IMPACT OF CASH FLOW MANAGEMENT ON THE FINANCIAL PERFORMANCE OF SMALL AND MEDIUM-SIZED ENTERPRISES

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S20B33/245

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UGANDA CHRISTIAN UNIVERSITY
A Centre of Excellence in the Heart of Africa

DECLARATION

I AKANDWANAHO ELIJAH do hereby declare that this work is original and has never been submitted to any other institution for award of any Degree or Diploma. Where the work of others has been used, reference has been made there of.

Signature....Ak......................... Date....28/08/2023.....

AKANDWANAHO ELIJAH

S20B33/245

APPROVAL

This extended essay has been prepared under my guidance and it is hereby submitted for examination with my approval as the student's University supervisor

Signature .... Date....28/8/2023......

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DECLARATION

I AKANDWANAHO ELIJAH do hereby declare that this work is original and has never been submitted to any other institution for award of any Degree or Diploma. Where the work of others has been used, reference has been made there of.

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Mr Kisenyi Vincent

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ABSTRACT

The research was aimed at investing the impact of cash flow management on the financial performance of small and medium sized enterprises. The study was based on three objectives and these were; to assess the importance of cash flow management for the overall performance and success of small and medium-sized enterprises (SMEs), to examine the relationship between effective cash flow management practices and the financial stability of SMEs, to identify the key factors influencing cash flow management in SMEs and their impact on business performance. The researcher used qualitative research designs based on already published information which included reports. From the study findings, the cash flow management had a positive but insignificant effect on the financial performance. This implies that cash flow management has no any influence on the financial performance. From the findings of the study it was also established that the size of the company had a negative and insignificant effect on the financial performance. It implies that the size of the company has no any influence on the financial performance. From the study findings, the cash flow management had a positive but insignificant effect on the financial performance. This implies that cash flow management has no any influence on the financial performance. From the findings of the study it was also established that the size of the company had a negative and insignificant effect on the financial performance. It implies that the size of the company has no any influence on the financial performance.

LIST OF ACRONYMS

SMEs- Small and medium sized enterprises

U.S- United States

GDP- Gross Domestic Product

E. U-European Union

ROE- Return on Equity

ROA- Return on Assets

PPE- Plant, Property and Equipment

NSE- Nairobi Security Exchange

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CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter comprises of the background of the study, the statement of the problem, purpose of the study, objective of the study, research questions and scope of the study and significance of the study.

1.1 Background of the study

Cash flow management is the corporate process of collecting and managing cash, as well as using it for (short term) investing. It is a key component of insuring a company's financial stability and solvency. In business anything done financially affect eventually, cash is the crucial for ever business, every company has to have cash on hand or at least access to cash in order to be able to pay for the goods and services it uses and consequently, to stay in the business as on simple it can be said that the company has to viable of managing its day to day operation. Cash movement in a business is two-way traffic, it keeps on moving in and out of business. The inflow or outflow of cash never coincides, the cash management is one of the effective tools to maintain and manage the cash which is the king of business. Cash management can be effectively done using various cash management techniques which are in practice. Working of various cash management techniques like cash flow synchronization, speeding up collection, controlling payments, cash flow forecasting etc. important aspect which is unique to cash management is time dimension associated with the movement of cash the primary aim of cash management is to ensure that there should be enough cash availability when the needs arises, not too much but never too little.

The importance of SMEs has attracted a lot of international attention in recent past due to their significant contributions to the economies of both the developed and developing countries (Asiedu, 2006).

In Europe, SMEs are the backbone and engine of the European economy as they play a central role. In the European Union, almost 85% of net new jobs from 2002-2010 were created by SMEs (E U, 2012 European Commission, 2011; Abouzeedan, 2011; and Muhammad et al, 2010).

In the United States, the effect of globalization on SMEs has received a lot of attention in international circles in the past few years. In 2004, SMEs in the U.S. employed about 25 million people and their gross product was about 20 percent of the gross domestic product of private industries in the U.S. (Kozlow, 2006; BEA, 2006).

In Asia, SMEs are very important for employment creation and are sources of economic growth and foreign currencies. In Indonesia, SMEs are valued for their potential to create employment, to generate foreign currencies through export, and their potential to grow into larger enterprises (Tumbunan, 2012). In India SMEs constitute over 90% of total enterprise in most of the economy, generating the highest rate of employment growth and account for a major share of industrial production and exports (Kumar, and Sardar, 2011).

In Africa SMEs are efficient and prolific job creators, the seeds of big businesses, and the fuel of national economic engines. From an economic perspective, however, SMEs are not just suppliers, but also consumers (Abor and Quartey, 2010). SMEs make up approximately 50% of the gross domestic product; have a higher production output than large companies, greater capacity to innovate, a more direct impact on cultural and social issues, and a greater role to play in the future growth of an economy (Belinda, 2011).

