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Cash Management and Financial Performance of Business Firms in Northern Uganda a Case of Lira District

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Abstract: *The study sought to establish the effect of cash management on financial performance of business entities in Lira district. A cross sectional study design was adopted and data was collected by use of structured and closed ended questionnaire. Business owners who took part in the study confirmed high abilities in managing cash receivable, holding inventories and properly generating sufficient cash for meeting immediate obligations. However, the study found that the aforementioned practices were not sustainable with time due to incompetence in forecasting receipts and payments. This led to a conclusion that cash management has an insignificant effect on financial performance. The study recommended that Business associations like Uganda Chamber of Commerce, Uganda Manufacturers Association, in addition to Ministry of Trade and Commerce should consider providing trainings on cash management to existing and upcoming entrepreneurs to support them in developing cash management and other necessary business skills. There is also need for business owners to consider hiring business experts who can use different statistical models to forecast business performance.*

Keywords: *Cash management, Business Entities, Financial Performance, Northern Uganda*

I. Introduction

Cash management decision is one of the most important decisions in an organization because of the scarcity of financial resources of many institutions and for different objectives. It's the center for organizations operational process in order for it to achieve its objectives. Cash management involves cash planning, managing the cash flows, setting the optimum cash level from time to time and investing surplus cash. Businesses are required to maintain a balance between liquidity and profitability while conducting day to day operations. Liquidity is a precondition to ensure that firms are able to meet their short-term obligations as they fall due and at the same time ensuring that profitability is maintained. Weston & Copeland (2008) noted that companies need a cash reserve in order to balance short term cash inflows and outflows since these are not perfectly matched. Cash management directly affects liquidity and profitability (Raheman & Nasr, 2007).Effective cash management does not only increase chances of survival of a business, it also helps to attract investors who can fund its expansion as that is the first thing investors look for when evaluating a business and its cash flow which in turn reflects cash management practices (Merchant factors, 2013) Cash needs to be efficiently managed and allocated to meet routine business objectives. The gap between cash expenses and cash collection enhances liquidity position, profitability leading to overall business growth over a period of time (Brinchk, Soeren & Gemuenden, 2011).The management of cash focuses at ensuring adequate cash is maintained by the business entities and any surplus is put into the correct use. Business entities have the duty of ensuring that the entities do not overuse overdrafts as a means of finance. When business entities over apply for overdraft facility, they can make high returns but still struggle with maintaining adequate cash flows due to seasonal business and delay from the length of credit given. Cash is an important current asset for the operations of business. It's the basic input needed to keep the business running on a continuous basis (Abu Tabanja, 2005).

Business and financial analysts report that poor cash management and low performance is the major reason why most businesses and firms fail. It would be right to say businesses and firm's failure are due to poor cash management and lack of financial performance. The adequacy of cash and other current assets, together with their efficient handling, virtually determines the survival or extinction of a business concern.

II. Problem statement

The process of managing cash has become a major challenge for most of the companies, because of its significant impact on the results of a company. The success of any business venture is predicted on how the management has planned and controlled its cash flow (Akinsulire, 2003). Effective cash management is the fundamental standing point to ensure that the firm's finances are in a strong position. Managing cash is a real challenge to financial managers in Uganda; most companies obtain cash from inappropriate sources which creates problems in cash management therefore bringing mismatch in investments decisions. The goals of the cash management function brings out the basic responsibility of the cash manager which broadly speaking takes up planning, monitoring and controlling of cash flows and the cash position of a company, while maintaining its liquidity (Coyle, 2010). Accordingly, (Festus, 2011) observed that poor management practices constraints business operations and some customers who are not satisfied with the services ran away signifying poor performance and hence retards the business growth.

The problem arises in trying to encourage managers to spend money wisely as opposed to investing in projects with a lower required rate of return or wasting the said funds in organizational inefficiencies (Wang, 2010).When a company is holding cash or cash equivalents that are insufficient, interruptions of normal flow of most business operations occurs. A large number of business entities were experiencing negative cash flows in their operations which caused difficulties in meeting company liabilities such as payment of suppliers, staff wages and salaries and meeting deadlines for tax payments Kaketo, Timbirimu, Kiizah & Olutayo, (2017). However inadequate cash management has led to slow rate in making orders, delivery of services timely due to delayed payment of suppliers. These inadequate or improper cash management procedures were some of the major challenges.

