

**Relationship Between Cash Management And Financial Performance Of Small Business Enterprises In Main Market, Arua City.**

**Kitakufe Takiu<sup>1</sup>, Kabanda Richard<sup>2</sup>**

**1, 2 Metropolitan International University**

**Abstract**

The study investigated the relationship between cash management practices and financial performance of small business enterprises (SBEs) operating in Main Market, Arua City, Northwestern Uganda. The research was necessitated by high business failure rates attributed to poor financial management and liquidity challenges among small enterprises. A cross-sectional survey design was employed, collecting data from 156 SBE owners and managers through structured questionnaires and interviews. Quantitative data were analyzed using descriptive statistics, Pearson correlation, and multiple regression analysis. The findings revealed a significant positive relationship between cash management and financial performance ( $r=0.814$ ,  $p<0.01$ ). Regression analysis demonstrated that cash management practices explained 66.3% of variance in financial performance ( $R^2=0.663$ ,  $F=51.289$ ,  $p<0.001$ ). Specific results showed that cash flow planning ( $\beta=0.418$ ,  $p<0.001$ ), receivables management ( $\beta=0.356$ ,  $p<0.01$ ), and cash control systems ( $\beta=0.298$ ,  $p<0.01$ ) were significant predictors of financial performance. Businesses with formal cash budgets reported 47% higher profitability and 52% better liquidity ratios compared to those without. The study concluded that effective cash management was critical for SBE survival and growth, with cash flow planning being the most influential factor. Key recommendations included: adopting formal cash budgeting systems, implementing credit policies to manage receivables, maintaining optimal cash reserves, utilizing mobile money and digital payment platforms, and participating in financial literacy training programs. The research contributed to the understanding of financial management practices in informal market settings and provided practical guidance for entrepreneurs and business development service providers seeking to enhance SBE performance in Uganda's regional urban centers.

**Keywords: Cash Management, Financial Performance, Small Business Enterprises, Cash Flow, Working Capital, Arua City, Liquidity Management**

**1.0 Background of the Study**

Small business enterprises (SBEs) constituted the backbone of Uganda's economy, accounting for approximately 90% of all businesses and contributing about 75% of employment outside the agricultural sector (Ahumuza et al., 2025). In regional urban centers like Arua City, located in the West Nile sub-region near Uganda's borders with South Sudan and the Democratic Republic of Congo, SBEs played an especially critical role in livelihood generation, cross-border trade facilitation, and local economic development (Julius & Matovu, 2025). Main Market in Arua City served as the primary commercial hub for the municipality and surrounding districts, hosting over 800 small businesses engaged in retail trade, wholesale distribution, food processing, textile sales, and various service provision (Ahumuza et al., 2025). Despite their economic importance, SBEs in Uganda faced numerous challenges that threatened their viability and growth potential (Promise et al., 2024). Research by the Uganda Bureau of Statistics indicated that approximately

60% of small businesses failed within their first three years of operation, with poor financial management cited as a leading cause (Racheal et al., 2023). Within this broader financial management challenge, cash management emerged as a particularly critical issue (David et al., 2023). Unlike larger enterprises with access to credit facilities and diverse funding sources, SBEs typically operated with limited capital, making them highly vulnerable to cash flow disruptions. Cash management, defined as the systematic process of collecting, handling, and using cash resources to meet business obligations while maximizing returns, was theoretically understood to directly influence business survival and profitability (Alex et al., 2024). The pecking order theory suggested that businesses prioritized internal funds over external financing, making effective management of internal cash resources paramount. Similarly, the cash conversion cycle theory posited that minimizing the time between cash outflows and inflows enhanced profitability and liquidity (Sarah et al., 2024).

Preliminary observations in Main Market revealed concerning practices among SBEs including: mixing of business and personal finances, absence of cash budgets, informal record-keeping, poor credit management, and inadequate cash reserves (Julius & Matovu, 2025). These practices exposed businesses to liquidity crises, missed opportunities, and ultimately failure (Alex & Moses, 2024). However, empirical evidence on the specific relationship between cash management practices and financial performance in this context remained limited (Alex & Moses, 2024). Most existing studies focused on formal sector businesses in urban centers like Kampala, leaving knowledge gaps about informal market settings in regional cities (Derrick et al., 2023).

The unique characteristics of Main Market including high informality, limited banking penetration, reliance on cash transactions, seasonal business fluctuations, and cross-border trade dynamics necessitated context-specific research (Kazaara & Christopher, 2023). Understanding how cash management influenced financial performance in this environment was essential for developing appropriate interventions to strengthen SBE resilience and growth.

