most business owners would prefer to calculate profits rather than focus on working capital management. But, rather obviously, there is need to be successful at managing working capital policy and cash flows or you won't be in business for long. Build business by focusing on, and managing, working capital formula in day-to-day activities and in the business financial plan.

Working capital management is important because it also contributes to the firm's profitability and risk, and consequently its value. On the other hand, maintaining high inventory levels reduces the cost of possible interruptions in the production process or loss of business due to the scarcity of products, reduces supply costs, and protects against price fluctuations, among other advantages (Biais, & Gollier, 2000).

García-Teruel, & Martínez-Solano (2010) agreed that working capital can also be done by providing incentives to customers to acquire merchandise at times of low demand. This allows customers to check that the merchandise they receive is as agreed (quantity and quality) and to ensure that the services contracted are carried out and helps firms to strengthen long-term relationships with their customers.

It is worth noting that working capital management is a very important component of corporate finance because it directly affects the liquidity and profitability of the company (Mian, & Smith, 2003). It deals with current assets and current liabilities. Working capital management is important due to many reasons, the current assets of a typical manufacturing firm accounts for over half of its total assets. For a distribution company, they account for even more. Excessive levels of current assets can easily result in a firm's realizing a substandard return on investment. However firms with too few current assets may incur shortages and difficulties in maintaining smooth operations.

Working Capital Management is a very sensitive area in the field of financial management (Duarte, 2004). It involves the decision of the amount and composition of current assets and the financing of these assets. Current assets include all those assets that in the normal course of business return to the form of cash within a short period of time, ordinarily within a year and such temporary investment as may be readily converted into cash upon need. The Working Capital Management of a firm in part affects its profitability.

According to Deloof (2003) firms may have an optimal level of working capital that maximizes their value. Large inventory and a generous trade credit policy may lead to high sales. Larger inventory reduces the risk of a stock-out. Trade credit may stimulate sales because it allows customers to assess product quality before paying. Another component of working capital is accounts payable. Delaying payments to suppliers allows a firm to assess the quality of bought products and can be an inexpensive and flexible source of financing for the firm.

Growth and expansion in the volume of business results in enhancement of the working capital requirement (Atrill, 2006) As business grows and expands, it needs a larger amount of

working capital. Normally, the need for increased working capital funds precedes growth in business activities.

It can be revealed that most firms had a large amount of cash invested in working capital. It can therefore be expected that the way in which working capital is managed will have a significant impact on profitability of those firms (Duarte, 2004). On the basis of these results, he suggested that managers could create value for their shareholders by reducing the number of days, accounts receivable and inventories to a reasonable minimum. The negative relationship between accounts payable and profitability is consistent with the view that less profitable firms wait longer to pay their bills.

2.2 Account Receivables and Performance

Account Receivables (Debtors) are customers who have not yet made payment for goods or services that the firm has provided. The main objective of Account receivables management is to minimize the time-lapse between completion of sales and receipt of payment. In order to significantly increase sales for a business, the customers should be given credit transaction policy. At the same time, the cash budget must show that credit sales create trenched cash flow otherwise it would create cash flow problems if they delay the receipt of cash to meet its financial obligations (Tambunan, 2006).

Efficient receivables management involves a shortened creditor's collection period, low levels of bad debts and a sound credit policy which often improves the businesses' ability to attract new customers and accordingly increase financial performance (Ross et al., 2008). This was further affirmed by a study by Sushma et al (2007), which stated that putting in place a sound credit policy ensures proper debt collection procedures and is pivotal in improving efficiency in receivables management hence the performance of firms. The standard measure of receivables management is the Average Collection Period (ACP) which

is the time taken to collect cash from customers (Mathuva, 2009). ACP is calculated as average accounts receivable divided by credit sales multiplied by 365 days.

Account receivables reduce the operational costs (Raheman, et al, (2007).). In fact, trade credit increases operating flexibility. Relaxing the credit terms, suppliers can reduce storage costs for uncertain demands of merchandises as well as costs of changing their production levels when demand varies (Garcíaet al, 2010). This is consistent with empirical data which reveals that firms with a variable demand would like to offer a longer trade credit period to decrease the operational uncertainty, and thus decrease the operational costs (Gregory, 2005).

Organizations use account receivables to boost sales simultaneously. Chandrapala, (2013) recommends that firms use trade credit instead of direct price reduction to increase sales especially during periods of tight money. Similarly, Gregory, (2005) implies that when firms' sales are sensitive to the demand fluctuations, trade credit is an especially important method to stimulate customers to acquire merchandises in a period of low demand.

According to Berger, (2000), account receivables can be used as price discrimination between cash and credit customer as well. "This will be advantageous whenever the elasticity of demand of cash customers exceeds that of credit customers or whenever cash customers' reservation prices are systematically higher than those of credit customers" (Brennan et al. 1988).

Berger, (2000), mentions that actually, Firms change the credit term and discount for prompt payment according to the demand elasticity of customers and customers may pay different prices for the same merchandise according to whether buyers delay the payment or not. Firms whose profit margins are relatively high are more tolerant to delays on the payment or longer credit period (Perrett, (2003). This is due to the fact that these firms can use higher marginal earnings to incur additional costs which are used to generate new sales and increase

profitability. Although some Organizations do not have high profit margins, they still regard trade credit as an efficient way to boost sales and increase profitability (García-Teruel and Martínez-Solano, 2014). As stated in non-price competition theory, Organizations in general have less market power comparing with large enterprises. Organizations do not have advantages to permeate market via price war since large enterprises gain benefits from economies of scale and huge capital supports (Nadiri, 1969). As a result, Organizations in order to increase their market shares and profitability prefer to provide trade credit.

It can be noted that accounts receivables can build Customer Loyalty. This is because it allows clients to purchase goods and services using IOU's, credit accounts or long-term payment options can offer companies a significant sales advantage. Maintaining easily referenced and highly organized accounts receivable information on each client allows companies to take advantage of these sales. Businesses can establish goodwill and loyalty amongst their customer base when allowing clients to make purchases in good faith, paving the way for potential future sales (Oketch, 2000).

Track Customer Credit is also one of the benefits of data regarding past plans and purchases can allow companies to make individualized decisions about extending credit to customers who have a positive history of repayment and refusing it for clients who have spotty records. Well-maintained accounts receivable files that are digitized can be sorted by all kinds of metrics, including length of time to pay off purchases, type of purchases made on credit and many other parameters (Raheman& Nasr, 2007)

In addition to accelerating demands, Hill et al. (2012) point out that interest income is another reason that suppliers gain revenues from trade credit. Once the implicit rate of return earned on accounts receivable surpasses that of the marginal investment, suppliers would have interests to offer trade credit to their customers (Pandey, 2004).). Suppliers normally offer the

credit terms of 2/10 net 302 and the implicit interest rate reaches to 43.9% in a net period ending on day 30 when customers forgo the discount (Padachi, 2006).). Here the discount for the early payment is considered as implicit interest rate for the late payment. It shows that implicit rate of return on trade credit is more than 40%, which means trade credit is generally a lucrative investment for supplier, especially when customer default risk is low (Hill et al. 2012)

Account receivables help Organizations to establish a stable commercial relationship in long run (Wilner, 2000). Wilner (2000) confirms that trade credit may increase customers' dependence on their suppliers, which may result in a higher implicit interest rate. This argument is also supported by the resource dependency theory, claiming that firms may have troubles to access all critical resources, and they rely on suppliers to offer partial critical resources (Hermes et al. 2011). Correspondingly, trade credit here can be considered as a switching barrier. Buyers may lose access to short-term finance if they want to change suppliers as suppliers only offer trade credit to whom that they have establish mature understanding with (Hermes et al. 2011).As the result, suppliers are tied with customers in a stable commercial relationship via trade credit.

