

**THE IMPACT OF CASH MANAGEMENT ON
SUSTAINABILITY OF SMALL MANUFACTURING BUSINESS
IN DHULIKHEL MUNICIPALITY**

A Thesis Proposal

Submitted

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TABLE OF CONTENTS

	Page No:
1. Background of study	1
2. Statement of the Problems	3
3. Purpose of the Study	4
4. Significance of the study	4
5. Limitations of the Study	4
6. Literature Review	5
6.1 Theoretical Review	5
7. Research Methodology	9
7.1 Research Design	9
7.2 Sources of Data	9
7.3 Population and Sample	10
7.4 Method of data collection	10
7.4.1: Primary Data	10
7.4.2: Secondary Data	10
7.5 Data Analysis	10
8. Chapter Plan	11
REFERENCES	12

INTRODUCTION

2. Background of study

Cash management is essential to every business that desires to meet up with its short-term financial obligations. Akinsulire (2003) asserts that the success of any business venture is predicated on how the management has planned and controlled its cash flows. According to Olowe (2008), cash management is concerned with the efficient management of cash so as to achieve an optimum level of cash in the firm's working capital. Cash represents the basic input necessary to start and keep a business running. A company needs to maintain sufficient cash to keep its business running smoothly. Cash shortage will disrupts the firm's operation and can even lead to insolvency. Excessive cash will tie down unnecessarily long-term capital with a result that the return on capital employed will be low. A firm thus needs to maintain sound cash position.

The importance of the SME sector is well recognized worldwide due to its significant contribution to gratifying various socio-economic objectives, such as higher growth of employment, output, promotion of exports and fostering entrepreneurship. Recent empirical studies show that SME's contribute to over 55% of GDP and over 65% of total employment in high-income countries. SME's and informal enterprises, account for over 60% of GDP and over 70% of total employment in low-income countries, while they contribute over 95% of total employment and about 70% of GDP in middle-income countries. In the European Union countries, for example, there are some 25 million small businesses, constituting 99% of all businesses; they employ almost 95 million people, providing 55% of total jobs in the private sector. (OECD, 2004).

Most of the Nepalese SMEs are involved in processing and manufacturing of food items, consumer and household goods, and textiles and related products, both for exports as well as the domestic market. Rice, pulses, oil and flour mills, dairy, aerated soft drinks, fruit juices and processed products, noodles, biscuits and light snack products, chocolates and candy, mineral water, dried vegetables, and some other household utilitarian and consumption goods have dominated SMEs activities in Nepal.

Other areas of SMEs' involvement include forest fiber based industries, wooden and metal handicrafts, handmade paper and products, apparels and garments, woolen carpets, pashmina shawls and rugs and leather. SMEs' involvement is also high in metal and plastic household utensils, wooden, plastic and metal furniture, printing press, polythene pipes, utensils, jute products, poultry products, livestock products, wire drawing, nail and iron rod, sheet metal, galvanized pipes, rubber tires and tubes, plywood and boards, color paint products and zinc oxide. Agro-based industries like tea, vegetables and horticulture products, dairy and milk products, animal husbandry and floriculture are other areas where SMEs have started to invest. Due to the opening up of investment for infrastructure development to the private sector, investment in micro hydropower and tourism resorts and complexes have also been witnessed in some regions. At the micro, cottage and family level, a sizeable number of unregistered enterprises operate on a seasonal basis.

However, too often, businesses fail before they have a chance to succeed because they run out of cash. Research statistical analysis indicates that the most crucial cause of business failure is due to the lack of planning. Thus sound cash management practices is essential to ensure profitability and sustainability to make business a success. A large number of businesses fail due to the absence of cash rather than the absence of profits. Patel (2010) indicates that cash flow management is vitally important for the business profitability, future planning and sustainability. The practice of basic concepts of cash flow management will assist businesses to plan for the unforeseen eventualities. One possible reason for this prevalence could be that small business owners are not equipped to identify the problem areas within their businesses, due to the lack of necessary skills and tools. Likewise, many small business owners do not perform many cash management practices because they feel that they are unnecessary and time consuming.

This study will investigate the impact of cash management practices on the sustainability of small businesses.

2. Statement of the Problems

These small businesses cannot be the platform for growth and development if there is no sustainable. One possible reason for this prevalence is that small business owners are not equipped to identify the problem areas within their businesses, due to the lack of necessary skills and tools to increase profitability and sustainability.

