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CASH MANAGEMENT PRACTICES AND THE FINANCIAL PERFORMANCE OF PRIVATE UNIVERSITIES IN KENYA

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Abstract: **Kenya's higher education sub sector is among the highly growing. Therefore, cash management becomes more significant compared to other liquid assets since cash is a vital asset to be held by a firm. Cash management practices are necessary undertaking that enhance matching the timing of payments and the available of cash which may hamper with operations of a firm. Private universities have erratic cash flow dependent of lone stream and limited access to capital. The problem is magnified by the management focus on growth which put much pressure on cash management systems. Cash deficiency in Kenya private universities will expose the universities to financial risk that may ultimately affect the daily operations in provision of higher education leading to liquidation. The study endeavoured to establish the effect of cash management practices on financial performance of private universities in Kenya. The objectives of the study were to identify effect of cash budgeting, to determine the effect of cash policies, to establish the effect accounting practices and to identify the effect of investing of surplus cash on the financial performance of private universities in Kenya. The study was guided by free cash flow theory and decision usefulness theory. The study targeted 35 private universities registered by Commission for university education and sought observations of 35 finance officers. The descriptive research design was adopted during the study. The study adopted a census in the data collection. Questionnaires were administered to the targeted population. Data was coded and analyzed using Statistical Packages for Social Sciences (SPSS) and Microsoft excel. Data analysis was presented using descriptive and inferential statistics. Descriptive statistics involved weighted average and percentages and inferential statistics involved regression and correlation analysis. The findings revealed that cash budgeting assist in making cash forecasting and variance analysis, however, does not enhance budgetary control, spending of cash as planned, control of university spending habits and involvement of all departments; cash policy ensured proper cash management and safe custody of financial documentation, however did not ensure security and tracking of university funds and that financial controls were strictly followed; accounting practices enhanced tracking of business transactions and preparation of financial statements but not keeping of daily cash receipts and payments; investing surplus cash did not show improved liquidity and profitability and returns being consistent with risk undertaken. The correlation analysis results revealed that at 1% level of significance cash budgeting, cash policies, accounting practices and investing surplus cash have a significant positive influence in determination of financial performance in private universities. The results from regression analysis revealed that cash budgeting accounts 21.9% magnitude in influencing financial performance; cash policy accounts 43.1% magnitude of influence on financial performance; accounting practices accounts 29.8% effect size in influencing financial performance in private universities. The study recommended that the university management to formulate guidelines on cash budgeting process with involvement of all departments, formulation and strict adherence of cash policies; Commission for university education to cause adherence of accounting standards and conduct yearly audit and investment be undertaken after due diligence report is approved by the university governing body.**

Keywords: **Returns, Private University, Variance analysis, financial performance, Accounting practices, Cash budgeting, Cash management practice, Cash policies, internal controls, investing surplus cash.**

1. INTRODUCTION

1.1 Background of the study

Efficiency in cash management is very important especially to the firms and institutions in which their assets are comprised of current assets that directly impact on liquidity and profitability. Cash management relates to prudent management of organization cash to ensure existence sufficient cash to support the organization daily operations, growth in finance and provision for unexpected disbursements while inconsiderably surrendering profit due to holding of excess cash (Akinyomi, 2014)

Cash management is a core component in the working capital management of any particular organization and hence has significant impact on the liquidity position of the same organization. In cash management cash assets such as cash, marketable securities and prepayment are controlled. Arnold (1998) observed management of cash to encompass the regulation of cash and cash equivalents hence facilitating the funding of the business entity. It is therefore, with this regard that cash control becomes primary in enhancing the liquidity position of the firm in order to honor its obligations by reducing wastage and making sound investments with the surplus cash realized in the course of operating activities.

