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CASH FLOW AND SURVIVAL OF SMES IN ARUA DISTRICT, WEST NILE REGION UGANDA

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ABSTRACT: *Management of cash flow has been a challenge in SMEs in Uganda and this has led to collapse of many SMEs as only a few manage to celebrate their first birth days. The study sought to examine the role of cash flows on the survival of SMEs Uganda. Using simple random sampling method a total of 99 respondents was selected to participate in the study and the data was analyzed using SPSS statistical package. The results of the study found a strong relationship between cash flow and survival of SMEs and a variation in cash flow accounts for a positive change in the rate of survival of SMEs. Firms that ensure prudent cash flow management have the ability to pay their obligations, avoid holding excessive stocks and sell their marketable securities. The study recommended that Government and other stakeholders should provide for financial management training; provide access to finance services through debt, lower interest rates, and provide access to information needed by the lenders. SMEs owners/managers should also grow the culture of building relationships with stakeholders, both internal and external.*

KEYWORDS: *Cash flows, Survival of SMEs*

INTRODUCTION

The success of any Small and Medium Enterprise (SME) depends on a number of factors including cash management practices. Unfortunately, many SMEs overlook the role of proper cash management, resulting into solvency (Masocha & Dzomonda, 2016) that forces them into borrowing to strengthen their operations. Since financial management, particularly cash flow is core in the growth and survival of SMEs, its ineffectiveness and inefficiency is detrimental in their longevity and performance. Studies on survival of firms point towards inability to manage growth, lack of capital and access to finance, demand side constraints and lending infrastructure constraints (Ndinomwene, Chisoro, & Mahomed, 2015); poor saving culture, financial indiscipline, lack of desire and commitment to achieve greater heights (Nangoli, Turinawe, Kituyi, Kusemererwa, & Jaaza, 2013); lack of management skills (Okechukwu & Izunwanne, 2014); human resource management (Kusi, Opata, & Narh, 2015); and trade liberazation (Alvarez & Vergara, 2009). Common in these studies is owner/managers' management practices that determine the survival of firms. Studies with strong inclination to cash management relate it to firm performance (Uwonda, Okello, & Okello, 2013); (Oghenetejiri & Bongani, 2014), and (Bolarinwa, Babatunde, Idowu, & Tijan, 2014). The present study examines the role of cash flows on survival of SMEs in Arua district in Uganda.

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Problem statement

The strength of an organization would be determined on how managers handle the daily cash flows. Cash flow management needs proper skills in financial management and training with adequate experience in resource mobilization. Much as emphases have been put on cash flow and financial management training and development of managers, it's impact is still very low and managers are failing to manage cash flows in the re organization. Most upcoming SMEs have faced a lot of challenges related to cash flow management thus leading to the death of their SMEs. It's upon this background where the researcher is investigating how cash flows management in an organization affects the survival of SMEs and possibly propose a better solutions to this challenges.

Objective of the study

To examine the role of cash flows on the survival of SMEs in Arua district, West Nile region Uganda.

LITERATURE REVIEW

Cash flows

Without cash or the liquid assets (working capital) that are necessary to operate on a daily basis, the company risks becoming insolvent. In developing economies however, SMEs do not keep track of cash flows with the intention of avoiding taxes (Mazzarol, Reboud, & Clark, 2015). Cash is generated from sales revenues (accounts receivable) and if this cash flow slows due to falling sales, or slow recovery of the accounts receivable, the business will need a cash injection or become insolvent. Cash is used to pay business obligations and it is a vital component of working capital as it keeps the business running (Yousef, 2016). The adequacy of cash and other current assets together with their efficient handling, virtually determines the survival or extinction of a business concern. Once the cash budget has been approved and the appropriate net cash flow established, financial managers should ensure that a significant deviation does not occur between cash inflows and expenditures. Cash flow provides information on changes in cash and cash equivalents in an entity for the reporting period (Jess & Juhaszova, 2012). Cash equivalents include bank overdrafts, which are repayable on demand; saving bonds, money market instruments and short-term bonds.
Cash management is the process of ensuring that businesses have good cash balances and that they continue to stay competent in business operations. Prudent cash management ensures that a small business would be able to meet its debt obligations when they come due and facilitate the responsibility of the firm to pay its upcoming expenses. Managing cash flow and cash conversion cycle is a critical component of the overall management for all firms especially those which are capital rationed and more reliant on short-term sources of finance (Padachi & Howorth, 2014). Cash conversion cycle reflects the time span between disbursement and collection of cash (Atieno, 2016). However, most SMEs fail due to failure to manage cash flow. Studies by (Uwonda, Okello, & Okello, 2013) revealed that 20.33% of the service sectors of the SMEs studied did not monitor cash flow.