The emerging of account receivables is accompanied with several detrimental effects for suppliers. Suppliers would pay more administrative costs, such as default debts and screening and monitoring costs (Drever, 2003). Each time suppliers should keep eyes on the financial condition of the buyers. This requires both direct money costs and human resource costs. When these costs exceed the benefit from revenue growth, suppliers are unlikely to offer trade credit to their customers. Also, accounts receivable which is shown on the balance sheet implies direct financing costs and opportunity costs (Duarte, 2004).). The money on the accounts receivable may invest on high profitability projects rather than meaningless figures.

Prolonged payment implies the decreased present value of revenues, especially in a period of serious inflation.

Therefore, there is a trade-off between the benefits and costs on accounts receivables. Emery (1984) proposes an idea of optimal trade credit policy. It claims that when the marginal costs are equal to marginal revenue in terms of trade credit, accounts receivable reaches the optimal level. Thus, Lewellen *et al*. (1980) expect a non-monotonic (concave) relationship between trade credit and firm value. They demonstrate that certain level of trade credit can maximize firm value. Nevertheless, there is no empirical evidence to support this theory. By contrast, Hill and Lockhart (2012) investigate 10,648 companies during the period of 1973-2006, and they find that there is a linear positive relationship between shareholders value and accounts receivable.

Tambunan (2006) noted that accounts receivable can help the Organizations to track Uncollected Profits that perhaps the most important element of accounts receivable is tracking uncollected profits. Non-payment data is key in organizational attempts to collect on past due accounts, establish repayment plans with clients and initiate collection procedures. Accounts receivable information can also act as key information should any collections proceedings find their way into judicial, arbitration or mediation proceedings.

Accounts receivable financing provides cash funding on the strength of a company's outstanding invoices. Instead of buying accounts, lenders use invoices as collateral for the loan. Besides benefiting a business in debt, accounts receivable financiers can assume greater risks than traditional lenders, and will also lend to new and vibrant businesses that demonstrate real potential. An accounts receivable lender will also handle other aspects of the account, including collections and deposits, freeing the company to focus on other areas of productivity. However, risks are involved, and agreements are typically lengthy and steeped

in legal lingo. Before considering this type of financing, sound financial and legal advice should be secured to make sure that it is appropriate for your company.

Pandey, (2004) said that overall Fiscal Organization is also one of the contributions of accounts payable. In order to realize total success, an organization's accounts receivable department must be a facet of a well-run financial and client management outfit, inclusive of sales, client services and business development. Analysis of the purchasing and borrowing trends of previous customers can be a major asset in the conception of new marketing strategies and sales initiatives, which can lead to wide scale growth and new client bases (Raheman & Nasr, 2007)

Nguyen & Ramachandran, (2006) documented that the accounts receivable refers to sales made by a company or organization from which payment or total payment has yet to be made. Companies utilize accounts receivable to offer clients long-term payment plans or to establish credit. Proper maintenance of accounts receivable can offer several advantages to businesses of all sizes.

Accounts receivable describes the amount of cash, goods, or services owed to a business by a client or customer. The manner in which the collections of outstanding bills are handled, especially in organizations can be a pivotal factor in determining a company's profitability. Getting the sale is the first step of the cash flow process, but all the sales in the world are of little use if monetary compensation is not forthcoming. Moreover, when a business has trouble collecting what it is owed, it also often has trouble paying off the bills (accounts payable) it owes to others (Leng, 2004).

2.3 Account Payable Management and organizational profitability

Gitman (2009) and Birt *et al.,* (2011) state that Accounts Payable Management objective is to pay creditors as slowly as possible without damaging its credit rating. Accounts Payable and accruals are the two major spontaneous liability sources of short-term financing for a typical firm. Accounts Payables are the major unsecured short-term financing for businesses. They result from transactions in which merchandise (inventory) is purchased. The suppliers might give credit terms together with allowing discount to the purchasers.

Falope, et al (2009) cited that the management of account payables is important to the financial health of businesses of all sizes. The amounts invested in working capital are often high in proportion to the total assets employed and so it is vital that these amounts are used in an efficient and effective way. For companies, current liabilities are the principal source of external financing. These firms do not have access to the longer-term capital markets, other than to acquire a mortgage on a building. While the performance levels of businesses have traditionally been attributed to general managerial factors such as manufacturing, marketing and operations, working capital management may have a consequent impact on small business survival and growth (Mansoori, (2012). This was further emphasized by Deloof, (2003) whose study revealed that 60% of small enterprises suffer from cash flow problems hence experience liquidity problem. He suggested that for the small enterprises to enhance their level of performance, they should adopt formal working capital management.

Account payable management also assists the organization in meeting its short-term financial requirements. It is a trading capital, not retained in the business in a particular form for longer than a year. The money invested in it changes form and substance during the normal course of business operations. Working capital starvation is generally credited as a major cause if not the major cause of small business failure in many developed and developing countries

(Katrien, et al 2012). The success of a firm depends ultimately, on its ability to generate cash receipts in excess of disbursements. Poor financial management exacerbates the cash flow problems of many small businesses and in particular the lack of planning cash requirements (Mian, 2003).

Accounts payable is an efficient approach to address financial frictions in short term (Meltzer, 1960). Considering limited informational transparency, banks are reluctant to offer debts to and organizations or banks require high interest rates to compensate high risk (Berger and Udell, 1998). Trade credit can be more accessible, especially over the period of a tight monetary policy. During the period of a tight monetary policy, customers are more likely to switch to trade credit since at that time the effective loan interests excess the effective costs of trade credits. This is due to the fact that the trade credit terms are relatively stable, which means implicit interest rate is consistent. Meanwhile, the interest rates of bank loans are increasing during a tight monetary period, which leads to more expensive costs of bank loan than that of trade credit (Mateut, 2009). Firms, reducing the cost from raising capital, will earn more profitability.

Nguyen, *et al,* (2006) argue that if suppliers are willing to offer trade credit and then bear default risk, for banks, it would mean that suppliers have acquired information affirming that buyer firms have the ability to pay back the debts. As a result, banks have a positive attitude towards buyers, and therefore provide debts to buyers. “In other words, trade credit enables the private information of the seller to be used in the lending relationship, and this additional information can alleviate credit rationing due to adverse selection’’ (Nguyen, *et al,* 2006). Organizations receive more capital from market, gaining more investment and growth opportunities.

Oketch, (2000) noted that the major barrier to increased use of electronic payments, continues to be the lack of integration between an organization's electronic payment and accounting systems. Obsessing over processes and getting them right is the only way a company can survive, especially now that the new economy has left early childhood and grown into a gangly, unpredictable adolescent.

As stated in the transaction theory, customers benefit from the reduced costs by "circumventing the need to produce the double coincidence of wants required in barter exchange" (Forte, 2013). Trade credit is used as an instrument that stands as a payment or contractual alternative to immediate money use. It reduces uncertainty via transaction pooling. Taking uncertain delivery as an example, volume and timing of money flows are uncertain in the flow of the goods. Money needs to be held and prepared in a complete transaction process. This stochastic money indicates great holding costs and opportunity costs (Forte, 2013). By eliminating these costs via trade credit, the operational cash flow is more feasible and flexible in the transaction and customers can invest money on other high rate return projects to keep profitability. Besides, trade credit is used as an evaluation tool for customers to analyze quality of product. Claims that prolonging payment grant buyers to verify quality of product (Abor, 2007).

2.4 Cash Management and Organizational Profitability

Cash management is the process of planning and controlling cash flows into and out of the business, cash flows within the business, and cash balances held by a business at a point in time (Pandey, 2004). Efficient cash management involves the determination of the optimal cash to hold by considering the trade-off between the opportunity cost of holding too much cash and the trading cost of holding too little (Ross et al. 2008) and as stressed by Atrill, (2006), there is need for careful planning and monitoring of cash flows over time so as to

determine the optimal cash to hold. One of the standard measures of cash management is the CCC that was introduced by Richards and Laughlin (1980). It refers to time-period from buying raw material, converting to finished goods, sales products, and collecting account receivables (Mansoori et al, 2012). CCC is calculated as ACP + ICP – APP

Padachi (2006), states that a firm can be very profitable but if this is not translated into cash from operations within the same operating cycle, the firm would need to borrow to support its continued working capital needs. Investments in current assets are inevitable to ensure delivery of goods or services to the ultimate customers and a proper management of the same should give the desired impact on either profitability or liquidity. If resources are blocked at the different stage of the supply chain, this will prolong the cash operating cycle. Although this might increase profitability (due to increase sales), it may also adversely affect the profitability if the costs tied up in working capital exceed the benefits of holding more inventories and/or granting more trade credit to customers (Abor, 2007).

