Cash Flow Management and Sustainability of Small Medium Enterprises (SMEs) in Northern Uganda

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ABSTRACT

In Uganda SMEs are viewed as seedbeds for growth of new firms and vehicles for poverty reduction. Deterioration in growth and failures in SMEs have been linked to poor cash flow management,

This study sought to examine how cash flow management influences sustainability SMEs in Northern Uganda. The research adapted a cross sectional study. A sample of 120- SMEs was selected using stratified sampling. Self administered questionnaires, designed for this study, were filled in by SME managers and the data analyzed using frequency tables, custom tables, Correlation Analysis and Multiple Logistic Regression.

The study revealed limited application of cash flow management by SMEs in Northern Uganda, especially cash flow projection; tax planning; budgetary control and interpreting financial statements. As a result the study noted that most SMEs had declining levels of long-term solvency and growth. Finally the study established that cash flow control and monitoring had significant influence on the sustainability of SMEs.

Keywords: Cash flow, management, sustainability, SMEs, Northern Uganda.

Introduction

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 (European Union, 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).

Objective of the study

The purpose was to examine how cash flow management influences sustainability SMEs in Northern Uganda. The study specifically aimed at assessing the extent to which cash flow planning, monitoring and control influence on the sustainability of SMEs.

Literature Review

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.

Importance of Cash flow Management in 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.

Planning of Cash Flow

Menon (2011) observed that the need for funds and the cash generation capability of the business model emerges from cash flow planning. Osgood (2011) maintains that cash flow planning is the starting point of cash flow management with cash flow projections as generally the most crucial aspect of it. According to Girald (2011), cash flow planning is the first thing that should be done prior to starting an investment exercise, because only then will the business be in a position to know how its finances look like, and what is it that the business can invest without causing a strain on itself. This is useful when making difficult financial decisions as it alerts the management of more foreseeable hazards.

Monitoring Cash Flow

Monitoring Cash Flow detects in advance when cash surplus and deficiencies are likely to arise so that to take action to invest or to borrow funds (Surridge and Gillespie, 2008; and Kaplan, 2006). Budget will help SMEs to determine whether the business is on truck and is realizing its financial goals (Ssempijja, 2012). Creating several smaller budgets can help managers of SMEs determine which operations use more cash and struggle to stay on the projected budget amounts. This discovery gives managers of SMEs an idea of where to make improvements when needed to correct the company's cash flow problems (Vitez, 2012). Cash flow forecast will allow companies to plan their route to where they hope to be over the next year (Holland, 1999). A well-made cash flow plan, if used by the SME as a tool for cash flow monitoring, increases the confidence of the bankers on the systems and controls in the SMEs and as a result enhances 'bankability' and fits the criteria for banks to evaluate and consider funding support (Menon, 2011).

Cash Flow Controls

Dowson et al (2009); McCallion and Warner (2008) all agree that by speeding up inflows and delaying out flows as possible, cash flow controls could improve on the credit policies of SMEs while still meeting its obligations. Thwy add that cash flow Controls help an enterprise maintain adequate monies at hand to meet the daily cash requirements of the business while maximizing the amount available for investment and obtain the maximum earnings on invested funds while ensuring their safety. Gustafson (2012) also agreed that cash flow controls in SMEs could improve the business's cash flow for example, by gaining more business from current clients or by acquiring new business

Cash Flow management Challenges in SMEs

According to CIMA (2005), managing cash flow is an ongoing challenge for SME's managers as they pay little attention to it and therefore do not identify the impact of cash shortage on the turnover of capital and the operation of enterprises. Amuzu, (2010) linked business success/failure to the volume of the net cash inflows and outflows from a firm's activities as inability to generate cash from its operations may force it to borrow more money or to dispose of its capital investments to meet its obligations, but may lead to involuntary bankruptcy if this situation persists over periods of time.

Mbonyane (2006) observed that most businesses experience cash flow problems due to slow moving or excessive stock which gives rise to poor stock or inventory management; too generous credit terms; cash watered on unprofitable products or services and unnecessary expenditure (money spent on buildings, houses, luxury cars) as well as drawings.

