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Cash Flow Management Practices and Financial Performance of Small Medium Enterprises in Fort-Portal City Uganda

Kadhiri Mohamedi Rwambale[1*], Pereez Nimusima[2], Angee Gladys[3], Charles Bagonza[4], Moreen Niwaha[5]

[1,5] Department of Banking and Finance, Mountains of the Moon University, Fort portal, Uganda
[2]Department of Marketing and Logistics Management, Muni University, Arua, Uganda
[3,4] Department of Business Administration, Mountains of the Moon University, Fort portal, Uganda

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Abstract

Purpose: Small and medium enterprises have great significance to the continued survival of the global economy; however, they have continued to face heightened challenges world over. The study was conducted to examine the relationship between cash flow management and financial performance of SMEs in Fort Portal Tourism City.

Material and Method: The research study employed a cross-sectional design and used both quantitative and qualitative approaches. It surveyed a sample size of 113 SMEs from the target population of 160 SMEs in Fort Portal tourism city, as unit of analysis. The unit of inquiry were SMEs staff and shareholders including accountants, managers, financial managers, owners and directors. Data collection utilized structured questionnaires and interview guide for primary data. Purposive and stratified random sampling techniques were used to select firms and respondent. Using SPSS version 23, a hierarchical regression model was employed in data analysis and testing of the hypothesis.

Findings: The study identified a relatively strong positive relationship between cash flow management and financial performance ($r = 0.416$, $p < 0.01$).

Implication to Theory, Practice and Policy: Many theoretical frameworks exist regarding liquidity optimization and its effect on financial performance, and this study adds to them validating and extending liquidity preference theory, pecking order theory and trade off theory empirically in the context of SMEs in a developing country. This study's contributions to existing literature is three-way focused: 1) in relation to liquidity preference theory, this study argues that since money is considered as a medium of exchange, SMEs should hold their wealth in liquid forms such as cash rather than investing in bonds or other securities, especially in uncertain economic times. This way it's hoped that they can improve their financial performance by meeting their immediate financial obligations, invest in growth opportunities and avoid costly borrowing. In view of other perspectives that push for holding wealth in other forms i.e investing in bonds or other securities which offer higher returns but less liquidity, future researches can critically evaluate these competing alternatives to contextually validate which one is better; 2) findings of this study strengthen pecking order theory in regard to financing options that firms may consider. The study evidences empirically that in view of avoiding cost implications associated with external financing, SMEs should opt for usage of internal funds, debt and lastly consider equity when financing their business plans; 3) another significant contribution this study makes is derived from trade off theory demonstrating that maintaining an optimal level of liquidity pays off. The study emphasizes that SMEs should balance costs and benefits either holding liquidity assets or cash in kind. The study envisages power in up keeping optimal liquidity levels that enable it to meet short term operational requirements and overcome financial distress or bankruptcy which is as a result of inability to meet basic obligations like staff payroll, payment of suppliers and loan servicing.

Key words: *Financial Performance, Cash Flow, Financing, Liquidity Management, Small Medium Enterprises*

JEL Codes: G32, L25, L26, O16.

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INTRODUCTION

The financial performance of small medium enterprises (SMEs) is pivotal, as it underpins their capacity to invest in revenue growth, enhancing competitiveness, building reliability, and creating justifiable value for shareholders (Amanyire et al., 2024). From a conceptual perspective, the notion of financial performance originated from the broader disciplines of economics, accounting, and finance, which have historically sought to measure and evaluate the economic health and success of individuals, businesses, and governments (Kennedy, 2022). SMEs in Uganda make a vital contribution to the national economy; however, their sustainability remains a concern. It is estimated that out of every 1,000 SMEs, approximately 40% fail within the first year, while nearly 80% collapse within five years (Muhwezi, 2023). Deficiencies in financial performance among SMEs have been reported to compromise their capacity to invest in revenue growth, increase profitability, and create sustainable value for stakeholders (Kindström, 2024). Despite this SMEs have not given up, in their struggle to improve their financial performance. This is evident in their pursuit for profitability, revenue growth, and competitiveness in dynamic markets (Gamage, 2020). They have practically aimed at enhancing their financial performance in terms of improved profitability, stabilizing cash flows, and stimulating revenue growth—factors that are critical for operational efficiency and long-term sustainability (Eton, 2019). However, failure to implement sound cash flow management practices constrains SMEs' liquidity positions, thereby undermining their financial performance (Almomani, 2023).