III. General objective of the study

To establish the effect of cash management on financial performance of business entities in Lira district

IV. Literature Review

Cash management

Njeru, Njeru, Member & Tirimba ,(2015) defined Cash management as a financial discipline that adopts the same principles, regardless of the type of business, size or age of an enterprise. Cash management would focus on building a sustainable cash flow by forecasting receipts and payments in order to establish the lines to funding with banks and thus managing day- to-day operations of business to minimize the amount of cash required to achieve sustainable business growth. Cash management is necessary to avoid mismatches between the timing of payments and availability of cash. Many business firms have maintained large cash reserves and liquidity positions within their investment portfolios in an effort to partially accommodate unforeseen expenditures. Drexler, Fischer and Schoar, (2014) observed that both individuals and business owners are usually confronted with difficult financial decisions in many aspects of life, be it in their personal finances or as business owners.

Akinyomi, (2014) observed that success of any business venture is predicted on how management plans and controls cash flows. Horne and Wachowitz, (2012), noted that cash management is very vital for production firms whose assets are mostly composed of current assets. Cash is a vital component of any business and require effective management because even profitable businesses can go bankrupt when they fail to manage their cash effectively, particularly if they operate in rapid-growth or seasonal industries BDBC, (2014)

Kasim, Mutula & Antwi,(2015) observed that cash management practices have an influence on the financial performance of Small medium enterprises and thus there is need for finance managers to embrace efficient cash management practices as a strategy to improve their financial performance and survival in the uncertain business environment. Charitou, Elfani& Lois,(2010) observed that efficient utilization of the firm's resources, through working capital management, entails managers finding effective and efficient ways to deal with the available cash for the day –to-day operations. Nyabwanga, Ojera, Lumumba, Odondo & Otieno, (2012) asserts, efficient cash management involves the determination of the optimal cash to hold by considering the trade-off between the opportunity costs of holding too much and trading cost of holding too little. Cash management principles states that finance managers should accelerate cash inflow and delay cash out flow, however both positions have associated costs. Once cash inflows are accelerated, the cost of cash management and collection will most likely reduce while profitability will be enhanced, however the reduction of the credit period might negatively affect sales which most likely reduce sales revenue and profits. Akiyomi, (2014) noted that delaying cash outflows may result in ethical and reputational issues and cost.

Kaketo *et al.,* (2017) observed that management and finance team need to enforce adherence to cash policy put in place to guide and control cash management. Murkor, Muturi & Oluoch, (2018) observed that finance managers should come up with a compulsory cash flow policies to enable the organization come up with clear policies for cash flow management including the investment of surplus funds if need arise. Liman & Aminatu,(2018) noted that institutions should set a policy so as to keep bankruptcy cost at a lower level and also management efficiency is required in managing costs, increasing efficiency and financial performance. Gyebi & Quain, (2013) observed that effective cash management increases the flexibility and competitive advantage of a business in dealing with emergency situations or taking advantage of opportunities as they arise, at a short notice. Similarly, Uwonda, Okello & Okello, (2013), observed that Cash management enables a business to take advantage of cash discount and avoid costly sources of finance when raising funds. Companies in the world market must be able to generate sufficient cash to meet immediate obligations and therefore continue to operate Kasim, Mutula & Antwi, (2015). Wealth and growth in today's world economy is primarily driven by optimal cash management practices. It should be noted that business enterprises can influence their business cash flows by simply lengthening the bills payment period, shortening the debtors collection period and suspending purchase of inventory CIMA, (2010)

Financial Performance

The performance is the result of strategies the firm employs to achieve financial goals. The level of success of a firm is measured through its financial performance based on a selected period of time Liao & Wu, (2009). Accordingly, Alfred, (2007) states that financial performance is the measurement of how a business entity has utilized its resources to generate revenues. The financial performance of business entities is determined by the financial statements of the business entities which are a collection of reports on the business financial results for a given period of time. Financial performance is a measure of an organization's financial condition or financial outcomes resulting from management decisions carried out by organization members Harash, Fatima, & Essia, (2013).A firm Cash flow management policy which manages working capital in the form of cash receivables from customers, inventory holding and cash payments to suppliers is widely linked to improved firm financial performance Kroes & Subramantam, (2012).

