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FACULTY OF ECONOMICS AND MANAGEMENT

«MASTER IN BUSINESS ADMINISTRATION »

MASTER THESIS

TITLE

The Use of Working Capital Management as a Financial Strategy: (A Case Study of Uchumi Supermarket Limited).

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MONTH, YEAR

MAY 2015

A thesis submitted in partial fulfillment of the requirements for the Degree of Masters In Business Administration (MBA).

Date of Submission: 07/06/2015.

Declaration

Name of candidate: **Elias Kiptoo Lagat**

This thesis entitled: "The Use of Working Capital Management as a Financial Strategy: (A Case Study of Uchumi Supermarket Limited.)" is submitted in partial fulfillment for the requirement for the award of degree of Master of Business Administration, Faculty of Economics and Management at the Open University of Cyprus.

Candidate's declaration

I hereby confirm and declare that this thesis is a result of my own original work and that no part of it has been presented for another degree in this university or elsewhere.

Candidate signature: ..... Date: 07/06/2015.....

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Acknowledgement

I heartily thank my supervisor, Mr. Georgios Georgakopoulos, for his support and encouragement during the course of this project.

I thank my entire family especially Mrs. Edna Lagat for providing the necessary resource of time. May God Richly Bless You.

Warm regards and blessings go to His Eminence Archbishop Makarios of Kenya for giving me scholarship opportunity to study MBA at the Open University of Cyprus. I also thank that Open University of Cyprus for believing in me and giving me the opportunity to undertake this course. I give special thanks to the professors and lecturers who helped during this course.

Finally, I would like to thank my Heavenly Father for the wisdom, time and knowledge that he gave me in order to complete this challenging and time consuming research.

Thank You All.

Abstract

Working capital management is the main life blood of any organization. It deals with the management of the businesses' current assets and liabilities. It is important for the survival and sustainability of profitability and liquidity position of a firm. A firm must therefore ensure that it maintains a balanced level of liquidity and profitability while undertaking the day to day operations of business because inefficient working capital management reduces the profitability of business and can lead to financial crisis (Chowdhury and Amin, 2007).

The purpose of this study was to explore and analyze the working capital management approaches and policies as applied by Uchumi Supermarket Limited. It also analyzed how working capital management dynamics can be used as financial strategy. Therefore, in this perspective, this study aimed at determining the working capital investment and financing policies adopted by Uchumi Supermarket Limited. It also aimed at analyzing the operating effectiveness, efficiency and financial performance of the supermarket through ratio analysis.

This study investigated the working capital management approaches and policies and financial performance of Uchumi Supermarket Limited for the period of 2002-2013. The period was divided into pre-financial crisis (2002~2006) and post-financial crisis (2007~2013) periods.

It also analyzed secondary data obtained from the financial reports of Uchumi Supermarket Limited published on the Nairobi Securities Exchange, annual reports, textbooks and journals. The tools used in this study included ratio analysis, trend analysis and percentage method. Ratios such as current ratio, quick ratio, cash conversion cycle, accounts payable days and collection days were used for analysis.

The major recommendation of this study is that working capital management should be the concern of all the managers conduction of the day to day operations of the all retail chains in Kenya and hence must be given due importance.

A very close monitoring and review of collection and payment policies of the firms in the retail sector should always be done. The supermarket must also strategies on the how to use debt optimally to its benefit to avoid bankruptcy and insolvency.

Therefore these findings indicate that Uchumi Supermarket's managers should reduce its cash conversion cycle, net operating cycle, and the number of days in inventories to a reasonable minimum in order to enhance its performance.

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Chapter 1: Introduction

Introduction to the case study

Working capital management signifies the funds required for day-to-day operations of the firm. It deals with the management of current assets and current liabilities firms (Sunday, Abiola and Lawrencia 2012). Working captail management affects a company's liquidity and profitability.

Conflict exists between profitability and liquidity while managing the current assets of the organizations. The efficiency of the management of working capital is crucial for the survival and growth of these organizations (Grablowsky, 1984; Pike and Pass, 1987). A large number of business failures have been attributed to the inability of financial managers to plan and control properly the current assets and current liabilities of their respective organizations (Smith, 1973).

Some business organizations have limited access to the long-term capital markets, these organizations 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, 1998; Saccurato, 1994). Studies have shown that weak financial management particularly poor working capital management and inadequate financing is the primary cause of failure among businesses (Berryman, 1983; Dunn and Cheatham, 1993).

Working capital policies of a firm can be either aggressive or conservative in nature. An aggressive working capital financing policy involves the use of more short-term financing than warranted by the matching plan whereby the firm uses funds for permanent fixed assets for short-term financing while a conservative financing approach involves the use and dependence on long-term funds for the financing needs of the firm (Pandey, 2007).

An aggressive working capital investment policy may therefore involve the use of low level of current assets as percentage of total assets and a high level of current liabilities as percentage of total assets. Excessive levels of current assets may have negative effects on the firm's profitability whereas a low level of current assets may lead to lower level of liquidity and stock outs resulting in difficulties in maintaining smooth operations (Van Horne and Wachowicz, 2004).

Over the years, corporate finance literatures have focused mainly on the study of long-term financial decisions, particularly investments, capital structure, dividends or company valuation decisions (Nazir and Afza, 2009). The various studies have shown that one of the reasons for poor performance of the public sector undertaking has been the large amount of the funds locked up in working capital. The above discussion highlights the significance of working capital management in a business

The purpose of this research was to study the use of working capital management as a financial strategy when determining the working capital investment and financing policies or approaches adopted by Uchumi Supermarket Limited. It also analyzed the operating effectiveness, efficiency and financial performance of the supermarket. Specific research studies exclusively on the use of working capital management as a financial strategy are scanty, especially for the case of Kenya. Consequently, this study was also a modest attempt to measure and analyze the trend of working capital investment approaches/policies and how it can be used a financial strategy.

Ratio analysis was used to perform financial analysis in measuring the performance (strength), soundness, position and weakness of the supermarket . It was also used to evaluate it in terms of solvency, liquidity, efficiency and its profitability. This was achieved by measuring and analyzing the various components of working capital management and the financial performance of Uchumi Supermarket Limited.

Historical Background of the Case Study

According to information available from (*www.Uchumisupermarket.com/aboutus*), Uchumi supermarket is the only publicly quoted supermarket in Kenya at the Nairobi Securities Exchange (NSE with branches throughout the country and other retail outlets in East Africa region including Uganda, Tanzania and Rwanda. The company was started in 1975 by three state owned corporations. In 1992, the company's shares were listed on the Nairobi Stock Exchange currently known as the Nairobi Securities Exchange (NSE).

The information from Nairobi Securities Handbook (*http://www.nse.co.ke/),* shows that in the early 2000s Uchumi Supermarket started to experience financial and operational difficulties occasioned by a sub-optimal expansion strategy coupled with weak internal control systems. This resulted in a marked diminution of the company's resources which culminated in its inability to meet its obligations on an ongoing basis. In February 2005, the board decided to close ten branches which were making losses

leaving only a few profitable stores to continue trading. The company was thereafter placed in receivership in June 2006. As a result of that, the company was de-listed from the Nairobi Stock Exchange currently known as Nairobi Securities Exchange. The supermarket was reopened on 15 July 2006 through a government of Kenya rescue plan. The supermarket resumed trading at some of its stores under an interim management and a caretaker administrator after six weeks of inactivity.

Information from *(http://kenya.uchumicorporate.co.ke/about-us/history*) shows that the supermarket began to regain profitability from January 2011. On Tuesday 31 May 2011, the company was re-listed and trading in the shares of Uchumi Supermarkets resumed.

The main cause of Uchumi Supermarket's financial difficulty was attributed to the engagement in ambitious expansion program without the requisite finance. The expansion program had put pressure on its operations and resources especially working capital. The resurgence in the performance of Uchumi supermarket implies a turnaround in terms of the release on pressure on the company's working capital. Key to its survival was a change in management of its working capital and financing approaches that enhanced normalcy in trading operations and hence the attainment of improved financial performance (profitability).

Problem statement

Proper management of working capital components enables a firm's operations to run smoothly (Mukhopadhyay, 2004). Working capital is crucial for maintaining liquidity, survival, solvency and profitability of business. Hence it is important to maintain adequate level of liquidity required to ensure that a firms runs smoothly and to meet its obligation (Eljelly, 2004).

Management of working capital has a significant impact on both the liquidity and profitability of the company (Shin & Soenen, 1998). Therefore, the strategy of any company must be to ensure that there is a balance between these two objectives.There is a dilemma in working capital management as to the desired trade-off between liquidity and profitability needed in order to maximize shareholders wealth (Smith, 1980; Raheman & Nasr, 2007).

A number of studies on the relationship between working capital management and financial performance have been done globally and locally in Kenya. For example, Gakure *et al* (2012) analyzed the relationship between working capital management

and performance of 15 manufacturing firms listed at the Nairobi Securities Exchange. Mathuva (2010) focused on the influence of working capital management on corporate profitability of firms listed at the Nairobi Securities Exchange (NSE). Apuoyo (2010) conducted a study on working capital management components on corporate profitability of Kenyan Listed Firms in the NSE.

However, there are no studies with reference to Kenya on the use of working capital management, especially on the its use as a financial strategy in the merchant retail sector in Kenya. Furthermore, the the above and various studies provide no clear evidence on the best working capital approaches or policies in merchant retail sector. They do not provide clear direction on the market and accounting measures of financial performance as well as how working capital management can be used as a financial strategy with reference to the liquidity and profitability of the firm.

This study investigated the working capital investment and financing policies adopted by Uchumi Supermarket Limited. It also provided an analysis of the operating effectiveness, efficiency and financial strength (performance) of the supermarket with an aim of establishing how working capital management can be used as a financial strategy. It is against the above background that this study was carried out.

Need for the Study

This study was mainly confined to a case study working capital of Uchumi Supermarket Limited. Current assets and liabilities form huge and very important components of total assets of supermarkets and other retail chains and needs to be carefully analyzed.

A key point of concern was how Uchumi Supermarket Limited has been managing its working capital being publicly listed company that was once put under receivership due to the pressure on it working capital caused by the sub-optimal expansion strategies. Hence this study was undertaken to answer the above mentioned concern.

The findings and suggestions of this case study offer alternative guidelines for future progressive policy formulation and implementation for the effective management of working capital and functioning of the supermarket.

Findings from this study will sensitize the management in the retailing sector in Kenya on the importance of maintaining the right mix of working capital that in turn will assist in boosting financial performance.

Aims and Objectives of the Research

The following specific objectives were developed in order to pursue the main aim of this study.

- To determine the working capital investment and financing policies adopted by Uchumi Supermarket Limited.
- To analyze the operating effectiveness, efficiency and financial strength (performance) of the supermarket.
- To give necessary suggestions and recommendations for the improvement of working capital management.

The Key Research Questions

The research questions for this case study were as follows:

- What are the working capital financing and investment policies adopted by Uchumi Supermarket Limited during both pre-financial crisis and post-financial crisis periods?
- What is the operating effectiveness, efficiency and financial strength (performance) of the Uchumi supermarket?
- What are the best strategies for the improvement working capital management?

Significance of the study

The main goal of this study was to study how working capital management can be used as a financial strategy. This was achieved through the investigation of the working capital investment and financing policies adopted by Uchumi Supermarket Limited. It also analyzed the operating effectiveness, efficiency and financial strength (performance) of the supermarket as measured using ratio analysis. While more aggressive working capital policies are associated with higher returns and risk, conservative working capital policies offer both lower risk and returns (Gardner et al., 1986; Weinraub & Visscher, 1998).

Although various other studies on working capital management have been carried out by various researchers in Kenya and outside Kenya such as Omesa et al (2013); Mathuva (2010); Gakure et al (2012) and (Sharma and Kumar, 2011), it is important to note that there is still ambiguity regarding the appropriate working capital management policies. Various scholars have come up with different suggestions and

conclusions regarding the relationship working capital policies and performance of the firm.

The available research studies do not provide clear-cut decision on use of working capital management as a financial strategy. Further examinations of the results of the prior studies reveal that there is little or no conclusive empirical evidence on the use of working capital management as financial strategy in Kenya. Therefore, the present study will attempt to fill this gap.

This study tried to identify the various liquidity, solvency, profitability, and the turnover positions of Uchumi Supermarket as tools of financial strategy used to maintain financial soundness of the supermarket.

The retail business sector was chosen specifically because it involves relatively large and varied levels of working capital. Uchumi supermarket as the only publicly listed supermarket in Kenya was chosen because one of the main reasons why it was declared bankrupt was the outrageous pressure on its working capital due to sub-optimal expansion strategies. The release of pressure on the working capital of the supermarket enabled it to gain normalcy in running its business operations. It is in the view of the above that it was chosen as the subject of this study.

Over the recent past, the have been profound changes in the retail market related to the mix of social and economic conditions. Changes in social and economic conditions have shifted approach to consumer behavior that is driven by demand for quality of service and value for money. Therefore, working capital management is simple concept but yet difficult in implementation due to the complexities surrounding retailing supermarkets.

Therefore, the study is expected to contribute to formulation of better the policies and strategies on the management of working capital and monitoring of their impact on profitability especially in the emerging market in Kenya. It will also be of benefit to managers in organization in making decisions on the strategies regarding adequate working capital management as a way of improving the performance of the organization.

Chapter 2: Literatures Review

This chapter focuses on the review of the researches that had been carried out by other researchers on working capital management. It discusses different aspects on the working capital policies as indicated by other researchers.

Working Capital Management

Farounbi (2005) stated that main aim of working capital management is the management of current assets and current liabilities and maintenance of a satisfactory level of working capital required for the day-to-day operations. It measures business's liquidity, or its ability to meet its short term obligations as they come due (Emery, et al., 2004).

Working capital management involves making decisions on the appropriate level of investments in cash, marketable securities, receivables, and inventories as well as the level and mix of short-term financing (Emery et al., 2004). It is aimed at maintaining an optimum balance of each of the working capital components by ensuring that a company operates with adequate funds that can service their long term debt and satisfy both maturing short term obligations and operational expenses.

Financial Management

The most important part of financial management is the management of short-term funds or the working capital management relative to the day-to-day operations (D. Sharma, 2009).