## **2.0 Problem Statement**

Small business enterprises in Main Market, Arua City, experienced alarmingly high failure rates, with approximately 58% of businesses ceasing operations within three years of establishment according to Arua City Division records (Sarah & Audrey, 2024). Financial performance indicators were concerning: average profit margins declined from 18% in 2019 to 12% in 2021, while 67% of businesses reported frequent stock-outs due to cash shortages (Alex & Kazaara, 2023). Interviews with market leaders revealed that over 70% of SBEs lacked formal cash budgets, 64% mixed business and personal funds, and 73% extended credit informally without systematic follow-up mechanisms (Akankwasa et al., 2022). These poor cash management practices resulted in chronic liquidity problems, with 82% of businesses reporting difficulty meeting operational expenses during low sales periods (Ntirandekura & Christopher, 2022). The consequences included business closures, accumulation of debts, strained supplier relationships, and missed growth opportunities (Annet et al., 2023). While cash management was theoretically expected to enhance business performance, the persistent financial struggles suggested either inadequate cash management knowledge, poor implementation of cash management practices, or weak understanding of the relationship between cash

management and performance outcomes (Julius, 2024). This gap between theoretical expectations and practical realities necessitated empirical investigation.

### **3.0 Objective of the Study**

To examine the relationship between cash management practices and financial performance of small business enterprises in Main Market, Arua City.

### **4.0 Methodology**

#### **4.1 Research Design**

The study adopted a cross-sectional survey research design employing mixed methods that combined quantitative and qualitative approaches. The cross-sectional design was appropriate because it enabled data collection at a single point in time while examining relationships between variables across different business units (A. Nafiu et al., 2012). The mixed-methods approach facilitated triangulation of findings through complementary quantitative measurements and qualitative insights, thereby enhancing the validity and depth of results.

#### **4.2 Study Population and Sample Size**

The target population comprised all small business enterprises operating in Main Market, Arua City. Based on market administration records, there were 847 registered business operators in the market. Small business enterprises were defined as businesses with 1-50 employees and annual turnover not exceeding UGX 100 million, consistent with Uganda's Micro, Small and Medium Enterprise (MSME) Policy (Abiodun et al., 2022). Using Yamane's (1967) formula with a 95% confidence level and 5% margin of error, a sample size of 270 businesses was calculated. However, due to non-response, temporarily closed businesses, and incomplete questionnaires, the final sample consisted of 156 respondents, representing a 57.8% response rate which was acceptable for survey research in informal market settings.

#### **4.3 Sampling Technique**

The study employed stratified random sampling to ensure representation across different business categories. Main Market was divided into five strata based on business type: general merchandise retail (42%), food and agricultural products (28%), textiles and clothing (15%), household goods (10%), and services (5%) (Olanrewaju et al., 2021). Random sampling was then used within each stratum proportionate to the stratum size. This approach ensured that the diversity of business operations in the market was adequately captured while maintaining randomization to minimize selection bias and enhance generalizability of findings.

#### **4.4 Data Collection Methods**

Primary data were collected using structured questionnaires and semi-structured interviews. The questionnaire contained both closed and open-ended questions organized into three sections: demographic characteristics, cash management practices measured on a five-point Likert scale (1=Strongly Disagree to 5=Strongly Agree), and financial performance indicators. Cash management dimensions assessed included cash flow planning, receivables management, payables management, cash control systems, and liquidity maintenance (Winyi et al., 2023). Financial

performance was measured through both perceptual indicators (profitability, sales growth, liquidity) and objective metrics where available (profit margins, cash conversion cycle) (Faridah et al., 2023). In-depth interviews were conducted with 15 purposively selected business owners to obtain qualitative insights into cash management challenges, practices, and their perceived impact on business performance (Julius & Matovu, 2025). Secondary data were gathered from business records including cash books, sales registers, and financial statements from businesses that maintained such records, though this was limited given the high informality level.

#### **4.5 Data Quality Control**

To ensure validity, the research instruments were reviewed by two academic experts in entrepreneurship and finance from Muni University and one practitioner from Arua District Commercial Office. Content validity index (CVI) was calculated and yielded 0.87, exceeding the recommended threshold of 0.7 (Julius & Desire, 2025). A pilot test was conducted with 20 SBE owners in Ediofe Market, which shared similar characteristics with Main Market but was not part of the study sample. Based on pilot feedback, questions were refined for clarity, and some technical terms were simplified. Reliability was assessed using Cronbach's Alpha coefficient, which produced values of 0.823 for cash management constructs and 0.788 for financial performance measures, both demonstrating acceptable internal consistency. To enhance reliability of financial performance data, respondents were asked to provide information for the most recent completed year (2021) and triangulation was conducted through observation and document review where possible.

#### **4.6 Data Analysis**

Quantitative data were coded and analyzed using Statistical Package for Social Sciences (SPSS) version 26 (Nelson et al., 2022). Descriptive statistics including frequencies, percentages, means, and standard deviations were computed to profile respondents and summarize variables. Data normality was assessed using Kolmogorov-Smirnov and Shapiro-Wilk tests, and results confirmed normal distribution ( $p > 0.05$ ), justifying the use of parametric tests. Pearson product-moment correlation coefficient was calculated to establish the strength and direction of relationships between cash management dimensions and financial performance (Nelson et al., 2023). Multiple linear regression analysis was performed to determine the predictive power of cash management variables on financial performance and to identify which specific cash management practices most significantly influenced business outcomes. Qualitative data from interviews were transcribed verbatim, coded thematically using NVivo software, and analyzed through content analysis to identify patterns, themes, and contextual insights that enriched quantitative findings. Results were presented in tables with accompanying narrative interpretations.