Robert and Hamacher, (2015), investigating the effect of cash flow management on performance of mutual funds noted that an improvement in cash flows positively affected the financial performance. Adomako & Danso, (2014) noted that the entrepreneurial activities of business are jeopardized when the entrepreneur does not possess the relevant skills required to manage their finances effectively. Turcas, (2011) noted that solvency, flexibility and financial performance of the firm are set on the firm's ability to generate positive cash flows from the operating, investing and financing activities. Waswa, Mukras & Oima, (2018) observed that careful consideration and planning of funding liquidity management is one of the ways to measure financial performance and therefore firms should increase their operating cash flow to positively influence their performance. Podilchuk, (2013) noted that financial optimization of a company is usually performed on long-term and short-term basis. The former is aimed at capital structure optimization which is the balance of debt and equity maximizing the value of the firm. Short term optimization focuses on liquidity management. Makokha, (2017) and Odindo, (2018) all agreed that indebtedness affect negatively the financial performance of the company however, Gongera, Ouma & Were, (2013) stated that financial risk exposure affects negatively company's financial performance.

Akbas & Karaduman (2012) and Omondi & Muturi, (2013) observed that the firm size affected the financial performance of a company positively and significantly. Similarly Wu, Li, & Zhu,(2010) observed that good financial performance is a precondition to achieve sustainable growth. Gao, (2010) and Miller, Boehije & Dobbins, (2013) observed that financial performance of a firm is the profitability of this firm given by financial measures. It refers to the ability to operate efficiently, make profit, survive and grow. Free cash flow is one of the financial tools used to gauge a firms financial performance. It shows the firms available cash after taking into consideration how much has been spent on development and as well as recurrent expenditure Frank & James, (2014) The financial performance has become an issue of common concern as it reflects its development condition (Wang, 2008; Wu *et al.*,2010) reported that good financial performance is the precondition for the firms to achieve sustainability. Human capital development has been adopted as one of the most important managerial tool that can improve enterprises financial performance (Ganotakis, 2010; Ofoegbu, 2013). Similarly, (Jin *etal*…, 2010) observed that human capital is one of the most important industry success factors in order to generate better financial performance.

Cash management and financial performance

Ndirangu (2017) conducted a study on the effect of cash management and performance of companies listed in Nairobi Security Exchange. Company size was found to have a negative and insignificant effect on financial performance. Focusing on manufacturing companies in Nigeria, (Abioro, 2013) established that a mere availability of cash (liquidity) without proper management does not necessarily translate into favorable financial performance. A related study conducted in manufacturing firms in Srilanka found an insignificant relationship between cash ratio and financial performance and cash turnover ratio and financial performance (Janaki, 2016).(Yousef, 2016) also found that 67% of SMEs in Jordan had no knowledge about cash control procedures. The above studies generally suggest that cash management may not contribute to financial performance. However, this seems to be true in relation to the level of growth of the company. The situation is likely to change as businesses grow. For example, cash holding practices and use of technology in cash management have a relevant effect on financial performance of SMEs in Nyeri, Kenya (Kinyanjui, Kiragu, & Kamau, 2017). In Mogadishu, cash management was found to have a high effect on financial performance of private secondary schools (Mohamed & Omar, 2016). Similarly, (Murkor, Muturi, & Oluoch, 2018) found that operating cash flow management had significant and positive effect on return on assets and insignificant and positive effect on return on equity. The focus of this study were the mutual funds in Kenya.

V. Methodology

The study adopted a cross sectional study design. Using both purposive and stratified random sampling, data from 124 respondents sampled from Lira district which comprised of Small, Medium and Large business communities dealing in Hotels, whole sale, metal fabrication, and retail business were chosen. A stratified random sampling technique, in which businesses were treated as strata, was used to select SMEs in the sample. Accordingly, the sample size was selected in the district and the variability in the samples sizes was a result of the differences in the number and sizes of SMEs in the district. The researcher developed well-structured questionnaires which were closed ended. Questionnaires were used because of their ability to reduce biasness alongside increasing the quality of data collected (Sekaran, 2006). The statistical package for social sciences (SPSS) software package was used where regression analysis was used to determine the direction of the relationship between the dependent variable cash flow and independent variable financial performance.