Agostino, (2014) suggested that it is important to maintain a balance between profitability and the liquidity of a firm in order to have healthy financial performance. One objective should not be achieved at the cost of the other because both have their own importance (Zariyawati et al, 2009). If firms do not care about profit, they cannot survive for a longer period. In other round, if firms do not care about liquidity, they may face the problem of insolvency or bankruptcy. For these reasons managers of firms should give proper consideration for WCM as it does ultimately affect the profitability of firms (Eljelly, 2004).

According to Ayiro (2012), creditors are a vital part of effective cash management and should be managed carefully to enhance cash position of a business. Management of creditors and suppliers is very important as slow payment by a firm may create ill-feeling and can signal that the business is not doing well. This was further affirmed by Raheman, (2007), who

indicated that delaying payment of accounts payable to suppliers allows firms to access the quality of obtaining products and can be inexpensive and flexible source of financing. On the other hand, delaying of such payables can be expensive if a firm is offered a discount for the early payment. By the same token, uncollected accounts receivables can lead to cash inflow problems for the firm. According to Deloof, (2003), the time taken to pay suppliers is the Accounts Payment Period (APP) which is used as a proxy for accounts payable management policy. APP is calculated as average accounts payable divided by credit purchases multiplied 365 days.

Cash management is important because of its effects on the firm's profitability and risk, and consequently its value (Boissay, (2007).On the one hand, maintaining high inventory levels reduces the cost of possible interruptions in the production process, or of loss of business due to the scarcity of products, reduces supply costs, and protects against price fluctuations, among other advantages (Nguyen, et al 2006).). On the other hand, granting trade credit favors the firm's sales in various ways. Trade credit can act as an effective price cut incentivizes customers to acquire merchandise at times of low demand (Niskanen, (2006), allows customers to check that the merchandise they receive is as agreed (quantity and quality) and to ensure that the services contracted are carried out and helps firms to strengthen long-term relationships with their customers. However, firms that invest heavily in inventory and trade credit can suffer reduced profitability. Thus, the greater the investment in current assets, the lower the risk, but also the lower the profitability obtained.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter consists of the various methods that the researcher will apply during the study. It points out the research designs, study area, study population and reason for their consideration. The chapter also defines and explains the sample size, sampling techniques, data sources, data collection tools, methods, data analysis techniques the researcher used and points out the validity and reliability of the instruments that were used in the study together with the ethical issues and limitations of the study.

3.1 Research Design

The study used a case study design approach involving both quantitative and qualitative methods using structured questionnaire, interviews, and document analysis. Case study research strategies are appropriate for the investigation of how and why questions, especially when the concern is to study contemporary issues over which the researcher has no control. Case study research is also applicable when the boundary between a phenomenon under investigation and its organizational and social context is unclear (Yin, 1994). A case study provided an in-depth study of the problem with limited time scale. The researcher will use qualitative approach to yield an unbiased result that can be generalized to some larger population. Qualitative research approach is used to collect non– numerical data. This involved direct interaction with individuals on a one on one basis through individual interviews. Quantitative methods were used because they provide empirical support for such research hypotheses. For that reason, this research study were used both the qualitative and quantitative techniques of data collection.

3.2 Area of the Study

The research was carried out in Fresh Cuts Limited located along Entebbe Road in Kampala District Central Uganda

3.3 Study Population

This refers to the group of people chosen for purpose of research. The unit of analysis is Fresh Cuts Limited, therefore, since the heterogeneous population; the researcher used the managers and employees of the Fresh Cuts Ltd to obtain the relevant information for the study.

3.4 Sample Size and Selection

The sample size is the group of people selected from the study population. In other words, a sample size can simply be defined as the subset of a given population. Basically, a sample size is the total number of sub elements or individuals randomly selected and assigned from a given population (Amin, 2005). Selecting an appropriate sample size is a critical aspect in research with particular reference to this study.

The study used a sample size of 30 respondents from a population of 33 employees of the fresh Cuts Ltd in as estimated using the Sloven formulae

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

Whereby n=sample size, N=Population, e=confidence level (0.05).

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

$$n = \frac{33}{1 + 33(0.05^2)}$$

= 30 respondents

3.5 Sampling Techniques

In this study, purposive sampling technique used to select key respondents because it is best suited for selecting information-rich cases for in-depth study. Simple random sampling technique was also used to collect information from the other employees in the company. This technique had high degree of generalization of findings; hence it was suitable for a large study population. In this method, the researcher sampled from each proportion of respondents, allocated a number to every member of the accessible population, placed the numbers in a container then picked numbers at random. The subjects corresponding to the numbers picked included in the sample.

3.6 Methods of Data Collection

Data collection refers to the systematic process of collecting research data on a given phenomenon. The researcher used both primary and secondary sources of data collection for the study. Respondents were given questionnaires which they filled and at the end the researcher aggregated the responses as data that provided the results of the study. Other publications from secondary sources like dissertations, government publications, journals and the internet were accessed to obtain relevant and supporting literature. These sources are appropriate since they are rich with literature about the dimensions of the study variables.

3.7 Questionnaires

A questionnaire method helped to get the information and data concerning the topic of my study. The research instrument that was used for this method of data collection is the administered questionnaires. The researcher set close and open ended structured questions on a sheet of paper arranged according to the study objectives. These questionnaires were distributed in Fresh Cuts for the employees to fill in the possible answers. This was

conducted by issuing questionnaires to various respondents who filled them in. This technique was used because it was appropriate for investigation of researcher's needs, expectations, perspectives, priorities and preferences. The researcher then used the information in relation to the study.

3.7.1 Face to Face Interview

Interviews are open questions often administered to key informants to give them wide latitude to talk about the subject. The researcher conducted oral interviews with the Key informants who are the managers in Fresh Cuts Ltd. This was used in a way that the researcher physically interacts with the different respondents asking them questions which required immediate response.

The researcher used interviews because the method is useful to obtain information about personal feelings. The researcher used a structured interview guide on the targeted respondents. The interviews were structured and thus comprised of a set of issues on which the researcher wishes to draw data and the same questions were posed to the respondents using a guide to conduct the interview

3.8 Data Management and Analysis

The researcher used the Likert scale that ranges from one to five where. These were channeled into observable and measureable elements to enable the development of an index of the concept. A five - (5) strongly agree, (4) agree, (3) not sure (2) disagree, (1) strongly disagree was used to measure both the independent and dependent variables. The characteristics of the respondents were measured at nominal and ordinal. This helped to evaluate the relationship between the independent variable and dependent variable.

3.9 Data Analysis

3.9.1 Quantitative data analysis

This is the process of making meaning to the mass of collected data. Data analysis involved sorting, editing data, adjusting data into meaningful information, checking incomplete questionnaires to minimize the errors in the research. After data collection, the data was analyzed using a Statistical Package called SPSS Version 16 to obtain statistics and pictorial presentations in terms of graphs and charts.

3.9.2 Qualitative Data Analysis

According to Mugenda and Mugenda, (1999) qualitative data analysis involved identification and transcribing the qualitative findings into different themes. The themes were then edited, coded and arranged in different categories to generate useful conclusions and interpretations on the research objectives which were deduced for reporting in a narrative form. Qualitative data was also presented in form of statements, sometimes verbatim i.e. the very way the data was recorded from the respondents and paraphrase the data and interpreted.

