

**THE IMPACT OF CASH MANAGEMENT PRACTICES ON FINANCIAL
PERFORMANCE OF SMES IN UGANDA, A CASE STUDY IN PALLISA TOWN
COUNCIL.**

BY

MADANGU RENNY

BU/UP/2018/2883

mrennysmith@gmail.com

**A RESEARCH REPORT SUBMITTED IN PARTIAL FULFILLMENT OF THE
REQUIREMENTS FOR THE AWARD OF A DEGREE OF BACHELOR OF
BUSINESS ADMINISTRATION, DEPARTMENT OF ECONOMICS
AND MANAGEMENT AT FACULTY OF MANAGEMENT
SCIENCES, BUSITEMA UNIVERSITY
MAY 2022.**

DECLARATION

I MADANGU RENNY. BU/UP/2018/2883 declare that this project is my original work and has not been submitted for examination in this or any other university.

Signature: Date.....

APPROVAL

This project has been submitted for examination with my approval as a university supervisor.

Supervisor

Signature:

Mr. Esuku Joseph

Date.....

DEDICATIONS

I dedicate this report to my beloved parent **Miss. HANGHUJJA MAUREEN** for her endless support in educating me till this level.

ACKNOWLEDGEMENTS

I acknowledge the almighty God who has given me the strength and will to pursue this study. My special appreciation to my supervisor Mr. Esuku Joseph and other Lecturers in the department of Economics and management who took effort to guide and advise me during the entire period of my proposal report writing.

I am also indebted to my parent for all her invaluable support and encouragement financially towards printing a research proposal.

Finally I thank all the class mates mostly Ismael Okiror, Musana Jonah, who encouraged and assisted me in writing this research proposal, for their time which they spared to enable me accomplish this task.

TABLE OF CONTENTS

DECLARATION	ii
APPROVAL	iii
DEDICATIONS	iv
ACKNOWLEDGEMENTS	v
TABLE OF CONTENTS	vi
LIST OF TABLES	x
ABBREVIATIONS AND ACRONYMS	xi
ABSTRACT	xii
CHAPTER ONE	1
INTRODUCTION	1
1.0 Introduction	1
1.1 Background to the study	1
1.2 Statement of the Problem	3
1.3 Purpose of the study	3
1.4 Research objectives	3
1.5 Research questions	3
1.6.0 Scope of the Study	4
1.6.1 Content Scope	4
1.6.2 Geographical Scope	4
1.6.3 Time Scope	4
1.7 Significance of the Study	4

CHAPTER TWO-----	7
LITERATURE REVIEW -----	7
2.0 Introduction-----	7
2.1 Theoretical review -----	7
2.2 Effect of Cash Control on the Financial Performance-----	7
2.3 Cash Conversion cycle on financial performance-----	9
2.4 Effect of Cash planning on the financial performance -----	11
2.5. Summary of the literature reviewed -----	14
CHAPTER THREE: -----	15
RESEARCH METHODOLOGY -----	15
3.0 Introduction-----	15
3.1 Research Design -----	15
3.2 Study Population-----	15
3.3 Sample Size-----	16
3.4 Sampling Method -----	17
3.5 Type of data -----	17
3.6 Data Collection Methods -----	17
3.7 Reliability and Validity -----	17
3.8 Data Analysis plan-----	18
3.9 Ethical Considerations -----	18
CHAPTER FOUR: -----	19
DATA ANALYSIS, PRESENTATION AND INTERPRETATION -----	19
4.0 Introduction-----	19

