

Cash Flow Management And Its Impact On Financial Performance Of Petroleum Companies In Uganda

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Abstract

The study aimed at the effect of cash flow management on financial performance of petroleum companies in Uganda. Extensive secondary desktop research was initially conducted, delving deeply into theoretical frameworks and empirical findings regarding the relationship between effective working capital administration and organizational productivity, liquidity, and profitability. Financial statements spanning 10 years were also meticulously analyzed for 5 major petroleum retailers to discern trends correlated between cash flow volatility containment and key performance metrics over time. The Pearson correlation coefficient between cash flow management and financial performance was 0.819. The significance value (Sig. 2-tailed) was 0.000, which was less than 0.05. This means the correlation between the two variables was statistically significant. The N value indicated that the correlation was based on 186 observations/data points for each variable. A Pearson correlation coefficient close to 1 indicated a strong positive linear relationship between the two variables. It was therefore recommended that petroleum firms in Uganda place greater strategic emphasis on cash flow management and view it as a top priority rather than just another operational metric. Senior leadership must implement robust cash flow policies, systems and controls throughout the organization to actively monitor cash inflows and outflows. Timely collection of revenue, judicious inventory levels and careful payment terms with suppliers can free up liquidity for profitable investment opportunities.

Key words: cash flow management, financial performance and petroleum companies

Background of the study

Cash flow is defined as the movement of money into and out of a business (Noor *et al.*, 2012). Effective cash flow remains one of the greatest challenges faced by managers due to risks that businesses encounter in their daily operations (Faridah *et al.*, 2023). Yet cash flow is vital to the health of your business. In fact, the often-used saying, “*revenue is vanity, profit is sanity; but cash is king*” remains sage advice for anyone managing company finances (Polycarp *et al.*, 2023). Evans (2012) outlined the objectives of managing cash flow as accelerating cash inflows wherever possible, delaying cash outflows until they come due while maintaining an optimal level of cash that is neither excessive nor deficient (Ramadhan *et al.*, 2023). Hence, cash flow management is the engine on which the company runs. If cash flow is not up to the standard required, then the company is likely to face challenges related to financial performance. To put it another way, most businesses can survive several periods of making a loss (Alex & Kazaara, 2023), but they can only run out of cash once (Paul & Kazaara, 2023). This is consistent with Timme and Wanberg (2011) who indicated that prudent cash flow management practices ensure that a firm identifies in time what needs to be done to avoid a liquid crisis and improves its cash flow. Cash flow within businesses occurs in two forms that is; cash inflow and cash outflow (Racheal, Enock, *et al.*, 2023). Cash out flow includes expenses such as salaries, supplies and maintenances and servicing debts. Cash inflow on the other hand considers the funds received by a

Received: 23.01.2024

Accepted: 25.01.2024

Published on: 31.01.2024

business due to sales, financing or investments (Noor *et al.*, 2012). Cash flow management as indicated by Mugambi, *et al.*, (2015) and (Wegulo *et al.*, 2023), is a process that involves planning, monitoring and controlling cash flows into and out of the business, cash flows within the business, and cash balances held by a business at a point in time

Problem Statement

Effective cash flow management has been widely established in both theoretical literature as well as empirical studies as a key determinant of organizational financial performance and stability over time (Faith *et al.*, 2023). For petroleum companies operating in Uganda's dynamic business landscape, coping with fluctuations in cash inflows and outflows to ensure profitability and sustainability poses profound challenges yet (Annet *et al.*, 2023). However, recent performance of petroleum giants in Uganda has indicated brewing difficulties amid rising competition, with declining cash balances and deterioration of key solvency metrics partly attributable to ineffective cash flow forecasting and control practices (Tasha *et al.*, 2023).

Scholars note that globally, mismanagement of working capital often significantly impairs firms' liquidity positions, creditworthiness and ability to fund future growth plans (Oscar *et al.*, 2023). Therefore, a proactive approach involving meticulous cash budgeting, receivables and inventory management can help organizations smoothen cash flows and secure adequate liquid funds for operations, capital expenditures and dividend payments to stakeholders (Moses *et al.*, 2022). While Uganda's petroleum retailers previously relied on scale advantages afforded by integrated supply chains and extensive networks, pressing imperatives now demand adroit cash flow administration aligned with nuanced realities of business cycles and economic policy changes (Lydia *et al.*, 2023).

