MAKERERE UNIVERSITY

MAKERERE UNIVERSITY BUSINESS SCHOOL

FINANCIAL LITERACY, WORKING CAPITAL MANAGEMENT AND BUSINESS PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN KAMPALA DISTRICT

BY

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DECLARATION

I, **Nuwamanya Mildred** declare that this dissertation is my original work and that it has never been published, presented, and or submitted to any institution for any ward.

Signed..**Date**......15/12/2021......................................

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APPROVAL

This is to certify that this dissertation has been prepared with our guidance as Makerere University supervisors and it is ready submission.

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DEDICATION

This study is wholeheartedly dedicated to my beloved parents, who have been my source of inspiration and encouraged me when I felt like giving up, who continually provide their moral, spiritual and emotional support.

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I would like to extend my sincere gratitude and appreciation to all those who assisted me in making this research a success. First and foremost, I thank God almighty for his mercies, unfailing love, and providence and for giving me strength and seeing me through my studies.

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To my family and friends, thank you for being understanding and for all the support you gave and especially allowing me time off to work on my dissertation. God bless you abundantly.

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ABSTRACT

The study sought to establish the relationship between financial literacy, working capital management and business performance of SME in Kampala District.

The study adopted across sectional design using a sample size 379 SMEs. The data was tested for reliability and validity, analyzed using SPSS version 25 as well as results presented based on the study objectives.

The correlation coefficient analysis revealed positive and significant relationships between financial literacy and business performance, working capital management and business performance, financial literacy and working capital of SMEs which implies that when one variable is improved it leads to improvement of the other. Furthermore, findings indicate that financial literacy combined with working capital have been found to have a greater influence on the business performance (Adj R^2 of 0.783).

Therefore, more emphasis should be put on improving financial literacy and working capital management since these enhances performance.

The researcher therefore recommends that to improve business performance there is the need for improvement of financial literacy through personal development by SMEs owners/managers in the area of education and training since the findings indicated that the majority of the respondents were diploma and certificate holders. To this effect, SME owners/ managers may lack some perquisite skills and abilities. In addition to gaining work and related experience, new small and medium enterprises can work with established companies to allow new entrepreneurs gain experience in the functional areas of working capital management as well as marketing since the findings indicated that most SMEs in Kampala District are below ten years old.

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Globally, the performance of Micro and Small Medium Enterprise (MSMEs) has been a focus of academic research for long (Lawal & Akingbade, 2018; Kunday &Şengüler, 2015). This is because they contribute to economy's GDP contribution, create employment to the skilled, semi-skilled and the unskilled labor, need lower investments and offer a method of ensuring a more equitable distribution of national income leading to economic growth and development (Ali, Gongbing &Mehreen, 2018). SMEs dominate the business sector in Sub-Saharan Africa accounting for 60 percent of the total number of enterprises (Tumwine, Akisimire, Kamukama, &Mutaremwa, 2015).At a global level, SMEs performance has been approximated at 62.6% and regionally at 52% (Ensari&Karabay, 2018). In Uganda, the business sector has since 1990's to-date gained a commendable 8 percent growth per annum contributing 28 percent to Uganda's GDP and to its growth by 37 percent (Uganda Bureau of Statistics (UBOS), 2018; Nuwagaba,2012), which is in line with the Sustainable Development Goals (SDGs) 1 &8. The recent Budget 2020/2021 recognizes the importance of SMEs and has thus allocated 171.994 bn to increase their value (National Budget Framework Paper FY, 2020/2021). Previous studies (Nkundabanyanga, Ahiauzu, Sejjaka, &Ntayi, 2013; Kakuru, 2008; Kazooba2006) confirm that SMEs constitute over 60 percent in low-income countries and account for 41 percent of economic growth in Sub-Saharan African countries for a period between 1998 and 2010 while the industry sector contributes 25 percent, service sector 30 percent and the agriculture sector 17 percent. However, given such importance of SMEs, their success or failure is contingent on their working capital and financial literacy if they are to remain profitable (Chepngetich, 2016).

Working capital management is a life-giving force and a pre-condition for the financial success of an organization (Bana, 2012; Ghosh & Maji, 2004; Mukhopadhyay, 2004). This explains why working management policy choices and practices have important implications not only for accounting profitability but also for market performance (Abuzayaed, 2011). SMEs tend to rely more heavily on owner financing, trade credit and short-term bank loans to finance their needed investment in cash, accounts receivable and inventory (Chittenden et al., 2018; Saccurato, 2014). Nonetheless, the failure rate still remains very high (Abuzayaed, 2011) because of the failure of top managers to utilize their financial literacy skills and working capital management skills to foster financial performance of small business enterprises (Muneria&Otinga, 2019).

Lusardi and Tufano (2009) stressed the need of financially literate managers because these are in position to manage the working capital of an organization. Remund (2010) notes that managers understand important financial concepts and possesses the capacity and confidence to appropriately handle personal funds for purposes of decision making in both short term and long-term. Research from around the world has evidenced lower level of financial literacy in small and medium enterprises which negatively impacts their performance (Van-Rooij, Lusardi, &Alessie, 2019; Allgood&Walstad, 2013; Agarwalla *et al.,* 2013; Lusardi & Mitchell, 2011). Accordingly, literature on the relationship between financial literacy, working capital management and business performance in Uganda in particular, is scarce as majority of the studies have focused on the relationship between working capital management and performance of SMEs (Muneria &Otiga, 2019; Kabuye, Akugizibwe, &Bugambiro, 2019; Orobia, Byabasaija &Munene, 2013; Abuzayed, 2011).

Despite the significant contribution of small and medium enterprises to the Ugandan economy, the potentials of the SMEs in Kampala have not been exploited fully and this is a concern of all stakeholders in the economy (Kazooba, 2018). At the height of a number of initiatives undertaken, the government of Uganda aimed at improving and promoting the business environment, reduce cost of compliance with business regulations and reforms, but the situation is not any better. This is evidenced as the performance of SMEs in Uganda is still below the expectation estimated at 55% compared to 85% in sub-Saharan Africa (UIA, 2019, 2018; Ernst&Young, 2018; UBOS, 2018). This possess a threat to the Ugandan economy since SMEs are great contributors to the GDP. This frail performance is attributed to weak working capital management producing 75% with illiterate managers (UIA, 2019) and leading to undependable and unsustainable financial decisions for the company (Kakuru, 2008). Similarly, Rugambwa (2016) confirms that most of the SMEs business failures result from insufficient financial literacy and the inability of financial managers to plan and control working capital leading to high bad debts, high inventory costs which affect the operating performance of a business. Eventually obligations of the SMEs like paying creditors, purchase of raw materials, settling taxes are now hard to fulfill. It is upon this background that the researcher wishes to examine the relationship between financial literacy, working capital management and business performance of SMEs in Kampala district.

1.2 STATEMENT OF THE PROBLEM

Small and Medium Enterprises play a great role in the development of many economies especially in developing countries (World Bank Report 2020). They represent about 90% of businesses and more than 50% of employment worldwide. Formal SMEs contribute up to 40% of national income (GDP) in emerging economies. Despite the increasing focus on these entities by the Government of Uganda and other development partners, recent reports have continued to show limited progress among these enterprises to increase profitability, thus threatening their survival (PSFU, 2019; UIA, 2019; BOU, 2018). For instance, the recent data shows that out of 100 SMEs, 70% have failed to achieve their performance targets (PSFU, 2019). These performance challenges are attributed to low working capital management, finance as a key constraint and employing approximately 75% financially illiterate managers (PSFU, 2019). Accordingly, this has made it difficult for financially illiterate managers to make decision in relation to management of accounts payable, inventory levels, accounts receivable which negatively impacts the performance of the SMEs. It is upon this background that the researcher set out to examine financial literacy, working capital management and business performance of SMEs in Kampala district.

1.3 PURPOSE OF THE STUDY

The purpose of the study was to determine the predictive power of financial literacy and working capital management on perceived business performance of SMEs in Kampala district.

1.4 OBJECTIVES OF THE STUDY

i. To assess the relationship between financial literacy and perceived business performance of SMEs.
ii. To examine the relationship between working capital management and perceived business performance.
iii. To assess the predictive power of financial literacy and working capital management on perceived business performance of SMEs.

1.5 RESEARCH QUESTIONS

i. What is the relationship between financial Literacy and perceived business performance of SMEs?
ii. What is the relationship between working capital and perceived business performance of SMEs?
iii. What is the predictive power of financial literacy and working capital management on perceived business performance of SMEs?

1.6 SCOPE OF THE STUDY

The scope of the study included geographical scope and subject scope.

1.6.1 GEOGRAPHICAL SCOPE

The study was limited to Kampala district found in Central Uganda. Kampala district was selected because it hosts the biggest population approximated at about 86% (UBOS Report, 2019) of SMEs in Uganda being a central business district. Accordingly, these SMEs were found not to be performing better than expected (UIA, 2019).