Uganda’s SMEs are considered the engine for income generation, wealth creation, poverty reduction through job-creation and innovation. Uganda SMEs are vital drivers of growth, innovation and a source of government revenues that target poverty reduction (COMSEC, 2011). SMEs account for over 70 percent of the country’s dominant economic force, employing more man 2.5 million people, constitute 70 to 90 percent of the private sectors and contributes over 70% to total GDP (Kakista and Baguma, 2011; Ssempijja, 2011). The Baseline Survey reports on SMEs, by Uganda Investment Authority, UIA, (2011) revealed that there were over 24,505 SMEs in Uganda, employing over 90% of the private sector work force and contributing substantially to the provision of basic goods and services. In 2011, Uganda revenue authority collected up to 32% of the total revenue to the government from SMEs (Mugabe, 2012).

Studies by Kazooba, (2006) and Keough, (2002) revealed that most of the Uganda businesses never celebrate their first anniversary; over 50% of the newly established SMEs fight an uphill battle from the start but fail in five years and that less than 4% of small businesses grow to medium or large firms.

Amuzu, (2010) linked business success/failure to the volume of the net cash inflows and outflows from a firm's activities. He argued that inability to generate cash from its operations may force a business to borrow more money or to dispose of its capital investments to meet its obligations and this may lead to involuntary bankruptcy if this situation persists over a period of time.

According to Percat, (2012), around 90% of SMEs failures are due to inadequate management of their cash flow. SMEs are especially vulnerable to cash flow problems since they operate with inadequate cash reserves or none at all (Peng and Jiahai, 2005).

Cash flow management which is considered as the nucleus of a business entity for short and long-term survival has remained an ongoing challenge to SMEs (Bay City Financial Solutions, 2012; and Munusamy, 2010).

1.2 Problem statement

The strength of an organization would be determined on how managers handle the daily cash flows. Cash flow management needs proper skills in financial management and training with adequate experience in resource mobilization. Much as emphases have been put on cash flow and financial management training and development of managers, its impact is still very low and managers are failing to manage cash flows in the re organization. Most upcoming SMEs have faced a lot of challenges related to cash flow management thus leading to the death of their SMEs. It's upon this background where the researcher is investigating how cash flows management in an organization affects the financial performance of SMEs and possibly propose a better solutions to this challenges.

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.

1.3 General objective

The intention of the investigation is to examine the role of cash flow management on the financial performance of small and medium Enterprises.

1.4 Specific objectives

To assess the importance of cash flow management for the overall performance and success of small and medium-sized enterprises (SMEs).

To examine the relationship between effective cash flow management practices and the financial stability of SMEs.

To identify the key factors influencing cash flow management in SMEs and their impact on business performance.

1.5 Research questions

The research will answer questions like;

What is the importance of cash flow management for the overall performance and success of small and medium-sized enterprises (SMEs)?

What is the relationship between effective cash flow management practices and the financial stability of SMEs?

What are the key factors influencing cash flow management in SMEs and their impact on business performance?

1.6 Scope of the study

The study was designed to handle the boundary of the research work in terms of the content scope, geographical scope and time scope.

1.6.1 Content scope

The study will draw attention to the impact of cash flow management on the financial performance of SMEs. The independent variable is cash flow management and the dependent variable is financial performance of SMEs.

1.6.2 Geographical scope

This study is aimed to be carried out on small and medium-sized enterprises. It will focus more on the cash flow management practices in small and medium sized enterprises.

1.6.3 Time scope

Time scope shall cover the period from April 2023 to August 2023. The period from April 2023 to August was chosen simply because it will be adequate time to do enough study.

1.7 Significance of the study

The significance of the study to the academia will allow other academicians have access to similar information in future research on cash flow management and financial performance of small and medium-sized enterprises as a point of reference.

It will also broaden the knowledge of the study; the findings and recommendations shall be a basis for further research in the related subject study.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

The literature review in this context gives various concepts in regards to relationship between cash flow management and financial performance of small and medium-sized enterprises. In addition, the researcher will discuss empirical studies done by previous researchers.

2.1 Theoretical Framework

Cash management theory

The cash management theory developed by James Mao and Charlie Sarndral (1978) focuses on liquidity. By covering cash losses or using its surplus, cash management entails controlling cash inflows, cash outflows, and balances at certain times (Kipruto, 2013). Aziz and Dar (2006) claim that it is challenging to anticipate cash flow since there are periods when it exceeds inflows and other times when it does not, and there is thus a key interest in short-term management of the company. Unbalanced income and cost may be the cause of poor cash management (Pandey, 2005). According to Kibuchi (2018), reduced financial burden is a result of effective cash management. Consistent cash flow imbalances that lead to corporate failure might be the cause of financial crises in organizations (Aziz & Dar, 2006). The theory give reason for retaining cash balance from operations to be used for investing, thus it addresses the cash flow management from operating activities variable.

Agency Cost Theory

Jensen and Meckling founded the named theory in 1976. The model provides the association between the principals who are mainly the shareholders and agents who are mainly the company executives and managers (Sayari & Mugan, 2013). Agency cost theory holds that shareholders expect the agents to act and make decisions in the principal’s best interest. However, this is not always the case as the managers of organizations can be self-interested (Sharma, 2011). The model looks into the conflict affecting the shareholders and their managers - agents (Khanji & Siam, 2015). This model was useful to the current study as the responsibility of running the named Kenya companies is bestowed on managers who are expected to make decisions that favor the shareholders with ensuring a stable cash flow position and sound financial performance being a good indication of the managers' execution of this responsibility.