Financial performance refers to a measure of the outcome of a company's operations in monetary terms. It aims at maximizing shareholders' value and the rate of return on equity, increasing firm's profitability and planning and controlling of the firm's financial resources. Ratios are one of the measures of financial performance (Saliha, 2011). Positive working capital is needed by a firm so as to enablele it to continue operating optimally and ensure that it has sufficient funds to satisfy both maturing short-term debt and operational expenses (Nazir & Afza,2009).

The three major working capital approaches include: conservative, matching/hedging and aggressive approach (Brigham & Houston, 2007). Matching or hedging approach states that the maturity of the sources of the funds should match the nature of the assets to be financed (J. Fred and F. Frighan, 1975). It states that financing of fixed portion of current assets should be done using long term in a way similar to the financing of fixed assets while short terms funds should be used to finance the

temporary requirements or the seasonal variations over and above the permanent financing needs.

A conservative approach states that a firm's needs for funds should be met by use of long terms source of funds. Hence, short terms sources of funds can be used only when there is an unexpected need of funds or during emergency conditions. An aggressive approach states that short-term sources of funding should be used to finance part of a firm's permanent working capital (J. Fred and F. Frighan,1975). It aims at meeting the short term requirements and minimizing excess liquidity. This therefore implies that a company can take greater risk of insolvency so as to save cost of long term financing and earn greater return.

Literature on modern theories offer conservative and aggressive working capital management policies as alternative strategies of working capital management. More aggressive working capital policies are associated with higher returns and risk while conservative working capital policies lead to lower risk and returns (Gardner et al., 1986; Weinraub & Visscher, 1998). In general, literature contains an extensive debate on the risk/return trade-off among different working capital policies (Gitman, 2005; Moyer *et al*., 2005).

In their study of relationship between working capital management policies and a firm's profitability, Afzar & Nazir (2008) found a negative relationship between the profitability of firms and degree of aggressiveness of working capital investment and financing policies. They suggested that managers could increase value if they adopt a conservative approach towards working capital investment and working capital financing policies.

Similarly, Rehman (2006) in his study concluded that there is a strong negative relationship between the average payment period and cash conversion cycle on the net operating profit and profitability of firms. He stated that by reducing the cash conversion cycle up to an optimal level will lead to creation of a positive value for the shareholders. Furthermore, Weinraub and Visscher (1998) stated that relatively aggressive working capital asset policies are balanced by relatively conservative working capital financial policies.

On the contrary, Gill et al. (2010) found out a positive relation between cash conversion cycle and a firm's profitability. They suggested that firm can enhance their profitability by keeping their working capital to a minimum. This is because they

argue that less profitable firms will aim at decreasing their accounts receivables in an attempt to reduce their cash gap in the cash conversion cycle (Gill et al., 2010).

In addition, Sharma and Kumar (2011) found a positive relationship between accounts receivables and profitability. Mathuva (2010) stated that concentration of attention on liquidity definitely lowers profitability and vice versa and hence a balance between the liquidity and profitability has to be reached in working capital management.

Although various other studies on working capital management have been carried out by various researchers such as Omesa et al (2013); Mathuva (2010); Gakure et al (2012) and Sharma and Kumar (2011, it is important to note that there is still ambiguity regarding the appropriate variables that might serve as the best proxies for working capital management policies.

The above results of the above studies and other literature do not provide clear-cut decision on how working capital management can be as a financial strategy. Further examinations of the results of the prior studies reveal that there is little or no conclusive empirical evidence on the use of working capital management as financial strategy in Kenya. Therefore, the present study attempted to fill this gap.

This paper investigated the working capital investment and financing policies adopted by Uchumi Supermarket Limited. It also analyzed the operating effectiveness, efficiency and financial performance of the supermarket. This study used the accounting ratios of working capital, profitability, liquidity, solvency and leverage in order to establish adequate working capital management policies and how it can be used a financial strategy.

In recent times, very few case studies regarding management of working capital among retail companies in Kenya has been done. Supermarkets chains are also known to involve high volume of working capital hence there is need to analyze their working capital management practices and financial performance. In this case study, an effort has been made to make an in-depth study of working capital management through ratio analysis with special reference to Uchumi Supermarket Limited.

Chapter 3: Research Methodology

Research Design

Data Collection and Sampling Procedures

This study used mainly secondary data for the year 2002 to 2013. Data for the period ended 2002~ 2006 was used to examine the pre-financial crisis while data for the period ended 2007~2013 was used to capture information for the post-financial crisis.

Secondary data was chosen because data from such a source is free from bias, accurate and that the data needed for analysis is publicly available and accessible.

The data for all the ratios used in the study was extracted from published annual reports and financial statements. Secondary data was collected from the website of Nairobi Securities Exchange Handbook and the annual reports of Uchumi Supermarket Limited from 2002-2013. Some of the data was obtained from the websites of the Capital Markets Authority of Kenya and the database platform for all listed companies in Kenya called *'AfricanFinancials.com'*, a free annual reports service for listed companies in Africa.

The specific financial reports from which data was extracted included the income statements and statements of financial position. The collected data from these sources have been compiled and used with due care as per the requirement of this study. The data from these reports was used for analysis with regards to the objectives of the case study.

Data Analysis Method

The collected data was analyzed using ratio analysis, time-series or trend analysis. '*Microsoft excel*' was used for calculations and development of charts and tables important for the discussion of the findings of this study. Standard statistical techniques like percentages and averages were also used for analysis with the help of various accounting and statistical tools and techniques. A comparison between the results of the pro-financial and the post-financial crisis effect was done.

A specific reference was made to a research done by K. Madhavi (2014) on 'working capital management of paper mills' and a research by Finau (2011) on "the Impact of Working Capital Management Dynamics on Performance of Tongan Enterprises in New Zealand" when analyzing the research findings. Descriptive statistics was used to discuss and summarize the findings of this study

Chapter 4: Conceptual Framework

Key Research Ratios

With respect to the investigation on how working capital can be used as financial strategy, a special emphasis was put on the results of ratio analysis and the statement of changes in working capital. Various ratios were used to analysis the results of the case study. These ratios include; liquidity ratios, leverage, profitability, working capital and turnover ratios. Many researchers have used financial ratios to investigate the investing and financing policies of working capital of firms for example, Afza and Nazir (2008), Raheman et al. (2010) and Raheman and Nasr (2007).

Measurement of Ratios

Ratio Analysis

Gitman (2009) described how working capital should be managed and stated that it can be measured in terms of leverage, liquidity, activity (efficiency), and profitability ratios. The following ratios that were applied to analyze the Uchumi Supermarket's working capital position.

1) Liquidity Ratios: They measure the liquidity position of the firm. They include;

a) Current Ratio = Current Assets/ Current Liabilities

b) Quick Ratio = Current Assets – Inventory/ Current Liabilities

2) Activity Ratios: They measure the effectiveness with which an organization manages its resources on assets. They show the speed at which assets are used to generate sales. They are calculated as follows;

a) Debtors Turnover Ratio = Total Sales/Average Debtors

b) Average Collection Period: = 365/Debtors Turnover Ratio

c) Inventory Turnover in days: = Inventory/cost of goods sold*(365)

d) Gross Working capital Turnover Ratio= Net sales/ current assets

3) **Profitability Ratio:** They reflect the efficiency of management in manufacturing, selling, administrative and other activities of the firm. They are given by;

a) Profit Before Tax Ratio = Profit Before Tax/Net Sales

b) Net Profit Ratio = Net Profit After Tax/Net Sales

4) Working Capital Financing and Investment ratios: They include;

a) Current Asset to Total Asset Ratio= Current assets/Total Assets

b) Current Liabilities to total Asset Ratio= Current Liabilities/ Total Assets

Current assets to total assets ratio was used to measure the level of investment policy of working capital while current liabilities to total assets ratio was used measure the level of working capital financing policy of Uchumi Supermarket Limited.

The measure for aggressiveness or conservativeness of a policy is not discrete but it was based on a relative or comparative analysis of the above ratios between the pre-financial crisis period and post-financial crisis period. A change (either increase or decrease) in the ratios measure a shift or change in the conservativeness or aggressiveness of investment or financing policies. This therefore demonstrates a movement or change in the financing and investment policy between the periods.

5) The cash conversion cycle

It was used as a measure of aggressiveness of working capital. It is calculated as (number of day's accounts receivable + number of day's inventory used- number of day's accounts payable).

Chapter 5: Results and Discussion of Findings.

This chapter covers the results of the ratio and trend analysis of the case study. It presents the interpretation and discussion to the findings of the case study. Analysis was done using key working capital ratios such as leverage ratios, liquidity ratios, profitability ratios, and activity ratios.

Financial Statements Analysis

The financial reports of Uchumi supermarket for the year ended 30th June 2002 to 2013 are listed in appendix 2 and 3. The financial reports include the statement of financial position (balance sheet) and the statement of financial performance (income statement). The workings and the information used in the analysis are listed in appendix 1.

Financial Ratios and Descriptive Analysis

Liquidity Ratios

Liquidity refers to a firm's ability to meet its short-term obligations as and when they become due. They are used to measure and analyze the solvency of a firm's overall financial position.

Current Ratio and Quick Ratio

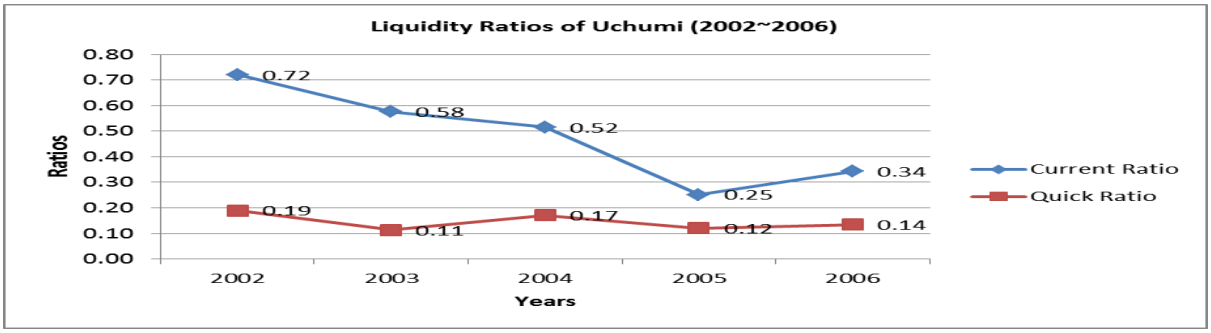
Current ratio is used to measure a firm's liquidity position. A relatively high current ratio implies a relatively higher ability to current obligations in time and that a firm presumed to be liquid and has the and vice versa. Gitman (2009) stated that a current ratio of 1.0 or less indicates a relatively low and a negative working capital. In general, a current ratio of 2:1 is recommended as a desirable minimum across all industries.

Quick ratio on the other hand indicated a firm's ability to meet its current obligations by use of the most liquid of its current assets.

Table 1: ***A table of current and quick ratios of Uchumi Supermarket Limited for period 2002~2006 (pre-financial crisis period).***

Current Ratio = Current Assets / Current Liabilities			**Quick Ratio = (Current Asset – Inventory) / Current Liabilities**		
Liquidity Ratios/Year	**2002**	**2003**	**2004**	**2005**	**2006**
Current Ratio	0.72:1	0.58:1	0.52:1	0.25:1	0.34:1
Quick Ratio	0.19:1	0.11:1	0.17:1	0.12:1	0.14:1

Graph 1: ***A graph of current and quick ratios of Uchumi Supermarket Limited for period 2002~2006 (Post-financial crisis period).***

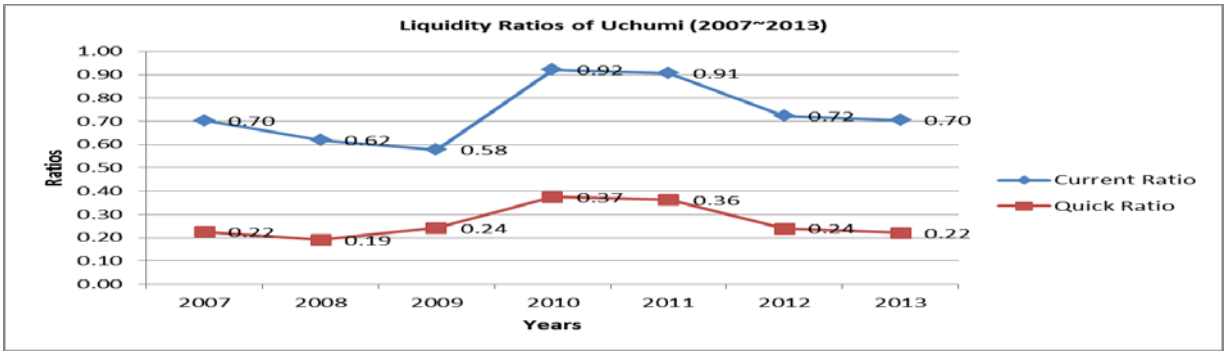


The current ratios of 0.72, 0.58, 0.52, 0.25 and 0.34 in the years 2002, 2003, 2004, 2005 and 2006 respectively implied that Uchumi supermarket had less than KES 1 of current assets for each of KES 1 of current liabilities. The ratios decreased gradually over the years from 2002 to 2006 and were below the desirable minimum (a ratio of 2:1). This means that Uchumi Supermarket was not managing its working capital requirements adequately. Hence, it suggests that Uchumi Supermarket was facing difficulty in meeting its obligations within these financial years. Therefore, it was not in a safe position and that the inadequacy of its financial capability increased over the period.

Table 2: ***A table of current and quick ratios of Uchumi Supermarket for period 2007~2013 (Post-financial crisis period).***

Post-Financial Crisis							
Current Ratio = Current Assets / Current Liabilities				**Quick Ratio = (Current Asset – Inventory) / Current Liabilities**			
Liquidity Ratios/Year	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Current Ratio	0.70:1	0.62:1	0.58:1	0.92:1	0.91:1	0.72:1	0.70:1
Quick Ratio	0.22:1	0.19:1	0.24:1	0.37:1	0.36:1	0.24:	0.22:1

Graph 2: ***A graph of current and quick ratios of Uchumi Supermarket for period 2007~2013 (Post-financial crisis period).***



During the post-financial crisis period, the supermarket had significantly improved in terms of managing its working capital even though the liquidity ratios were comparatively lower than the minimum or desired level. Current ratios improved from 34% in year 2006 to 70% in year 2007. The rise in the ratio was not significant enough that would have enabled Uchumi Supermarket to honour all its current maturing obligations. The lowest ratio was 0.25 in the year 2005 while the highest ratio during the entire period of study was 0.92 in the year 2010.

