

Full Length Research Paper

Cash flow management utilization by Small Medium Enterprises (SMEs) in Northern Uganda

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Abstract

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In Uganda, SMEs are considered as seedbeds for the growth of new firms and important machineries for poverty reduction through wealth and job-creation, income generation as well as drivers for innovation. Cash flow management has been sighted as a nucleus of any business entity for short and long-term survival. Failures in many SMEs have been linked to inadequate cash flow management, which compromises their sustainability by denying them the revenue stream needed to grow. This study sought to establish the extent to which SMEs utilize cash flow management, which is an important factor that influences financial performance of a number of service sectors of SMEs. The research adapted a cross sectional exploratory study. Data from a sample of 120-service sector SMEs were collected and analyzed. The study highlighted limitations in utilization of cash flow in SMEs especially in areas like cash flow projection; tax planning; and budgetary control; determination and interpreting financial statements. Further, utilization of redundant fixed assets, inability to offer cash and early discounts, failure to prepare bank reconciliation and poor credit policies were other concerns for SMEs. 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.

Keywords: Cash flow, Management, Utilization, SMEs, Northern Uganda

INTRODUCTION

The importance of SMEs has attracted a lot of attention internationally in past few years 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. 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).

In the East African Community, SMEs play a much bigger role in developing national economy by alleviating poverty and participating in the global economy. For example, in Kenya SMEs, make up well over 90% of the country's private sector. For the government, SMEs are a source of employment opportunities particularly for the low skilled workers, as well as women and young people, wealth creation, contribute to stability and generate tax revenues. They also contribute to local supply and service provision to larger corporations (EAC, 2009).

In Uganda, SMEs are viewed as the engine for growth as they contribute to reduction of poverty through job-creation, paying taxes for national progress and a basis for developing new ideas, contribute to economic growth and sustainable development (Ssendaula, 2002). Uganda SMEs are vital drivers of growth, innovation and a source of government revenues that target poverty reduction (COMSEC, 2011). More so, they account for over 70 percent of the country's dominant economic force, employing more than 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). Reports by UI A, (2011) revealed about 24,505 SMEs, employing over 90% of the private sector workers and contribute substantially to the provision of basic goods and services. In 2011, the small-medium size enterprises contribute 14% to 18% of the total revenue to the government respectively (Mugabe, 2012).

However, the rate at which Uganda's SMEs are running out of business, especially due to poor performance stands at 50% annually leaving a lot to be desired (Kampumure, 2009; and Kiningi, 2007). While Uganda ranks high in the rate of SMEs establishment and its being among the most entrepreneurial population

in Africa, it is among countries where business failure is most common (Naduda, 2011, Badagawa, 2011).

Studies by Kazooba, (2006) and Keough, (2002) revealed that a common scenario is 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.

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, worse, tends to miss the implications of a negative cash flow until it is too late (Peng and Jiahai, 2005).

Underperformance and low levels of liquidity, profitability, solvency and growth in Uganda local SMEs have been sighted to relate to income inequality, access to finance, poor credit policy and late payments by debtors, with clients taking the business for granted and at times not paying their bills. Other shortfalls have been due to, wrong pricing; little profit margin, excessive overheads (multiple taxes, high taxation, high interest loans), over dependence on the businesses and failure to retain and reinvest profits (Kashaka & Sekanjako, 2012; Kanaba, 2012; Okello, 2012; Jaramogi, 2012; Mugabe, 2012; Ogwal, 2011; and Opondo, 2003).

The above issues in SMEs are largely linked to inappropriate cash flow management Reddy and Kameswari, (2004) noted that SMEs are facing growing pressure on costs and funding requirements and as such, are looking for ways that make them more efficient in achieving profits, by trying to (manage their cash flow) increase income or reduce expenses.

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 would 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

Objectives of cash flow management

Aminu (2012) and Evans (2012) outlined the objectives of managing cash flow as accelerating cash inflows wherever possible, delaying cash outflows until they come due, investing surplus cash to earn a rate of return, borrowing cash at the best possible terms, maintaining an optimal level of cash that is neither excessive nor deficient. They noted that cash flow management makes a business hold the right amount of cash since holding too much cash, makes the business loses the opportunity to earn a return on idle cash and holding too little cash, makes it run the risk of not making timely payments to suppliers, banks, and other parties. According to Horner (2001), cash flow management ensures that a firm identifies in time what needs to be done to a void a liquid crisis and improves its cash flow. The performance objectives of cash flow adequacy are that an enterprise must generate sufficient cash through operating, investing, and financing activities, (Needle et al, 2007).