Research by Bay City Financial Solutions (2012) showed that for most SMEs, resources management and skills available are limited or fully utilized, with many concentrating so strongly on generating sales and fulfillment, but often neglecting the core back office financial and operational processes. Peng and Jiahai, (2005) earlier noted that SMEs are especially vulnerable to cash flow problems due to operating with inadequate cash reserves or none at all and only realize the implications of a negative cash flow when it is too late.

Kakuru (2008), observed that cash flow management in Uganda business enterprises has been limited due to fall in the market shares; poor market in formations gathering concerning the firm, increase in competition and inappropriate response to competition and natural factors like floods.

Long term Solvency

Qian and Qi-wang (2010) pointed out that the performance objectives of long-term solvency are that a company must be able to survive for many years and the aims are to detect early signs that a company is headed for financial difficulties. They further explained that solvency gauges the farm's ability to pay all financial obligations if all assets are sold, and the firm continued to meet viable operations after financial adversity and is measured by debt to asset ratio, and equity to asset ratio. Moya et al (2006) also noted that if the net worth of the business becomes negative, then the business would become insolvent Insolvency was once described as a fate worse them debts. Most firms live with debts but the problem starts when debts get out of hand. An enterprise becomes insolvent when it cannot pay bills that are due. This may occur even when there is plenty of money owing to the business, but it is not collected quickly enough, and bills cannot be paid promptly (Dransfield et al, (2004).

Solvency in SMEs

According to Berger and Falckenberg (2011) SMEs are at a higher risk of insolvency mainly due to financing problems even in basically healthy companies compared to large companies and groups. Needle et al (2007) also observed that increasing the amount of debts in SME's capital structure means that the business is becoming more heavily leverage resulting to a negative effect on the long run because it presents a legal obligation to pay interest periodically and the principal sum at maturity, failure of which can result into bankruptcy.

Kaplan Financial Limited (2009) noted that a rising debt-to-equity ratio in SMEs may signal that further increases in debt caused by purchases of inventory or fixed assets. European Federation of Accountants (2004) also added that an inability by SMEs to meet any fixed obligation of the business threatens the business's wellbeing). According to Surridge and Gillespie, (2008) the major causes of cash flow problems in SMEs are overtrading. Over trading in SMEs is a problem of forecasting and planning for adequate long-term capital (Kaplan Financial Limited, 2008). Several local Uganda Businesses are struggling because of high interest rates that negatively affect their access to credit and their ability to pay the interest and redeem their collateral (Kashaka & Sekanjako, 2012).

METHODOLOGY

Research Design

The research was a cross sectional study. This involved selection of the study samples from an array of SMEs in the service sectors at the same point in time. This study was conducted in the Lango Sub region of Northern Uganda.

The Study Population

The study population consisted of SMEs in service sectors operating in the Lango sub region of Northern Uganda. The target population was composed of SMEs in the sectors concerned with human well being services. 153 SMEs that were easily identifiable as employing 5 or more persons were considered.

Sampling Design

To ensure that SMEs offering different services are represented, and selection of participating respondents based on their basic knowledge and experiences about SMEs, the study adopted stratified sampling scheme.

The service sectors of SMEs under study were grouped according to the nature of business/service and a simple random sample drawn from each group

Sample size

Using Yamane, (1967) formula for sample size determination and a 95% confidence level the sample for each stratum was drawn as shown in Table 1

Table 1: Sample Size of the Study

Service Sector of SMEs	Total Population	Selected Sample
Radio stations	7	5
Internet Services	10	8
Private Schools	26	23
Transport services	10	8
Motor garages	25	20
Gas and oil stations	14	11
Catering &Hotels services	33	26
Health Units	28	22
Total	**153**	**120**

Source: Field research data

Data Collection Method

The research obtained primary data directly from active SMEs and the tools for data collection were structured questionnaires in which formal lists of questions were administered to all respondents in the same way.

Data Processing and Analysis

After data collection, sorting, and arranging, the summary of responses the information was first entered in to summary sheets. The analysis employed the use of frequency and custom tables. Correlation analysis was used to establish the relationship between cash flow management and sustainability of SMEs in Northern Uganda. Multiple Logistic Regression was used to determine the major factors affecting sustainability.