The Modigliani and Miller Theory

This theory was a continuation of Modigliani and Miller work in 1961 after a paper titled: Dividend Policy, Growth, and the Valuation of Shares were published by the two in the Journal of Business (Mirosky & Debrah, 2014). They provided a new concept when it came to the use of dividends as an important measure of an organization's value. Based on various assumptions their argument was that investors should not make investment decisions based on whether a company gives divided or not (Smith & Barclay, 2015). According to this model in the investors view dividends and capital gains are the same. A company's value is thus pegged on the earnings that it gets that are determined by how lucrative the industry is and the investment decision the firm makes (Stiglitz, 2010). If the investors can access the organization's investment policy then they can successfully opt to invest in the firm or not based on this information (Brusov, Filatova, Orehova, Brusov & Brusova, 2011). This model was relevant to the current study given that the investment policy of a firm has significant implications on its cash inflows and outflows as well as on the earning power of the firm. As such, when evaluating the cash flow position of a firm, activities in its investment section cannot be ignored.

Pecking Order Theory

Pecking order theory is also referred to as the information asymmetry theory. Donaldson is the developer of the theory in 1961 and later it was modified by Stewart Myers and Nicolas Majluf in 1984 (Al-Najjar, 2013). The theory states companies will always prefer to finance their operations by use of internal financing rather than from equity and will only go for equity financing if they are out of options. Thus, a firm will first use its internal finances and once these are depleted the firm will opt for debt financing and equity financing as the last resort (Frank & Goyal, 2013). Based on this theory, firms prefer to finance their investments, first internally with retained earnings, then with debt and finally with the issue of new equity (Harford et al., 2012). The choice to use internal funds to fund investments is based on the assumption that they have no transaction costs while the use of debt is preferred to stock given that it signals positive information regarding the firm's ability to repay both the borrowed funds and accruing interest (Smith & Barclay, 2015). This model will be significant to this study since managers are expected to make wise decisions that distinguish between the conservative and aggressive financing strategies to optimize a firm's performance (Omag, 2016). This theory was relevant to the current study given that internal financing (though ploughed back earnings) and external financing (through issue of shares or debt instruments) form the major sources of corporates' financing and where a firm's internal funds are depleted, use of debt instruments and issue of equity provide the mechanisms through which the firm can raise much needed cash inflows for its continued operation.

Miller-Orr Model of Cash Management

The Miller-Orr model of cash management is one of the prominent cash management models developed by M.H Miller and Daniel Orr in 1966. This stochastic cash management model helps the present day business enterprises to manage their cash while taking into consideration the fluctuations in daily cash flow. This model deals with cash inflows/outflows that change on a daily basis (Drake & Fabozzi, 2010). The model specifies two control limits, the upper control limit (beyond which the cash balance should not be carried) and the lower control limit (to which the firm should maintain cash resources at least to the extent of the lower limit), and a target cash balance (which is the return point for the firm's cash balances or the desired level of the cash balances) (Nagano et al., 2015). This theory was relevant to the current study given its focus on cash flow management

Cash flow management in SMEs

Cash flow management is the nucleus of a business entity for short and long-term survival (Munusamy, 2010); concerned with both the short term and long- term financial objectives (Evans, 2012); and determined by examining the cash flow statement (Statt and Truman, 2003). According to Aminu, (2012) cash flow management brings together actions concerned with cash payment, collection management and liquidity management, which involves acquisition and disposal of treasury assets and their subsequent monitoring, a strategy for investing surpluses of cash for maximum profitability and financing deficits at minimum costs.

According to Percat, (2012) around 90% of SMEs failures in Saudi Arabia are due to inadequate management cash flow). Muller (2008) noted that in order for SMEs to manage their cash flow, they must understand cash flow and be able to project how and when cash will be received and spent, take steps to optimize revenue and expenditure timing and amounts. Yaqub and Husain

(2010), Surridge and Gillespie (2008) argue that for SMEs to grow, they must address failure factors by identifying potential cash problems and deciding on how to adjust it to improve the organizations cash position.

Financial performance of SMEs.

The association between cash flow management activities and financial performance of small and medium sized enterprises has not been well established. Most of the studies carried out before focused on the relationship between investing, financing and operating activities in terms of organizational performance. However, it is quite evident that cash flow in a way or other affects an entities' profitability though there is not enough evidence to support. According to (Miles, 2010) cash flow management activities have to be a result of investment, financing, operating, equity investment, cash collection, plant investment and or debt repayments. This study will focus on small and medium sized enterprises by looking at the cash flow management from investing, operating as well as financing activities.

Efficiency in performances of small and medium sized enterprises and their weaknesses are sometimes a result of failure and lagging of their respective cash flows management identifications. Cash flow management is mainly born out the process of cash accumulation, general business transaction and other events. Cash flow remains the principle of the financial performance of any organization and the circular manifestation as the aim of law that has to be decided by the shareholders. This implies that cash flow management will always be the core of financial performance (Mong'o, 2010).