1.1.1 Cash management practices

If an organization fails to understand cash management of finance a lot of energy and effort spent will fail to bring improvement in performance of an organization (Longenecker,2006). Business cash budgeting is an elementary and crucial undertaking that permits the business to accomplish a lot of goals in the course of action. Budget being a financial planning tool regularly assembles performance plans and budget proposals that describe performance objectives, indicators of output in different levels of activities designed at achieving performance goals. Due to the significant impact cash management has on the financial performance of an entity, cash planning becomes a primary function of the university management. Financial planning and forecasting is a comprehensive and a well organized structure that identify sources of finance and the activities to spend the sort finance in a firm. Through this process the firm is able to communicate its financial goals and objectives and any deviation noted and controlled hence establishing a mechanism to curb wastage and enhance the firm sustainability. Financial plans can either be operational which will run for a short period of time usually on year or strategic which will run for a longer period of time usually 3- 5 years. Therefore financial planning and forecasting is a continuous process that is implemented in the organization through budget plan. In budgeting process various departments are allocated resource on the basis that the financial resource can be traced back to the activity undertaken hence maximizing resource use and improving firm solvency.

Nyabwanga (2011) asserted that by setting a cash balance policy it will ensure prudence cash budgeting and investment of surplus cash. The liquidity position of the university is determined by the optimal level of cash and thus investment choices and goals should course the adoption of integrated financial statement that will link the financial goals with the financial metrics. This establishes relationship to assess the financial performance on profit metrics and cash flow requirement.

Business entities exist in order to increase the wealth of the owner which is enhanced by generating profit. Therefore, the financial performance can be examined by profitability and sustainability examined on ability to generate positive cash flow balances. The financial performance can measured in the level of efficiency and effectiveness in organizational operation. To enhance good financial performance an entity should adopt proper cash management practice in order to minimize on unnecessary costs and invest the surplus to earn extra returns.

1.1.2 Financial performance of private universities in Kenya

Financial performance is the process and degree to which the organizational policies, financial objectives, goals and operations are measured in monetary terms and level of achievement. Institutional growth and profit sustainability is inevitable in any competitive environment. Efficient cash management is a vital indicator of how an institution is financially healthy and its prospect for growth. A university will be termed as being healthy financially when its able to pay its obligation when they fall due. In an audit conducted by CUE (2017), the commission noted that some private universities are facing cash flow challenges with some slashing employees allowance by 30% and unable to honor creditors obligations and employees salaries. The commission in 2017 recommended forensic audit to ascertain their sustainability and financial restructuring for some private universities. A university should formulate policies to control cash flow and reduce financial distress cost which may ultimately leads to insolvency. One of the primary principle realities of a business entity postulates that the operating performance of an entity guides its financial structure.

1.1.3 Cash management practices and financial performances

In this context, the efficient cash management practice plays an important role in the organization strategy to enhance growth and sustainability through determination of optimal levels of cash to hold and cash amount to invest in marketable securities. Efficient cash management will enable a firm to financially perform better in the market and advance a competitive advantage. Prudent cash management practices are aimed at ensuring there exist optimal cash balance that drives towards attainment of profitability and reduce liquidity risk. The objective is achieved by adoption of cash management practices such as cash budget, adequate accounting practices, appropriate cash policies and controls and investment of surplus cash.

Kakuru (2005) observed business entities should purpose on collecting cash receipts and making informed disbursement in order to ensure a net balance of a surplus is maintained. When the receipts and disbursements are matched, surplus net balance will be realized which is investable for firm profit. Availability of cash for operational activities in a firm has significant multiplier outcome that relates to its financial performance. In order to increase profitability the manager scrutinize the cash flow and make investments that are sound and with considerable less risk.

Deloof (2003), observed existence of relationship on cash management and profitability through quotient of cash conversion cycle into its components. Nasr (2007) observed that cash management policies are more often than not related with getting better models of ascertaining optimal cash balance and liquidity rather than examining underpinning cause of relationship between liquidity, profitability and working capital management practices. Soenen (1993) noted that upon ignoring industrial and sectoral differences, no any statistically significant constant relationship between cash management and profitability. Nevertheless, upon taking in to account the industrial and sectoral differences, the association between the cash management variables depicts some dissimilarities spanning across industries and sectors as positive in some sectors and negative in others.

Statement of the problem

Cash management comprise a key component of working capital management and therefore perceived as a facet and primary identifier of good financial performance in today's businesses (Brealey, Myers & Allen, 2008). According to CUE (2017) report, Kenyan universities are facing serious financial crisis, operating on a Sh 9 billion deficit. The worst affected are private universities which largely depends on the students fees for their up keep which owe to a tune of Sh 7 billion. With such huge debts it's emerging that many private universities are finding it difficult to operate in a very competitive market and with some on the verge of folding off. The CUE was concerned with the unethical practices adopted by the private universities to raise cash by disregarding the set academic standards. The financial challenges are premised on improper practices on cash management.

