EFFECT OF CASH MANAGEMENT ON THE PROFITABILITY OF FINANCIAL INSTITUTIONS: A CASE OF EQUITY BANK KABALAGALA BRANCH

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A RESEARCH REPORT SUBMITTED TO THE COLLEGE OF APPLIED ECONOMICS AND MANAGEMENT SCIENCES IN PARTIAL FULFILLMENT OF REQUIREMENTS FOR THE AWARD OF BACHELORS DEGREE IN BUSINESS ADMINISTRATION OF KAMPALA INTERNATIONAL UNIVERSITY

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Declaration

I, do here by declare that the work contained in this research report is original and has never been submitted to any other university or institution for the award of a degree or publication

Signature.......Kuk.......................... **Date**.....08th/5/2014..........................

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Approval

This is to certify that this research report has been under my supervision and now ready for submission with my approval

Signature... **Date**....8th | 05 | 2014.........................

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Dedication

This research report is dedicated to my beloved Aunt Ms. Mbabazi Juliet for the financial support and my parents; Mr. Muhumuza Robert and Mrs. Twongeirwe Annet and my brother; Bainomugisha Gregory, sister; Akampwera Sheila who have always been a source of inspiration and without their sacrifice and encouragement; this research work could not have come to a successful end.

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List of Abbreviations

ACH	Automated Clearing House
EAT	Earnings After Tax
EOE	Return on Equity
FDI	Foreign Direct Investment
IT	Information Technology
ROA	Return on Asset
SPSS	Statistical Package for Social Scientists
TC	Total Cost
TR	Total Revenue
US	United States

Abstract

The purpose of the study was to establish the effect of cash management on the profitability of financial institutions with specific emphasis on establishing the various cash management techniques, the level of profitability and the relationship between cash management and profitability of Equity Bank. The research design adopted in this study was a case study design. The study population included the staff of Equity Bank on Kabalagala Branch a total of 30 respondents was selected for the study. Simple random sampling was used to select respondents in the field. The questionnaires were used and administered to the employees working with the bank. Data from the questionnaires was coded, entered, edited for consistency and easiness in and later analyzed using Statistical Package for Social Scientists (SPSS) where correlation was used to establish the relationship between cash management and profitability of Equity Bank. Regarding the study findings, it was revealed that cash management in Equity Bank affects profitability levels. The findings also showed that the bank employs several cash management techniques in order to reduce fraud of cash in the bank. The study also showed that profitability levels were high in the bank.

Findings on cash management in Equity Bank, it was revealed that the cash management techniques are in place but they are not so effective. The bank carries out cash planning , it prepares cash budgets, tries to maintain some cash balance but its not optimum, all of these are done by the bank but are not effective.

The researcher recommended that there is need for deploying a cash management system which involves support and coordination among multiple departments. Banks need to pick the right cash management provider who can coordinate the physical and technological installation of the system can significantly expedite and smooth the process of ensuring profit maximization. Each department should carefully consider features and functionality that will be required for a successful deployment and utilization of cash management which also increases profitability.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter presented the background of the study, statement of the problem, purpose of the study, objectives of the study, research questions, and scope of the study and significance of the study.

1.1 Background of the Study

Cash management is a broad term that refers to the collection, concentration, and disbursement of cash. The goal is to manage the cash balances of an enterprise in such a way as to maximize the availability of cash not invested in fixed assets or inventories and to do so in such a way as to avoid the risk of insolvency. Factors monitored as a part of cash management include a company's level of liquidity, its management of cash balances, and its short-term investment strategies. (Springer, 2005).

Cash management is a broad term that covers a number of functions that help individuals and businesses process receipts and payments in an organized and efficient manner. Administering cash assets today often makes use of a number of automated support services offered by banks and other financial institutions (Malcolm & Harris, 2010). The range of cash management services range from simple checkbook balancing to investing cash in bonds and other types of securities to automated software that allows easy cash collection.

Many companies are having negative cash flows which result in difficulties in funding business commitments such as paying suppliers, meeting payroll demands and paying taxes. Holding inadequate amount of cash or cash equivalent interrupts the normal flow of most business activities. There has been failure by most business organizations to satisfy the precautionary motive. Holding cash for precautionary motive, assumes management, need cash for emergency purposes when the cash flows are less than what is projected (Smith, 2000). It will be difficult for firms to cover for any unexpected needs for cash by acting as a preventive balance. Moreover, due to inaccurate safety margins by many firms, they will experience by financial difficulties with organizations failing take advantage of unexpected investment opportunities. It will also be difficult for organizations to satisfy the speculative motive. According to Wright (2002) speculative motive is holding cash to take advantage of additional opportunities such as a bargain purchase.

Cash management is an essential tool which aims at establishing the financial position of the organization. Pandey (1998) notes that it is a set of guidelines established by management to ensure that the organization has optimal cash balance at any time to meet the organization goals, cash recovered should be matched with cash spent on services so that there is no un used cash balances. Cash management is concerned with the management of cash flow that is to say inflow and out flow of cash, this seeks to archive control of cash by paying obligations like meeting organizational needs (Kakuru 2001). The indicators of cash management include cash planning which is a technique use to plan and control the use of cash, safety that is to say there should be one to authorize use of cash, cash control, cash allocation and cash budget.

Most firms manage cash through the following processes; determine the appropriate cash balance which is the assessment of trade off between benefit and cost of liquidity, then the optimal amount of liquidity is determined and the surplus cash employed in short marketable securities for profit maximization (Westerfield, 2000). According to Malcolm & Harris (2010), when it comes to cash collections, there are a few popular options today that can make the process of receiving payments from customers much easier. Automated clearing houses make it possible to transact a business to business cash transfer that deducts the payment from the customer account and deposits the funds in the vendor account. Generally, this service is available for a fee at local banks.

Most commercial bank is set up with the aim of making profit. Profitability is the organization's desired state where turnover is greater than input cost (Bogess 1967). According to Kakuru (2001) profitability is the ability of a firm to earn returns on investment. The higher the cash balances are in a business, the more returns or profitability will be fore gone. The indicators of profitability include return on assets, return on capital employed and sufficient cash flows. Profitability on the other hand refers to the positive gain from an investment or business operation after subtracting for all expenses opposite of loss (Proimos, 2009). Profitability on a company is the difference between the income of the business and all its costs/expenses. He also notes that it is normally measured over a period of time. Profits are an important source of investment funds (Külter and Demirgüneş, 2007). Profit can be used to buy more stock, improve technology or expand the premises. A business than does not make a profit will fail, potentially affecting employees, suppliers and the local community because their overall operations depend on profits.

Proimos (2009) further noted that in situations where businesses can exploit the customers because there is not much competition from other businesses. A business will need to an ethical view (what is morally right) on how much to charge and whether they believe their profits to be excessive. It needs to be remembered that profits are used to reinvest, which leads to better products for their customers, better wages and working conditions for their workers or to help the local community.

According to Ranson (2005), defined cash management as a set of guidelines established by a firm to ensure that it has optimal cash balance at any time. He further clarified that firms should seek to match the cash receipts and disbursements so that there is no redundant cash balance. In this argument the firm should aim at zero cash balance is cash inflows have covered the cash out flows. Cash management; the main ambition of most organizations is today to present good financial results. An organization's financial result is, for example, strongly influenced of the efficiency in an organization's value chain. According to Larsson (2000) the efficiency in the value chain can be improved, if organizations control and perhaps adjust their financial routines. One part of an organization's financial routines with potential, but which often is neglected, is organizations managing their liquid capital, or cash management.

Cash management is, according to Larsson (2000), not a new phenomenon and organizations have always considered how their liquid capital in the best way should be managed. Even though managing liquid capital always has been done, the term cash management has brought new light to managing liquid capital with focus on the timedimension of cash flow. During the fifties the first cash management – models were presented and the concept cash management was taken in use. Larsson (2000) hold that cash management can be defined as "theories and methods for handling liquid capital". According to Cash Management Report 580, which Larsson discusses, cash management consists of e.g. handling liquid capital and cash flow. Larson holds that many organizations neglect their work with cash management. This neglect arises from the shortcoming of e.g. efficient payment routines and trade receivables. Larsson describes that these routines easily can be obsolete if organizations don't focus enough on follow up and developing existing routines.

Cash Management is the management of the cash balances of a concern in such a manner as to maximize the availability of cash not invested in fixed assets or inventories and to avoid the risk of insolvency. According to Keynes there are three motives for holding cash: the transactions motive, the precautionary motive, and the speculative motive. The most useful technique of cash management is the cash budget. According to Davidson (1992) defined cash management as a term which refers to the collection concentration and disbursement of cash. It encompasses a company's level of liquidity, management of cash balance and short term strategies. Pindado (2004) also defines cash management as part of working capital that makes up the optimal level needed by a company. Bort (2004) noted that, cash management is of importance for both new and growing businesses. Companies may suffer from cash flow problems because of lack of margin of safety in case of anticipated expenses such that they experience problems in finding the funds for innovation or expansion. Weak cash flow makes it difficult to hire and retain good employees (Beranek, 2000).

The major reason for slow profits is wrong cash management policies or strategies. Performance of any organisation or business is assessed by the way they succeed or fail in the way they intend to achieve their objectives. Cash management offers huge cash opportunities that could be released with sustainability within a relative short period of time but organizations or companies which fail in their cash management policies face a challenge of reduction in their profitability levels (Loneoux and Fazeeria, 2004). It against this background therefore that the research will intends to find out whether it is the same situation in Equity Bank that cash management affects the profitability levels in a company.

1.1 Problem Statement

Financial institutions use certain strategies to manage cash which ultimately enhances their profitability but this is not the case in some of the financial institutions in Uganda. For instance, even though there exists cash management policies and guidelines, profits in case of sales volumes have reduced in the previous years 2007, 2008 and 2009. This is as a result cash mismanagement and under capitalization as evidenced by money laundering and fraudulent acts in Equity Bank. If such a situation is not checked, the bank may fail to meet its daily obligations (New Vision, Thursday 15th, 2009). Given the above situation therefore, the researcher was to establish whether the decline in profits was as a result of cash mismanagement.

1.2 Purpose of the Study

The purpose of the study was to establish the effect of cash management on the profitability of financial institutions.

1.3 Objectives of the Study

i. To establish the various cash management techniques used by Equity Bank

ii. To find out the level of profitability in Equity Bank

iii. To establish the relationship between cash management and profitability of Equity Bank.

1.4 Research Questions

i. What are the various cash management techniques used by Equity Bank?

ii. Which is the level of profitability in Equity Bank?

iii. What is the relationship between cash management and profitability of Equity Bank?

1.5 Scope of the Study

1.5.1 Geographical scope

The study was carried out at Equity Bank, Kabalagala Branch in Makindye East- Kampala district in Uganda.

1.5.2 Content Scope

The study established the effect of cash management on the profitability of financial institutions with specific reference to the various cash management techniques used by Equity Bank, factors affecting cash management in Equity Bank and the relationship between cash management and profitability of Equity Bank. Cash management is the independent variable whereas profitability is the dependent variable.

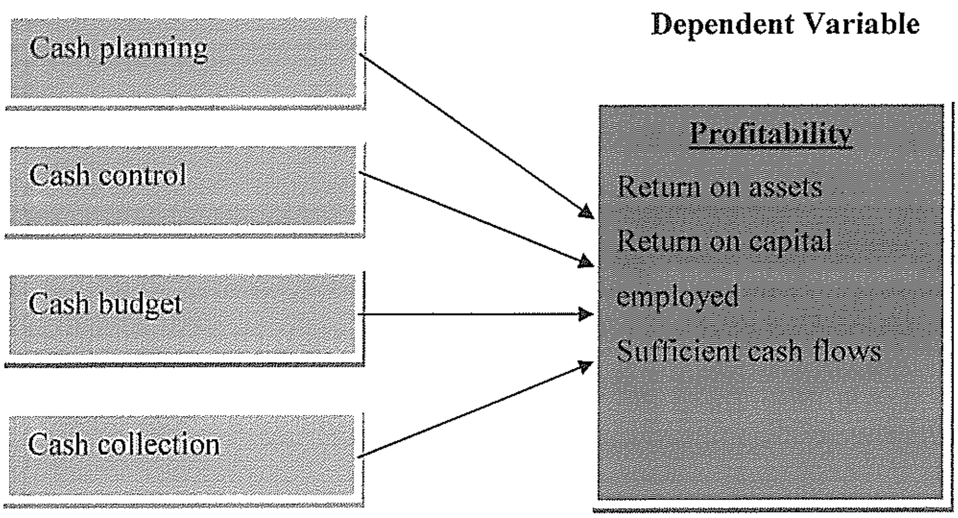
1.5.3 Time Scope

The study was focused on the period from 2008 to 2014. This reference period helped in establishing the effect of cash management on the profitability of the bank.