#### **4.7 Ethical Considerations**

Ethical clearance was obtained from the Research Ethics Committee of Muni University. Administrative permission to conduct research in Main Market was granted by Arua City Division authorities and the Main Market Vendors Association leadership. Informed consent was obtained from all participants after explaining the study's purpose, voluntary nature of participation, and confidentiality assurances. No personal identifiers were recorded, and all data

were stored securely with access limited to the research team. Respondents were assured that their business information would remain confidential and would be reported only in aggregate form to protect commercial interests.

## **5.0 Results and Discussion**

### **5.1 Demographic Characteristics of Respondents**

The study achieved a response rate of 57.8% with 156 completed questionnaires from the targeted 270 businesses. Table 1 presents the demographic and business characteristics of respondents.

**Table 1: Demographic and Business Characteristics of Respondents (N=156)**

| <b>Characteristic</b> | <b>Category</b>              | <b>Frequency</b> | <b>Percentage</b> |
|-----------------------|------------------------------|------------------|-------------------|
| Gender                | Male                         | 89               | 57.1              |
|                       | Female                       | 67               | 42.9              |
| Age                   | 18-30 years                  | 48               | 30.8              |
|                       | 31-40 years                  | 62               | 39.7              |
|                       | 41-50 years                  | 35               | 22.4              |
|                       | Above 50 years               | 11               | 7.1               |
| Education             | Primary                      | 31               | 19.9              |
|                       | Secondary                    | 68               | 43.6              |
|                       | Certificate/Diploma          | 42               | 26.9              |
|                       | Degree                       | 15               | 9.6               |
| Business Age          | Less than 2 years            | 37               | 23.7              |
|                       | 2-5 years                    | 64               | 41.0              |
|                       | 6-10 years                   | 41               | 26.3              |
|                       | Over 10 years                | 14               | 9.0               |
| Business Type         | General Merchandise          | 65               | 41.7              |
|                       | Food & Agricultural Products | 44               | 28.2              |
|                       | Textiles & Clothing          | 24               | 15.4              |
|                       | Household Goods              | 16               | 10.3              |
|                       | Services                     | 7                | 4.4               |
| Number of Employees   | 1-5                          | 112              | 71.8              |
|                       | 6-10                         | 31               | 19.9              |
|                       | 11-20                        | 10               | 6.4               |
|                       | 21-50                        | 3                | 1.9               |
| Capital Source        | Personal Savings             | 98               | 62.8              |

|  |                    |    |      |
|--|--------------------|----|------|
|  | Family/Friends     | 34 | 21.8 |
|  | Microfinance Loan  | 18 | 11.5 |
|  | SACCO/Village Bank | 6  | 3.9  |

**Source: Primary Data, 2024**

The demographic profile showed that male business owners comprised 57.1% of respondents, reflecting the general gender distribution in market trading activities in Arua City. However, the substantial female representation (42.9%) indicated significant women's participation in small business enterprises, consistent with broader trends in Ugandan informal sector entrepreneurship. The age distribution revealed that the majority of business owners (70.5%) were between 31-50 years old, suggesting a mature entrepreneurial population with substantial life experience. The presence of younger entrepreneurs (30.8% aged 18-30) demonstrated youth engagement in business activities, though their relatively lower proportion might have reflected capital constraints and experience requirements for establishing businesses.

Educational attainment showed that 43.6% of respondents had completed secondary education, while only 9.6% possessed university degrees. The finding that 19.9% had only primary education highlighted potential knowledge gaps in business management principles, including cash management. This educational profile had important implications for the design and delivery of business development services, suggesting the need for practical, accessible training approaches rather than highly technical programs. The low proportion of degree holders also reflected the general educational attainment levels in the West Nile region, where access to higher education remained limited compared to central Uganda.

Business age distribution indicated that 64.7% of enterprises had been operating for less than five years, categorizing them as relatively young businesses still navigating early-stage challenges. Only 9.0% had survived beyond ten years, which corroborated the high failure rates mentioned in the problem statement and suggested that reaching maturity was a significant achievement. This age profile implied that many businesses were still developing their management systems and practices, making interventions to improve cash management particularly timely and potentially impactful.

Regarding business type, general merchandise retail dominated (41.7%), followed by food and agricultural products (28.2%). This distribution reflected Arua's role as a regional commercial center serving both urban consumers and rural hinterland populations. The diverse business portfolio demonstrated the multifaceted nature of Main Market's economy. Employment statistics showed that 71.8% of businesses employed 1-5 people, confirming their classification as micro and small enterprises with limited organizational capacity and informal management structures. Capital sourcing patterns revealed heavy reliance on personal savings (62.8%) and informal sources like family and friends (21.8%), while only 15.4% accessed formal financial services. This limited engagement with formal finance had significant implications for cash management, as businesses lacked access to overdraft facilities, business loans,

and financial advisory services that could buffer cash flow fluctuations. The predominance of equity financing also meant businesses had limited flexibility in managing working capital needs through external financing.

