

Evaluating the Effect of Cash Management and Profitability on Private Schools in Ntungamo District from the Lens of Parents Care Primary School, Uganda

Turyahabwe Frank

College of Economics, Kampala International University, Uganda

ABSTRACT

The study explores the cash management and profitability of private schools in the Ntungamo district from the lens of Parents Care Primary School. A descriptive study design was adopted, and data were obtained using questionnaires and interviews. Findings revealed that given the size and complexity of the organization and the partnership as a whole, business without cash management is a serious threat. It is on this note that this article calls for an effective management of cash. Thus, the organization has to put into place controls to ensure that cash is safe. The school should encourage parents to even pay during holidays as a way of boosting the school collections which in turn will enable allocations to be made in the due time. More so, the school needs to invest money in projects that are beneficial to the school. The school should use more of the accrual basis of cash outflow than the cash basis to maintain the school liquidity at an optimal level. Finally, the relationship between cash management and profitability should be monitored all the time. This should be done through cash planning, cash collection, cash allocation, and cash budgeting.

Keywords: Cash management, Cash planning, financial position, Organization, Profitability.

INTRODUCTION

Cash management is an essential tool that aims at establishing the financial position of the organization. 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's goals, cash recovered should be matched with cash spent on services so that there are no unused cash balances[1]. Cash management is concerned with the management of cash flow that is to say inflow and outflow of cash, this seeks to achieve control of cash by paying obligations like meeting organizational needs[2]. The indicators of cash management include cash planning which is a technique used to plan and control the use of cash, safety that is to say there should be one to authorize the use of cash, cash control, cash allocation, and cash budget. Most businesses are set up to make a profit. Profitability is the organization's desired state where turnover is greater than the cost[3]. The profitability of the business is defined as the ability of a firm to earn returns on investment. The higher the cash balances, the more returns or profitability will be foregone. The indicators of profitability include return on assets, return on capital employed, and sufficient cash flows[4]. Cash management techniques applied by private schools include paying school fees in the banks using school bank slips, students paying directly to the bursar, using a lockbox, and others paying through cheques. Eton et al.[5] states that, effective cash management enhances growth which in turn produces increased profitability, however, some private schools continue to close down due to weak cash management. Cash management techniques are adopted by organizations to ensure effective investment of cash and to achieve improved profitability both in the short and long run. But despite the adoption of these cash management techniques, most private schools in Uganda are bankrupt to the extent that some of the schools closed due to poor cash management. However, some head teachers misuse cash for their personal purposes leaving school accounts dry which leads to cases like not paying for the candidates' registration (New Vision October 2008) where students do not sit for their final exams. It's against the above-mentioned statement that the researcher is compelled to carry out the study to establish why cash management is failing to boost profitability in primary schools. This necessitated the present study that

explores cash management and profitability of private schools in Ntungamo district from the lens of Parents Care Primary School.

The Concept of Cash Management Techniques

Cash management involves managing the monies of the firm to maximize cash availability. It includes policies and procedures adopted by the management of an entity to assist in achieving the management policies, laws, and regulations of cash, the prevention and detection of fraud and error, and promoting orderly, efficient operations[3]. Shwetha[6] defines cash as the money that a firm can disburse without any restriction. The term cash includes coins, currency, and cheques held by the firm and balances on its bank accounts. Sometimes near cash items such as marketable securities or bank time deposits are also included in cash. He further noted that cash management is concerned with the management of cash flows into and out of the firm, cash flow within the firm, and cash balances lent by the firm at a time of financing deficit surplus cash. Kakeeto et al.[7] say it is essential to keep some of the organization's resources in cash by any business unit. The need to hold cash may be attributed to the following motives, the transaction motive, precautionary motive, and speculative motive. Transaction motive recognized that the organization has to carry out daily transactions to protect its profitability position. Cash is needed to pay for labor, materials, and utilities to ensure smooth operations. Precautionary motive, cash is needed to Cashion the organization against any unforeseen problems like failure of emergency workforce problems, and failure of the electric system, and such problems have negative implications on the organization's profitability. Therefore the availability of cash resources mitigates their effects and keeps the organization's profits in balance[7]. For speculative motives, the organization maintains cash balances to take advantage of any performing venture that may unexpectedly crop up like a sudden fall in the price of scholastic materials. Once the organization's cash is stripped, it will not be able to take on such advantages and additional income and savings from such events will be lost[8].

