
Cash Management And Financial Performance Of Small Business Enterprises In Arua Main Market

Case Study: Arua Central Division

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Abstract

The study was carried in Arua City main market on the topic of cash management and financial performance of SMEs with a sample of 28 making 100% composition.

The study found out that cash management had a grant Mean of 2.31 and Standard deviation of .82 which shows a low level of cash management in Arua City main market. This is mainly attributed to inadequate financial management training by city management (department of commercial services). The study found out that financial performance of SMEs had a Grand Mean of 3.79 and Standard deviation of .42, which shows high level of financial performance of SMEs in Arua City main market. This finding shows that market vendors do not get adequate trainings of business management in the areas of credit management and cash management from Arua City commercial department. The study revealed that cash management has strong positive influence on financial performance of SMEs in Arua City main market w indicated by the R- value of 0.329 at a sig F of 0.167 which is higher than 0.45, a level of significance there accepting the Alternative Hypothesis. This means it is not only cash planning, credit management and cash position that should be applied to improve financial performance of SMEs in Arua City main market but also other factors like book keeping and financial reporting should be considered for improving financial performance of SMEs in the main market. Therefore, the Null Hypothesis is rejected and the alternative Hypothesis that is accepted. In conclusion Arua City main market SMEs apply low cash management strategies hence needs to consider other factors of book keeping and financial reporting to improve financial performance of SMEs in Arua City main market. Following the above Free cash flow theory, that asserts that management has the responsibility of holding cash to gain control over it in making investment decisions (Huseyin 1997). When cash is readily available, investment is made easier by the managers. The management must always ensure that it invests in activities which maximize the shareholder`s returns. By holding sufficient amount of cash, the management guaranteed in the investment, in growth project due to the availability of funds, hence improved financial performance.

Keywords: Cash, Management, Financial, Performance and Small Business Enterprises

Background of the Study

All over the world, small and medium enterprises (SMEs) are considered the backbone of a country's economy (Benard, 2023). They play a key role in economic development and contribute significantly to employment and GDP and are important contributors to overall employment and job creation (T. Christopher et al., 2022). In Jordan, SMEs account for 98.5% of the total number of registered companies and 60% of formal jobs, in addition to 50% of GDP in 2013 (1) and are the engine for solving

Received: 16.05.2024

Accepted: 23.05.2024

Published on: 30.05.2024

unemployment (Frank et al., 2023). Cash is used to pay business obligations. Cash management is more important than any other current assets and the main objective is to maintain adequate control over the cash position so that the firm has enough liquidity and utilizes the excess cash in some profitable way (Winny, Ariyo, et al., 2023). Cash is a vital component of working capital because it keeps the business running. It is the center of all financial matters. Thus, cash management is critical to the success of a business. The adequacy of cash and other current assets together with their effective management practically determines the survival or demise of a business concern. Cash is an important current asset for running a business. It is a basic input needed to keep a business in continuous operation (Polycarp et al., 2023). A study conducted to determine the impact of working capital management (WCM) on the profitability of small and medium enterprises (SMEs) in the context of an emerging economy, Ghana revealed a positive relationship between trade maturity and profitability (Annet et al. , 2023). The study further revealed the need for firms to ensure effective working capital management in order to maximize profitability (Braumah, 2021). Small and medium enterprises (SMEs) play a vital role in the Kenyan economy and even more so in the economies of developing countries (Turyatamba et al., 2022). Despite their vital contribution to the economy in terms of job creation, most SMEs face myriad challenges and collapse within the first few months of operation. Most of these problems are financial. In an environment where the survival of an entrepreneur in a competitive environment depends on his innovation ability, it is important (David et al., 2023). A study conducted on SMEs in Wandegaya trading center to assess the impact of financial management practices on the performance of SMEs in Uganda. The study revealed that SMEs are performing poorly in not having good cash management and financial reporting practices (Racheal et al., 2023). The study advises SME owner/operators to properly manage their cash and regularly report accurate financial records to improve the performance of their businesses and seek advanced training in financial management practices when needed, as the cost of business failure is the result of bad practices of financial management outweigh the costs of properly managing the company's finances (Faridah et al., 2023). The performance and survival of small businesses in Arua village in particular and in Uganda as a whole have come under serious public and scientific scrutiny given that their performance is characterized by stagnant and sometimes declining sales, long delivery times and high operating costs (Allan et al., 2023), poor product and service quality and low profit margins. Many SMEs struggle to grow with a very worrying survival rate. Less than half of all new SMEs typically remain in active operation five years after establishment (Musimenta et al., 2017). Given this state of affairs, there is a need to determine the factors affecting the performance of SMEs in Uganda by collective responsibility (Hamiza, Supply Chain Management Practices and Performance of SMEs in Arua Municipality, Uganda, 2019).

