

**EFFECTS OF CASH MANAGEMENT ON FINANCIAL
PERFORMANCE OF PRIVATE SECONDARY SCHOOLS IN
MUGADISHU-SOMALIA.**

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ABSTRACT: *This study tried to investigate how private schools can properly manage their cash in an “optimal way”. it was reported that among the problems that affect private schools in Mogadishu leading to their failure were negative cash management and poor record keeping at International Education. This leaves the gap that is poor cash collection fees from the students and payment to pay teachers, operating expenses and miscalculate the actual time to collect student’s overdue accounts receivables, in which the researcher caused to in investigate about the impact of cash management on profitability of Private schools with a case study of secondary schools. The general objective of the study is to investigate the effects of cash management on profitability of private schools in Mogadishu, Somalia. Researcher was used descriptive and statistical analysis with the help of the SPSS computer package to analyze the data. The researcher recommends that the Private schools should adopt cash management strategy to increase their control to collections fees as it was founded that cash collection positively affects the financial performance of Private Schools to improve their competitiveness and financial performance. The findings indicated that cash management has high effect on financial performance of Private secondary schools in Mogadishu, Somalia. The results revealed that all variables were significant in explaining Financial Performance of Private secondary schools in Mogadishu, Somalia*

Keywords: cash management, cash budgeting, cash planning and financial performance.

INTRODUCTION

Background of the study

Cash management is an essential tool which aims at establishing the financial position of the organization.(Pandey 2005) notes that it is a set of guidelines established by management to ensure that the organization has optimal cash balance at any time to meet the organization goals, cash recovered should be matched with cash spent on services so that there is no unused cash balances. Cash management had a growing importance in the past years and number of factors has brought serious attention to the importance of cash management. Swing in interest rates on both borrowed and invested funds to get business away from basics and into a go-go mind set with the temptation to make big money through stock issues; to the economic malaise of the 1970s when businesses had to scratch harder to make money.

In Africa, It has been 15 years since the original Cash Management Handbook was written, and much has changed since then. Cash management is now a household term with frequent articles in the media about its growth, innovation, and changes of technology that can be used cash management such as email money transfer (EMT).According to (Pandey 2004) cash planning is a technique used to plan and control the use of cash. It involves preparation of forecasts of cash receipts and payments so as to give out an idea of the future financial requirements. According to Brigham and Houston (1999) cash budget refers to a table showing cash flows (receipts, disbursements, and cash balances) for a firm over a specified period of time. This information helps the financial manager to determine the future cash needs of the

firm, plan for the financing of these needs and exercise control over cash and liquidity of the organization (Kakuru2003).

Cash management is essential for every business as it would contribute towards increasing profitability, future planning and sustainability (Patel, 2010). Cash Management Essentials is a suite of cash management solutions that can help you gain better control over your daily financial activities. Puxty and Dodds (2013). Cash management is concerned with the management of cash flow that is to say inflow and outflow of cash, this seeks to archive control of cash by paying obligations like meeting organizational needs (Kakuru 2001).

Statement of the problem.

Cash management techniques are adopted by organizations in order to ensure effective investment of cash and to achieve profitability both in the short run and long run (Dodds 2009) but despite the adoption of these cash management techniques, still most present organizations run bankrupt to the extent that some are even closed due to poor cash management. Efficient cash management means more than just preventing bankruptcy but improves the profitability and reduces the risk the school is exposed to, (Maness and John, 2002). Somalia Private schools are the educational institutions owned and operated entirely by private and not governmental authority; fees are charged to students attending them by collecting cash on hand not depositing quickly to bank accounts and that is a problem for the enhancement and Financial Performance of private schools, most of Somalia private schools do not have bank accounts to deposit the huge cash received from students. These private schools are not practicing cash management to eliminate surplus cash in safety box in the schools by depositing the

huge cash to the bank account immediately and that leads cash to be stolen and they are not performing well enough to be profitable due to the lack of proper cash management practice.