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 would 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 Giraldo (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 track 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. They 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 realizes the implications of a negative cash flow when it is too late

Kikuru (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.

Improving cash flow management in SMEs

Cash flow management relates strongly to financial performance of SMEs because the success or failure of SMEs has to some extent, been fundamentally associated with the net outflow and inflow cash elements from a number of business activities (Bernstein & Wild, 1999). Effective cash flow management is so critical to business survival providing services or products. No matter how effective a business negotiates with customers and suppliers, poor business practices can put its cash flow at risk (CIMA, 2005). If SMEs owners' do not consider cash flow, their businesses will not flourish (all Business: Champions of Small Business, 2004). Failure by SMEs to improve their forecasting, budgeting, and early warning of cash flow and failure to measure correctly, the extent of the financial crisis, financial crisis of SMEs will be worsening (Sengendo, 2012). One important element in cash flow management is the full understanding of the warning signs of cash flow distress such as; cash balances are lower than historical balances; inventory is not moving; vendors making late payment and banks requesting financial statements (Evans, 2012).

To understand effective Cash flow management, SMEs needs to differentiate between profits and cash from operations. Net profit is a simple function of revenue and expenses. Credit period, inventory, advances, and prepayments are the most important ones and common in most businesses (Menon, 2011). Peng and Jiahai, (2005) on their studies of SMEs in China, referred to this as the warning signs of recessive financial crisis. For SMEs to spot potential problems, they need to fine-tune cash flow planning process based on the nature of business and the industry conditions (Menon, 2011).

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 Subregion of Northern Uganda.

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
Bus companies	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: Primary data

Table 2. Gender of the Respondent

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

Source: Primary data

The study population

The study population consisted of SMEs in service sectors operating in the Lango subregion 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 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.

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 into summary sheets. The analysis employed the use of summaries of counts and percentages. Exploratory data analysis using custom tables were used to show the level of the utilization.

Respondents' characteristics

From Table 2 above, the male respondents accounted for about 71.7%. This is because the majority of the SMEs

Table3. Qualification of Managers.

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Primary level	5	4.2	4.2	4.2
Secondary education	20	16.7	16.7	20.8
Certificate from Institution of learning	28	23.3	23.3	44.2
Diploma	56	46.7	46.7	90.8
Degree	9	7.5	7.5	98.3
Postgraduate	2	1.7	1.7	100.0
Total	120	100.0	100.0	

Source: Primary data

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	100.0
Total	120	100.0	100.0	

Source: Primary data

Table 5. Duration of Business

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

Source: Primary data

under the study require some reasonable amount of capital, which most women in Northern Uganda are unable to raise.

From Table 3 above, the majority of the respondents 46.7% (56) had a diploma as the highest level of qualification followed by certificate from institutions of learning with 23.3% (28). Those with only secondary education were 16.7% (20), followed by those with first degree 7.5% (9), 4.2 (6) had only primary education and those with a postgraduate qualification made only 1.7%

(2). This means that the majority of the managers of SMEs studied are educated.

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 the majority of SMEs are sole proprietors, which are managed by individuals, easing the decision-making.

The result in Table 5 revealed that almost a half of the

Table 6. Number of Employees

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	5 - 9 persons	90	75	75
	10 - 29 persons	23	19	94
	30- 49 persons	4	3	98
	50 persons and above	3	2	100
Total		120	100.0	100

Source: Primary data

Table 7. Planning cash flow

	strongly disagree	disagree	don't know	agree	strongly agree	% 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: Primary data

service sectors of SMEs (49.2%) have been in operations from 5-9 years, 20/120) 16.7% of SMEs have been in operation from 1-4 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 from 10 years and above. This is in line with the study report by Ong Siew, (2011) on SMEs in Singapore that in fifth year, the survival rate of SMEs is between 48% -55% and study report by Belinda, (2011) on SMEs in South Africa that than only up to 49% of SMEs can survive after five years.

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.

Utilization of cash flow management in SMEs

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.

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 8. Monitoring cash flows

	strongly disagree	disagree	Don't know	agree	strongly agree	% 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: Primary data

Table 9. Controlling cash flows

	strongly disagree	Disagree	don't know	agree	strongly agree	% 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 accounting officers	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 withdrawals are done by the cashier	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 grows 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: Primary data

The above result in Table 9 revealed that on average 64.11% of the service sector of SMEs under study 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.

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 Surrige 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 important 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. Concerning tax planning, this implies that more than a half of SMEs (50.83%) do not have the opportunities for tax relief when expanding their business operations. With respect to preparation of cash flow statement, income statement, and balance sheet, this implies that only a half of 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.