3.10 Reliability and Validity

Quality was assured in terms of validity and Reliability. This was done through the following;

3.10.1 Validity

Validity refers to the extent to which questions in an instrument accurately measure the variables therein. In other words, Validity is the accuracy and meaningfulness of inferences, which are based on the research results (Mugenda and Mugenda, 1999). It was done by making sure that the questionnaire and interview guide is approved by the supervisor to avoid

ambiguity of the questions that need several answers**.** The questionnaires were subjected to expert face validity and theoretical content validity tests. All tools were pre-tested to ensure validity of the contents within the research instruments. This focuses on finding out whether the instruments can achieve the required results. A content validity index (CVI) is an indication of the degree to which the instrument corresponds to the concept it will be designed to measure

3.10.2 Reliability

Reliability refers to the degree to which a set of variables are consistent with what they are intended to measure (Amin, 2005). In other words, it is the ability of the research tools to collect data that can be replicated i.e. where different other people can go to the field to carry out the same research being carried out and get the same results that the researcher got. This was done by test and pre-testing method. It was done by use of the questionnaire to see if it gave the researcher good results. Therefore, for reliability, the researcher got other experts to preview and proof read the research instruments before they are taken to the field. This assisted in improving and identifying whether there are any errors before the instruments are used.

3.11 Ethical Issues

Amin (2005) points out that it is always prudent to conduct research studies in accordance with higher moral values. Ethical considerations refer to the research principles that were adhered to while conducting the research study. For that reason, the following were the ethical considerations that were adhered to while carrying out the study.

The researcher made efforts to ascertain the credibility of the literature to avoid plagiarism. The researcher explained to the respondents the purpose of the study and that the information they provide will be kept confidential. This was backed by assurance of their protection.

Questionnaires were coded to guarantee anonymity as no one of the respondents were named at any time during the research or in the subsequent study.

Respondents were selected for their willingness to participate without compulsion and no risks to the respondents were identified at any stage during the research.

Irrespective of the nature of data collection, the self-esteem and self-respect of the respondents was not violated.

3.12 Study Limitations

There was a limitation of reliance on self-administered questionnaire data. With the use of self- administered questionnaires, it was impossible to control respondent behaviour and the opportunity to clarify uncertainties is also lost, which may result in the validity of the data being compromised. However, the researcher conducted reliability and validity tests to ensure the consistence and accuracy of the tools that were used.

Time; the researcher experienced a time constraint in data collection, analyzing of data and in final presentation of the report. This was overcome by ensuring that all the appointments are met and done on time.

Limited trust availed to the researcher. To make answering the questionnaires easier, the researcher, through his research assistant, had to first assure the respondents of utmost confidentiality and secrecy of each one’s details, and yet it is really hard convincing the potential respondents that the information they give was held with utmost concealment.

3.13 Conclusion

The chapter is basically the backbone of the research, because it sought for information about working capital management and organizational profitability, by using different data collection methods, within the employees and managers of Fresh Cuts Ltd and available documents about the company.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS

4.0 Introduction

Chapter four presents the findings, which the researcher got from different respondents, and these were presented, discussed, and analyzed in this chapter four. Chapter results on the background information of respondents are analyzed and interpreted. In addition still, it presents, discusses and analyses the findings in the chronological order of the research objectives and questions as stated earlier in chapter one. Data collected from the questionnaires, and interview guides was analyzed.

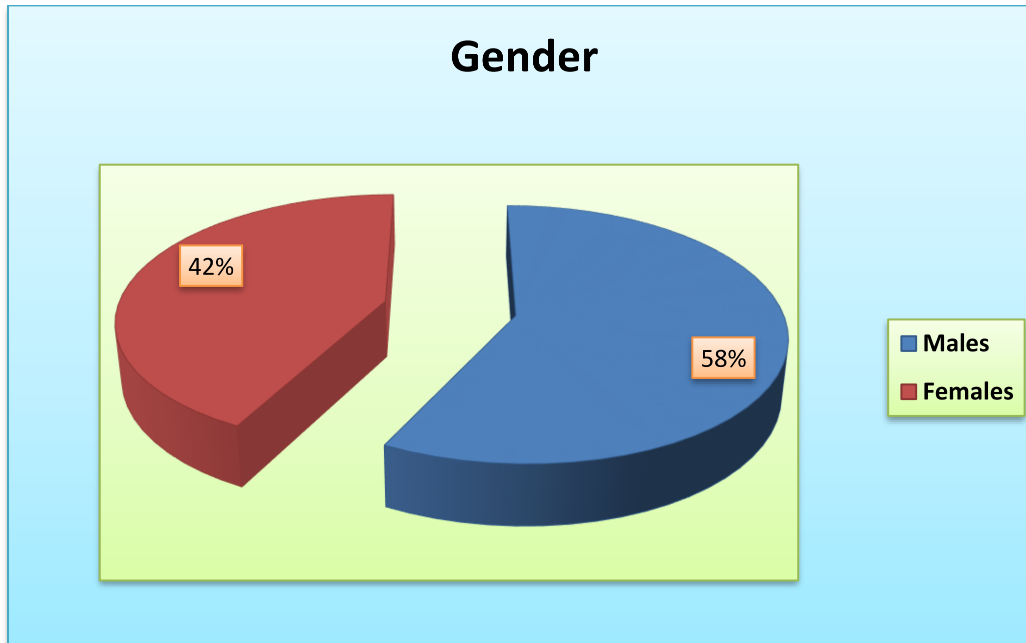
4.1 Background information of respondents

The background information of respondents was deemed necessary because the ability of the respondents to give satisfactory information on the study variables greatly depended on their background. The background information of respondents solicited data on the samples and this has been presented below and categorized into; gender, age, education and occupation, of the respondents.

4.1.1 Gender of the respondents

The following figure presents findings about the gender of respondents and analysis follows. Data related to gender of the respondents is presented in the pie chart 1 below.

Pie Chart 1: Below Showing the Gender of Respondents



Source: Primary Data 2016

According to the statistics in pie chart one, results from the questionnaire indicate that 58% were females and 42% were males. Gender is an important variable in a given institution which is variably affected by any social or economic phenomenon and this is not exceptional to relationship between working capital management and organizational profitability. In this case, the variable gender was investigated for this study and details of their respective gender as presented in the pie chart above.

4.1.2 Age of Respondents

The following table presents findings about age group of respondents and analysis follows.

Table 4.1: Showing the Age of Respondents

Age	Frequency	Percent
Below 20 years	0	0.0%
18 – 30 years	11	36.7%
31 – 40 years	9	30.0%
41 – 50 years	6	20.0%
Above 50 years	4	13.3%
Total	**30**	**100.0%**

Source: Primary Data 2016

Using the questionnaire method, the results Table 4.1 show that most respondents 36.0% were aged between 18 - 30 years compared to 30.0% aged 31 to 40 years, 20.0% aged 41 - 50 years, and the least age group 13.3% above 50 years. This showed that the respondents were mature enough to have the mental capacity and strength to familiarize and interpret the contents of the questionnaire and to be able to complete it. This was collected by use of questionnaire method since it was easier to use and was not very costly to use.

4.1.3 Education Level of Respondents

The study also established the education level of the respondents. The findings from the questionnaires were recorded and presented in the figure below. In this section, differences in educational attainment of the respondents are discussed.

