

Cash Management And Its Impact On Financial Performance Of Mukwano Manufacturing Company

Irumba Alex¹, Zikusooka Enock²

1, 2 Metropolitan International University

Abstract

The study aimed at cash management and its impact on financial performance of Mukwano manufacturing company. Subsequently, qualitative primary data was collected to help explain and build upon the quantitative results. In-depth one-on-one interviews were conducted with senior managers, accounting personnel and production Heads using semi-structured questionnaires focusing on existing cash management policies, challenges in cash budgeting and controls, systems for cash receivables and payables management as well as opportunities for improvement. The moderate to strong positive correlation between cash management and financial performance, as indicated by the R value of 0.593, demonstrating a meaningful relationship where enhancing cash management tends to lead to improved financial performance. Specifically, over one-third of the variation in financial performance was explained by cash management alone according to the R Square value of 0.354. The regression model developed was shown to be statistically significant based on the ANOVA table's p-value of 0.000, which is less than the standard 0.05 threshold. This confirmed that cash management reliably predicted financial performance and was not due to chance. It was strongly recommended that company leadership makes optimizing cash management processes and controls an utmost strategic priority going forward. Targeted efforts must be undertaken to strengthen various cash management activities such as comprehensive cash forecasting, preparation of detailed budgets, meticulous collection of receipts, careful monitoring of expenditures, and timely reconciliation of cash records. Digitalization of cash management workflows can aid efficiency and accuracy.

Key words: Cash Management And Financial Performance

Background of the study

The Cash Conversion Cycle is a powerful measure for assessing how well a commercial bank is managing its working capital. The aim of working capital management is to achieve balance between having sufficient working capital to ensure that the business is liquid but not too much that the level of working capital reduced profitability (Annet et al., 2023). While the performance levels of small businesses have traditionally been attributed to general managerial factors such as manufacturing, marketing and operations, working capital management may have a consequent impact on small business survival and growth. The management of working capital is important to the financial health of businesses of all sizes (Ramadhan et al., 2023).

Relationships between working capital elements are used to assess liquidity, length of cash cycle and investment in liquid assets by the company. Companies usually are not able to convert all their current assets into cash very quickly (Akankwasa et al., 2022). If a manufacturing company manages the cash conversion cycle it may improve the lead time between purchasing the raw materials and production (Victor et al., 2022). Various studies have made in

Received: 19.01.2024

Accepted: 25.01.2024

Published on: 31.01.2024

relationship between working capital management and profitability usually pointing to a significant negative relationship between cash conversion cycle and profitability (Annet et al., 2023). ROA, the ratio of net revenue to total assets measures profitability. It measures asset operation efficiency in a given firm to produce income (Oromo et al., 2023). Higher ROA indicates effective asset utilization within the firm. Appropriate working capital management practices are vital for cultivating value, cash flows, profitability, and lowering costs of the firm (N. Moses et al., 2022).

The success of a firm is a function of its ability to generate cash receipts in excess of cash disbursements (Gracious, 2023). But poor financial management and of course inadequate plan for cash requirement accelerates problem in organizations. Suffice to say that increasing profit at the cost of liquidity of the firm brings a serious problem; hence serious plan must be in place for effective attainment of the organizational objectives, that why working capital management has become an imperative issue especially in organization where financial managers find it difficult to identify the major drivers of working capital (Alex & Kazaara, 2023).

Problem statement

It has become evidently apparent through a rigorous examination of financial statements and reports over consecutive accounting periods that Mukwano Manufacturing Company (Frank et al., 2023), one of the largest manufacturing firms in Uganda, has been experiencing irregularities in cash inflows and outflows along with difficulties in effectively managing its working capital, primarily attributable to inefficient cash management techniques that have certainly compromised the organization's ability to optimally utilize available cash resources thereby negatively impacting its overall financial performance in the long run (Winny et al., 2023). A deeper inspection of the firm's cash flow statements unveils the disturbing reality that at different points in time during the year, the company has had to grapple with excesses as well as deficiencies of cash, stemming primarily from inadequate forecasting of future cash requirements, delays in collection from debtors, unnecessary accumulation of idle cash balances, improper scheduling of payments, and lack of coordination between the cash conversion cycle and production activities, leading to situations of liquidity constraints on some occasions and surplus cash but lack of profitable investment avenues on other occasions (Musaibah et al., 2023). If these weaknesses in the internal cash management system are not addressed through a well thought out overall framework covering cash budgeting, receivables management, payables management, cash operating cycles, cash investment policies and adoption of relevant technology tools, it could potentially constrain opportunities for business expansion, increase working capital costs, disrupt production cycles, lead to misses on key financial obligations at times, and deteriorate overall shareholders value, thus posing a threat to sustainable improved financial results and long term competitiveness of the organization (Christopher et al., 2022).