Cash deficiency in an organization can bring about inefficiencies in the operations which affects the profitability, solvency and liquidity and ultimately putting the going concern of the institution in great risk. Majority of studies are directed largely on corporate and government funded universities. Apparently financial management in private universities and public universities show some similarities. However, there exists considerable difference that supports the cash management in private universities because of the funding source and sectoral requirements.

Due to the complexity of private universities accessing external funding, they heavily rely on internally generated funds from tuition fee of enrolled students and incomes from auxiliary enterprises and investments. The study therefore sought to determine the extent to which cash management practices influence financial performance of private universities.

Objective of the study

General Objective

The overall objective of the study was to determine the effect of cash management practices on the financial performance of private universities in Kenya

Specific Objectives

The specific objectives of this study were:

1. To identify the effect of cash budgeting on financial performance of private universities in Kenya.

2. To determine the effect of cash policies on financial performance of private universities in Kenya.

3. To establish the effect of accounting practices on financial performance of private universities in Kenya.

4. To determine the effect of investing surplus cash on the financial performance of private universities in Kenya.

Scope of the study

The study focused on private universities in Kenya. This involved all the 35 private universities which includes fully chartered and the ones with letter of interim authority. A census of all the private universities identified was conducted. The study was restricted to the concept of cash management and financial performance in the private universities.

2. LITERATURE REVIEW

Theoretical review

Free Cash Flow Theory

Jensen & Michael (1996) advanced that in free cash flow theory, behaviors of managers are inconsistent with profit maximization objective. Managers on their part with increased cash flow pursue objectives that are less concerned with profit increment but making their lives better by increasing the size of the firm. The agency cost as advanced by Jensen, Clifford & Smith (1995), allude that in monitoring difficulties the management create avenues for spending internally generated cash flow on investment plans of much benefit to them than they are to shareholders.

The theory holds that in order to minimize free cash flow usable for advancement of opportunistic goals by management; investments should be made with the available cash. Donaldson (1997) observed that management of firms with cashflow that exceed profitable investments opportunities are likely to misuse cash by awarding themselves attractive benefits or by venturing in unprofitable investments. The free cash flow should be in turn used to pay dividends to shareholders. The agency hypothesis alludes that firms with free cash flow are probable to grow in size beyond the optimal point of shareholder goal of wealth maximization. The managers' decision such as share repurchase curbs the managerial wasteful expenditure. The theory relates to the study in that private universities management endeavors in increasing size by opening new campuses that are unprofitable and uneconomical in the long term.

Decision usefulness theory

According to George Staubus (1958) the theory tries to depict accounting as a set of procedures that provide decision makers with pertinent information for decision making process. The theory outlines well-structured procedure by which individual decision maker can derive best decision from their subjective probabilities. The theory is relevant to this research whereby the private university managers are expected to oversee the transaction and make more informed decision that would enhance profitability and liquidity to their institutions. Clelland (1961) asserts that successful business operations regard profit as a metric of achievement and competence. The entrepreneurs formulate achievable goals for their firms and concentrate in achieving them. These make them aware of each transaction undertaken in their business and therefore are better placed to control loss. The decision usefulness theory is relevant to this study since it emphasizes the recording of business transaction for the purpose of effective decision making that will help the university management.

Empirical review

Cash budgeting and financial performance

Adongo (2012) was interested in establishing the level of association shared by budgetary control and financial performance of state corporations in Kenya. The purpose of the study was to establish pertinent characteristics of budgetary controls in state corporations determine the human element in budgetary controls, identify the budgetary control process in state corporations and identity the setbacks encountered in budgetary control. From the findings the study revealed existence of direct relationship between budgetary control and financial performance of state corporations and the budgetary features that existed mirrored the capacity to project the financial milestones of organizations. In view of this the study, the management and other subordinates should be sensitized on the significance of budgetary controls in enabling financial performance. The study recommended that the management to increasingly avoid political distortion in the budgetary process and adopt budgets as management indicator and a tool upon which organizations anchor to enhance their financial objectives.