1.6.2 SUBJECT SCOPE

The study was limited to empirical literature debate on financial literacy, working capital management and business performance of small and medium enterprises.

1.6.3 THEORETICAL SCOPE

This study employed the resource-based view theory and dynamic theory in explaining the study phenomenon. The independent variables of financial literacy and working capital were explained by the resource-based view theory and dynamic capability respectively as seen in the conceptual Framework.

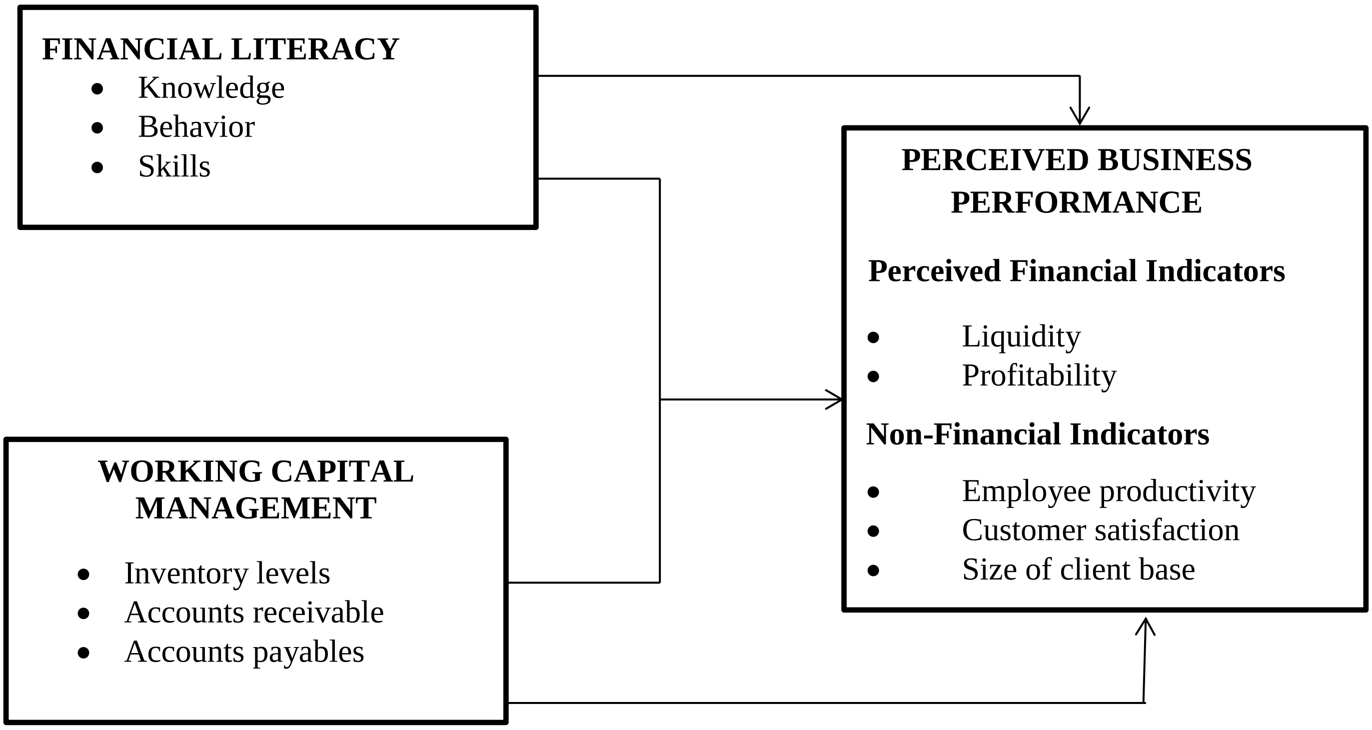
1.7 SIGNIFICANCE OF THE STUDY

i. The findings will help policy makers in understanding challenges of SMEs and derive solutions to mitigate such challenges to ensure that there is an improvement in business performance in SMEs.

ii. The study will add on the existing research for academicians in relation to financial literacy, working capital management and business performance of SMEs.

iii. The study was also intended to show the importance of SMEs as central players in the provision of services in the country.

1.8 Figure 1.1. The Conceptual Frame Work



Source: adopted and Modified from *Bongomin et al., (2016), Atkinson and Messy (2013), Kempson (2009), Lusardi and Mitchell (2009), Lusardi and Mitchell (2006), Marttonen et al., (2013), Abuzayed (2011), Shah et al (2018), Givolyet al., (2017), Nkundabanyanga, (2016); Al-Matariet al., (2014), Azubuike, (2013), Clarke et al., (2011).*

Explanation of the conceptual frame work

The independent variables were financial literacy and working capital management. Business performance was dependent variable. Financial literacy was measured in terms of Behavior, Knowledge, skills (Bongomin*et al.,*2016; Atkinson &Messy, 2013; Kempson, 2009; Lusardi& Mitchell, 2009; Lusardi and Mitchell, 2006).Working capital management was conceptualized in terms of inventory levels, accounts receivable and accounts payable (Marttonen*et al*., 2013; Abuzayed, 2011).Business performance was conceptualized in terms of both perceived financial indicators such as liquidity and profitability and non-financial indicators such as employee productivity, customer satisfaction and size of client base of performance. This was in line with previous scholars (Givoly *et al*., 2017; Nkundabanyanga, 2016; Al-Matari*et al.*, 2014; Azubuike, 2013; Clarke *et al.*, 2011).

CHAPTER TWO

LITERATURE REVIEW

2.0 INTRODUCTION

This section presents highlights of the theoretical and reviewed literature regarding the study variables. It shows how this research relates to the existing body of knowledge and identifies the gaps existing in the current body of knowledge.

2.1 THEORETICAL FOUNDATION

This study employed two theories that is the resource based view theory by Barney (1991) and Wernerfelt (1984) as well as Dynamic Capability Theory (Dct) Initiated by Teece *Et Al.*, (1997).

2.1.1 RESOURCE BASED VIEW-

Resource based View (RBV) (Barney,1991;Wernerfelt,1984) asserts that firms possess resources which are peculiar, rare, heterogeneously present and inimitable that can be used to drive performance. RBV theorists suggests that a firm should focus on its resource base first in performing actions, rather than the external environment. Firms are believed to have resources such as human capital with financial knowledge and skills to manage business performance. This study employs this theory since majority of the SMEs are owner managed and the owners are the providers of the resources to be used in business. RBV argues that firms that employ financially literate managers and at the same time with skills to manage working capital of a business helps a firm to maximize profitability (Barney, 1991). The RBV theory suggests that differences in firm performance are primarily the result of resource heterogeneity across firms (Barney, 1991).

This implies that the different level of resources can explain differences of those firms' performance. Moreover, effective implementations of financial literacy skills lead to improvement in business performance due to improved ability to track business events from the record system (Siekei, et al. 2013) since most new business owners are daunted by the mere idea of bookkeeping and accounting. However, this theory has been criticized for firms being too static yet they operate in environments that are dynamic and turbulent (Williamson, 1999).

2.1.2 DYNAMIC CAPABILITY THEORY (DCT)

Propounded by Teece et al., (1997), the DC concept was introduced as an extension of RBV to focus on how firms could maneuver in the turbulent and dynamic environments to enhance their competitive advantage. In a highly competitive and constantly changing environment, firms need to be able to anticipate changes and prepare to make changes in their strategy and arguably in the deployment of available resources so as to gain and maintain competitive advantage. In this study, we conceptualize working capital management to be intangible DC that will not only underpin all other resources but can assist SMEs to integrate, build and reorganize their internal and external competences to address the rapidly changing environments. A capability can be seen as one or multiple routine that are purposefully combined and directed toward a particular goal (Helfat & Peteraf, 2009) to maintain competitive advantage over other SMES. A lack of financial literacy to help combine and transform existing resources, skills and knowledge into acceptable services demanded by the market affects performance of SMEs. It is DC that alters a firm’s resource base (Eisenhardt& Martin, 2000) to propel performance.

2.2 FINANCIAL LITERACY

Financial Literacy is the ability to have better judgments and to take appropriate actions for the management of cash flow (Njoroge, 2013). Financial literacy includes the ability to recognize sound financial choices. For example, whether to sell goods on credit, how much cash discount to give. It is a cornerstone that affects financial decision making. Financial knowledge and skills matter in any business or non-business activities as each and every decision have financial implications (Njoroge, 2013). Lack of basic financial concepts can be linked to failure of firms. Sabri (2015) established that financial literacy can lead to better financial management practices. Firms employing staff with financial knowledge and skill are more likely to make decisions that may have positive implications on the liquidity position, account receivable management practices will ensure timely, regular and healthy cash inflow by selecting the right customer, ensuring strict recovery, eliminating poor customers and implementing formal credit policy (Sabri, 2015). Financial knowledge is crucial, a person who has sufficient knowledge is less likely to make expensive mistakes, since every decision undertaken would be guided by principles and policies well stipulated. SMEs lack sufficient funds to attract trained financial managers and analysts most often they employee accountants who only look at the conventional accounting function of recording transactions in the books of accounts. The SMEs manager or accountants should be responsible for providing leadership in all aspects of financial decision making like working capital management, capital budgeting decisions, financing decisions, and dividend decisions. It has been noted that the failure to effectively discharge these broad financial management functions have contributed largely to global financial crisis faced by SMEs (Osisioma, 2010).