1.6.0 Conceptual Frame Work

Independent Variable

Cash management



Source: *Developed By the Researcher from Literature*

Diagram of proposed causal linkage among a set of variables believed to be related to a particular problem. The variables are in the boxes while the relationships are shown by arrows as shown above.

1.7 Significance of the Study

The study helped the management of Equity Bank in determining which cash management techniques to use in order to ensure profitability and also know the various factors that affect cash management in the bank.

The study acted as a source of literature for the scholars who intended to do research on how cash management affects profitability of any financial institutions or banks or any aspect related to cash management.

The research was helpful to the researcher to improve on her research skills for example in proposal writing and data analysis.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter reviewed the different existing literature of different scholars, the definition of cash management, the appropriate cash management techniques, the indications of cash management, the level of profitability, and the relationship between cash management and profitability

2.1 Cash Management

Cash management involves managing the monies of the firm in order 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, promoting orderly, efficient operations (Van Horme, 1995). According to Pandey (1998) cash is 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. Pandey (1998) noted that cash management is concerned with 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.

2.1.2 Importance of Holding Cash

According to Puxty and Dodds (1999), 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 speculate motive. Transaction motive recognized that the organization has to carryout daily transactions in order to protect its profitability position. Cash is needed to pay labor, materials and utilities in order to ensure smooth operations (Kakuru 2001).

Precautionary motive, cash is needed to Cashion the organization against any unforeseen problems like failure of emergency work force problems, failure of electric system and such problems have negative implications on the organizations profitability. Therefore the availability of cash resource mitigates their effects and keeps the organization profits in balance (mantilla et al 1999).

For speculative motive the organization maintains cash balances in order to take advantage of any profitability venture that may unexpectedly crop up like a sudden fall in price of scholastic materials. Once the organizations cash is stripped, it will not be able to take on such advantages and additional incomes and savings from such events will be lost (Puxty and Dodds 1999). According to Kakuru (2005) said that transaction motive is the need to hold cash to facilitate day to day transactions of the firm. A firm needs cash to pay for wages and salaries, purchase raw materials cater for administrative expenses and to pay taxes, dividends, etc. The need to hold cash would not arise if there was perfect synchronization between cash receipts and payments. The transaction motive therefore refers to holding cash to meet anticipated payments whose timing is not perfectly matched with cash receipts.

According to Pandey (2002) said that , asserted that corporate firms hold cash for transactional motive; these firms need cash to make payments like purchase, wages and other operating expenses like taxes and dividends. He explained that the need to hold cash would not rise if there was perfect synchronization between cash payments and cash receipts. He further noted that the transactions motive mainly refers to holding cash to meet anticipated payments whose timing is not perfectly matched with cash receipts.

Miller and Orr (1966) adapt the money demand model of Baumol (1952) to include the variability of the cash flows. The model shows the same relation between transaction costs and the demand for money as the model of Baumol (1952). The model of Miller and Orr (1966) also shows that the demand for money is an increasing function of the variability of the cash flows. Mulligan (1997) shows there are economies of scale in the demand for money using a sample of 12,000 firms for the years 1961-1992. The results indicate that large firms hold less cash as a percentage of sales than small firms.

Baumol (1952) creates a model in which a decision maker invests his wealth in an interest bearing asset and a non-interest bearing cash balance. Receipts and expenditures are not perfectly synchronized, which creates the need for transaction balances (Tobin, 1956). The transfer of funds between the two assets comes with transaction costs. So the decision maker faces a trade-off. On the one hand he earns interest from investing in the interest bearing asset, but on the other hand he incurs transaction costs from selling the illiquid interest bearing asset when he needs to make certain payments. The demand for money increases with the transaction costs of transferring funds from the interest bearing asset to the cash balance and decreases with the interest rate or the opportunity costs of the cash holdings.

Keynes' second motive, the 'precautionary-motive', pays regard to a company's need to provide for unsuspected expenses and "unforeseen opportunities of advantageous purchases". The strength of the 'precautionary-motive' is determined by the risk of a sudden contingency and the probability of a profitable acquisition. Thus, if a firm operates in a highly volatile sector of activity, its precautionary cash holding will be higher than that of firms which act in a less risky environment. According to Brinker(2000), firms hold cash for solving contingencies in future which helps these firms to overcome some unexpected emergencies, he further narrated the precautionary amount of cash depends on the predictability of cash flows that if cash flows can predicted with accuracy lee cash will maintained. When cash is put a side take care of some emergency that so much can affect the firm's progress, then that cash can be used to solve the problem hence profitability of a firm.

According to Smith (2000). Identified that cash management is concerned with management of both cash inflows and cash outflows and that inside the firm, the cash balance held by the firm at point of time by financing deficit or investing surplus cash. More so Nickson (2001) stated that cash management is very important in corporate firms. This is because it is through cash inflows in form of revenues that expenses incurred in financial period are settled. So these firms to meet such operating expenses like rent, electricity, salaries and wages should keep some cash at hand.

According to the precautionary motive, the cash holdings of financially constrained firms should increase when cash flows are higher. In other words, financially constrained firms should have a positive cash flow sensitivity of cash. For financially unconstrained firms no such relation should be found. Almeida, Campello and Weisbach (2004) use different approaches to divide the firms into subsamples based on measures of financial constraints. As measures of financial constraints they use payout policy, asset size, bond ratings, commercial paper ratings, and an index that combines different measures. The results show that for firms that are financially constrained the cash holdings are positively related with cash flows. This cash flow sensitivity of cash holdings is not found for financially unconstrained firms.

A totally different explanation for holding cash stems from the tax incentives that multinational firms face (Foley, Hartzell, Titman and Twite, 2007). In the U.S. a firm's foreign income is taxed. However; firms are allowed to defer their taxes if they do not repatriate their foreign income. So the U.S. tax system grants multinationals an incentive to retain earnings abroad, often in the form of cash holdings. Foley, Hartzell, Titman and Twite (2007) investigate whether higher tax costs associated with repatriation lead to larger cash holdings using a sample of U.S. firms for the period from 1982 to 2004. There are four main findings from their study. First, firms that face high repatriation tax costs hold larger amounts of cash than firms with low repatriation tax costs. Second, firms that face a high repatriation tax burden hold a larger share of their cash abroad.

Agency costs can be another reason for firms to hold cash balances. Agency costs of debt arise out of differing interests between equity holders and debt holders and raise the costs of outside funds (Jensen and Meckling, 1976). The incentives of equity holders to maximize the value of their shares are not necessarily consistent with the incentive to maximize the total value of the firm's debt and equity (Grinblatt and Titman, 2004). On the contrary, equity holders often have an incentive to take actions that reduce the value to debt holders. Lenders anticipate the self-interested incentives of equity holders and therefore charge higher interest rates on their loans. So in the end, the equity holders bear the costs of their own future adverse incentives by paying higher interest rates on their borrowings.

2.2 Cash Management Techniques

According to Pandey (2003) cash planning is a technique used to plan and control the use of cash. It involves preparation of forecasts of cash receipts and payments so as to give out an idea of the future financial requirements. Therefore the management of the bank needs to determine the schedules of monthly disbursements and collection schedules of creditors. With efficient cash planning system, the financial needs of the school will be met, with reduced possibility of the cash balances which lowers the school's profitability and cash deficits which can lead to school's failure . Pandey (2003) further notes that a cash budget is the most significant device used to plan for and control cash receipts and payments. A cash budget is a summary statement of the firm projected time period. This information helps the financial manager to determine the future cash needs of the firm, plan for the financing of these needs and exercise control over cash and liquidity of the organization (Kakuru2003).

According to Aksoy (2005), no matter what type of business you own, it is critical to manage your cash flow properly. Without proper cash flow management techniques you could find yourself running short of cash just when you need it the most. That could leave you unable to pay suppliers, develop the marketing plan you need or even pay your employees. Fortunately there are a number of techniques companies can use to maximize cash flow management and keep the business running smoothly.

Accounts Receivable; Many companies are too passive when it comes to collecting on overdue invoices. The money customers owe you plays a big role in your monthly cash flow, so it is important to develop a solid technique for tracking who owes your firm money, how much they owe and when the payment was due. Make sure your accounts receivable staff is taking a proactive approach to collecting on those unpaid bills, and ask for a weekly report showing the total amount outstanding, along with an explanation of why those payments have not been received (Damodaran, 2002).

Damodaran (2002) also noted that building an accounts receivable database is one of the best ways to keep track of what you are owed. Once the tables have been created and the database has been designed, all your accounts receivable clerks need to do is press a button to open a query showing the details of each outstanding invoice.

Track Expenses: Whether you are running a business or a household, it is important to get a handle on expenses. Many business owners are so busy with day-to-day operations that they lose sight of the big picture. Getting a handle on the expenses associated with running your business is one of the best ways to manage--and maximize--your cash. Start by building a detailed report of every expense for the past month. Break each expense down into its appropriate category, i.e. rent, utilities, office supplies, etc., then analyze each category and look for ways to cut back. For instance, companies can save money on office supplies by contracting with a specific vendor and negotiating lower prices, rather than running to the office supply store down the street (Deloof, 2003).

Cash Disbursement: According to Gitman (2008), cash disbursement is a function of accounts payable; it includes all outlays of cash by the firm during a given financial period. The objective of cash disbursement is to control payments and minimize the firm's cost associated with making payment. Vanhorne (2001) defends the idea put forward by Ross (2000), which says that the objective of cash disbursement is to delay payment as long as it is legally and practically possible. In pursuing this objective the firm should not compromise its relationships with suppliers as this may withdraw trade credit.

According to McLaney (2006), negotiating a reduction in cash outflows may be done in order to postpone or reduce payments. This will be done by taking longer credit from suppliers. However, if the credit period allowed is already generous, creditors might be very reluctant to extent credit even further and any such extension of credit would have to be negotiated carefully. There would be a serious risk of having further supplies refused. The rationale for such a move is to have complete control of the cash and to provide greater investment opportunities with larger sums of money available as surplus, (Bort, 2004).

Given the context of a company, cash disbursements are controlled through a policy of delaying payments to suppliers. However, failures to meet financial obligations by the company on time, owing to cash shortages mean loss of further supplies from injured suppliers. This is extremely damaging since some products would be vital to continuing business operations Refused. The rationale for such a move is to have complete control of the cash and to provide greater investment opportunities with larger sums of money available as surplus, (Bort, 2004). Given the context of a company, cash disbursements are controlled through a policy of delaying payments to suppliers. However, failure to meet financial obligations by the company on time, owing to cash shortages mean loss of further supplies from injured suppliers. This is extremely damaging since some products would be vital to continuing business operations

Preparations and Implementations of cash budget: - Gitman (2008) states that, a cash budget is a statement of the firm have planned inflows and outflows of cash. It is used by the firm to estimate its short term requirement with particular attention being paid to planning for surplus cash or for cash shortages. Kirkman (2006) arrived at the same idea by highlighting that as a component of implementing an effective cash management program, a cash flow statement called a cash budget may be prepared.

Chastain (2008) asserts that budgets are the financial road map companies' use, when planning business expenses and tracking the cash flow throughout the business year. Vanhorne (2001) says that, a common cash management tool found in companies is a cash budget. Most companies prepare budgets on the departmental level and roll these individual budgets into one master budget. Creating several smaller budgets, can help managers determine which operations use more cash and struggle to stay on the projected budget amounts. This discovery gives managers an idea of when improvements needed to correct the company's cash flow problems. Therefore, cash budgeting is another aid to an effective cash management.

According Sastry (1995) asserts that, in order for a cash budget to be implemented effectively there has to be a budget committee comprising the high level executive officers of the organization and officers representing the minor segments. Gitman (2008) agrees with Lucey (1993) that a budget manual should also be introduced in the preparation of a cash budget. Platt (2003) is of the idea that implementation of the cash budget is a vehicle to good cash management.