Respondents' Characteristics

Table 2: Gender of the Respondent

		Frequency	Percent
Valid	Male	86	71.7
	Female	34	28.3
	Total	120	100.0

Source: Field Research Data

From Table 2, the male respondents accounted for about 72%. This is because the majority of the SMEs under the study require some reasonable amount of capital, which most women in Northern Uganda are unable to raise.

Table 3: Qualification of Managers.

	Frequency	Percent	Cumulative Percent
Primary	12	6.5	6.5
Secondary	62	33.5	40.0
Certificate from Institutions	52	28.1	68.1
Diploma	22	11.9	80.0
Degree	32	17.3	97.3
Postgraduate	2	1.7	100.0
Total	185	100.0	

Source: Primary data

Table 3 above shows that, majority of the respondents 46.7% (56) had a diploma as the highest level of education followed by certificate from institutions of learning with 23.3% (28). Those with secondary education and below were 20.8%. This means that the majority of the managers of SMEs studied are reasonably educated.

Table 4: Forms of Business Organization

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Sole proprietorship	57	47.5	47.5	47.5
	Partnership	5	4.2	4.2	51.7
	Private company	54	45.0	45.0	96.7
	Public company	4	3.3	3.3	80.0
	Total	120	100.0	100.0	

Source: Field research data

Table 4 reveals that the majority of service sectors of SMEs 47% (57) are sole proprietorship and private companies 45% (54). Partnership 4.2% (5) and public company (4) 3.3% are not common. This result is in line with the business reports by Sanya, (2012) that that the majority of SMEs are sole proprietors, which are managed by individuals, easing the decision-making.

Table 5: Duration of Business

	Frequency	Percent	Cumulative Percent
Less than 1 year	25	20.8	20.8
1 – 4 years	20	16.7	37.5
5 – 9 years	59	49.2	86.7
10 years and above	16	13.3	100.0
Total	120	100.0	

Source: Field research data

The result in Table 5 revealed that almost a half of the service sectors of SMEs (49.2%) have been in operations for 5-9 years. In addition, (25/120) 20.8% of SMEs are less than one year, and only (16/120) 13.3% of SMEs have been in operation for 10 years and above. This is in line with the study report by Belinda, (2011) on SMEs in South Africa that than only up to 49% of SMEs can survive after five years.

Table .6: Number of Employees

	Frequency	Percent	Cumulative Percent
5 – 9 persons	90	75.0	75.0
10 – 29 persons	23	19.0	94.0
30 – 49 persons	4	3.0	98.0
50 persons and above	3	2.0	100.0
Total	120	100.0	

Source: Field research data

From Table 6, 75% of SMEs employ 5-9 persons while 19% employed from 10-29 employees, 3% employed 30-49 persons, and only 2% of SMEs employed from 50 persons and above. Majority of SME (98%) therefore fall under small enterprises.

Implementation of Cash Flow Management in SMEs

Table 7: Planning cash flow

	strongly disagree	**disagree**	**don't know**	**agree**	**strongly agree**	**Percentage Agreement**
The business prepares cash flow projections	33.33	10.83	0.00	40.83	15.00	**55.83**
The business prepares cash budgeting	10.00	26.67	0.00	49.17	14.17	**63.33**
The business takes in to consideration tax avoidance in its expansion decisions	24.17	26.66	0.00	40.00	9.17	**49.17**
The business determines the level of operating at neither profit nor loses	15.00	5.00	0.00	66.67	13.33	**80.00**
The business prepares cash flow, income and balance sheet statements	18.33	30.00	0.00	41.67	10.00	**51.67**
The business determines and interprets its financial ratios	37.50	13.33	0.00	38.33	10.83	**49.17**
Average	**23.06**	**18.75**	**0.00**	**46.11**	**12.08**	**58.19**

Source: Field research data

Results in Table 7 show that on average 41.81% of service sectors of SMEs in Northern Uganda do not carry out cash flow planning with an average of 58.19% carrying out cash flow planning. The result revealed that at least 55.83% of SMEs prepared their cash flow projections and at least 63.33% of SMEs prepared their cash budgeting. This result showed that only 49.17% of SMEs take into consideration tax avoidance in their expansions. In addition, at least 80% of SMEs determined their business break-even point. The result further revealed that only 51.67% prepared their financial statements and only 49.17% could determine and interpret their financial ratios.