Cash flow is the amount of money that the business is able to retrieve from customers and debtors (cash inflow) and the same amount of money that the business is able to spend (cash outflow) in a period (Avika, 2014). Observing the money coming in and going out of the business is one of the most time consuming responsibilities of management for any business. International Financial

Reporting Standards (IFRS) classifies cash flows among activities. The key cash flow activities include cash flows from operating activities, cash flows from investing activities, and cash flows from financing activities (Jess & Juhaszova, 2012). Operating activities include cash receipts from sale of goods or services, cash receipts from royalties, cash payment to suppliers and cash payments to and on behalf of employees. Cash flows from investing activities include cash payments to acquire property, cash receipts from sale of property, cash payments to acquire equity, cash receipts from the sale of equity and cash advances made to other parties. Cash flows from financing activities include cash proceeds from issuing shares, cash payments to owners to acquire entity's shares, cash proceeds from issuing loans and bonds, cash repayments to amount borrowed and cash payments by a lessee for the reduction of the outstanding liability relating to finances (Jess & Juhaszova, 2012).

In the context of accounting information, cash flow provides information that supports monitoring and control. The real success of a business depends on the ability to keep close control over cash flow, avoid holding excessive stocks and collecting debts on time (Danjuma, Sangiru, & Dahiru, 2015). A large number of businesses fail due to absence of cash rather than absence of profits. Cash flow management is vitally important for the business' profitability, future planning and sustainability (Avika, 2014). The goals of cash management are to maximize liquidity and cash flows, and maximize the value of funds while maximizing the cost of funds (Ondiek, Ochieng, & Busaka, 2013). Poor financial management exacerbates the cash flow problems of many small-scale businesses and in particular the lack of planning cash requirements. To gain control of a firm's cash flow, the finance manager should develop some strategies for cash management with the help of cash planning, managing cash flow, optimum cash level and investing idle cash. However, if a company reaches a position from where it is difficult to meet its operating expenses, the company should put control over expenditures, sell marketable securities, accelerate collection from debtors, negotiate for short-term loans from banks or sell redundant assets. Cash flow forecasts are vital to good working capital management, along with a strong partnership with the business, commercial understanding, a strong incentive framework and a willingness to try innovation (Miller & Parry, 2014).

Survival of SMES

The term Small and Medium Enterprises (SMEs) covers a wide range of definitions and measures, varying from country to country and between the sources reporting SME statistics. Although there is no universally agreed definition of SMEs, some commonly used criteria are the number of employees, value of assets, value of sales and size of capital (Bataa, 2008). In a Ugandan context, (Eton, Mwosi, Mutesigensi, & Ebong, 2017) reiterated that SMEs are officially defined based on both the number of people employed and annual turnover of the enterprise. In view of this definition, annual sales revenue is partly a function of cash inflows and expenditures throughout the year.

Business survival is the ability of a firm to operate continuously despite various challenges like managerial process of directing the affairs of a firm regularly on the going concern basis and meets the needs of all stakeholders (Agbolade, 2014). In view of SMEs, the concept of firm survival is used to imply limited growth and economic development and only a token of poverty alleviation. Survival of firms depends on the ability to obtain competitive distinctive capabilities that lead to

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competitive advantage (Cant, Erdis, & Sephapo, 2014). They recommended that governments should try to provide sustainable solutions for struggling firms in order to assist their survival in the business environment. Firm survival and growth depends on the quality of the relationship among all stakeholders, both internal and external, as well as on the goodwill of the company (Garcia-Perez-de-Lema, Durendez, & Marino, 2011).