In addition, a World Bank study on financial literacy around the world by Xu and Zia (2012) further revealed that financial literacy is correlated with having a bank account, especially in low-income countries. Scholars like Campbell (2006) and Grable and Joo (1998) argue that financial learning increases financial knowledge and affects financial decisions, choices, attitudes and behaviors of the poor. Indeed, OECD (2013) observed that financial literacy facilitate access and encourages widening use of relevant financial products and services for the benefit of poor individuals. Financial literacy facilitates decision making processes, which improve the savings rates, credit worthiness of potential borrowers, therefore resulting into improved access and use of financial services by the poor (World Bank, 2009; OECD, 2005). Therefore, financial literacy facilitates effective product use by helping poor households to develop skills to compare and select the best financial products, which suits their needs hence leading to increased financial inclusion. However, Atkinson and Messy (2013) argue that lack of knowledge, awareness, confidence and behaviours that inhibit use of, and trust in, formal financial products creates barriers to access, by preventing poor individuals from making full use of existing products.

2.3 WORKING CAPITAL MANAGEMENT

Working capital management is a very important component of corporate finance since efficient working capital management will lead a firm to react quickly and appropriately to unanticipated changes in market variables, such as interest rates and raw material prices, and gain competitive advantages over its rivals (Appuhami, 2018). 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. Not being able to maintain a satisfactory level of working capital, it is likely to become insolvent and may even be forced into bankruptcy. Managers spend a considerable time on day-to-day working of capital decisions since current assets are short-lived investments that are continually being converted into other asset types (Rao, 2019).

Previous studies (Afza&Nazir, 2007; Raheman& Nasr, 2007; Teruel& Solano, 2007; Padachi, 2006). on working capital management have conceptualized working capital management as the planning and controlling of inventory, accounts receivable, cash and accounts payable. Organisations manage working capital in order to ensure that organizations they are able to meet their short-term obligations when they fall due and to avoid excess investment in current assets (Orobia, 2013; Teruel& Solano, 2007). This is important because it affects profitability (Teruel& Solano, 2007). In the case of current liabilities, the firm is responsible for paying obligations mentioned under current liabilities on a timely basis. Liquidity for the on-going firm is reliant, rather, on the operating cash flows generated by the firm’s assets (Soenen, 1993).

Altman’s (1968) multivariate predictor model based on US companies includes working capital as one of the model components. Using data drawn from the UK companies, Taffler (1982) developed a four-variable model of failure prediction. All the four variables include a variant on working capital as a component. 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 the liquidity of the firm while not keeping too high alevel of any one of them. Each of the short-term sources of financing must be continuously managed to ensure that they are obtained and used in the best possible way. Hence in this study, working capital management will be conceptualized in terms of inventories levels, accounts receivable and accounts payable as emphasized by Marttonen et al., (2013) and Abuzayed (2011).

2.4 BUSINESS PERFORMANCE

Performance is the accomplishment of a given task measured against set known standards of accuracy, completeness, cost, and speed. High performance reflects management effectiveness and efficiency in making use of company’s resources and this in turn contributes to the country’s economy at large. (Naser & Mokhtar, 2014). The financial performance of organizations is usually measured using a combination of financial ratios analysis, benchmarking, measuring performance against budget or a mix of these methodologies (Barley, 2010). Performance measurement serves as a source of information about financial outcomes and the internal operations shown in an organization's financial statements. Effective performance measurement is vital in ensuring that an organization's strategy is successfully implemented. Ofley (2013) argues that financial measure of performance is very crucial as it serves as a tool of financial management, a major objective of a business organization, and a mechanism for motivation and control within an organization. In this study, business performance will be conceptualised in terms of both financial indicators such as liquidity and profitability and non-financial indicators such as employee productivity, customer satisfaction and size of client base of performance. This is in line with previous scholars (Givoly et al., 2017;Nkundabanyanga, 2016; Al-Matari et al., 2014; Azubuike, 2013; Clarke et al., 2011)

EMPIRICAL REVIEW

The discussion of the relationship of the variables under study was based on the following empirical literature below.

2.5 FINANCIAL LITERACY AND BUSINESS PERFORMANCE

Majority of studies have proved that financial literacy has a positive effect on business performance. Financial literacy has been shown to be essential in improving transparency, efficiency, accuracy and accountancy resulting in the organization achieving its success (Koitaba, 2013). Effective implementations of financial literacy skills lead to improvement in business performance due to improved ability to track business events from the record system (Siekei, et al. 2013). Most new business owners are daunted by the mere idea of bookkeeping and accounting. (Kamunge*et al.*, 2014) revealed that for SMEs to survive and indeed progress to the growth phase of the organizational life cycle, they should employee financially literate managers. This calls for financial literacy intervention to train the SMEs on how to use the available means of accessing financial services to improve their enterprises and also reduce the cost of doing business. Financial training is one of the factors that impact positively on the growth of SMEs because entrepreneurs with adequate financial literacy are better placed to adapt their enterprises to constantly changing business environments (King & McGrath, 2012). Internally, most SMEs lack training and management skills to enable to manage funds effectively.

Externally, SMEs lack the necessary collateral and have the capacity to absorb the only small amount of funds from financial institutions. This prevents the enterprises from accessing adequate credit because of high intermediation costs, including the cost of monitoring and enforcement of loan contracts. Several initiatives have been advanced by the state and non-state sectors to broaden access to affordable credit, and financial management to enable SMEs to manage finances efficiently. However, it is not clear whether financial literacy initiatives have translated to better financial management, enterprise performance, improved access to loan capital, and loan repayment of SME borrowers (CMA, 2010; Wanjohi, 2011). G20 Seoul Summit (2010) states that information asymmetry arising from SMEs' lack of accounting records, inadequate financial statements or business plans also makes it difficult for creditors to assess the creditworthiness of potential SME proposals. As the lack of financial literacy, operational skills, including accounting and finance and business planning represents a formidable challenge for SME borrowers. A study by Vijayakumar and Tamizhselvan (2010) found a relationship between firm size and performance. This study like others have only been done in large firms. Therefore, this study intends to fill the gap by identifying the relationship between financial literacy and performance of small and medium enterprise in Uganda, in particular.

2.6 WORKING CAPITAL MANAGEMENT AND BUSINESS PERFORMANCE

Previous literature has indicated that working capital management may have an important effect on the firm's Performance. Deloof (2013) used a sample of Belgian firms and found that firms can increase their profitability by reducing the debtors' collection period and the days-in-inventory period. He also found that less profitable firms wait longer to pay their bills. Wang (2002) used a sample of Japanese and Taiwanese firms and found that a shorter cash conversion cycle would lead to a better firm's operating performance. Teruel and Solano (2007) took samples of small to medium-sized Spanish firms for the 1996-2002 period and found that the firms can create value by reducing the days-in-inventory period and the debtors' collection period, thus leading to the reduction in the cash conversion cycle.

On the other hand, though, other researchers support that investing more in cash conversion cycle (conservative policy) may lead to increased profitability since maintaining high inventory levels is expected to increase sales, reduce supply costs, reduce cost of possible interruption in production and protect against price fluctuations (Blinder & Maccini, 1991). A higher debtors' collection period may also strengthen the relationship with customers and hence may lead to an increase in sales revenue (Ng *et al*, 1999). Deloof (2013) showed that a relatively huge amount of firms' assets are reserved for working capital. Summers and Wilson (2000) also stated that more than 80% of the daily business transactions in the UK corporate sector is on credit terms. Bodie and Merton (2006) analyzed the trends in the working capital management and its influence on business performance for small manufacturers of Mauritius. He reported that firm's

needs for working capital change over time depending on the rate of creation of money and high internal investment in inventories and receivables led to reduced profitability. As it can be seen from the aforementioned empirical evidence, there are inconclusive and inconsistent results with regard to the role of working capital management on firms' business performance. This is due to the fact that researchers used either the conversion cycle as it relates to the firm's profitability or they examined only part of the components of the conversion cycle.