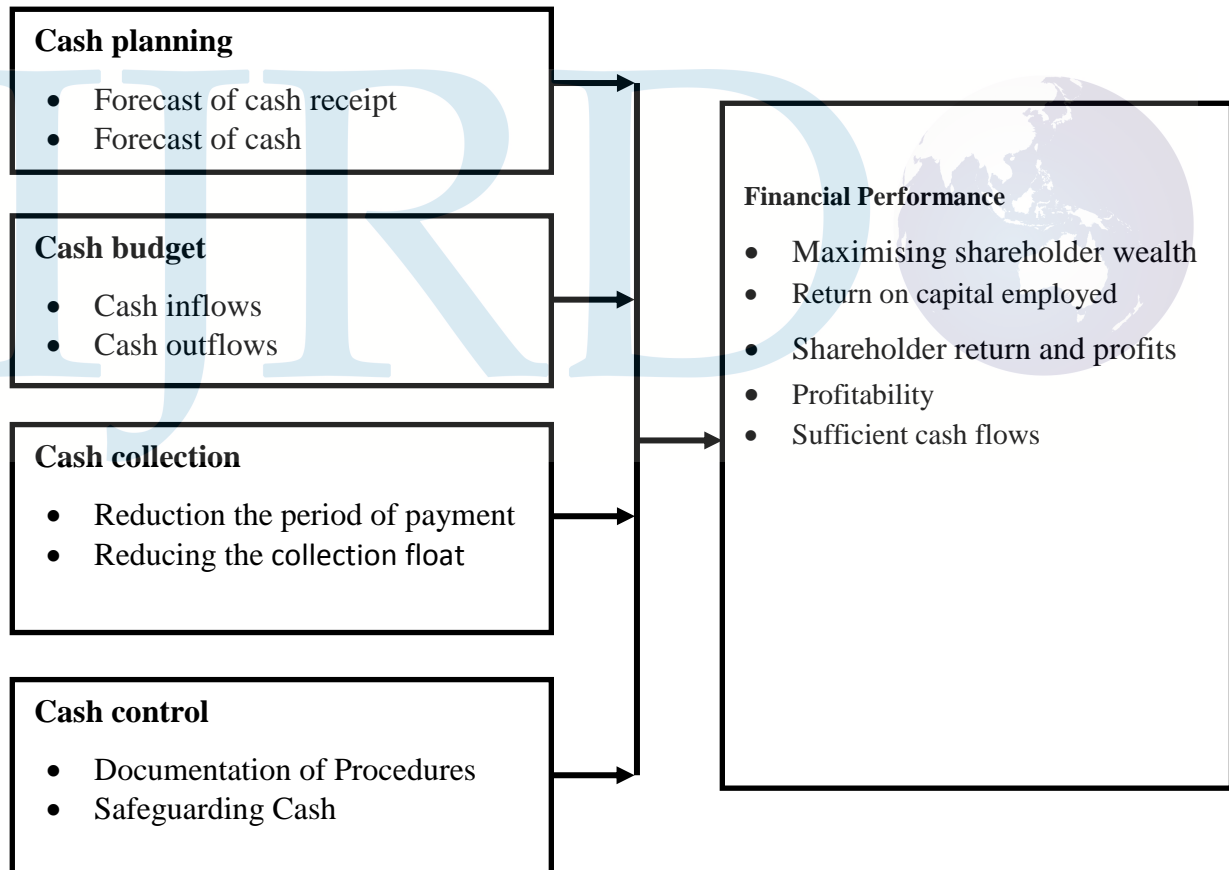
This study was tried to investigate how private schools can properly manage their cash in an “optimal way”. This optimal way is defined in this study as the most profitable way, so the most optimal way of managing cash flow in this study is leading to the highest profitable to the private schools. However, it was reported that among the problems that affect private schools in Mogadishu leading to their failure were negative cash management and poor record keeping at (Abdinoor, Abdullah 2008) International Education. This leaves the gap that is poor cash collection fees from the students and payment to pay teachers, operating expenses and miscalculate the actual time to collect student’s overdue accounts receivables, in which the researcher caused to in investigate about the impact of cash management on Financial Performance of Private schools with a case study of secondary schools.

Specific objectives of the Study.

1. To establish the effects of cash control on financial performance of private schools in Mogadishu, Somali.
2. To evaluate the effects of cash planning on financial performance of Secondary private schools in Mogadishu, Somali.
3. To determine the effects of cash budgeting on financial performance of private schools in Mogadishu, Somali.
4. To investigate the effects of cash collection on financial performance of private schools in Mogadishu, Somali.