4.1 Response Rate	19
4.1 Bio-Data Information of the respondents	19
4.1.2 Age of the respondents	20
4.1.3 Education level	20
Table 3 Shows education level of respondents	20
4.1.4 Duration of Service in the business	21
Table 4 Shows the Duration of service of respondents	21
4.2 Effect of Cash control on the financial performance of SMEs	21
Regression Model	25
4.3 Effect of Cash Conversion Cycle on financial performance in SMEs	26
4.4 Effects of Cash planning on financial performance in SMEs	30
CHAPTER FIVE:	36
DISCUSSION OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS	36
5.0 Introduction	36
5.1 Discussion of the Findings	36
5.1.1 Effect of cash control on financial performance of SMEs	36
5.1.2 Effect of cash Conversion Cycle on financial performance	36
5.1.3 Effect of cash planning on financial performance	37
5.2 Conclusion	37
5.3 Recommendations	38
5.4 Area for further studies	38
5.5 Limitations of the study.	38
REFERENCES	39

Appendix I: Introductory letter	45
Appendix II: Questionnaire	46
Appendix III: Work Plan	50
Appendix IV: Research Budget	51

LIST OF TABLES

Table 4.1.1: Shows gender of the Respondents	19
Table 4.1.2: Shows the Age of Respondents	20
Table 4.1.3: Shows education level of respondents	20
Table 4.1.4: Shows the Duration of service of respondents	21
Table 4.2.1: Shows the response of the effect of cash control on financial performance in SMEs.....	22
Table 4.2.2: Shows Model Summary.....	25
Table 4.2.3: Shows the ANOVA ^a	25
Table 4.3.1: Shows the response of the effect of cash conversion cycle on financial performance	26
Table 4.3.2: Shows Model Summary.....	29
Table 4.3.3: Shows the ANOVA ^a	30
Table 4.4.1: Shows the response of the effect of cash planning on financial performance of SMEs.....	30
Table 4.4.2: Shows Model Summary.....	34
Table 4.4.3: Shows the ANOVA ^a	34

ABBREVIATIONS AND ACRONYMS

SMEs	Small and Medium Enterprises
CCC	Cash Conversion Cycle
CDO	Community Development Officer
SBA	Small Business Association
SPSS	Statistical Packages for Social Science
DSO	Day Sales Outstanding
DPO	Day Payables Outstanding

ABSTRACT

The purpose of the study is to determine the impact of cash management practices on the financial performance of SMEs in Pallisa Town Council. The objectives of the study were; to examine the effect of cash control on the financial performance of SMEs in Pallisa Town Council, to examine the effect of cash conversion cycle on the financial performance of SMEs in Pallisa Town Council, and to examine the effect of cash planning on the financial performance of SMEs in Pallisa Town Council. The study contains these sections: theoretical review, conceptual review variables which contains cash management on profitability, and it will also discuss empirical review, critique of literature and research gap.

The researcher used descriptive and explanatory research designs to ascertain and describe the characteristics of variables and explain the occurrences of the problem. The population was comprised of 87 individuals from which the researcher obtained a sample of 41 respondents comprising of 20 owners and 21 employees. The research process used purposive sampling in order to select respondents with specific desired information. Data was collected from both primary and secondary sources. The researcher interpreted and discussed the presented data in frequency tables and SPSS to analyze data from frequency tables.

The coefficients table provides us with the necessary information to predict cash planning from financial Performance, as well as determine whether cash planning contributes statistically significantly to the model by looking at the Sig column.

In conclusion Cash planning was found to be necessary in all SMEs in Pallisa Town Council. Since cash control could be used to explain 69% influence in a financial performance of SMEs in Pallisa Town Council. More importantly organizations should encourage cash control, cash conversion cycle and cash planning in cash management to improve on financial performance in SMEs in Pallisa Town Council.

Further the study recommends that cash management practices should be well practiced in any SMEs to ease the financial performance through cash control, cash conversion cycle and cash planning.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter will cover the background to the study, statement of the problem, objectives of the study, research questions, scope and significance of the study and the conceptual framework.