Pindado (2004) argued that, cash budgets, whether prepared on an annual, monthly, weekly or daily basis, can only be estimates of cash flows. Even the best estimates will not be exactly correct, so the deviations of the cash budgets are inevitable. This uncertainty about actual cash flows ought to be considered when the cash budget is being prepared. It is desirable to prepare additional cash budgets based on different assumptions such as sales levels, costs, collection periods and bad debts. A cash budget model could be constructed, using microcomputer and a spreadsheet package, and the sensitivity of cash flow forecasts to changes in estimates of sales, costs and could be analyzed by planning for different eventualities management should be able to prepare contingency measures in advance and also appreciate the key factors in the cash budget. Knowledge of the probability distribution of possible outcomes for the cash position, will allow a more accurate estimate to be made of the minimum. Palom (2001), advocate the use of a probability distribution of possible outcomes for the cash position to allow a more accurate estimate of the cash budgets hence making it possible to turn around the cash management problem

Credit Lines: According to Eljelly (2004), establishing a credit line with your lender is one way to manage cash flow and avoid shortfalls. Many companies set up a line of credit to cover those times when sales fall short or expenses run high. Companies can also use short term loans to provide the extra liquidity and cash management they need during the down months.

Cash Collection and Disbursement: Külter, and. Demirgüneş (2007), noted that cash collection systems aim to reduce the time it takes to collect the cash that is owed to a firm. Some of the sources of time delays are mail float, processing float, and bank float. Obviously, an envelope mailed by a customer containing payment to a supplier firm does not arrive at its destination instantly. Likewise, the payment is not processed and deposited into a bank account the moment it is received by the supplier firm. And finally, when the payment is deposited in the bank account oftentimes the bank does not give immediate availability to the funds. These three "floats" are time delays that add up quickly, and they can force struggling or new firms to find other sources of cash to pay their bills (Lazaridis, 2006).

Cash management attempts, among other things, to decrease the length and impact of these "float" periods. A collection receipt point closer to the customer perhaps with an outside third-party vendor to receive, process, and deposit the payment (check) is one way to speed up the collection. The effectiveness of this method depends on the location of the customer; the size and schedule of their payments; the firm's method of collecting payment; the costs of processing payments; the time delays involved for mail, processing, and banking; and the prevailing interest rate that can be earned on excess funds. The most important element in ensuring good cash flow from customers, however, is establishing strong billing and collection practices (Tryfonidis, 2006).

According to McLaney (1997), once the money has been collected, most firms then proceeds to concentrate the cash into one center. The rationale for such a move is to have complete control of the cash and to provide greater investment opportunities with larger sums of money available as surplus. There are numerous mechanisms that can be employed to concentrate the cash, such as wire transfers, automated clearinghouse (ACH) transfers, and checks. The tradeoff is between cost and time. Another aspect of cash management knows a company's optimal cash balance. There are a number of methods that try to determine this magical cash balance, which is the precise amount needed to minimize costs yet provide adequate liquidity to ensure bills are paid on time (hopefully with something left over for emergency purposes). One of the first steps in managing the cash balance is measuring liquidity, or the amount of money on hand to meet current obligations (Myers, 2003).

Myers (2003) notes that there are numerous ways to measure this, including: the Cash to Total Assets ratio, the Current ratio (current assets divided by current liabilities), the Quick ratio (current assets less inventory, divided by current liabilities), and the Net Liquid Balance (cash plus marketable securities less short-term notes payable, divided by total assets). The higher the number generated by the liquidity measure, the greater the liquidity and vice versa. However, there is a tradeoff between liquidity and profitability which discourages firms from having excessive liquidity.

Managing surplus and deficit cash balance. According to Van Holme (1995), the purpose of managing cash balance is to avoid having idle cash reserves or having deficits that cannot be invested preferably in short term ventures like treasury bills and other forms of commercial paper. Since investments are near cash, the liquidity of the organization is not comprised by the investment plan while profitability is also enhanced. The investment selected for this purpose should meet the following criteria.

They should be safe in that search for profitability does not increase the risks of liquidity. The instruments should have a low default risk so that interest and principle repayment will be realized (Kakuru 2001). He further notes that such investments in Uganda include fixed accounts and government treasury bills. Investments can easily and quickly be converted into cash with minimum possibility of a loss. In case of deficits, arrangements for financing should be in advance to avoid hurried solutions which rob the business of the opportunity to strike a fair deal and hence acquiring the resources at costs higher than those of the decisions that were taken in a relaxed atmosphere (Pandey 2003).

Managing of cash outflows: Generally different scholars argue that cash disbursements should be delayed as much as possible without hurting corporate image of the organization or defaulting on the obligations of the organization. The principle is that cash should be paid only at moment when delay is no longer necessary and possible and non beneficial (Kakuru 2001, Van Horme 1995, Pandey 2003). The way of delaying disbursements that were generally agreed upon by above scholars include; Predicting banking habits of the work force and paying out the wage bill accordingly. Wages should not be paid in advance when workers are willing to accept delayed payments. During this period the school will be able to make profits out of that money. In the same payments should be cheque as the bank clearance will always delay for some days. Maximizing the disbursement float through selecting geographical optimal disbursement banks. These banks should be such that cheques drawn on them will maximize the days the cheques remain uncollected.

2.3.0 Profitability

According to Dwivedi (2005), he defined profitability as an income accruing to the equity holders in the same sense as wages accrue to labour, rent to the owners of rentable assets and interest to the money lenders. Profitability is form profits which is denoted by Greek letter n and it is defined to be the difference between total revenue (TR) and total cost (TC) that is to say profits = total revenue-total cost. When total revenue is the total money received from the sale of goods and service and total costs being the amount of money the firm spent to produce these goods/services (Ian Jacques, 2003).

In support to Dwivedi, Kakuru (2005) also defined profitability as the difference between the revenue generated by corporate firm and expenses incurred during the operation of the business. He further classified that various costs incurred by these firms some of which are fixed costs like rent while other are variable costs which can easily change for example electricity expenses and the corporate firms can easily achieve increased sales revenue through extensive sales promotions so it is so important to these firms to reduce these costs while maximizing sales revenue.

More So Brinker (2002), defined profitability as the difference between the revenue generated and the costs incurred to produce the same revenue during a given accounting period so to him corporate firms should aim at increasing sales revenue and reduce costs incurred so that they achieve the desired levels of profitability. In support to Brinker, Pandey (2002) defined profitability as the difference between revenues and expenses over a period of time (usually a year) where profit is the ultimate output of a company so he concluded that affirm no future is it fails to make sufficient profits.

Profitability is defined as a process of investing they would have been idle liquid resources in investment portfolio and the amount invested it brings in return to the firm in form of interests (Home, 2006). Profitability was also identified as the difference between revenues and costs incurred during the accounting periods (Westerfied, 2000). According to Patel (2004) defines profitability as the difference between the firms revenues realized from the sale of product or service and the expenditure incurred relating to the same accounting period and he further elaborated that the firm should aim at minimize operating expenses while as increasing on the sales revenues which automatically leads to profitability in these firms.

Profitability was defined by Mugerwa (1997) as an income earned in the excess of the in put cost after a sale of service or product. Balunywa (1995) observed that present traditional economists take profit maximization as the objective of a firm. He further said that some scholars have a different view as they think profit making as not as inclusive as that of maximizing share holders wealth. However Balunywa in his view noted that any good performed organization should be able to realize profits. Griffith (2001) in agreement with Baluywa(1995) noted hat business profitability is the justification of its good performance. In deed profits of a business are the end result of operation and indication of its good performance.

Kimbowa (2003) noted that organizational profitability is affected by factors such as cost of input, management of cash flows, government policy and borrowing culture. If the school relies more on loans, costs such as interest rates will not be avoided and this has a negative impact on profitability. Kakuru (2003) provided that organizational profitability is affected by the cost of capital. In this case the cost of capital is usually increased by related dividends and interest rates from providers.

Eugen (1995) noted that default risk is one of such factors that threaten organizational profitability. The greater the default risks the higher the interest rates lenders charge on loans and the lesser the profitability. Contrary the chances of default, the lesser the interest rate charged, the cheaper the cost of capital, the higher the profitability that will be earned on capital. According to Limpsey (1993) organization profitability is affected by many factors and this include change in demand, change in prices of both inputs and output such as capital and labor4 then level of staff productivity. According to Pearce II and Robinson (2002) profitability is the main goal of a business organization. No matter how it is measured or defined, profit of a long period of time is the clearest indication of firms' ability to satisfy the principle claims and desires of employees and stake holders.

2.3.1 Measurement of Profitability

Profitability is measures to show how the firm is effective. Profit is a difference between revenues and expenses over a period of time. Profit can be measures in various ways and gross profit is between sales and of sales sold (Pandey, 2002).

Pandey (2002) identified that corporate firms can easily determine measure the profitability level by through using profitability ratios. According to him this can be measured after preparing financial statements. He further clarified that net profit is obtained after subtracting operating expenses like interest, taxes and electricity from the gross profit, hence net profit margin ratio is measured by dividing profit after tax by sales and it can be illustrated as below.

$$\textit{Net profit} = \frac{\textit{Profit after tax}}{\textit{Sales}}$$

Through comparison to industry average the higher the ration show profitability and lower ration to the industry is not encouraged. In support to Pandey (2002), Kakuru (2005) indicated that through profitability ratios the firm's ability to earn a return can easily be measured where he further clarified that this return is normally a margin either by sales, a portion of capital invested or portion of assets used and for net profit he also came up with the following formula.

$$\textit{Net profit} = \frac{\textit{Earning After tax}}{\textit{Total Sales}}$$

In his conclusion he remarked that it shows a return on every unit of sale after taking into account both cost of sale and expenses and the higher the ration in relation to the industry average ratio the higher the profitability of these firm and vice versa.

According to Nkundabanyanga (2004), defined profitability as a return expected by the management in relation to what it invested. To him profitability can be measured by using.

$$\textit{Gross Net profit} = \frac{\textit{Gross profit margin}}{\textit{Total Sales}}$$

Whereas increase in gross margin in relation to the industry average indicates reduction in cost of industry sales which increases the profitability of the firm.

Return on Investment:

Gillingham (2001), Investment refer to the net assets employed by the firm and firms can easily measure the profitability of any investment so as to base on the ending result either invest or not and the following method was stated for return on investment analysis

$$\textit{Return on Investment} = \frac{\textit{Earning after tax}}{\textit{Investment}}$$

Gross profit margin; Home (2006) indicated that gross profit is the difference between the revenues of the firm which is the amount realized from the sale of a product/service by an organization with the costs the was incurred to produce that revenue in other wards it's the earnings before subtracting depreciation, interest and taxes (EBIDT) that is

$$\textit{Gross profit Margin} = \frac{\textit{Gross profit}}{\textit{Sales}}$$

Where gross profit = sales - cost of goods sold. A high gross profit margin ration indicates high sales, good management and profitability which higher selling prices, low-costs of goods sold, whereas a low gross profit margin ratio indicates low profitable firm. But he stated that in order to come up with that analysis, the ratio obtained should be compared to the industry average ratio.

Return on total assets (ROTA); Return on assets indicates the profitability on the assets of the firm after all expenses and taxes (Van Horne 2005). It is a common measure of managerial profit (Ross, Westerfield, and Jaffe 2005). It measures how much the firm is earning after tax for each dollar invested in the assets of the firm. That is, it measures net earnings per unit of a given asset, moreover, how corporate firms can convert its assets into earnings (Samad & Hassan 2000). Generally, a higher ratio means better managerial profit and efficient utilization of the assets of the firm and lower ratio is the indicator of inefficient use of assets. ROA can be increased by firms either by increasing profit margins or asset turnover but they can't do it simultaneously because of competition and trade-off between turnover and margin. ROA is calculated as under:

$$\textit{ROA} = \frac{\textit{Net Asset after Tax}}{\textit{Total asset}}$$

According to Gillingham (2001) indicated that the return on assets of these corporate firms can be measured to identify whether the total assets are idle or not and he derived the method which can be used to measure the return of total assets which is;

$$\textit{Return on Investment} = \frac{\textit{Earning after tax (EAT)}}{\textit{Total Assets}}$$

Where assets total is a function of current assets plus fixed assets and also in his conclusion he stated that the higher ration in relation to the industry average ration shows that the total assets are having much return to the investors and the lower ratio compared to the industry average shows that assets are idle.