Wamae (2008) in a study on challenges of budgeting at National social security fund (NSSF). The study sort to determine the difficulties encountered in the budgeting process and the challenges experienced by an organization when preparing its budget plan. The study targeted the individuals involved in budget issues and preparations which comprised of board of directors members and departmental managers at NSSF. From the findings of the study, the researcher established that the organization encountered challenges during budget preparation and lack of commitment which lead to ambitious budgets that are unachievable resulting to board complaint. The study concluded that effectiveness in budget making enabled NSSF in controlling and being able to communicate financial objectives to subordinate. The challenges experienced in budgeting process at NSSF included poor participation in budget preparation, poor co-ordination of the exercise, incapability to spend the allocated amount due to limited authority. From the study the researcher recommended that budgeting process be given adequate time and full participation amongst departments be enhanced.

Accounting practices and financial performance

Okwena (2011) in a study on effect of proper book keeping practices on the financial performance of SMEs in Kisii Municipality. The purpose of the study was to establish the extent to which proper book keeping practices affects financial performance and find out the related causes of failure. By employing cross-sectional survey on a sample of 97 owners of the sampled SMEs, the study found out that the greatest challenge facing SMEs in record keeping which relates to poor understanding of book keeping procedures, business records loss and destruction, inefficient book keeping practices. The study established that the financial performance of SMEs was worsening and declining. It was also established that most SMEs adopted single entry while others used both single and double entry system. The financial performance has a strong direct relationship with proper and prudent bookkeeping as established by the study.

A study conducted by Ademola (2012) on the position of record keeping in the continued existence and growth of SMEs, revealed that most of the small-scale enterprises lack proper documentation of their activities. Lack of documentation and record keeping was associated with lack of understanding and knowledge of record keeping practices and procedures. Worse still, the study observed that some respondents viewed record keeping as a time-consuming activity. Majority of owners were not concerned to assess the growth of their business. Majority small scale entrepreneurs were noted to associate growth of their enterprise by continuing operation and no signs of decline. Nevertheless, the study reiterated there being complete, well timed and accurate documentation maintained in an organization will aid the achievement of the objective and financial goal which ultimately enables growth and expansion of an organization. The study recommended the entrepreneurs to maintain records and business documentation in a manner that gives trail of past events for a period of time in order to assess growth and going concern aspect of the business.

Cash policies and financial performance

Ewa and Udoayang (2012) in a study on the impact of internal control design on bank ability to examine fraud, detection and staff life style on Nigerian banks. From the analysis of data collected from 13 banks, the study observed that control designs determines the position towards fraud with adoption of strong internal procedure being a deterrent to fraud while weak procedures creating avenues for commission of fraud by staff.

Wanja (2011) in a study on the degree of association between the determinants of working capital management of Kenyan SMEs. Through a survey study that targeted sample of 205 SMEs. The study observed that firms with more cash flow volatility maintain excess cash to provide for stable and smooth daily operation of the firm.

Attom (2014) did a research on the cash management practices employed by micro and small enterprise in Ghana. The study aimed to identify the cash practices and cash controls adopted and recommend the policies to enhance prudent and efficient cash management practices. The findings observed that majority have no cash management procedures enacted while in other firms, if the cash controls and procedures and adopted as routine practice of operations, the management is hesitant to implement and enforce. Among a few enterprises that had cash control procedures and adhered to them they showed stability and growth. The study recommended that the MSEs should grasp the opportunity granted by financial institution to open and operate different account between the business and personal to stimulate their chances of obtaining financial assistance from the financial institution. Further the study recommended the MSES proprietors be willing to enfold, consistently follow control routines such as daily banking and cash counts to enhance accountability and trail of cash.

Investing surplus cash and financial performance

Mong'o (2010) studied the effect of cash flow on profitability in commercial banks in Kenya for a period of five years. The study objective was meant to expond the effect various cashflow components have on growth of profitability. The study used bank profit after tax as dependent variable with components of cash flow as independent variables. The study adopted multiple regression in analysis. The study observed that cashflow from operating activities shown similar trend as a result of improved performance in financing and investing activities cash flow which had increased in a dependable way. The study observed that financing and investing activities cash flow had a strong relation to bank profit with operating activities having an inverse relationship.