There are various ways of determining measure of financial performance of small and medium sized enterprises. Athanase (2015) indicated that the measure of financial performance has been made by applying possible indicators in most businesses by evaluating returns on asset and returns on equity as the appetite of shareholders. The entity's financial performance can also be measured by applying financial ratios depending on the actual environment and the targeted aim being the most common measures in relation to accounting. These measures include net profit, return on asset, return on equity, current ratio, liquid ratio and credit ratios (Dukes, Davis and Dyckman, 1998; Gullet and Hicks, 1981 and Nwanyanwu, 2013a). Components of cash flow may be measured by adding all the line items that appear under respective cash flow activities component (Collins, Hribar, & Tian, 2014). Therefore, this study will take this dimension to research and evaluate the association and interdependence of variables.

The assumption of this research is grounded stability of monies coming in to any organization and that it is an indicator to the opportunity for financial presence and profitability. The performance of an entity can also be determined by the use of return on equity (ROE) and return on assets (ROA). Cash flow and profits of an organization are much related. A sound cash flow standing is reflected in the cash levels of an organization. When an entry continues in trend of making profits, then it is assumed that has stable cash flow hence has enough cash for investment decisions. It is evident that profit, in turn is always a reflection of the image in its cash flow soundness or bottom line of cash flow statement (Panigrahi, 2013).

Cash management and financial performance

Ndirangu (2017) conducted a study on the effect of cash management and performance of companies. 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.

2.2 Importance of cash flow management for the overall performance and success of small and medium-sized enterprises (SMEs)

According to Evans (2012), cash flow management helps SMEs maintain an optimal cash balance that is neither excessive nor deficient. It would minimize the positive items and maximize the negative items affecting the cash cycle, leading to a minimum number of days in a cash cycle. Menon, (2011) added that cash flow management helps SMEs in spotting potential cash flow gaps, serves as a reference tool for seeking funds from bankers, and enhances confidence of the bankers on the SMEs effectiveness. Amuzu (2010) agreed that cash flow is an important measurement used by investors for evaluating a company because it focuses on actual operation and eliminates one- time expenses and non-cash charges and gives a clear picture of what the company is truly doing. Correia C et al, (2007) also observed that cash flow is an area looked upon with great interest by financial and economic analysts as a credible indicator on the strength, or riskiness, of an enterprise as it gives an enterprise the possibility of either cutting or stripping off some operations, or ceasing altogether. Lange (2010) asserts that SME can still have an image of profitability and still be in danger of running into bankruptcy because many people think of the profits that the business will generate rather than planning on managing cash flows. Lange further explained that many profitable SMEs face serious operational challenges as their liquid assets and cash are all tied to assets, thus lacking the needed cash to settle financial obligations.

Minnery (2006) maintains that an efficient cash flow management system plays a key role and helps to demonstrate that the SME is profitable. Minnery explained that an enterprise will need to generate a profit over a long-term period but if it does not generate sufficient cash reserves for its daily operations and for the generation of a profit for the owners, then such enterprise is a failure. Minnery observed further that while the overriding logic in the creation and establishment of any business concern is the generation of a profit for the business it is still the amount of cash that is recognized as the crucial resource in the short, medium, and long-term life of any business.

2.3 The relationship between effective cash flow management practices and the financial stability of SMEs

Effective cash flow management practices play a crucial role in the financial stability and success of small and medium-sized enterprises (SMEs). Scholars have extensively researched and highlighted the relationship between cash flow management and the financial well-being of SMEs. Here are some perspectives from different scholars:

Lazaridis and Tryfonidis (2006): Lazaridis and Tryfonidis emphasize the importance of cash flow forecasting, monitoring, and control in SMEs. They argue that accurate cash flow projections help SMEs anticipate and address potential cash shortages, enabling them to make informed decisions and ensure financial stability.

Taffler and Tisshaw (2011)Taffler and Tisshaw suggest that SMEs should adopt efficient working capital management practices to maintain a healthy cash flow. They emphasize the need for SMEs to carefully manage their receivables, payables, and inventory to optimize cash flow and enhance financial stability.

Deloof (2003): Deloof investigates the impact of working capital management on the financial performance of SMEs. His research reveals that effective management of cash conversion cycle components, such as accounts receivable, accounts payable, and inventory, positively influences the liquidity and financial stability of SMEs.

Chapra and Sufian (2012): Chapra and Sufian examine the role of financial management practices in SMEs' financial stability. They argue that SMEs should adopt prudent financial management techniques, including cash flow management, to enhance their resilience to financial shocks and ensure long-term stability.

Vintilă and Gherghina (2015): Vintilă and Gherghina analyze the determinants of SMEs' financial stability and find that effective cash flow management is a critical factor. They suggest that SMEs should actively monitor their cash inflows and outflows, maintain sufficient liquidity reserves, and seek external financing options when necessary to ensure financial stability.

Berger and Udell (2006): Berger and Udell examine the relationship between small business financing and financial stability. While not explicitly focusing on cash flow management, their research suggests that efficient cash flow management practices can enhance SMEs' creditworthiness, making it easier for them to access external funding and maintain financial stability.

2.4 Key factors influencing cash flow management in SMEs and their impact on business performance.

Al-Qudah and Al-Omoush (2016): According to their study, the main factors influencing cash flow management in SMEs include accounts receivable management, inventory management, accounts payable management, and cash conversion cycle-Impact on business performance: The researchers found that efficient cash flow management positively affects profitability and liquidity, leading to better business performance in terms of financial stability and growth.