1.1 Background to the study

Financial performance is a subjective measure of how well an organization can use assets from its primary mode of business and generate revenues (Kakuru, 2014). SMEs financial performance is however in negatives evidenced by the losses made during the year 2019-2022, whereby many small businesses fail (KACITA report, 2021). Considering the enormous potentials of the SMEs sector and despite the acknowledgement of its immense contribution to sustainable economic development, its performance still falls below expectation in many developing countries (Okonkwo & Obidike, 2016). This suggests that despite the existence of many SMEs support programmes that provide backing to SMEs, they continue to experience high failure rate implying poor performance (Ihua, 2009; Kehinde, Abiodun & Adegbuyi, 2016).

Globally, the small business administration (SBA) states that 80% of small businesses established between 2005 and 2017 in the USA survived past their 5th anniversary; unfortunately only about half of these businesses see their anniversary (Robyn et al 2020). (Alsaaty 2017) also finds that newly established entrepreneurial firms companies with fewer than 20 employees – have fallen from 558,500 in 1990 to 515,100 in 2011, representing 8 percent decrease. The death of young firms shot-up by 11 percent during the same time. Newman et al. (2012) add that SMEs around the world, especially those in developing countries such as China are unable to access the needed external fund for growth. Most of the small enterprises in rural areas of China, experience a low financial performance as evidenced by the low profits generated and increasing debts. All the above reasons make it clear that the financial performance of small enterprises is low and there is need of government interventions to rescue those businesses globally.

In Sub Saharan Africa, Yeboah (2015) also revealed that 75% of SMEs in South Africa do not become established businesses making the country to have the highest failure rate in the

a conclusive picture. Given these considerations, there will be conclusive results on the effect of cash management practices on financial performance of SMEs in Pallisa Town Council

REFERENCES

Afrifa & Padachi (2016), The Role of SMEs in Employment Creation and Economic Growth in Selected Countries. *International Journal of education and Research*, 2(12), 461-472.

Ahmad, N. N. (2016). Cash Management Practices in Micro and Small Businesses in Malaysia. *Journal of Education and Social Science*, 4, 331-335.

Aleem, M., & Usman, A. (2017). Impact of Working Capital Management on Profitability: A Case of the Pakistan Textile Industry. *Research Journal of Finance and Accounting*, 8 (21), 36-40.

Asensio (2017), Effect of Working Capital Management on Firm' Financial performance: a survey of water processing firms in Puntland, *International Journal of Contemporary Applied Researches*, Vol. 7, no. 6

Attom, B. E. (2013). Cash Management Practices by Micro and Small -Scale Enterprises at Kasoa in the Central Region of Ghana. *Asian Journal of Business and Management Science*, 3 (2), 1-12.

Atwal (2014). What do professional forecasters actually predict? *International Journal of Forecasting*, 34(2), 288-311.

Bhama, Jain & Yadav, 2018), "the determinant of profitability: an empirical Investigation using indian automobile industry," *international Journal of research in commerce and management*, vol. 2, no. 1, pp. 58-64, 2011

Birt et al., (2011), Corporate income taxes and the cost of capital: A correction. *The American Economic Review*, 53(2), 433-443.

Brealey et al. (2020), What influences the success of manufacturing SMEs? A perspective from tangier. *International Journal of Business and Social Science*, 4(7), 15-29.

Brigham and Houston (2014), *Essentials of Financial Management* 13th Edition. *Peason Prentice Hall*.

Çerkezi (2013), Determinants of Business Success of Small and Medium Enterprises,” *International Journal of Business and Social Science*, Vol. 2, no. 20, pp. 274-280

Chandra, (2017), “Working capital management and firms’ performance in emerging markets: the case of Jordan”, *International Journal of Managerial Finance*, Vol. 8 No. 2, pp. 155-179.

Chang (2018), Small and medium scale enterprises: Pivotal to sustainable economic development-The Nigeria experience. *International Journal of Current Research*, 8(1), 1-10.

Cleveland (2015), “Liquidity management, operating performance, and corporate value: evidence from Japan and Taiwan”, *Journal of Multinational Financial Management*, Vol. 12 No. 2, pp. 159-169.