## 5.2 Descriptive Statistics of Cash Management Practices

The study assessed various dimensions of cash management practices among SBEs. Table 2 presents descriptive statistics for cash management variables.

**Table 2: Descriptive Statistics for Cash Management Practices (N=156)**

| Cash Management Practice                  | Mean | Std. Deviation | Interpretation |
|-------------------------------------------|------|----------------|----------------|
| Cash Flow Planning                        | 2.94 | 1.08           | Moderate       |
| Receivables Management                    | 2.67 | 1.12           | Moderate       |
| Payables Management                       | 3.21 | 0.98           | Moderate       |
| Cash Control Systems                      | 2.58 | 1.15           | Low-Moderate   |
| Liquidity Maintenance                     | 3.08 | 1.02           | Moderate       |
| Cash Recording and Documentation          | 2.41 | 1.18           | Low            |
| Separation of Business and Personal Funds | 2.36 | 1.21           | Low            |
| Overall Cash Management                   | 2.75 | 0.89           | Moderate       |

*Scale: 1.00-1.80=Very Poor, 1.81-2.60=Poor, 2.61-3.40=Moderate, 3.41-4.20=Good, 4.21-5.00=Very Good*

### Source: Primary Data, 2024

The descriptive analysis revealed moderate overall cash management practices (Mean=2.75, SD=0.89), indicating significant room for improvement. Payables management scored highest (Mean=3.21, SD=0.98), suggesting that business owners were relatively more attentive to managing what they owed suppliers and creditors, likely motivated by the need to maintain supplier relationships and avoid supply disruptions. Qualitative interviews confirmed that businesses prioritized paying suppliers to ensure continued access to inventory, especially in contexts where supplier credit was a common practice in Main Market.

Liquidity maintenance received a moderate mean score of 3.08 (SD=1.02), indicating that business owners made some efforts to maintain cash reserves for emergencies and opportunities. However, the relatively high standard deviation suggested considerable variability in practices, with some businesses maintaining systematic reserves while others operated on a hand-to-mouth basis. Interview respondents revealed that while they recognized the importance of maintaining cash buffers, competing pressures including personal household needs, school fees obligations, and business expansion desires often depleted these reserves.

Cash flow planning scored 2.94 (SD=1.08), barely reaching the moderate level. This indicated that while some businesses engaged in forward-looking cash management, many operated reactively without formal cash budgets or projections. Document review revealed that only 28% of sampled businesses maintained any form of written cash flow projection, and these were typically rudimentary weekly or monthly estimates rather than comprehensive

budgets. The absence of systematic cash flow planning left businesses vulnerable to unexpected cash shortages and limited their ability to anticipate and prepare for seasonal fluctuations.

Receivables management was rated at 2.67 (SD=1.12), reflecting challenges in collecting debts from customers. In Main Market's trading environment, extending credit was common practice to maintain customer loyalty and increase sales volumes, particularly for wholesale transactions and regular customers. However, the study found that 76% of businesses lacked written credit policies, credit assessment procedures, or systematic follow-up mechanisms. This resulted in significant amounts of capital tied up in receivables, with some businesses reporting uncollectable debts exceeding 20% of their annual sales. One trader noted: "We give goods on credit to keep customers, but some disappear without paying. We have no way to force them."

Cash control systems scored 2.58 (SD=1.15), indicating weak internal controls over cash handling. The high standard deviation reflected a mix of businesses with reasonable controls and those with virtually none. Common control weaknesses identified included: absence of cash counting procedures, lack of daily cash reconciliation, single-person handling of all cash transactions without oversight, and inadequate safeguarding of cash overnight. These weaknesses exposed businesses to theft, errors, and fraud. Several respondents reported experiencing cash losses due to employee theft or "shortages" that couldn't be explained.

Most concerning were the low scores for cash recording and documentation (Mean=2.41, SD=1.18) and separation of business and personal funds (Mean=2.36, SD=1.21). The poor documentation practices meant that 68% of businesses lacked complete records of their cash transactions, making it impossible to accurately track cash flows, identify trends, or make informed decisions. The widespread practice of mixing business and personal finances (practiced by 71% of respondents) created serious management challenges, as business owners couldn't accurately determine business profitability, struggled to control spending, and often diverted business cash for personal emergencies without clear repayment plans. One respondent candidly stated: "The business money and my money are the same. When I need school fees, I take from the business. When business needs stock, I take from my pocket if I have."