The tables 1 and 2, and graphs 1 and 2 above show that the current ratios for the two periods of study were less than 1 (largely below the minimum desired level of 2:1). These current ratios were not satisfactory and that the supermarket was not in a safe position.

Generally a firm is said to have a satisfactory current financial condition when is has a quick ratio of 1:1. However, from the results above, it is evident that the quick ratios were comparatively low and decreased gradually over the period to as low as 14% in the year 2006. This implied that the supermarket's ability to meet its current obligations with the most liquid of its current assets was very low.

There was also a slight improvement in quick ratio from year 2006. The ratio increases from 14% in year 2006 to 22% in year 2007. The ratios then fluctuate throughout the period (2007~2013). The ratios were below the desired minimum level of 1:1. This also implies that the company's ability to meet its current obligations with the most liquid of its current assets was very low. Additionally, the decrease in quick ratio means that Uchumi supermarket had a weak liquidity position.

In general, the above analysis reveals that from the year 2006 to even as late the year 2013, both the current ratios and quick ratios were below the desired minimum level. This shows that the supermarket had a negative cash flow and Uchumi Supermarket was facing difficulty in meeting its current obligations even though its profitability performance had improved slightly over the years. This shows that there was a comparatively poor management of current assets and current liabilities by the supermarket.

In conclusion, it was deduced that for the entire period (2002~2013), Uchumi Supermarket Limited did not meet both the minimum accounting standard of 2:1 and 1:1 for current ratio and quick ratio respectively. This shows that the supermarket was financially illiquid and had liquidity challenges for the entire period of study. This

provides the reason why poor illiquidity problem had also contributed also to poor profitability performance of the supermarket. Therefore, it is concluded that the low liquidity policy of the supermarket to meet short term obligations had adversely reduce the profitability level within the period of study and that the supermarket was facing another likelihood of bankruptcy.

Table 3: Comparison between Current Ratio and Quick Ratio

Year/Liquidity Ratios	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Current Ratio	0.72	0.58	0.52	0.25	0.34	0.7	0.62	0.58	0.92	0.91	0.72	0.70
Quick Ratio	0.19	0.11	0.17	0.12	0.14	0.22	0.19	0.24	0.37	0.36	0.24	0.22
Difference	0.53	0.47	0.35	0.13	0.2	0.48	0.43	0.34	0.55	0.54	0.48	0.48

From the results on the table above, it is evident that the difference between current ratio and quick over the years was comparatively high (over 45% for 11 periods out of the 12 periods). This represents the high inventory levels.

It means that inventory was moving slowly or that there was over-investment in the level of inventory due to stocks pile up as a result of poor sales. This therefore implied that Uchumi Supermarket's inventory level was very high. The fluctuation in the ratio over the period shows that Uchumi Supermarket had an unstable and weak liquidity position. This is not an adequate way of managing working capital.

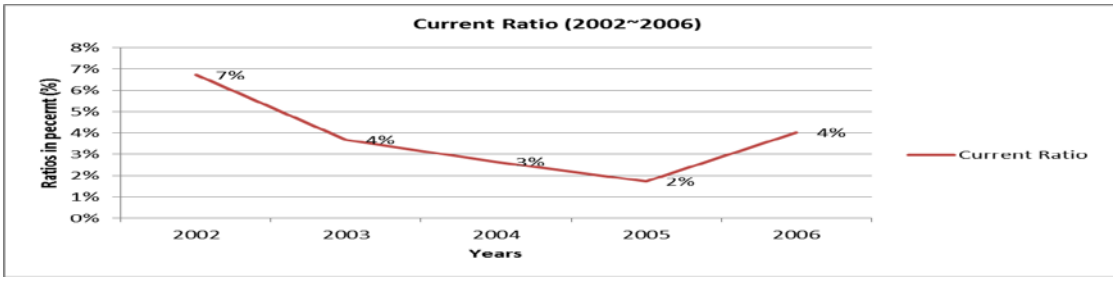
Cash Ratio

Cash ratio shows a firm's ability to pay its current liabilities by only using its cash and cash equivalents. The ideal cash ratio is 1:2 or 50 percent.

Table 5: ***Cash ratios for the period 2002~2006 for the pre-financial crisis period***

Cash Ratio = $\frac{\text{Cash + Cash Equivalents}}{\text{Current Liabilities}}$					
Liquidity Ratios/Year	**2002**	**2003**	**2004**	**2005**	**2006**
Current Ratio	7%	4%	3%	2%	4%

Graph 3: ***Cash ratios for the period 2002~2006 for the pre-financial crisis period***



The results above shows that the cash ratio was decreasing from year 2002 to year 2005 as follows; 7%, 4%,3%, and 2% for the years 2002, 2003, 2004 and 2005 respectively. The ratio then rises to 4% in the year 2006.

Table 6: ***Cash ratios for the period 2007~2013 (post-financial crisis period).***

Cash Ratio = Cash + Cash Equivalents / Current Liabilities							
Liquidity Ratios/Year	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Cash Ratio	7%	7%	6%	9%	10%	5%	4%

Graph 4: ***Cash ratios for the period 2002~2006 for the pre-financial crisis period***

The results above show that the cash ratio rose from 4% in the year 2006 to 7% in the years 2007 and 2008. The ratio then declined to 6% in the year 2009 and then rose to 9% and 10% in the years 2010 and 2011 respectively. It then decreased drastically to 5% in the year 2012 and to 4% in the year 2013.

In general, the cash ratios during both the pre-financial crisis and post-financial crisis period were less than the standard (50%) and hence it is not satisfactory. This basically implies that Uchumi Supermarket was facing difficulty in payment of its current liabilities.

The ratio above implies that Uchumi Supermarket's major current assets were majorly accounts receivables and inventory. These would normally incur bad debts costs and warehouse costs. Therefore management must strive to introduce sufficient effective measures for proper maintenance of working capital needs by utilizing available cash

and cash at bank balances and reduce the level of assets held as inventory and accounts receivable into desirable optimum levels.

Activity Ratios

They measure how fast various accounts are converted into sales or cash. They measure effectiveness of an organization in using its assets to generate net income.

Average Collection Period Ratio

Gitman (2009) stated that the average collection period is a measure of how long it takes a business to convert a credit sale into cash form. It measures the quality of debtors as it shows the speed of their collection. Generally, a lower the average collection period shows a relatively higher level of liquidity of debtors and implies early payment by the debtors.

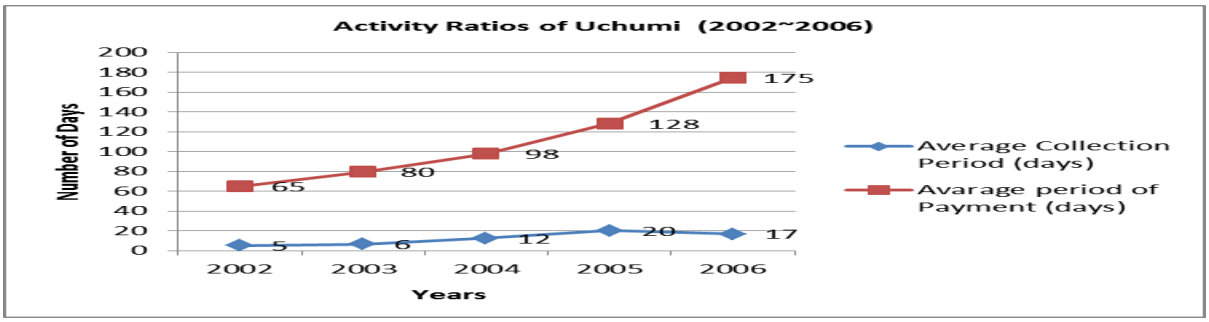
Average Period of Payment Period Ratio

This measures how long it takes a business to pay its trade creditors. It measures the credit period allowed to the company by its customers. The longer the creditor's payment period, the better the terms of credit allowed to the company as this implies that the company is allowed a better credit period by its credit customers.

Table 7: ***Average collection period and average period of payment of Uchumi Supermarket for the period 2002~2006(Pre-financial crisis).***

ACP = Account Receivable / Average Sales per day			Account Payment Period = Account Payable / Average purchases per day		
Liquidity Ratios/Year	**2002**	**2003**	**2004**	**2005**	**2006**
Average Collection Period (ACP)	5	6	12	20	17
Average Period Payment (APP)	65	80	98	128	175

Graph 5: ***Average collection period and average period of payment of Uchumi Supermarket for the period 2002~2006(Pre-financial crisis).***



From the results displayed above, it is evident that both the average collection period and the average period of payment were increasing significantly from the year 2002 to

year 2006 although the average period of payment is increasing at a higher rate than the rate of increment for average collection period. There was a higher increase in average collection period in year 2005 and year 2006 due to decrease in the level of debtors. This means that Uchumi Supermarket's credit sales increased but there was a decrease in the receivables, which could further become bad debts to the supermarket. This implied a comparatively less restrictive credit-granting policy. The period decreased to 17 days in the year 2006. This implied a slight change in credit-granting policy and it revealed the inconsistency of method of account policy. Therefore the inconsistency in the method of account collection policy showed a negative impact on cash flow and financial performance of the company as reflected by net profit margin during the period.

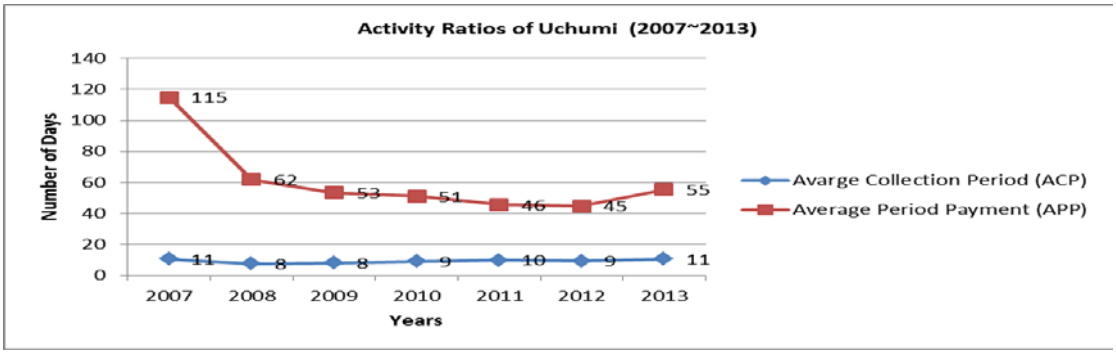
With regards to the creditors' payment period, the number of days increased from 65, 80, 98, 128 and 175 days over the period of year 2002, 2003, 2004, 2005 and 2006 respectively. This shows that the supermarket's had an improved credit paying ability because of improved working capital management and implies that the creditors were liberal with regards to the terms of credit extended to the supermarket and that creditors were not paid promptly. However, it is most likely that the supermarket did not have sufficient capability to pay it creditors.

Additionally, it can be inferred that the supermarket was losing its creditability in the market as there was short fall in the working capital and the amount of receivables also reduced.

Table 8: ***Average collection period and average period of payment of Uchumi Supermarket for the period 2007~2013(post-financial crisis).***

Average collection period = Account Receivable / Average Sales per day			Account Payment Period = Account Payable / Average purchases per day				
Liquidity Ratios/Year	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Average Collection Period (ACP)	11	8	8	9	10	9	11
Average Period Payment (APP)	115	62	53	51	46	45	55

Graph 6: ***Average collection period and average period of payment of Uchumi Supermarket for the period 2007~2013(post-financial crisis).***



From the analysis of the results above, it is evident that the average period of payment has decreased from 175 days in year 2006 to 115 days in year 2007. There is a drastic decrease in the number of days for average period of payment from 115 in the year 2007 to 62, 53, 52, 46 and 45 days in in years 2008, 2009, 2010, 2011 and 2012 respectively. The decrease in the number of days implies that the supermarket had improved slightly its credit paying ability by use of proper and adequate working capital management policies. There is an increase in the number of days in the year 2013 to 55 days. This shows that the supermarket kept its obligations for long time. It could also mean that suppliers extended liberal terms of credit to the supermarket and that creditors were not paid promptly as one way of enhancing the management of working capital. On the contrary, backed by the low liquidity ratios, it could be implied that the supermarket did not have sufficient resources in terms of working capital to pay its creditors and other suppliers.

The average collection period decreased from 17 days in 2006 to 11 days in 2007, 8 days in years 2008 and 2009. This implies that the company's debt-collecting machinery improved through years. The average collection period then increased to 9 and 10 days in the years 2010 and 2011 respectively. It then decreased to 9 days in the year 2012 and later increased to 11 days in 2013. These average collections periods imply a comparative improvement in the length of payment by debtors. It shows that the supermarket was comparatively successful in decreasing the average collection period in the post-financial crisis period, which represent sound collection policy of the company and enhanced management of working capital.

In general, the fluctuation in these ratios implied inconsistent method of account collection policy. This significantly reflected a negative impact on cash flow and financial performance.

Inventory Turnover Ratio

This ratio measures the number of times a firm acquires inventories and turns them into sales. The higher the ratio the higher the number of times inventory is converted in to sales. Hence, is shows that inventory is turned over rapidly from the time of acquisition to sales and does not remain in warehouses or on the shelves.

Total Assets Turnover

This ratio measures how efficiently the business uses all of its assets to generate sales. A high ratio generally reflects good overall management. A low ratio may indicate flaws in a business's overall strategy or improper capital expenditures (Hatten, 2008; Oliver & English, 2007).