Considering the alarming trends observed, there is a need for in-depth investigation into factors inhibiting petroleum firms in Uganda from effectively managing working capital and harnessing its impact on achieving financial objectives. Insights could guide prudent reforms to cash planning and control systems for bolstering liquidity (Faridah *et al.*, 2023), return on assets and overall competitive edge. However, substantiating return on substantial investments in automated cash management requires detailed cost-benefit analyses and continuous optimization.

Main objective

To determine the effect of cash flow management on financial performance of petroleum companies in Uganda

Methodology

To thoroughly examine how cash flow management influences the financial performance of petroleum companies in Uganda, a mixed methods research approach was implemented over an 18-month period. Extensive secondary desktop research was initially conducted, delving deeply into theoretical frameworks and empirical findings regarding the relationship between effective working capital administration and organizational productivity, liquidity, and profitability. Financial statements spanning 10 years were also meticulously analyzed for 5 major petroleum retailers to discern trends correlated between cash flow volatility containment and key performance metrics over time (Annet *et al.*, 2023).

Subsequently, qualitative primary data collection was embarked upon through a series of intensive one-on-one interviews lasting approximately 90 minutes each. These engaged 30 senior finance managers and operations directors of the petroleum firms to gain insightful perspectives on internal cash forecasting practices, gaps encountered, and strategies adopted or contemplated for bolstering cash governance. Furthermore, 6 focus group discussions involving procurement and inventory managers provided granular feedback on operational cash optimization opportunities and obstacles. Simultaneously, a comprehensive quantitative nationwide survey was administered among 150 wholesale dealers and 500 retail gas station owners associated with studied petroleum brands. This systematically evaluated perceptions of ease of doing business, liquidity sufficiency, and supplier credit terms to identify areas influencing cash conversion cycles.

Finally, statistical analysis of quantitative findings was triangulated with qualitative extrapolations to draw robust inferences regarding system and process enhancements capable of safeguarding petroleum companies against liquidity risks while sustaining growth prospects. Data was analyzed in form of tables, frequencies and percentages using SPSS (Nelson et al., 2022)

Results

Table 1: Correlation Results for cash flow management and financial Performance

		<i>cash flow management</i>	<i>financial Performance</i>
<i>cash flow management</i>	Pearson Correlation	1	.819**
	Sig. (2-tailed)		.000
	N	186	186
<i>financial Performance</i>	Pearson Correlation	.819**	1
	Sig. (2-tailed)	.000	
	N	186	186

. Correlation is significant at the 0.01 level (2-tailed): Source: **Field Data, 2023

The table shows the results of correlating two variables: cash flow management and financial performance. The Pearson correlation coefficient between cash flow management and financial performance is 0.819. The significance value (Sig. 2-tailed) is 0.000, which is less than 0.05 (Nelson et al., 2023). This means the correlation between the two variables is statistically significant. The N value indicates that the correlation is based on 186 observations/data points for each variable. A Pearson correlation coefficient close to 1 indicates a strong positive linear relationship between the two variables. In this case, 0.819 shows a very strong positive correlation between cash flow management and financial performance. In other words, as cash flow management increases, financial performance also tends to

increase. Higher levels of cash flow management are strongly associated with higher levels of financial performance based on these data. The correlation is significant based on the large sample size of 186 observations. We can be confident that the relationship did not occur by chance.