Statement of the Problem

In Uganda, local governments are mandated to establish and manage markets (Market Act, Chapter 94). Also, the Local Government Act CAP 243 2015, Second Part 3, mandates city councils to establish and manage markets within their jurisdiction (Winny, Kazaara et al., 2023). The city of Arua is not unique in this regard. The main market in Arua town, which is temporarily located next to Arua Stadium, due to the ongoing construction work on the published main market adjacent to Taxi Park along the market lane (Moses et al., 2023). The current market accommodates different categories of vendors selling different products including farm products, factory made products among others (F. Christopher et al., 2022). A July 2019 report by the city's business officer to the city's Ag official said the books of many small businesses are an indicator of poor financial management. Minutes from the September 2020 Market Vendors Executive Committee meeting also indicated that many vendors do not have the capacity to pay the daily market fees, hence the call for a reduction in market fees (David et al., 2023). This implied poor financial performance of the business operating in the market. Further, a February 2021 City Revenue Enhancement Committee report cited low market revenue collection by the revenue supplier, which the supplier attributed to low sales and profitability by vendors (Polycarp et al., 2023). According to the head of Ag finance, this was a result of poor financial management practices, which the city management should address, otherwise the city's income will continue to be negatively affected. The Fruit and Vegetable Traders Association in its December 2020 report to the Trade Officer (Paul et al., 2023). In accordance with NDP11, the EMYOOGA program was introduced, which focuses on the transformation of the public sector through the support of savings banks, therefore the city management tried to solve the mentioned problem by training various SACCO members in financial management (accounting) by the commercial department (Derrick et al., 2023). Following the above, the researcher is interested in understanding the relationship between cash management and financial performance of market vendors in Arua town.

Specific Objectives

1. To establish the level of cash management skills of small business enterprises in main Market, Arua City
2. To assess the level financial performance of small business enterprises in main Market, Arua City
3. To ascertain the relationship between cash management and financial performance of small business enterprises in main market, Arua City.

Methodology

In the study, descriptive and correlation research design was used (Anwar et al., 2022). The design was chosen because it provided basis for understanding relationship between quantifiable variables (Nafiu, 2012). In this case both quantitative and qualitative approaches was used to understand the problem by collecting and analyzing both narrative and numerical data on the relationship between local revenue mobilization and taxi park revenue collection performance (Abdi et al., 2020). The quantitative approach

Received: 16.05.2024

Accepted: 23.05.2024

Published on: 30.05.2024

was used in numerical computation of data while qualitative approach was used to explore the situations that may not easily be described numerically. The total 920 population was population while target population was 80 consisting of fish vendors, beans vendors, fruits and greens vendor and, cereal vendor and shop merchandise sellers (Rasheed et al., 2022). The sample size of 66 which consisted of fish vendors, beans vendors, fruits and greens vendor and, cereal vendor and shop merchandise sellers. The sample size was based on the determinant figures of Kreicie and Morgan (1970).