Conceptual frame work

Conceptual frame work is a diagram of proposed causal linkage among a set of variables believed to be related to particular problem. The variables are in the boxes while the relationships are shown by arrows as shown below. Cash management is the practice of planning and controlling cash flows into and out of the business, cash flows within the business, and cash balances held by a business at a point in time (Pandey, 2004). The variables are in the boxes while the relationships are shown by arrows as shown below.



Independent variable

Dependent variable

Figure 2.1: Conceptual frame work

Cash planning

According to Pandey (2003) cash planning is a technique used to plan and control the use of cash. It involves preparation of forecasts of cash receipts and payments so as to give out an idea of the future financial requirements. Therefore the management of the school needs to determine the schedules of monthly disbursements and collection schedules of creditors. with efficient cash planning system, the financial needs of the school will be met, with reduced possibility of the cash balances which lowers the school's profitability and cash deficits which can lead to school's failure. He further notes that a cash budget is the most significant device used to plan for and control cash receipts and payments.

Cash budget

Cash budget is a tool used to manage the cash flow of a business. This is a budget that is focused on the cash coming into the business and the cash that leaves the business.

Moore, William and Longenecker (2010) believed that the cash budget is most important to a small business. A cash budget is a summary statement of the firm projected time period. This information helps the financial manager to determine the future cash needs of the firm, plan for the financing of these needs and exercise control over cash and liquidity of the organization (Kakuru2003). According to Brigham and Houston (2014) cash budget refers to a table showing cash flows (receipts, disbursements, and cash balances) for a firm over a specified period of time.

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Cash collection

Külter, and. Demirgüneş (2007), noted that cash collection systems aim to reduce the time it takes to collect the cash that is owed to a firm. Some of the sources of time delays are mail float, processing float, and bank float .These three "floats" are time delays that add up quickly, and they can force struggling or new firms to find other sources of cash to pay their bills (Lazaridis, 2006).

A school can conserve cash and reduce its requirements for cash balances if it can speed up its cash collections. A number of methods are designed to speed up the collection process and they include the following;

Reducing the period it takes for payment from clients to reach the account of the school. According to Kakuru (2001) the school could use a system of pre-authorized debts where an arrangement is made in advance that clients could automatically transfer funds from the client account to the school account at a specified future date.

Reducing the collection float; according to Pandey (2003),the collection float is the total time it takes a cheque to reach the business, from the time it is put in the mail by the client to when cash is actually available for use in the school.

Cash control

This is the overall attitude and actions of management regarding control system of cash in the entity. A strong control is one with tight budgetary control over cash received, cash banked, cash cheques, and effective control cash balances, cash brought down. According to Hamilton (2001) an oblivious aim of a school is to control and manage its cash affairs in such a way as to keep cash balance at a minimum level and invest surplus cash in investment opportunities.

Puxty and Dodds (2002), it is essential to keep some of the organization's resources in cash due to generally recognized motives for holding cash by business unit.

Therefore the availability of cash resource mitigates their effects and keeps the organization profits in balance (mantilla et al 1999). According to van Horne (2005), the purpose of managing cash balance is to avoid having idle cash reserves or having deficits that cannot be invested preferably in short term ventures like treasury bills and other forms of commercial paper.

Financial performance

Although "performance" may appear to be an easy concept, a unique definition in the literature does not exist. Moreover, academics often use special definitions tailored to fit the individual research purposes (Langfield-Smith, 1997). The financial performance is often measured using traditional accounting Key Performance Indicators such as Return On Assets, Operating Profit margin, Earnings Before Interest and Tax, Economic Value Added or Sales growth (Ittner&Larcker, 1997; Fraquelli&Vannoni, 2000; Crabtree &DeBusk, 2008). The advantage of these measurements is their general availability, since every profit oriented organization

produces these figures for the yearly financial reporting (Chenhall&LangfieldSmith, 2007).