2.7 FINANCIAL LITERACY, WORKING CAPITAL MANAGEMENT AND BUSINESS PERFORMANCE

Financial decisions such as how much to save, how much to invest, where to save, what assets to acquire and where to obtain credit necessitate a reasonable level of financial literacy. On the other hand, cash management helps in forecasting cash flows and inflows, which helps businesses to meet their obligations. Oladejo, Akande&Oluwaseun (2017) argues that managing working capital and employing financially literate managers enhances improves performance of businesses through extended investments. In the midst of such financial literacy and a widening scope of financial inclusion, growing businesses struggle with loss of revenue, insufficient cash flow, and excessive debt. While loss of revenue can be associated to factors beyond the owners' control (government policies, competition, business environment, market demand etc.), insufficient cash flow and excessive debt can be controlled by the business owner who is financially literate and exercises prudence in cash management. The researcher therefore argues that financial literacy alone in a financial market where financial products are cheap and freely available is not adequate to spur business growth without a right management of cash inflows and cash outflows. An aggregate of financial literacy and working capital management is presumed to generate profitability and sustainability business growth in the country.

2.8 CONCLUSION ON LITERATURE REVIEW

Literature on the relationship between financial literacy, working capital management and business performance in Uganda in particular, is scarce. Majority of the studies have focused on the relationship between working capital management and performance of SMEs (Muneria&Otiga, 2019; Kabuye, Akugizibwe, &Bugambiro, 2019; Orobia, Byabasaija&Munene, 2013; Abuzayead, 2011) and have ignored to the role of financial literacy in SMEs in Uganda. Moreover, those studies that have looked at financial performance have only looked at financial indicators except for Bananuka et al., (2019) who looked at both financial and non-financial indicators. Accordingly, this study will also consider both financial and non-financial indicators of financial performance but in the context of SMEs in Kampala in Uganda in Particular.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 RESEARCH DESIGN

Research design refers to the way in which the study was planned, conducted, and the procedures and techniques designed to answer the research questions (Sekaran, 2003). This study adopted a cross sectional survey design because it would enable the researcher to collect data within a short time. The researcher used both quantitative and qualitative approaches to derive subjective meaning of the study phenomenon.

3.2 STUDY POPULATION

Study population is any group of individuals that have one or more characteristics in common. The target population of this study was 30,000 SMEs in Kampala district (UIA Annual Report, 2019). The unit of analysis was an SME and the unit of inquiry was the manager, owner and accountant.

3.3 SAMPLE SIZE AND SAMPLING TECHNIQUE

In this study, a sample of 379 SMEs was selected (Krejcie & Morgan, 1970). Stratified sampling was used to group the sample size since strata of small and medium enterprises were considered. Simple random sampling was also used to give the SMEs an equal chance of being selected. Also, purposive sampling was used to select the manager, owner and accountant since these were presumed to have information about perceived performance of SMEs.

3.4 DATA SOURCE AND DATA COLLECTION PROCEDURE

Primary data was obtained through the use of a self-administered questionnaire to the respondents following systematic procedures. Primary data is data that is collected by a research from first hand sources, using methods like surveys, interviews or experiments (Stephanie, 2018). For quantitative data, a structured questionnaire measured on Likert scale (Likert, 1932) of five-point was used with responses ranging from strongly disagree (1) to strongly agree (5). A Likert scale was used because it would help the researcher to measure the attitudes of the respondents by asking them to respond to a series of statements in terms of the extent to which they agreed with them.

3.5 MEASUREMENT OF THE VARIABLES

The study utilized established measurement items by earlier researchers to operationalize and measure the variables under the study.

Financial literacy was measured in terms of behaviour, skills and knowledge as adopted from previous scholars such as Bongomin et al. (2016), Atkinson and Messy (2013), Kempson (2009), Lusardi and Mitchell (2009), Lusardi and Mitchell (2006). These were anchored on a five-point Likert scale and modified to fit the local context of SMEs in Uganda.

Working capital management was measured in terms of inventories levels, accounts receivable and accounts payable as conceptualized by Marttonen et al., (2013); Abuzayed (2011). These were anchored on a five-point Likert scale and modified to fit the local context of SMEs in Uganda.

Business performance was measured in terms of both financial indicators such as liquidity and profitability and non-financial indicators such as employee productivity, customer satisfaction and size of client base of performance. This was in line with previous scholars (Givoly et al., 2017; Nkundabanyanga, 2016; Al-Matari et al., 2014; Azubuike, 2013; Clarke et al., 2011). These were anchored on a five-point Likert scale and modified to fit the local context of SMEs in Uganda.

3.6 RELIABILITY AND VALIDITY OF INSTRUMENT

Sekeran (2000) argued that reliability is the extent to which the research instrument contains no variable errors and appears to be inconsistent from observation to observation during any measurement attempt or that vary any time that a given unit is measured using the same instrument. Reliability (internal consistency and stability) of the instruments was tested using Cronbach's Alpha Coefficient, acceptable if the threshold is 0.7 (Field, 2009). Validity is the extent to which an instrument measures what it is intended to measure (Tavakol & Dennick, 2011). A content validity index was computed to determine if the items in the instrument are valid at a threshold of 0.7 (Field, 2009). A questionnaire was developed in harmony with the guidelines specified by Sekaran (2010). Reliability and validity were carried out so as to minimize on vagueness of the results to be generated.

Table 3.1: Validity and reliability results

Variable	CVIs	Cronbach's Alpha	No of Items
Financial literacy	0.884	0.822	13
Working capital management	0.835	0.754	20
Business performance	0.775	0.819	17

Source: Primary Data, 2020

3.7 DATA PROCESSING AND ANALYSIS

Before data analysis, diagnostic tests such as identifying missing values, outliers, normality tests, linearity, Homogeneity and multi-collinearity of variance were carried out to manage the data (Field ,2009). Statistical treatment of captured primary data involved prior sorting, editing, classifying and coding into a coding sheet, processing and analyzing using a statistical Package for Social Scientist (SPSS) version 25.0. Equally, descriptive and inferential analysis of measurable relationships between study variables was conducted. Besides, factor analysis was done for consequent analysis. According to the study objectives, Pearson`s correlation analysis was used for associations and predictor contributions. A regression analysis was also used to determine the predictive power of financial literacy and working capital management on business performance.

Qualitative data was analyzed using content analysis. Qualitative data was done through data coding, searching for emerging themes, reviewing themes and defining and naming themes.

Factor Analysis

In order to discover the structure of the variables as formed by their underlying components and to determine if an underlying combination of the components could summarize the original set of variables, a factor analysis was performed for financial literacy, working capital management and business performance.

Factor structure of Financial Literacy

The results in Table 3.2 **s**how the underlying factor structure of Financial Literacy, which exhibits the underlying combination of its dimensions namely; knowledge, skills and behaviour

Table 3.2: factor analysis for Financial Literacy

	Knowledge	Skills	Behavior
I know the different sources from which our business can borrow	0.765		
I have a knowledge of how to manage businesses	0.663		
Our business participates in financial training	0.545		
We are aware of financial management practices for the business	0.525		
Am capable of discussing financial issues with comfort		0.743	
Am capable of discussing money issues with ease		0.743	
Am very confident when making financing decisions		0.721	
In our business we have the ability to prepare a business budget			0.793
In this business, we compare prices of commodities with other businesses before we set ours.			0.79
In this business, we feel very interested in dealing with financial institutions			0.761
Variance (%)	20.570	20.382	12.761
Cumulative Variance	20.570	40.952	53.713
Eigen values	4.494	1.471	1.018

Kaiser-Meyer-Olkin Measure of Sampling Adequacy=.867,

Bartlett's Test of Sphericity=1170.635, df=78, Sig=.000

Results in Table 3.2 revealed the factor structure for financial literacy to consist of all its three constructs as significant factors. In their order of importance they include, skills, knowledge and behaviour with, 20.570%, 20.382% and 12.761% respectively. The items under each factor with ratings above 0.50 were retained and those below were deleted because their importance in explaining the factors was low.

Factor structure of Working Capital Management

The results in Table 3.3 show the underlying factor structure of Working Capital Management, which exhibits the underlying combination of its dimensions namely; inventory levels, accounts payables and accounts receivables

Table 3.3: F**actor analysis for Working Capital Management**

Items	*Inventory levels*	*Accounts payables*	*Accounts receivable*
Our stock is readily converted into cash	0.804		
In our organization, we always maintain stock levels	0.753		
We always minimize investment in stock	0.744		
We keep stock records	0.743		
In our organization, there are funds to satisfy maturing short term debt		0.784	
In our organization, there are funds to satisfy upcoming operational expenses		0.781	
We usually remind ourselves when our credit obligation is over due		0.761	
In our organization, we pay our suppliers on time		0.704	
Our credit policy is clearly articulated in writing to all debtors			0.758
Our debtors policies are routinely reviewed			0.723
We confirm receipt of invoices from our debtors			0.705
We always create a monthly debtors aged analysis			0.697
Our SME puts in place credit limits for suppliers			0.583
Variance (%)	19.772	11.361	9.29
Cumulative Variance	19.772	31.134	40.424
Eigen values	4.494	1.471	1.018

Kaiser-Meyer-Olkin Measure of Sampling Adequacy=.767

Bartlett's Test of Sphericity=1630.200, df=190, Sig=.000

Results in Table 3.3 revealed the factor structure for working capital management to consist of all its three constructs as significant factors. In their order of importance they include, inventory levels, accounts payables and accounts receivables with, 19.772%, 11.361% and

9.29%respectively. The items under each factor with ratings above 0.50 were retained and those below were deleted because their importance in explaining the factors was low.