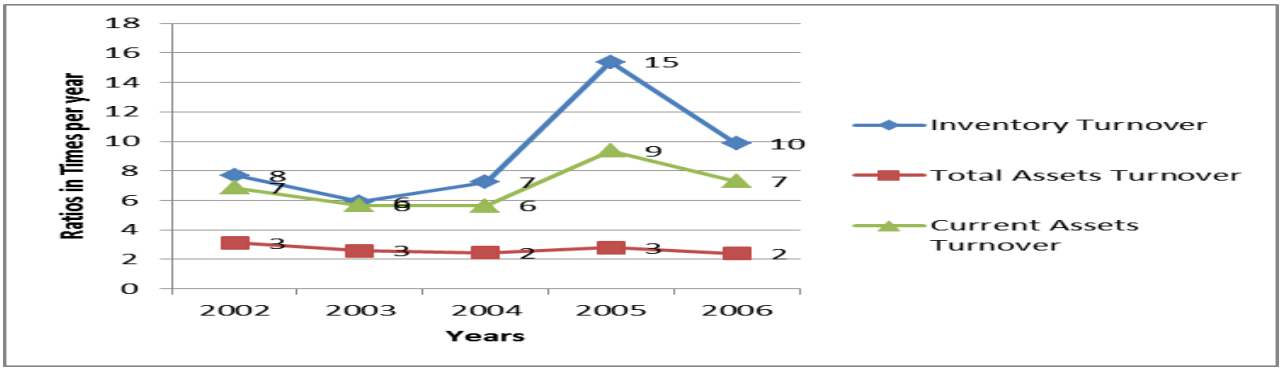
Current Assets Turnover Ratio

Current assets turnover ratio measures the relationship between a firm's current asset and net sales. A higher ratio is shows that a firm can attain more sales with relatively less level of investment in current assets.

Table 9: ***Inventory, current asset and total asset turnover ratios of Uchumi Supermarket for the period 2002~2007(Pre-financial crisis).***

Inventory turnover = Cost of Goods Sold / Inventory		Total Asset Turnover = Sales / Total Assets		Current Asset Turnover = Sales / Current Assets	
Liquidity Ratios/Year	**2002**	**2003**	**2004**	**2005**	**2006**
Inventory Turnover	8	6	7	15	10
Current Assets Turnover	7	6	6	9	7
Total Assets Turnover	3	3	2	3	2

Graph 7: ***Inventory, current asset and total asset turnover ratios of Uchumi Supermarket for the period 2002~2007(Pre-financial crisis).***



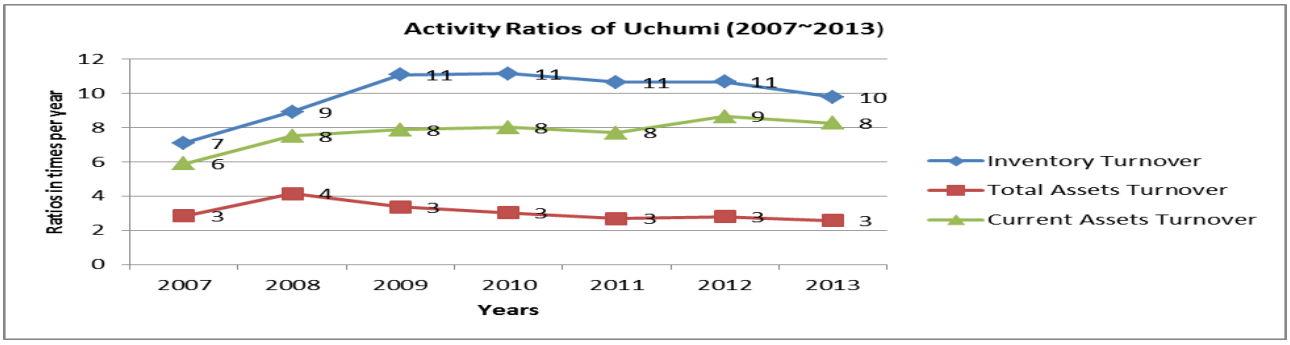
From the results shown above, inventory turnover decreased from 8 times in year 2002 to 6 times in year 2003. The ratio then rose to 7 times and 15 times in the year 2004 and 2005 respectively. The ratio then dropped to 10 times in the year 2006. The ratios fluctuated throughout the period and were comparatively higher. A higher turnover usually is a good sign because products tend to move faster in the sales cycle. This means that the supermarket avoided the unnecessary lock up of working capital in the inventory and it shows efficiency of the management.

With respect to the total asset turnover and current assets turnover, the ratios were combatively higher which shows efficiency of management and proper utilization of total assets as well as current assets. Even though the total assets turnover and current assets turnover fluctuated over the period, the management was efficient in utilizing these assets. It therefore means that company could generate more sales with fewer of these assets.

Table 10: ***Inventory, Current asset and Total asset turnover ratios of Uchumi Supermarket for the period 2006~2013(Post-financial crisis).***

Inventory turnover = Cost of Goods Sold / Inventory		Total Asset Turnover = Sales / Total Assets			Current Asset Turnover = Sales / Current Assets		
Liquidity Ratios/Year	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Inventory Turnover	7	9	11	11	11	11	10
Current Assets Turnover	6	8	8	8	8	9	8
Total Assets Turnover	3	4	3	3	3	3	3

Graph 8: ***Inventory, Current asset and Total asset turnover ratios of Uchumi Supermarket for the period 2007~2013(Post-financial crisis).***



From the results above, the inventory turnover decreased from 10 times in year 2006 to 7 times in year 2007.The ratio then rose to 9 times, 11 times, 11 times,11 times, and 11 times in year 2009, 2010, 2011 and 2012 respectively. The ratio then dropped

slightly to 10 times in 2013. These ratios were comparatively higher and this implies that the management was efficient in utilizing its inventory.

The current asset turnover ratio and total asset turnover rations followed the same pattern as inventory as explained above. This is sufficient evidence that Uchumi supermarket had high turnover ratios in overall, indicating the general improvement in efficiency in the usage of all assets to generate volume of sales revenues.

Working Capital Turnover Ratio

This ratio measures how efficiently a firm is using its working capital to support its sales. It shows the number of times working capital is turned over to produce the sales volume.

Table 11: ***Working capital turnover ratios of Uchumi Supermarket for the period 2002~2006(Pre-financial crisis).***

Working Capital Turnover Ratio = Net Sales / Average Net Working Capital					
Liquidity Ratios/Year	**2002**	**2003**	**2004**	**2005**	**2006**
Working Capital Turnover Ratio	9	13	15	-15	50

Graph 9: ***Working capital turnover ratios of Uchumi Supermarket for the period 2002~2006(Pre-financial crisis).***

From the results above, the working capital turnover ratio increased from 9 times in year 2002 to 13 times and 15 times in years 2003 and 2004 respectively.These higher working capital turnover ratios means that Uchumi supermarket was more efficient in using working capital to generate sales. The ratio then dropped to negative (-15) times in the year 2005. This was due to the fact that current liabilities were more that the total assets. The negative working capital means that the company was not able to meet its short-term liabilities with its current assets. Hence, there was need of an immediate increase in sales or additional capital into the company in order for it to

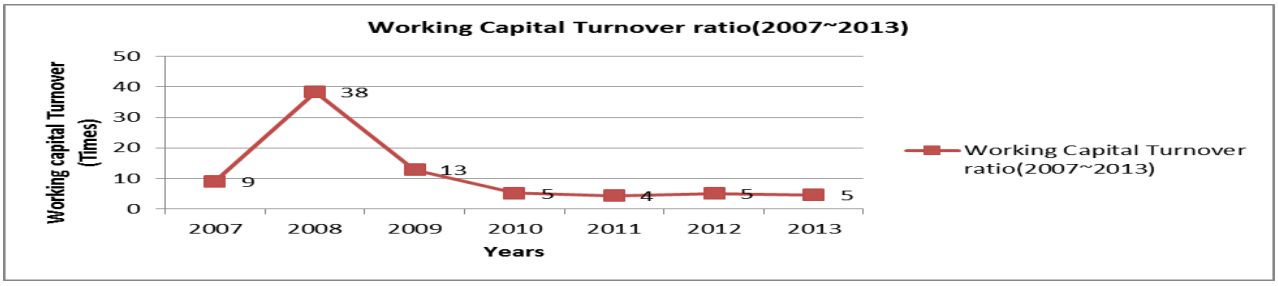
continue its operations. This was a sign that Uchumi Supermarket was facing bankruptcy or a sign indicating serious financial trouble.

In the year 2006 after Uchumi supermarket was placed under receivership, the working capital turnover increased drastically from negative 15 times in the year 2005 to 50 times in the year 2006. Contrary to the expectation of adequate management efficiency, this was an indication that Uchumi supermarket did not have enough capital to support its sales growth.

Table 12: ***Working capital turnover ratios of Uchumi Supermarket for the period 2007~2013(Post-financial crisis).***

Working Capital Turnover Ratio = Net Sales / Average Net Working Capital							
Liquidity Ratios/Year	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Working Capital Turnover Ratio	9	38	13	5	4	5	5

Graph 10: ***Working capital turnover ratios of Uchumi Supermarket for the period 2007~2013(Post-financial crisis).***



From the results above, the working capital turnover decreased from 50 times in the year 2006 to 9 times in the year 2007. This shows that Uchumi supermarket had developed enough capital to support its sales growth and that the working capital was being utilized efficiently to generate the sales level.

The ratio then increased drastically in the year 2008. This was due effect of the intervention of the government's cash bailout in the year 2008. This therefore enhanced the company's efficiency in the management of working capital and in generating of more sales during this period. The ratio then decreased to 13 times, 5 times, 4 times in the years 2009 and 2010 respectively. The ratio increased to 5 times in both years 2012 and 2013. Although the turnover ratio fluctuated over the period, the ratios were comparatively higher meaning that the management was efficient in utilizing its working capital to generate sales.

Leverage Ratios

Gitman (2009) states that leverage ratios measure the extent to which a firm uses debt as a source of financing and its ability to service that debt.

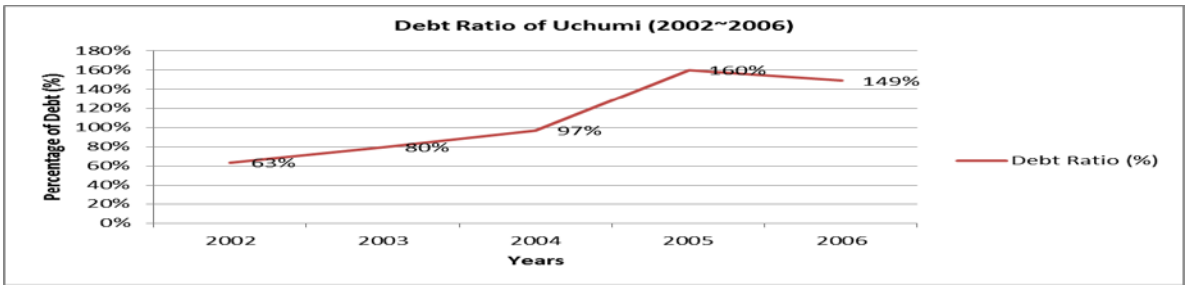
Debt Ratios

Debt ratio measures the percentage of a firm's total assets with borrowed funds. A low percentage indicates a more conservative approach to financing while a higher ratio indicates a more aggressive approach to financing (Gitman, 2009; Hatten, 2008). A higher percentage is evidence that a firm uses a high-risk, high expected-return strategy in managing its working capital.

Table 13: ***Debt ratios of Uchumi Supermarket for the period 2002~2006(Pre-financial crisis).***

Debt Ratio = Total Debt / Total Assets					
Leverage Ratios/Year	**2002**	**2003**	**2004**	**2005**	**2006**
Total Assets	2,539,965	3,436,761	3,265,097	1,853,937	1,491,124
Total Liabilities	1,612,396	2,734,920	3,155,132	2,967,743	2,222,771
Debt Ratio	**63%**	**80%**	**97%**	**160%**	**149%**

Graph 11: ***Debt ratios of Uchumi Supermarket for the period 2002~2006(Pre-financial crisis).***



The results above demonstrate the proportion of Uchumi's total assets acquired with its borrowed funds. The debt ratio increased from 63% in year 2002 to 80%, 97% and to 160% in years 2003, 2004 and year 2005 respectively. The ratio then decreased to 149% in the year 2006.

The incremental analysis of debt ratios above indicate that Uchumi supermarket had a very aggressive approach to financing and this is evidence of a high financial high-risk, associated with a high-expected-return strategy.

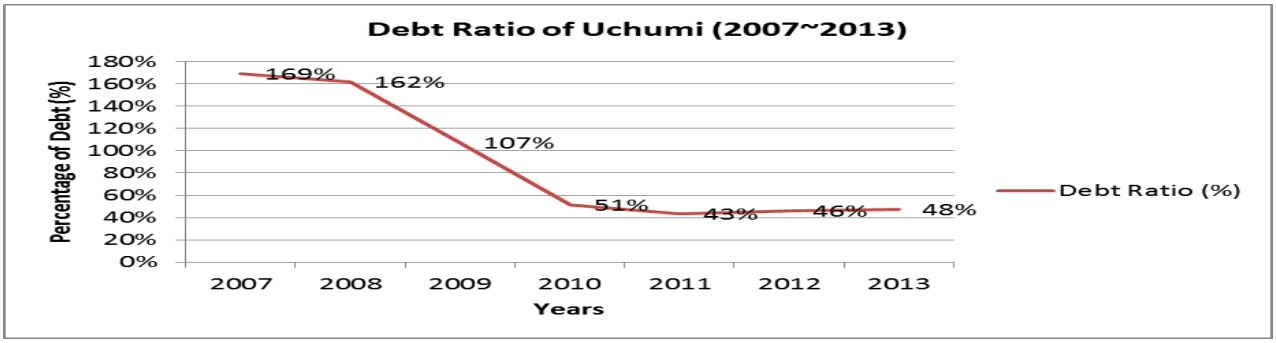
Uchumi Supermarket's debt ratio also indicated that it had financed 63% of its assets with borrowed funds in 2002. That is, KES 0.63 of every KES 1.00 of funding for Uchumi has come from debt financing. Moreover, Uchumi Supermarket assumes to

be very aggressive in financing its assets from borrowed funds. Between 2003 and 2006 the trend demonstrates the same aggressive approach of financing option, indicated by incremental debt ratios of 80%, 114%, 97%, 160% and 149% in the years 2003, 2004, 2005 and 2006 respectively.