Previous studies have indicated that inconsistent cash flows and insufficient profitability impede not only SMEs' ability to attract and retain top talent or adopting cutting-edge technologies, but also their ability to enhance financial performance (Mayanja,2020). Scholars like Muhwezi, (2023) have pointed out that achieving strong financial performance is one of the key challenges to SME, yet it's what serves as a critical indicator of profitability and revenue growth. Without it, SMEs struggle to maintain stable cash flows to meet operational demands. Limited financial stability deters investors and lenders, restricting access to capital for expansion and innovation. Mayr, (2020) observes that poor financial performance of SME's contributes to high death rates. Similarly Eton, (2019) attribute low survivability of SMEs to financial performance inadequacy, just like Kennedy, (2022) and Maulana, (2020). The inability of SMEs to leverage financial metrics to identify strengths and weaknesses constrains their strategic decision-making. Moreover, unpredictable cash flows limit their access to valuable financing options needed for future initiatives (Nkwinika & Akinola, 2023; Santi, 2023; Ahmad, 2018). All these are signs of fiscal fragility which shows weakened SMEs' resilience and ability to create value for both customers and shareholders. From a managerial standpoint, SMEs must manage their cash assets effectively to meet liabilities, cover expenses, and maintain financial stability.

Despite these insights, previous studies have associated cash flow management with financial performance and stakeholder confidence; however, its specific impact on SMEs financial performance remains underexplored (Yeboah, 2022; Turyahebwa, 2013; Sunday, 2012). For over-leveraged firms, the gap between available cash and debt obligations becomes critical, significantly affecting the survival and growth of small and medium enterprises (McCaffrey, 2021; Mustafa, 2020). This highlight gaps in empirical evidence, particularly within the SME sector in Fort Portal City.

Against this background, this paper examines the relationship between cash flow management and financial performance of SMEs in Fort Portal Tourism City. Specifically, the study sought to

highlight the significance of cash flow management by assessing SMEs' financial performance through profitability and revenue growth indicators.

Statement of the Problem

Small and medium enterprises (SMEs) constitute strong backbone of the global economy (Eton, 2019) as they represent over 90% enterprises population, over 60% of employment, 55% of GDP and play a significant role in the economic growth sector worldwide (Kiliman, 2023). Despite the substantial significance of SMEs' to Ugandan economy, they continue to face heightened challenges (Kumara & Gamage, 2020). For example, it is estimated that out of 1000 SMEs between 40% to 80% fail within a year or five years respectively (Feldbauer-Durstmüller, 2018). Whereas researchers find this worth investigating, studies and theoretical underpinning has been inconclusive depicting disagreements, and yet many also concentrated on other context and not SMEs (Muriithi, 2017). Existing research studies have mainly disregarded SMEs in Uganda, despite the fact that 70% of these firms display unsatisfactory financial performance (Kiliman, 2023). Hence the knowledge gap that justified this research study.

Purpose of the Study

The study examines the relationship between cash flow management and the financial performance of SMEs in Fort Portal Tourism City, Uganda.

Literature review

Theoretical Review

Liquidity Preference Theory

Liquidity preference theory's assumptions provide a strong guide for SME's stakeholders (Lavoie, 2019). The theory stresses the need for money as a medium of exchange in that, people prefer to hold their wealth in liquid forms such as cash rather than investing in bonds or other securities, especially in uncertain economic times. This is because besides money being considered as a medium of exchange which serves as a unit of account and a store of value, it also holds transaction, precautionary and speculative motives. The theory posits that people prefer to hold their wealth in the form of money as most liquid asset, rather than other forms of wealth that may offer higher returns but are less liquid (Lindset, 2023). This theory can be linked to the liquidity management practices of Small and Medium Enterprises in Fort Portal Tourism city, particularly when analysing their financial performance and adaptability in a competitive enterprise environment. Effective liquidity management especially cash flows can lead to improved financial performance by ensuring that the firm can meet its obligations, invest in growth opportunities and avoid costly borrowing (Lavoie, 2019).