Factor structure of business performance

The results in Table 3.4show the underlying factor structure of business performance, which exhibits the underlying combination of its dimensions namely; Perceived Profitability, Employee productivity, Customer satisfaction and Size of client Base

Table 3.4: **factor analysis for business performance**

Items	Perceived Profitability (PP)	Employee productivity (EP)	Customer satisfaction	Size of client Base
The business efficiently manages its operating costs	0.874			
Our SME operates on only internally generated funds	0.804			
The business efficiently manages its operating costs	0.784			
We can easily expand our business		0.874		
The business can meet its obligations when they fall due		0.784		
Our business can easily borrow because we are in position to pay		0.761		
The business cash inflows are sufficient		0.742		
I am satisfied with the overall growth rate of the business over years			0.774	
I can realize an increase in output			0.723	
I am satisfied with the value of the business			0.705	
The overall productivity of staff is satisfactory			0.699	
Clients now need our services than before				
Clients refer other clients to our business				
The clients are satisfied with our services				
Our firm has registered an increase in the client base				0.865
Our firm has a higher market value compared to previous year				0.788
Variance (%)	15.225	14.984	11.593	11.420
Cumulative Variance	15.225	30.209	41.801	53.221
Eigen values	4.600	2.012	1.276	1.159

Kaiser-Meyer-Olkin Measure of Sampling Adequacy=.841

Bartlett's Test of Sphericity=1485.196, df=136, Sig=.000

Results in Table 3.4 revealed the factor structure for business performance to consist of all its three constructs as significant factors. In their order of importance they include, Perceived Profitability, Employee productivity, Customer satisfaction and Size of client Base with, 15.225%, 14.984%, 11.593%and 11.420%respectively. The items under each factor with ratings above 0.50 were retained and those below were deleted because their importance in explaining the factors was low.

Tests for Parametric Assumptions

The conceptualization of this study coupled with the methodology adopted calls for diagnostic tests such as correlation and regression. This meant that the data had to be tested to see where they meet the assumptions for parametric tests. Specifically, normality, linearity and homogeneity were tested. This can be done using statistical and/or graphical approaches as detailed below.

Data Cleaning

This step involved checking for missing values and outliers since analysis can be carried out unless data is completely free from outliers and if there is any missing value, it is replace using linear interpolation or if it comes from errors due to data entry, it can also be replaced

Detection of Outliers

Outliers are values that are out of the range compared to the measurement scale (Field, 2009). An outlier check was conducted using minimum and maximum frequency counts, means and scatter plots. A few identified outliers were due to data entry error and they were traced and corrected.

Missing value analysis (MVA)

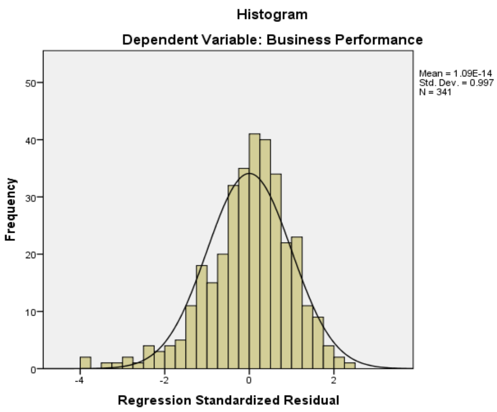
Data can be missing at the point questionnaire filling or data entry, and if not handled, it distorts the analysis and results. MVA helps address several concerns caused by incomplete data (Field, 2009). Thus, MVA in this study was performed to establish whether there was any missing value and the respective magnitude of how data was missing and deciding how to deal with the missing values. Also, missing data may reduce the precision of calculated statistics because there is less information than originally planned.

After running descriptive statistics, the missing data were identified, and it was established that the omissions were made by respondents and not at data entry point. It was further established that the missing data constituted less than 1% of the data; and thus, considered too small and could not suppress the standard deviation (Field, 2009). Nonetheless, the missing data were replaced using the linear interpolation method.

Normality Assumption Test

A normality test was conducted to determine whether the distribution of the data deviates from a comparable normal distribution. Tabachnick and Fidell (2001) recommend inspecting the shape of the distribution (e.g. using a histogram). Thus, graphically, normality in this study was tested using histograms. A bell-shaped histogram indicates that data is normally distributed. The results in this study reveal a fairly bell-shaped histogram, thus upholding the normality assumption.

Figure 3.1: Histogram showing results on normality test

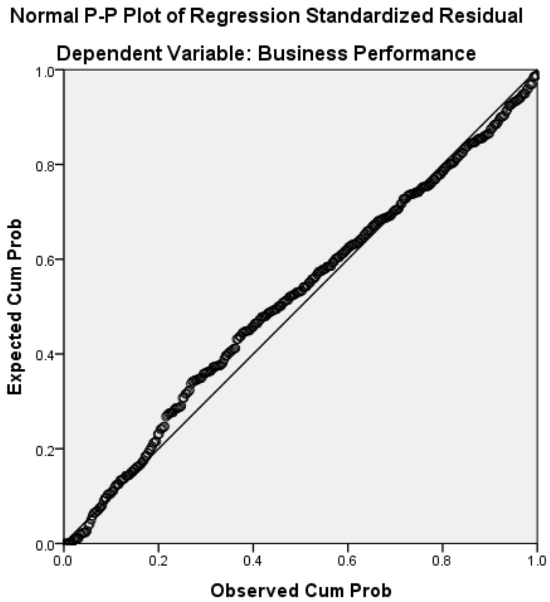


Source: Primary data

Linearity Assumption Test

Linearity refers to the presence of a straight-line relationship between two variables. Graphically, linear data is obtained when the scores are seen to be in the form of fairly straight line, not a curve. A normal probability plot (normal Q-Q plot) was used in this study to plot the residual against the predicted scores. The results in fig 3 revealed a fairly straight line thus the data passed the linear assumption test.

Figure 3.2: Normal Q-Q plot showing results on linearity test

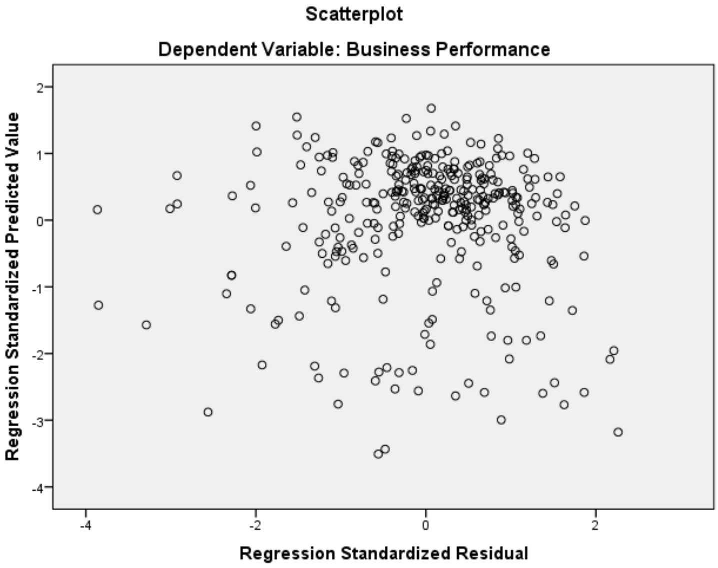


Source: Primary data

Homogeneity Assumption Test

Data is said to be homogeneous if the variance of one variable is stable at all levels of the other variables (Field, 2009). Graphically, a scatter plot was drawn plotting the residual against the dependent variable. The results of the scatter plot (*Figure 4*) shows that the points are dispersed around zero and there is no other clear trend in the distribution; an indication that homogeneity assumption was met.

Figure 3.3: **Scatterplot showing results on homogeneity test**



Source: Primary data

Multicollinearity

Multicollinearity exists if the regressors correlate highly when regressed against each other. A collinearity diagnostic test under regression analysis was utilized. Under this procedure, two values are given, the tolerance and the variance inflation factor (VIF). The tolerance value is an indicator of how much of the variability of the specified independent variable is not explained by the other independent variables in the model. The VIF is the inverse of the tolerance value. Basing on the tolerance figures, various scholars indicate different cut off points for the accept/reject standard. According to (Field, 2009), if the tolerance values are below .2 that shows the existence of multicollinearity. While VIF values above 10 indicate serious concern (Myers, 1990; Bowwerman & O'Connell, 1990). The results in this study reveal tolerance values one (1). This is supported by VIF values below 10, therefore implying non-multicollinearity among the variables, and thus the assumption was met (tolerance value above .2 and VIF below 10).