3. RESEARCH METHODOLOGY

Research design

This study was carried out using descriptive survey design. Descriptive research is interested in the determination of the frequency into which a certain event occur or the association between variables. The information is gathered and collected by interviews or administering a questionnaire to individuals sampled. The applicability of the design was informed on the fact that it would enable the researcher to enact relationship between variables in order to accomplish a deeper analysis of the effect of cash management practices on financial performance of private universities in Kenya. The design furnished primary facts concerning the respondents and their inner emotions, disposition and opinions.

Target population

The target population of the study was all the thirty five registered private universities by Commission for university education as at December 2017.

Sample design

The study adopted a census survey in which all the registered private universities by CUE were involved and studied since the number was considerable low, manageable and reasonable to deal with.

Data collection procedure

Data collection was undertaken using questionnaires comprising of structured and unstructured questions.The study preferred the use of questionnaire because of its simplicity and easy administration in gathering primary data. The suitability of questionnaires was founded on the fact that the researcher was able to collect data by reaching large sample within limited time while also enhancing confidentiality of information.

Model specification

Financial performance = f (cash budgeting, cash policies, accounting practices, investing surplus cash)

$$\mathbf{Y=\alpha+\beta_1X_1+\beta_2X_2+\beta_3X_3 + \beta_4X_4 +\varepsilon}$$

$$\mathbf{Y=\alpha+\beta_1X_1+\beta_2X_2+\beta_3X_3 + \beta_4X_4+ S +\varepsilon}$$

Y= financial performance

α = Intercept coefficient (constant)

X_1=cash budgeting

X_2 = cash policies

X_3 = accounting practices

X_4 = investing surplus cash

S = university size

ε = Error term within a confidence level of 99%. The error term is introduced to take control of those variables that cannot be quantified.

$\beta1$, $\beta2$, $\beta3$ and $\beta4$ = co-efficient of regression that sets the change realized by Y as a result of change in independent variable.

4. DATA ANALYSIS AND PRESENTATION

Correlation analysis

Correlation analyses were conducted on the data obtained from the questionnaires to investigate the relationship between cash budgeting, cash policies, accounting practices, surplus cash and financial performance. Table 4.1 shows the findings.

Table 4.1: Intercorrelations between cash budgeting, cash policies, accounting practices, surplus cash and financial performance.

		Cash Budgeting	Cash policy	Accounting practices	Surplus cash	Financial performance
Cash Budgeting	Pearson Correlation	1				
	Sig. (2-tailed)					
Cash policy	Pearson Correlation	.574**	1			
	Sig. (2-tailed)	.001				
Accounting practices	Pearson Correlation	.576**	.493**	1		
	Sig. (2-tailed)	.000	.006			
Surplus cash	Pearson Correlation	.459**	.470**	.581**	1	
	Sig. (2-tailed)	.000	.000	.001		
Financial performance	Pearson Correlation	.589**	.664**	.542**	.417**	1
	Sig. (2-tailed)	.000	.000	.000	.000	

**. Correlation is significant at the 0.01 level (2-tailed).
N=30
Source: Researcher

Table 4.1 shows significant positive correlations between cash budgeting, cash policies, accounting practices, surplus cash and financial performance. The association is strong for cash policy, cash budgeting and accounting practices while moderate with surplus cash.

Table 4.1 shows cash budgeting and financial performance has r=0.589 indicating a strong positive relationship. This is satisfactory to the first objective to identify the effect of cash budgeting on financial performance of private universities in Kenya. The p value is <0.01 hence leading to rejection that there is no significant relationship between cash budgeting and financial performance at 1% significant level. The findings indicate that adoption of cash budgeting is positively correlated to financial performance of private universities in Kenya.

Table 4.1shows cash policies and financial performance has r=0.664 indicating a strong positive relationship. This is satisfactory to the second objective to determine the effect of cash policies on financial performance of private universities in Kenya. The p value is <0.01 hence leading to rejection that there is no significant relationship between cash policies and financial performance at 1% significant level. The findings indicate that adoption of cash policies is positively correlated to financial performance of private universities in Kenya.