Pecking order Theory

Pecking order theory according to Ahmad, (2018) explain how firms prefer to use internal funds, debt and lastly consider equity. The theory initially proposed by Donaldson in 1961 and formalized by Myers & Majluf, (1984) helps in analysing the hierarchy of financing that firms may consider (Graham, 2022). The finance ranking decisions enable SME's shareholders to avoid cost implications associated with external financing (Eton et al., 2019) and on the contrary rely more on internal financing (Graham, 2022; Martinez, 2018).

Trade off Theory

Trade off theory according to Mukwaya et al., (2025) suggests that firms ought to balance costs and benefits either holding liquidity assets or cash in kind. This is done in a bid to meet short term firm requirements and in the process, a firm is able to overcome financial distress or bankruptcy which is as a result of inability to meet basic obligations like staff payroll, payment of suppliers and loan servicing. The theory is instrumental as it assesses working capital management hence forth maintain an optimal level of liquidity (Kuncoro et al., 2024). In an analysis, the trio provide a nuanced perspective in line with financial management and takes into account enterprise financial stability, optimal balance and adaptability regarding changing enterprise conditions.

Empirical Review

Empirical research has consistently demonstrated the significance of cash flow management practices in enhancing financial performance (Laghari et al., 2023). According to Salamah, (2023) firms with strong cash flow management systems improve their financial performance. Cash flow management improves a company's sustainability (Laghari et al., 2023). Stronger financial performance allows for investment, efficiency, and innovation (Ahinful et al., 2023). This review presents financial performance as a multifaceted concept reflecting on the imperative for SMEs to mobilize resources, generate revenue, and maintain stability (Almashhadani et al., 2023). In accordance with international accounting standards, cash flow statements enhance stakeholder decision-making by offering crucial information on the sources and uses of funds across operating, investing, and financing activities (Bruwer et al., 2021). However, excessive cash holdings may lower returns and hinder financial success (Laghari et al., 2023). Cash flow is acknowledged as a crucial accounting concept influencing SMEs' financial management (Manalo et al., 2025). Empirical evidence shows that effective cash flow management protects SMEs against liquidity constraints, supports short-term obligations, reduces operational disruptions, and enhances opportunities for growth (Nana, 2024). This way it is portrayed that cash flow forecasts and reserves strengthen creditworthiness and reduce financial risks (Briones, Camino-Mogro & Navas, 2024). Literature again shows that effective cash flow management practices influence strategic expansion, innovation, and market development, whereas bad cash flow management hinders growth and increases financial instability (Nkundabanyanga et al., 2024) and continuing disparities in SME financial success suggesting a need for deeper empirical study between cash flow management and the financial performance of SMEs in Fort Portal Tourism City, Uganda. The specific impact of cash flow management on SMEs financial performance remains underexplored.

Material and Methods

This research study was guided by pragmatic research paradigm and employed a cross-sectional design normally acknowledged as most appropriate for analysing patterns between variables on various cases at one point in time (Bell et al., 2018). A case study research design was used because it enables researchers to understand complex issue or object and can extend experience or add strength to what is already known through reviewing previous research. A case study design was again preferred because it enables the investigator to pursue an intensive analysis of the single phenomenon of SMEs performance in Fort Portal Tourism city. It emphasizes detailed contextual analysis of a limited number of events or conditions and their relationships (Siedlecki, 2020).

In line with pragmatic paradigm assumptions both qualitative and quantitative data was collected from SMEs' owners or directors and staff including accountants, operational managers, financial managers and cashiers using structured questionnaires and interview guides. Stratified random sampling technique was used to ensure representation across SMEs by sectors including

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agriculture and agribusiness, manufacturing and processing, trade and commerce, healthy and social services, creation industry and construction and real estate as shown in *table 1* below.