Methodology

In order to comprehensively analyze the relationship between cash management practices and financial performance at Mukwano Manufacturing Company, a mixed methods sequential explanatory research design was employed. Quantitative data was firstly gathered and analyzed to provide an objective understanding of the issues. Financial

Received: 19.01.2024

Accepted: 25.01.2024

Published on: 31.01.2024

statements for the past five years were meticulously examined where key variables such as cash flows, liquidity ratios, profitability ratios and capital structure were longitudinally evaluated to determine trends and deduce how fluctuations in cash levels impacted overall financial results. Furthermore, internal documents pertaining to annual cash forecasts versus actual inflows and outflows were also studied to identify variances.

Subsequently, qualitative primary data was collected to help explain and build upon the quantitative results. In-depth one-on-one interviews were conducted with senior managers, accounting personnel and production Heads using semi-structured questionnaires focusing on existing cash management policies, challenges in cash budgeting and controls, systems for cash receivables and payables management as well as opportunities for improvement. Additionally, an online survey was distributed to major suppliers to gauge their perspectives on the company's payment practices and credit terms. The analyzed quantitative and qualitative findings were then integrated to draw meaningful inferences regarding the effect of cash management effectiveness on key metrics like liquidity, profitability, operational efficiency and shareholders' value.

Validity and reliability were ensured by utilizing multiple data sources for triangulation. Approvals were also obtained from relevant authorities prior to data collection and analysis was checked by independent experts. Data was analyzed in form of tables, frequencies and percentages using SPSS & STATA (Nelson et al., 2022)

Results

Table 1: Regression results on the relationship between Cash management and financial performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.593	.354	.345	.64001
a. Predictors: (Constant), cash management				

Coefficients					
Model		Unstandardized Coefficients		Standardized Coefficients	t
		B	Std. Error	Beta	
1	(Constant)	1.505	.567		2.656
	Csh_mgt	.613	.152	.561	6.021
a. Dependent Variable: Fin_perform					

Source: Primary Data.

The R value of 0.593 indicates a moderate to strong positive correlation between cash management and financial performance. This means cash management is correlated with financial performance. The R Square value of 0.354 indicates that 35.4% of the variation in financial performance can be explained by cash management. The adjusted R square value of 0.345 accounts for the number of variables in the model. The standard error of estimate of 0.640 indicates the standard deviation of residuals from the regression line (Nelson et al., 2023). The ANOVA table shows that the regression model is significant with a p-value of 0.000, which is less than 0.05. Therefore, cash management significantly predicts financial performance. The coefficient B value for cash management is 0.613. This indicates that a one unit increase in cash management leads to a 0.613 unit increase in financial performance on average. The beta value of 0.561 shows the relationship in terms of standard deviations. Based on these results, I would recommend strengthening cash management practices and controls as it positively impacts financial performance. Improving cash forecasting, budgeting, collection and expenditure monitoring can help optimize cash flow and profits. Providing training to relevant staff on effective cash management techniques may further aid financial results.

Summary of findings

The survey results indicate that respondents had varying opinions on how the frequency of bank reconciliation affects a company's financial performance. A moderate number of respondents agreed or strongly agreed that reconciliation frequency impacts financial performance, while a moderate number disagreed or were unsure, resulting in an average response reflecting moderate agreement with moderate variability (Gracious, 2023). Given these findings, it is recommended that the company carefully consider how the timing of reconciliation activities may influence bottom line results and explore this relationship further through additional analysis to help determine the most effective reconciliation approach. When asked if regular bank statement reconciliation lowers company losses, a very small percentage disagreed while a moderate number agreed or strongly agreed, though the largest proportion were unsure. However, the average response signified moderate agreement with low variability, suggesting respondents somewhat recognize the potential risk mitigation of consistent reconciliation. Therefore, the company would benefit from establishing standardized reconciliation practices to promptly identify and address discrepancies, thereby safeguarding financial health (K. Moses et al., 2023).

For the statement concerning whether poor reconciliation can lead to losses, responses were similar to the previous question with a small percentage disagreeing but a moderate portion agreeing alongside the largest share reporting uncertainty. Still, the average level of accord and restricted variability inferred acknowledgment of downside consequences from deficient reconciliation. To prevent losses, prioritizing precise and well-timed reconciliation is crucial for the company. Opinions diverged more greatly over whether holding excess cash reduces profitability, with a modest number strongly agreeing or disagreeing yet many unsure. This led to an average assessment of moderate approval with high variability. As such, it is advised that the company critically evaluates its cash holding strategy to balance liquidity with maximizing returns by avoiding encumbered funds that preclude investment chances. Most

Received: 19.01.2024**Accepted: 25.01.2024****Published on: 31.01.2024**

respondents expressed ambiguity toward the assistance of cash budgets in boosting profitability, despite a slight number strongly agreeing or disagreeing. However, the average response still implied moderate agreement at a similar variation. Therefore, maintaining cash budgets seems advisable while additionally refining the process to boost effectiveness and confirm alignment with financial goals.