VI. Results

The gender composition in this study indicates that 65.7% were female while only 34.3% were male. The high composition of women in the study stems from the nature of businesses investigated i.e. merchandize and service businesses. In line with age, 33.3% belonged to 31 – 40 years of age and were the majority, followed 31.4% who belonged to 21 – 29 years of age, followed by 25.5% who had 50 and above years while 9.8% belonged to 41 – 50 years and were the least. This actually, implies that the businesses investigated were run mostly by women. According to marital status, 68.6% were married and were the majority while 29.4% were single. The statistics suggest that majority of the businesses investigated were run by women, who had familial roles in addition to their businesses. About 33.3% had secondary education and were the majority, followed by 32.4% who had tertiary education followed by 22.5% who had primary education while only 11.8% had university degrees. The small percentage of those with professional qualifications explains why majority of the participants would confirm being incompetent in cash management. In line with the nature of businesses investigated, 41.2% sold merchandize and were the majority, 31.4% operated service businesses, 14.7% dealt in production while 12.7% were manufacturer. Common among service businesses were saloons, bars and restaurants, lodges and stationery.

Table 1: Background data

Variable List	Category	Frequency	Valid Percent
Gender	Female	67	65.7
	Male	35	34.3
	Total	102	100
Age	21 – 30	32	31.4
	31 – 40	34	33.3
	41 – 50	10	9.8
	50 and above	26	25.5
	Total	102	100
Marital status	Single	30	29.4
	Married	70	68.6
	Others	2	2
	Total	102	100
Highest level of education	Primary	23	22.5
	Secondary	34	33.3
	Tertiary	33	32.4
	University	12	11.8
	Total	102	100
Number of years in business	Below 5 years	76	74.5
	5 - 9 years	9	8.8
	10 years and above	17	16.7
	Total	102	100
Nature of business	Merchandize	42	41.2
	Services	32	31.4
	Manufacturing	13	12.7
	Production	15	14.7
	Total	102	100
Competence in managing cash	Very incompetent	31	30.4
	Incompetent	27	26.5
	Not Sure	11	10.8
	Competent	20	19.6
	Very competent	13	12.7
	Total	102	100

Source: Field data, 2019

Evaluating the competence of participants had in cash management, 56.9% confirmed to be incompetent while 32.3% were competent in cash management. On the other hand, 10.8% were neither sure competent nor incompetent. These statistics suggest that most of the participants in this study were incompetent in terms of cash management skills.

Table 2: Cash Management

Variable List	Disagreement (%)	Not sure (%)	Agreement (%)
1. I find it easy to manage cash receivable from customers	4.9	1	94.1
2. I find it easy to hold inventories	4.9	4.9	90.2
3. I find it easy to generate sufficient cash for meeting immediate obligations	9.8	1	89.3
4. I have learnt to maintain liquidity positions	13.7	1	85.3
5. I find it easy to make cash payments to suppliers	9.8	5.9	84.3
6. This business has a cash management policy	20.6	6.9	72.5
7. I can easily manage my day-to-day operations	28.4	4.9	66.7
8. I have learnt to manage trade-offs between holding too much cash and too little cash	31.4	2	66.6
9. I find it easy to plan and control cash flows	27.4	13.7	58.8
10. I have learnt to build a sustainable cash flow	47.1	8.8	44.1
11. I have learnt to maintain large cash reserves	47.1	8.8	44.1
12. I have learnt to match timing of payments against cash available	55.9	1	43.2
13. I can forecast my receipts and payments	59.8	4.9	35.3

Source: Field data, 2019

Findings on the claims raised cash management revealed that 94.1% find it easy to manage cash receivables from customers, 90.2% find it easy to hold inventories, 89.3% find it easy to generate sufficient cash for meeting immediate obligation, 85.3% have learnt to maintain liquidity positions, 84.3% find it easy to make cash payments to suppliers while 72.5% have a cash management policy. These were very extreme viewpoints. However, 59.8% disagreed on being able to forecast receipts and payments, 55.9% disagreed on having learnt to match timing of payments against cash available, 47.1% disagreed on having learnt to maintain large cash reserves and building sustainable cash flow. Moderate viewpoints were evident in finding it easy to plan and control cash (58.8%), managing trade-offs between holding too much cash and too little cash (66.6%) and managing day-to-day operations (66.7%).