Cash necessitates proper monitoring, protection, control and better employment Marie (2001). Efficient cash management practices are much more than prevention of bankruptcy and entail reduction of the risk a company is exposed to Maness (2002). Good cash management practices are greatly argued to an urgent need of Bottled water purifying companies. Puntland Bottled Purified water companies are owned by local business people and they rely on their employees to deliver the products to their customers such as tea shops, restaurants, Grocery shops, food stores, Hotels, government and non-governmental offices. Previous Bottle Purified Companies got bankrupt like Shifo and Xareeda water companies and the current companies are in risk of the same because timing is important even if their business was profitable at that time, they ran into problems because the payments from customers come in too slowly, and they had too many outflows while they were waiting their customers to pay.

In the similar way the small businesses that are being operated in Dhulikhel Municipality might also be facing similar problems of cash management that it not yet known to us. It is not known if the owners of small business are following any cash management tools to better manage their cash and business operations. Also it is also not known how well they are managing their businesses in terms of cash management. This problem would be addressed with this study.

This problem would be addressed by looking for answers for the following research questions.

- i. What are the prevailing cash management practices of small manufacturing businesses within the domain of Dhulikhel Municipality?
- ii. What are the relationship between cash management and profitability?
- iii. What are the impacts of cash management on sustainability of small manufacturing businesses?

3. Purpose of the Study

The general purpose of the study is to identify the current cash management practices used by small and medium businesses in the Dhulikhel Municipality and identify the impact of such practices on their profitability and sustainability. The specific purposes of the research are as follows:

- i. To assess the status of cash management practices of small and medium manufacturing businesses.
- ii. To examine the effect of cash management on profitability of small manufacturing businesses.
- iii. To evaluate the effect of cash management on sustainability of small manufacturing businesses.

4. Significance of the study

This study will contribute to existing literature on cash management on profitability and sustainability in small business in Dhulikhel Municipality. The purpose of the study is to investigate the impact of cash management practices on profitability and sustainability of small retail businesses in the Dhulikhel Municipality. Part of the study will also ascertain whether certain cash management practices are being performed in small businesses and, what are the challenges faced? Many small businesses face liquidity problems and eventually fail due to the lack of cash management knowledge and implementation. It is vital to have viable small businesses in developing communities as these businesses provide the basic necessities of the community. Therefore, this study will directly benefit these communities. This study will equip business owners with sound management practices which will ensure the profitability and sustainability of their businesses.

5. Limitations of the Study

This study tries to examine the impact of cash management on sustainability of small manufacturing business in Dhulikhel Municipality, still it has its own restrictions which are as below.

- i. This study addresses cash management practices used to tackle profitability problems.
- ii. This study is based on surveys of the owners or suitable representatives of each business in the sample.

- iii. This study is restricted to determining whether or not small business owners are adequately managing their cash practices and if they have the necessary skills and knowledge to perform cash management practices.
- iv. This study will not investigate economic development and other business-related aspects. Therefore, the findings of this study cannot be generalized to all types of small businesses in Dhulikhel Municipality.

6. Literature Review

Review of literature is the process of learning and understands the concept of the related topic. After selecting the topic of research, researchers should study different materials (like books, journals, magazines, newspapers, articles, etc.) to collect the information about the subject matter of the study. This process of studying different education materials which are related with the selected topic of the research is called “Review of Literature”. It helps to find out the research gap.

6.1 Theoretical Review

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). Efficient cash management involves the determination of the most favourable cash to hold by considering the trade-off between the opportunity cost of holding too much cash and the trading cost of holding too little (Ross et al., 2008 cited in Nyabwanga, et al., 2011). Cash management is fundamental to every business that desires to meet up with its short-term financial obligations. Cash management consists of taking the necessary actions to maintain adequate levels of cash to meet operational and capital requirements and to obtain the maximum yield on short-term investments. Uwuigbe, Uwalomwa and Egbide (2011) observed that cash management assumes more significance than other current assets because cash is the most important asset that a firm holds.

The importance of managing cash to a manufacturing organization as recognized by Alfred (2007) includes the following:

- Management of cash aids the achievement of liquidity and control.

- It brings about proper planning with regard to cash disbursement and receipts over cash positions to keep the firm sufficiently liquid and to use excess cash in some profitable venture
- The management of cash is also significant since we cannot accurately predict cash flow behaviour in the future.
- Through cash management, appropriate strategies are developed thereby providing innovation for cash receipts and payments.
- It also aid maintaining adequate control over cash
- Position to keep the firm sufficiently liquid and to use excess of cash in some profitable ventures.

