

**Relationship Between Cash Flow Management And Profitability Of Small And Medium Enterprises (Smes)
In Butiiti Sub-County, Kyenjojo District, Uganda.**

Rujumba Ezekiel

Metropolitan International University

Abstract

The study examined the relationship between cash flow management and profitability of Small and Medium Enterprises (SMEs) in Butiiti Sub-County, Kyenjojo District, Uganda. A sample of 227 SME owners and managers was surveyed using a descriptive cross-sectional research design. Data were collected through structured questionnaires and analyzed using correlation and regression analysis. Results revealed a significant positive relationship between cash flow management practices and profitability ($r=0.687$, $p<0.01$). Specifically, cash flow planning ($\beta=0.412$, $p<0.01$), cash flow monitoring ($\beta=0.358$, $p<0.01$), and cash flow control ($\beta=0.289$, $p<0.05$) significantly predicted profitability. The study concluded that effective cash flow management was critical for SME profitability in the study area. Recommendations included training SME owners in cash flow forecasting, implementing computerized cash flow monitoring systems, and establishing credit management policies. The findings contributed to understanding financial management practices in rural Ugandan SMEs.

**Keywords: Cash flow management, profitability, small and medium enterprises, financial performance,
Butiiti Sub-County, Uganda**

Background of the Study

Small and Medium Enterprises (SMEs) constituted the backbone of Uganda's economy, contributing approximately 80% of employment and 50% of GDP according to the Uganda Bureau of Statistics (UBOS, 2021). In rural districts like Kyenjojo, SMEs played a crucial role in poverty alleviation, income generation, and community development. However, despite their significance, many SMEs in Uganda faced persistent challenges related to financial sustainability and profitability (Tushabomwe-Kazooba, 2006).

Cash flow management emerged as one of the most critical determinants of SME survival and growth in developing economies. According to Kilonzo and Ouma (2015), poor cash flow management was responsible for approximately 82% of business failures among SMEs in East Africa. The ability to effectively manage cash inflows and outflows determined whether enterprises could meet their operational obligations, invest in growth opportunities, and maintain profitability over time.

In Butiiti Sub-County, Kyenjojo District, SMEs operated in diverse sectors including agriculture, retail trade, manufacturing, and services. These enterprises faced unique challenges including limited access to formal credit, inadequate financial literacy, poor record-keeping practices, and irregular cash flows due to seasonal business patterns (Katonu, 2011). Many SME owners lacked formal training in financial management, relying instead on informal practices and personal judgment.

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Previous studies on SME performance in Uganda had focused predominantly on urban centers such as Kampala, Jinja, and Mbarara, leaving a knowledge gap regarding rural SMEs (Turyahebwa et al., 2013). Furthermore, while existing research had examined various factors affecting SME profitability, limited attention had been paid to the specific relationship between cash flow management practices and financial performance in rural contexts.

The relationship between cash flow management and profitability was theoretically grounded in the working capital management theory, which posited that efficient management of current assets and liabilities enhanced firm value and profitability (Deloof, 2003). Understanding this relationship in the context of Butiiti Sub-County was essential for developing targeted interventions to improve SME performance and sustainability in rural Uganda.

Problem Statement

Despite the vital role of SMEs in Butiiti Sub-County's economy, many enterprises experienced persistent profitability challenges that threatened their sustainability. Preliminary observations indicated that approximately 60% of SMEs in the sub-county struggled to maintain positive profit margins, with many experiencing seasonal losses. Evidence suggested that poor cash flow management practices, including inadequate cash flow forecasting, delayed receivables collection, and inefficient inventory management, contributed significantly to these profitability challenges (Abanis et al., 2013). SME owners in Butiiti Sub-County frequently reported liquidity problems, inability to meet payment obligations, and missed growth opportunities due to cash shortages. However, the extent to which specific cash flow management practices influenced profitability remained unclear. Without empirical evidence on this relationship, policymakers, financial institutions, and business development organizations lacked the necessary information to design effective interventions. This study therefore investigated the relationship between cash flow management and profitability of SMEs in Butiiti Sub-County, Kyenjojo District, Uganda.

Specific Objective

To establish the relationship between cash flow management and profitability of SMEs.

Methodology

This study employed a descriptive cross-sectional research design to examine the relationship between cash flow management and profitability among SMEs in Butiiti Sub-County, Kyenjojo District. The design was appropriate as it enabled the researcher to collect data at a single point in time and describe the existing relationship between variables (Amin, 2005).