Table 4.2: Showing the Education Level of Respondents

Age	**Frequency**	**Percent**
Diploma	10	33.3%
Degree	17	56.7%
Masters	3	10.0%
PHD	0	0.0%
Total	**30**	**100.0%**

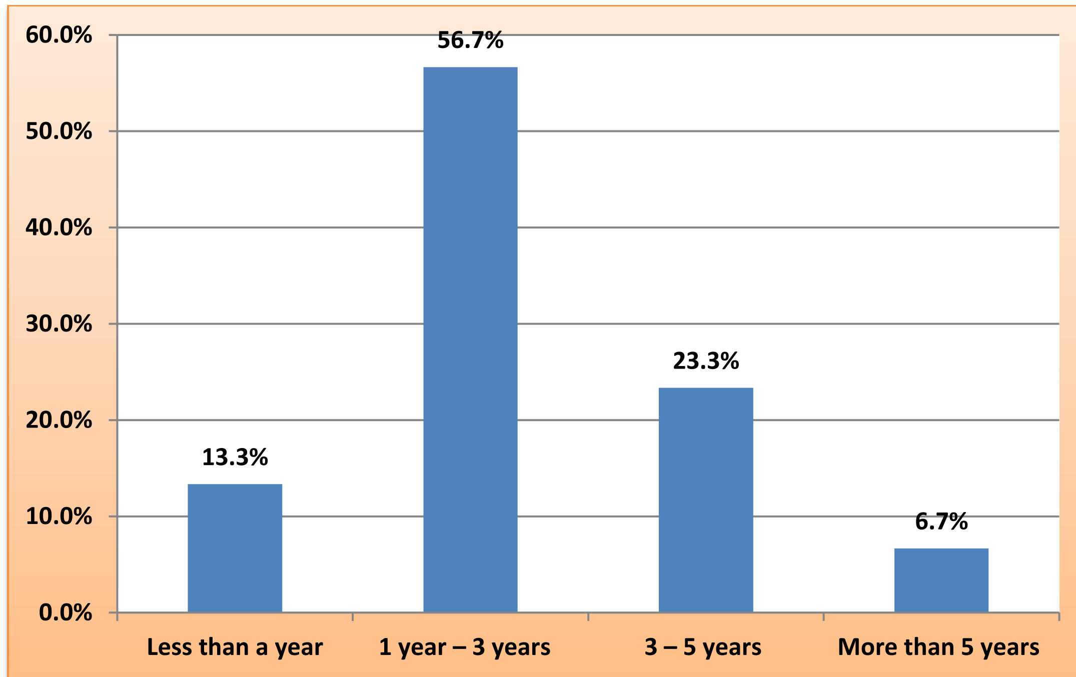
Source: Primary Data 2016

Study findings from the questionnaire revealed that 56.7% of the respondents had degrees, 33.3% had through diplomas and 10.0% the respondents were master's holders. Education also enhances the ability of individuals to achieve desired demographic and performance goals. This was also relevant to the study because it helped the researcher in avoiding time wastage through answering of questionnaires since the employees could easily interpret questions. Further, educational attainment of respondents is an important indicator of their knowledge and attitude about the relationship between working capital management and organizational profitability (Olaf, 2009).

4.1.4 Time in the Organization

The study also revealed the time spent by the respondents working with the organization, in which, findings were recorded as indicated in the figure below.

<u>Bar Chart 1: Showing Time in the Organization</u>



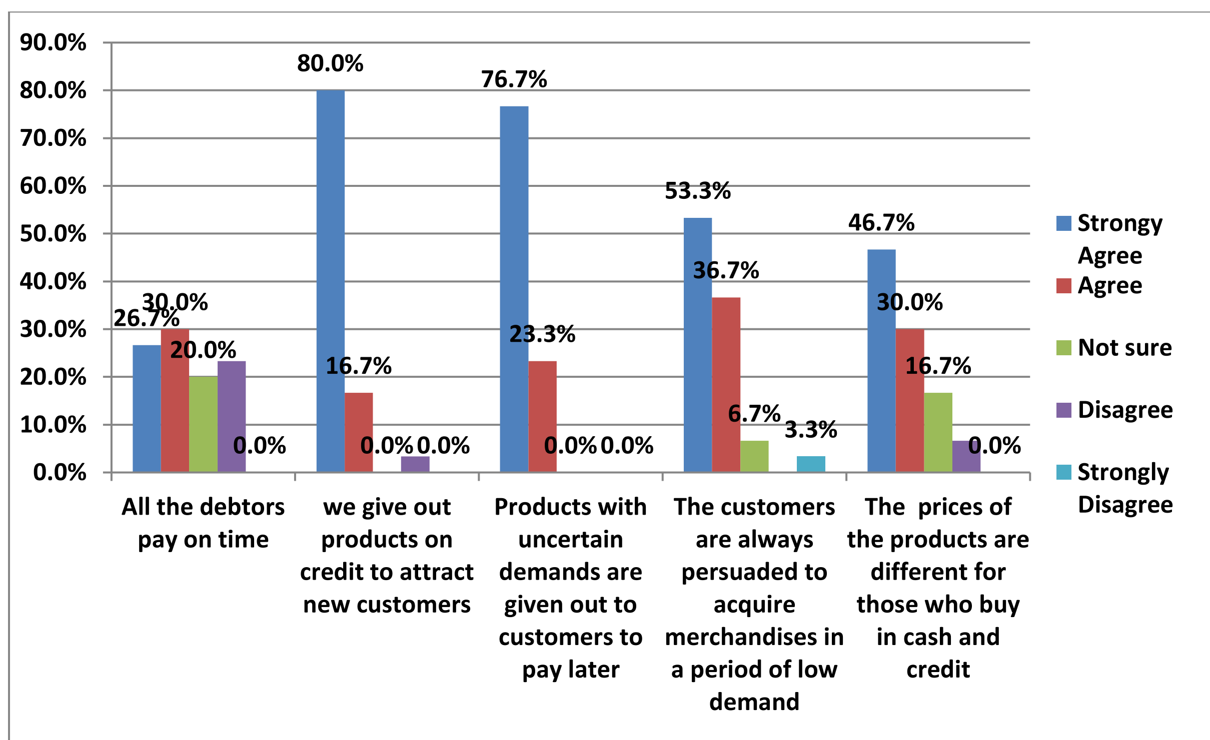
Source: Primary Data 2016

Using the findings from the questionnaires, 56.7% of the respondents had been in the organization between 1-3 years, 23.3% were in the organization for 3 – 5 years, 13.3% were in the organization for less than a year and only 6.7% of the respondents were in the organization for more than 5 years. Quantitative data regarding occupation of the respondents was collected using questionnaire method. This implied that the most of the employees had experience in the organization and therefore had relevant information regarding working capital management and organizational profitability.

4.2 Account receivables and Profitability

Bar chart below shows the findings about the roles of account receivables on performance. The findings were presented, analyzed and interpreted in percentages, frequencies as indicated below. They are categorized on how the respondents strongly agree, (SA), agree (A), neutral (N), disagree (D) and strongly disagree (SD).

Bar Chart 2: Showing the respondents' the roles of account receivables on performance



Source: Primary Source 2016

Using the questionnaire findings, (30.0%) agreed that all the debtors pay on time is analyzed**,** (26.7%) strongly agreed while (23.3%) disagreed. The mean of 3.44 and standard deviation of 0.594 presented the (30.0%) of the respondents who agreed. On the contrary however, one of the respondents interviewed attested that;

> *We ensure that we always remind the debtors to pay on time. But however, most of them take along tie without paying which affect our operation" (Interview on 25th April 2016 at Fresh Cuts Ltd)*

This implied that sometimes the clients who buy goods on credit do not pay back the money in time. This was in agreement with Tambunan, (2006), in order to significantly increase sales for a business, the customers should be given credit and the customers should always be followed up so as to pay the debts back. However, some clients normally take longer time to pay back.

In consideration to the fact that they give out products on credit to attract new customers, (80.0%) of the respondents strongly agreed, (16.7%) agreed, (3.3%) disagreed. This had a mean of 3.89 and a standard deviation 1.102. These findings revealed that new customers are always important to any company and therefore, some entities reach to the point of giving out credit. These findings were in agreement with Ross *et al.,* (2008) who notably argued that efficient capital management involves a shortened creditor's collection period, low levels of bad debts and a sound credit policy which often improves the businesses' ability to attract new customers and accordingly increase financial performance.