Deloof (2003): Deloof's research emphasized the importance of working capital management in cash flow management for SMEs. It includes managing accounts receivable, inventory, and accounts payable-Impact on business performance: The study revealed a significant positive relationship between efficient working capital management and SMEs' profitability, liquidity, and overall financial performance.

Laitinen (2007): Laitinen highlighted the role of financial planning and control systems, including budgeting, cash budgeting, and monitoring financial performance indicators, as crucial factors for effective cash flow management in SMEs. Impact on business performance: The research indicated that SMEs with well-developed financial planning and control systems experienced improved cash flow management, leading to enhanced business performance in terms of profitability and growth.

Howorth and Westhead (2003): The study emphasized the significance of external financing and banking relationships as important factors influencing cash flow management in SMEs. Impact on business performance: The researchers found that SMEs with better access to external financing and stronger banking relationships had improved cash flow management, leading to higher business performance in terms of growth and survival.

O'Sullivan and Sheffrin (2003):O'Sullivan and Sheffrin discussed the impact of macroeconomic factors, such as interest rates, inflation, and economic cycles, on cash flow management in SMEs. Impact on business performance: The study suggested that SMEs need to consider macroeconomic conditions and adapt their cash flow management strategies accordingly to mitigate the negative effects of economic fluctuations and maintain business performance.

2.5 Emperical literature review

2.5.1 Cash Flow Management From Operating Activities And Financial Performance

Mehtari (2016) investigated the association amongst operating cash flow and a company's profitability in the TSE. The goals were to determine the impact of retained profits on profitability, the impact of liabilities on profitability of the company, and the impact of dividend policy on profitability. To examine the relationship between these two factors, the study employed correlations analysis. The research looked at 19 publicly traded firms in the United States and three different performance metrics, including market performance (based on changes in stock market value), profitability (return on investment), and cash flow performance (dividend-per-share). Companies with lesser total assets, greater liabilities, lower equity, an unbiased auditor's judgment, and lower retained earnings, according to the study's findings, perform better in terms of cash flow (as determined by cash dividend). It is advised that businesses have effective operating cash flow management; as a result, regression analysis was employed in this study. As a result, there were conceptual and contextual gaps, which the current study aims to solve by taking into account cash from operations, net cash-flow from working-capital adjustments, and noncash elements in the Kenyan manufacturing industry. Additionally, panel regression analysis was used in the study.

Nwanyanwu (2015) looked at how operating cash-flow activities affect an organizational performance in the Nigeria's tourism sector. The goals were to study how operational cash flows affected an organization's performance, to ascertain how processing loans affected that performance, and to discover how equity investments affected that performance. There were 45 hotels and print media companies in the sample. Inferential statistics utilizing correlations analysis were employed in the investigation. The investigation came to the conclusion that taxes and cash payments to suppliers had an impact on cash flow statement performance. In this research, operating cash flow activities were examined using manufacturing enterprises. Consequently, there were conceptual and subjective gaps that the current study attempted to close by include operating cash flow, net cash-flow from adjustments to operating capital, and noncash elements in Kenya's industrial sector.

Frank & James (2014) evaluated the connection between operating cash flow activities and corporate performance in Nigeria's food and beverage industry. The major goal was to determine how financial information affected business performance. The financial statements of the firms under examination were used to generate the data that was gathered. Five food and beverage firms listed on the Nigerian Stock Exchange were sampled for the study. The technique of multiple regression analysis was utilized to examine the data. According to the report, there is a strong correlation between operational cash flows and corporate success in Nigeria's food and beverage industry. The study concluded that operational cash flows had an impact on corporate performance in Nigeria's food and beverage industry. In order to examine how operational cash flow affects financial performance, descriptive statistics were utilized in the study. Consequently, there were conceptual and contextual gaps that the current study attempted to close by include operating cash flow, net cash-flow from adjustments to operating capital, and noncash elements in Kenya's industrial sector.

2.5.2 Cash Flow Management From Investing Activities and Financial Performance

Rehaman (2017) investigated the profitability of a Pakistani company's cash-flow through investing operations. The study's intention was to compare the disparities between operational net cash-flows and commercial success in Pakistan. The objectives were to ascertain the impact of investing cash flow on success, the impact of current assets on profitability, and the impact of current liabilities on profitability for the company. 23 businesses made up the sample size. Descriptive statistics were utilized in the investigation. Because they directly affect both liquidity and profitability, the findings have significant implications for businesses. Current assets and current liabilities of the company are included in the cash flow from investments. The study found that profitability is impacted by net investment cash flows. According to the study, the amounts of interest generated should be computed via the net investment, PPE purchases and sales, as well as the impact on profitability. Unfortunately, the study did not apply correlation analysis to assess how investment activities affect organizations' financial success. As a result, there were methodological and contextual gaps, which the current study sought to remedy by focusing on Kenya and utilizing a panel regression model.