Empirical Literature Review

A study by Kwame (2007) established that the setting up of a cash balance policy ensures prudent cash budgeting and investment of surplus cash. This finding agreed with the finding by Kotut (2003) who established that cash budgeting is useful in planning for shortage and surplus of cash and has an effect on the financial performance of the firms. The assertion by Ross et al.(2011) that reducing the time cash is tied up in the operating cycle improves a business profitability and market value furthers the significance of efficient cash management practices in Improving business performance. Dong and Tay Su (2010) also attempted to investigate the relationship existing between profitability, the cash conversion cycle and its components for listed firms in Vietnam stock market. Using a descriptive cross sectional design, their findings showed a strong negative relationship between profitability, measured through gross operating profit, and the cash conversion cycle and all of its components. The study revealed that company's performance and cash flow have a s earning based measures are more related to stock returns and depict the company performance better than cash flow measures in some companies with higher accruals. Thanh and Nguyen (2013), carried out a study on the effect of Banking Relationship on financial performance in Vietnam. Chikashi (2013), carried out an investigation of comprehensive income and firm performance. The study revealed that cash management and financial performance have a significant negative relationship. In addition, comprehensive incomes published by the firms were superior to other

earnings or cash flow variables in predicting their future stock returns..

Methodology

A descriptive survey focuses on the research design and is concerned with addressing the particular characteristics of a specific population of subjects, either at a fixed point in time or at varying times for comparative purposes. This is to ensure that any subsequent assessments of the attributes of that population are accurate and the findings are generalizable in other words, they have population validity (John & et al, 2002). The data collection and analysis plan provides the maximum amount of information that is relevant to a problem by using the available resources most efficiently. The desired result is to produce a layout of the design along with an explanation of its structure and the necessary statistical analyses. (Burns & Grove 2003) The formula which was used this study was Slog van's formula which states the sample size of employee in three commercial banks in Mogadishu. The main objective of using this sample was to obtain accurate and reliable information within minimum cost, time and energy.

$N= 105 \quad n=?$

$$N=? \frac{N}{1+N(\epsilon)^2} = \frac{105}{1+105(0.1)^2} = \frac{105}{2.05} = 51.23 \approx 51. \text{ So the sample was 51}$$

The sample technique of this study was simple random sampling; a random sample is a sub-set of units that are selected randomly from a population Research instruments can be helpful tools to your research study.

DATA PROCESSING AND ANALYSIS

The data, after collection, has to be processed and analyzed in accordance with the outline laid down for the purpose at the time of developing the research plan. This is

essential for a scientific study and for ensuring that we have all relevant data for making contemplated comparisons and analysis. In the process of data analysis the researcher was used descriptive and statistical analysis with the help of the SPSS computer package to analyze the data. The regression was computed to determine the extent that each variable of cash management influenced on the dependent variable Financial Performance. A series of multiple regression analysis (standard and step wise) was used because they provide estimates of net effects and explanatory power. Analysis of variance (ANOVA) was used to test the significance of the model

Table 4.1: Response Rate

Response	Total	Percent
Returned	50	98.
Unreturned	1	1.96
Total	51	100

From the data collected, out of the 51 questionnaires administered, 50 were filled and returned, which represent 98 % response rate. This response rate is considered satisfactory to make conclusions for the study. Mugenda and Mugenda (2003) observed that a 50% response rate is adequate, 60% is good, while 70% rated very good. This implies that based on this assertion, the response rate in this case of 98% is therefore very good. The recorded high response rate can be attributed to the data collection procedures for instance, the researcher pre-notified the potential participants for the survey, the researcher administered the questionnaire with the help of research

assistants through drop and pick method and follow up calls were also made to clarify queries as well as to prompt the respondents to fill the questionnaire.

Table 4.2: Reliability Statistics

Variables	Cronbach's Alpha	Comments
Cash planning	0.775	Accepted
Cash budgeting	0.718	Accepted
Cash Control	0.765	Accepted
Cash Collection	0.762	Accepted

Prior to exploring and describing the relationship between cash planning, budgeting, control and cash collection, and financial performance of private secondary schools in Mogadishu. The measures were examined and assessed to gauge reliability and validity.

