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**ROLE OF CASH PLANNING TECHNIQUE ON FINANCIAL PERFORMANCE IN PUBLIC
HOSPITALS IN KAJIADO NORTH SUB-COUNTY**

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ROLE OF CASH PLANNING TECHNIQUE ON FINANCIAL PERFORMANCE IN PUBLIC HOSPITALS IN KAJIADO NORTH SUB-COUNTY

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Abstract

Purpose: The purpose of this study was to determine the role of cash planning technique on financial performance in public hospitals in Kajiado North sub-county.

Methodology: The study adopted a descriptive survey design. The target population for this research study consisted of government/ public hospitals. The target population was four government hospitals and medical centres located in townships of Kajiado North sub – county. This study therefore used all the 30 accounts/ finance employees and the 6 six senior medical officer/ superintendents. The questionnaires were distributed via drop and pick and email, also online survey was used and this minimized the problem of non-response rate

Results: The study sought to find out how cash planning affects financial performance, the study did confirm that cash planning affects financial performance. The study established that majority of the respondents agreed that indeed cash flow was well managed at these public hospitals. The overall mean obtained on financial performance was 3.95 indicating a strong mean that is leaning towards agree in a five point likert scale. The combined effect model that was computed explained the variation in financial performance of public hospitals in Kajiado north Sub County.

Policy recommendation: The study recommended that there is need to strengthen cash collection avenues by encouraging payment in other forms and move from cash payments, with the advent of M-pesa and cash payments to banks where this can be audited for proper payment systems', The study also recommended that there is need to digitize accounts records since with the huge number of persons seeking services, it becomes a big challenge to audit all receipts and to do reconciliation between cash and bank. The study further recommended there is need to modernize equipment at these hospitals using these funds/ monies as majority of the operations is funded by the exchequer this is in line with devolution and also in promoting sustainable development goals.

Keywords: *Cash planning technique, financial performance, Public Hospitals in Kajiado North Sub-County*

1.1 Introduction

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 so 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). Therefore cash refers to currency (coins and paper) that is generally accepted as a medium of exchange for goods and services. It also includes money in hand, bank accounts balances, petty cash, cheque and short-term highly liquid investments held by the firm (Attom and Mbroh, 2012),

In the same vein Malcolm and Harris(2010) confirm that 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.

Many organizations 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

Fortunately there are a number of techniques organizations can use to maximize cash flow management and keep the business running smoothly. Organization need to carry sufficient levels of cash in order to ensure they can meet day-to-day expenses (Arnold, 2008). Cash is also required to be held as a caution against unplanned expenditure and to guard against liquidity problems. It is also useful to keep cash available in order to be able to take advantage of market opportunities (Lasher, 2011). Therefore, as a financial manager, one need to hold cash balances up to the point where the marginal value of liquidity is equal to the value of the interest forgone (Brealey & Myers, 2003).

However, if companies hold too much cash then this is effectively an idle asset, which could be better invested and generate profit for the company. Managing cash is becoming ever more sophisticated in the global and electronic age of the new century as financial managers try to squeeze the last cent in terms of profit out of their cash management strategies. Minimizing cash balances as well as having accurate knowledge of when cash moves into and out of the firm can improve overall financial performance (Block & Hirt, 1987). The indicators of cash management include cash planning which is a technique used to plan and control the use of cash, cash safety that is to say there should be one to authorize the use of cash, cash control, cash allocation and cash budget (Brealey & Myers, 2003). The techniques form the basis at which cash can be managed.

The concepts of cash management techniques that since emerged as a key concept pre occupying the international community. It comprises the actual measures undertaken by a company in order to achieve the goals of cash management, i.e. in order to “maximize liquidity and control cash flows, and maximize the value of funds while minimizing the costs of funds” (Weygandt, Paul, & Kieso, 2010). The techniques of cash management and the degree of sophistication in business processes will vary from entity to entity and will be

influenced by an entity size, geographical location and the nature of its operations. This can be exhibited by the fact that small and medium level enterprises with diverse branches located in different regions within a given country or in different countries normally will try to adopt the cash pooling technique in managing its cash since it takes into consideration cross currency variations thus eliminating currency risk exposure. The adoption of sound cash management techniques will assist an entity in improving its performance (Ondiek, Deya, & Busaka, 2013).