Table 1: Distribution of the SMEs by Sector

SMEs by Sector	Estimated Population	Calculated Sample Size
1- Construction & Real Estate • ***Construction Firms*** • ***Hard ware shops***	40	$\frac{40}{160} \times 113 = 28$
2- Agriculture and Agro Business. • ***Farming (e.g Livestock Milk Diary).*** • ***Agro-processing (e.g Maize, cassava milling plants.***	32	$\frac{32}{160} \times 113 = 23$
3- Trade and Commerce/Whole sale ❖ ***Trade & Commerce trading.*** ❖ ***Super Markets***	12	$\frac{12}{160} \times 113 = 9$
4- Hospitality Industry • ***Lodges*** • ***Restaurants*** • ***Tour enterprises***	36	$\frac{36}{160} \times 113 = 25$
5- Health and Social services • ***Drug store (Pharmacies)***	24	$\frac{24}{160} \times 113 = 17$
6- Manufacturing & processing • ***Bakery Firms &*** • ***Metal Workshops***	16	$\frac{16}{160} \times 113 = 11$
Total	**160**	**113**

Source: Primary Data 2024

The responses from these diverse sectors were hoped to serve as a basis for generalization to gain insight on the matter into a wider picture of SMEs financial performance trends or characteristics in Fort Portal Tourism city. The qualitative study helped to answer the why and how cash flow management practices affect the financial performance of SMEs in Fort Portal Tourism city. The quantitative study leveraged on the statistical data from large samples to address the questions of how many, how often, who, when, and where. The study benefited from the use of qualitative and quantitative methodologies since qualitative observations identity the presence or absence of

something in contrast to quantitative observations, which involve measuring the degree to which some features were present. The result from that combination widens and expands the understanding on the research study. Ovesni, (2023) argue that triangulation or use of qualitative and quantitative methodology in one single study is not aimed merely at validation but depends on widening ones' understanding. According to Robert & Harrison, (2020) merging qualitative and quantitative data in mixed methods research proved that mixed method designs can provide pragmatic advantage when exploring complex research questions since the quantitative data provides a deep understanding of the survey responses and statistical analysis to give a detailed assessment of patterns of responses.

The study basing on operationalization of cash flow management as sources of funds and how they are utilized in terms of investing, operating and financing (Manalo et al., 2025; Graham, 2022) and financial performance as profitability and revenue growth (Nkundabanyanga et al., 2024; Almashhadani et al., 2023), developed and pilot tested the structured questionnaire to ensure validity and reliability (Field, 2017). The study is premised on the understanding that cash flow management ensures that SMEs have sufficient liquidity to meet their daily operational needs. The assumption that by maintaining an appropriate level of cash, SMEs can cover essential expenses like salaries, rent, and inventory without encountering financial strain. The study acknowledges that insufficient liquidity often leads to missed opportunities or operational disruptions, which negatively impact financial performance. All these insights tend to show that effective cash flow management prevents liquidity crises and keeps enterprise operations running smoothly, supporting revenue generation and profitability (Bruwer et al., 2021). 20 research assistants were later recruited and trained to collect data using questionnaires and interview guides.

After ensuring thorough data cleaning and subjecting the data to parametric assumption testing, multiple regression analyses were conducted on the quantitative data while qualitative data was analysed using content analysis.

Above all the study adhered to ethical approvals from the Directorate of Research and Post Graduate studies, Mountains of the Moon University and seeking permission from the commercial officer of Fort Portal Tourism City before visiting the registered SMEs. The study also adhered to moral standards, objectivity, confidentiality and non-discrimination principles.

Findings

Demographics

Table 2 below contains demographic profile of respondents used to evaluate the characteristics of enterprises, the Small and Medium Enterprises surveyed, focusing on the number of employees and industry.