Cronbach's alpha was used to determine the internal reliability of the questionnaire used in this study. Values range between 0 and 1.0; while 1.0 indicates perfect reliability Cronbach Alpha value is widely used to verify the reliability of the construct. The findings indicated that cash planning had a coefficient of 0.775, Cash budget had a coefficient of 0.718, Cash control of 0.765, Cash control of 0.762, and financial performance of 0.848. The results indicate that the questionnaire used in this study had a high level of reliability. These tables indicate that each of the items relates to the identified factor and that the coefficient alpha value of the identified factor was not increase if some of the items are left out. Basically, reliability coefficients of 0.765 and financial performance obtained a coefficient of 0.762. All constructs

depicted that the above the suggested value of 0.7 thus the study was reliable (Mugenda and Mugenda (2003).

Regression Analysis

Multiple regression analysis was performed to assess the effects between the dependent variable (Financial Performance) and the independent variables (Cash management) and to test the research hypotheses on the cash budget management determinants on financial performance multiple regression analysis was conducted in order to establish the best combination of independent (predictor) variables would be to predict the dependent (predicted) variable and to establish the best model of the study (Cooper & Schindler, 2013).

Table 4.12 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.987 ^a	.975	.973	.07405

Model summary is a summary that describes how far the independent variables explain the dependent variables that mean the greater R value has the greater number the greater independent variables explain with dependent variable. Adjusted R squared is coefficient of determination which tells us the variation in the dependent variables due to change in the independent variables. Tables 4.12 present the regression results. From the model summary in table 4.6.1, it is clear that the adjusted R² was 0.987 indicating that a combination of cash budget, cash planning, cash control and cash collection

explained 97.3% of the variation in the Financial Performance of Private schools in Mogadishu, Somalia.

Analysis of Variance

Table 4.13 ANOVA^b

Model 1	Sum of Squares	df	Mean Square	F	Sig.
Regression	9.883	4	2.471	450.523	.000 ^a
Residual	.252	46	.005		
Total	10.135	50			

Analysis of Variance (ANOVA), as the name implies, is a statistical technique that is intended to analyze variability in data in order to infer the inequality among population means. This may sound illogical, but there is more to this idea than just what the name implies. The ANOVA technique extends what an independent-samples t test can do to multiple means. The null hypothesis examined by the independent samples t test is that two population means are equal. If more than two means are compared, repeated use of the independent-samples t test was lead to a higher Type I error rate (the experiment-wise α level) than the α level set for each t test.

Table 4.14 Coefficient

Model 1	Unstandardized Coefficients		Standardized	T	Sig
	B	Std. Error	Coefficients		
(Constant)	.287	.107		5.48	.000
Cash planning	.492	.081	.133	20.7	.000
Cash budgeting	.039	.046	.021	.859	.002
Cash control	.010	.053	.008	.194	.003
Cash collection	.279	.090	.162	3.10	.003

Table 4.14 presents the regression results on how cash collection, cash budgeting, cash control, cash planning determine financial Performance of Private schools in Mogadishu, Somalia. The multiple regression equation was that: $Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$ and the multiple regression equation became: $Y = .587 + .039X_1 + .010X_2 + .279X_3 + 1.692X_4$. As depicted in table 4.13, $p < .05$). There was Strong positive and significant effects of Cash Management on financial performance ($\beta = 1.133$; $t = 20.784$; $p < 0.05$). There was strong positive effects of cash control on financial performance ($\beta = .008$; $t = .194$; $p > 0.05$). However, there was negative but significant effects of cash collection on financial performance ($\beta = .021$; $t = .194$).

Conclusions

The conclusions were based on the objectives of the study that cash management drivers had a significant influence on financial performance of Private Schools. The results established that cash management drivers were found to significantly and positively influence financial performance. The findings of the study established that Private Schools were operating under a highly competitive environment between them. However, this moderate result revealed that there were all variables which were influencing the financial performance of Private Schools in Mogadishu- Somalia.

Recommendations

Based on the findings of the study, the researcher recommends that the Private schools adopt cash management strategy. The empirical evidence from this study infers that cost leadership has significant effect on performance of Private Schools. **1.** It is recommended to the Private Schools management to ensure that the Schools have put in place policies and procedures to be adhered to during trade credit.

2. To to increase their control for collections fees as it was founded that cash collection positively affects the financial performance of Private Schools in Mogadishu.

3. Management of private schools should ensuring good financial performance, promote technological progress of cash management.

4. Management should to improve operation and sustain competitiveness and financial performance.

5. Management should come up with a sound strategy towards cash control and cash planning; budgeting

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