Return on Equity (ROE); Return on equity indicates the profitability to shareholders of the firm after all expenses and taxes (Van Horne 2005). It measures how much the firm is earning after tax for each dollar invested in the firm. In other words, ROE is net earnings per dollar equity capital. Also an indicator of measuring managerial efficiency (Ross1994). By and large, higher ROE means better managerial profit; however, a higher return on equity may be due to debt (financial leverage) or higher return on assets. Financial leverage creates an important difference between ROA and ROE in that financial leverage always magnifies ROE. This will always be the case as long as the ROA (gross) is greater the interest rate on debt (Ross, Westerfiled, and Jaffe 2005). Usually, there is higher ROE for high growth companies.

ROE is calculated as under:

$$ROE = \frac{\textit{Net Profit after Tax}}{\textit{Shareholders equity}}$$

2.3.2 Determinants of Profitability in a Company

Banking Sector Reforms have changed the face of Indian banking industry. The reforms have led to the increase in resource productivity, increasing level of deposits, credits and profitability and decrease in non-performing assets. However, the profitability, which is an important criteria to measure the performance of banks in addition to productivity, financial and operational efficiency, has come under pressure because of changing environment of banking. An efficient management of banking operations aimed at ensuring growth in profits and efficiency requires up-to-date knowledge of all those factors on which the bank's profit depends (Külter, and Demirgüneş, 2007).

The fundamental assumption associated with foreign direct investment (FDI) is that firms engaging in international production are at a disadvantage compared to local-firms. This is because of their unfamiliarity with local market conditions. Operating a subsidiary in a foreign market requires the commitment of resources and attention to both the supply and demand sides of the market (Külter, 2007). Additional costs (e.g., communication, administration and transportation) are incurred. When companies possess ownership advantages not available to existing or potential local competitors, they are considered making profits. Firms with strong ownership advantages, often developed in their home country operations, can apply ownership advantages to international markets. These ownership advantages, largely in the form of intangible assets represent a range of competitive strengths which are essential to their continued growth and ultimately to their survival (Dunning 1993).

Pinches, (1992) noted that there are a variety of reasons have been given to the success of firms and profitability of a company with the heavy foreign operations. A broad scope of geographic operations may yield competitive advantages by permitting a firm to exploit the benefits of performing more activities internally. Increased flexibility and greater bargaining power which result from a multinational network and profitability in the long run.

Porter (1990) indicated that they can utilize differences in the good and factor markets across geographic areas. (Kobrin 1991) demonstrated that they can effectively integrate globally in terms of rational production and standardizing products to achieve profits. Hitt (1997) posited that they can use internal resources and capabilities to exploit market imperfections existing across global regions and countries. This discussion suggests that firms with the heavy foreign operations have enjoyed strong ownership advantages which enable them to overcome the lack of knowledge of local conditions and to compete successfully with local firms in host countries and foreign firms to increase profits.

2.4 Relationship between Cash Management and Profitability

A cash management system incorporates traditional benefits of a safe, such as robbery prevention and time delay change funds, but also employs bill and coin handling technology, as well as its own operating system. Today's cash management systems connect to corporate networks to facilitate data exchange and remote management of the system to improve performance and profitability (Proimos, 2009).

The cost of a cash management system is very quickly recovered through the recurring savings garnered by the system itself. What initially may appear to be a "cost" quickly becomes a "profit generator" that produces annualized cash and non-cash savings. Typical cash management systems pay for themselves within 6-9 months yet continue to produce savings indefinitely (Ross, 2003).

According to Westerfield (2003), retailers have found recurring cash savings in many areas. Specifically, internal theft is dramatically reduced (cash received but not deposited into the safe); detection and rejection of counterfeit currency; and reduced armored car requirements. The latest and most exciting area of cash savings is now being gained through the retailer receiving "provisional credit" for funds in the cash management systems and not yet deposited in the bank. Non-cash savings include a drastic reduction of management time previously required to reconcile the transaction log with cash and preparation of bank deposits, as well as instant accounting and deposit preparation.

Deploying a cash management system involves support and coordination among multiple departments including Finance, Operations, IT, Security and Loss Prevention to improve profitability in a company (Raheman, 2007). Picking the right cash management provider who can coordinate the physical and technological installation of the system can significantly expedite and smooth the process of ensuring profit maximization. Each department should carefully consider features and functionality that will be required for a successful deployment and utilization of cash management which also increases profitability.

It is possible to discuss finance management under three main threads as capital budgeting, capital structure and working capital management. The first two of them are mostly related with financing and managing long-term investments. However, financial decisions about working capital are mostly related with financing and managing short-term investments and undertake both current assets and current liabilities simultaneously. So, most of the time, it is reasonable to term short-term financial management as working capital management because both contribute to profitability in a company (Ross, 2003).

Efficiency in cash management is so vital for especially production- firms whose assets are mostly composed of current assets (Horne and Wachowitz, 1998) as it directly affects liquidity and profitability of any firm (Raheman and Nasr, 2007). According to (Kargar and Bluementhal 1994) bankruptcy may also be likely for firms that put inaccurate working cash management procedures into practice, even though their profitability is constantly positive. Hence, it must be avoided to recede from optimal working capital level by bringing the aim of profit maximization in the foreground, or just in direct contradiction, to focus only on liquidity and consequently pass over profitability.

Working capital is also a major external source of capital for especially small and medium sized and high-growth firms. These firms have relatively limited access to capital markets and tend to overcome this complication by short-term borrowing. Working capital position of such firms is not only an internal firm-specific matter, but also an important indicator of risk for creditors (Moyer et al., 1992). Higher amount of working capital enables a firm to meet its short-term obligations easier. This results increase in borrowing capability and decrease in default risk because it involve stringent cash management policies to reduce losses. So, it is possible to state that efficiency in cash management affects not only short-term financial performance (profitability), but also long-term financial performance (firm value maximization).

Considering operating assets like receivables and inventories with cash and cash-equivalent assets is illogical for basic principles of cash management. Besides, mentioned traditional ratios are also not meaningful in terms of cash flows since they play a vital role in ensuring profitability (Myers, 2003). Closely related with operating cycle, cash conversion cycle is, in brief, the part of operating cycle financed by the firm itself to increase profits (McLaney, 1997) and is simply calculated by adding inventory period to accounts receivables period and then subtracting accounts payables period from it. It focuses on the length of time between the acquisition of raw materials and other inputs and the inflow of cash from the sale of goods (Arnold, 1998).

Traditional approach to interaction between cash conversion cycle and profitability posits that relatively long cash conversion periods tend to decrease profitability. Trade activities of a firm can be considered as a process in circulation where cash is converted into assets and assets into cash (Raheman, and Nasr, 2007). Cash available for trade activities of the firm has an important multiplier effect due to its turnover ratio. Higher cash turnover ratios enable managers to minimize short-term investments whose rates of return are relatively lower compared to long-term investments and consequently increase profitability. Studies regarding cash management by Nasr (2007) revealed that cash management policies are mostly related with improving models to determine optimal liquidity and cash balance, rather than analyzing underlying reasons of relationships between liquidity, working capital management practices and profitability.

Though foundations and assumptions of these models are not well-established in terms of applicability, cash management procedures inform managers about problems related with working capital management practices (Johnson and Aggarwal (1998). As mentioned before, traditional measures of liquidity are in lack of expressing the effects of cash flows; hence, the effectiveness (and quality) of working cash management practices in terms of firm profitability should be revised by components of cash conversion cycle.

In a study by Myers (2003), about working capital management practices in retailing firms, it has been concluded that there is a reverse relationship between cash management cycle and profitability. However, Soenen (1993) contradicts the same idea as he noted that in case of overlooking industrial differences, there does not exist any statistically constant relationship between cash conversion cycle and profitability. However, in case of considering industrial differences, the relationship between the mentioned variables has shown dissimilarities across industries as positive in some industries and negative in others. In another study of Shin (1998), a sample consisting of American manufacturing firms was analysed and a statistically negative relationship between cash management cycle and profitability has been confirmed.

Deloof (2003), also disclosed relationships between cash management and profitability by dividing cash conversion cycle into its components (inventory, accounts receivables and accounts payables periods). Results of the study have concluded that increases in all of these periods affect profitability negatively. Findings by (Lazaridis and Tryfonidis 2006) also noted that there existed a relationship between cash management and profitability.

Cash mismanagement affects profitability negatively. According to the findings of another study from a different perspective, it has been concluded that the effect of cash conversion cycle on profitability is stronger than the effect of current ratio on it (Eljelly, 2004). Empirical results show that, for the mentioned sample and period, accounts receivables period, inventory period and leverage significantly and negatively affect profitability of Turkish manufacturing firms, while firm growth (in sales) significantly and positively. However, it is also concluded that cash conversion cycle, size and fixed financial assets have no statistically significant effects on firm profitability. Results suggest that firm profitability can be increased by shortening accounts receivables and inventory periods through proper cash management. The negative relationship between accounts receivable period and profitability may be due to that customers want more time to assess quality of products they buy from firms with declining profitability (Deloof, 2003).

Myers (2003) noted that cash management techniques employed by a given company will influence the level of profitability in that particular company. In case of that firm may gain some advantages like monopoly or bargaining power due to growth as a reflection of economies of scale (Külter and Demirgüne ş, 2007), a positive relationship between growth and profitability is expected. Cash out flows and in flows always vary in one period .cash out flows will exceed cash inflows due to numerous expenditure such as payment for taxes, dividends, seasonal inventory buildings. Once cash out flows exceed incomes a danger of illiquidity will most likely a rise. If the company does not have near cash assets to convert and meet such payments, profitability will be threatened. In another period cash inflows might exceed cash out flows there by creating excessive liquidity and idle cash. If it's not wisely invested the school will lose profits on this idle cash. Thus cash management mitigates lack of synchronization of cash receipts and cash payments and thus enhances profitability (Shiff 1998).

Lynch (2003) noted that one of the major aims of cash management is to accelerate cash inflows and delay cash out flows. How ever Lynch warned that both positions have associated dangers. Once cash inflows are accelerated, the costs of management and cash collection will most likely reduce while profitability will be enhanced, however the reduction of the credit period might negatively affect sales which most likely reduce profits. Lynch (2003) further noted that delaying cash out flows may result in an ethical issues and costs. Over delaying to pay staff salaries and wages may result in to resentment of work, low morale, low productivity, and low productivity, high labor turn over, strikes, frauds and theft which increase operating costs that reduce profitability.

According to Pandey (2003) cash management should ensure that firm's illiquidity should sound as profitability grows. Pandey noted that there is no advantage in paying sooner than greed. By delaying payments as much as possible, the school makes it as a source of fund which is interest free but earning the school some income. . Thus delaying payments enables the commercial bank to realize extra profits from retained funds.

According to Kakuru (2001) if cash management concentrates on boosting the liquidity, high balances of cash will be maintained. However the higher these balances are, the more profitability will be fore gone. This is risky especially to people who expect profitable ventures. On the other hand if cash management seeks to boost profitability, investments are highly risky but profitable and the business is threatened as there will be no cost to meet the operating obligations as they fall due. If care is not taken profitability will be short lived as the commercial bank will be forced to close due to illiquidity.

According to Mantile Etaal (1995), Hamilton (2001) and van Horme (1995) one of the primary objectives of a cashier is to maintain a sound liquid position of the commercial bank in order to meet motives of holding cash. In this case the amount of cash balance will depend on the risk return trade off. The commercial bank maintains optimum neither just enough, nor too much, nor too little cash balance.

Optimum cash balance under certainty; Baumols Model. This model provides a formal approach for determining the commercial bank optimum cash balance under certainty. The commercial bank attempt to minimize the sum of holding cash and cost of converting marketable securities to cash and guarantee profitability (Pandey 2003 and Hamiliton (2001). The limitation of Baumol is that it does not allow cash flows to fluctuate. Commercial bank uniformly do not use their cash balances nor are they able to predict daily cash out flows and inflows.

With an efficient cash planning system, financial needs of the school will be met with reduced profitability of idle cash balances which lowers the commercial bank profitability and cash defeats which cause commercial bank failure (Kakuru 2001). The purpose of managing cash balance is to a void having idle cash reserves or having deficit that can not be covered easily (Kakuru 2003). If surplus cash balances are invested near cash forms, the illiquidity of the commercial bank will not be compromised by the investment and profitability will be enhanced.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter explained the approaches the researcher used to get information on the research problem and included the research design, study population, sample size and selection, sampling techniques and procedure, data collection methods and instruments, procedure of data collection, data analysis and measurement of variables. It also indicated the problems encountered in the study.