Table 3: Financial Performance

Variable List	Disagreement (%)	Not Sure (%)	Agreement (%)
1. This business avoids exposure to financial risks	4.9	2	93.2
2. My business' cash flow is positively improving	5.9	2	92.2
3. This business has a stable financial position	4	3.9	92.1
4. This business rarely runs into bankruptcy	9.8	0	90.2
5. This business properly utilizes its resources to generate revenue	12.7	0	87.3
6. This business ensures avoidance of indebtedness	8.8	3.9	87.3
7. This business is ever making prudent management decisions	11.8	1	87.3
8. This business is highly productive	13.8	0	86.3
9. This business lays much emphasis on optimizing capital.	13.7	2	84.3
10. This business is surviving efficiently	10.7	5.9	83.4
11. This business has adequate free cash flows	15.7	2	82.3
12. This business carefully plans for funding liquidity management	14.7	4.9	80.4
13. This business is positively affected by its size	14.7	5.9	79.4
14. This business is highly profitable	19.6	2	78.4
15. This business has the relevant skills required to manage finances effectively	12.7	9.8	77.5
16. Managing finances has improved entrepreneurial activities	21.5	2.9	75.5
17. This business is growing steadily	15.7	8.8	75.5
18. This business has potential strategies for achieving her financial goals	26.4	3.9	69.7

19. This business has a sound human capital development policy	25.5	6.9	67.7

Source: Field data, 2019

The findings on the claims raised on financial performance revealed that 93.2% of business owners do their best to avoid exposure to financial risks, 92.2% are registering positive improvements in operating cash flow, and 92.1% have stable financial positions while 90.2% rarely run into bankruptcy. While these were extremely high view points on financial performance, business owners expressed moderate positions on having sound human capital development policy (67.7%) and having potential strategies for achieving financial goals (69.7%).

Table 4: Regression Coefficients

	Unstandardized Coefficients		**Standardized Coefficients**	**t**	**Sig.**
	B	Std. Error	Beta	B	Std. Error
(Constant)	4.417	0.26		16.975	0
Cash Management	-0.139	0.075	-0.183	-1.858	0.066
R	0.182698				
R Square	0.033378				
Adjusted R Square	0.023712				
Std. Error of the Estimate	0.334954				
Regression sum of squares	0.387419				
Residual sum of squares	11.21945				

Predictors: (Constant), Cash Management
Dependent Variable: Performance

The relationship between cash management and financial performance (r =.182) is very weak. This suggests that any variation in cash management is associated to a very weak variation in financial management among the businesses investigated. Potentially, the statistics agree with the findings on the level of competence in cash management, where more than 50% indicated to be incompetent. This correlation translated in 3.3% impact of cash management on financial performance as per (Adjusted R Square = .03333). This suggests that cash management has a very small bearing on financial performance, which leaves room for a big portion of financial performance that is explained by other factors that could not be ascertained by this paper. To further illustrate the very weak effect of cash management on financial performance among the businesses investigated, (sig. =.066) is above 0.5, which suggests that cash management is not relevant in accounting for the variations in financial performance. This is further proved by the (regression sum of squares =.387) which is smaller than the (residual sum of squares = 11.219). This further emphasizes the fact that cash management is not significant in accounting for the level of variation in financial management. The suggested model is: Financial performance = 4.417 – 0.183(cash management) + ε, where ε is the possible error estimate in the model. The model reflects a decrease in financial performance associated to cash management because most of the measures of cash management used were focusing on competence in cash management.