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Table 2: Firm Characteristics

Variable	Category	Frequency	Percent	Valid Percent	Cumulative Percent
Number of Employees	1-5	24	21.2	21.2	21.2
	6-10	28	24.8	24.8	46.0
	11-20	32	28.3	28.3	74.3
	21-50	17	15.0	15.0	89.4
	51-100	6	5.3	5.3	94.7
	Over 100	6	5.3	5.3	100.0
	Total	**113**	**100.0**	**100.0**	**100.0**
Sector/ Industry	Construction & Real Estate	29	25.7	25.7	25.7
	Manufacturing	23	20.4	20.4	46.0
	Hospitality Industry	10	8.8	8.8	54.9
	Agriculture and Agro Business	11	9.7	9.7	64.6
	Health & Social Services	23	20.4	20.4	85.0
	Other Enterprises	17	15.0	15.0	100.0
	Total	**113**	**100.0**	**100.0**	**100.0**

***Source**: Primary Data (2024)*

Results show that the number of employees among the surveyed SMEs varies, with 28.3% having between 11-20 employees and 24.8% employing between 6-10 workers. Smaller SMEs with 1-5 employees account for 21.2% of the sample, while larger enterprises with 51-100 employees or over 100 employees represent 5.3% of respondents. The diverse range of employee sizes highlights the varied scale of operations within the SME sector in Fort Portal Tourism City, with most enterprises operating on a smaller scale.

Regarding sector or industry, construction and real estate was the most represented category, accounting for 25.7% of the sample, followed by manufacturing and processing and services, each comprising 20.4% of respondents. Hospitality industry and agriculture and agro business sectors have more miniature representations, with 8.8% and 9.7%, respectively. The presence of 15.0% of SMEs in other enterprise categories reflects the diverse economic activities present in Fort Portal Tourism city's SMEs sector. This diversity indicates a broad range of enterprises' activities contributing to the local economy.

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Descriptive Statistics

Researchers asked respondents to rate the extent to which they agreed with the items related to cash flow management and financial performance. They adapted a 5-point Likert scale ranging from 5 (strongly agree) to 1 (strongly disagree) in line with recommendations by (Leung et al., 2011).

Table 3: Descriptive Statistics on Cash Flow Management, Profitability and Revenue Growth Rate

Variables/Items	N	Mean	SD
Cash Flow Management			
The enterprise conducts regular cash flow forecasts.	113	3.00	1.494
The enterprise maintains a cash budget	113	3.05	1.444
The enterprise' cash reserves are adequate	113	3.01	1.467
There is a routine review and analysis of cash inflows and outflows.	113	2.96	1.472
The enterprise utilizes cash flow statements	113	2.98	1.476
Profitability			
The enterprise consistently maintains a positive net profit margin.	113	4.04	1.253
Operational expenses are efficiently managed.	113	4.02	1.316
The enterprise leverages its assets to generate higher returns.	113	4.09	1.229
Established profitability targets are constantly met.	113	3.90	1.401
Cost-reduction initiatives have enhanced the overall profitability	113	4.03	1.278
Revenue Growth Rate			
The enterprise has experienced an increase in sales over the past year.	113	3.10	1.329
New products or services are regularly introduced	113	3.09	1.449
The enterprise has effectively attracted new customers	113	2.94	1.459
Practical strategies to retain existing customers are in place	113	3.18	1.276
The enterprise's revenue growth rate has remained resilient	113	3.03	1.503

Source: Primary Data (2024)

The results (*see table 3 above*) reveal that there was a highest degree of uncertainty regarding the extent to which SMEs conduct regular cash flow forecasts (Mean=3). Such a mean score indicates a generally neutral approach, depicting that whereas some SMEs prioritize forecasting to plan for future cash needs, others do not see it as a crucial practice, as reflected by the high response variability. Similarly, it was found out that they hardly maintain a cash budget (mean= 3.05), hardly maintain adequate cash reserves (mean= 3.01) or conduct routine reviews on the cash inflows and outflows (mean= 2.96) or utilize cash flow statements (mean= 2.98). Despite their naivety on cash flow management however they maintain positive net profit margin (mean=4.04), manage their operational expenses (mean=4.02), control costs by utilizing assets to generate higher returns (Mean=4.03) and meet their profitability targets (mean= 3.90). Their focus on cost reduction further emphasize their proactive approach to enhancing profitability through strategic expense control. This is supported by pecking order theory which discourages borrowing externally and encourages internal borrowing to avoid strategic expenses by SMEs.

The analysis on revenue growth rates offers mixed insights, reflecting both successes and challenges in market engagement among SMEs. They largely realized increased sales over the past years (mean=3.10), perhaps because they introduced new products (mean=3.09) or because of using practical strategies to retain existing customers (Mean= 3.18). However, they have not invested much in attracting new customers (Mean= 2.94).