Survival of SMEs is only possible through a systematic analysis of the problems they are facing and mapping out appropriate strategies of overcoming them through a proper understanding of the business environment (Okechukwu & Izunwanne, 2014). The lack of conducive and enabling macroeconomic policy environment among other problems remains the drawback to the survival, development and growth of SMEs (Lorakpen, 2014). The competence of the SME owner or manager is the ultimate determinant of survival or failure. The founder's personal competence in selecting the right business and running it is crucial; since the firm is indistinguishable from its owner (Kusi, Opata, & Narh, 2015).

Studies have indicated that survival of Ugandan businesses is attributed to such factors as lack of commitment to achieve greater heights, acts of financial indiscipline, irresponsibility, laxity and laziness in addition to the poor education system, which prepare students for office jobs and gives little attention to entrepreneurship (Nangoli *et al*…, 2013). The adequacy of cash and other current assets, together with their efficiency handling, virtually determines the survival or extinction of a business concern (Yousef, 2016). The characteristics of the firm including firm age, size, legal form, industry type and location are of paramount importance to the survival and growth of SMEs (Ahomka, 2015). The internal factors that are consistent with survival are personal characteristics of the business of the owner such as (gender, educational qualifications and the previous experience), access to finance, access to technology, availability of sound business plan to give direction to the business and help the owner to access funds (Hove & Tarisai, 2013). Internal factors are the personal attributes, skills and competencies of the individual owner, which are crucial to how well the business faces up the inevitable crises that arise.

Cash shortage is a chronic challenge to most micro and small-scale enterprises (Atieno, 2016). Having enough cash available as and when minimizes the cost of any borrowing that is necessary to facilitate survival and growth of any business. Seasonality of cash inflows and expenditures can result in conditions of temporary cash surpluses and cash shortfalls, which may affect the smooth operations of the business. Literature by (Bolarinwa, Babatunde, Idowu, & Tijan, 2014) pointed out that many SMEs abandon their projects for failure to measure the project's net present value and its next future cash flows. One of the most common problems facing SMEs is their ability to secure sufficient cash flow and working capital to remain profitable and financially viable (Mazzarol, Reboud, & Clark, 2015). Unlike large firms, SMEs are vulnerable to fluctuations in cash flow, associated with general paucity of working capital, and their ability to raise finance through debt or equity. They consume much cash and require working capital to help them remain insolvent as income dries up.

For companies, often profit is the overriding objective but if cash is not sufficient, the company's growth will slump and there may be a threat to its survival. Hence, cash flow is critical for the existence and survival of an organization and companies generating healthy cash flows invariably

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generate high profitability (Okelo, 2013). Working capital, which is reflected on the profitability of the company, determines the company's level of competition and survival in the market (Yousef, 2016). Changes in the level of inflation affects the volatility of cash flows, which reduce the company's ability to pay interests on its debts, increases financial distress, and threatens the viability of many firms.

METHODOLOGY

The study methodology was descriptive and analytical in examining the role of cash flows on the survival of SMEs. Data was collected by using questionnaire that was designed. A sample of 99 respondents was chosen from the respondents and the response rate was 100%. The research strategy used both descriptive and correlation. The five point Likert scale was used to rate the answers from 1-5, which indicate (strongly disagree, disagree, Neutral, agree and strongly agree). The questionnaire was tested for validity.