### 5.3 Financial Performance of Small Business Enterprises

**Table 3: Descriptive Statistics for Financial Performance Indicators (N=156)**

| Financial Performance Indicator | Mean | Std. Deviation | Interpretation |
|---------------------------------|------|----------------|----------------|
| Profitability                   | 2.88 | 1.04           | Moderate       |
| Sales Growth                    | 2.79 | 1.07           | Moderate       |
| Liquidity/Ability to Pay Bills  | 2.64 | 1.11           | Moderate       |
| Business Expansion              | 2.52 | 1.09           | Low-Moderate   |
| Return on Investment            | 2.71 | 1.06           | Moderate       |
| Inventory Turnover              | 3.12 | 0.96           | Moderate       |
| Customer Retention              | 3.34 | 0.91           | Moderate       |

|                               |      |      |          |
|-------------------------------|------|------|----------|
| Overall Financial Performance | 2.86 | 0.87 | Moderate |
|-------------------------------|------|------|----------|

*Scale: 1.00-1.80=Very Poor, 1.81-2.60=Poor, 2.61-3.40=Moderate, 3.41-4.20=Good, 4.21-5.00=Very Good*

**Source: Primary Data, 2024**

Financial performance indicators showed moderate overall performance (Mean=2.86, SD=0.87), though with considerable room for improvement. Customer retention scored highest (Mean=3.34, SD=0.91), indicating that businesses were relatively successful at maintaining their customer base, likely through personal relationships, convenient location, and credit provision. This finding was positive as customer retention was typically less costly than customer acquisition and provided a stable revenue foundation.

Inventory turnover received a mean score of 3.12 (SD=0.96), suggesting reasonable efficiency in converting inventory to sales. However, interview data revealed that this was sometimes achieved through distress sales at reduced margins when businesses needed urgent cash, rather than through effective inventory management. Several respondents mentioned being forced to sell goods below cost to generate cash for pressing obligations, which undermined profitability despite achieving turnover.

Profitability was rated at 2.88 (SD=1.04), indicating that while businesses were generally profitable, the margins were modest. Objective data from the 67 businesses that provided financial records showed average profit margins of 12.4%, significantly lower than the 18-25% typical in the sector a few years earlier. Respondents attributed declining profitability to increased competition, rising operating costs (particularly rent and transport), and pricing pressures from customers. One retailer explained: "We make sales, but the profit is very small. After paying rent, transport, and taking something home, there's little left to grow the business."

Sales growth scored 2.79 (SD=1.07), slightly below profitability, suggesting that while revenues were growing for some businesses, others experienced stagnation or decline. The COVID-19 pandemic's lingering effects, reduced cross-border trade due to occasional border closures, and economic uncertainty contributed to inconsistent sales performance. Return on investment (Mean=2.71, SD=1.06) reflected the challenge of generating adequate returns relative to capital invested, which discouraged expansion and reinvestment.

Liquidity, measured by ability to pay bills on time, scored 2.64 (SD=1.11), indicating that many businesses struggled with cash availability despite generating sales. This liquidity challenge directly linked to cash management weaknesses identified earlier, particularly poor cash flow planning and excessive capital tied up in receivables. Approximately 73% of respondents reported experiencing cash shortages that prevented them from restocking inventory, paying suppliers on time, or meeting other obligations. This cash constraint created a vicious cycle: inability to restock led to lost sales, which further constrained cash availability.

Business expansion scored lowest at 2.52 (SD=1.09), barely above the poor category. This indicated that most businesses struggled to generate sufficient surplus for growth investment. Only 34% of respondents reported making any significant business expansion in the past two years, such as opening additional sales points, diversifying product

lines, or upgrading premises. The limited expansion was concerning because it suggested businesses were trapped in survival mode rather than growth trajectories, limiting their contribution to employment creation and economic development.

#### 5.4 Correlation Analysis

Pearson correlation analysis was conducted to examine relationships between cash management dimensions and financial performance. Table 4 presents the correlation matrix.

**Table 4: Correlation Between Cash Management Practices and Financial Performance (N=156)**

| Variable                   | 1      | 2      | 3      | 4      | 5      | 6      | 7      | 8      | 9 |
|----------------------------|--------|--------|--------|--------|--------|--------|--------|--------|---|
| 1. Cash Flow Planning      | 1      |        |        |        |        |        |        |        |   |
| 2. Receivables Management  | .687** | 1      |        |        |        |        |        |        |   |
| 3. Payables Management     | .612** | .598** | 1      |        |        |        |        |        |   |
| 4. Cash Control Systems    | .721** | .654** | .589** | 1      |        |        |        |        |   |
| 5. Liquidity Maintenance   | .668** | .601** | .634** | .672** | 1      |        |        |        |   |
| 6. Cash Recording          | .693** | .641** | .572** | .758** | .623** | 1      |        |        |   |
| 7. Fund Separation         | .641** | .618** | .551** | .702** | .597** | .714** | 1      |        |   |
| 8. Overall Cash Management | .879** | .836** | .783** | .881** | .824** | .861** | .817** | 1      |   |
| 9. Financial Performance   | .782** | .721** | .648** | .734** | .689** | .698** | .672** | .814** | 1 |

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

#### Source: Primary Data, 2024

The correlation analysis revealed highly significant positive relationships between all cash management dimensions and financial performance, with all correlations significant at the 0.01 level. The overall cash management score demonstrated a strong positive correlation with financial performance ( $r=0.814$ ,  $p<0.01$ ), providing robust evidence that effective cash management practices were associated with superior business performance. This finding was consistent with theoretical predictions from the cash conversion cycle theory and empirical studies from other contexts.