Panel Data Tests

The Relationship between Cash Flow Management and the Financial Performance of Smes in Fort Portal Tourism City

This study examines the relationship between cash flow management and the financial performance of SMEs. Simple linear regression analyses assessed the relationships strength and direction, as illustrated in *Table 4* below. Additionally, qualitative insights from senior staff of SMEs provide further context, showing how enterprises implement cash flow strategies and the challenges they face in maintaining their financial performance.

Table 4: Regression results for Cash Flow Management and Financial Performance

Model Summary	R, R Square	$R = 0.416$, $R^2 = 0.173$
	Adjusted R Square	0.173
	Std. Error of the Estimate	0.758
ANOVA[a]	F-value	23.166, $p = 0.00^b$
Coefficients	Unstandardized Coefficient (B) for Cash Flow Management	0.343, $p = 0.00^b$
	Constant	2.036

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Cash Flow Management

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

As shown in *table 4* above, the quantitative analysis reveals a significant positive relationship between cash flow management and financial performance ($r = 0.416$, $p < 0.05$). This indicates that better cash flow management is associated with improved economic outcomes for SMEs. The R^2 value of 0.173 suggests that cash flow management explains approximately 17.3% of the variance in financial performance, while other factors account for the remaining variation. The ANOVA results ($F = 23.166$, $p < 0.05$) confirm that the regression model is a good fit, indicating that cash flow management is a significant predictor of financial performance. Additionally, the coefficient for cash flow management ($B = 0.343$) suggests that for every one-unit improvement in cash flow management, financial performance increases by 0.343 units. *Table 5* below shows more details from the qualitative study.

Table 5: Qualitative Insights on Cash Flow Management Practices

Theme/Insight	Example Responses	Link to Quantitative Findings
Importance of Cash Flow Planning	*"Cash flow forecasting helps us plan our purchases and align them with expected sales."* - Respondent 6 (Construction & Real Estate)	Supports the positive correlation between cash flow management and financial performance (r = 0.416)
Challenges in Aligning Cash Inflows and Outflows	*"The biggest challenge is dealing with variability in client payments."* - Respondent 10 (Hospitality Industry)	Highlights the relevance of cash flow management as a significant predictor of financial Performance
Frequent Adjustments to Cash Flow Plans	*"We adjust our cash flow plan monthly to account for changes in crop sales."* - Respondent 7 (Agriculture and Agro Business)	Reflects adaptability as a factor in effective cash flow management impacting financial performance

Source: Primary Data (2024)

Qualitative insights, summarized in *table 5 above*, reinforce the importance of cash flow management practices. Respondents in construction and real estate (Respondent 6) emphasized the role of cash flow forecasting in planning purchases and aligning them with expected sales, supporting the positive correlation observed between cash flow management and financial performance (r = 0.416). This aligns with observations by Nkwabi, (2019) and Omah, (2022), who argue that cash flow planning is vital for maintaining financial stability among SMEs. Challenges such as variability in client payments, mentioned by Respondent 10 (Hospitality Industry), highlights why cash flow management, while significant, is not the sole determinant of financial performance. Such variability can lead to cash flow mismatches, making it difficult for enterprises to maintain consistent liquidity. This reflects findings from studies by Briones, Camino-Mogro & Navas, (2024), which emphasize that unpredictable cash inflows are a common issue for SMEs, impacting their ability to manage liquidity effectively. This links with liquidity preference theory which emphasizes instant cash usage.

Discussion of Results

Relationship between Cash Flow Management and the Financial Performance of SMEs

The study identified a relatively strong positive relationship between cash flow management and financial performance ($r = 0.416$, $p < 0.01$). This indicates that SMEs with effective cash inflow and outflow management are more likely to achieve higher profitability and growth. These findings align with Keynes' Liquidity Preference Theory, which underscores the value of holding liquid assets to navigate uncertainties and meet short-term commitments (Laghari et al., 2023). For SMEs, sustaining positive cash flow is essential to avoid financial distress and maintain steady operations, particularly in volatile environments. This observation is consistent with research highlighting cash flow's role in ensuring liquidity, a critical factor for SMEs due to their limited access to external funding (Choi, Huh & Shin, 2024; Almomani, 2023).