Table 4.1 shows accounting practices and financial performance has r=0.542 indicating a strong positive relationship. This is satisfactory to the third objective to establish the effect of accounting practices on financial performance of private universities in Kenya. The p value is <0.01 hence leading to rejection that there is no significant relationship between accounting practices and financial performance at 1% significant level. The findings indicate that adoption of accounting practices is positively correlated to financial performance of private universities in Kenya.

Lastly, table 4.1 shows investing surplus cash and financial performance has r=0.417 indicating a moderate positive relationship. This is satisfactory to the fourth objective to determine the effect of investing surplus cash on financial performance of private universities in Kenya. The p value is <0.01 hence leading to rejection that there is no significant relationship between investing surplus cash and financial performance at 1% significant level. The findings indicate that effective investing of surplus cash is positively correlated to financial performance of private universities in Kenya.

Regression Analysis

To analyze the significance of relationship between dependent variable and independent variables (predictors) pooled together, the researcher conducted multivariate regression analysis. This was aimed at identifying how independent variables influence the dependent variable collectively and identifying the extent and significant of this influence.

Table 4.2: Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Change	F Change	df1	df2	Sig. F Change
1	.731[a]	.534	.467	.21568	.534	60.678	2	29	.000
2	.739[b]	.546	.471	.22754	.012	19.498	1	28	.000

a. Predictors: (Constant), Cash Budgeting, Cash policy, Accounting Practices

b. Predictors: (Constant), Cash Budgeting, Cash policy, Accounting Practices, University Size.

Source: Researcher

Table 4.2 shows the Change in R Square is 1.2% an indication of increased in variation explained due to addition of university size as intervening term which is statistically significant ($p<.01$). The study concluded that university size moderate the relationship between cash management practices and financial performances of private universities in Kenya

Table 4.1: Multiple linear regression analysis model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.731[a]	.534	.467	.21568

a. Predictors: (Constant), Cash Budgeting, Cash policy, Accounting Practices

Source: Researcher

Table 4.3 shows R=0.731 as the model correlation coefficient. This depicts collectively the more variables incorporated, the model improved while determining the financial performance of private universities since it's the highest zero order value in the table. The R Square value (r=0.534) indicate the model could account for approximately 53.4% of the variations in determining financial performance of private universities in Kenya. To identifying the extent and significant of individual independent variable influence, the beta values were analyzed as shown in table 4.4 below.

Table 4.2: Regression model

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.264	.455		.861	.002
	Accounting practices	.298	.194	.242	1.514	.000
	Cash policy	.431	.169	.511	3.314	.000
	Cash Budgeting	.219	.132	.246	1.428	.022

Source: Researcher

Table 4.4 shows unstandardized beta coefficients that were used to deduce the regression equation as shown below.

$Y = 0.264 + 0.298X_1 + 0.\ 431X_2 + 0.\ 219X_3 + \varepsilon$

The model shows influence measure of each variable toward financial performance. The findings revealed that the cash policy had the greatest significant influence on financial performance of private universities ($\beta=0.431$, $p<0.001$) an indication of; for every unit increase in cash policy a 0.431 unit increase on financial performance is observed if all others variables are held constant. This is succeeded by accounting practices ($\beta=0.298$, $p<0.001$) and lastly cash budgeting ($\beta=0.219$, $p=0.022$) in which they are all statistically significant.

5. SUMMARY, CONCLUSION AND RECOMMEDATION

Based on the findings from the study, the conclusions drawn were that effective cash budgeting process has a positive significant influence on determination of financial performance. Adequate, detailed and well formulated and followed cash policies have strong positive influence on financial performance in private universities. Adoption of effective and efficient accounting practices have significant positive influence on financial performance and a well thought and executed investment plan of surplus cash in private universities will have a fairly significant positive influence on financial performance.

University management formulate guidelines that should be adopted in the cash budgeting process and all departments be involved as this will enhance budgetary control and the allocated cash used as planned and further ensure that all expenditures incurred are explained and justified. The university management should formulate detailed cash policies and ensure they are strictly followed to guarantee security of university funds and tracking the use of funds from the bank account. CUE should enact a policy that ensures universities maintain accounting records as per the international accounting standards and have the financial statements presented to the regulator for audit every financial year. The university management should ensure that before an investment of surplus cash is undertaken due diligence is undertaken and the investments should be diversified to spread the associated risk.

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