RESULTS AND INTERPRETATION

Responses by gender indicate that (62.6%) were male while (37.4%) were female. The age composition indicate that majority of the participants (72.7%) belonged to (20 - 29) years of age, (13.3%) belonged to 30 – 39 years' age group, (11.1%) belonged to 40 – 40 years' age group while only (3.0%). In relation to marital status, most participants (63.6%) claimed to be single while (33.3%) were single. The (3.0%) who respondent to the "others" option were widows. Findings on the level of education indicate that majority of the participants (58.6%) were holders of diplomas, (30.3%) responded to the "others" option while (11.1%) had university degrees.

Reliability Tests

This was applied to measure the consistency and internal stability of the data. Cronbach's Alpha was computed to determine the inter-item consistency and reliability of how items in the data set were positively correlated to one another.

Table 1: Reliability Statistics

Cronbach's Alpha	N of Items
.844	40

The study indicated Cronbach's Alpha coefficient ($\alpha > .70$) which implies that the items used were reliable and credible to test the study variables. Therefore, the data collected for this study were considered internally stable.

Table 2: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Cash flow	99	1.65	4.24	3.3339	.51971
Survival of SMEs	99	1.83	4.44	3.4198	.54348
Valid N (listwise)	99				

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There was not much significant variation in the response on both cash flow and survival of firms. However, analyzing standard deviation indicates that responses on cash flow (Sdv = .51971) were more consistent than those of survival of firms (Sdv = 54348). This suggests that SMEs owners/managers seem to understand more the role of cash flow in their businesses than explaining what would make their businesses survive or fall.

Table 3: Regression coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta	B	Std. Error
	(Constant)	.852	.242		3.517	.001
	Cash flow	.770	.072	.736	10.722	.000
	R	.736				
	R Square	.542				
	Adjusted R Square	.538				

a Dependent Variable: Survival of SMEs

Analysis on relationships (r = .736; p-value < .05) indicate that a positive significant relationship exists between cash flow and survival of SMEs. Furthermore, (Adjusted R Square = .538) indicates that a variation in the level of cash flow accounts for 53.8% of survival of SMEs in the district. This implies that that cash flow is significant in explaining the survival of SMEs. However, $(Constant = .852)$ suggests that SMEs that do not manage cash flow are least likely to survive.

Data Reduction

While a number of factors were used to study cash flow, redundant factors that account for a very small variation in cash flow were removed with the help of factor analysis.

Table 4: Component Matrix (a)

		1	2	3
1.	Pays obligations	.674		
2.	Experiences high profitability	.635		
3.	Always solvent	.630		
4.	Sells marketable securities		.738	
5.	Invests idle cash		.576	
6.	Accelerates collection from debtors		.574	
7.	Avoids excessive stocks			.502
8.	Meets operating costs			.480
9.	Negotiates for short-term loans			.414
Total		3.439	1.920	1.665
% of variance		19.107	10.667	9.248
Cumulative %		19.107	29.774	39.022

Extraction Method: Principal Component Analysis.
a 7 components extracted.

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From the table above, ability to pay obligations (r = .674), ability to sell marketable securities (r = .738) and ability to avoid excessive stocks (r = .502) were identified to be representative enough of cash flow. This seems to suggest that SMEs can survive if they focus on them. However, a cumulative percentage of (39.0%) indicates the variation in the original factors that can be accounted for by the three extracted factors.

Table 5: Component Matrix for survival of SMEs

	1	2	3
1. High profitability level	.670		
2. Understand business environment	.650		
3. Easy access to financial services	.620		
4. Needs a lot of working capital		.651	
5. Exercise financial discipline		.619	
6. Committed to reach greater heights		.512	
7. Good quality relationship among stakeholders			.505
8. Good will			.378
Total	4.068	2.178	1.537
% of variance	22.598	12.103	8.538
Cumulative %	22.598	34.701	43.238

Extraction Method: Principal Component Analysis.
a 6 components extracted.

In analyzing the amount of variation in the factors used to study survival of SMEs, high profitability level (r = .670), the need for much working capital (r = .651) and the good quality relationship among the stakeholders (r = .505); were identified as key indicators of surviving SMEs.