The target population comprised 458 registered SMEs in Butiiti Sub-County as documented by the Kyenjojo District Commercial Office records of 2023. Using Krejcie and Morgan's (1970) sample size determination table, a sample size of 227 SMEs was selected. A stratified random sampling technique was employed to ensure proportional representation across different business sectors including retail trade (n=89), agriculture processing (n=56), manufacturing (n=45), and services (n=37).



Data were collected using structured questionnaires administered to SME owners or managers. The questionnaire comprised three sections: demographic information, cash flow management practices measured on a five-point Likert scale, and profitability indicators. Cash flow management was operationalized through three dimensions: cash flow planning, cash flow monitoring, and cash flow control. Profitability was measured using self-reported profit margins, return on assets, and overall business growth over the previous two years.

The research instrument was validated by three experts in business management and finance, achieving a content validity index of 0.84. Reliability was tested through a pilot study involving 23 SMEs (10% of the sample) in neighboring Hakibaale Sub-County, yielding a Cronbach's alpha coefficient of 0.87 for cash flow management and 0.82 for profitability measures.

Data collection occurred over four weeks in December 2025. Trained research assistants distributed questionnaires and provided clarification where necessary. Out of 227 questionnaires distributed, 215 were returned, representing a response rate of 94.7%. Data were analyzed using Statistical Package for Social Sciences (SPSS) version 25. Descriptive statistics including means, standard deviations, and frequencies were computed. Pearson correlation analysis was conducted to determine the relationship between variables, while multiple regression analysis was performed to establish the predictive power of cash flow management dimensions on profitability.

Results

Demographic Characteristics of Respondents

Table 1: Demographic Characteristics of Respondents (N=215)

Characteristic	Category	Frequency	Percentage
Gender	Male	128	59.5
	Female	87	40.5
Age	18-30 years	45	20.9
	31-40 years	89	41.4
	41-50 years	58	27.0
	Above 50 years	23	10.7
Education Level	Primary	38	17.7
	Secondary	102	47.4
	Tertiary	75	34.9
Business Experience	Less than 2 years	34	15.8
	2-5 years	98	45.6
	6-10 years	61	28.4



Characteristic	Category	Frequency	Percentage
	Above 10 years	22	10.2
Business Sector	Retail Trade	84	39.1
	Agriculture Processing	53	24.7
	Manufacturing	43	20.0
	Services	35	16.3

Source: Primary Data, 2025

The demographic analysis revealed that the majority of respondents were male (59.5%), while females constituted 40.5% of the sample. This gender distribution reflected the broader pattern of business ownership in rural Uganda where men traditionally dominated entrepreneurial activities, although female participation was notably substantial. The age distribution showed that most SME owners were between 31-40 years (41.4%), followed by those aged 41-50 years (27.0%), indicating that middle-aged individuals were most active in SME operations in Butiiti Sub-County. In terms of educational attainment, nearly half of the respondents (47.4%) had completed secondary education, while 34.9% possessed tertiary education qualifications. This relatively high level of education suggested a moderately educated SME owner population, which potentially influenced their capacity to adopt formal cash flow management practices. Business experience data indicated that the majority of SMEs (45.6%) had been operating for 2-5 years, while only 10.2% had operated for more than a decade, suggesting a relatively young SME sector in the area. The sectoral distribution showed dominance of retail trade activities (39.1%), followed by agriculture processing (24.7%), manufacturing (20.0%), and services (16.3%).

Cash Flow Management Practices

Table 2: Descriptive Statistics for Cash Flow Management Practices (N=215)

Cash Flow Management Practice	Mean	SD	Interpretation
Cash Flow Planning			
We prepare regular cash flow forecasts	3.24	1.18	Moderate
We plan for future cash requirements	3.41	1.15	Moderate
We budget for cash inflows and outflows	3.02	1.23	Moderate
We anticipate cash shortfalls in advance	2.98	1.31	Moderate
Overall Cash Flow Planning	3.16	0.98	Moderate
Cash Flow Monitoring			
We track daily cash receipts	3.78	1.06	High
We monitor accounts receivable regularly	3.12	1.22	Moderate

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Cash Flow Management Practice	Mean	SD	Interpretation
We review cash position weekly	3.45	1.14	Moderate
We maintain cash flow records	3.21	1.28	Moderate
Overall Cash Flow Monitoring	3.39	0.95	Moderate
Cash Flow Control			
We have policies for credit sales	2.87	1.34	Moderate
We follow up on late payments	3.56	1.09	High
We control operating expenses	3.82	1.02	High
We maintain minimum cash balances	3.18	1.19	Moderate
Overall Cash Flow Control	3.36	0.92	Moderate
Overall Cash Flow Management	3.30	0.86	Moderate