The financial performance of companies globally is subject that has attracted a lot of attention, comments and interests from both financial experts, researchers, the generally including public and the private management of banks entities. The Financial performance of a firm can be analysed in terms of profitability, dividend growth, sales turnover, and return on investments among others. However, there is still debate among several disciplines regarding how the performance of firms should be measured and the factors that affect financial performance of companies (Liargovas et al, 2008).

This financial performance is the subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. There are two kinds of performance, financial performance and non-financial performance. Financial performance emphasizes on variables related directly to financial report. Organization's performance is evaluated in three dimensions. The first dimension is organizations productivity or processing inputs into outputs efficiently. The second is profitability dimension, or the level of which company's earnings are bigger than its costs. The third dimension is market premium, or the level of which company's market value is exceeding its book value (Almajali, Ahmed, & Zakarea, 2012).

Cash management can translate into high performance which reflects management effectiveness and efficiency in making use of company's resources and this in turn contributes to the country's economy at large (Abioro, 2013). Therefore efficient cash management prepares organization for problems, as well as breaks. This can be attributed to increase in sales volume normally through speeding collection on sales made on credit thus eliminating possibility of bad debt, increase in employee's turnover due to availability of finances to meet their wage requirements from increased cash inflow generated from short term investments, controlling payments normally geared towards ensuring that limited amount of cash exit the business, cash shortage financing from credit institutions among others, and finally increase in asset levels due to readily available cash for acquisition generated from short term investment, credit sales collections thus all impacting positively on production output of an enterprise (Ondiek, Deya, & Busaka, 2013). Organization have different cash management policies due to entity size, geographical location, number of customers, and size of employees and the nature of its operations. Therefore, hospitals being organizations they need to have effective and efficient cash management in order to achieve their objectives.

1.2 Statement of the Problem

Efficient management of working capital is an important indicator of sound health of an organization. A firm should therefore formulate certain policies to control the working capital so as to meet financial distress, which may occur in future (Luther, 2007). It has also been observed that many hospitals have maintained large cash reserves and liquidity

positions within their investment portfolios in an effort to partially accommodate unforeseen expenditure (SEI, 2012). Inadequate cash management practices among the hospitals has led to slow rate of service delivery, accompanied with regular strikes of employees, insufficient medicines and other basic equipment for use in hospitals and employee strikes are all linked to management of funds within public hospitals. Lobel (2013) found out that improper accounts preparation and inadequate cash management procedure were some of the major challenges facing organizations leading to close up of the enterprises. In view of Lobel's (2013) it is evident that since public hospitals in Kenya are funded by the exchequer cash management is often not up to date, incomplete or non-existent in some cases. This heavy reliance on the exchequer has made growth of hospitals in terms of expansion, provision of specialized treatment, upgrading of equipment to be very slow if at all it is being implemented in public owned hospitals, this has made the general public prefer getting treated and medical attention from private hospitals which most of the time has proved to be costly. It is for this reason that the study sought to determine the effects of cash planning techniques on financial performance of public hospitals in Kajiado north sub-county.

2.0 LITERATURE REVIEW

2.1 Theoretical review

A theoretical framework is a collection of interrelated ideas based on theories. It is a reasoned set of prepositions, which are derived and supported by data or evidence. A theoretical framework accounts for or explain phenomenon (Mathooko.J.M, Mathooko.F.M, & Mathooko.P.M, 2011).

Models have been developed which attempt to set cash levels at a point or within a range, which strikes the best balance between the costs. These models suffer from being over simplistic and are heavily dependent on the accuracy of the inputs. There is also a danger of managers using them in a mathematical fashion and neglecting to apply the heavy dose of judgment needed to allow for the less quantified variables ignored by the models (Arnold, 2008).