DISCUSSION

The findings indicated a strong relationship between cash flow and survival of SMEs in Arua district. The findings agree with (Okelo, 2013) who argued that insufficient cash slumps a company's growth and may be a threat to its survival. Cash flow is critical for the existence and survival of an organization since healthy cash flow invariably generates high profitability. Yousef (2016) reiterated that working capital, which is reflected on a company's profitability determines the level of competition and survival of firms in the market. The findings were further in line with (Bolarinwa et al..,2014) who asserted that many SMEs abandon their projects for failure to project net present value and future cash flow. The study further indicated that a variation in the level of cash flow avails a significant amount of variation in survival of SMEs. These findings are in line with (Mazzarol, Reboud, & Clark, 2015) who posited that a fluctuation in cash flow is associated to general paucity of working capital and the ability to raise finance through debt or equity. SMEs with unstable cash flows consume much of their working capital to remain insolvent, which affects their survival. The findings further support (Atieno, 2016) who contended that having enough cash available as and when minimizes the cost of borrowing that is necessary to facilitate survival and growth of any business.

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The study indicated that SMEs in Arua have the ability to pay their obligations. The findings support (Padachi & Howorth, 2014) who posited that prudent cash management ensures that businesses meet debt obligations when they come due and facilitate the responsibility of the firm to pay upcoming expenses. The study observed that SMEs in Arua avoid holding excessive stocks. This is in line with (Danjuma, Sangiru, & Dahiru, 2015) who asserted that successful businesses have the ability to keep a close control of their cash flow, avoid holding excessive stocks and collect debts in time. The study however, indicated that SMEs in Arua engage in sell of marketable securities. The statistic supports (Ondiek, Ochieng, & Busaka, 2013) who advised firms with difficulties in meeting operating costs to sell their marketable securities, sell redundant assets or negotiate for short-term loans from banks to gain control of their cash flow.

The study indicated that SMEs in Arua had high profitability levels. High profitability determines the company's level of growth and survival (Okelo, 2013). The study further indicated that SMEs in Arua needed high working capital, which supports (Mazzarol, Reboud, & Clark, 2015) who advanced that one of the problems facing SMEs is their inability to secure sufficient cash flow and working capital to remain profitable and financially viable. Further, the study indicated that SMEs in Arua ensured good quality relationship among stakeholder, which agrees with (Garcia-Perez-de-Lema, Durendez, & Marino, 2011) who contended that firm survival depends on the quality of the relationship among stakeholders, both internal and external, as well as on the goodwill of the company.

CONCLUSIONS

There is a strong relationship between cash flow and survival of SMEs in Arua, and a variation in cash flow accounts for a positive change in the rate of survival of SMEs. Firms that ensure prudent cash flow management have the ability to pay their obligations, avoid holding excessive stocks and sell their marketable securities. However, selling marketable securities is partly related to poor financial projections, and temporary cash shortfalls and cash surpluses. SMEs with high profitability levels have the potential to grow and survive the competition in the market. High profitability was linked to the fact that these SMEs foster good quality relationships among all stakeholders. However, the need for high working capital remains a big challenge to survival and growth of SMEs in Arua. Inadequate working capital increases the cost of borrowing, increases projects' failure and limits the business to reach greater heights.

RECOMMENDATIONS

The study indicated that SMEs in Arua have the ability to pay their obligations, to avoid holding excessive stock and to sell marketable securities. These are financial management skills, which most SMEs owners/managers lack, and are only attainable through financial management training. Government and other stakeholders in SMEs growth should provide for financial management training through seminars, workshops and business conferences. The need for high working capital means that most SMEs have inadequate capital. While SMEs have access to finance services and can easily raise finances through debt, access to credit is still limited by high interest rates, collateral security and lack of information needed by the lenders. Government, through her instruments in the Central Bank should consider lowering interest rates to minimize the costs of

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borrowing. Since good-quality, relationship among stakeholders was cited as one of the factors responsible for growth and survival of SMEs, SMEs owners/managers should grow the culture of building relationships with stakeholders, both internal and external.

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