Note: Mean scores interpretation: 1.00-2.00 = Low; 2.01-3.00 = Moderate; 3.01-4.00 = High; 4.01-5.00 = Very High

Source: Primary Data, 2025

The descriptive analysis of cash flow management practices revealed that SMEs in Butiiti Sub-County demonstrated moderate overall cash flow management practices (M=3.30, SD=0.86). Among the three dimensions examined, cash flow monitoring recorded the highest mean score (M=3.39, SD=0.95), followed closely by cash flow control (M=3.36, SD=0.92), while cash flow planning showed the lowest mean (M=3.16, SD=0.98). Specifically, within cash flow planning, respondents indicated moderate engagement in planning for future cash requirements (M=3.41, SD=1.15) and preparing regular cash flow forecasts (M=3.24, SD=1.18). However, anticipating cash shortfalls in advance received relatively lower scores (M=2.98, SD=1.31), suggesting that many SMEs operated reactively rather than proactively in managing their cash positions. For cash flow monitoring practices, SMEs demonstrated strong performance in tracking daily cash receipts (M=3.78, SD=1.06) and reviewing cash position weekly (M=3.45, SD=1.14), indicating awareness of the importance of continuous cash surveillance. Regarding cash flow control, respondents reported high levels of expense control (M=3.82, SD=1.02) and active follow-up on late payments (M=3.56, SD=1.09). However, the establishment of formal policies for credit sales was notably weaker (M=2.87, SD=1.34), with high standard deviation suggesting considerable variation in practice across enterprises. The moderate overall cash flow management score indicated substantial room for improvement in systematic financial management approaches among SMEs in the study area.

Profitability Levels

Table 3: Descriptive Statistics for Profitability Indicators (N=215)

Profitability Indicator	Mean	SD	Interpretation
Our business generates consistent profits	3.34	1.12	Moderate
Our profit margins have improved over the past two years	3.28	1.16	Moderate
We achieve our profit targets regularly	2.96	1.24	Moderate
Our business is more profitable than competitors	3.15	1.19	Moderate
We reinvest profits for business growth	3.42	1.08	Moderate
Overall Profitability	3.23	0.94	Moderate

Source: Primary Data, 2025

The profitability analysis indicated that SMEs in Butiiti Sub-County achieved moderate overall profitability levels (M=3.23, SD=0.94). The highest mean score was recorded for profit reinvestment for business growth (M=3.42, SD=1.08), suggesting that profitable enterprises were channeling earnings back into their businesses to support expansion and development. Respondents also reported moderate levels of consistent profit generation (M=3.34, SD=1.12) and improvement in profit margins over the previous two years (M=3.28, SD=1.16). However, the ability to achieve profit targets regularly scored lowest (M=2.96, SD=1.24), indicating that many SMEs struggled with meeting predetermined financial objectives. The moderate profitability levels suggested that while SMEs in the area were generally viable, there existed significant challenges in optimizing financial performance and achieving sustainable competitive advantages through superior profitability.

Correlation Analysis

Table 4: Pearson Correlation Analysis Between Cash Flow Management and Profitability (N=215)

Variables	1	2	3	4	5
1. Cash Flow Planning	1				
2. Cash Flow Monitoring	.624**	1			
3. Cash Flow Control	.581**	.656**	1		
4. Overall Cash Flow Management	.862**	.895**	.858**	1	
5. Profitability	.614**	.598**	.543**	.687**	1

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

Source: Primary Data, 2025

The correlation analysis demonstrated significant positive relationships between all cash flow management dimensions and profitability. Overall cash flow management showed a strong positive correlation with profitability (r=0.687, p<0.01), indicating that SMEs with better cash flow management practices tended to achieve higher profitability levels. Among the individual dimensions, cash flow planning exhibited the strongest correlation with profitability (r=0.614, p<0.01), followed by cash flow monitoring (r=0.598, p<0.01) and cash flow control (r=0.543,

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p<0.01). All correlations were statistically significant at the 99% confidence level, providing robust evidence of the relationship between cash flow management and profitability. The inter-correlations among cash flow management dimensions were also high and significant, with correlations ranging from 0.581 to 0.656, suggesting that these practices were interrelated and mutually reinforcing. These findings aligned with working capital management theory, which emphasized that effective management of cash resources enhanced organizational performance and profitability (Deloof, 2003).