Monitoring Cash Flows

	strongly disagree	disagree	Don't know	agree	strongly agree	Percentage Agreement
The business matches its cash flows with its cash inflows	1.67	11.67	0.00	70.00	16.67	**86.67**
The business routinely checks its credit policies	1.67	9.17	0.00	73.33	15.83	**89.17**
The business sticks to prepared budget during implementation	2.50	38.33	0.00	47.50	11.67	**59.17**
The business ensures program review and budgetary control	1.67	31.67	0.00	51.67	15.00	**66.67**
The business ensures expenditures are explained and justified	2.50	0.83	0.00	55.83	40.83	**96.67**
Average	**2.00**	**18.33**	**0.00**	**59.67**	**20.00**	**79.67**

Source: Field research data

Results in Table 8 revealed that on average close to 80% of service sectors of SMEs in Northern Uganda monitored their cash flows. Detailed results of the study revealed that 86.67% of SMEs in the service sectors matched their cash out flows with their cash inflows. The findings further revealed that 89.17% of this sector of SMEs routinely checks its credit policies. The findings revealed that at least 59.17% of SMEs in the service sectors stick to the prepared budget during the implementation and 66.7% of SMEs in this sector ensured program review and budgetary control. Lastly, the finding revealed that SMEs in the service sector have strong internal system with at least 96.67% ensuring that all expenditures are explained and justified.

Table 9: Controlling Cash Flows

	strongly disagree	Disagree	don't know	agree	strongly agree	Percentage Agreement
There is good relationship with creditors.	0.83	1.67	0.00	41.67	55.83	**97.50**
The business ensures that all payments are authorized by the	0.83	5.83	0.00	46.67	46.67	**93.33**
The business always budgets for petty cash	2.50	20.83	0.83	56.67	19.17	**75.83**
All the business payments, receipts, deposits and	5.83	34.17	0.00	45.83	14.17	**60.00**
The business has sufficient stock in its stores	0.00	44.17	0.00	44.17	11.67	**55.83**
Profitable items are in place and controlled	0.83	32.50	0.00	50.00	16.67	**66.67**
The business growths by its retained profit	6.67	19.17	0.00	55.00	19.17	**74.17**

The business has cheaper sources of finance	17.50	32.50	0.00	33.33	16.67	**50.00**
Redundant fixed assets are turned to cash	25.83	33.33	0.00	32.50	8.33	**40.83**
The business avoids non business expenses	20.00	24.17	0.00	31.67	24.17	**55.83**
The business avoids giving too much credit	25.00	13.33	0.00	30.83	30.83	**61.67**
There is cash/early payments trade discounts	20.83	38.33	0.83	25.00	15.00	**40.00**
The business often does bank reconciliation	20.83	32.50	0.00	35.00	11.67	**46.67**
The business ensures safe custody of cash	6.67	7.50	0.00	40.00	45.83	**85.83**
There is an efficient internal control system	10.83	31.67	0.00	45.00	12.50	**57.50**
Average	**11.00**	**24.78**	**0.11**	**40.89**	**23.22**	**64.11**

Source: Field research data

The above result revealed that on average 64.11% of the service sector of SMEs under studies applied cash flow control, with 35.89% being ignorant about cash flow controls. The majority (97.5%) of SMEs in this service sector under the study maintained good relationship with their creditors.

Concerning internal controls, 57.50% of the service sectors of SMEs had efficient internal control system, 93.33% of SMEs ensured all payments are authorized by the accounting offices, 78.53% had a budget for petty cash and made minor payments. In addition, at least 60% ensured withdrawals, receipts, and the cashier carries out payments, 55.83% avoided non-business related expenses and 85.83% ensured safe custody of cash. These are signs of a strong internal system and budgetary controls within the service sectors of SMEs. On contrary, only 46.7% of SMEs prepared bank reconciliation with 53.3% ignorant about bank reconciliation statement. The study result revealed that 55.83% of service sector of SMEs had sufficient stocks in their stores and 66.67% maintained and controlled profitable items. At least 74.17% of SMEs in the service sector retained their profits for expansion, 50% had access to cheaper source of finance, 61.67% avoided too much credit but only 40.83% turned their redundant fixed assets in to cash and only 40% offers trade discounts for early payments.