Concerning monitoring cash flows, the study's results revealed that on average, 20.33% of the service sectors of the SMEs studied did not monitored their cash flow. These findings conform to the literature 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 pre-warning to identify and measure the recessive financial crisis.

The detailed findings showed that almost 41% did not stick to the prepared budget during the implementation. The findings were in line with the reports by Balagot, (2009) who noted by that getting a budget and therefore sticking to it remains a great challenge to SMEs as most of them budget for their operations but at the end, fail to stick to the prepared budget.

The findings further showed that at least 33% did not ensure project review and budgetary controls. Bay City Financial Solutions, (2012) that many SMEs fail because of their failure to review their expenses and spending habits relate the findings to the reports. Similarly, the study results were almost in line with the report by Rhod, (2008) who argues that many SMEs fail to monitor cash flow, and so although profitable on paper, the business may not have enough cash to pay its debts. In addition, the findings correspond with the reports by Author, (2007) who argues that reviewing borrowings by managers in all aspects of debtor and creditor management has remained a challenge to SMEs.

About control of cash flow, the results of the studies has shown that on average 64.11% of the service sectors of the SMEs studied, applied cash flow control, implying that only 35.89% of the service sectors of SMEs studied was ignorant about cash flow controls. This finding is very close to the statement by Dr. Aminu, (2012) that there is a growing awareness that cash is an asset that must be used wisely or else it will become a liability, ends the continuity of an enterprise, or adversely affects the profitability. In addition, it is also very similar to the study report by Codjia, (2012) that internal controls help a company ensure that corporate activities adhere to government laws and regulations. Internal controls are essential for cash management activities because it makes the management follow all the procedures, and ensures fraud and theft does not become a problem.

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.

Besides, the findings revealed that about 44% could not avoid non-business related expenses. This finding was in line with the studies by Alibaster, (2012) who stated that cost management is crucial in the daily running of a business as many SMEs have come to recognize and failure to make cuts in their expenditures increase the cost of cost of operations and therefore decreases the levels of profitability of an enterprise.

Furthermore, 44% had insufficient stocks in their stores while 32% did not ensure that profitable items are in place and are under control. These were in line with the report by Durry, (2008) that failure to maintain sufficient inventories available to meet demand and determine an optimal level of goods in inventory by developing and forecasting sales remains great challenges to SMEs. Further, failure to identify and control their best-profit and fastest-turn items as well as their low-margin and failure to identify and eliminate slow-turning merchandise or items that are gumming up the system and leaving too much money sitting on store

shelves are the main causes of liquidity problem in business enterprises.

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. These findings were further in conformity with reports by CIMA, (2005) that most businesses fail because of poor credit policy. Failure to run credit checks on the business customers is a high-risk strategy to SMEs, especially if the business debt collection is inefficient. 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.

Conclusion

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. The majority of these service sectors SMEs studied were unincorporated enterprises that operate as sole proprietorship, partnership, while others only registered under their professional bodies. Of the 120 SMEs studied selected from arrays of service sectors, at least 100 of them have been in operations for over two years with only 20 SMEs less than or equal to one year old. That is, 25/120 of SMEs have been in operation from 2-4 years, 65/120 SMEs have been in operation from five-9 years, 10/120 SMEs have been in operation for 10 years and above.

Failure by the private incorporated enterprises within the first year of operation has been due to very many briefcase private companies registered among other factors. Owners of private incorporated enterprises with the interest to evade taxes registered very many brief

case private companies and in case of liquidity crisis to meet its tax obligations (VAT, and corporation tax), this company is made dormant, while the one that had been registered but kept dormant comes in as an alternative.

Likewise, failures other 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 always pass through public procurement procedures. Nevertheless, because of their being new, with no experiences in such contraction work and sometimes with no money in their bank accounts, coupled with failure to meet other procurement requirements by the procurement contract committee, they are always knocked out at the preliminary stages of evaluation; as a result, they make their last breath without taking off.

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 duties thereby resulting to such, low levels of financial performance (low levels profitability, liquidity, long term solvency and low growth) in SMEs.

Firstly, the research findings highlighted tax planning, working capital management, determination and interpretation of financial statement as main obstacle to cash flow planning and failure by SMEs to implement these activities has been due to lack of knowledge by the owners or managers. Lack of knowledge by the owners or managers has also been due to failure by the government, to provide universal and free business development trainings in areas of financial management, accounting, entrepreneurship, and general management or failure by the business owners to employ the rightful persons in the areas. As a result, this has contributed into lower level of the profitability in SMEs studied as they could not determine whether the business is profitable or not.