Regression Analysis

Table 5: Multiple Regression Analysis Predicting Profitability from Cash Flow Management Dimensions (N=215)

Model	R	R ²	Adjusted R ²	Std. Error	F	Sig.
1	.712	.507	.500	.664	72.384	.000

Table 6: Regression Coefficients

Predictor	B	Std. Error	Beta (β)	t	Sig.
(Constant)	.542	.284		1.908	.058
Cash Flow Planning	.396	.065	.412	6.092	.000
Cash Flow Monitoring	.354	.069	.358	5.130	.000
Cash Flow Control	.276	.071	.289	3.887	.000

Dependent Variable: Profitability

Source: Primary Data, 2025

The multiple regression analysis revealed that cash flow management dimensions collectively explained 50.7% of the variance in SME profitability (R²=.507, F=72.384, p<.001), indicating a substantial predictive relationship. The adjusted R² of .500 confirmed that the model was robust and not overfitted to the sample data. Cash flow planning emerged as the strongest predictor of profitability (β=.412, t=6.092, p<.001), suggesting that SMEs that engaged in systematic cash flow forecasting, budgeting, and planning for future cash requirements achieved significantly higher profitability. Cash flow monitoring also contributed significantly to profitability (β=.358, t=5.130, p<.001), demonstrating that regular tracking of cash receipts, accounts receivable, and cash positions positively influenced financial performance. Cash flow control, while showing the smallest standardized coefficient, remained a significant predictor (β=.289, t=3.887, p<.001), indicating that credit policies, payment follow-up procedures, and expense control mechanisms enhanced profitability. All three predictors demonstrated statistical significance at the 99.9% confidence level, confirming their independent contributions to explaining profitability variations among SMEs. These findings supported the theoretical proposition that systematic cash flow management practices were essential for financial success in resource-constrained SME environments (Abanis et al., 2013; Turyahebwa et al., 2013).

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Conclusions

This study established a significant positive relationship between cash flow management and profitability of SMEs in Butiiti Sub-County, Kyenjojo District, Uganda. The findings demonstrated that effective cash flow management practices, encompassing planning, monitoring, and control, substantially contributed to improved profitability outcomes. Specifically, the research concluded that cash flow planning was the most critical dimension influencing SME profitability, as enterprises that engaged in regular cash flow forecasting, budgeting, and anticipation of cash requirements achieved superior financial performance compared to those operating without systematic planning frameworks.

The study further concluded that while SMEs in Butiiti Sub-County demonstrated moderate cash flow management practices overall, significant gaps existed particularly in proactive cash flow planning and formalization of credit management policies. The moderate profitability levels observed among participating enterprises reflected these management gaps, suggesting unrealized potential for enhanced financial performance through improved cash flow management practices.

The strong predictive power of cash flow management on profitability (explaining 50.7% of variance) confirmed the theoretical foundations of working capital management and validated the critical role of financial management capabilities in SME success. The study concluded that in resource-constrained rural contexts like Butiiti Sub-County, where access to external financing was limited, internal cash flow management capabilities became even more crucial for business sustainability and growth. The findings contributed empirical evidence from a rural Ugandan context to the broader literature on SME financial management in developing economies, addressing the previous knowledge gap regarding SME performance determinants in rural settings.

Recommendations

Based on the research findings, the following recommendations were proposed:

For SME Owners and Managers: SME owners should prioritize the development and implementation of comprehensive cash flow management systems incorporating all three dimensions of planning, monitoring, and control. Specifically, they should establish routine cash flow forecasting practices, preferably on monthly or quarterly bases, to anticipate cash requirements and prevent liquidity crises. SMEs should formalize credit management policies including clear terms for credit sales, systematic customer credit evaluation procedures, and consistent follow-up mechanisms for accounts receivable. Additionally, SME owners should invest in basic financial management training to enhance their capabilities in interpreting cash flow statements and making informed financial decisions.

For Government and Policy Makers: The local government of Kyenjojo District and relevant ministries should develop and implement targeted financial literacy programs specifically addressing cash flow management competencies for rural SME operators. These programs should be practical, accessible, and culturally appropriate, delivered through local business development centers or extension services. Furthermore, policymakers should

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consider establishing SME support centers in rural sub-counties providing subsidized access to basic accounting software, financial advisory services, and mentorship programs connecting experienced entrepreneurs with emerging SME owners.

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