VII. Discussion

The study was about cash management and financial performance among selected small and medium enterprises in Lira district. The study found a weak relationship between cash management and financial performance. The findings disagree with Robert & Hamacher, (2015) who investigated the effect of cash flow management on financial performance of mutual funds and noted that cash flows positively affected financial performance. Similarly, the findings disagree with Turcas, (2011) who noted that solvency, flexibility and financial performance of a firm are set on the firm's ability to generate cash flows from operating, investing and financial activities. In the same view, Waswa, Mukras & Oima, (2018) observed that careful consideration and planning of funding liquidity management is one of the ways to measure financial performance and therefore firms should increase their operating cash flow to positively influence their performance. Study findings revealed that business owners find it easy managing cash receivable from customers, holding inventories, generating sufficient cash for meeting immediate obligations and have learnt to maintain liquidity positions. The statistics support Kroes & Subramantam, (2012) who noted that a firm cash management policy, which manages working capital in form of cash receivables from customers, inventory holding and cash to suppliers is widely linked to improved financial performance. Business owners revealed that they are unable to forecast receipts and payments, have not learnt matching timing of payment against cash available, makes it difficult to maintain large cash reserves and sustainable cash flow. The results disagree with Njeru, Njeru, Member &Tirimba, (2015) who pointed out that cash management would focus on building sustainable cash flow and forecasting receipts and payments so as to manage day-to-day operations of the business. The study however agrees with (Ndirangu, 2017)who found that company size had a negative and insignificant effect on financial performance of the companies listed at Nairobi Security Exchange. The findings of the current study agrees with (Abioro, 2013) who established that a mere availability of cash (liquidity) without proper management does not necessarily translate into favorable performance of manufacturing companies. Similarly, (Janaki, 2016) investigated Srilankan manufacturing companies and found insignificant relationships between cash ratio and financial performance and cash turnover ratio and financial performance. Finally, the findings of the present study on incompetence in cash management support (Yousef, 2016) who revealed that 67% of the SMEs had no knowledge about cash control procedures. The study was based on SMES in Jordan.

Business owners revealed doing their best to avoid exposure to financial risks, improving cash flow, maintaining stable financial positions to avoid running into bankruptcy. Efforts to avoid exposure to financial risks agree with Gongera, Ouma& Were, (2013) who stated that financial risk exposure negatively affects the company’s financial performance. In view of avoiding issues related to running into bankruptcy, the findings advised with Liman & Aminatu, (2018) who noted that institutions should set a policy so as to keep bankruptcy costs at lower level, manage and increase efficiency and financial performance. The businesses investigated moderate positions on having sound human capital development policies and potential strategies for achieving financial goals. In line with human capital development, the findings support Ganotakis, 2010; Jin etal., 2010; and Ofoegbu, (2013) who asserted that human capital development is one of the most important managerial tool and an important success factor in generating better financial performance.

VIII. Conclusion

The study sought to establish the effect of cash management on financial performance of business entities in Lira district. It was actually found that cash management has an insignificant effect on financial performance. This is un doubtable since most of the business owners are incompetent in cash management. As businesses keep growing from small to medium, the need for proper cash management becomes core. The businesses investigated confirmed extremely high abilities in managing cash receivable, holding inventories and properly generating sufficient cash for meeting immediate obligations. The aforementioned cash management practices may however, not be sustainable with time due to the underlying levels of cash management incompetence as portrayed in the findings. These were further reflected in participants’ inability to forecast receipts and payments. Firms that cannot properly manage their receipts and payments and are perhaps unable to match the timing for payments against cash available rarely build sustainable cash flows. Impressive to this study is fact that cash management is indeed inadequate to account for all the variations in financial performance among the businesses investigated. In this view, other factors that were outside the purview of this study come into play.

IX. Recommendations

The study found that majority of the business owners were incompetent in as far managing cash is concerned. Business associations like Uganda Chamber of commerce, Uganda Manufacturers Association, in addition to Ministry of Trade and Commerce should consider providing trainings on financial management to existing and upcoming entrepreneurs to support them in developing cash management and other necessary business skills. A recognizable percentage of participants indicated inability to forecast receipts and payments and could not match the timing of payment against cash available. These dilemmas require knowledge of forecasting statistical techniques, which skills most businesses do not have. There is need for business owners to consider hiring business experts who can use different statistical models to forecast business performance. This study was found essential in bringing to the fore the challenges business owners undergo in managing cash, yet it scope was narrow. There is need for a study with a wider coverage on the role of cash management in the performance of business enterprises in Uganda.

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