2.1.1 Cash Management Theory

The purpose of cash management is to determine and achieve the appropriate level and structure of cash, and marketable securities, consistent with the nature of the business's operations and objectives (Brigham, 1999). As Erkki (2004) asserts, Models on cash balance management have been proposed by (as cited in (Baumol, 1952), (Archer, 1966), (Beranek, 1963), (Miller & Orr, 1966), (Pigou, 1970), (Lockyer, 1973), & (Gibbs, 1976)) among others. (as cited in William Baumol,1952) was the first person to provide a formal model of cash management. As Erkki (2004) asserts, this model applied the economic order quantity (EOQ) to cash. Brokerage fees and clerical work form order costs while foregone interest and cash out costs from the costs of holding cash. Baumol's model is however probably the simplest, most stripped down and sensible model for determining the optimal cash position (as cited in Ross, 1990). (As cited in Lockyer, 1973) on the other hand modified Baumol's model to incorporate

Overdraft facilities: According to Lockyer's approach the total annual cash policy cost attributable to the use of overdraft facilities is given by the sum of total annual cash transfer cost, total annual overdraft cost and the total annual holding cost. As Erkki (2004) asserts,

Lockyer's model is critiqued for assuming overdraft facilities, which are not automatic especially for firms with poor credit rating. The model also assumes disbursements are even over the planning period.

As Erkki (2004) asserts, the cyclical nature of cash is recognized (as cited in Archer, 1966) who reasons that apart from providing cash balance for transactional purposes, a cash balance should be provided for precautionary purposes, especially for seasonal activities that are unpredictable. In Archer's approach, costs related to overdraft facilities and capital costs of precautionary balances are compared to determine the optimum. Archer's approach is advantageous for it recognizes the cyclical nature of net cash flows of many firms. As Erkki (2004) asserts, enhances the reasoning (as cited in Archer, 1956). According to Gibbs, the determination of optimal cash balance involves a combination of investment and financial decisions. In Gibbs approach, cases where demand for money is of a cyclical nature a combination of short and long term borrowing should be used to avoid the use of long term funds to cover peaks arising from idle cash balance, during periods of low cash demand. Gibbs contends that, the determination of the amount of buffer money to hold is seen as an investment decision. Gibbs approach emphasizes holding costs, costs of short and costs of long-term borrowing and the costs of investment in marketable securities, (Erkki, 2004).

2.1.2 Free Cash Flow Theory

As Huseyin (2011) asserts, managers have an incentive to hoard cash to increase the amount of assets under their control and to gain discretionary power over the firm investment decision, (as cited in Jensen, 1986). Having cash available to invest, the manager does not need to raise external funds and to provide capital markets detailed information about the firm's investment projects (Huseyin, 2011). Hence, managers could undertake investments that have a negative impact on shareholders wealth. Managers of firms with poor investment opportunities are expected to hold more cash to ensure the availability of funds to invest in growth projects, even if the NPV of these projects is negative(Huseyin,2011). This would lead to destruction of shareholder value and, even if the firm has a large investment programme and a low market-to-book ratio. Thus, using the market-to-book ratio as a proxy, it is likely that the relation between investment opportunity set and cash holdings will be negative. This is critical in management of liquidity in the firm and ensuring there is a balance between meeting the current obligation to mitigate liquidity short fall and investing in the interest of shareholders wealth maximization (Huseyin, 2011).

2.2 Empirical Reviews

Previous studies done on the cash management techniques had concentrated on production industry and in mostly on the western countries where the technology, economic, government policies and customer tastes and preferences are different from the same factors in Kenya.