The second obstacle in cash flow management is the monitoring of cash flows and as revealed in the research findings, a big number of the sectors of SMEs studied could prepare budget but could not stick to them during the implementation periods, while other SMEs could not exercise budgetary review and budgetary control. In addition, most SMEs managers or owners could not track where their money is going or where the money has come from. This has therefore resulted into increase in operating costs, non-related business expenses that in turn has resulted into low level of probability (high operational costs, paying high interest on loans) and/or liquidity crisis or inability to meet their obligations due to non-business related expenses.

Failure to control overhead costs to minimal, inability to prepare bank reconciliation statement and issues concerning segregation of duties in SMEs are related to inefficient internal control system. Failure to control overhead costs to minimal has a serious effect on the

probability of an enterprise as it increases the costs of operations thereby reduces the profitability levels. Failure to prepare bank reconciliation and encouraging payments, receipt and banking to be carried by more than one personnel encourage theft by the allocated officers and as a result would reduce the liquidity position of an enterprise.

Other internal control issues identified by the study findings were failure to offer cash discounts and early payment discounts which otherwise could encourage creditors to make cash purchase or pay their bills promptly to benefit from the discounts. Making these provisions therefore speed up the payment processes and as a result could increase the liquidity position of an enterprise or vice versa.

A third hindrance highlighted by the study results with regards to cash flow management was cash flow controls and as revealed by the study findings, a big number of SMEs owners over depend on the business income for survival and in meeting other non business related expenses. This reduces the ability of the business to retain some profits and as a result increases the inability of the enterprise to pay their obligations when they come due. Further, it reduces the enterprise levels of long-term solvency and as a result reduces the ability of such an enterprise to expand its market or product lines.

Recommendations

In order for small medium enterprises to fully utilize cash flow management, improve on their levels of financial performance, and improve on their general performance, the study recommends that different stakeholders in SMEs should emphasize the followings.

The management of SMEs must employ competent people who can design business plan, prepare cash flow projections, and cash budgeting; the management must also ensure budgetary control, internal control system and profitable items are in place and under strict controls and improve on their credit policies.

The management must avoid holding too much inventories, avoid over trading, avoid too much investments in capital expenditure, control their spending habits on luxuries, and retain profits are always for further growth.

To increase on their cash inflow, the management of SMEs must ensure they provide services or products that satisfy their customer's needs. This could only be possible through continues improvement of the quality of their products or services. This therefore implies that the management of SMEs must be innovative and apply value analysis, value chain analysis, reverse engineering and process engineering, total quality management, just in time purchases, utilize bench marking as a tool for continuous improvement, with full utilization of modern technology and use of information technology.

Thirdly, to maintain continuous cash inflows, the management of SMEs must ensure they increase and maintain relation their loyal profitable customers through good customer care and provision of after sale services. Further, they must expand their product or service lines and look for new market niches.

Fourthly, the management of SMEs should discourage the use of high interest loans and look for cheaper sources of funds like the use of retained earnings, introducing more of their personal capital into the business, form joint venture, and look for venture capital.

Fifthly, since SMEs has become vehicles for income generation, employment creation that was supposed to be the role of the government, and seedbeds for big corporations, the Uganda government should substantial supports to SMEs. The Uganda government should create the necessary policy, legal, and regulatory environment supported by policies such as few taxes, extending tax incentives to local Uganda businesses, controls of interest on loans given by commercial banks. As such, the government could provide free interest loans or very low interest loans, lower taxes and tax incentives, universal and free business related trainings to Uganda's SMEs. Further, the government must provide infrastructures such good roads; builds market in all municipalities, which SMEs could rent at cheaper rates; water supplies and cheaper and affordable electricity; market for product/services. Likewise, the government could help SMEs to look for venture capitalists; incorporate Small Medium Enterprises and Entrepreneurship Development into the Ministry of Micro Finance and development.

Finally, there is need to classify SMEs according to their needs and acquit them with relevant business development services providers and Small Medium Enterprises themselves must form strong business associations with mechanisms that can help in solving some of their problems.

Suggestions for Further Research

This study concentrated on cash flow management in SMEs. However, further research could be carried out in the following areas:

- i. Financial services and performance of small medium enterprises
- ii. Corporate governance and performance of small medium enterprises
- iii. Budgetary controls and performance of small medium enterprises
- iv. Internal control systems and performance of small medium enterprises

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