Bhutto, Abbas, Rehman and Shah, (2011) conducted an investigation on the relationship between cash conversion cycle with firm size, working capital approaches and firm's profitability in Pakistan. Secondary data were collected from the financial statements of 157 non-financial companies comprising on 12 industrial groups listed on the Karachi Stock Exchange, Pakistan for the year 2009. The firms with negative equity and profitability were excluded from the study. Data analysis was carried out using Pearson correlation and Analysis of Variance (ANOVA). The result revealed that length of cash conversion cycle has negative relationship with sales revenue, return on equity (ROE) and financing policies of the firms and has positive relationship with total assets, return on assets. Cash management is usually measured by cash conversion cycle (CCC) calculated by the number of days between actual cash expenditures on purchase of raw materials and actual cash receipts from the sale of products or services (Eljelly, 2004).

Uwuigbe, Uwalomwa and Egbide (2011) carried out an investigation on cash management and corporate profitability in some selected listed manufacturing firms in Nigeria. Cash conversion cycle was used as the measure for cash management. Meanwhile, current ratio, debt ratio and sales growth were used as control variables. The study utilized secondary data while Pearson's correlation and regression analysis were used in analyzing the data for a sample of 15 showed that there is a strong negative relationship between cash conversion cycle and profitability of the firms. The study suggested that managers could create positive value for the shareholders by

reducing the cash conversion cycle to a possible minimum level and also accounts receivables should be kept at an optimal level.

Similarly, Falope and Ajilore (2009) used a sample of 50 Nigerian quoted nonfinancial firms for the period 1996 -2005. Their study utilized panel data econometrics in a pooled regression, where time-series and cross-sectional observations were combined and estimated.

They found a significant negative relationship between net operating profitability and the average collection period, inventory turnover in days, average payment period and cash conversion cycle. Eljelly (2004) carried out an empirical investigation on the relation between profitability and liquidity on a sample of joint stock companies in Saudi Arabia. Liquidity was measured by current ratio and cash gap (cash conversion cycle).

The study was based on secondary data collected from listed firms in Karachi stock exchange for the period of 2001-2006. The effect of working capital management on profitability was tested using panel data methodology. Data analysis was conducted using correlation and regression analysis. The results of the study revealed that there a strong positive relationship existed between profitability and cash, accounts receivable and, inventory while there a negative relationship was reported between profitability and accounts payable. In other words, increase in cash, inventory and credit sales will lead to increase profitability of firms.

Wongtha tsanekorn (2010) conducted a study on the impact of cash-to-cash cycle time, inventory conversion period, receivable conversion period, and payable deferral period of private hospital in Thailand. Data for the study were obtained from the financial reports of listed private hospitals in Stock Exchange of Thailand across 13 private hospital populations, from 2002 to 2008. The results of the regression analysis revealed that s negative relationship existed between payable deferral period and asset turnover.

Meanwhile, no significant relationship was reported between each of company size, sales growth, financial debt level, and annual gross domestic product growth.

Raheman and Nasr (2007) carried out a study on the effect of different variables of working capital management including average collection period, inventory turnover in days, average payment period, cash conversion cycle, and current ratio on the net operating profitability of Pakistani firms. Sample firms included ninety-four Pakistani firms listed on Karachi Stock Exchange for a period of 6 years from 1999-2004. From result of the regression analysis carried out, they reported that there was a negative relationship between variables of working capital management including the average collection period, inventory turnover in days, average collection period, cash conversion cycle and profitability. Besides, they also indicated that size of the firm, measured by natural logarithm of sales, and profitability had a positive relationship. Ebben and Johnson (2011) investigated the relationship between cash conversion cycle and levels of liquidity, invested capital, and performance in small firms over time.

In a sample of eight hundred and seventy-nine small U.S. manufacturing firms and eight hundred and thirty-three small U.S. retail firms, cash conversion cycle was found to be significantly related to all three of these aspects. Firms with more efficient cash conversion cycles were more liquid, required less debt and equity financing, and had higher returns. The results also indicated that small firm owners/managers may be reactive in managing cash conversion cycle. The study highlighted the significance of cash conversion cycle as a proactive management tool for small firm owners.