It was revealed that the (76.7%) of the respondents strongly agreed that products with uncertain demands are given out to customers to pay later, (23.3%) agreed, This implies that sometimes some goods are almost expiring and do not move fast and therefore, giving them out on credit improves the rate at which they move out. This in line with the findings of the interview where one of the respondents mentioned that;

> *With the credit terms; suppliers can reduce storage costs for uncertain demands of merchandises as well as costs of changing their production levels when demand varies. (Interview with respondent on 9th April 2016)*

The findings show that the (53.3%) strongly agreed the customers are always persuaded to acquire merchandises in a period of low demand while (36.7%) agreed, (6.7%) were neutral as compared to the minority (3.3%) who strongly disagreed with it. The mean of 3.34 and standard deviation of 0.598 indicated that generally most of the respondents agreed. In

relation to the fact that the prices of the products are different for those who buy in cash and credit, most of the respondents that is (46.7%) strongly agreed, (30.0%) agreed whereas the (16.7%) were not sure and the minority (6.7%) disagreed. The mean of 3.69 and standard deviation of 1.133 presented the (46.7%) of the respondents who strongly agreed. This in line with the findings of the study Berger, (2000), documented that account receivables can be used as price discrimination between cash and credit customer as well. This will be advantageous whenever the elasticity of demand of cash customers exceeds that of credit customers or whenever cash customers' reservation prices are systematically higher than those of credit customers.

4.2.1 Correlation results for Account receivables and Profitability

Table 4.3: Correlation results for Account receivables and Profitability

		Account receivables	Profitability
Account receivables	Pearson Correlation	1	.524
	Sig. (2-tailed)		.000
	N	30	30
Profitability	Pearson Correlation	.524	1
	Sig. (2-tailed)	.000	
	N	30	30
Square of coefficient (regression) R^2 =.275			
Correlation is significant at the 0.05 level (2-tailed).			

Source: Primary Data (2016)

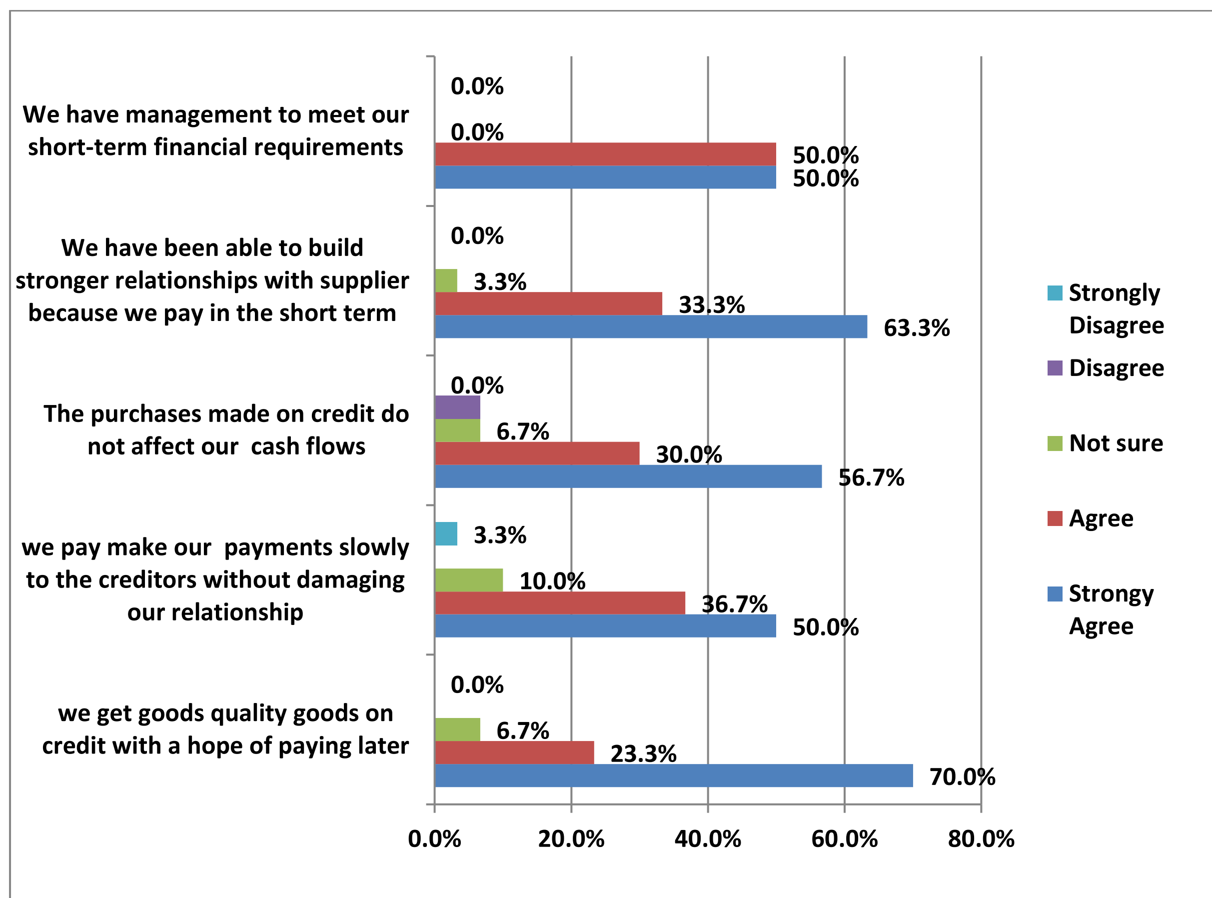
The researcher sought to establish whether a relationship existed between Account receivables and Profitability. This was done with the support of the Pearson correlation product moment technique. The table above reflects the results that emerged. It comprises of variables; Account receivables and Profitability, the Pearson correlation (r=0.524*), (P≤0.05). The r value of 0.524 reveals that a positive relationship exists between Account receivables

and Profitability. The adjusted R^2 linear value of (.275) meant that account receivables contribute to profitability by 0.275(27.5%). This means that there is a positive relationship between account receivables and profitability.

4.3 Account Payable Management on Profitability

The second objective of the study was to account payable management on performance. The findings were presented, analyzed and interpreted in percentages, frequencies as indicated below. They are categorized on how the respondents strongly agree, (SA), agree (A), neutral (N), disagree (D) and strongly disagree (SD)

Bar Chart 3: Showing the extent Account Payable Management on Performance



Source: Primary Data 2016

The findings of the study indicated that the (70.0%) of the respondents strongly agreed that they get goods quality goods on credit with a hope of paying later, those were followed by (23.3%) who agreed, (6.7%) of them were not sure. The mean score of 4.03 and Standard Deviation of 0.891 implied that most of the respondents agreed. In line with study findings,

> *Sometimes we do not have enough money s we end up purchasing some goods on credit from the suppliers with a hope of refunding the money later we make profits (Interview on 25th April 2016 at Fresh Cuts Ltd).*

According to the study findings, it was presented that the (50.0%) of the respondents strongly agreed that they make payments slowly to the creditors without damaging our relationship, those were followed by (36.7%) who agreed, (10.0%) of them were not sure while (3.3%) strongly disagreed. The mean score of 4.20 and Standard Deviation of 1.231 implied that most of the respondents agreed. In relation to the study findings, it was shown that (63.3%) of the respondents strongly agreed, (33.3%) agreed, (3.3%) of them were not sure whether they have been able to build stronger relationships with supplier because they pay in the short term whereas (3.3%) strongly disagreed. The mean score of 4.20 and Standard Deviation of 1.231 implied that most of the respondents agreed. Trade credit can act as an effective price cut incentivizes customers to acquire merchandise at times of low demand, allows customers to check that the merchandise they receive is as agreed (quantity and quality) and to ensure that the services contracted are carried out and helps firms to strengthen long-term relationships with their customers as pointed out by Niskanen, (2006).

In relation to the study findings, it was shown that (50.0%) of the respondents both strongly agreed and agreed that they have management to meet our short-term financial requirements respondents strongly disagreed. The mean score of 4.01 and Standard Deviation of 1.302 implied that most of the respondents generally agreed.