Table 3.4: Showing the homogeneity assumption

	Collinearity Statistics	
Variables	Tolerance	VIF
Financial Literacy	.551	1.816
Working Capital Management	.551	1.816

Source: Primary data

CHAPTER FOUR

ANALYSIS, PRESENTATION, AND INTERPRETATION OF FINDINGS

4.0 INTRODUCTION

This chapter presents findings of the study which was conducted to find out the relationship between financial literacy, working capital management and business performance of SME in Kampala District. The analysis and presentation of findings being presented are in accordance to the study objectives, preceded by the response rate and findings on the respondents' demographic characteristics. The first section presents the social background of the respondents, then the second section, shows the empirical analysis of the study findings analyzed.

4.1 RESPONSE RATE

The study considered a sample of 379 SMEs, out of which 341 SMEs returned the questionnaires; representing 90 percent. This response rate was representative enough since it covered above the recommended rate of above 80% for the face – face method of delivering and collecting data collection tools (Survey Monkey, 2009 &Fan, 2010).

Distribution by Gender of the respondents

The gender of the respondents was distributed as indicated in Table 4.1

Table 4.1: Gender of the respondents

Gender	Frequency	Percent
Male	206	60.4
Female	135	39.6
Total	341	100.0

Source: Primary Data, 2020

The results in Table 4.1 indicate that majority of the respondents were male (60.4%) and the female were 39.6%. This implies that the men are more engaged in businesses since they are heads of the families which requires them to work hard and support their families. In addition, both men and female were properly represented in the study. This is also supported by a report from UBOS which indicates that majority of the people engaged in SME businesses are male (UBOS Report, 2019).

Distribution by age bracket of the respondents

The age bracket of the respondents was distributed as indicated in Table 4.2

Table 4.2: Age bracket of the respondents

Age bracket	Frequency	Percent
<30 years	55	16.1
30-40 years	121	35.5
41-50 years	109	32.0
51 and above	56	16.4
Total	341	100.0

Source: Primary Data, 2020

The results in Table 4.2 indicate that most of the respondents were between 30-40 years (35.5%), these were followed by those between 41-50 years (32.0%) and the least group were those who were 51 years and above (16.4%). These findings imply that the youth are more engaged in small businesses since the level of unemployment is high in the country and they find no other way to survive other than setting up small businesses.

Distribution marital status of the respondents

The marital status of the respondents of the respondents was distributed as indicated in Table 4.3.

Table 4.3: Marital status of the respondents

	Frequency	Percent
Single	129	37.8
Married	195	57.2
Widow	10	2.9
Widower	7	2.1
Total	341	100.0

Source: Primary Data, 2020

The results in Table 4.3 indicate that majority of the respondents were married (57.2%), these were followed by the singles (37.8%), followed by widows (2.9%) and the least group were the widower (2.1%). These findings imply that the married are more engaged in businesses since they have to find resources to make their families survive, pay school fees for their children. The singles were also engaged in business since most of them are unemployed.

Distribution by the level of education

The level of education of the respondents was distributed as indicated in Table 4.4

Table 4.4: Level of education

Age bracket	**Frequency**	**Percent**
Diploma	155	45.5
Degree	121	35.5
Masters	64	19.0
PhD	1	0.3
Total	341	100.0

Source: Primary Data, 2020

The results in Table 4.4 indicate that most of the respondents had diplomas (45.5%) and only one respondent had a PhD (0.3%). These findings imply that most of the small business owners have attained some good levels of education and this improves the way the account for different expenses and improves management of working capital.

Distribution by the time spent working with the SME

The time spent by the respondents working in the SME was distributed as indicated in Table 4.5.

Table 4.5: **Time spent by respondents working in SME**

Time spent working with SME	**Frequency**	**Percent**
<5 years	196	57.5
5-10 years	102	29.9
11 years & above	43	12.6
Total	341	100.0

Source: Primary Data, 2020

The results in Table 4.5 indicate that majority of the respondents had worked with SME for a period less than 5 years (57.5%), these were followed by those which had spent less than 5-10 years (29.9%) and the least group had spent 11 years and above (12.6%). These findings imply that the respondents had less experience in managing the SME but still some had spent 11 years and above 5 years implying they can learn from those who are experienced.

Distribution by the age the SME

The age the SME was distributed as indicated in Table 4.6.

Table 4.6: **Age spent by the SME**

Age of the SME	Frequency	Percent
<5 years	202	59.2
5-10 years	101	29.6
11 years & above	38	11.1
Total	341	100.0

Source: Primary Data, 2020

The results in Table 4.6 indicate that majority of the SMEs had spent less than 5 years (59.2%), these were followed by those which had spent 5-10 years (29.6%) and the least group had spent 11 years and above (11.1%). These findings are consistent with UBOS Report (2019) that shows that most of SME do not survive beyond 5 years since they normally run short of capital but still the findings indicate that some have started learning better ways of managing their capital hence improved performance.

Distribution by the number of employees in the SME

The numbers of employees in the SMEs were distributed as indicated in Table 4.7.

Table 4.7: **Number of employees in each SME**

Number of employees	Frequency	Percent
5-49	202	59.2
50-100	139	40.8
Total	341	100.0

Source: Primary Data, 2020

The results in Table 4.7 indicate that most of the SME had employees ranging from 5-49 employees (59.2%) these were followed by those which had 50-100 employees. This implies that small businesses dominate among business in Uganda and this is due to limited capacity to expand their businesses. This is also supported by UBOS Report (2019) that reveals that

SMEs dominate among businesses in Uganda. But also, the finding is in line with NDP III which emphasizes supporting the private sector (particularly local SMEs) to develop the capacity to drive the industralisation effort, increase exports, create jobs and increase local content. As well, encourage formalization and growth of micro-small and medium sized enterprises (SDG Goal 8) for inclusive growth and reduce inequality. Moreover, agenda 2063 also targets increasing the growth of SMEs to drive industrialization.

Zero-order correlation

Zero-order Correlation analysis was conducted to measure the strength of linear associations between the study variables and is denoted by r. The Pearson correlation coefficient, *r*, can take a range of values from +1 to -1. A value of 0 indicates that there is no association between the two variables. A value greater than 0 indicates a positive association; that is, as the value of one variable increases, so does the value of the other variable. A value less than 0 indicates a negative association; that is, as the value of one variable increases, the value of the other variable decreases. The study variables were measured on a continuous scale, and thus Pearson correlation was found to be the most appropriate to test the relationships between the variables.

Table 4.8: **Zero-Order correlation**

Variables	1	2	3	4	5	6	7	8	9	10	11	12	13	14
Knowledge (1)	1													
Skills (2)	.523**	1												
Behavior (3)	.654**	.552**	1											
Financial Literacy (4)	.732**	.626**	.543**	1										
Inventory levels (5)	.370**	.455**	.460**	.511**	1									
Accounts payables (6)	.333**	.271**	.341**	.371**	.214**	1								
Accounts receivable (7)	.527**	.394**	.546**	.575**	.369**	.280**	1							
Working Capital Management (8)	.569**	.513**	.621**	.670**	.457**	.692**	.552**	1						
Perceived Profitability (9)	.532**	.521**	.629**	.555**	.496**	.262**	.415**	.536**	1					
Liquidity (10)	.444**	.420**	.658**	.607**	.643**	.223**	.382**	.593**	.406**	1				
Employee productivity (11)	.466**	.372**	.529**	.539**	.285**	.370**	.550**	.560**	.394**	.318**	1			
Customer satisfaction (12)	.390**	.457**	.453**	.515**	.293**	.511**	.393**	.553**	.501**	.204**	.407**	1		
Size of client Base (13)	.372**	.263**	.413**	.412**	.272**	.702**	.421**	.647**	.262**	.315**	.426**	.471**	1	
Business Performance (14)	.615**	.677**	.738**	**.700****	.545**	.610**	.612**	**.714****	.714**	.578**	.731**	.763**	.727**	1

**. Correlation is significant at the 0.01 level (2-tailed).

Testing correlation of the study variables

The findings from the Pearson correlation were interpreted as indicated below based on their levels of significances while focusing on objectives of the study

Financial literacy and business performance of SMEs

The results in Table 4.8, shows that there is a positive and significant relationship between financial literacy and business performance of SMEs in Kampala district ($r=.700$, $p<.01$). This means that any positive change in financial literacy is associated with a positive change in business performance. In other words, improvement in the skills, knowledge and behaviour, is likely to lead in to an improvement in business performance of SMEs in Kampala District. The findings also indicated that all the indicators of financial literacy have a positive significant relationship with business performance and all the dimensions of business performance have a positive significant relationship with financial literacy.