Agala (2017) investigated how business characteristics influenced the association amongst investing free cash flows and the financial performance of listed companies at the Nairobi stock market. In order to understand how business characteristics affect the relation amongst investment cash flows and financial performance, a research was conducted. The goals of the study were to quantify the relationship between cash flow investments and the financial performance of NSE listed companies, as well as to identify how business characteristics and the magnitude of cash flow investments affect financial performance. The study utilized secondary panel data that was gathered from 55 NSE-listed businesses between the years of 2006 and 2015. Regression analysis was utilized throughout data analysis. The results show that while business characteristics have a detrimental effect on financial performance, free cash-flows have a considerable beneficial impact. The emphasis of this study, which was not addressed, was cash flow invested.

Asif (2015) carried out research on investment cash-flows and productivity information from companies listed on the Karachi Stock Exchange. The study's goal was to look at the profitability and cash flows of investments. The study's objectives included determining the profitability impact of cash collections on profitability, investigating the profitability impact of cash receipts from the sale of intangible assets, and evaluating the profitability impact of cash payments made to build or purchase long-term fixed assets. 37 companies that are listed on the Karachi Stock Exchange comprised the sample. The analysis was descriptive. According to the report, investment cash flows are crucial to both a company's long-term viability and corporate profitability. The analysis discovered that current assets are used to fund a sizable portion of cash flow investments, hence it is crucial for finance managers to effectively manage investment activities. Even though it is recommended that cash flows from investment activities be reported after cash revenues from the sale of bonds and company stock, cash receipts from cash payments made in the form of loans and advances, and cash receipts from payments made to repay such loans and receivables, no consensus has been reached on how to look into how investing activities affect financial performance. The present study is being conducted in Kenya in order to close a contextual gap that occurred.

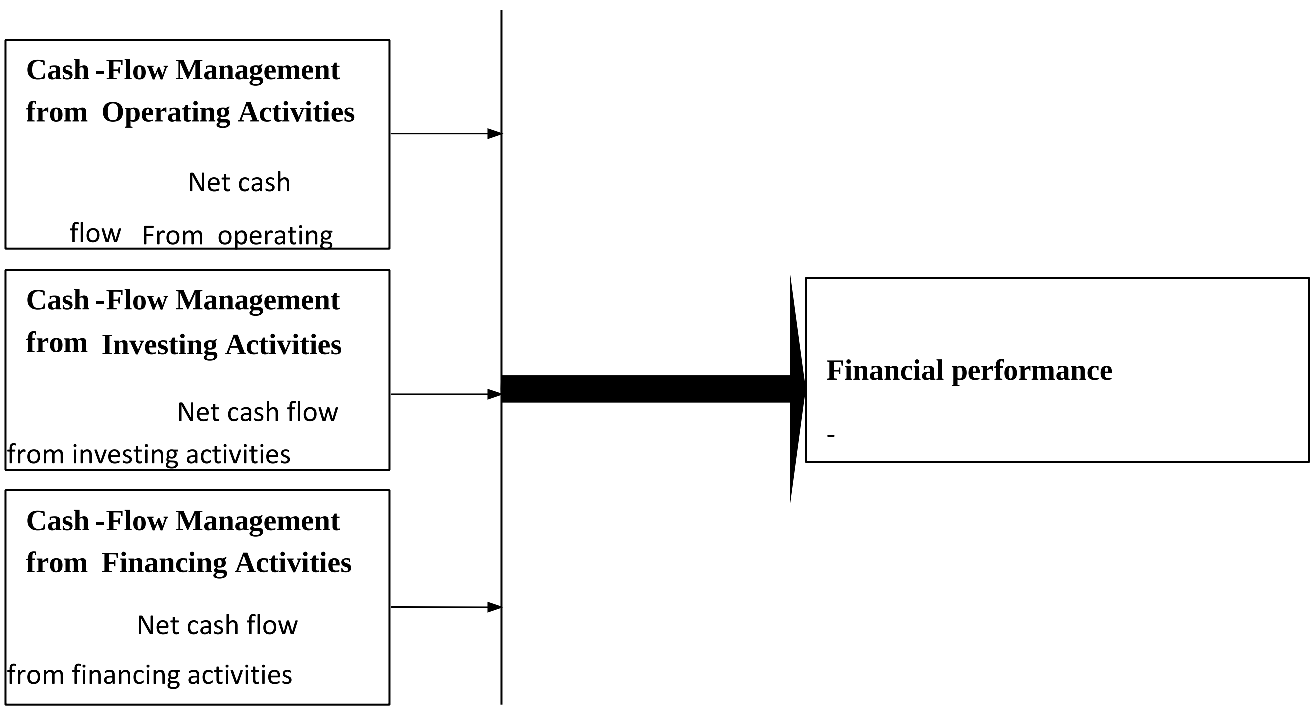
2.5.3 Cash Flow Management From Financing Activities And Financial Perfomance