This was supported by the findings of the interview where one of the respondents noted out that:

> *Accounts payable ensures that we have sufficient cash flow in order to meet its short-term debt obligations and operating expenses. (Interview in Fresh Cuts Ltd on 29th April 2016).*

4.3.1 Correlation results for Account Payable Management on Profitability

Table 4.4: Correlation results for Account Payable Management on Profitability

		Account Payable	Profitability
Account Payable	Pearson Correlation	1	0.567
	Sig. (2-tailed)		. 000
	N	30	30
Profitability	Pearson Correlation	0.567	1
	Sig. (2-tailed)	. 000	
	N	30	30
Square of coefficient (regression) R^2 =.321			
Correlation is significant at the 0.05 level (2-tailed)			

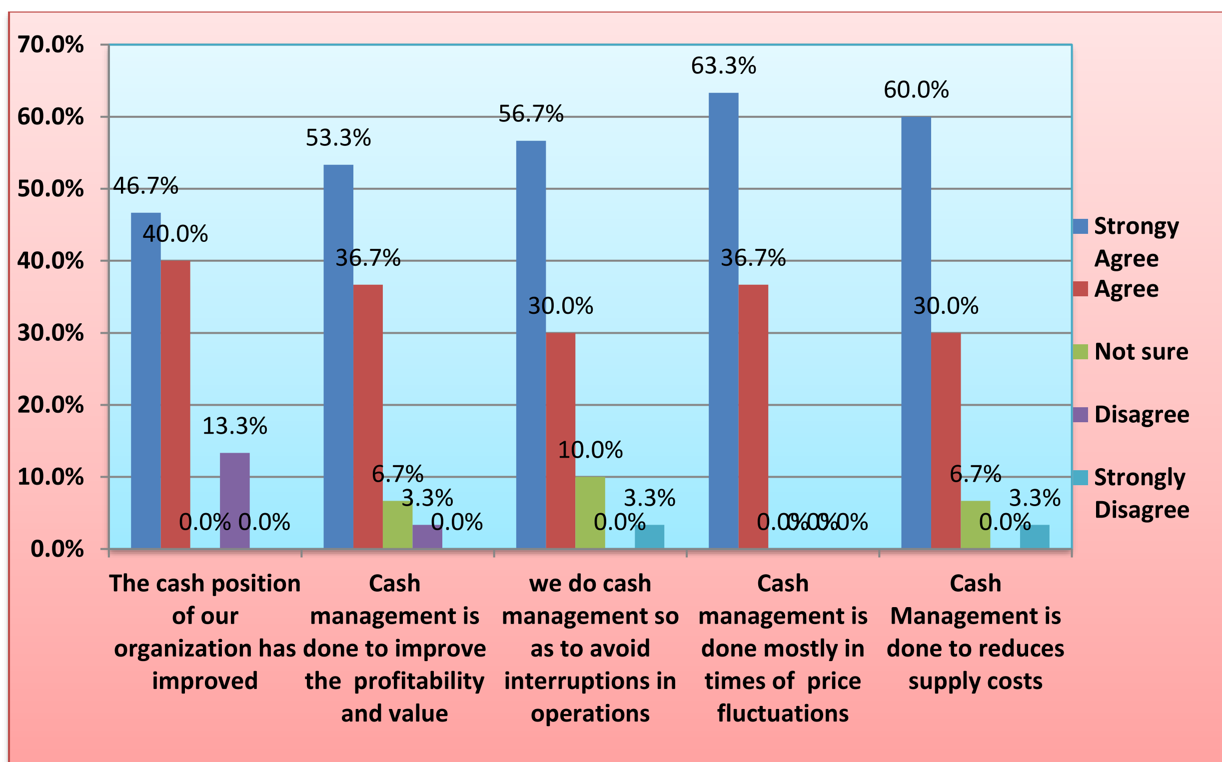
Source: Primary Data (2016)

The researcher sought to establish whether a relationship existed between Account Payable Management and Profitability, this was approached using the Pearson correlation product moment technique. Table above comprises of variables; Account Payable Management and Profitability, Pearson correlation (r=0.567*), ($P \leq 0.05$). The r value of 0.567* reveals that a positive relationship between Account Payable Management and Profitability. This means that Account Payable Management contributes to Profitability of the organization by 32.1% which is obtained from the adjusted R^2.

4.4 Cash Management and Profitability

The third objective of the study was to establish the role of cash management and performance. The findings were presented, analyzed and interpreted in percentages, frequencies as indicated below. They are categorized on how the respondents strongly agree, (SA), agree (A), neutral (N), disagree (D) and strongly disagree (SD)

Bar Chart 4: Showing the role of cash management on performance



Source: Primary data 2016

From the findings of the study, it was also presented that (46.7%) of the respondents strongly agreed that the cash position of the organization has improved, those were followed by (40.0%) who agreed, (13.3%) of the respondents disagreed. The mean score of 3.41 and Standard Deviation of 0.970 represented the (71.0%) who agreed. As argued by Ayiro (2012), creditors are a vital part of effective cash management and should be managed carefully to enhance cash position of a business. Management of creditors and suppliers is

very important as slow payment by a firm may create ill-feeling and can signal that the business is not doing well.

According to the findings of the study, it was presented that (53.3%) of the respondents strongly agreed (36.7%) of them agreed, (6.7%) were not sure, and (3.3%) strongly disagreed that cash management is done to improve the profitability and value. The mean score of 4.02 and Standard Deviation of 0.579 implied that most of the respondents strongly agreed. This was in line with the findings of the interview where one of the respondents noted that;

> *It is expected that an efficient cash management might have a profound effect on performance of small enterprises since a substantial proportion of the total assets of firms are improved ((Interview on 25th April 2016 at Fresh Cuts Ltd).*

In relation to the findings of the study, it was indicated that (56.7%) and (30.0%) of the respondents respectively strongly agreed and agreed that they do cash management so as to avoid interruptions in operations while (10.0%) were not sure and (3.3%) strongly disagreed the (2.4%) of the respondents both disagreed and strongly disagreed. The statement had mean score of 3.82 and Standard Deviation of 0.579 depicted that most of the respondents had a positive thought that they do cash management so as to avoid interruptions in operations. This was supported by Nguyen, et al (2006) who also agreed that cash management reduces the cost of possible interruptions in the operation, or of loss of business due to the scarcity of products, reduces supply costs, and protects against price fluctuations, among other advantages

In regards to the findings of the study, it was showed that (63.3%) of the respondents strongly agreed that Cash management is done mostly in times of price fluctuations, (36.7%) agreed, that Cash management is done mostly in times of price fluctuations. The statement had mean score of 3.42 and Standard Deviation of 1.213 depicted that most of the

respondents were favour of a fact that Cash management is done mostly in times of price fluctuations. This was in line with a respondent who said that

> *Cash management is done mostly in times of price fluctuations (Interview on 25th April 2016 at Fresh Cuts Ltd).*

In addition to the above, the study findings presented that (60.0%) of the respondents strongly agreed that cash management is done to reduces supply costs, (30.0%) agreed, (6.7%) of the respondents were not while (3.3%) of the respondents strongly disagreed. The statement had mean score of 4.11 and Standard Deviation of 0.864 depicted that most of the respondents agreed. This implies that Cash Management is done to reduces supply costs.

4.4.1 Correlation results for Cash Management and Profitability

Table 4.5: Correlation results for Cash Management and Profitability

		Cash Management	Profitability
Cash Management	Pearson Correlation	1	.549
	Sig. (2-tailed)		. 000
	N	30	30
Profitability	Pearson Correlation	.549	1
	Sig. (2-tailed)	. 000	
	N	30	30
Square of coefficient (regression) R^2 =.301			
Correlation is significant at the 0.05 level (2-tailed)			

Source: Field data (2016)

The researcher sought to establish whether a relationship existed between Cash Management and Profitability, this was approached using the Pearson correlation product moment technique. The table above comprises of variables; Cash Management and Profitability, Pearson correlation (r=0.549*), ($P \leq 0.05$). The r -value of 0.549*, reveals that a positive relationship exists between Cash Management and Profitability. This means that Cash

Management contributes to Profitability by 30.1% which is obtained from adjusted linear squared (R^2).