Table 14: ***Debt ratios of Uchumi Supermarket for the period 2007~2013(Post-financial crisis).***

Debt Ratio = Total Debt / Total Assets							
Leverage Ratios/Year	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Total Assets	1,583,757	1,629,163	2,440,418	3,153,511	4,004,720	4,941,888	5,573,533
Total Liabilities	2,683,207	2,633,162	2,620,913	1,614,578	1,725,555	2,284,078	2,648,121
Debt Ratio	**169%**	**162%**	**107%**	**51%**	**43%**	**46%**	**48%**

Graph 12: ***Debt ratios of Uchumi Supermarket for the period 2007~2013(Post-financial crisis).***



From the results above, it is evident that the debt ratio increases from 149% in year 2006 to 169% in the year 2007. The ration then drops to 162%, 107% ,51% and to 43% in the years 2008,2009,2010 and the year 2011 respectively.

It can be derived that Uchumi's debt ratio indicates that it has financed 169% of its assets with borrowed funds in 2007. That is, KES 1.69 of every KES 1.00 of funding for Uchumi Supermarket came from debt financing. This shows that Uchumi Supermarket was over-indebted and assumed a very aggressive approach in financing its assets from borrowed funds. The results reveal that the supermarket is over-indebted from the year 2005 to the year 2009. This translated to a high financial risk level.

The debt ratio increased from 43% in the year 2011 to 46% and 48% in the years 2012 and 2013 respectively. This shows a change in the working capital policy from an aggressive one to a conservative one.

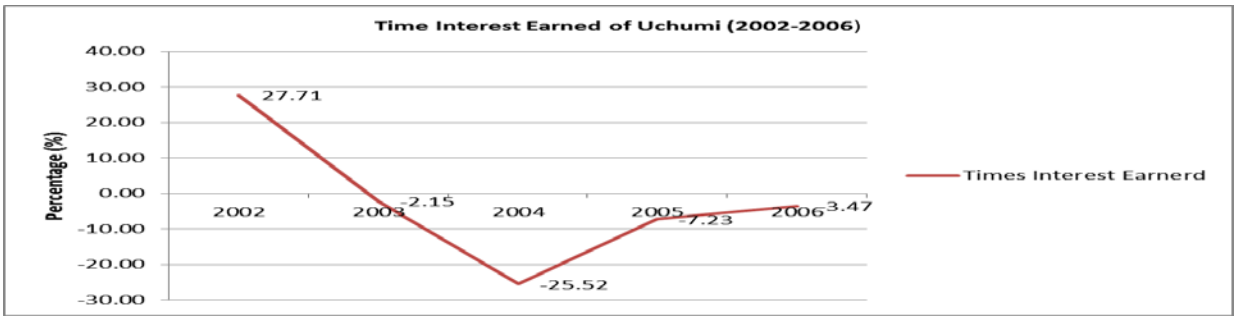
Time Interest Earned Ratio

Times interest earned ratio computes a company's ability to meet its interest when it is due. A higher ratio indicates a low-risk situation although it may also indicate an insufficient use of leverage while a low ratio indicates that prompt action should be taken to ensure that no debt payments will go into default status (Hatten, 2008).

Table 15: ***Times interest earned ratio of Uchumi Supermarket for the period 2006~2007(Pre-financial crisis).***

Time Interest Earned = Operating Income / Interest Expense					
Leverage Ratios/Year	**2002**	**2003**	**2004**	**2005**	**2006**
Net Profit/Loss after Dep	83,209	(167,865)	(629,685)	(1,078,031)	(583,226)
Total Interest Expenses	3,003	78,167	24,673	149,172	167,854
Time Interest Earned (%)	2771%	-215%	-2552%	-723%	-347%
Time Interest Earned	27.71	-2.15	-25.52	-7.23	-3.47

Graph 13: ***Times interest earned ratio of Uchumi Supermarket for the period 2006~2007(Pre-financial crisis).***



The ratio decreased from 27.71 the year 2002 to -2.15, -25.52 -7.23 and to – 3.37 in the years 2003, 2004, 2005 and 2006 respectively. In 2003 Uchumi supermarket had a negative operating income of -2.15 times its interest obligations. The worst scenario of time interest earned occured in 2004, which shows a negative operating income of -25.52 times its interest obligations.

This lower ratio of -25.52 indicates that by the year 2004 Uchumi was facing serious financial problems and must not have been able to meet its debt obligations. Therfore the financial manager should have take prompt action to prevent all debt payments being in default status.

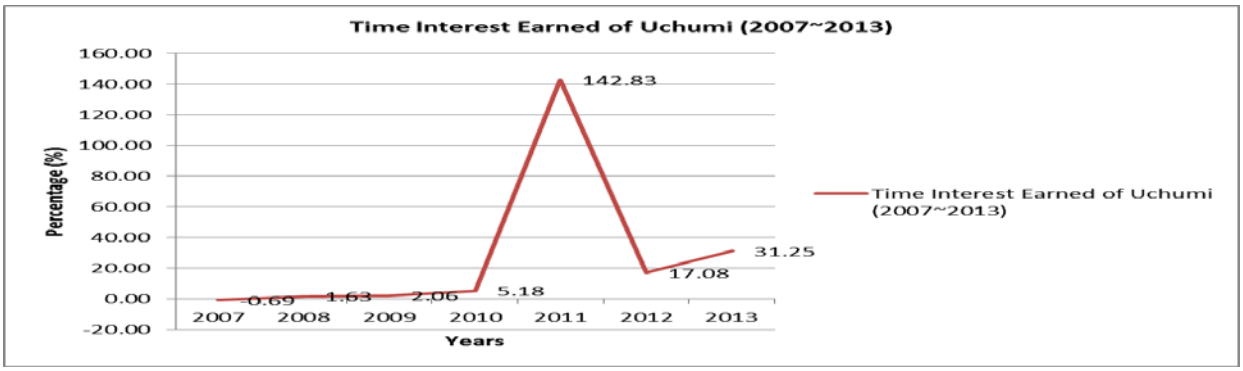
However, Uchumi supermakert ended up being declared bankrupt in the subsequent years. This was caused by its inability to meet debt repayments given its financial

circumstances. This should have been prevented by restructuring and implementing new financial control practices by the supermarket.

Table 16: ***Times interest earned ratio of Uchumi Supermarket for the period 2007~2013(Post-financial crisis).***

Time Interest Earned = Operating Income / Interest Expense							
Leverage Ratios/Year	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Net Profit/Loss after Dep	(104,436)	274,623	330,406	536,750	518,463	428,425	501,964
Total Interest Expenses	152,124	168,522	160,484	103,558	3,630	25,082	16,062
Time Interest Earned (%)	-69%	163%	206%	518%	14283%	1708%	3125%
Time Interest Earned	-0.69	1.63	2.06	5.18	142.83	17.08	31.25

Graph 14: ***Times interest earned ratio of Uchumi Supermarket for the period 2007~2013(Post-financial crisis).***



From the results above, the debt ratio increased from -3.47 in the year 2006 to -0.69,1.63,2.06, 5.18 and to 142.83 in the years 2007, 2008, 2009, 2010 and the year 2011 respectively. This shows that between the year 2007 and 2008 Uchumi supermarket was still facing serious financial problems and was not been able to meet its debt obligations.

Due to its improved performance from the year 2009, Uchumi was able to meet its obligations successfullly. In the year 2011, there was a high times interest earned ratio (142%) when the supermarket made sufficient profits to meet all it obligations. The ratio then dropped to 17.08% and later increased to 31.25% in the years 2012 and 2013 respectively.

Profitability Ratios

Gitman (2009) stated that profitability ratios critical measures of company's ability turn its sales into profits and also to earn profits on assets and owner's equity

commitment. Profitability ratios such as return on asset (ROA), return on owner equity (ROE) and net profit after taxes (NPAT are used to measure the business financial performance in terms of profitability.

Net Profit after Tax (NPAT)

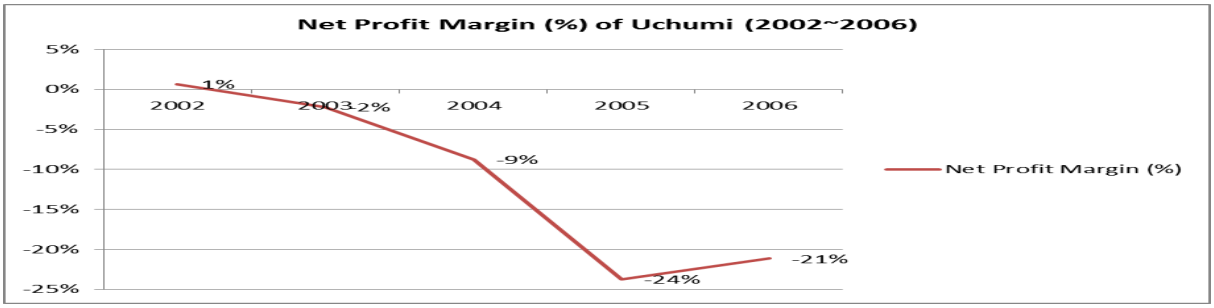
This is used to measure the percentage of sales values that remains as profit after all expenses, including taxes have been paid. It is used as a measure of efficiency of the management of the company. A low net profit margin ratio shows that expenses are too high compared to sales revenues.

Table 17: ***Net profit margin ratio of Uchumi Supermarket for the period 2006~2007(Pre-financial crisis).***

Net Profit Margin = $\frac{\text{Net Income}}{\text{Sales}}$

Profitability Ratio/Year	**2002**	**2003**	**2004**	**2005**	**2006**
Net Profit Margin (NPM) (%)	1%	-2%	-9%	-24%	-21%
Net Profit Margin (NPM)	0.01	-0.02	-0.09	-0.24	-0.21
Net Profit (Loss) After Tax	49,664	(196,569)	(698,911)	(1,227,203)	(751,080)
Sales	7,936,755	8,900,858	7,962,986	5,166,480	3,551,833

Graph 15: ***Net profit margin ratio of Uchumi Supermarket for the period 2006~2007(Pre-financial crisis).***



From the results above, Uchumi Supermarket generated losses of 0.02 cents, 0.09 cents, 0.24 cents, and 0.21 cents for each KES 1.00 of sales in 2003,2004, 2005 and in year 2006 respectively. This means that Uchumi supermarket could not pay its operating expenses, interest and taxes in these three financial periods. Uchumi Supermarket only managed to generate 1 cent of after-tax profit for each KES1.00 of sales made by Uchumi in the year 2002.

Table 18: ***Net profit margin ratio of Uchumi Supermarket for the period 2007~2013(Post-financial crisis).***

Net Profit Margin = $\frac{\text{Net Income}}{\text{Sales}}$

Profitability Ratio/Year	2007	2008	2009	2010	2011	2012	2013
Net Profit Margin (NPM) (%)	-6%	1%	5%	9%	4%	2%	3%
Net Profit Margin (NPM)	-0.06	0.01	0.05	0.09	0.04	0.02	0.03
Net Profit (Loss) After Tax	(256,560)	95,069	420,630	865,099	390,425	273,977	357,010
Sales	4,503,241	6,757,711	8,202,221	9,559,682	10,770,961	13,802,191	14,270,598

Graph 16: ***Net profit margin ratio of Uchumi Supermarket for the period 2007~2013(Post-financial crisis).***

From the results above, Uchumi Supermarket generated losses of 0.06 cents, for each KES1.00 of sales in the year 2007 only. This means that Uchumi supermarket could not pay its operating expenses, interest and taxes in this financial period. In the subsequent years, Uchumi supermarket managed to generate profits of 0.01 cents, 0.05 cents, 0.04 cents, 0.02 cents and 0.03 cents of after-taxprofit for each KES1.00 of sales made by Uchumi in the year 2008, 2009, 2010, 2011, 2012 and year 2013 respectively.

Based on the results above the NPAT ratios show that Uchumi Supermarket incurrred high operating expenses relative to revenues gained from sales during these periods. During the pre-financial crisis period, Uchumi incurred the highest losses with a NPAT of 24% and 21% in the years 2005 and 2006 respectively. Therefore the financial manager of Uchumi Supermarket should have looked at variable costs with an aim of minimising them. The financial manager should have applied management accounting techniques for example the breakeven point analysis and cost colume crofit analysis in order to derive and an acceptable levels as far as management of varibles costs is concerned.

Return on Investment or Return on Asset

The return on asset ratio (ROA) or return on investments (ROI) shows a company's effectiveness in generating profits from its available assets. Return on Assets is used to measure the profit-earning performance of the company's assets. A lower ratio on

return on asset indicates ineffectivenes of the management and inadequacy in utlizing the opportunities for future business growth.

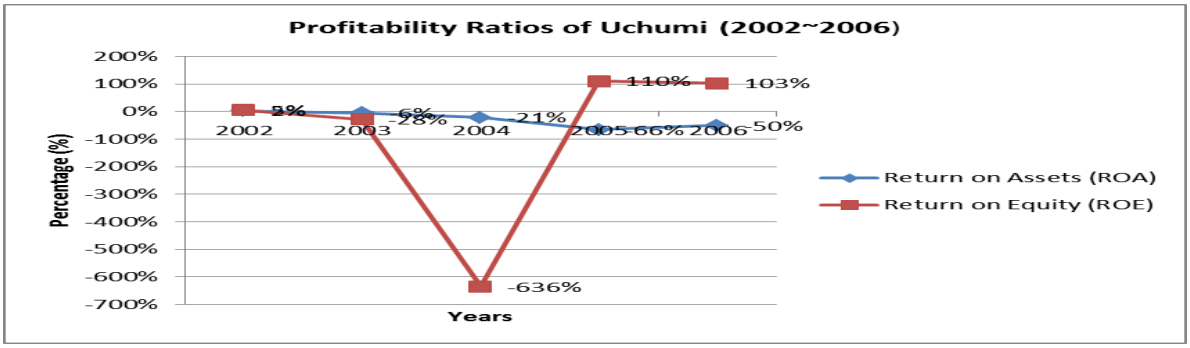
Return on Equity (ROE)

This measures the return earned by a firm on its owner's investment in the business. A higher the return of equity ratio means a better financial position of the owner.