3.1 Research Design

The research design adopted in this study was a case study design. This study emphasized detailed contextual analysis of a limited number of events or conditions and their relationships. The study used both qualitative and quantitative (Creswell, 2003) asserts that a mixed methods design is useful to capture the best of both quantitative and qualitative approaches. Qualitative techniques helped the researcher to come up with conclusions on variables that would not be measured quantitatively while quantitative techniques facilitated establishing values attached to numerical variables. A statement was used to assign variables that would not be adequately measure using numbers and statistics, form of mathematical numbers and statistics assigned to variables that would not be easily measured using statements or theme.

3.2 Study Population

This section included a collection of study units for which samples of interest were possibly determined. The study population which consisted of across section of the finance, Bank tellers, marketing department, administration, disposal unit, data and information department of the institution. The study population comprised of 60 representatives of Equity Bank Kabalagala Branch, including bank manager & bank top administrators, marketing department, banking officers, account& finance department and bank customers. These were chosen because would offer, receive and manage the services respectively.

3.3 Sample Size

A sample size representative of the study population was selected using simple random sampling and purposive sampling. A representative sample, according to Gall and others (1996) gives results that can be generalized to the study population. The sample size was determined using Krejcie and Morgan (1970) technique of sample size determination and a total of 30 respondents were selected for the study. Simple random sampling was used to select respondents in the field using judgmental analysis; a sample size of 30 people / respondents was used for the sake of obtaining accurate data. Whereby 5 of these were from information and data management of Equity Bank employees, 10 from administration, 05 from stores and 15 from finance and accounting department.

3.4 Sampling Procedures

Sample selection was by use of probability sampling technique especially simple random sampling and purposive sampling. Simple random sampling was used because the study intended to select a representative without bias from the accessible population (Oso and Onen, 2005). This ensured that each member of the target population had an equal and independent chance of being included in the sample. This involved selection of people who took part in research. The following sampling procedures were used. Purposive sampling involved selecting a certain number of respondents based on the nature of the office. This method was appropriate because it enabled selection of informed persons who possessed vital data that was comprehensive enough to allow gaining a better insight into problem. In the study respondents were contacted in person, as the researcher wanted first hand information from them and the study keenly inquired respondents' views on the subject under study. This required the researcher to sample with a purpose in the researcher's mind whereby she had to seek specific pre-defined groups of people for instance users of electronic systems like tellers, information and data sources and other staff.

Random sampling method involved selecting respondents from the study population by chance. In this way every respondent had an equal chance of being included in the sample. This method was used to select customer respondents from Equity Bank, Kabalagala Branch. This was used to avoid bias in obtaining samples. This was achieved by getting a list of employees from the managing director and then a sampling interval was established by random method to select the respondents consistently.

The study used convenient sampling in the choice of respondents. That is to say, for instance, the researcher interviewed the bank manager who was present on the day when the interview took place and those who were absent were automatically excluded; the same applied to Bank employees however for the Bank Customer, the Bank Tellers used to select them depending on willingness of employees since some refused to participate in the research.

3.5 Source of Data

3.5.1 Primary Data

Primary data was gathered from respondents at Equity Bank, Kabalagala Branch management who were assumed to give first hand information on the subject under study.

3.5.2 Secondary Source

Secondary data was got 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.

3.6 Data Collection Instruments and Methods

3.6.1 Questionnaire

The study used a self-administered questionnaire and semi structured instruments to collect data from bank employees McMillan and Schumacher (2001) recommend a questionnaire if the researcher knows that the respondents are in position to answer the questionnaire. Closed and open ended and scaled items were carefully used because to generate information of influence, facilitates response since the questions are multiple choices and data could be categorized easily. The scaled items, according to Macmillan and Schumacher (2001) allow fairly accurate assessments of opinions. Similarly it has the ability to solicit information from several respondents within a short time (Gupta, 1999).

The questionnaires were used and administered to the employees working with the bank. The self administered questionnaires were popular because the respondents filled them at their own convenience and were appropriate for large samples. Some questions were open ended while others close ended

3.6.2 Interview Guide

An interview guide was also drafted with a set of questions that the researcher asked during an interview and these were structured (close ended) in nature. The researcher personally recorded the provided responses as per the study respondents during the process of carrying out an interview. This was used to collect information from respondents selected from Equity Bank, Kabalagala Branch. Face to face interviews were carried out with the administration and employees working with the bank to cross check the responses from the questionnaire. These were designed in a way that more specific and truthful answers were got. These helped capture information, not provided by the questionnaires. The method used Interview guide to capture the respondents' views. These methods were preferred because of their flexibility and ability to provide new ideas on the subject (Kothri, 1990).

3.6.3 Documentary Analysis

Secondarily data from materials such as textbooks, newspapers, journals and internet was used to back up primary information and relate the findings to other approaches already in existence. The method used document checklists and guides to get views from other writers which were instrumental especially in comparison analysis and literature review.

3.6.4 Interviewing

An interview is a conversation between two people (the interviewer and the interviewee) where questions are asked by the interviewer to obtain information from the interviewee. The qualitative research interview sought to describe the meanings of central themes in the life world of the subjects. The main task in interviewing was to understand the meaning of what the interviewees said. (Kvale, 1996). The researcher used formal interviewing as a method of data collection and the interviews offered a chance to explore topics in depth and allowed interaction between the researcher and the respondents such that any misunderstanding of the questions and answers provided could easily be corrected. The researcher interviewed the respondents of the Equity Bank Kabalagala Branch in Kampala district using the interview guide. These were used to tap the vital information that would not be collected using the questionnaires from the employees, manager & administrators

3.7 Reliability and Validity

Validity of an instrument in this study was consistent with the definition provided by Miles and Huberman (1994), as the "extent to which the items in the instrument measure what they are set out to measure." The validity of the instruments was established by the supervisor.

Reliability, according to Miles and Huberman (1994), has to do with the extent to which the items in an instrument generate consistent responses over several trials with different audiences in the same setting or circumstances. The reliability of the instruments and data was established following a pre-test procedure of the instruments before their use with actual research respondents.

3.8 Procedure of Data Collection

After the approval of the proposal, the study observed all procedures followed in research. Using the letter of introduction obtained from the College of Applied Economics and Management Sciences, the researcher was introduced to every respondent reached at, fully explaining the purpose of research. After getting their consent, the researcher conducted the research. The researcher built the confidence of the respondents by assuring them that their views were confidential and was to be used only for academic purposes. After ascertaining the reliability of the instruments, the researcher proceeded to administer the area of study. The researcher was assisted by research assistants in distribution and administering questionnaires. Interviews were conducted and recorded by the researcher. The data collected was computed with the use of computer, edited and coded to minimize obvious errors. Then data was grouped into tables and frequency graphs. The collected data was analyzed, interpreted and then discussed.

3.9 Data Presentation, Interpretation and Analysis

3.9.1 Data Analysis

Both quantitative and qualitative methods were used during data analysis. Quantitative data involved use of frequencies, tables against their percentages, that is pie chart and these were showing values that aided in data interpretation. Qualitative data were presented in writing useful information from the respondents as presented in relation to the study variables. After collecting all the necessary data, these data were coded and edited, analyzed and rephrased to eliminate errors and ensure consistency. Both qualitative and quantitative data analysis was used. Qualitative data was analyzed in the field as it was being collected (verbatim reporting) using coding sheets while quantitative was analyzed by using computer programs like Microsoft word and Microsoft excel. Also under qualitative analysis, thematic analysis was used and in quantitative data analysis; graphs, tables and pie charts were used for data analysis and presentations of findings.

3.9.2 Data Editing

The collected data were edited for accuracy, completeness. Editing was done to find out how well the answered questionnaires were done in line with consideration paid to questions and responses from interview guide answered by the study respondents.

Data from the questionnaires were coded, entered, edited for consistency and easiness in and later analyzed using Statistical Package for Social Scientists (SPSS) where correlation was used to establish the relationship between cash management and profitability of Equity Bank. Data from questionnaires was presented in form of frequency tables, pie charts and bar graphs to give meaningful interpretation of the study. In qualitative analysis, content analysis was used to edit the data from interviews and reorganized it into meaningful shorter sentences. This was then presented to supplement the quantitative data in order to have a clear interpretation of the results.

3.9.3 Data Presentation

After the data was edited, it was presented inform of frequency and tables after which the data was analyzed in form of pie-charts which were developed using Micro Soft Word and Micro Soft Excel, this was done to only quantitative edited data. Quantitative data were grouped and statistical description such as tables showing frequencies and percentages and pie- charts as well as graphs for better interpretation. However, qualitative data were analyzed in a way of identifying the responses from respondents that were relevant to the research problem. Mainly such data was analyzed by explaining the facts collected from the field under which the researcher was able to quote respondents' responses.

3.10 Ethical Consideration

The most probable problems in the study were privacy and confidentiality of the respondents. Many Administrators and bank employees were at first uncomfortable to release information on particular aspects like cash management and profitability of the bank. However the respondents were assured of the confidentiality of their responses by the researcher and eventually responded.

3.11 Limitations of the Study

The study involved the following constraints;
Time: The time allowed to do this research was not enough to allow exhaustive study and obtain all the essential information for much more suitable conclusions. The problem was minimized by putting much effort on this research so as to meet the deadline.

Financial Constraints: The Researcher was limited by financial resources such as the transport costs and stationery to carry out her research effectively. In an effort to mitigate this shortcoming, the researcher sourced funds from a few sponsors.

Bureaucracy delayed the study. From all the procedures, getting data from management takes time. However, the researcher took time and appealed to the bureaucrats for data.

The limitation of the research was due to lack of primary data collection due to difficulty in getting appointment with senior top officials in Equity Bank, Kabalagala branch.

Time and resource constraints restricted the scope of the research. Despite the researcher's effort to expand the scope of the research by getting into more in-depth study of cash management, it did not materialize due to the practical difficulties faced during the work.

Some of the respondents were not willing to give information and this problem was solved by assuring them that this study is purely for academic purposes.

Funds were limited; however this was solved by seeking financial assistance from relatives and friends.

Transport around the study area was a problem since it involved moving to different areas. The researcher solved this by using cheaper means like motorcycles and where it was near walk on foot.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS

4.1 Introduction

This chapter presented the analysis, interpretation and findings of the study and it was arranged according to the study objectives, thus, to establish the various cash management techniques, to find out the level of profitability and to establish the relationship between cash management and profitability of Equity Bank.

4.2 Demographic Characteristics of Respondents

Table 1: Sex of Respondents

Sex	Frequency	Percent	Valid Percent	Cumulative Percent
Male	21	70.0	70.0	70.0
Female	09	30.0	30.0	100
Total	**30**	**100**	**100**	

Source: Primary Data 2014

The results in the table above show that 70% of the respondents were males whereas only 30% were females implying that the males were more willing and available to participate in the study. Thus there are many men as compared to women employed in the different sections of Equity Bank that were approached

Table 2: Age of Respondents

Age	Frequency	Percent	Valid Percent	Cumulative Percent
Below 19	-	-	-	-
19-25	9	30.0	30.0	30.0
26-40	15	50.0	50.0	80.0
Above 40 years	6	20.0	20.0	100
Total	**30**	**100**	**100**	

Source: Primary Data 2014

Regarding the age, 50% were aged between 26-40 years whereas 20% were aged above 40 years with 10% revealing that they were aged between 19-25 years. The above findings implied that the respondents were old enough to provide the required information about the study.

Table 3: Qualification of Respondnets

Qualification	Frequency	Percent	Valid Percent	Cumulative Percent
Certificate	3	10.0	10.0	10.0
Diploma	9	30.0	30.0	40.0
Degree	15	50.0	50.0	90.0
Masters	3	10.0	10.0	100
Total	**30**	**100**	**100**	

Source: Primary Data 2014

Regarding qualification, 50% had attained degrees, followed by 30% who had attained diploma with only 10% and 10% revealing that they had certificates and masters degrees respectively. The findings therefore showed that the respondents had the required qualification to participate in the study.

Table 4: Period of Stay in The Bank

Period	Frequency	Percent	Valid Percent	Cumulative Percent
Less than 1 year	6	20.0	20.0	20.0
1-5 years	15	50.0	50.0	70.0
6 years and above	9	30.0	30.0	100
Total	30	100	100	

Source: Primary Data 2014

On the issue of stay in the bank, 50% said that they had worked and stayed in the bank for a period between 1-5 years, followed by 30% who revealed that they had worked with the bank for a period between 6 years and above but only 20% noted that they had worked in the bank for a period less than one year. This implied that they have the right and required information regarding cash management and profitability in the bank.