Working capital management and business performance

The results in table 4.8, shows that there is a positive and significant relationship between working capital management and business performance of SMEs in Kampala district ($r=.714$, p<.01). This means that any positive change in working capital management is associated with a positive change in business performance. In other words, improvement in the inventory levels, account payables and account receivables, is likely to lead to an improvement in business performance of SMEs in Kampala District. The findings also indicated that all the indicators of working capital management have a positive significant relationship with business performance and all the dimensions of business performance have a positive significant relationship with working capital management.

The predictive power of financial literacy and working capital management on business performance of SMEs

Linear regression analysis

Linear regression analysis was used to examine the predictive power of financial literacy and working capital management on business performance and the results are presented in Table 4.9.

Table 4.9: Linear regression analysis

		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
Model		B	Std. Error	Beta	T	Sig.	Tolerance	VIF
1	(Constant)	-.225	.121		-1.855	.064		
	Financial Literacy	.444	.032	.471	13.839	.000	.551	1.816
	Working Capital Management	.614	.042	.498	14.630	.000	.551	1.816
Model Summary								
R	.886							
R Square	.784							
Adj. R Square	.783							
F-Statistics	614.793							
Sig.	.000							

a. Dependent Variable: Business Performance

Source: Primary Data, 2020

The results in Table 4.9 indicate that a unit increase in financial literacy will result in to 0.471 units increase in business performance (Beta=.471, $p<.01$). This implies that the association between financial literacy and business performance is confirmed to be positive and significant. This is an indicator that financial literacy improves business performance among SMEs. The results further indicate that a unit increase in working capital management will result in to 0.498 units increase in business performance of SMEs (Beta=.498, $p<.01$). This also implies that the relationship between working capital management is confirmed to be positive and significant. This shows that working capital management is important to the business owners since it will improve the performance of the businesses. This is because the respondents indicated that once its managed properly, it can increase their stocking and this will improve business performance.

Finally, the variables (financial literacy and working capital management) as measured by the regression analysis explain an overall 78.3% (Adjusted R Square=.783) of the variations in business performance which implies that the remaining 21.7 is explained by other variables not considered in the study.

CHAPTER FIVE

DISCUSSION, CONCLUSION AND RECOMMENDATIONS

5.0 INTRODUCTION

This chapter discusses and concludes the findings of the study, recommendations and areas for further research. The study investigated financial literacy, working capital management and business performance of SMEs in Kampala district from 341 respondents.

5.1 DISCUSSION

This research was carried out centering on three key objectives. Findings in relation to these objectives were attained. In this section, these findings are further discussed to check their relevance to the overall knowledge generation and testing. This discussion is organized in line with the objectives of the study and paying special courtesy to the key findings attained from the process of data analysis.

5.1.1 FINANCIAL LITERACY AND BUSINESS PERFORMANCE OF SMES

Findings in relation to examining the possible relationship between financial literacy and business performance revealed that the relationship actually exists and significant. This relationship is further portrayed to be statistically positive and significant. The finding confirms that financial literacy is associated with business performance of businesses.

These findings imply that when having financial knowledge among business owners in terms of having knowledge in managerial business, being aware of financial management practices, participating in financial training and having knowledge of how to manage business, this improves business performance. In addition, when business owners have right skills in terms of financial management, being in position to discuss money issues with ease and financial issues with comfort, equally enhances business performance. Finally, when business owners' behaviour improves business people feel very interested in dealing with financial institutions, having ability to prepare a business budget and having knowledge to compare prices of commodities with other businesses before we set, and thus promoting business performance.

These findings are in line with (Koitaba, 2013) who indicated that majority of studies have proved that financial literacy has a positive effect on business performance. Financial literacy has been shown to be essential in improving transparency, efficiency, accuracy and accountancy resulting in the organization achieving its success. Effective implementations of financial literacy skills lead to improvement in business performance due to improved ability to track business events from the record system (Siekei, et al., 2013). Most new business owners are daunted by the mere idea of bookkeeping and accounting. Kamunge *et al. (*2014) revealed that for SMEs to survive and indeed progress to the growth phase of the organizational life cycle, should employee financially literate managers. In addition, the findings are in line with the RBV theorists who suggests that a firm should focus on its resource base first in performing actions, rather than the external environment. Firms are believed to have resources such as human capital with financial knowledge and skills to manage business performance.

5.1.2 WORKING CAPITAL MANAGEMENT AND BUSINESS PERFORMANCE

Findings indicate a strong significant and positive relationship between working capital management and business performance of SMEs; this means that a positive increase in working capital management is associated with positive increase in the business performance of SMEs. This is because, when managers improve on managing all activities related to cash, receivables, inventory and payables, they are in position to register positive business performance results for example managing cash through making plans on how to spend money enables the firm to improve on cash levels since money is spent on only productive activities. And for firms that sell goods on credit; clearly communicating credit terms before extending credit, collecting debts on time and making plans on how to clear debts enables the firms to collect debts on time which increases sales level and reduces the risk of bad debts especially where the firm has set a clear credit policy on how to collect debts from debtors. These findings are in line with Deloof (2013) who used a sample of Belgian firms and found that firms can increase their profitability by reducing the debtors' collection period and the days-in-inventory period. He also found that less profitable firms wait longer to pay their bills. Wang (2002) used a sample of Japanese and Taiwanese firms and found that a shorter cash conversion cycle would lead to a better firm's operating performance. Teruel and Solano (2007) took samples of small to medium-sized Spanish firms for the 1996-2002 period and found that the firms can create value by reducing the days-in-inventory period and the debtors' collection period, thus leading to the reduction in the cash conversion cycle. On the other hand, though, other researchers support that investing more in cash conversion cycle (conservative policy) may lead to increased profitability since maintaining high inventory levels is expected to increase sales, reduce supply costs, reduce cost of possible interruption in production and protect against price fluctuations (Blinder & Maccini, 1991).

5.1.3 FINANCIAL LITERACY, WORKING CAPITAL MANAGEMENT AND BUSINESS PERFORMANCE OF SMES

The findings under the regression analysis indicate that financial literacy and working capital management are greater predictors of business performance as represented by adjusted R^2 of 78.3% which means that positive increases in financial literacy and working capital management is associated with a positive increase in business performance for example managers who uphold work standard and are knowledgeable about basic accounting principles are in position to implement optimal working capital components in order to maintain a tradeoff between liquidity and profitability of the firms.

The same findings were advocated by Oladejo, Akande & Oluwaseun (2017) who argued that managing working capital and employing financially literate managers enhances improves performance of businesses through extended investments. In the midst of such financial literacy and a widening scope of financial inclusion, growing businesses struggle with loss of revenue, insufficient cash flow, and excessive debt. While loss of revenue can be associated to factors beyond the owners' control (government policies, competition, business environment, market demand etc.), insufficient cash flow and excessive debt can be controlled by the business owner who is financially literate and exercises prudence in cash management.This is an indicator that financial literacy and working capital management improves financial performance of SMEs.

5.2 CONCLUSION

The conclusions derived from the findings are discussed below.

5.2.1 FINANCIAL LITERACY AND BUSINESS PERFORMANCE OF SMES

The findings revealed a strong positive and significant relationship between financial literacy, and business performance of small and medium enterprises in Kampala District implying that an improvement in the financial literacy components and working capital management leads to an improvement in the business performance.

5.2.2 WORKING CAPITAL MANAGEMENT AND BUSINESS PERFORMANCE

The findings obtained from this study support the already existing literature and bring new knowledge in the academia with working capital and financial literacy being the largest contributor to financial performance meaning that all the activities related to improving the knowledge, skills and behavior should be improved.

5.2.3 FINANCIAL LITERACY, WORKING CAPITAL MANAGEMENT AND BUSINESS PERFORMANCE OF SMES

On the side of working capital management, activities related to managing inventories, account payables and receivables should also be improved among the SMEs in order to improve business performance. Management of small businesses revolves around the individuals and therefore it's prudent to conclude that factors such as knowledge, skills and abilities as components of financial literacy.

5.3 RECOMMENDATIONS

To improve financial literacy, there is the need for personal development by sme owners/managers in the area of education and training since the findings indicated the majority of the respondents were diploma holders and may lack skills and abilities.

In addition, to gaining work and related experience, new small and medium enterprises can work with established companies to allow new entrepreneurs to gain experience in the functional areas of financial management such as finance, strategic and operational planning and marketing since the findings indicated that most SMEs in Kampala District are below ten years old.

The study recommends financial management training for the managers/ owners of SMEs and the recruitment of qualified accountants to help them in book keeping improving working capital management efficiency levels since there were many respondents with just diplomas.