Table 19: ***Return on assets & return on equity of Uchumi Supermarket for the period 2006~2007(Pre-financial crisis).***

ROA =Net profits after taxes / Total Assets			ROE = Net Profit After Tax / Owner's Equity		
Profitability Ratio/Year	**2002**	**2003**	**2004**	**2005**	**2006**
Total Assets	2,539,965	3,436,761	3,265,097	1,853,937	1,491,124
Net Profit (Loss) After Tax	49,664	(196,569)	(698,911)	(1,227,203)	(751,080)
Total Equity	927,569	701,841	109,965	(1,113,806)	(731,647)
Return on Assets (ROA or ROI)	2%	-6%	-21%	-66%	-50%
Return on Equity (ROE)	5%	-28%	-636%	110%	103%

Graph 17: ***Return on assets & return on equity of Uchumi Supermarket for the period 2006~2007(Pre-financial crisis).***



In the years 2003, 2004, 2005 and 2006, Uchumi Supermarket attained negative ratios on its return on investment. Uchumi Supermarket achieved negative ratios of -6%, -21%,-66% and -50% in the years 2003, 2004, 2005 and the year 2006 respectively. The decline in the rate of return on investment gradually throuhout the period demonstrates the impact of poor working capital management practices. It also indicates the ineffective management of using assets to generate profits within the business. It shows tha there was a big threat for Uchumi Supermarket'ability to sustain its profitability for growth and its future survival and that Uchumi Supermarket had a very limited opportunity to grow the business going forward due to

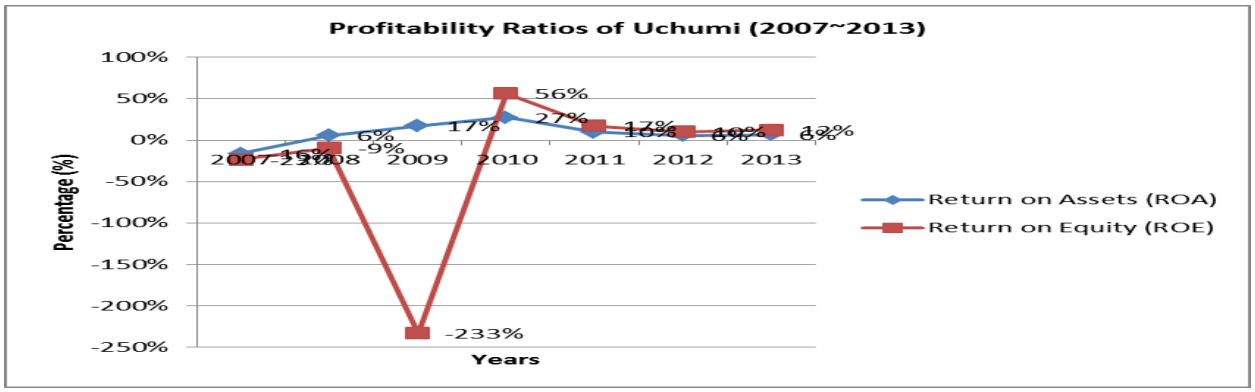
ineffective management of its assets to generate and reinvest profits back into the business.

With regards to the return on equity, Uchumi Supermakert attained a ROE of 5%, 28%,-636%,-110% and -103 in years 2002, 2003, 2004,2005 and 2006 respectively. These ratios indicate that Uchumi Supermarket's owners funded the business mainly with borrowed funds during this period. This means that the supermarket was highly leveraged and that the owners of the supermarket depended on borrowed funds for the survival of the business. There was a high probability of the business failing because of this. The supermarket was declared bankruft in the year 2006 and was immediately placed under receivership.

Table 20: ***Return on assets & return on equity of Uchumi Supermarket for the period 2007~2013(Post-financial crisis).***

ROA =Net profits after taxes / Total Assets			ROE = Net Profit After Tax / Owner's Equity				
Profitability Ratio/Year	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Total Assets	1,583,757	1,629,163	2,440,418	3,153,511	4,004,720	4,941,888	5,573,533
Net Profit (Loss) After Tax	(256,560)	95,069	420,630	865,099	390,425	273,977	357,010
Total Equity	(1,099,450)	(1,003,999)	(180,495)	1,538,933	2,279,165	2,657,810	2,925,412
Return on Assets (ROA or ROI)	-16%	6%	17%	27%	10%	6%	6%
Return on Equity (ROE)	-23%	-9%	-233%	56%	17%	10%	12%

Graph 18: ***Return on assets & return on Equity of Uchumi Supermarket for the period 2007~2013(Post-financial crisis).***



During the post-financial crisis period, Uchumi Supermarket achieved negative -16% return on investment the year 2007. This implies that the management was inefficient in using the company's assets to generate profits for the company. There was

improvement in the efficiency of management with regards to the use of company's asset to generate profits. The company attained positive returns of 6%, 17%, 27%, 10%, 6% and 6% return on investment in the years 2008, 2009, 2010, 2011, 2012 and 2013 respectively.

With regards to the return on equity, Uchumi Supermakert attained a ROE of -23%,-9%,-233%,56%,17%,10%and 12% in years 2007, 2008, 2009,2010, 2011, 2012 and 2013 respectively. It is evident that Uchumi Supermarket's owners funded the business mainly with borrowed funds and that the supermarket was highly leveraged in the years 2007, 2008 and 2009. The above trend of debt financing was reduced significantly in the year 2010 as the the volume of sales revenues increased. Thus the shareholders contributed more capital and retained some of the profits in the business. Therefore by reducing the business debts the supermarket minimized the risk of business failure in the subsequent years despite making minimal profits.

Working Capital Investment and Financing Policies

Current Asset to Total Asset Ratio (CATAR)

Current assets to total assets ratio is used to meaure a firm's investment policy of working capital management. It shows the percentage of a firm's total assets that are held in the form of current assets. A conservative investment policy of working capital involves the investment of more current assets than non-current assets while an aggressive investment policy of working capital involves the investment of less current assets as compared to non-current assets in order to attain more returns. A lesser value of current assets to total assets ratio shows a more aggressive investment policy. It is calculated as;

CATAR =Total Current Assets (TCA)/Total Assets (TA)

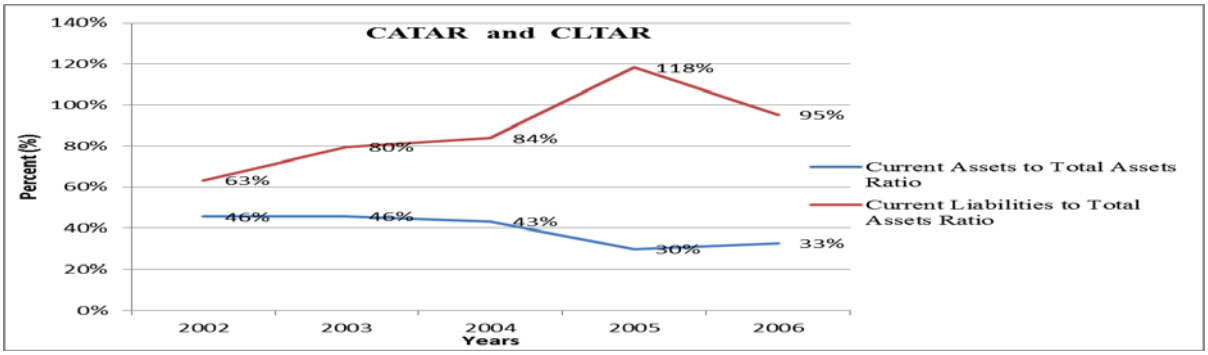
Whereby a lower ratio means a relatively aggressive policy and hence lower liquidity and vice-versa.

Table 21: ***Current assets to total assets ratio (CATAR) and current liabilities to total assets ratio (CLTAR) of Uchumi Supermarket for the period 2002~2006(pre-financial crisis).***

Year	**2002**	**2003**	**2004**	**2005**	**2006**	**Average**
Current Assets to Total Assets Ratio (CATAR)	46%	46%	43%	30%	33%	39%

Current Liabilities to Total Assets Ratio (CLTAR)	63%	80%	84%	118%	95%	88%

Graph 19: ***Current assets to total assets ratio (CATAR) and current liabilities to total assets ratio (CLTAR) of Uchumi Supermarket for the period 2002~2006(pre-financial crisis).***



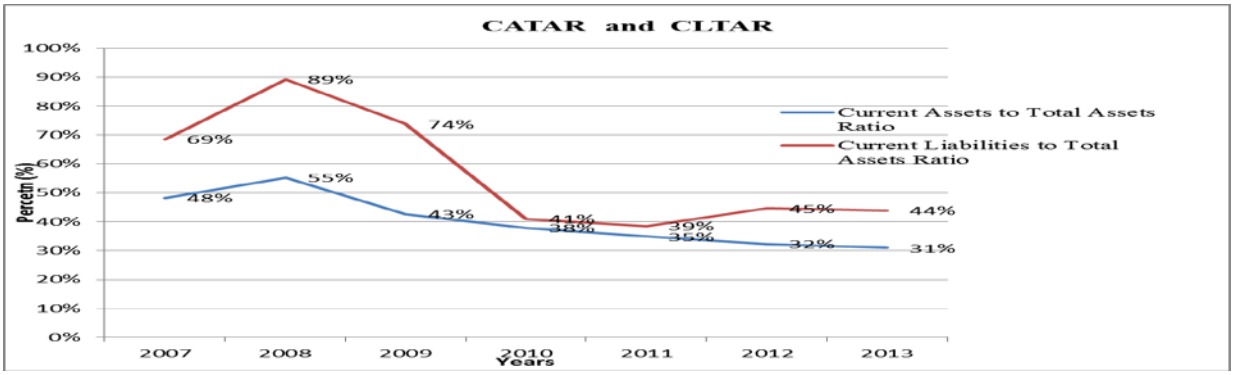
From the table 21 above, it is evident that during the pre-financial crisis period (2002~2006), the mean percentage of current assets in relation to total assets in Uchumi Supermarket was 39%. It implies that on an average about 39 percent of total funds tied up in working capital of Uchumi supermarket during the period under study and the rest (61%) was utilized for fixed assets by the company. Its CATAR was minimum at 30% in the year 2005 and was maximum in the year 2002 and 2003 when it stood 46%. The ratio then drops to 43%, and to 30% in the year 2004 and 2005 respectively. It then rises to 33% in the year 2006. The flactuation in the CATAR indicates inconsistency in the management of working capital.

The ratios above are raltively low (below 40% on avarage). This implies an aggressive investment policy of working capital because less investment is made in current assets as compared to non-current assets to get more returns.

Table 22: ***Current assets to total assets ratio (CATAR) and current liabilities to total Assets ratio (CLTAR) of Uchumi Supermarket for the period 2002~2007(pre-financial crisis).***

Year	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**Average**
Current Assets to Total Assets Ratio (CATAR)	48%	55%	43%	38%	35%	32%	31%	40%
Current Liabilities to Total Assets Ratio (CLTAR)	69%	89%	74%	41%	39%	45%	44%	57%

Graph 20: ***Current assets to total assets ratio (CATAR) and current liabilities to total assets ratio (CLTAR) of Uchumi Supermarket for the period 2007~2013 (post-financial crisis).***



From the table 21 above, it is evident that during the post-financial crisis period (2007~2013), the mean percentage of current assets in relation to total assets in Uchumi Supermarket was 40%. It implies that on an average about 40 percent of total funds tied up in working capital of Uchumi supermarket during the period under study and the rest (60%) was utilized for non-current assets by the company. Its CATAR was minimum at 31% in the year 2013 and was maximum in the year 2008 when it stood 55%. The ratio rose from 33% in the year 2006 to 48% in the year 2007 and to 55% in the year 2008. This shows a comparative change in the investment policy of working capital. It implies a change towards a conservative working capital policy whereby the supermarket increased its investment in the level of current assets as compared to the fixed assets.

However, the ratio the drops to 43%, 38%, 35%, 32% and 31% in the years 2009, 2010, 2011, 2012 and 2013 respecively. This therefore implies that the supermarket adopted a realtively more aggressive investment in working capital. This shows a decline level of liquidity. Compared to the pre-fianancial crisis period, the supermarket's investment in working capital is delcining at a steady has a declining at a steady rate. This implies that the managemnt of the supermarket was geared towards applying an aggressive working capital management policy that involves the use of comparatively lesser current asssets to get more returns because the level of current assets decreased in proportion to the total assets of the supermarket.

In general, the relatively low ratios relates to the fact that any firm's current assets are relatively less profitable than non-current assets. Relatively low level of CATAR

implies an increase in the level of the supermarket's profitability and risk. A decline in net working capital was caused by the fact that a decrease in the level of current assets was not accompanied by a corresponding reduction in its current liabilities.

Current Liabilities to Total Asset Ratio (CLTAR)

Current liabilities to total assets ratio (CLTAR) was used to investigate the working capital financing policy of Uchumi Supermarket Limited. This ratio shows the percentage of a firm's total assets financed using its current liabilities. An aggressive financing policy uses a greater portion of current liabilities than long-term liabilities while a conservative financing policy uses more long-term liabilities than current liabilities.

A company is said to be more aggressive in terms of current liabilities management if its concentrates on the use of more current liabilities which put their liquidity on risk.

The degree of aggressiveness of a financing policy adopted by a firm was measured working capital financing policy which was calculated as follows:

CLTAR = Total Current Liabilities (TCL)/Total Assets (TA)

Whereby a higher ratio means a relatively aggressive policy hence higher probability of insolvency due to increased risk of liquidity.

From the table 21 and graph 19 above, the CLTAR during the pre-financial crisis period was 63%, 80%, 84%, 118% and 95% in the year 2002, 2003, 2004, 2005 and 2006 respectively. The minimum and the maximum for the period is when the ratio was at 63% in the year 2002 and 118% in the year 2005 respectively.

However, during the post-financial crisis period (results in table 22 and graph 20), the ratio decreases from 95% in year 2006 to 69% in the year 2007. The ratio then increases to 89% in the year 2008, and then declines to 74% then to 41% and 39% in the year 2009, 2010 and 2011 respectively. The ratio increased slightly to 45% in the year 2012 but then declined to 44% in the year 2013. The minimum and the maximum for the period is when the ratio was at 39% in the year 2011 and 89% in the year 2008 repsectively. The average CLTAR during the period was at 57%.

From the results in table 22 and graph 20 above, it is evident that the ratio was comparatively higher during the pre-financial crisis period with an average of 88%. This implies a relatively aggressive financing policy with regards to the management

of working capital. It shows that the supermarket concentrated more on the use of current liabilities than long-term debt.