4.3 Cash Management Techniques Used By Equity Bank

4.3.1 Cash Management Techniques Being Used in Equity Bank

Table 5 : Showing Respondent on Cash Management Techniques Being Used in Equity Bank

Response	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	18	60.0	60.0	60.0
No	3	10.0	10.0	70.0
Not sure	9	30.0	30.0	100
Total	30	100	100	

Source: Primary Data 2014

Regarding the issue whether there existed cash management techniques in the bank, 60% of the respondents revealed that cash management techniques existed in Equity Bank whereas 30% said that they were not sure whether the techniques existed but 10% noted that cash management techniques did not exist.

4.3.2 Rating the Effectiveness of Cash Management in Equity Bank

Table 6: Showing Respondent on Rating the Effectiveness of Cash Management in Equity Bank

Response	Frequency	Percent	Valid Percent	Cumulative Percent
Effective	18	60.0	60.0	60.0
Ineffective	9	30.0	30.0	90.0
I don't know	3	10.0	10.0	100
Total	30	100	100	

Source: Primary Data 2014

Regarding the effectiveness of cash management in the bank, majority of the respondents (71.7%) revealed that cash management was effective with 11.6% disagreeing that cash management was ineffective but 16.7% said that they didn't know whether cash management was effective in the bank implying that cash management was effective in Equity Bank.

4.3.3 Equity Bank Invest Its Excess Cash Balances in Marketable Securities

Table 7: Shows How the Bank Invests Its Excess Cash Balances in the Marketable Securities

Response	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly agree	9	30.0	30.0	30.0
Agree	12	40.0	40.0	70.0
Disagree	6	20.0	20.0	90.0
Strongly disagree	3	10.0	10.0	100.0
Not sure	00	00.0	00.0	100.0
Total	**30**	**100.0**	**100.0**	

Source: Primary Data 2014

From the findings, 30% of the respondents strongly agree that the bank invests its surplus cash balances in marketable securities, 40% agree, 20% disagree, and 10% strongly disagree. It was established that the bank invests surplus cash in marketable securities but it's always once in a while which at times is not beneficial. This in one way or the other affects the profitability of the bank.

4.3.4 The Bank Puts Aside Money for Precaution and Speculation Motives

Table 8: Showing How the Bank Sets Aside Money to Cater For Speculation and Precaution Motives

Response	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly agree	6	20.0	20.0	20.0
Agree	9	30.0	30.0	50.0
Disagree	8	26.7	26.7	76.7
Strongly disagree	4	13.3	13.3	90.0
Not sure	3	10.0	10.0	100.0
Total	**30**	**100.0**	**100.0**	

Source: Primary Data 2014

The majority of the respondents represented by 30% agree that the bank sets aside money to cater for unforeseen factors, 20% strongly agree, 26.7% disagree, 13.3% strongly disagree, while 10% were not sure. However much the biggest percentage say the bank pus aside money for unforeseen factors, it was established that the money that is set aside to cater for those factors is little, this affects the profitability .

4.3.5 Optimum Cash Balance

Table 9: Shows Responses on the Optimum Cash Balances of Equity Bank Limited

Response	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly agree	6	20.0	20.0	20.0
Agree	4	13.3	13.3	33.3
Disagree	3	10.0	10.0	43.3
Strongly disagree	9	30.0	30.0	73.3
Not sure	8	26.7	26.7	100.0
Total	**30**	**100**	**100**	

Source: Primary Data 2014

From the findings above, 20% of the respondents strongly agree that the bank always has optimum cash balances for the day to day operations, 13.3% agree, 10% were not sure, 30% disagreed while 26.7% strongly disagreed. This means that the bank has failed to maintain an optimum cash balances for the day to day operations. Due this failure, the bank has had several shortages this was revealed to the researcher by on of the respondents in the finance department. This has also affected the profitability levels of the bank. They alluded that some debtors were in the 120 days ageing period therefore lengthening the average collection period. This is in agreement with Van Horne (2001) who says that slow payments may be costly to the corporate firm and lengthen the average collection period. Inefficiency of some of the collection techniques were also highlighted as part of the causes.

4.3.6 Equity Bank Carries Out Cash Planning

Table 10: Shows the Responses on Whether Equity Bank Limited Carry Out Cash Planning

Response	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly agree	18	60.0	60.0	60.0
Agree	3	10.0	10.0	70.3
Disagree	6	20.0	20.0	90.0
Strongly disagree	2	6.7	6.7	96.7
Not sure	1	3.3	3.3	100.0
Total	**30**	**100**	**100**	

Source: Primary Data 2014

From the findings above, 60% of the respondents strongly agreed that the bank carry out cash planning, 10% agreed, 20% were not sure, 6.7% disagreed while 3.3% strongly disagreed. This implies that the bank carry out cash planning. 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 Equity Bank. The findings properly coincided with Pandey (2003) idea of cash planning as a technique employed to direct and control the movement of cash. Having good cash planning in place shall lead to proper utilization of this cash as per planned utilities/ investments and hence leading to increased profitability.

4.3.7 Equity Bank Takes Long To Pay Off Debts Due To It

Table 11: Shows the Responses on How Often the Bank Carries Out the Function of Cash Planning

Response	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly agree	18	60.0	60.0	60.0
Agree	3	10.0	10.0	70.3
Disagree	6	20.0	20.0	90.0
Strongly disagree	2	6.7	6.7	96.7
Not sure	1	3.3	3.3	100.0
Total	**30**	**100**	**100**	

Source: Primary Data 2014

From the table above, 36.7% of the respondents said the bank take long to pay off debts that become due to it, 20% agreed, 30% were not sure, 10% disagreed while 3.3% strongly disagreed. This is an indicator that there is cash management but it's not used at its fullest which can affect the profitability level. Popular collection techniques cited included letters, telephone calls and personal visits. This is supported by Gitman (2008), says that, the most popular techniques used in bringing forward cash flows are letters, telephone calls, personal visits and legal action. Respondents alluded that as part of their collection techniques they made telephone calls to the debtors and if they fail to respond on time the credit controller would make personal visits.

4.3.8 Preparation of Cash Budgets

The researcher wanted to know whether Equity Bank prepared cash budgets and responses obtained were analyzed as follows.

Table 12 : Showing Responses on Preparation of Cash Budgets

Response	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly agree	18	60.0	60.0	60.0
Agree	3	10.0	10.0	70.3
Disagree	6	20.0	20.0	90.0
Strongly disagree	2	6.7	6.7	96.7
Not sure	1	3.3	3.3	100.0
Total	**30**	**100**	**100**	

Source: Primary Data 2014

Basing on the above table, the researcher found out 26.7% of the respondents strongly agreed that the institution prepares cash budgets, 40% also agreed to the same.10% disagreed and 23.3% strongly disagreed with the statement and most of them agreed that agreed that the company prepares cash budgets for its operations this is the most crucial cash management technique which is the basis of other cash management techniques and facilitates effective cash planning for both current cash resources and expected cash flows. This is in agreement with Brealey (2005) who says that budgets should be prepared on a departmental level and these budgets should be rolled into one master budget. Respondents commented that these budgets are prepared basing on sales, costs, debtors ageing and creditors ageing as suggested by Moffet (2004). 12(40%) of respondents expressed that cash budgets were ineffective as they sighted some deviations from the cash budgets. They indicated that, although budgets are prepared and implemented, they are just estimates and may not be exactly correct as evidenced by deviations of the cash budgets. This is in line with Van Horne (2001) who said that cash budgets whether prepared on an annual, weekly or monthly basis are just estimates of cash flows.

4.3.9 Various Cash Management Techniques in Equity Bank

Table 13: Showing Cash Management Techniques in Equity Bank

Technique	Strongly Agree	Agree	Disagree	Strongly Disagree	Not Sure
Collecting of overdue invoices	21(70%)	6(20%)	3(10%)	00	00
Use of accounts receivable database	21(70%)	3(10%)	00	6(20%)	00
Tracking of expenses	18(60%)	9(30%)	3(10%)	00	00
Use of credit lines	18(60%)	3(10%)	00	6(20%)	3(10%)
Cash Collection and Disbursement	15(50%)	9(30%)	3(10%)	00	3(10%)
Maintenance of optimal cash balance	6(20%)	15(50%)	6 (20%)	00	3(10%)
Use of cash projections	6(20%)	15(50%)	3(10%)	3(10%)	3(10%)
Using accounts receivables	9(30%)	15(50%)	3(10%)	00	3(10%)

Source: Primary Data 2014

Regarding the techniques used in cash management, 70% agreed to the idea that collecting of overdue invoices is sued for cash management with only 20% disagreeing with the idea. Their views and opinions suggested that suppliers demanded earlier payment, customers delayed making payments, and stakeholders sought an improved cash generation and credit reduction. This view is supported by Stowe (2004) and Palom (2001), who say that suppliers demand earlier payments and failure to meet financial obligations by the corporate firms on time, owing to cash shortages mean loss of further supplies from injured suppliers. This is extremely damaging since some products would be vital to continuing business operations

Use of accounts data base and tracking expenses were also shown to be the most commonly used techniques of cash management in Equity Bank as shown by 70% and 10% responses respectively but also 20% responses disagreed with the ideas respectively. Their views were that payments to suppliers were delayed as long as practically possible in order to make cash available which is consistent with Gitman (2008) who postulate that that the objective of cash disbursement is to delay payments to suppliers as long as it is practically possible

More so, 60% said that they used credit lines with 10% disagreeing and 20% were not sure and also 10% revealed that the bank uses cash collection and disbursement as a form of cash management but 10% disagreed with 10% said that they were not sure.. This is supported by McLaney (2006), who states that stretching accounts payable may be financially attractive to the corporate firm but it raises an important unethical issue. It may cause the firm to violate the agreement it entered into with the supplier. Myers (2004) states that, clearly a supplier would not look kindly on a customer who regularly and purposely postpones paying for purchases

Furthermore, maintenance of optimal cash and cash projections were among the cash management techniques used in the bank as shown by 20% and 50% responses respectively but also 10% and 10% disagreed with the idea. The above findings implied that the bank employed several cash management techniques in order to improve profitability. The findings clearly brings out the ideas of Kakuru 2001, Van Holmes 1995 as well as Pandey 2003 that cash should only be out when delay is no longer necessary and possible and non beneficial. This means that good allocation of cash eliminates and minimizes fraud and embezzlement of Bank funds there by leading to an increase in the profitability margins realized by the bank.

4.4 Level of Profitability in Equity Bank

4.4.1 Rating the Level of Profitability in the Equity Bank

Table 14: Showing Response on Rating the Level of Profitability in the Bank

Response	Frequency	Percent	Valid Percent	Cumulative Percent
Very high	15	50.0	50.0	50.0
High	9	30.0	30.0	80.0
Low	3	10.0	10.0	90.0
Very low	2	6.7	6.7	96.7
I don't know	1	3.3	3.3	100.0
Total	**30**	**100**	**100**	

Source: Primary Data 2014

The results in the table above show that the level of profitability in Equity Bank was high as shown by 80% response whereas 10% noted that the level of profitability was low with 3.3% saying that they didn't know about profitability. The above findings implied that the profits made in the company were high.

4.4.2 The Bank Has a Policy of Controlling Expenditure

Table 15: Shows Responses on Whether the Equity Bank Has Any Policy of Controlling Expenditure

Response	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly agree	18	60.0	60.0	60.0
Agree	6	20.0	10.0	70.3
Disagree	3	10.0	20.0	90.0
Strongly disagree	2	6.7	6.7	96.7
Not sure	1	3.3	3.3	100.0
Total	30	100	**100**	

Source: Primary Data 2014

From the findings above, 60% of the respondents strongly agreed that the bank has an expenditure control policy, 20% agreed, while 10% were not sure. However, 6.7% disagreed, and 3.3% strongly disagrees. This implies that there is an expenditure control policy. This means that the bank has tried to control its expenses but to a low extent which still affects the profit levels which in the long run affects the profitability of the bank.