Cash Planning

Cash planning is a technique used to plan and control the use of cash. It involves the preparation of forecasts of cash receipts and payments 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[9]. With an 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 the school's failure[10]. According to Vipond[11], cash planning is a technique used to plan and control the use of cash. An organization needs cash to invest in inventory, receivables, and fixed assets and to make payment for operating expenses to maintain growth." The cash pool position of the firm can be corrected if its cash needs are planned in advance, remarks[12]. Tuovila et al.[13] that cash planning is a prerequisite of cash management because the information helps financial managers to determine the future needs of an organization. It also helps to exercise control over the cash and liquidity of the organization. The cash budget is the most significant device in planning for and control over cash receipts and payments. Moore[14] saw possible negative consequences if the organization does not maintain minimum cash levels for each unit. This develops from the manager's failure to truly manage cash and keep on hoping that things will work out well as they usually did in the past. It is comparatively easy to make short-term forecasts. The important functions of carefully developed forecasts are; to determine operating cash requirements and to anticipate short-term financing. Al-Debi'e [15] remarks that short-run cash forecasts serve many other purposes, e.g. multidivisional organizations use them as a tool to coordinate the flow of funds between their various divisions as well as to make financing arrangements for these operations. These forecasts may also be useful in the determination of the margins or minimum balances to be maintained with the banks. Other uses of these forecasts include planning reductions of short and long-term debts and scheduling payments in connection with capital expenditure programmes. Cash management policies should include measures that prevent losses arising from fraud, and provide accurate accounting for cash receipts, cash payments, and cash balances[16]. Laghari et al.[17] remark that planning of cash involves the formation of cash policies to handle normal and abnormal cash requirements, the normal cash requirements are policies that result from or are predictable and occur as a result of routine operations and include cash for suppliers, salaries, and wages. Organizations should, at all times, have trained staff to handle cash. This will provide checks and balances. An employee of an organization with cash handling responsibilities should ensure that all funds are receipted for and have been properly deposited and recorded. Catoni[18] asserts that for any financial institution to thrive, management must regularly provide timely feedback to rectify any financial challenges at hand.

METHODOLOGY

Research Design

The study employed a cross-sectional survey supported by qualitative and quantitative approaches. Across sectional survey provides a onetime opportunity for intensive and extensive study of specific details of the data collected. It considers the views, preferences, practices; concerns, attitudes, and opinions of the target sample in the entire population at a particular time, and results are extrapolated to the entire population[19]. A cross-

sectional survey design was supported by the qualitative and quantitative approaches which neutralize bias that would arise from the use of one method[20]. It is necessary because of the wide range of information required before an informed conclusion can be arrived at.

Study Population

The study targeted a population of 50 employees and PTA members of the school. These were people entrusted with financial responsibility, academic board, management and accountability in parents care primary school.

Sampling Technique

Both purposive and simple random sampling methods were used. Purposive sampling supports the choice of subjects that are advantageously placed to provide the information required. The choice for purposive sampling stems from the fact that the researcher needed focused information based on the typicality and useful rich cases only for in-depth study. On the other hand, a simple random sampling technique requires that individual elements of the same size in a population have equal and independent chances of being included in the sample[19].

Sample Size Selection

A sample size of 30 respondents was selected as indicated in Table I below:

Table 1: Sample Size Selection

Category of respondents	Target population	Sample Size	Sampling technique
Director	2	2	Purposive
Headteacher	2	2	Purposive
Bursar	2	2	Purposive
PTA	44		Simple random sampling
Total	50	30	

Source: Field survey

RESULTS AND DISCUSSION

Table 2: Respondents' responses on cash planning

Category	Frequency	Percentage
Strongly agree	22	73.3%
Agree	7	23.3%
Not sure	1	3.3%
Disagree	0	0%
Strongly disagree	0	0%
Total	30	100%