Long-Term Financial Stability

	strongly disagree	**disagree**	**don't know**	**agree**	**strongly agree**	**Percentage Agreement**
The business capital is greater than its debts	8.33	10.83	0.00	69.17	11.67	80.83
The business gearing levels are decreasing	9.17	28.33	0.00	55.83	6.67	62.50
The business is expands mainly with its retained profits and owners	9.17	31.67	0.00	41.67	17.50	59.17

The business current liabilities are decreasing	5.00	25.00	0.00	64.17	5.83	70.00
The degree of default on interest payables is minimal	9.17	19.17	0.00	65.83	5.83	71.67
Average	8.17	23.00	0.00	59.33	9.50	68.83

Source: Field research data

Levels of Long-Term Financial Stability

The above findings in table 4.11 showed that on average 68.83% of the service sector of SMEs under study had the ability to stay in their business for many years. The detailed of the results revealed that 80.83% of the service sector of SMEs under studies had more equity than their debts, 62.50% had decreasing levels of gearing levels and at the same time 70.00% of had reduction in their levels of current liability. Moreover, 71.67% had minimal degree of default on interest payables and 59.17% had expanded with the utilization of their retained profits and owners capital. The 59.17% expansion using retained earnings and owners' capital corresponded to the same with the same percentage 59.17% of those service sectors who avoided non business related expenses implying that avoidance of non business expenses can result to expansion of the business through retained earnings.

Correlations: Cash Flow Management and Sustainability of SMEs

		Long-Term Financial Stability
Cash Flow Planning	Pearson Correlation	.368(**)
	Sig. (2-tailed)	.000
	N	120
Cash Flow	Pearson Correlation	.416(**)
	Sig. (2-tailed)	.000
	N	120
Cash Flow Control	Pearson Correlation	.471(**)
	Sig. (2-tailed)	.000
	N	120

** Correlation is significant at the 0.01 level (2-tailed).

Correlations: Cash Flow Management and Sustainability of SMEs

Table 4.4.1 shows is a moderate positive relationship between cash flow management (cash flow planning, monitoring and control), and Long-Term Financial Stability of Small medium enterprises at 1% level of significance

Multinomial logistic regression

Dependent variable: Sustainability of Small Medium Enterprises

Factors: cash flow planning, monitoring and control,

Table 4.5.1: Model Fitting Information

Model	Model Fitting Criteria	Likelihood Ratio Tests		
		Chi-Square	df	Sig.
Intercept Only	170.878			
Final	41.284	129.594	30	.000

This is a likelihood ratio test of the model (Final) against one in which all the parameter coefficients are 0 (Null).

Since the significance of the test is small (0.00 which is less than 0.05) then the Final model is outperforming the Null. The factors can therefore be used as predictors of the dependent variable.

Table 4.5.2: Pseudo R-Square

Cox and Snell	.660
Nagelkerke	.753
McFadden	.516

The Pseudo R-Square statistics approximate the proportion of the variation in the response that is explained by the model. The pseudo r-square statistics of 0.64 (on average) indicate that a greater proportion (about 64%) of the variation is explained by the model.

It can therefore be concluded that cash flow management account for reasonable proportion of the variation in sustainability of Small Medium enterprises

Table 4.5.3: Likelihood Ratio Tests

Effect	Model Fitting Criteria	Likelihood Ratio Tests		
		Chi-Square	df	Sig.
Intercept	41.284(a)	.000	0	.
Planning	61.580(b)	20.296	12	.062
monitoring	58.991(b)	17.707	9	.039
Control	63.810(b)	22.526	9	.007

The likelihood ratio tests check whether each effect contributes to the model. Cash flow monitoring and control significantly contribute to the model since the significances of the test (0.039 and 0.007) are both less than 0.05. Cash flow planning cannot be ignored since the assumption significance (0.062) is quite close to 0.05 and cash flow control is the most significant.

Discussions, conclusions and recommendations

Discussions

Generally, the findings revealed that on average (41.81%) of service sector of SMEs studied did not plan for their cash flows. The report was in line with the information given by Surridge and Gillespie, (2008) who argue that the major causes of cash flow problems in SMEs is lack of planning. These findings were further in line with the report by Baja Capital limited, (2011) which revealed that cash flow sounds simple, but most SMEs do not realize the importance of cash flow planning for their businesses and very few actually take time to find out what comes in and what goes out of their hands each month.