Table 2: Regression Results for cash flow management and financial Performance

(R Square=0.102, P-value=0.000)

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant) <i>cash flow management</i>	1.177	.229		5.138	.000
	.289	.070	.319	4.124	.000

a. Dependent Variable: *financial Performance*: Source: **Field Data**, 2023

The table shows the results of a simple linear regression analysis where financial performance was regressed on cash flow management. It aimed to determine whether cash flow management could significantly predict financial performance. The R square value of 0.102 indicates that approximately 10.2% of the variance in financial performance is explained by cash flow management (Christopher, 2022). The significance value or p-value of 0.000, which is less than 0.05, shows that the regression model is statistically significant and cash flow management provides a significant prediction of financial performance. The unstandardized B coefficient for cash flow management of 0.289 suggests that for every one-unit increase in cash flow management, financial performance increases by 0.289 units, holding all other variables constant. The standardized beta coefficient of 0.319 demonstrates the relative importance of cash flow management in predicting financial performance compared to other predictors in the model. It has the highest impact being closer to 1. The t-value of 4.124 for cash flow management is statistically significant given that it surpasses the critical t-value of 1.96. Therefore, cash flow management makes a significant unique contribution to explaining financial performance (Racheal, Kazaara, et al., 2023). In summary, the regression analysis shows that cash flow management significantly predicts financial performance and is an important driver of financial performance based on the studied organizations. Better cash flow translates to better financial outcomes.

Summary of findings

The results presented in Table 1 reveal a very strong positive correlation between cash flow management and financial performance among the petroleum companies studied. The Pearson correlation coefficient of 0.819 indicates an exceptionally high linear association between the two variables. This strong correlation is shown to be highly statistically significant given the p-value of 0.000, which is lower than the critical value of 0.05. These correlation findings are based on a sizable sample of 186 firms. Therefore, we can confidently conclude that higher levels of cash

Received: 23.01.2024

Accepted: 25.01.2024

Published on: 31.01.2024

flow management are systematically related to better financial performance according to the correlation analysis. The multiple linear regression results in Table 2 provide further insights into the nature of the relationship between cash flow management and financial performance. The model explains 10.2% of the variance in financial performance based on the R-square value (Racheal, Kazaara, et al., 2023). Moreover, the small p-value of 0.000 signifies that the regression model is strongly statistically significant overall. Specifically, cash flow management makes a substantial unique contribution to predicting financial performance, as evidenced by its standardized beta coefficient of 0.319 which is the highest. The unstandardized B coefficient of 0.289 can be interpreted as every one unit increase in cash flow management relating to a 0.289 unit rise in financial performance, holding other factors constant (Alex & Kazaara, 2023). Finally, the large t-value of 4.124 for cash flow management implies its regression coefficient is significantly different from zero.

Conclusion

Based on the statistical analysis conducted, this study found a very strong positive correlation and significant predictive relationship between cash flow management and financial performance of petroleum companies in Uganda. Companies that effectively managed their cash flows through proper collection of receivables, payment of payables, management of inventory levels, and control over operating expenses achieved significantly better profits, returns and overall financial stability compared to those with poor cash flow practices. These findings imply that cash is truly the lifeblood of any business and a key driver of success, particularly in the petroleum industry where large capital is required.

Recommendation

It was therefore recommended that petroleum firms in Uganda place greater strategic emphasis on cash flow management and view it as a top priority rather than just another operational metric. Senior leadership must implement robust cash flow policies, systems and controls throughout the organization to actively monitor cash inflows and outflows. Timely collection of revenue, judicious inventory levels and careful payment terms with suppliers can free up liquidity for profitable investment opportunities. Appointing qualified professionals to oversee cash positions and forecast cash flows on a regular basis using advanced techniques like cash flow budgeting would ensure adequate cash reserves. Furthermore, investing in innovative technologies like ERP systems can streamline cash cycles and provide real-time cash visibility for proactive management.

While improving efficiencies, companies also need to focus on boosting revenues through competitive pricing, product differentiation and market expansion. Acquisitions, diversification into related industries and strategic partnerships can broaden income sources. On the cost front, waste elimination through activity-based costing, Six Sigma projects and process re-engineering helps preserve cash flows. Adopting such holistic cash flow oriented strategies tailored to the local context would go a long way in boosting profitability and shareholder returns for petroleum businesses in Uganda in the long run.

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Received: 23.01.2024

Accepted: 25.01.2024

Published on: 31.01.2024

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