Erkki (2004) defined cash management as a part of treasury management , which is defined as a part of the main responsibilities of the central finance management team(as cited in Tiegen, 2001) . Huseyin (2011) asserts, the specific task of a typical treasury function include cash management, risk management, hedging and insurance management, account receivable management, account payable management, bank relations and investor relations (as cited in Kytönen, 2004). (Huseyin, 2011) thinks that this definition is consistent with the (as cited in Srinivasan & Kim, 1986) classification of cash management areas as cash balance management, cash gathering, cash mobilization and concentration, cash disbursement, and banking system design. Cash balance management includes management of cash position, short-term borrowing, short term investing, cash forecasting. (Huseyin,

2011) opinion is that the classifications of Tiegen's cash management and Srinivasan and Kim's cash balance management are closely related concepts. (Huseyin, 2011) classifies cash management as operating transactions and financial transactions. The operating transactions include accounting ledgers, invoicing, terms of sales - cash collection, cash control and processing, cash forecasting. The financial transactions include optimization of cash, short-term investments, short term borrowing, interest rate risk management, exchange rate risk management, payment systems, information systems and banking investor relations (as cited in Kytönen, 2004).

A study by (Kwame, 2007) established that the setting up of a cash balance policy ensures prudent cash budgeting and investment of surplus cash. This finding agrees with the findings by (Kotut, 2003) who established that cash budgeting is useful in planning for shortage and surplus of cash and has an effect on the financial performance of the firms. The assertion by (Ross et al., 2008) that reducing the time cash is tied up in the operating cycle improves a business's profitability and market value furthers the significance of efficient cash management practices in improving business performance.

Haileselasie, (2003) in his study about cooperatives in Saesi-Tsaeda-Imba, investigated that 78.7 percent of the members became member in cooperatives through mobilization and persuasion by the civil societies such as Farmers, Youth and Women's Associations. As a result, the members' were not aware of the duties and rights they have in the cooperative societies. According to Haileselasie's finding, for example, out of the total respondents members' participation in the annual meeting was 12.2 per cent and 68.8 per cent of the total respondents had bought only one share. The result of the study revealed that the overall participation of members in co-operatives was weak (Haileselasie, 2003).

Ondieki, (2011) in "The effects of external financing on the performance of SACCOs in Kisii District" observed that major challenges inherent in the cooperative movement in Kenya included: poor governance, limited transparency in management of cooperatives, weak capital base and infrastructure weakness including ICT. The same opinion is shared by (Karim, 2012) "African SACCO Regulatory framework" whereby it was observed that leadership or governance of a CFI determines to a large extent how the CFI responds to regulatory issues and how it operates within the regulatory framework. This requires that the BOD members file personal information return with the regulators.

Jared (2013) asserts, the cooperative form is therefore regarded as having enormous potential for delivering pro-poor growth that is owned and controlled by poor people themselves. Nevertheless it is recognized that, lacking in capital and business management capacity, cooperatives have had a rather disappointing history in developing countries (as cited in Birchall, 2004). There is an argument then that it is the broader characteristics of cooperative organisation such as social ownership, people-centered objectives and their community base, rather than their precise organizational form should be advocated. According to (Mwaura, 2010) industry statistics in Kenya show that an estimated 60 SACCOs are way below the required minimum capital levels and are expected to turn to the members for money needed to reach the threshold. Contributing money for the capital build-up will force members to take a portion of their monthly take-home or forego annual dividends in the next four years in support of the initiative. Nation staffs SACCO has, for example, asked its members to increase their share capital to Ksh 6,000 from the current Ksh1, 000 in the next five months beginning August 2010.

3.0 METHODOLOGY

The study adopted a descriptive survey design. The target population for this research study consisted of government/ public hospitals. The target population was four government hospitals and medical centres located in townships of Kajiado North sub –county. This study therefore used all the 30 accounts/ finance employees and the 6 six senior medical officer/ superintendents. The questionnaires were distributed via drop and pick and email, also online survey was used and this minimized the problem of non-response rate.

4.0 RESULTS FINDINGS

4.1 Cash planning

From the results it was established that it was understood that a strong control on cash is practiced at a mean of 3.45 this lies above neutral and leaning towards agree, timelines are adhered to as well as strict accounting principles, it was also established that budgeting is done ahead of time, while this holds true it was established that there is need to look into determining what is the optimal cash that can be held at any given time. On the other hand it was established that majority (34.44%) of the respondents agreed that indeed cash flow was well managed at these public hospitals they were supported by another 12.50% of the respondents, 26.66% of the respondents disagreed, 21.84% disagreed and 4.56% strongly disagreed. The findings are as shown in Table 1 below.