Although cash management is a good and important practice, many of micro and small businesses do not practice it (Jayabalan, Dorasamy, Roman & Ching; 2009; Sunday, 2011; Alala, Deya & Busaha, 2013). According to Abanis, Sunday, Burani and Eliabu (2013), among the serious issue in cash management practices is that some of the businesses do not have bank account to track and control their business income and expenses. If they have the bank account, the business would be able to reduce the tendency of cash shortage, set minimum cash balance and have monthly reconciliation of cash book with the bank to monitor their cash.

A number of small businesses are being managed without appropriate strategy and with poor skills in cash management. The efficiency of a business in managing cash may influence the growth of business operations. Failure to do so can affect business

operations, as sustenance of business operations can come to a halt. Marion (2011) proved that out of five, three businesses failed within a short period of time - three years. It shows that in order to be successful in business, entrepreneurs must possess good strategies and ensure that they can achieve their targets.

7. Research Methodology

This chapter explained the approaches the researcher used to get information on the research problem and included the research design, study population, sampling technique, data collection methods and instruments, data collection, data analysis. It also indicated the problems encountered in the study.

The research is limited to the medium and small manufacturing business in Dhulikhel Municipality. Small retail business can be defined as a form of business that purchases goods from suppliers with the aim of resale without any transformation to a certain customer. This study addresses cash management techniques used to tackle profitability problems. Therefore, the accuracy of information given in the questionnaire is limited to their knowledge of the cash management practices used in their business. This study is restricted to determining whether or not small business managers / representatives adequately have their cash techniques and if they have the necessary skills and knowledge to perform them. The literature is also restricted to cash management practices in small businesses as well as profitability. This reference period helps in establishing the effect of cash management on the profitability of small and medium manufacturing business.

7.1 Research Design:

This research used descriptive research design in order to examine impact of cash management on sustainability of small manufacturing business. The methods of research utilize in descriptive research are survey method of all kinds, including comparative and co-relation methods. This study emphasized detailed contextual analysis of a limited number of events or conditions and their relationships.

7.2 Sources of Data:

The quantitative research paradigm will used in this study. Questionnaire would be used to collect data from business owners.

7.3 Population and Sample:

The population identified for this study consisted of all small and medium manufacturing businesses situated within the Dhulikhel Municipality of Kavrepalanchok. As per the record of Dhulikhel Municipality, there are a total of one hundred fifty (150) registered small and medium manufacturing businesses. The researcher chooses to limit the study to just manufacturing businesses.

On this research more than 50% firms were taken for this study from the available population of the Small and Medium Manufacturing Businesses in Dhulikhel Municipality. Since, Small and Medium manufacturing businesses both contains similar characters. So, I choose 70 (small and medium) manufacturing businesses as a sample. The researcher approached all the small and medium manufacturing businesses in the Dhulikhel area, which form part of the population. However, the elements from the sample were selected for the convenience of the researcher. The researcher chose the businesses from the population that were readily available or those that were willing to participate in the research study.

7.4 Method of data collection:

The study used both primary and secondary methods of data collection:

7.4.1: Primary Data

This is raw data collected by the researcher from the field. Primary data was gathered from respondents at Dhulikhel main market which were assumed to give first-hand information on the subject under study.

7.4.2: Secondary Data

Secondary data were gotten from sources like; Annual reports, Journal articles, internet, magazines, newspapers and books related to the subject of the study and these were consulted at length to extract the information required to support the findings from the study respondents.

7.5 Data Analysis:

Analysis is the systematic and careful examination of available facts so that certain conclusions can be drawn and an inference is made. This study uses the summary of descriptive statistics associated with the primary data analysis which is carried out on

the basis of responses derived from questionnaire survey. Various related tools and techniques have been used for this purpose. Correlation analysis, regression analysis; Average mean and Standard deviation have been used for the analysis. For the analysis purpose, the collected data is used. The collected data are processed, analyzed and interpreted by using tools like SPSS, Ms-excel, and Ms-word etc.

8. Chapter Plan

The study is divided into five chapters.

Chapter I: Introduction

This chapter explains background of the study, statement of the problem, objectives of the study, significance of the study, research hypothesis and limitation of the study.

Chapter II: Review of literature

This chapter include review of literature which incorporates the theoretical review, the review of previous studies, conceptual framework and research gap.

Chapter III: Research methodology

This chapter includes research design, justifications for the selection of the unit, population and sample size, nature and source of data, data collection procedures, data processing and analysis tools.

Chapter IV: Results

This chapter consists of data presentation and analysis. This chapter includes data presentation, data analysis and major finding of the study.

Chapter V: Conclusion

This chapter includes the summary, conclusion and implication of the study.

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