4.5 Conclusion

The analysis of the primary data indicates that the independent variables through the predictor variables; Accounts receivable, Accounts payable and Cash management and their role of Profitability of an organization as it has been seen in the findings of the study in this chapter do indeed affect the profitability of organisations.

CHAPTER FIVE

SUMMARY, CONCLUSION & RECOMMENDATIONS

5.0 Introduction

The purpose of the study was to investigate the role of working capital management on organizational profitability. This chapter presents the summary of the study, conclusions and recommendations of the findings. They are presented objective by objective.

5.1 Summary of the Study

The findings also showed that (56.7%) of respondents generally agreed that all the debtors pay on time and that they give out products on credit to attract new customers. It was also revealed that the products with uncertain demands are given out to customers to pay later, the customers are always persuaded to acquire merchandises in a period of low demand and that the prices of the products are different for those who buy in cash and credit.

As revealed from the findings, majority of the respondents (93.3%) generally agreed that they get good quality goods on credit with a hope of paying later and that they make payments slowly to the creditors without damaging the relationship with the suppliers. It was also revealed that the purchases made on credit do not affect their cash flows. The organization has been able to build stronger relationships with supplier because they pay in the short term

The study showed that most of the respondents (86.7%) agreed the cash position of the organization has improved and that cash management is done to improve the profitability and value. It was also revealed that cash management is done so as to avoid interruptions in operations done mostly in times of price fluctuations.

5.2 Conclusions

Conclusively, organizations give out products on credit to attract new customers. Products with uncertain demands are normally given out to customers to pay later, the customers are always persuaded to acquire merchandises in a period of low demand and that the prices of the products are different for those who buy in cash and credit. Further, Organizations get goods quality goods on credit with a hope of paying later and that they make payments slowly to the creditors without damaging the relationship with the suppliers. It was also revealed that the purchases made on credit do not affect their cash flows. The cash position of the organization has improved and that cash management is done to improve the profitability and value. It was also revealed that cash management is done so as to avoid interruptions in operations done mostly in times of price fluctuations.

5.3 Recommendations

It is recommended that the Businesses should manage their Accounts Payable, in other words they should take full advantage of creditor payment terms, and use electronic funds transfer to make on-time payments on the last day they are due. They should consider both price and payment terms when choosing suppliers, as well as whether early payment discounts will reduce your overall vendor costs.

Business entities should also manage their Inventory and Pricing. In other words they should avoid overstocking the inventory, and base the offerings on sales and profit margins. This can be done by cutting the products or services that perform poorly or have low profit margins and also not to forget to monitor and adjust their pricing.

It is recommend that the business entities should employ a good collection system that will issue quick, clear, and accurate invoices so that the debtors can always pay on time It will

also provide accurate data on collections activity, including data on late paying customers, average monthly receivables, and average losses.

5.4 Suggestions for Further Research

Following from this study, there are several possible avenues for future research

- The role working capital on competitiveness of SMEs
- The effect of capital management on effectiveness of SMES.

5.5 Conclusion

This chapter has showed the summaries conclusions and recommendations from the study revealing how working capital plays a big role on organizational profitability.

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Appendix I: Questionnaire

Dear respondent, I am called **EKAKORO CHRISTINE,** a student of Uganda Martyrs University undertaking a Bachelor's Degree of Business Economics of Uganda Martyrs University. I am carrying out a research study on the topic of **"WORKING CAPITAL MANAGEMENT AND ORGANIZATIONAL PROFITABILTY** using a case study of **FRESH CUTS LTD:** This questionnaire is therefore intended to seek information on the above subject matter. The information is purely for academic purposes and all the answers will be handled with utmost confidentiality. I therefore humbly request that you complete this questionnaire correctly in the spaces provided or options given

SECTION A: GENERAL INFORMATION

(Please, tick the appropriate answers where options are given).

1. Gender

(a) Male ◯ (b) Female ◯

2. Age Group

(a) Below 20 ◯ (b) 20 - 30 years ◯ (c) 31 - 50years ◯ (d) Above 50 years ◯

3. Education qualification

(b) Diploma ◯ (c) Degree ◯ (d) Masters ◯ (d) PhD ◯

5. How long have you been in the organization?

a) Less than a year ◯ b) 1 year – 3 years ◯ c) 3 – 5 years ◯ d) More than 5 years ◯

Please use the scale below to tick under the appropriate box your view on the following statements below;

5	4	3	2	1
strongly agree	Agree	Not sure	disagree	strongly disagree

SECTION B: Account receivables and performance

The following abbreviations are used; **SA** = (Strongly Agree)**, A**= (Agree)**, N**= (Neutral)**. D**= (Disagree), **SD**= (Strongly Disagree)

5 To what extent do you agree with the following statements with regards to the role of Account receivables on performance?

	Account receivables and performance	**SA**	**A**	**N**	**D**	**SD**
a	All the debtors pay on time					
b	we give out products on credit to attract new customers					
c	Products with uncertain demands are given out to customers to pay later					
e	The customers are always persuaded to acquire merchandises in a period of low demand.					
f	The prices of the products are different for those who buy in cash and credit					

SECTION C: Account Payable Management and Performance

6. To what extent do you agree with the following statements with regards to Account Payable Management and Performance?

	Account Payable Management and Performance	**SA**	**A**	**N**	**D**	**SD**
a	we get goods quality goods on credit with a hope of paying later					
b	we pay make our payments slowly to the creditors without damaging our relationship					
c	The purchases made on credit do not affect our cash flows					
d	We have been able to build stronger relationships with supplier because we pay in the short term					
e	We have management to meet our short-term financial requirements					

SECTION D: Cash Management and Performance

7. To what extent do you agree with the following statements with regards to Cash Management and Performance?

	Cash Management and Performance	**SA**	**A**	**N**	**D**	**SD**
a	The cash position of our organization has improved					
b	Cash management is done to improve the profitability and value					
c	we do cash management so as to avoid interruptions in operations					
d	Cash management is done mostly in times of price fluctuations					
e	Cash Management is done to reduces supply costs					

Thanks very much for your cooperation

Appendix II: Interview Guide to Accounts and finance Managers

Dear Respondent

Dear respondent, I am called **EKAKORO CHRISTINE,** a student of Uganda Martyrs University undertaking a Bachelor's Degree of Business Economics of Uganda Martyrs University. I am carrying out a research study on the topic of **"WORKING CAPITAL MANAGEMENT AND ORGANIZATIONAL PROFITABILTY** using a case study of **FRESH CUTS LTD.** You have been selected to share with us your experience and make this study successful. The Interview I am conducting is basically aimed at obtaining qualitative information to compliment the quantitative information. Information given will be treated with utmost confidentiality.

1. What are the various working capital management techniques you use?

   ……………………………………………………………………………………………..

   ………………………………………………………………………………………………

2. In your view, to what extent does Accounts receivable affect profitability of organizations?

   ……………………………………………………………………………………………..

   ………………………………………………………………………………………………

3. How do you normally handle the Accounts payables?

   ……………………………………………………………………………………………..

   ……………………………………………………………………………………… …….

4. How does Accounts payable affect performance of SMEs in Uganda?

   ……………………………………………………………………………………………..

   ………………………………………………………………………………………………

5. To what extent does Cash management contribute to the organizational profitability?

   ………………………………………………………………………………………….

   ………………………………………………………………………………………….

6. What extent has working capital affected the performance of your organization?

   …………………………………………………………………………………………..

   …………………………………………………………………………………………..

7. What recommendations would you give managers of organizations in regard to this topic under investigation?

   ………………………………………………………………………………………….

   ………………………………………………………………………………………….

THANKS FOR YOUR TIME