Source: Field survey

Results above reveal that 73.3% strongly agree that cash planning is a management tool, 23.3% agreed that the school utilizes cash planning as a technique used in maintaining its cash, whereas the remaining 3.3% were not sure. The school maintains a cash book, petty cash book, and other related books. It is from these documents that informed decisions can be made as regards forecasts, budgets, disbursements, allocations and controls, and any other relevant aspect beneficial to the school. The findings properly coincided with those of Kakeeto et al.[7] idea of cash planning as a technique employed to direct and control the movement of cash. Having good cash planning in place leads to proper utilization of this cash as per planned utilities/investments hence leading to increased profitability. In an interactive interview with the deputy headmaster, she emphasized the rationale of planning for cash in any institution where cash is used as a medium of exchange with other goods or services provided.

Table 3: Respondents' Responses on Cash Allocation

Category	Frequency	Percentage
Strongly agree	27	90%
Agree		10%
Not sure	0	0%
Disagree	0	0%
Strongly not sure	0	0%
Total	30	100%

Source: Field survey

The findings revealed that 90% of the respondents strongly agreed that the school makes allocations of cash, and 10% agreed with the statement. Among the allocations sighted out involved wages and salaries, allowances, bonuses, and purchase of scholastics and food which have a direct link with the respondent's cost and standard of living. The findings bring out the ideas of Idoniboye-Obu who found that good allocation of cash eliminates and minimizes fraud and embezzlement of school funds thereby leading to an increase in the profitability margins realized by the school. This was further supported by the school's bursar as all allocations to be made have to be authorized by the director as he is the head of the school.

Table 4: Respondents' Responses on Cash Banked

Category	Frequency	Percentage
Strongly agree	25	83.3%
Agree	5	16.6%
Not sure	0	0%
Disagree	0	0%
Strongly disagree	0	0%
Total	30	100%

Source: Field survey

The findings reveal that 83.3% of the sample population strongly agreed that cash is banked, and 16.6% agreed also with the statement. It was found out that the school holds an account that keeps the school money and from which drawings are made to make the necessary disbursements. Banking is one way to hedge risks. Seke[21] observed that one way against misuse and theft is banking.

Table 5: Respondents' responses on staff productivity

Category	Frequency	Percentage
Strongly agree		100%
Agree	0	0%
Not sure	0	0%
Disagree	0	0%
Strongly disagree	0	0%
Total	30	100%

Source: Field survey

From the table above, 100% of all the respondents strongly agreed that staff productivity and profitability are inseparable. In other words, they all move in the same direction as 0% disagreed. More so, the research revealed

that a good staff attracts and draws more customers (parents and pupils) to the school and the reverse is true. It was found that the more customers the more the cash inflows and also the more the costs are effectively reduced or spread across which leads to high profitability. The findings are in line with the findings of Miller[22] who revealed that a good staff leads to good results and these results are profits depending on the injections made by the school. More members of the PTA emphasized staff productivity and profitability should be given more attention to enable the school to work up to the set objectives.

Table 6: Respondents' responses on shareholders and dividends

Category	Frequency	Percentage
Yes	0	0%
No	30	100%
Total	30	100%

Source: Field survey

It was found out that the school is private and therefore dividends do not apply to the school. From the table, it is evident that all respondents were aware that there were no shares in the school and there were no dividends given out. It is important to note that dividends paid and dividends received reduce and increase capital respectively but in all the truck records for the period 2009-2013 there was no reduction or increment in capital brought about by dividends implying that dividends are neither received nor paid out.

CONCLUSION AND RECOMMENDATIONS

Given the size and complexity of the organization and the partnership as a whole, business without cash management is a serious threat. It is on this note that this article calls for an effective management of cash. Thus, the organization has to put into place controls to ensure that cash is safe. The school should encourage parents to even pay during holidays as a way of boosting the school collections which in turn will enable allocations to be made in the due time. More so, the school needs to invest money in projects that are beneficial to the school. The school should use more of the cash outflow than the cash basis to maintain the school liquidity at an optimal level. Finally, the relationship between cash management and profitability should be monitored all the time. This should be done through cash planning, cash collection, cash allocation, and cash budgeting.

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