Gravetter in 2016 evaluated the profitability and financing cash-flows of SMEs in California. The research intends to explore the effects of employing owner's capital, dividends, and long-term obligations or debt on profitability. The study utilized secondary data from 7 SMEs. The data that was gathered were examined using descriptive statistics. The findings showed that profitability and financing cash flows had a favorable link. The study came to the conclusion that changes in long-term obligations or debt, changes in owner's capital, and changes in dividends all influences the financial performance. The study's findings suggest that a comparable item should be on the cash flow statement and balance sheet. There existed the both the contextual and methodological gap that the current study sought to fill by carrying the study in Kenya and adopting panel regression. Bragg (2014) investigated the correlation between financing cash-flows and corporate effectiveness in the London Stock Exchange-listed corporations. The goals were to determine how the accumulating from stock, using debt issue, paying dividends, paying down debt, and repurchasing shares would affect the company's performance. A sample of 8 businesses listed on the London Stock Exchange was utilized in the study. The data utilized for analysis came from the released financial statements of the 8 corporations. The association between financing cash flows and company performance was determined using component analysis. According to the study, there is a substantial relationship amongst corporate success of London-listed corporations and investing cash flows. The study came to the conclusion that financing cash flows should be utilized in relation to funds arising from equity, debt issuance, dividend payment, debt repayment, and share repurchase. Nevertheless, it is necessary to determine the impact of dividends, loans, and debts that are recorded as cash-flow financing. When dividends are paid out, the rise in capital and adjustments in financing cash are referred to as cash in. When an organization sells its bonds to the general populace, it boosts its cash flow. As a result, the current study used inferential statistics to examine financing cash-flows on financial performance in industrial companies that were not previously studied.

Wanja (2011) examined the factors influencing cash holdings and their impact on SMEs performance in Nairobi, Kenya. The study's goal is to better understand the factors that influence cash holdings and how they affect small and medium-sized businesses' cash levels in Nairobi, Kenya. In Nairobi, Kenya, 14 small and medium-sized businesses made up the sample size. Regression modeling and simple correlations were utilized. The study demonstrates how cash flow financing affects small and medium firms' performance. The study found that financing cash-flows plays a significant influence in a company's decision to finance or invest, and that the FASB was appropriate in releasing a statement of cash flows. For businesses to prepare cash flow statements for the consumers of financial information, it is now necessary to examine financing cash flows. It has not been fully addressed how cash in hand affects net change, cash payments, and cash receivables. There existed both methodological and contextual gaps, consequently, the study used multiple regressions to examine the impact of financing cash flow on the financial performance of manufacturing enterprises.

2.6 Conceptual Framework

Independent variable **Dependent variable**



CHAPTER THREE

RESEARCH METHEDOLOGY

3.0 INTRODUCTION

An extended essay form of methodology will be used by using secondary specific case study in line with what is being researched about. This is because Uganda Christian University allows both the usage of secondary and primary but since I have limited time I decided to use secondary data. It is only suitable that secondary data in form of a case study is used. The advantage is to this methodology style is that helps the researcher identify the gaps and help them draw recommendations and conclusion on top of that comparing with what he will have done in the field of interest. Therefore, the study will mainly use secondary data acquired through previous research reports, newspapers, newsletters, journals and internet. Therefore, advantages of secondary data include cost effectiveness, time efficient hence less effort needed, availability and the gaps and deficiencies are filled since the information is available.

3.1 Research Design

The study used cross section design together with descriptive and analytical research design so as establish the effects of inventory management on performance of small and medium enterprises. This study used both quantitative and qualitative methods. Qualitative methodology was employed purposely to gain the in-depth insights into various variables related to study field whereas quantitative methods was used utilized to supplement qualitative methods. The research is a case study research design.

3.2 The Study Population

The study population comprised of all the owners and employees of the selected SMEs. The researcher considered only 100 for this study and these were the source of the sample size respondents. The sample (respondents) was selected from the study population.

3.3 Sample Size

The sample was selected from the study area and population at random, selecting at least 80 respondents. This was done after getting the names and addresses of the small and medium enterprises. The study used a sample size of 80 respondents from a population of 100.

Table 1: Showing sample size

Category	Study population	Sample size determination	Total sample	Sampling methods
Medium enterprises	25	25/100*80	20	Simple random
Small enterprises	75	75/100*80	60	Simple random
Total	100		80	

3.4 Sampling technique

There are broadly two sampling approaches thus probability and none probability sampling techniques. The probability sampling approach involved selecting a sample in such a way that all the elements in the population have some chances of being selected (Amin, 2005).

This study used simple random sampling which is a sample obtained from the populations in such a way that samples of the same size have equally chances of being selected (Amin, 2005). As indicated above in table 1 above, the study used simple random sampling for all the respondents. In using simple random sampling, the study used the lottery approach where names in each category were written on tag and one picked at a time until the required number was reached. To arrive at the sample size the study used proportionate sampling (80/100* the no in the population category).

3.5 Data Sources

3.5.1 Secondary Data

Secondary data is the data that is already in existence and found in published reports, books and interest (Krishnaswami and Ranagnatham, 2006). In this research, the secondary data was gathered from journals, internet books and company records.

3.6 The validity and reliability of the research instrument.

3.6.1 Validity of Instruments

Validity refers to the appropriateness of the instrument. It is the ability to produce findings that are in agreement with theoretical and conceptual values of the study. It is the ability to produce accurate results and measure what it is supposed to measure. To ensure validity of research instrument, copies of the draft instruments were pre-tested in a pilot run and content validity index was used to assess the validity of the contents in the instruments.

3.6.2 Reliability of Research Instruments

Amin (2005) defined reliability as the dependability or trustworthiness in context of a measuring the instrument. It is the degree to which the instrument consistently measures what it is measuring.