The study also recommends the managers/owners of these firms embrace efficient working capital management practices as a strategy to improve their business performance and gaining competitive advantage over other competitors.

The current study combined dynamic capability and resource-based theories in order to articulate business performance of SMEs. Thus, variables and measures for the study were derived from the theories to explain the outcome. Equally, methodologically, this means that several theories can be adopted and used to explain different research concepts by scholars in different contexts.

5.4 LIMITATIONS TO THE STUDY

During the progression of this study, the following limitations were encountered.

The study data are cross-sectional and correlational, limiting causal inferences to be made. Also, in studies that are cross-sectional in nature it is very difficult to monitor behavior over time limiting the researcher from examining behavioral change over time necessitating a longitudinal study.

This study only focuses only the variables for the study. However other variables can be explored to predict business performance of SMEs.

5.5 AREAS FOR FURTHER RESEARCH

1. Further studies on business Performance of SMEs by employing more variables which were not included in this study for example political and environmental factors.
2. A comparative study with other geographical areas of Uganda could be carried out.
3. Other studies can focus on using longitudinal data in order to assess the long-term impact of financial literacy and working capital management on business performance.

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APPENDICES

APPENDIX I: RESEARCH INSTRUMENT

MAKERERE UNIVERSITY

DIRECTORATE OF RESEARCH AND GRADUATE TRAINING

Dear Sir/ Madam,
I am pursuing a Master's Degree in Business Administration of Makerere University. As one of the requirements for completion, I am undertaking a study on **FINANCIAL LITERACY, WORKING CAPITAL MANAGEMENT AND BUSINESSPERFORMANCE IN SMALL AND MEDIUM ENTERPRISES IN KAMPALA DISTRICT".** This study is purely for academic purposes and all your responses expressed herein will be kept with ultimate confidentiality. You are requested to feel free while filling this questionnaire presented to you. Thank you so much for your cooperation in advance.

NUWAMANYA MILDRED
0788 988926/ 0705 900849

SECTION A: DEMOGRAPHIC CHARACTERISTICS
In the following questions, you are requested to tick the option that best suits you.

PERS01. Gender

Male	Female
1	2

PERS02. Age bracket

<30 yrs	30-40 yrs	41-50 yrs	51 and above
1	2	3	4

PERS03. Highest Education level you have attained

Diploma	Degree	Masters	PhD
1	2	3	4

PERS04: Please state your marital status

Single	Married	Widow	Widower
1	2	3	4

PERS05. For how long have you worked in this SME?

<5 yrs	5-10 yrs	11 yrs& above
1	2	3

ORG01. For how long has this SME existed?

<5 yrs	5-10 yrs	11 yrs& above
1	2	3

ORG02**.** Please indicate the number of employees you have in this SME.

	5-49	50-100
	1	2

SECTION B:
For each statement in the following section, please indicate the extent to which you agree or disagree. Rate your scores on a 5 point scale ranging from; 1-Strongly Disagree (**SD**), 2- Disagree (**D**), 3- Not Sure (**NS**), 4- Agree (**A**) and 5 represents Strongly Agree (**SA**).

	STATEMENTS	**SD**	**D**	**N S**	**A**	**SA**
FL	**Financial Literacy(FL)**					
FLK	**Knowledge (KLK)**					
FLK01	We know about managing business finance	1	2	3	4	5
FLK02	We are aware of financial management practices for the business	1	2	3	4	5
FLK03	Our business participates in financial training	1	2	3	4	5
FLK04	I know the different sources from which our business can borrow	1	2	3	4	5
FLK05	Our business makes financial choices	1	2	3	4	5
FLK06	I have a knowledge of how to manage businesses	1	2	3	4	5
FLS	**Skills (S)**					
FLS01	I have skills in financial management	1	2	3	4	5
FLS02	Am capable of discussing money issues with ease	1	2	3	4	5
FLS03	Am capable of discussing financial issues with comfort					
FLS04	Am very confident when making financing decisions	1	2	3	4	5
FLSO3		1	2	3	4	5
FLB	**Behavior(B)**					
FLB01	In this business, we feel very interested in dealing with financial institutions	1	2	3	4	5
FLB02	In our business we have the ability to prepare a business budget	1	2	3	4	
FLB03	In this business, we compare prices of commodities with other businesses before we set ours.	1	2	3	4	5
WC	**Working Capital Management**					
WCIL	**Inventory levels (IL)**					

WCIL01	We always minimize investment in stock	1	2	3	4	5
WCIL02	We keep stock records	1	2	3	4	5
WCIL03	Our stock is readily converted into cash	1	2	3	4	5
WCIL04	In our organization, we have efficient stock management systems	1	2	3	4	5
WCIL05	In our organization, we always maintain stock levels	1	2	3	4	5
WCAP	**Accounts payables(AP)**					
WCAP01	In our organization, we have a credit policy for our trade creditors	1	2	3	4	5
WCAP02	We usually remind ourselves when our credit obligation is over due	1	2	3	4	5
WCAP03	In our organization, there are funds to satisfy maturing short term debt	1	2	3	4	5
WCAP04	In our organization, we pay our suppliers on time	1	2	3	4	5
WCAP05	In our organization, we always pay our suppliers in 30 days	1	2	3	4	5
WCAP06	In our organization, there are funds to satisfy upcoming operational expenses	1	2	3	4	5
WCAR	**Accounts receivable(AR)**					
WCAR01	Our SME is capable of converting trade debtors into cash	1	2	3	4	5
WCAR02	We have a suitable cash conversion cycle	1	2	3	4	5
WCAR03	Our debtors policies are routinely reviewed	1				
WCAR04	We always ensure that all payment arrangements with debtors are always confirmed in writing	1	2	3	4	5
WCAR05	Our credit policy is clearly articulated in writing to all debtors	1	2	3	4	5
WCAR06	Our SME puts in place credit limits for suppliers	1	2	3	4	5
WCAR07	We ensure close monitoring of the debtors ledger	1	2	3	4	5
WCAR08	We always create a monthly debtors aged analysis	1	2	3	4	5
WCAR09	We confirm receipt of invoices from our debtors	1	2	3	4	5
BP	**Business Performance (BP)**					
BPPP	**Perceived Profitability(PP)**					
BPP01	The business expenses are more than the income	1	2	3	4	5
BPPP02	The business efficiently manages its operating costs	1	2	3	4	5
BPPP03	There is an increase on return on assets	1	2	3	4	5
BPPP04	Our SME operates on only internally generated funds	1	2	3	4	5
BPPL	**Liquidity(L)**					
BPL01	The business cash inflows are sufficient	1	2	3	4	5

BPL02	The business can meet its obligations when they fall due		2	3	4	5
BPL03	Our business can easily borrow because we are in position to pay					
BPL04	We can easily expand our business					
BPEP	**Employee productivity (EP)**					
BPEP01	The overall productivity of staff is satisfactory	1	2	3	4	5
BPEP02	I am satisfied with the overall growth rate of the business over years	1	2	3	4	5
BPEP03	I am satisfied with the value of the business					
BPEP04	I can realize an increase in output					
BPCS	**Customer satisfaction**					
BPCS01	The clients are satisfied with our services	1	2	3	4	5
BPCS02	Clients now need our services than before	1	2	3	4	5
BPCS03	Clients refer other clients to our business	1	2	3	4	5
BPSC	**Size of client Base**					
BPSC01	Our firm has registered an increase in the client base	1	2	3	4	5
BPSC02	Our firm has a higher market value compared to previous year	1	2	3	4	5

THANK YOU FOR YOUR TIME

APPENDIX 111: SAMPLE SIZE DETERMINATION

N	**S**	**N**	**S**	**N**	**S**	**N**	**S**	**N**	**S**
10	10	100	80	280	162	800	260	2800	338
15	14	110	86	290	165	850	265	3000	341
20	19	120	92	300	169	900	269	3500	246
25	24	130	97	320	175	950	274	4000	351
30	28	140	103	340	181	1000	278	4500	351
35	32	150	108	***360***	***186***	1100	285	5000	357
40	36	160	113	380	181	1200	291	6000	361
45	40	180	118	400	196	1300	297	7000	364
50	44	190	123	420	201	1400	302	8000	367
55	48	200	127	440	205	1500	306	9000	368
60	52	210	132	460	210	1600	310	10000	373
65	56	220	136	480	214	1700	313	15000	375
70	59	230	140	500	217	1800	317	20000	377
75	63	240	144	550	225	1900	320	30000	379
80	66	250	148	600	234	2000	322	40000	380
85	70	260	152	650	242	2200	327	50000	381
90	73	270	155	700	248	2400	331	75000	382
95	76	270	159	750	256	2600	335	100000	384

Source: Krejcie, R. V., & Morgan, D.W. (1970). Note:“N” is population size and “S” is sample size