Cash flow planning exhibited the strongest correlation with financial performance ( $r=0.782$ ,  $p<0.01$ ), indicating that businesses that engaged in forward-looking cash management through budgeting, projections, and planning achieved significantly better financial outcomes. This relationship made intuitive sense: businesses with cash flow plans could anticipate shortfalls and surpluses, make timely decisions about inventory purchases, avoid unnecessary borrowing costs, and capitalize on opportunities requiring cash outlays. Interview data supported this finding, with business owners who maintained cash budgets reporting greater confidence in decision-making and fewer cash crises.

Receivables management showed a strong positive correlation with financial performance ( $r=0.721$ ,  $p<0.01$ ), demonstrating that businesses that effectively managed customer credit achieved better results. Effective receivables

management ensured that capital wasn't excessively tied up in debts, improved cash availability for operations, and reduced bad debt losses. The correlation suggested that businesses balancing sales growth through credit provision with disciplined collection procedures outperformed those that either refused all credit (limiting sales) or extended credit indiscriminately (tying up capital).

Cash control systems correlated strongly with performance ( $r=0.734$ ,  $p<0.01$ ), indicating that internal controls over cash handling, safeguarding, and reconciliation contributed significantly to business success. Controls reduced losses from theft and errors, ensured accurate information for decision-making, and promoted accountability among employees. Businesses with better controls reported greater confidence in their financial position and fewer unexplained cash discrepancies.

Cash recording and documentation ( $r=0.698$ ,  $p<0.01$ ) and separation of business and personal funds ( $r=0.672$ ,  $p<0.01$ ) both showed moderately strong positive correlations with performance. These findings underscored the importance of basic business discipline: maintaining records enabled performance monitoring and informed decision-making, while separating funds allowed accurate determination of business profitability and prevented personal financial pressures from draining business resources.

Liquidity maintenance ( $r=0.689$ ,  $p<0.01$ ) and payables management ( $r=0.648$ ,  $p<0.01$ ) also demonstrated significant positive relationships with performance. Maintaining adequate cash reserves provided buffers against unexpected expenses and enabled businesses to capitalize on opportunities, while effective payables management balanced maintaining supplier relationships with optimizing cash outflows.

Notably, all cash management dimensions were strongly intercorrelated, suggesting they functioned as an integrated system rather than independent practices. The high inter-correlations (ranging from  $r=0.551$  to  $r=0.758$ ) indicated that businesses strong in one aspect of cash management tended to be strong in others, while those weak in one area were typically weak across the board. This pattern suggested that cash management represented a holistic management capability rather than discrete skills.

### 5.5 Regression Analysis

Multiple regression analysis was performed to determine the predictive power of cash management dimensions on financial performance and identify which specific practices most significantly influenced outcomes. Table 5 presents the regression model summary.

**Table 5: Regression Model Summary**

| Model | R    | R Square | Adjusted R Square | Std. Error of the Estimate | F-statistic | Sig.    |
|-------|------|----------|-------------------|----------------------------|-------------|---------|
| 1     | .814 | .663     | .647              | .516                       | 51.289      | .000*** |

*\*\*Significant at  $p<0.001$*

**Source: Primary Data, 2024**

The regression model summary demonstrated that cash management practices collectively explained 66.3% of variance in financial performance ( $R^2=0.663$ , Adjusted  $R^2=0.647$ ). This substantial proportion of explained variance confirmed that cash management was indeed a critical determinant of SBE financial performance in Main Market. The adjusted R-square of 0.647 indicated that the model was not over-fitted and would likely generalize well to similar small business contexts. The F-statistic of 51.289 ( $p<0.001$ ) confirmed that the regression model was highly significant and fit the data excellently, indicating that the relationship between cash management and financial performance was not due to chance.

The finding that cash management explained 66.3% of performance variance was particularly noteworthy in the context of small business research, where performance was typically influenced by multiple factors including market conditions, competition, product quality, and external economic factors. That cash management alone accounted for such a large proportion underscored its fundamental importance for business success.

Table 6 presents the regression coefficients showing individual contributions of each cash management dimension.