3.7 Data Processing and analysis

The data collected was edited, coded and later analyzed using statistical package for the social sciences (SPSS) computer program. Quantitative data was presented in form of descriptive statistics using percentages and frequencies for each of the variables used. Quantitative data was then be presented by using graphs pie charts and tables. In contrast, qualitative data from interview scripts, notes and statements was systematically coded and classified into broad descriptive categories while exploring themes, meanings and/or issues that emerged from the information gained from the interview. The data was further linked to the research objectives/questions to generate meaning and explanation on the study topic.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 INTRODUCTION

In this chapter, the findings of the study are presented and interpreted to address the objective of the study and research questions. The purpose of the study was to establish the impact of cash flow management on the financial performance of small and medium sized enterprises. Specifically this chapter addresses itself to resolving the research objectives which include; to assess the importance of cash flow management for the overall performance and success of small and medium-sized enterprises (SMEs), to examine the relationship between effective cash flow management practices and the financial stability of SMEs, to identify the key factors influencing cash flow management in SMEs and their impact on business performance.

4.2 KEY FINDINGS

The study was set to find out the impact of cash flow management on the financial performance of small and medium sized enterprises.

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	53	65.7
	Male	27	34.3
	Total	80	100
Age	21 – 30	25	31.4
	31 – 40	27	33.3
	41 – 50	8	9.8
	50 and above	20	25.5
	Total	80	100
Marital status	Single	24	29.4
	Married	55	68.6
	Others	1	2
	Total	80	100
Highest level of education	Primary	18	22.5
	Secondary	27	33.3
	Tertiary	26	32.4
	University	9	11.8
	Total	80	100
Number of years in business	Below 5 years	60	74.5
	5 - 9 years	7	8.8
	10 years and above	13	16.7
	Total	80	100
Nature of business	Merchandize	33	41.2
	Services	25	31.4
	Manufacturing	10	12.7
	Production	12	14.7
	Total	80	100
Competence in managing cash	Very incompetent	24	30.4
	Incompetent	21	26.5
	Not Sure	9	10.8
	Competent	16	19.6
	Very competent	10	12.7
	Total	80	100

Source: Field data, 2019

Evaluating the competence of participants had in cash flow management, 56.9% confirmed to be incompetent while 32.3% were competent in cash flow 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 flow management skills.

Table 2: Cash flow 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 flow 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 flow 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 flow Management
Dependent Variable: Financial Performance

The relationship between cash flow management and financial performance (r =.182) is very weak. This suggests that any variation in cash flow 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 flow management, where more than 50% indicated to be incompetent. This correlation translated in 3.3% impact of cash flow management on financial performance as per (Adjusted R Square = .03333). This suggests that cash flow 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 flow management on financial performance among the businesses investigated, (sig. =.066) is above 0.5, which suggests that cash flow 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 flow 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 flow management) + ε, where ε is the possible error estimate in the model. The model reflects a decrease in financial performance associated to cash flow management because most of the measures of cash flow management used were focusing on competence in cash flow management.

The study was about cash flow management and financial performance among selected small and medium enterprises. The study found a weak relationship between cash flow 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 flow 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 flow 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 flow 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.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the findings, conclusion of the study, recommendations for policy and practice, limitations of the study and areas for further research.

5.2 Summary

The aim of the study was to establish the effect of cash flow management on the financial performance of the Small and medium sized enterprises. Cash flow management was measured by the three variables which included investing activities, operating activities and financing activities and the financial performance of SMEs. The study employed the secondary data which was obtained from the financial statements of the companies. Data analysis involved descriptive data analysis and the regression analysis.

The descriptive analysis was aimed at establishing the impact of the cash flow management on financial performance of SMES.

The study also employed regression analysis. From the regression analysis results, the regression model accounted for 20.5% of the variance in performance. This is evident from the adjusted R^2 value of 0.206 and the F-Statistic was 5.43 and this was significant at 5% significance level this implies that the model employed was fit. From the findings of the study, the effects of cash flow management were found to be insignificant at 5% level of significance. However the effect on financial performance was found to be statistically significant at 5% level of significance.

5.3 Conclusion

The study aimed at establishing the effect of cash flow management on the financial performance of companies listed of Small and medium sized enterprises. From the study findings, the cash flow management had a positive but insignificant effect on the financial performance. This implies that cash flow management has no any influence on the financial performance. From the findings of the study it was also established that the size of the company had a negative and insignificant effect on the financial performance. It implies that the size of the company has no any influence on the financial performance.

5.4 Recommendations

Following the outcome of the study, the study proposes that the companies in small and medium enterprises to increase their receivable period, inventory period and payable periods. This will increase the cash management cycle which will in turn improve the financial performance of the companies in small and medium sized enterprises.

5.5 Areas for Further Research

This study employed only the secondary data in the analysis. Another study should be undertaken to incorporate both secondary data and primary data since primary data is able to bring out some aspects which are not dealt by the secondary data. It could be the change in financial performance is not brought about by cash management alone.

In this study, all the segments of Small Scale Businesses were represented since two companies were taken from each segment. A similar study should be conducted considering each segment as a separate entity.

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Research coordinator