4.4.3 Fraud Has Affected the Profitability of Equity Bank Limited

Table 16: Shows the Responses on How Fraud Has Affected the Profitability of Equity Bank

Response	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly agree	15	50.0	60.0	60.0
Agree	4	13.3	10.0	70.3
Disagree	3	10.0	20.0	90.0
Strongly disagree	6	20.0	6.7	96.7
Not sure	2	6.70	3.3	100.0
Total	**30**	**100.0**	**100**	

Source: Primary Data 2014

From the findings above, 50% of the respondents strongly agreed that fraud has affected the profitability level of the bank, 13.3% agreed, while 10% were not sure. However, 20% disagreed and 6.7% strongly disagreed. In addition, in an interview with one of the administrators, it was established that fraud has greatly affected the profitability of the bank. This implies that fraud greatly affected profitability hence financial performance. Therefore cash management has to be improved to enable the bank yield more profits so as to improve on its financial performance.

4.4.4 Staff That Has Left the Bank Due to Fraud Related Cases

Table 17: Shows the Responses of the Staff of Equity Bank That Have Left the Bank Due to Fraud Related Cases

Response	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly agree	3	10.0	10.0	10.0
Agree	2	6.70	6.70	16.7
Disagree	1	3.30	3.30	20.0
Strongly disagree	6	20.0	20.0	40.0
Not sure	18	60.0	60.0	100.0
Total	**30**	**100**	**100**	

Source: Primary Data 2014

It was revealed from the above findings that 10% of the respondents agreed that staff have left the bank due to fraud related cases, 6.7% agreed, while 3.3% were not sure. However, 20% disagreed and 60% strongly disagreed. This means that the staff members who cause fraud still remain working for the bank. This explains the poor financial performance depicted by the low levels of profitability of the bank.

4.4.5 The Current Profitability of Post Bank Limited Is Low

Table 18: Shows the Current Profitability Levels of Equity Bank

Response	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly agree	18	60.0	60.0	60.0
Agree	3	10.0	10.0	70.0
Disagree	1	3.30	3.30	73.3
Strongly disagree	6	20.0	20.0	93.3
Not sure	2	6.70	6.70	100.0
Total	30	100.0	100.0	

Source: Primary Data 2014

From the findings above, 60% of the respondents strongly agreed that the current profitability of the bank is low, 10% agreed, while 3.3% were not sure. However, 20% disagreed and 6.7% strongly disagreed. This shows that the majority said the current profitability is low, which is an indicator that the profitability of the bank is not good due to lack of efficient cash management techniques.

4.4.6 Equity Bank Has Lost a Lot Due to Fraud Related Cases

Table 19: Shows the Responses on How Much the Bank Has Lost Due to Fraud Related Cases

Response	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly agree	18	60.0	60.0	60.0
Agree	3	10.0	10.0	70.0
Disagree	1	3.30	3.30	73.3
Strongly disagree	6	20.0	20.0	93.3
Not sure	2	6.70	6.70	100.0
Total	30	100.0	100.0	

Source: Primary Data 2014

From the findings, 50% of the respondents strongly agreed that the bank has lost due to fraud related cases, 10% agreed while 3.3% were not sure. However, 6.7% disagreed and 30% strongly disagreed. This means the bank has lost much due to frauds, this implies that the cash management techniques have not been effective and this has generally affected the profitability of the bank.

4.4.7 Determinants of Profitability in Equity Bank

Table 20: Showing Respondent on the Determinants of Profitability in Equity Bank-Uganda

Determinants	Strongly Agree	Agree	Disagree	Strongly Disagree	Not Sure
Increase in resource productivity	15(50%)	9(30%)	6(20%)	00	00
Increasing level of deposits	18(60%)	6(20%)	2(6.7%)	3(10%)	1(3.3%)
Financial and operational efficiency	24(80%)	3(10%)	3(10%)	00	00
Reduction in costs of operations	18(60%)	3(10%)	9(30%)	00	00
The revenue is higher than the costs of operation	15(50%)	9(30%)	6(20%)	00	00
Financial performance being higher at the end of the financial period	18(60%)	6(20%)	3(10%)	2(6.7%)	1(3.3%)

Source: Primary Data 2014

Regarding the determinants of profitability in the bank, 80% revealed that increase in profitability shows the level of profitability with 9% disagreeing with the idea. Increased level of deposits and operational efficiency show the profitability levels as shown by 60% and 20% responses respectively but also 3% disagreed with the idea respectively. Reduction in costs of operations shows higher profitability as noted by 60% of the respondents but 30% disagreeing with the idea.

Majority of the respondents (50%) and 60% of the respondents revealed that higher revenue and higher financial performance in the bank show higher profitability levels with 20% and 3% disagreeing with the idea. The above findings implied that several aspects determine profitability but reduced costs, higher revenue and higher financial performance determine the level of profits in the bank.

4.5 The Relationship between Cash Management and Profitability of Commercial Banks

4.5.1 Effect of Cash Management on Profitability of Equity Bank-Uganda

Table 21 : Cash Management Having an Effect on Profitability in Equity Bank-Uganda

Response	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	18	60.0	60.0	60.0
No	9	30.0	30.0	90.0
I don't know	3	10.0	10.0	100
Total	**30**	**100.0**	**100.0**	

Source: Primary Data 2014

The results in the table above showed that cash management had an effect on profitability in Equity Bank as shown by 60% with 10% noting that they didn't know whether cash management had an effect on profitability and 30% said that cash management had no effect on profitability. The findings above therefore show that cash management had an effect on profitability in Equity Bank.

4.5.2 Cash Management Affects Profitability

Table 22: Shows Responses on How Cash Management Affects Profitability of Equity Bank

Response	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly agree	18	60.0	60.0	60.0
Agree	6	20.0	20.0	80.0
Disagree	3	10.0	10.0	90.0
Strongly disagree	2	6.70	6.70	96.7
Not sure	1	3.30	3.30	100.0
Total	**30**	**1000**	**100.0**	

Source: Primary Data 2014

From the findings in the table above, 60% of the respondents strongly agree that cash management affects profitability, 20% agree, 10% are not sure, 6.7% disagree, while 3.3% strongly disagree. This implies that cash management in Equity Bank limited strongly affects its profitability.

4.5.3 Good Cash Management Practices Results in High Profitability Levels

Table 23: Shows Responses on How Good Cash Management Practices Results in High Profitability Levels

Response	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly agree	6	20.0	20.0	20.0
Agree	18	60.0	60.0	80.0
Disagree	3	10.0	10.0	90.0
Strongly disagree	2	6.70	6.70	96.7
Not sure	1	3.30	3.30	100.0
Total	30	**100.0**	**100.0**	

Source: Primary Data 2014

Finding from the table above reveals that, 20% of the respondents strongly agree that good cash management practices results in high profitability levels, 60% agree, 10% are not sure, 6.7% disagree, while 3.3% strongly disagree. This means that good cash management practices results in high profits.

4.5.4 Cash Management Affected the Profitability of Equity Bank

Table 24: Shows Responses on Whether Cash Management Has Affected the Profitability of Equity Bank Limited

Response	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly agree	15	50.0	50.0	50.0
Agree	3	10.0	10.0	60.0
Disagree	2	6.70	6.70	66.7
Strongly disagree	6	20.0	20.0	86.7
Not sure	4	13.3	13.3	100.0
Total	**30**	**100**	**100.0**	

Source: Primary 2014

From the table above, 50% of the respondents strongly agree that cash management has affected the profitability of Equity Bank, 10% agree, 6.7% are not sure, 20% disagree, while 13.3% of the respondents strongly disagree. This means that cash management has been affecting the profitability of the bank.

4.5.5 Delaying Payables Improves Profitability

Table 25: Shows Responses on Whether Delaying Payables Improves Financial Performance

Response	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly agree	3	10.0	50.0	50.0
Agree	6	20.0	10.0	60.0
Disagree	2	6.70	6.70	66.7
Strongly disagree	12	40.0	20.0	86.7
Not sure	7	23.3	13.3	100.0
Total	**30**	**100**	**100.0**	

Source: Primary Data 2014

From the finding in the table above, 40% of the respondents strongly disagree that delaying payables improves profitability, 23.3% disagree claiming that it instead creates poor relationship with the business partners, this statement was according to one of the administrators who was approached. 10% of the respondents strongly agree, 20% agree while 6.7% are not sure. Based on the findings in the table above implies that delaying payables does not improve the profitability instead it spoils the business relationship with the business partners.

4.5.6: Accelerating Receipts Collections Increases Profitability

Table 26: Shows Responses on Whether Accelerating Receipt Collections Increases the Profitability

Response	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly agree	15	50.0	50.0	50.0
Agree	3	10.0	10.0	60.0
Disagree	6	20.0	20.0	80.0
Strongly disagree	2	6.70	6.70	86.7
Not sure	4	13.3	13.3	100.0
Total	30	100	100	

Source: Primary Data 2014

Based on the findings in the table above, 50% of the respondents strongly agreed that accelerating of receipt collections increases the profitability, 10% agreed, 20% were not sure, 6.7% disagreed while 13.3% strongly disagreed. This means that by accelerating receipt collections the profitability of the bank will improve.

4.5.6 Summary of the Findings on the Relationship between Cash Management and Profitability of Equity Bank Limited.

Table 27: Shows the Relationship between Cash Management and Profitability of Equity Bank Limited

Cash management (X)		Profitability (Y		X^2	Y^2	XY
A	21	A	24	441	576	504
D	9	D	6	81	36	54
A	15	A	19	225	361	285
D	15	D	11	225	121	165
A	10	A	5	100	25	50
D	20	D	25	400	625	500
A	21	A	21	441	441	441
D	9	D	9	81	81	81
A	17	A	18	289	324	306
D	13	D	12	169	144	156
	$\sum X$=150		**$\sum Y$=150**	**$\sum X^2$=2452**	**$\sum Y^2$=2734**	**$\sum XY$=2542**

Source: Primary Data 2014

Key

X= Independent Variable (Cash Management)

Y= Dependent Variable (Financial Performance)

A= Strongly Agree + Agree

D= Not Sure+ Disagree + Strongly Disagree

Computation of the Correlation

$$r= \frac{n\sum xy-\sum x\sum y}{\sqrt{[n\sum x^2-(\sum x)^2][n\sum y^2-(\sum y)^2]}}$$

$$r= \frac{(10*2542)-(150*150)}{\sqrt{[10*2452-(150)^2][10*2734-(150)^2]}}$$

$$r = \frac{25420-22500}{\sqrt{[24520-22500][27340-22500]}}$$

$$r = \frac{2920}{\sqrt{[2020][4840]}}$$

$$r = \frac{2920}{\sqrt{9776800}}$$

$$r = \frac{2920}{3127}$$

$$r = 0.93$$

Table 28.Correlation Co Efficiency Showing the Relationship between Cash Management and Profitability

Correlation

		Rating the effectiveness of cash management in the Equity Bank	**Rating the level of profitability in the bank**
Rating the effectiveness of cash management in the Equity Bank	Pearson correlation Sig.(2-tailed) N	1 30	0.669*** 30
Rating the level of profitability in the bank	Pearson correlation Sig.(2-tailed) N	0.669*** 0.000 30	0.669 30

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

Source: Primary Data 2014

The study used a Pearson correlation analysis and it revealed that there is a positive and significant relationship between cash management and the level of profitability as shown by r= 0.669** at 0.01 level of significance. The table shows a strong significant positive relationship as indicated by spearman correlation coefficient as 0.669 and correlation is significant at 0.05(2-tailed). This implies that with proper cash management in place, the profitability will in turn increase .This is because cash management has an influence on profitability for example if cash planning, cash collection, cash allocation, cash budget are emphasized when carrying out cash management then profitability will be good. Therefore, the above findings show that cash management is related to the level of profitability in Equity Bank-Uganda.

Table 29: Showing Responses on the Effect of Cash Management on Profitability in the Bank

Relationship	Strongly Agree	Agree	Disagree	Strongly Disagree	Not Sure
Cash management quickly recovers recurring savings garnered by the system itself	9(30%)	6(30%)	12(40%)	1(3.3%)	2(6.7%)
Cash management improves coordination among multiple departments	6(20%)	18(60%)	3(10%)	2(6.7%)	4(3.3%)
Cash management increases liquidity and profitability of any firm	12(40%)	6(20%)	12(40%)	00	00
Proper cash management policies reduce losses	6(20%)	9(30%)	10(33.3%)	5(16.7%)	-
There is a positive relationship between cash management and profitability	15 (50%)	9(30%)	3(10%)	3(10%)	-

Source: Primary Data 2014

Regarding the effect of cash management on profitability, most of the respondents (60%) revealed that cash management quickly recovers recurring savings garnered by the system itself with 12% disagreeing with the idea but 6.7% were not sure. Cash management improves coordination among multiple departments as shown by 60% with 40% disagreeing with the idea but 6.7% were not sure. Majority of the respondents (60%) and

80% revealed that cash management increases liquidity and profitability of any firm and reduces losses but 22% and 16.7% disagreed with the idea. Most of them thereafter noted that there is a positive relationship between cash management and profitability as shown by 80% with 10% disagreeing with the idea. The above findings however showed that cash management has an effect on profitability in Equity Bank-Uganda.