Table 1: Showing sample size

Category	Total population	Target population	Sample size	Sampling Technique
Fish vendors	117	15	14	Simple random sampling
Beans vendors	102	10	10	Simple random sampling
Fruits and greens vendors	312	25	14	Simple random sampling
Cereal vendors	106	10	10	Simple random sampling
Shop merchandise sellers	283	20	8	Simple random sampling
Total	920	80	66	

Source: Data from city commercial office (Market vendors list for relocation to main market)

In the study simple random sampling technique was used for determining the sample size of the respondents. The technique provided chance for any member of the population to be included in the sample. In the study data was collected through Observation, Questionnaire, Interview guide and Documentary review (Rasheed et al., 2022). The instrument was used for noting and recording the business items and size. It facilitated getting firsthand information as it occurred (Nafiu & Ph, 2012). The instrument was used for respondents who can read and write as the instrument required filing in responses in the questionnaire. The researcher developed the questionnaire with five response continuum of: Strongly agree –Very high, Agree-High, Undecided-Moderate, Disagree-Low and Strongly Disagree-Very low and weighed from scale 1-5. The respondent selected responses that best describes answer to the statement. The responses were interpreted using mean range as illustrated below;

Responses	Scale	Interpretation
Strongly agree	4.20-5.00	Very high
Agree	3.40-4.20	High
Undecided	2.60-3.40	Moderate
Disagree	1.80-2.60	Low
Strongly disagree	1.00-1.80	Very low

To ensure reliability, the instrument was pre-tested once on 10 people of the study population who were not be included in the study sample (Lu et al., 2013). This was to determine the internal consistence of the instrument. Using scores obtained from the pre-test, the data was computed using SPSS and interpreted accordingly. The data gathered was supported with explanation that directly explains the meaning of the figures with the help of tables and analysis by correlation and regression to establish the relationship between research variables. Further the researcher used statistical package for social sciences (SPSS) program to analyze the quantitative data (Nelson et al., 2022).

RESULTS

Table 2: Descriptive Statistics

	N	Mean	Std. Deviation	comment
Market vendors plan business cash	66	1.6019	.49189	Very low
Market vendors budget for cash utilization	66	1.3981	.49189	Very low
Market vendors do cash projection	66	1.2039	.40485	Very low
Market vendors estimate how much to get in a day as cash	66	1.3981	.49189	Very low
Market vendors estimate how much to get in as loan	66	1.3981 1.3900	.49189 .3740	Very low Very low
Market vendors have credit management	66	1.8058	1.18038	Low
Market vendors plan for accessing loans	66	2.6117	1.36650	Moderate
Market vendors have ways of paying borrowed funds	66	3.2136	1.17699	Moderate
Loan lenders extend credit periods for pay loan repayment	66	3.7961	1.49088	High

Lending institutions charge affordable loans interest rates	66	3.8058 3.042	.39750 1.320	High
Market vendors earn profit from daily sales	66	3.2913	.79989	Moderate
Daily sales generate adequate revenue for markets	66	1.4078	.49382	Moderate
Daily sales generate profit	66	1.7961	.40485	Very low
Market vendors save daily from sales revenue	66	3.6311 2.52	1.49503 0.7900	Very low
Grand mean	66	2.31	0.82	High Low Low

S=66: Primary source data low

Legend: Very low level (1.00-1.79), Low level (1.8-2.59), Moderate level (2.60-3.39), High level (3.40-4.19) and very high level (4.20-5.00).

The findings on cash management indicated cash planning scored aggregate mean of 1.39 and standard deviation of .37 which is low, credit management scored aggregate mean of 3.04 and standard deviation of 1.32 which is low, cash position scored aggregate mean of 2.52 and standard deviation of .79 which is low. Of all these findings the grand mean stood at 2.31 and standard deviation of .82 Which shows a low level of cash management by SMEs in Arua city main market (Allan et al., 2023).