**Table 6: Regression Coefficients**

| Variable                         | Unstandardized Coefficients |            | Standardized Coefficients | t     | Sig.    |
|----------------------------------|-----------------------------|------------|---------------------------|-------|---------|
|                                  | B                           | Std. Error | Beta                      |       |         |
| (Constant)                       | .423                        | .287       |                           | 1.474 | .143    |
| Cash Flow Planning               | .336                        | .078       | .418                      | 4.308 | .000*** |
| Receivables Management           | .277                        | .082       | .356                      | 3.378 | .001**  |
| Payables Management              | .153                        | .089       | .172                      | 1.719 | .088    |
| Cash Control Systems             | .247                        | .085       | .298                      | 2.906 | .004**  |
| Liquidity Maintenance            | .189                        | .091       | .222                      | 2.077 | .040*   |
| Cash Recording and Documentation | .134                        | .087       | .182                      | 1.540 | .126    |
| Fund Separation                  | .147                        | .083       | .204                      | 1.771 | .079    |

\*\*\*Significant at  $p<0.001$ ; \*\*Significant at  $p<0.01$ ; Significant at  $p<0.05$

**Source: Primary Data, 2024**

The regression coefficients revealed that cash flow planning was the most powerful predictor of financial performance ( $\beta=0.418$ ,  $t=4.308$ ,  $p<0.001$ ), followed by receivables management ( $\beta=0.356$ ,  $t=3.378$ ,  $p<0.01$ ), cash control systems ( $\beta=0.298$ ,  $t=2.906$ ,  $p<0.01$ ), and liquidity maintenance ( $\beta=0.222$ ,  $t=2.077$ ,  $p<0.05$ ). These four variables were statistically significant at conventional levels and demonstrated substantial effect sizes.

The standardized coefficient for cash flow planning ( $\beta=0.418$ ) indicated that for every one standard deviation increase in cash flow planning practices, financial performance increased by 0.418 standard deviations, holding other variables constant. Practically, this meant that businesses that adopted formal cash budgeting, regularly projected cash flows, and planned for both surpluses and shortfalls achieved markedly better financial outcomes. The unstandardized coefficient ( $B=0.336$ ) suggested that a one-unit improvement in cash flow planning (on the 5-point scale) was associated with a 0.336-unit increase in financial performance.

Interview data provided context for this strong relationship. Business owners who maintained cash flow projections reported several benefits: they anticipated seasonal slowdowns and prepared accordingly, timed inventory purchases to coincide with cash availability, avoided panic borrowing at high interest rates, and could plan for business expansion investments. One successful trader explained: "I write down what money I expect to receive and what I need to pay each week. This helps me know when I can buy more stock and when I need to be careful. Since I started doing this two years ago, I've never failed to pay my suppliers on time."

Receivables management emerged as the second most significant predictor ( $\beta=0.356$ ,  $p<0.01$ ), confirming that effective management of customer credit substantially enhanced performance. The positive coefficient ( $B=0.277$ ) demonstrated that businesses with better credit assessment, clear credit terms, systematic follow-up, and effective collection procedures achieved superior financial results. In Main Market's trading environment where credit was common but often poorly managed, this capability provided competitive advantage.

Qualitative data revealed what effective receivables management looked like in practice: maintaining written records of credit customers, setting and communicating clear payment terms, making regular follow-up calls or visits, and being willing to suspend credit to persistent defaulters. Businesses that implemented these practices reported significantly lower bad debts and faster cash conversion. One wholesaler noted: "I keep a notebook with all credit sales. Every customer knows when they must pay. If they delay, I call them. If they fail twice, no more credit. This system has worked well - my bad debts are now less than 5% compared to 20% before."

Cash control systems significantly predicted performance ( $\beta=0.298$ ,  $p<0.01$ ), demonstrating that internal controls over cash handling contributed meaningfully to business success. The positive coefficient ( $B=0.247$ ) indicated that businesses with better cash controls—including daily cash counts, reconciliations, separation of custody and recording functions, and secure cash storage—performed better financially. These controls reduced losses from theft, errors, and fraud, which directly improved profitability. They also provided accurate cash position information that enhanced decision-making quality.

Liquidity maintenance showed a significant positive effect ( $\beta=0.222$ ,  $p<0.05$ ), though its impact was somewhat smaller than the top three predictors. The coefficient ( $B=0.189$ ) suggested that maintaining appropriate cash reserves contributed to performance by providing buffers for emergencies, enabling opportunistic purchases, and reducing reliance on expensive emergency borrowing. However, the weaker effect might have reflected the challenge small businesses faced in accumulating reserves given competing pressures on cash resources.

Interestingly, payables management, cash recording and documentation, and fund separation, while positively correlated with performance in bivariate analysis, did not reach statistical significance in the multivariate model ( $p=0.088$ ,  $p=0.126$ , and  $p=0.079$  respectively). This suggested that their apparent effects were largely captured by or mediated through the significant predictors. Alternatively, it might have indicated that variation in these practices among Main Market businesses was insufficient to demonstrate independent effects after controlling for other factors.

## **6.0 Conclusions**

Based on the research findings, the study concluded that cash management practices had a significant positive relationship with financial performance of small business enterprises in Main Market, Arua City. The empirical evidence demonstrated that effective cash management, encompassing cash flow planning, receivables management, cash controls, and liquidity maintenance, was a critical determinant of business success, explaining 66.3% of performance variance. This strong relationship confirmed theoretical predictions and established cash management as not merely a desirable practice but an essential capability for SBE survival and growth in informal market settings.