CHAPTER FIVE

DISCUSSION, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter presents the summary, conclusion and recommendations about the findings of the study and it arranged according to the study objectives, thus, to establish the various cash management techniques, to find out the level of profitability and to establish the relationship between cash management and profitability of Equity Bank.

5.1 Summary

The responses prior to this chapter were in due respect to research questions given to respondents. The findings from the study show that effective cash management as a mechanism of any business to improve the profitability of Equity Bank among other activities in the business

5.1.1 Cash Management Techniques Used By Equity Bank

Regarding the techniques used in cash management, most respondents agreed to the idea that collecting of overdue invoices is sued for cash management. Use of accounts data base and tracking expenses were also shown to be the most commonly used techniques of cash management in Equity Bank. More so most participants said that they used credit lines and cash collection and disbursement as a form of cash management. Furthermore, maintenance of optimal cash and cash projections were among the cash management techniques used in the bank. The above findings implied that the bank employed several cash management techniques in order to improve profitability.

The study findings are supported by (Myers, 2003) who said that cash management is knowing a company's optimal cash balance and this is what Equity Bank strives to do by employing the above mentioned techniques of cash management. Tryfonidis (2006), also supports the findings by revealing that cash management attempts, among other things, to decrease the length and impact of these "float" periods which refers to the collection receipt point closer to the customer perhaps with an outside third-party vendor to receive, process, and deposit the payment (check) is one way to speed up the collection as the study found out. The effectiveness of this method depends on the location of the customer; the size and schedule of their payments; the firm's method of collecting payment; the costs of processing payments; the time delays involved for mail, processing, and banking; and the prevailing interest rate that can be earned on excess funds. The most important element in ensuring good cash flow from customers, however, is establishing strong billing and collection practices.

5.1.2 Level of Profitability in Equity Bank

Regarding the determinants of profitability in the bank, most respondents revealed that increase in profitability shows the level of profitability. Increased level of deposits and operational efficiency show the profitability levels as reduction in costs of operations shows higher profitability. Majority of the respondents of the respondents revealed that higher revenue and higher financial performance in the bank show higher profitability. The above findings implied that several aspects determine profitability but reduced costs, higher revenue and higher financial performance determine the level of profits in the bank.

5.1.3 Cash Management and Profitability of Equity Bank

Regarding the effect of cash management on profitability, most of the respondents revealed that cash management quickly recovers recurring savings garnered by the system itself. Cash management improves coordination among multiple departments. Majority of the respondents revealed that cash management increases liquidity and profitability of any firm and reduces losses. Most of them thereafter noted that there is a positive relationship between cash management and profitability. The above findings however showed that cash management has an effect on profitability in Equity Bank-Uganda. The study used a Pearson correlation analysis and it revealed that there is a positive and significant relationship between cash management and the level of profitability.

A cash management system incorporates traditional benefits of a safe, such as robbery prevention and time delay change funds, but also employs bill and coin handling technology, as well as its own operating system. Today's cash management systems connect to corporate networks to facilitate data exchange and remote management of the system to improve performance and profitability.

Proimos, (2009) supports the findings that the cost of a cash management system is very quickly recovered through the recurring savings garnered by the system itself and typical cash management systems pay for themselves within 6-9 months yet continue to produce savings indefinitely by increasing profits. The findings are also in line with Westerfield (2003), who notes that the latest and most exciting area of cash savings is now being gained through the retailer receiving "provisional credit" for funds in the cash management systems and not yet deposited in the bank. Non-cash savings include a drastic reduction of management time previously required to reconcile the transaction log with cash and preparation of bank deposits, as well as instant accounting and deposit preparation.

The researcher employed a regression model to determine the relationship between cash management and profitability of Equity Bank. Findings showed a positive relationship given by r=0.93. The positive relationship between the above variables indicates that if the level of effectiveness of cash management is not improved, there is likely to be a decline the profitability of Equity Bank limited.

5.2 Conclusion

Regarding the study findings, it was revealed that cash management in Equity Bank affects profitability levels. The findings also showed that the bank employs several cash management techniques in order to reduce fraud of cash in the bank. The study also showed that profitability levels were high in the bank. The need for holding cash arises due to a variety of motives – transaction motive, speculation motive, precautionary motive and compensating motive. The objective of cash management is to make short-term forecasts of cash inflows and outflows, investing surplus cash and finding means to arrange for cash deficits. Cash budgets help Finance Manager to forecast the cash requirements.

Conclusively, The research question three derived from the third objective (relationship between cash management and profitability of Equity Bank limited.) results revealed a positive relationship (r=0.9 Equity Bank 3) between the variables. Hence an improvement in cash management techniques by Equity Bank will most likely improve the profitability. This implies that cash management techniques and profitability of Equity Bank limited partly answers the question whether poor cash management techniques are responsible for the poor performance and the going concern of the bank in the long run.

5.3 Recommendations

Basing on the study findings therefore, the researcher recommended that

There is need for deploying a cash management system which involves support and coordination among multiple departments including Finance, Operations, IT, Security and Loss Prevention to improve profitability in a company

Banks need to pick the right cash management provider who can coordinate the physical and technological installation of the system can significantly expedite and smooth the process of ensuring profit maximization. Each department should carefully consider features and functionality that will be required for a successful deployment and utilization of cash management which also increases profitability.

There is also need to discuss finance management under three main threads as capital budgeting, capital structure and working capital management. The first two of them are mostly related with financing and managing long-term investments. However, financial decisions about working capital are mostly related with financing and managing short-term investments and undertake both current assets and current liabilities simultaneously.

Administrators should calculate the cash amount best suited for the level of activity, plan timing of relevant payments and collections and draw up a policy of investments in assets with high liquidity that can be converted in to cash allow transaction costs to serve as support for their funds maintained by the company.

Cash collections should be closely monitored with the aim of accelerating cash inflows to speed up the collecting of accounts receivables. Cash disbursements should be also closely monitored with the aim of negotiating a reduction in cash outflows so as to reduce payments.

Financial projections should be accurate in order to project and forecast the amount of cash earned through business operations. Accurate forecasting should be based on a range of scenarios and risks so that the organization would be having an understanding of the key drivers of the cash position.

The company should actively consider ways of shortening the cash operating cycle to make the company more generative. A cost benefit analysis should be performed to determine whether it is worthwhile to employ more resources, additional staff or new plant to speed up the production process and shorten the cash operating cycle.

The researcher recommends internal auditing of financial records periodically for instance quarterly before the end of financial period. This promotes and facilitates integrity and transparency in transaction recording and book keeping of the firm. It further checks on the implementation of formal cash management practices in the company.

The company should incorporate computerization especially the use of spread sheet application. This eases recording of transactions and keeps track on payments by the company to suppliers and settlement of other obligations and payments from company customer. Computerization of the transaction recording facilitates easy updating of transaction on a timely basis

5.4 Areas for Further Research

This study report has only tackled Cash Management and profitability of Equity Bank However other areas of further research are; Government Policies and SMEs Development and Growth, information and Computing Technology and SMEs development and regional Emerging Markets and Development of SMEs

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APPENDICES

APPENDIX A

SELF-ADMINISTERED QUESTIONNAIRE

Dear respondent,

I am Kukundakwe Viola a student of Kampala International University carrying out a study on "The Effect of Cash Management on the Profitability of Financial Institutions using Equity Bank, Kabalagala branch- Uganda as a case study. Therefore I kindly request you to spare a few minutes of your busy schedules to fill this questionnaire to enable me accomplish this task. Your honest and sincere responses are highly appreciated for academic purposes and shall be treated with utmost confidentiality. I thank you very much for your cooperation.

Please indicate the extent to which you agree with each of the following statement about your organization by indicating with a tick in the box of your choice. Use the scale below on each of the sections and indicate on the answer sheet next to the number of the corresponding statement the number which best represents your answer. Use the key below answering the following questions: Apply a tick where applicable using the following key.
SA – Strongly Agree, A – Agree , N – Not Sure, D – Disagree SD – Strongly disagree

SECTION A: BIO DATA OF RESPONDENTS

1. Sex of respondent: (a) Male ☐ (b) Female ☐

2. Age of respondents: (a) Below 18 ☐ (b) 19-25 ☐
(c) 26-40 ☐ (d) Above 40 years ☐

3. Marital status: (a) Single ☐ (b) Married ☐
(c) Separated ☐ (d) Divorced ☐

4. Level of Education : (a) Certificate ☐ (b) Diploma ☐
(c) Degree ☐ (d) Masters ☐

5. Period of stay in the bank (a) Less than 1 year ☐ (b) 1-5 years ☐
(c) 6 years and above ☐

6. Position in the organization/ title held

....

7. Department ....

SECTION B: CASH MANAGEMENT TECHNIQUES USED BY EQUITY BANK

1. Are there cash management techniques used in Equity Bank?

Yes ☐ No ☐

2. How do you rate the effectiveness of cash management in Equity Bank?

Effective	Ineffective	I don't know

No	Statement	SA	A	N	D	SD
1	Equity Bank invests its excess cash balances in marketable securities					
2	Equity Bank puts aside money for precaution and speculation motives					
3	Equity Bank always has optimum cash balances for the daily operations					
4	Equity Bank caries out cash planning					
5	Equity Bank take long to pay off its debts					
6	Equity Bank collects receipts due to it very first					
7	Equity Bank use collecting of overdue invoices					
8	Equity Bank use of accounts receivable database					
9	Equity Bank use tracking of expenses					
10	Equity Bank use of credit lines policy					
11	African bank uses Cash Collection & Disbursement					

12	African Bank Maintenance of optimal cash balance					
13	Equity Bank use of cash projections policy					
14	Equity Bank use accounts receivables policy					

SECTION C: LEVEL OF PROFITABILITY IN EQUITY BANK

1. How do you rate the level of profitability in the bank?

Very high	High	Low	Very low	I don't know

No	Statement	SA	A	N	D	SD
1	The bank has a policy of controlling expenditure					
2	Fraud has affected the financial performance of post bank					
3	Staff of post bank has left due to fraud related cases					
4	African banks' profitability is low					
5	African bank has lost a lot due to fraud related cases					
6	The bank has a policy of controlling expenditure					
7	Fraud has affected the financial performance of African bank					
6	Determinants increase in resource productivity					
7	Determinants increasing level of deposits					
8	Determinants financial and operational efficiency					
9	Determinants reduction in costs of operations					
10	The revenue is higher than the costs of operation					
11	Determinants financial performance being higher at the end of the financial period					

SECTION D: THE RELATIONSHIP BETWEEN CASH MANAGEMENT AND PROFITABILITY OF EQUITY BANK-UGANDA

No	Statement	SA	A	N	D	SD
1	Cash management affects profitability of African bank					
2	Good cash management practices results in high profitability levels					
3	Has cash management affected the financial performance of African bank?					
4	Dallying payables improves financial performance					
5	Accelerating receipt collections increases financial performance					
6	Cash management affects financial performance of Equity Bank					
7	Good cash management practices results in high profitability levels					
8	Cash management quickly recovers recurring savings garnered by the system itself					
9	Cash management improves coordination among multiple departments					
10	Cash management increases liquidity and profitability of any firm					
11	Proper cash management policies reduce losses					
12	There is a positive relationship between cash management and profitability					

APPENDIX B

WORK PLAN

Activity	**December 2014**	**January 2014**	**February 2014**	**March –April 2014**	**May 2014**
Proposal					
Data collection					
Presentation					
Writing of the dissertation					
dissertation Submission					

APPENDIX C

ACTUAL BUDGET

Item	Quantity	Cost per unit	Total
Proposal			
Typing & printing	6	4000	24,000
Data collection			
Photocopying questionnaires	100	100	10,000
Transport			20,000
Stationary			15,000
Air time			10,000
Dissertation			
Typing & printing 1st draft	1	37,000	37,000
2nd draft (printing)	1	15000	15,000
Submission			
Final draft	1	20000	20,000
Binding (hard copy)	2	20000	40,000
Spiral binding	3	3000	9,000
Miscellaneous			25,000
GRAND TOTAL			**225,000=**