Cooper & schindler (2003) *Business research methods* 8th edition

Determinants of young firms’ innovative performance: Empirical evidence from Europe. *Research Policy*, 46, 1312-1326.

Ebben and Johnson (2011), Determinants of business of small and medium enterprises. *International Journal of Business and Social Science*, 2(20), 13-21.

Ehrhardt, M.C, & Brigham, E. F. (2016). *Corporate finance; A focused approach*. (2nd ed.). Mason: *Thomson South-Western Fabozzi entrepreneurial Approach*. (7th ed.), *Prentice Hall International Inc*. New Jersey.

Fatimah, Y. A., & Islam, M.N. (2013). Sustainable Manufacturing for Indonesian Small- and Medium-sized Enterprises (SMEs): The Case of Remanufactured alternators. *Fatimah et al. Journal of Remanufacturing*, 3(6),1-11.

Gakure, R., Cheluget, K. J., & Keraro, V. (2012). Working Capital Management and Profitability of Manufacturing Firms Listed at The Nairobi Stock Exchange. *Prime Journal of Business Administration and Management (BAM)*, 2(9), 680-686.

- Gathogo, G. (2016). Effect of Working Capital Management on the Profitability of Manufacturing Firms in Nakuru Town, Kenya. *International Journal of Economics, Commerce and Management*, IV (4), 1082-1105.
- Gui, S., & Khan, W. (2013). Working Capital Management and Performance of SME Sector. *European Journal of Business and Management*, 5(1), 60-68.
- Gustafson (2012), Corporate financing decisions under ambiguity: Pecking order and liquidity policy implications. *Journal of Business Research*, 69, 6012-6020.
- Hamzaet. al. (2015), "Relationship between working capital management and profitability of listed companies in the Athens stock exchange", *Journal of Financial Management and Analysis*, Vol. 19 No. 1, pp. 26-35.
- Kakeeto, F., & Osunsan, O. K. (2017). Cash Management and organizational Profitability in Gumutindo Coffee Cooperative Enterprise Limited (GCCE), Mable District Uganda. *Journal of Research in Business and Management*, 5 (5), 33-40.
- Kakuru (2014), Effects of Cash Management on Financial Performance of Small Scale Businesses. A case study of Kampala Central Division, *a Dissertation Submitted to the College of Economics and Management*, pp 2-27
- Khan, (2014), Working Capital Management and Performance of SME Sector. *European Journal of Business and Management*, 5(1), 60-68.
- Leach & Melicher, (2018), SMEs financing and its effects on Nigerian economic growth. *European Journal of Business, Economics and Accountancy*, 4(4), 37-50.
- Marfo-Yiadom (2018), Financial Decisions Making. "Concepts, Problems and Cases" 4th Edition PHI Learning Private Ltd. New Delhi, India.
- Mensah-Agyei, B.K. (2012). Working Capital Management practices of small firms in the Ashanti region of Ghana, *International journal of academic research in business and social science*, 2 (1), pp. 3781-3789.
- Mugal, A., & Garbharran, H. L. (2014). Cash Management Challenges of Small Business in Developing Community. *Mediterranean Journal of Social Science*, 5, 11-21.

Nyabwanga, R. N., Ojera, P., & Otieno, S. (2012). Effect of Working Capital Management Practices on Financial Performance; a Study of Small Scale Enterprises in Kisii South District, Kenya. *African Journal of Business Management*, 6 (18), 5807-5817.

Nyamao, N.R., Odonde, A.J., & Simeyo, O. (2011). 'Effect of working capital management practices on financial performance: A study of small scale enterprises in Kisii South District, Kenya", *African Journal of Business Management* Vol. 6(18), pp. 5807-5817, 9 May, 2012

Okonkwo (2016), Effect of working capital management on the financial performance of small and medium enterprises in Nairobi County, Kenya. *Journal of International Business, Innovation and Strategic Management* 1 (7): 126 - 146

Omesa, N. W., & Makori, G.A. (2013). Working Capital Management and Corporate Performance: Special Reference to Manufacturing Firms on Nairobi Securities Exchange. *International Journal of innovative Research and Development*, 2(9), 177

Pandey (2013), "Working Capital and Financial Management Practices in the Small Firm Sector", *International Small Business Journal* 14, 52–68.