Conclusion

The moderate to strong positive correlation between cash management and financial performance, as indicated by the R value of 0.593, demonstrates a meaningful relationship where enhancing cash management tends to lead to improved financial performance. Specifically, over one-third of the variation in financial performance is explained by cash management alone according to the R Square value of 0.354. The regression model developed was shown to be statistically significant based on the ANOVA table's p-value of 0.000, which is less than the standard 0.05 threshold. This confirms that cash management reliably predicts financial performance and is not due to chance. Additional important findings include the adjusted R square value of 0.345 which accounts for the number of variables, and the standard error of 0.640 representing sampling error. Most notably, the coefficient B value suggests financial performance would rise by 0.613 units for every single unit increase in cash management when other factors are held constant. Similarly, the beta value of 0.561 characterizes the relationship in terms of standard deviation units.

Recommendation

It is strongly recommended that company leadership makes optimizing cash management processes and controls an utmost strategic priority going forward. Targeted efforts must be undertaken to strengthen various cash management activities such as comprehensive cash forecasting, preparation of detailed budgets, meticulous collection of receipts, careful monitoring of expenditures, and timely reconciliation of cash records. Digitalization of cash management workflows can aid efficiency and accuracy. Management should also invest in specialized training programs to ensure all personnel directly involved in handling cash transactions are well-versed in industry-standard best practices. Regular internal audits are needed to identify deficiencies and validate conformance with internal guidelines.

References

- Akankwasa, A., Akakikunda, T., Ntirandekura, M., Murezi, C. M., & Christopher, F. (2022). *Effect of Capital Budgeting on Development of Organizations Empirical Studies of Kashinge Child Development Centre Kisoro District*. 6(9), 5–10.
- Alex, I., & Kazaara, A. G. (2023). *Internal Controls and Financial Performance of Saccos in Wakiso District*. 7(3), 47–56.
- Annet, N., Andrew, N., Kazaara, A. G., Christopher, F., & Moses, N. (2023). *Impact of Budgeting On the Profitability of a Manufacturing Company , a Case Study of Harris International*. 7(2), 112–126.

- Christopher, F., Moses, N., Muhindo, M. E., & Komunda, T. R. (2022). *Employee Training and Organizational Performance : A Case Study of African College of Commerce and Technology in Kabale District , South Western Uganda* : 6(5), 1–7.
- Frank, M., Nelson, K., Kazaara, A. G., Deus, T., Christopher, F., & Catherine, M. (2023). *The Macroeconomic Determinants of Economic Growth in Uganda a Case Study Of Wakiso Distict*. 7(2), 147–159.
- Gracious, A. (2023). *The Effects Of Electronic Banking On Customer Service Delivery , A Case Study Of Cairo Bank Uganda , Nakasero*. 7(2), 80–87.
- Moses, K., Kazaara, A. G., Kazaara, A. I., & Ismail, L. (2023). *External Auditing and the Financial Performance of Marianum Press Limited , Kisubi*. 7(3), 258–266.
- Moses, N., Christopher, F., Muhindo, M. E., & Alex, A. (2022). *Task Oriented Management and Organisational Performance in Manufacturing Firms : A Case Study of Hima Cement Factory , Kasese District*. 6(4), 298–306.
- Musaibah, N., Kazaara, A. G., Kazaara, A. I., & Deus, T. (2023). *The Organizational Factors Affecting Employee Performance in Non-Governmental Organizations in Uganda . A Case Study of the Uganda Women Parliamentary Association*. 7(3), 221–231.
- Nelson, K., Christopher, F., & Milton, N. (2022). *Teach Yourself Spss and Stata*. 6(7), 84–122.
- Nelson, K., Kazaara, A. G., & Kazaara, A. I. (2023). *Teach Yourself E-Views*. 7(3), 124–145.
- Oromo, O. D., Julius, A., & Nelson, K. (2023). *Effect of Covid-19 Lockdown on Household Income in Uganda A Case Study of Kitoro Parish , Entebbe Municipality*. 7(4), 107–117.
- Ramadhan, B., Alex, I., Kazaara, A. G., Nelson, K., Deus, T., & Pascal, T. (2023). *Taxation and the Development of Small Businesses in Uganda , a Case Study of Iganga District*. 7(2), 136–149.
- Victor, M., Nelson, K., & Christopher, F. (2022). *Determinants of Exchange Rates in Uganda (2001-2020)*. 6(7), 198–213.
- Winny, N. D., Kazaara, A. G., Kazaara, A. I., & Deus, T. (2023). *Effect Of Motivation On Employee Performance In Non- Government Organizations (NGOs): A Case Of Mbale City*. 7(3), 67–71.