Generally during the pre-financial crisis period, the ratio of current liabilities to total assets was relatively high. Higher ratios means that the supermarket had relatively higher level of a short-term source of finance (current liabilities) than the long-term sources of finance reduce (non-current liabilities).

A higher CLTAR shows a relatively increased level of profitability and risk level. Increased level of profitability and risk is explained by the fact that short-term sources of finance are cheaper than long-term sources. Increase in the ratio implies the use of cheaper sources of financing compared to long term sources. This will lead to a consequent decrease in the cost level and hence increase in firm's level of profitability. Furthermore, an increase in the current liabilities without any change in current assets will lead to a decline in net working capital. A decline in net working capital increases a firm's level of risk.

Therefore in general, a relative increase in the firm's current liabilities-total assets ratio leads to a relative increase in its risk and profitability level. Profitability is caused by decline in the cost while increases in risk level is caused decline in net working capital increases or liquidity.

During the post-financial crisis period, the ratio decreased drastically from the 71% in the year 2009 to 41% in the year 2010. The ratio then fluctuates with a slight trend between 40% and 45%. Thus it implies a more conservative financing policy that involved the use of more long-term debts than current liabilities by the supermarket.

A relative decline in the ratio leads to decrease in the firm's profitability and level of risk. The expensive nature of long-term sources of funds implies increase in firm's costs and this leads to decline in profits. Risk level declines because of the increase in the amount of net working capital caused by lower level of current liabilities with the assumption that firm's current assets do not change. In general, an increase in cost of long term sources of fund causes a decline in profitability while an increase in net working capital reflects an improvement in liquidity and a reduction in risk.

Cash Conversion Cycle

The cash conversion cycle estimates the period of time required to convert a dollar of cash disbursements back into a dollar of cash inflow from a firm's regular course of operations (Richards & Smith, 1980). It measures the time taken between when a

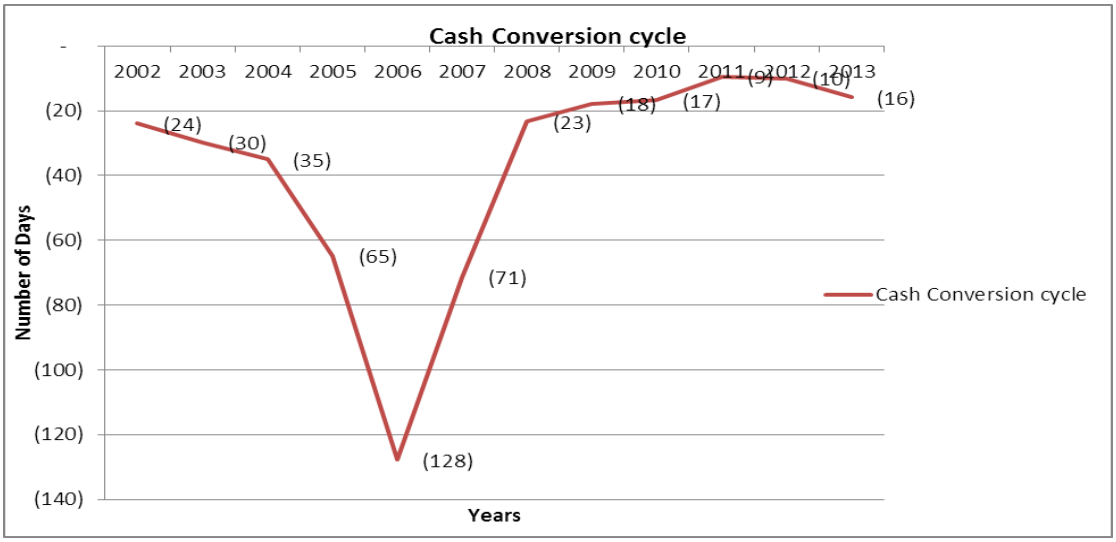
company pays its suppliers for inventory and the time it collects cash from the sale of the finished goods or products. It measures how long cash is tied up in inventory before the inventory is sold and cash is collected from customers (Hyun-Han Shin and Luc Soenen,1998).

A lower the cash conversion cycle means that a firm receives prompt payments from the sale of its products. This implies that the firm's cash position improves making it more liquid and vice versa.

Table 23: ***Cash conversion cycle of Uchumi Supermarket for the periods 2002~2006 & 2007~2013 (Pre & Post-financial crisis).***

Variables/Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
ARP = Average Debtors x 365/Net Sales	5	6	12	20	17	11	8	8	9	10	9	11
ICP = Average Inventory x365/Net Sales	36	43	51	43	30	33	31	27	25	26	25	29
APP = Average Creditors x 365/Net Purchases	65	80	98	128	175	115	62	53	51	46	45	55
CCC = ARP + ICP - APP	*(24)*	*(30)*	*(35)*	*(65)*	*(128)*	*(71)*	*(23)*	*(18)*	*(17)*	*(9)*	*(10)*	*(16)*

Graph 21: ***Cash conversion cycle of Uchumi Supermarket for the periods 2002~2006 & 2007~2013 (Pre & Post-financial crisis).***



The table above shows negative cash conversion cycle in all the periods used in this study. The supermarket's negative cash conversion cylce is desirable. It means Uchumi Supermarket was using its working capital efficiently. It implies that Uchumi Supermaket did not pay its suppliers until it receives payment from the accounts receivables. This means that the supermarket was selling its inventory and collecting its receivables before paying its payables. This could imply that managers of Uchumi Supermarket created value by keeping the number of days accounts receivables to a reasonable minimum.

Chapter 6: Research Conclusion and Recommendations

Research Conclusions

This chapter provides the final conclusions and recommendations of the research findings achieved on the basis of financial ratio analysis of the findings of the case of Uchumi Supermarket Limited during both the pre-financial crisis and post-financial crisis periods.

Financial management involves key decision regarding the management of working capital in order to attain an efficient level of working capital that is adequate to allow smooth running of business regardless of the nature of business. From this study, it is evident that maintaining efficient level of working capital critical to the survival of supermarket businesses in Kenya.

This study explored and analyzed the working capital management policies performance of Uchumi Supermarket. Working capital financing and investment is important in analyzing the management of working capital .The investing policy is related with the management of current assets of the business while financing policy is concerned about the management of current liabilities. The summary of the important findings of the case study are as follows:

The current and quick ratios were below the ideal standard of 2:1 during the entire period. The supermarket had a weak, unstable and unsatisfactory liquidity. The supermarket was facing difficulties of meeting its current obligation as and when the fall due. The level of inventory was very high throughout the period.

The creditors turnover ratio and average payment period shows that the supermarket was not prompt in making its payments to the suppliers and other creditors. The debtors turnover ratio and average collection period shows that the supermarket was not efficient in management of its accounts receivables. The negative inventory turnover ratios shows that the supermarket was not efficient in utilizing its inventory to generate sales.

The debt ratio is not favorable from long term creditor’s point of view. It ascertains the unsoundness of long term financial policies of the supermarket. A negative cash conversion cycle on the other hand indicates that Uchumi supermarket was using its working capital efficientlyby not paying its suppliers until it receives payment from the accounts receivables.

An aggressive working capital investing policy means that more resources are invested in fixed assets than current assets in order to gain more profits while in a conservative working capital investment policy is opposite to it. More current liabilities are used in an aggressive working capital financing and vice versa for conservative financing policy.

In general, the results of this study show that conservative investing policy of working capital management was used during the pre-financial crisis period. During this period, the supermarket concentrated more on the use of of current assets as compared to the fixed assets. On the contrary, the supermarket applied a relatively more aggressive financing policy with regards to the management of working capital. It concentrated more on the use of current liabilities than long-term debt.

During the post-financial crisis period, the management of the Uchumi Supermarket applied a more aggressive working capital management policy that involves the use of comparatively lesser current assets to get more returns because the level of current assets decreases in proportion to the total assets of the supermarket. Contrary, the management applied a more conservative financing policy that involved the use of more long-term debts than current liabilities by the supermarket during this period.

From the analysis above, it is found that there are differences among the working capital financing policies of Uchumi Supermarket during both the pre-financial crisis and post-financial crisis periods. The results are similar to the findings of research by Weinraub and Visscher (1998) who state that when relatively aggressive working capital asset policies are followed, they are balanced by relatively conservative working capital financial policies. These findings of this study will be helpful to the financial managers of Kenya supermarkets as it information regarding the management of working capital that may help in improving the performance of the organization in general. Therefore financial managers must always maintain a desirable level of both the assets and liabilities of the firm.

It therefore means that financial managers Kenyan supermarkets should follow aggressive investment policy and conservative financing policy of working capital management during their normal operations in order to maximize to enhance the performance.

It can be concluded that the supermarket must maintain adequate level of working capital that will enable it to meet the short-term maturing obligations and to optimally

run its operations. Therefore the supermarket must ensure that it invests more of its financial resources in non-current assets compared to current assets in order for it to generate more returns. In addition, it should use more long term debts as compared to current liabilities as this will enhance performance and ensure enhance its financial health.

Recommendations

The management of working capital plays an important role in maintaining the financial health of the firms during the normal course of business. Therefore with regards to this, it is therefore recommended that;

Management of Uchumi Supermarket must take actions required to maintain the financial ratios at the standard level as it is important for the survival and profitability of the supermarket.

The supermarkets should manage its inventory collection periods better in order to improve their performance. They should strive to have lower inventory collection periods in order to increase their performance. Failure to do this will dampen its financial performance.

The supermarket needs to embrace aggressive working capital investment by reducing the capital invested on inventories and invest a larger portion of the capital on fixed assets to increases profitability of the firm.

Uchumi Supermarket must ensure that it maintains sufficient level of working capital required to ensure the production of a given capacity and maximization of the returns on investment in its non-currents assets.

The study also recommends that for the supermarket to improve its financial performance there is a need to increase the leverage ratios. Higher leverages will lead to higher financial performance. This can be improved by increasing the debt levels. This debt can be used to make more purchases and therefore more sales volumes which will translate to higher financial performance through more incomes.

The management of Uchumi Supermarket must therefore to reduce the days of trade receivables as well as increase the payable days in order to attained a minimum reduced cash conversion cycle days, hence this will contribute to increased profitability and liquidity level of the firm respectively.

Furthermore, it is advisable for the supermarket to embrace aggressive financing working capital policy as opposed the conservative policy adopted in the firm which

hindered their profitability growth and expansion. Therefore, the supermarket should aim to finance its short term obligations through the use of short term debt financing rather than long term debt that crippled investment capacity or growth.

Limitations and scope for further study

The study is limited to secondary data collected for period 13 years, i.e. from 2002-2013, therefore, the use of primary data such interviews and questionnaires that could give slightly different results has not been utilized.

The study was based on secondary data collected from the reports and account of Uchumi Supermarket as published. Therefore the quality of the study depends purely upon the accuracy, reliability and quality of the secondary data source.

The study could have been done using other variables covering many dimensions rather than ratios only. However, it is not possible cover all the dimensions and to include all the variables is in this study. Therefore, the results estimated from this study should be evaluated keeping in mind that there could be many other variables as well besides the ratios used and that this study is limited only to the effect of selected ratios.

The study was based on only one company. Therefore, the accuracy of results is purely based on the data of sample unit. Furthermore this study has the implication for Kenya's retail sector only. The scope of further research may be extended to the working capital components management of other major leading supermarkets in Kenya such as Nakumatt, Tusk's, Naivas and Ukwala Supermarket. Future research can also be done for other sectors as well such as cement sector manufacturing sector, construction sector and telecommunication sector among others.

Furthermore, future studies can use an improved model with more firm-specific control variables in the model as such may improve the accuracy of the financial performance model and therefore lead to better and robust results.

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Appendix

Appendix 1: Summary of the workings of various ratios during pre-financial crisis period (2002~2006).

Workings and Key Financial Ratios of Uchumi Supermarket												
Year Ended 30 June	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Profitability Ratios												
Operating Profit Margin(%)	1%	-2%	-8%	-21%	-16%	-2%	4%	4%	6%	5%	3%	4%
Profit Before Interest And Tax Margin(%)	-17%	-20%	-25%	-35%	-39%	-24%	-19%	-17%	-17%	-17%	-20%	-22%
Gross Profit Margin(%)	17%	16%	14%	14%	18%	18%	18%	18%	18%	18%	18%	19%
Return on Assets (ROA)	2%	-6%	-21%	-66%	-50%	-16%	6%	17%	27%	10%	6%	6%
Net Profit Margin(%)	1%	-2%	-9%	-24%	-21%	-6%	1%	5%	9%	4%	2%	3%
Return On Capital Employed(%)	9%	-24%	-120%	319%	-823%	-21%	156%	52%	29%	21%	16%	16%
Return On Net Worth(%)	17%	-66%	-233%	-409%	-83%	-29%	11%	47%	96%	29%	21%	27%
Return on Long Term Funds(%)	-	-	-168%	-158%	-94%	-16%	8%	51%	270%	213%	341%	179%
Ratios Liquidity And Solvency Ratios												
Current Ratio	0.72	0.58	0.52	0.25	0.34	0.70	0.62	0.58	0.92	0.91	0.72	0.70
Quick Ratio	0.19	0.11	0.17	0.12	0.14	0.22	0.19	0.24	0.37	0.36	0.24	0.22
Cash ratio	7%	4%	3%	2%	4%	7%	7%	6%	9%	10%	5%	4%
Debt Ratio	63%	80%	97%	160%	149%	169%	162%	107%	51%	43%	46%	48%
Debt Equity Ratio	5.37	9.12	10.52	9.89	2.47	2.98	2.93	2.91	1.79	1.30	1.72	2.00
Long Term Debt Equity Ratio	0.00	0.00	1.39	2.59	0.89	1.78	1.31	0.91	0.36	0.14	0.06	0.15
Debt Coverage Ratios												
Financial Charges Coverage Ratio	27.7	-2.15	-25.52	-7.23	-3.47	-0.69	1.63	2.06	5.18	142.83	17.08	31.25
Financial Charges Coverage Ratio Post Tax	16.5	-2.5	-28.3	-8.2	-4.5	-1.7	0.6	2.6	8.4	107.6	10.9	22.2
Debt to Owners Fund	0%	0%	58%	72%	47%	64%	57%	48%	26%	12%	6%	13%
Long-term Debt to Net Working Capital Ratio	0%	0%	-31%	-47%	-86%	-497%	-213%	-108%	-317%	-127%	-13%	-28%