The findings highlighted tax-planning, preparation of cash flow statement, income statement and balance sheet; and determining and interpreting financial statements as main challenges to cash flow planning. Inadequate tax planning implies that SMEs do not have the opportunities for tax relief when expanding their business operations. Challenges in preparation of cash flow statement, income statement, and balance sheet, this implies that only a few of the SMEs could fulfill the bank requirements to access loans. These findings were in conformity with the studies by Maysami, (2009) who argues that most SMEs do not practice cash flow planning because they lack of necessary skill personnel to carry out these activities.

The study's results revealed that on average, 20.33% of the service sectors of the SMEs studied did not monitor their cash flow. These findings conform to the view of McGreoger, (2004) who argued that owners of SMEs could not generously track where their hard-earned cash has gone or where it will be going in the future. These findings are still in conformity with the studies by Peng and Jiahai, (2005) that highlighted monitoring of cash flows as challenging tasks in SMEs and that deteriorating financial crisis in SMEs is because they overlook cash flow management therefore unable to budget and identify and measure the recessive financial crisis.

The detailed findings revealed that about 33% not having efficient internal control in place and at least 53.3% could not prepare bank reconciliation statement. This finding is also in line with the studies by Larsson & Hammarlund, (2005) and Dr. Aminu, (2012) who argue that cash is the single most important element of survival for a small business but the major problem confronting small businesses is their inability to control cash.

The findings further revealed that almost 40% could not avoid giving too much credit and more so, at least 60% did not offer cash discounts or early payments discounts. The above findings were in line with the report by Opio, (2012) that in Uganda SMEs are exposed to inadequate resources hence liquidity risks because they give debtors excessive long credit periods, which makes them run their operations without adequate working capital like liquid cash. Further, the finding to some extent relates to the statement by Maysami, (2009) that the last element of the credit policy, cash discount, may be considered by SMEs as an incentive for credit customers to pay early as it can reduce the average collection period and attract new customers who look at cash discount as a form of price reduction.

Finally, the majority of SMEs (59.17%) had redundant fixed assets, but could not turn them into cash to fund their working capital. This study result was in conformity with the work of Surridge and Gillespie, (2008) who wrote that the main challenges in SMEs are heavy investment in capital items such as equipments and too much investment in stocks. Further the finding was almost in conformity with the work of Kaplan, (2008) who argues that cash flow shortages in SMEs are because of unplanned one- off large items of expenditure, which arises for example because of a breakdown of a large price of machinery.

Conclusions

The research findings revealed that the service sectors of SMEs studied fight an uphill battle from the start mostly due to cash flow management issues, but became stable after five years.

SMEs failures are very much related to the intended personal objectives of the owners/directors who registered their companies mainly with the sole aim to obtain government contracts which require public procurement procedures. Most SMEs are new, with no experiences in contract work and sometimes with no money in their bank accounts therefore fail to meet procurement requirements and are always knocked out at the preliminary stages of evaluation.

The inability by SMEs to utilize cash flow management has been as a result of failure by different actors including government, managers or owners of SMEs, government agencies and private sectors to perform their managerial, advisory and regulatory duties thereby resulting to low levels of long term solvency in SMEs.

Recommendations

For SMEs to reach their potentials, they must design business plan, prepare cash flow projections and cash budgeting; ensure budgetary control, internal control system and control their spending habits; and improve on their credit policies. SMEs must look for cheaper sources of funds like the use of retained earning, low interest loans and venture capital The Uganda government should support SMEs by providing cheaper loans and tax incentives, training, business premises, infrastructure, market for product/services, incorporate SMEs and Entrepreneurship Development into the Ministry of Micro Finance and Development and be in position and have the will to fight corruption.

Suggestions for Further Research

This study concentrated on cash flow management and sustainability of SMEs. However, further research is could explore the following areas:

i. Financial services and sustainability of SMEs.

ii. Budgetary controls and performance of SMEs.

iii. Internal control systems and performance of SMEs.

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