This study agrees with literature reviewed as states that a cash budget is the projection of a company’s cash receipts and disbursements over some future period of time (Higgins, 2009). 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 (McGuigan, McMoyer, & Kretlow, 2012).

Table 1: Cash Planning

Cash planning	1	2	3	4	5	Mean
Budgeting is done ahead of time	2.25	23.6	23.6	41.57	8.99	3.31
Monitoring of cash flows over time determine the optimal cash to hold.	4.49	20.22	26.97	41.57	6.74	3.26
Cash budget is the most significant device used to plan for and control cash receipts and payments.	4.49	20.22	29.21	38.2	7.87	3.25
A strong control is one with tight budgetary control over cash received, cash banked, cash paid, and cash brought down.	1.18	11.76	31.76	42.35	12.94	3.54
Timelines are adhered to in cash planning	5.62	14.61	30.34	39.33	10.11	3.34
Strict accounting principles and accountability practices is used	9.33	40.61	18.08	3.61	28.37	3.34
Average	4.56	21.84	26.66	34.44	12.50	3.34

4.2 Correlation Analysis

Crossman (2013) noted that correlation analysis results give a correlation coefficient which measures the linear association between two variables. Mugenda and Mugenda (2003) explain that correlation analysis tests the strength of association/relationship between the research variables. Table 2 shows the correlation between Cash Planning and Financial Performance.

Table 2: Correlation between Cash Planning and Financial Performance

		Cash Planning	Financial Performance
Cash Planning	Pearson Correlation	1	.557**
	Sig. (2-tailed)		.000
	N	31	31
Financial Performance	Pearson Correlation	.557**	1
	Sig. (2-tailed)	.000	
	N	31	31

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

According to above table, the study found that there is significant relationship between Cash Planning and Financial Performance which have correlation index of ($r= 0.557$). Therefore, the study found that Cash planning has significant relationship to the Financial Performance of public hospitals in Kajiado north sub-county.

5.0 SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary of Finding

The study sought to find out how cash planning affects financial performance, the study did confirm that cash planning affects financial performance. The study established that majority of the respondents agreed that indeed cash flow was well managed at these public hospitals.

Finally, the researcher looked into financial performance of public owned hospital and health centres in Kajiado North Sub County. The overall mean obtained on financial performance was 3.95 indicating a strong mean that is leaning towards agree in a five point likert scale.

The combined effect model that was computed explained the variation in financial performance of public hospitals in Kajiado north Sub County.

5.2 Conclusions

This section presents the conclusion from the study in comparison to what other scholars say as noted under literature review.

The study established that timelines are adhered to as well as strict accounting principles, it was also established that budgeting is done ahead of time, while this holds true it was established that there is need to look into determining what is the optimal cash that can be held at any given time.

5.3 Recommendation

In view of the data analysis conducted and inferential statistics the researcher would therefore suggest the following:

1. There is need to strengthen cash collection avenues by encouraging payment in other forms and move from cash payments, with the advent of Mpesa and cash payments to banks where this can be audited for proper payment systems’.
2. There is need to digitize accounts records since with the huge number of persons seeking services, it becomes a big challenge to audit all receipts and to do areconciliation between cash and bank.
3. There is also need to modernize equipment at these hospitals using these funds/ monies as majority of the operations is funded by the exchequer this is in line with devolution and also in promoting sustainable development goals.
4. Finally there is need to consider bonus for staff and employees especially when targets have been attained.

5.4 Areas for further Studies

The researcher would therefore recommend that future studies to include other public health centres and hospitals across in order to establish whether the same applies across the country or whether the findings reflect only for health centres and hospitals in Kajiado County only. Secondly the researcher suggest that the techniques used cash management be isolated and studied in depth and also there is need to establish how technology has been incorporated into daily operations of the hospitals.

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