Prince (2012), What affects the innovation performance of small and medium-sized enterprises in China? *Innovation: Management, Policy and Practice*, 15(3), 271–286.

Puxty and Dodds (2012), Effect of Cash Conversion Cycle and Inventory Holding Period on the Profitability of Small and Medium Enterprises in Wote, Makueni County. *European Journal of Accounting, Auditing and Finance Research*, vol.9, no. 3, pp.35-42

Robyn E, Johnny yong (2020), Performance and financial management: key factors for small and medium- sized entities' survival in a volatile environment.

Ross, S. A., Jaffe, F.J., & Jordan, D. B. (2011) Core principles and applications of corporate finance: *Global edition. (3rd ed.)*, New York, McGraw Hill/ Irwin

Shaw, B. (2006). *Are markable book about human behavior and a worldwide best seller.*

Singhania & Mehta, (2017), Determinants of Small and Medium Enterprises (SMEs) performance in Ekiti State, Nigeria: A business survey approach. *European Journal of Humanities and Social Sciences*, 25(1), 1-18.

Singhania et al., (2014), Medium scale enterprises financing in Nigeria: Problems and prospects. *International Journal of Innovative Social Sciences & Humanities Research*, 4(1), 77-86.

Smirat, B. Y. (2016). Cash Management Practices and Financial Performance of Small and Medium Enterprises (SMEs) in Jordan. *Research Journal of Finance and Accounting*, 7, 98-107.

Smith and Robert (2014), Impact of Cash Management on Financial Performance of the Sri Lankan Manufacturing Company. *EPRA International Journal of Economic and Business Review*, 4(8), 118-126.

Soaga (2012), "Effect of working capital management on firm profitability: empirical evidence from India", *Global Business Review*, Vol. 12 No. 1, pp. 159-173.

Sunday, A., Burani, A. and Eliabu, B. (2013). Financial Management practices in small and medium Enterprises in selected Districts in western Uganda. *Research Journal of Finance and Accounting*, 1 (2), pp. 29-42.

Turyahebwa et. al. (2013), "The influence of working capital management components on corporate profitability: a survey on Kenyan listed firms", *Research Journal of Business Management*, Vol. 4 No. 1, pp. 1-11.

Uwonda, G., & Okello, N. (2015). Cash Flow Management and Sustainability of Small Medium Enterprises (SMEs) in Northern Uganda. *International Journal of Social Science and Economics Invention*, 1 (3), 1-20.

Van Horne (2016), Factors Affecting Profitability of Small Medium Enterprises (SMES) Firm listed in Indonesia stock Exchange. *Journal of Economics, Business and Management*, Vol. 4, no. 2

Vijayakumar, DA (2011), 'Cash Conversion Cycle and Corporate Profitability- An Empirical Enquiry in Indian Automobile Firms', *International Journal of Research in Commerce ,IT and Management*, Vol 1, no. 2, pp. 84-91.

Weda (2015), "An analysis of working capital management results across industries", *American Journal of Business*, Vol. 20 No. 2, pp. 11-20.

Weda (2015), Factors Influencing Growth of Small and Microenterprises in Nairobi Central Business District. *Journal of Poverty, Investment and Development*, 9, 104-137.

Wickramasinghe, M. B., & Gunawardane, K. (2017). Cash Flow Risk Management Practices on Sustainable Financial Performance in Sri Lanka. *International Journal of Arts and Commerce*, 7 (8), 57-69.

Zeidan and Shapir (2017), Impact of entrepreneurship training on performance of small enterprises in Jaffna district. *Global Journal of Commerce and Management Perspective*, 5(2), 1-6.