Management Efficiency Ratios												
Inventory Turnover Ratio	(2.10)	(1.76)	(1.55)	(1.81)	(2.49)	(2.27)	(2.43)	(2.74)	(3.00)	(2.89)	(2.99)	(2.57)
Debtors Turnover Ratio	72.43	56.70	29.51	18.11	21.73	34.49	47.40	44.62	39.92	36.62	38.47	34.63
Fixed Assets Turnover Ratio	5.75	4.78	4.30	3.97	3.54	5.49	9.26	5.86	4.88	4.13	4.12	3.71
Total Assets Turnover Ratio	3.12	2.59	2.44	2.79	2.38	2.84	4.15	3.36	3.03	2.69	2.79	2.56
Variables/Year	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Profitability = Operating Profit	49,664	(196,569)	(698,911)	(1,227,203)	(751,080)	(256,560)	95,069	420,630	865,099	390,425	273,977	357,010
ARP = Average Debtors x 365/Net Sales	5	6	12	20	17	11	8	8	9	10	9	11
ICP = Average Inventory x365/Net Sales	36	43	51	43	30	33	31	27	25	26	25	29
APP = Average Creditors x 365/Net Purchases	65	80	98	128	175	115	62	53	51	46	45	55
CCC = ARP + ICP - APP	(24)	(30)	(35)	(65)	(128)	(71)	(23)	(18)	(17)	(9)	(10)	(16)
Average Debtors	109,573	156,990	269,882	285,267	163,476	130,578	142,571	183,816	239,494	294,102	358,760	412,108
Net Sales	7,936,755	8,900,858	7,962,986	5,166,480	3,551,833	4,503,241	6,757,711	8,202,221	9,559,682	10,770,961	13,802,191	14,270,598
Average Creditors (current liabilities)	1,140,695.00	1,537,918.50	1,915,822.00	1,790,265.50	1,387,637.50	1,092,451.50	924,118.00	990,855.00	1,093,699.50	1,100,683.50	1,371,167.00	1,738,572
Net Purchases = Closing Inventory - Opening inventory+ cost of sales	6,416,636.00	7,042,109.00	7,138,254.00	5,090,214.00	2,900,951.00	3,469,997.00	5,450,468.00	6,764,673.00	7,811,416.00	8,814,012.00	11,178,159.00	11,483,042
Average Inventories	780,579.00	1,058,987.00	1,102,489.00	614,571.50	291,754.00	407,626.00	571,267.00	615,216.50	658,669.50	774,140.50	953,425.00	1,126,512
Current Ratio = Current Assets/ Current Liabilities	0.72	0.58	0.52	0.25	0.34	0.70	0.62	0.58	0.92	0.91	0.72	0.70
Current assets to total assets ratio =Total current assets / Total assets	0.46	0.46	0.43	0.30	0.33	0.48	0.55	0.43	0.38	0.35	0.32	0.31
Current liabilities to total assets ratio =Current liabilities / Total Assets	0.63	0.80	0.84	1.18	0.95	0.69	0.89	0.74	0.41	0.39	0.45	0.44
Quick Ratio = Quick assets / Current liabilities	0.19	0.11	0.17	0.12	0.14	0.22	0.19	0.24	0.37	0.36	0.24	0.22
Debt ratio = (Total Liabilities / Total equity)	1.74	3.90	28.69	(2.66)	(3.04)	(2.44)	(2.62)	(14.52)	1.05	0.76	0.86	0.91

Appendix 2: Financial Report: Statement of Financial Performance

Uchumi Supermarket Kenya Limited					
Statement of Financial Performance for the year ended 30 June _____					
Year	**2002**	**2003**	**2004**	**2005**	**2006**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Sales	**7,936,755**	**8,900,858**	**7,962,986**	**5,166,480**	**3,551,833**
Income from redemption of royalty points	-	-		-	-
	7,936,755	**8,900,858**	**7,962,986**	**5,166,480**	**3,551,833**
Cost of sales	(6,563,144)	(7,452,417)	(6,814,950)	(4,437,683)	(2,907,847)
Gross (Loss)/profit	**1,373,611**	**1,448,441**	**1,148,036**	**728,797**	**643,986**
Change in Value of Investment Properties	-		-	-	-
Other income	92,151	162,630	232,896	21,388	141,500
	1,465,762	1,611,071	1,380,932	750,185	785,486
Operating Costs	(1,382,553)	(1,778,936)	(2,010,617)	(1,828,216)	-
Adminstration and estalishment	-	-	-	-	(1,314,510)
Selling and distribution	-	-	-	-	(54,202)
	(1,382,553)	(1,778,936)	(2,010,617)	(1,828,216)	(1,368,712)
Operating (loss)/profit (Before Interest & Tax)	**83,209**	**(167,865)**	**(629,685)**	**(1,078,031)**	**(583,226)**
Finance (cost)/income	(3,003)	(78,167)	(24,673)	(149,172)	(167,854)
(Loss) Profit before tax	**80,206**	**(246,032)**	**(654,358)**	**(1,227,203)**	**(751,080)**
Tax Credit/ (charge)	(30,542)	49,463	(44,553)	-	-
Net (loss)/ Profit after tax	**49,664**	**(196,569)**	**(698,911)**	**(1,227,203)**	**(751,080)**

Uchumi Supermarket Kenya Limited							
Statement of Financial Performance for the year ended 30 June _____							
Year	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Sales	**4,503,241**	**6,757,711**	**8,202,221**	**9,559,682**	**10,770,961**	**13,802,191**	**14,270,598**
Income from redemption of royalty points	-	**34,643**	**30,622**	**49,244**	**69,767**	**116,339**	**98,045**
	4,503,241	**6,792,354**	**8,232,843**	**9,608,926**	**10,840,728**	**13,918,530**	**14,368,643**
Cost of sales	(3,694,845)	(5,552,902)	(6,750,138)	(7,912,857)	(8,943,513)	(11,407,227)	(11,600,148)
Gross (Loss)/profit	**808,396**	**1,239,452**	**1,482,705**	**1,696,069**	**1,897,215**	**2,511,303**	**2,768,495**
Change in Value of Investment Properties	-	-	-	**130,000**	**160,721**	**250,000**	**480,000**
Other income	152,333	309,579	266,709	307,842	290,840	378,407	430,709
	960,729	1,549,031	1,749,414	2,133,911	2,348,776	3,139,710	3,679,204
Operating Costs	-	-	-	-	-	-	-
Adminstration and estalishment	(1,016,826)	(1,167,401)	(1,303,448)	(1,498,717)	(1,727,672)	(2,572,249)	(3,055,665)
Selling and distribution	(48,339)	(107,007)	(115,560)	(98,444)	(102,641)	(139,036)	(121,575)
	(1,065,165)	(1,274,408)	(1,419,008)	(1,597,161)	(1,830,313)	(2,711,285)	(3,177,240)
Operating (loss)/profit (Before Interest & Tax)	**(104,436)**	**274,623**	**330,406**	**536,750**	**518,463**	**428,425**	**501,964**
Finance (cost)/income	(152,124)	(168,522)	(160,484)	(103,558)	(3,630)	(25,082)	(16,062)
(Loss) Profit before tax	**(256,560)**	**106,101**	**169,922**	**433,192**	**514,833**	**403,343**	**485,902**
Tax Credit/ (charge)	-	(11,032)	250,708	431,907	(124,408)	(129,366)	(128,892)
Net (loss)/ Profit after tax	**(256,560)**	**95,069**	**420,630**	**865,099**	**390,425**	**273,977**	**357,010**

Appendix 3: Financial Report: Statement of Financial Position

Uchumi Supermarket Kenya Limited					
Statement of Financial Position for the year ended 30 June_____					
Year	**2002**	**2003**	**2004**	**2005**	**2006**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
ASSETS					
Non-Current Assets (a)					
Property, plant and equipement	1,146,647	1,370,537	1,481,493	1,006,773	790,770
Prepaid operating lease rentals	209,860	230,267	161,456	160,277	151,929
Deferred tax asset	-	44,553	-	-	-
Intangible assets	18,390	210,742	209,200	135,254	61,308
Amount due from related parties	-	-	1,582	-	
Non-current receivables	5,672	5,995	-	-	-
Total non-current assets	**1,380,569**	**1,862,094**	**1,853,731**	**1,302,304**	**1,004,007**
Current Assets (b)					
Inventories	853,833	1,264,141	940,837	288,306	295,202
Receivables and prepayments	141,564	172,415	367,349	203,184	123,767
Amount due from related parties	-	-	-	601	-
Tax recoverable	55,868	37,490	-		11,147
Current Income Tax	-	-	30,882	21,538	
Cash and bank balances	108,131	100,621	72,298	38,004	57,001
Total current assets (b)	**1,159,396**	**1,574,667**	**1,411,366**	**551,633**	**487,117**
Total Assets (c=a+b)	**2,539,965**	**3,436,761**	**3,265,097**	**1,853,937**	**1,491,124**

SHAREHOLDERS' EQUITY AND LIABILITIES	-	-	-	-	-
Capital and Reserves					
Share capital	300,000	300,000	300,000	300,000	900,000
Share premium	129,452	129,452	129,452		
Other Reserves	-	-	-	(1,413,806)	(1,631,647)
Revaluation surplus	-	-	178,652		-
Revaluation reserve	105,566	101,946	-	-	-
Translation reserves	-	841	(12,042)		-
Retained earnings	362,551	169,602	-	-	-
Accumulated loss	-	-	(486,097)	-	-
Proposed dividends	30,000	-	-	-	
Total capital and reserves (d)	**927,569**	**701,841**	**109,965**	**(1,113,806)**	**(731,647)**
Non-current liabilities					
Term Loans (Borrowings)	-	-	416,308	775,978	802,472
Deferred tax	4,910	-			
Total non-current liabilities (e)	**4,910**	**-**	**416,308**	**775,978**	**802,472**
Current Liabilities					
Payables and accrued expenses	1,270,810	1,805,027	2,026,617	1,553,914	1,221,361
Amount due from related parties	-	-	-	2,754	6,121
Bank Overdraft	-	-		415,226	192,817
Term Loans (Borrowings)	336,676	929,893	712,207	219,871	-
Total current liabilities (f)	**1,607,486**	**2,734,920**	**2,738,824**	**2,191,765**	**1,420,299**
Total Liabilities (g=e+f)	**1,612,396**	**2,734,920**	**3,155,132**	**2,967,743**	**2,222,771**
Total Shareholders' Equity and Liabilities (g+d)	**2,539,965**	**3,436,761**	**3,265,097**	**1,853,937**	**1,491,124**

Uchumi Supermarket Kenya Limited

Statement of Financial Position for the year ended 30 June_____

Year	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
ASSETS							
Non-Current Assets (a)							
Property, plant and equipement	668,562	579,159	685,476	687,428	1,438,734	2,114,777	2,255,442
Investment Properties			450,000	580,000	750,000	1,000,000	1,480,000
Prepaid operating lease rentals	151,658	150,248	20,555	20,284	20,013	19,738	19,470
Deferred tax asset			216,659	648,566	381,130	197,328	71,599
Intangible assets			26,346	23,666	17,193	15,899	21,707
Amount due from related parties	-	-	-	-	-	-	-
Non-current receivables							
Total non-current assets	**820,220**	**729,407**	**1,399,036**	**1,959,944**	**2,607,070**	**3,347,742**	**3,848,218**
Current Assets (b)							
Inventories	520,050	622,484	607,949	709,390	838,891	1,067,959	1,185,065
Receivables and prepayments	137,389	147,752	219,880	259,108	329,095	388,424	435,791
Amount due from related parties	-	-					
Tax recoverable	11,147	115	115	4,101	2,356	5,300	
Short Term Deposits	22,000	22,000	100,000	101,696	73,033	33,033	
Current Income Tax			-				
Cash and bank balances	72,951	107,405	113,438	119,272	154,275	99,430	104,459
Total current assets (b)	**763,537**	**899,756**	**1,041,382**	**1,193,567**	**1,397,650**	**1,594,146**	**1,725,315**
Total Assets (c=a+b)	**1,583,757**	**1,629,163**	**2,440,418**	**3,153,511**	**4,004,720**	**4,941,888**	**5,573,533**
SHAREHOLDERS' EQUITY AND LIABILITIES	-	-	-	-	-	-	-

Capital and Reserves							
Share capital	900,000	900,000	900,000	900,000	1,327,133	1,327,133	1,327,133
Share premium							
Other Reserves	(1,999,450)	(1,903,999)	(1,080,495)	638,933	952,032	1,330,677	1,598,279
Total capital and reserves (d)	**(1,099,450)**	**(1,003,999)**	**(180,495)**	**1,538,933**	**2,279,165**	**2,657,810**	**2,925,412**
Non-current liabilities							
Term Loans (Borrowings)	1,597,950	1,180,089	820,089	320,140	183,368	80,309	200,000
Deferred tax							
Total non-current liabilities (e)	**1,597,950**	**1,180,089**	**820,089**	**320,140**	**183,368**	**80,309**	**200,000**
Current Liabilities							
Payables and accrued expenses	963,542	884,694	1,097,016	1,090,383	1,110,984	1,631,350	1,845,793
Deferred Revenue			37,310	47,780	47,688	17,097	12,264
Amount due from related parties	8,110	7,962	14,094	14,433	10,785	12,879	16,054
Tax Payable				-	2,263	-	673
Debenture loan	22,000	207,437	207,437				
Bank Overdraft	19,036	12,980	84,967	9,700	233,267	437,600	393,028
Term Loans (Borrowings)	72,569	340,000	360,000	132,142	137,200	104,843	180,309
Total current liabilities (f)	**1,085,257**	**1,453,073**	**1,800,824**	**1,294,438**	**1,542,187**	**2,203,769**	**2,448,121**
Total Liabilities (g=e+f)	**2,683,207**	**2,633,162**	**2,620,913**	**1,614,578**	**1,725,555**	**2,284,078**	**2,648,121**
Total Shareholders' Equity and Liabilities (g+d)	**1,583,757**	**1,629,163**	**2,440,418**	**3,153,511**	**4,004,720**	**4,941,888**	**5,573,533**