Table 3: Descriptive Statistics

	N	Mean	Std. Deviation	Comment
Business stock increases monthly	66	4.6019	.49189	Very high
Business gets new customers monthly	66	4.4078	.49382	Very high
Business stock is replenished monthly	66	4.7961	.40485	Very high
Sales growth is a measure of financial performance	66	4.2039 4.5000	.40485 .4450	Very high Very high

Profitability is one of the measures of financial performance	66	4.3981	.49189	Very high
Market vendors make profit from business product sales	66	4.4078	.49382	Very high
Profit accumulation causes business growth	66	1.7961	.40485	Very low
Vendors make losses in the cause of doing business	66	4.3981 3.740	.49189 0.460	Very high
Profit accumulation causes business growth	66	1.7961	.40485	High
Market vendors have ways of paying borrowed funds	66	3.2136	0.2940	Very low
Market vendors earn profit from daily sales	66	3.1456	.35446	Moderate
Business stock increases monthly	66	4.6019 3.18	.49189 0.3820	Moderate
Grand mean	66	3.79	0.420	Very high Moderate High

S=66: Primary source data

Legend: Very low level (1.00-1.79), Low level (1.8-2.59), Moderate level (2.60-3.39), High level (3.40-4.19) and very high level (4.20-5.00).

The findings on financial performance of SMEs indicated aggregate Mean of 4.5 and Standard deviation of .44 of growth which is very high, profitability scored aggregate Mean of 3.74 and Standard deviation of .46 which is high, liquidity scored aggregate Mean of 3.18 and Standard deviation of 0.38 which is moderate. Of all the findings the Grand Mean stood at 3.79 and Standard deviation of .42 which is high. This shows high of financial performance of SMEs in Arua City main market (Ivan et al., 2023).

This is mainly attributed to inadequate cash planning and credit management of SME management.

Table 4: Correlations

	Wc	financial performance
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Wc	Pearson Correlation	1	.167*
	Sig. (1-tailed)		.045
	N	66	66
financial performance	Pearson Correlation	.167*	1
	Sig. (1-tailed)	.045	
	N	66	66
*. Correlation is significant at the 0.05 level (1-tailed).			

The Regression Coefficient (r) found out cash management has positive influence on financial performance of SMEs in main market in Arua City w indicated by the R- value of 0.45 at a sig F of 0.87 which is higher than 0.05, a level of significance there accepting the Alternative Hypothesis. This means cash management (cash planning, credit management and cash position) are not the only factors that influence the financial performance that is sales growth, profitability and liquidity of SMEs that has to adopted and applied in improving financial performance of SME's of Arua market but also other factors like book keeping (Ramadhan et al., 2023), financial reporting should be considered for improvement of financial performance of SMEs in the main market of Arua City. In view of the research, book keeping means maintaining cash book for recording business transactions and determining business profit and losses for decision making. Also, financial reporting i.e. Income and expenditure statement should be prepared to determine business profits or losses while balance sheet should also be prepared for determining business assets and liabilities which helps to know whether the business has more assets or liabilities. Following the research results explained above the Null Hypothesis is therefore rejected and the alternative Hypothesis that is accepted.

Conclusion

In conclusion Arua City main market SMEs apply low cash management strategies hence needs to consider other factors of book keeping and financial reporting to improve financial performance of SMEs in Arua City main market.

Following the above Free cash flow theory, that asserts that management has the responsibility of holding cash to gain control over it in making investment decisions (Huseyin 1997). When cash is readily available, investment is made easier by the managers. The management must always ensure that it invests in activities

Received: 16.05.2024

Accepted: 23.05.2024

Published on: 30.05.2024

which maximize the shareholder's returns. By holding sufficient amount of cash, the management guaranteed in the investment, in growth project due to the availability of funds, hence improved financial performance.

Recommendations

Arua City should improve on trainings of SMEs in the areas of cash management to cause improvement in financial performance of SMEs.

The City management should recruit more staff in commercial department to support SMEs to cause improvement in financial performance through trainings.

City management should provide conducive environment for SMEs to access soft loans from financial institutions to improve their capital base in order to do competitive business in the current dynamic market.

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Received: 16.05.2024

Accepted: 23.05.2024

Published on: 30.05.2024

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