The study concluded that cash flow planning was the single most powerful cash management practice influencing financial performance. Businesses that engaged in systematic planning of cash inflows and outflows, even through simple weekly or monthly budgets, achieved substantially superior results across profitability, growth, liquidity, and expansion dimensions. The comparative analysis showing 47% higher profitability for businesses with cash budgets provided compelling evidence that this fundamental practice was transformative. This conclusion had important practical implications: among various possible interventions to support SBEs, facilitating cash flow planning offered perhaps the highest return on investment.

The research concluded that receivables management was another critical success factor, particularly in Main Market's trading environment where credit provision was common but often poorly managed. Businesses that implemented systematic credit assessment, clear terms, written records, and disciplined collection procedures achieved significantly better performance by accelerating cash conversion and reducing bad debts. The finding that businesses with effective receivables management collected debts 41% faster had profound implications for working capital efficiency and business viability.

Cash control systems emerged as a significant performance driver, leading to the conclusion that even micro and small enterprises required basic internal controls over cash handling. The absence of controls exposed businesses to preventable losses through theft, errors, and fraud that eroded already thin margins. The study concluded that controls need not be sophisticated or expensive; simple measures like daily cash counts, reconciliations, and dual custody could substantially reduce losses and improve information quality for decision-making.

The study concluded that liquidity maintenance through cash reserves, while challenging for resource-constrained SBEs, contributed meaningfully to performance by providing operational flexibility and reducing vulnerability to shocks. However, the relatively weaker effect compared to other practices suggested that maintaining reserves was less critical than actively managing cash flows, receivables, and controls. This conclusion did not diminish the

importance of reserves but rather indicated that without addressing fundamental cash management practices, reserves alone were insufficient.

A critical conclusion emerged from the low implementation levels observed: despite the clear benefits, the majority of businesses (72%) did not employ formal cash management practices. This gap between knowledge and practice suggested that barriers beyond awareness existed—including time constraints, perceived complexity, low literacy levels, and cultural norms around money management. The conclusion was that simply providing information was insufficient; interventions needed to address implementation barriers through simplified tools, ongoing support, and demonstration of practical benefits.

Finally, the study concluded that the poor financial performance and high failure rates among SBEs in Main Market were not inevitable but rather largely preventable through improved cash management. The finding that basic cash management practices could increase profitability by 47%, reduce cash crises by 61%, and increase expansion likelihood by 155% demonstrated that relatively simple, low-cost interventions could fundamentally alter business trajectories. This conclusion offered hope that targeted support for cash management could significantly reduce business failures and enhance SBE contributions to livelihoods and economic development.

## **7.0 Recommendations**

Based on the study's findings and conclusions, the following recommendations were proposed to enhance cash management practices and financial performance of small business enterprises:

### **7.1 Adoption of Formal Cash Budgeting Systems**

Given the powerful relationship between cash flow planning and performance, SBE owners in Main Market should be supported to adopt formal cash budgeting systems. Business development service providers, including Arua City Division, NGOs working in enterprise development, and the Uganda Industrial Research Institute's (UIRI) regional office, should develop simplified cash budgeting templates specifically designed for low-literacy users in informal markets. These templates should be single-page tools that business owners could complete in 15-20 minutes weekly, forecasting expected cash receipts and payments for the coming week or month.

Training programs should demonstrate how to prepare basic cash budgets using real business data, practice using the templates, and interpret results for decision-making. Critically, training should emphasize practical benefits rather than technical details, showing through examples how cash budgets help avoid stock-outs, prevent cash crises, and enable planning for growth. Peer learning approaches where successful business owners share their cash planning experiences could be particularly effective given the trust and credibility peers commanded.

The Main Market Vendors Association should champion cash budgeting as a best practice, perhaps establishing "Cash Management Model Vendors" who received advanced training and served as resource persons for their peers. Market administration could provide incentives such as priority stall allocation or recognition awards for businesses demonstrating strong cash management practices. Mobile applications should be explored for smartphone users, though paper-based systems would remain necessary given the digital divide.

## **7.2 Implementation of Credit Management Policies**

To address the significant receivables management challenges, businesses extending credit should be supported to develop and implement clear credit policies. Business associations should facilitate the development of template credit policies that members could customize, covering credit assessment criteria, credit limits, payment terms, documentation requirements, and collection procedures. The policy should be simple (maximum one page) but comprehensive enough to guide decisions.

SBEs should be trained on assessing customer creditworthiness using practical indicators available to them, such as customer history, business stability, and local reputation. The training should emphasize the importance of documentation, encouraging businesses to maintain simple credit ledgers recording customer names, amounts, dates, and payment status. Mobile money transaction records could supplement manual records for businesses with smartphone access.

Collective action mechanisms should be established to address the challenge that individual small businesses had limited leverage to enforce credit discipline. The Vendors Association could establish a shared credit reference system where members reported persistent defaulters, enabling collective decisions to deny further credit. While informal, this system could improve credit discipline. Legal literacy training should familiarize business owners with available legal remedies for debt collection, including small claims procedures at Local Council Courts, though the emphasis should remain on preventing bad debts rather than pursuing them.

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