However, the study also reveals flexibility in SMEs' financing approaches, as some turn to external funding when needed. This finding challenges the strict funding order proposed by the pecking order theory (Ahmad, 2018) which suggests prioritizing internal financing over debt or equity. It appears that SME practices are more adaptable than traditional theoretical models might suggest. Even when they rarely conduct cash flow forecasts (Mean=3) or hardly maintain a cash budget (mean= 3.05), they meet their profitability targets (mean= 3.90). This sounds a bit strange but explanation for this lies in their proactive approach to enhancing profitability through strategic expense control. This is supported by pecking order theory which discourages borrowing externally and encourages internal borrowing to avoid strategic expenses by SMEs.

The significant correlation aligns with previous studies, such as those by Alhassan and Anwarul, (2021), which highlight that effective cash flow management enables SMEs to meet short-term obligations, thereby enhancing profitability and operational stability. This finding supports the liquidity preference theory (Tily,2006), which emphasizes the importance of maintaining liquidity to navigate uncertainties, a crucial aspect for SMEs in the volatile environment of Fort Portal Tourism City. However, the R^2 value suggests that cash flow management is not the only determinant of financial performance. This is consistent with studies like Muriithi, (2017) and (Kumara & Gamage, 2020), which point out that factors such as market conditions, firm age, and managerial expertise significantly influence financial performance. The results thus reflect the complex nature of economic performance among SMEs, where cash flow management serves as a critical yet partial predictor.

The analysis from this study confirmed a significant positive relationship between cash flow management and financial performance among SMEs in Fort Portal Tourism City. This relationship is consistent with the theoretical underpinnings of liquidity management, which supports that SMEs benefit to avoid financial distress (Owuor, Agusioma & Wafula, 2021). The study's emphasis on cash flow planning aligns with existing literature on managing short-term liquidity to enhance overall financial stability (Kennedy, 2022; Rubunda, 2019). The findings reveal that cash flow management accounts for only 17.3% of the variance in financial performance highlighting a gap in understanding the broader factors that impact financial performance for SMEs. This gap is consistent with critiques of the liquidity preference theory, which, emphasizes the need for liquidity, but does not fully address strategic considerations for long-term financial growth (Su et al., 2022). The study's results argue that while effective cash flow management is necessary, it must be complemented by other management practices, such as improving financial literacy and access better financing options, as suggested by Kobugabe and Rwakihembo, (2022).

Conclusion

In this study of small and medium enterprises in Fort Portal, the relationship between cash flow management and financial performance was confirmed. The study concludes therefore that cash flow management significantly impacts financial performance of SMEs. It is envisaged that SMEs which maintain regular cash flow forecasts, maintain adequate cash reserves, conduct routine reviews on the cash inflows and outflows, utilize cash flow statements, manage their operational expenses, introduce new products and use practical strategies to retain existing customers and will always meet their profitability targets and achieve positive net profit margin.

Recommendations

Liquidity optimization is crucial and robust cash flow management remains essential for the

smooth functioning of SMEs. Managers should adopt effective cash flow monitoring practices such as forecasting cash inflows, outflows and establishing contingency plans for periods of low revenue, thereby preventing cash shortages that could disrupt operations. By proactively managing cash flow, SMEs can better navigate financial challenges and maintain operational continuity.

Limitation and Areas for Further Research

While this study focuses on SMEs in Fort Portal Tourism City, Uganda, which may limit generalizability to other non-city regions with differing economic conditions, it nonetheless provides valuable insights into urban set-up cash flow management practices. Future researches can investigate same variables beyond city regions to consider local town councils. The cross-sectional design, although limiting in tracking changes over time, captures a powerful snapshot of current cash flow management practices and challenges, making these findings relevant for today's liquidity management issues. A study that track changes over time in terms of cash flow plan management implementation would be informative. Finally, varied distribution of the SMEs by sector/ industry was acknowledged, yet the consistent patterns were underscored. Addressing these limitations in future longitudinal research could enhance analytical rigor and generate more comprehensive future research study.

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