



An Assessment of the Impact of Cashflow Management on the Profitability of SME's in Malawi: A Case Study of Limbe SME's

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ABSTRACT

Small and Medium Enterprises (SMEs) are integral to the business landscape in Malawi. The small and medium business enterprises (SMEs) sector is universally acclaimed for fostering economic growth in many economies. The health of this industry is primarily dependent on adherence to sensible financial management principles, particularly cash flow management.

We investigated this in this study the impact of cash flow management methods on the profitability of Malawian SMEs.

We aim to analyse the impact of different cash flow management practices on the profitability of SMEs in Malawi. By examining various financial strategies such as effective budgeting, timely invoice payments, and efficient inventory management, we will determine their significance in driving profitability. This research will provide valuable insights into the role of cash flow management in the success and sustainability of SMEs in Malawi, thereby contributing to the development of effective financial strategies for this vital sector. However, their financial stability and profitability are frequently hampered by challenges in cash flow management. This study investigates the specific issues faced by Malawian SMEs in managing their cash flow effectively and how these challenges influence their profitability.

Cash flow management problems, such as late payments, inadequate working capital, and inaccurate cash flow forecasting, are examined in depth. Utilizing a combination of surveys, interviews, and financial analysis, this research reveals the barriers encountered by SMEs in the successful management of their cash flow.

The findings offer valuable insights to SMEs and policymakers in Malawi. By gaining a comprehensive understanding of these issues, this study aims to provide practical recommendations to enhance the financial sustainability and growth of SMEs. It contributes to the broader conversation about the role of SMEs in the economic development of Malawi and similar economies.

In summary, this research underscores the significance of addressing cash flow management problems and their impact on SME profitability in Malawi, with the ultimate goal of fostering economic growth and stability in the region.

Keywords: Profitability, SMEs and Cash flow management

INTRODUCTION

Cash flow management is essential for the success and profitability of small and medium-sized businesses (SMEs). While the impact on profitability may be relatively small, it is still significant in ensuring the sustainability of SMEs. Research suggests a positive but slight correlation between cash management and profitability in SMEs. To effectively manage cash flow, SMEs should forecast expenses and revenue, plug in relevant data, and regularly update projection spreadsheets. By implementing these steps, SMEs can better anticipate and manage their cash flow, improving profitability and increasing their chances of long-term success.

Cash flow management is important for small and medium-sized businesses (SMEs) to succeed. It helps them make informed decisions, identify financial issues, plan for the future, secure funding, and manage cash flow cycles.

According to a study, cash management has an insignificant but positive co-relationship with the profitability of small and medium size business. This shows that good cash management practices slightly impact on profitability of SMEs.

Malawi, a landlocked country in Southeast Africa, is primarily reliant on agriculture for economic activity and jobs. Small and medium-sized firms (SMEs) are an important part of the Malawian economy, contributing considerably to employment, revenue generation, and general economic development. These enterprises operate in a variety of industries, including agriculture, trade, manufacturing, and services (industry, 2023).

Malawi's economic landscape is characterized by a heavy dependence on agriculture, a sector that serves as the backbone of the nation. Small and medium-sized enterprises (SMEs) play a pivotal role in this economic framework, contributing significantly to employment, revenue generation, and overall economic development. These SMEs are not confined to a single industry; rather, they span diverse sectors, encompassing agriculture, trade, manufacturing, and services, thus showcasing their versatility and impact on various facets of the economy (industry, 2023).

Small and medium-sized firms (SMEs) are critical in many developing economies, including Malawi. Empirical research indicates that SMEs make a significant contribution to income, output, and employment. According to the Malawi Gemini MSE Survey of 2000, SMEs employ around 1.7 million individuals (including owners, paid and unpaid employees), accounting for 38% of the country's entire working-age population. The Malawi MSME Survey 2019 revealed that there were 1,600,739 MSMEs in the country, contributing about 47 percent to the country's GDP (an increase of about 31.4% in 19 years) (industry, 2023).

The significance of SMEs in Malawi is underscored by empirical research, which demonstrates their substantial contributions to income, output, and employment. The Malawi Gemini MSE Survey of 2000 revealed that SMEs collectively employ approximately 1.7 million individuals, comprising owners, paid, and unpaid employees. This employment figure represents a remarkable 38% of the entire working-age population of the country. Moreover, the more recent Malawi MSME Survey of 2019 reported a notable increase in the number of SMEs, reaching 1,600,739 establishments. These enterprises contributed significantly to the nation's GDP, accounting for about 47% — a substantial increase of approximately 31.4% over a span of 19 years. These statistics underscore the indispensable role played by SMEs in driving economic growth and development in Malawi (industry, 2023).

RESEARCH METHODOLOGY

Population of the study

According to Mugenda and Mugenda (1999), a target population is one the researcher wants to generalize the result of the study. Therefore, the research comprised of some of small and medium enterprises in Malawi more especially in Blantyre district and Limbe town was selected to be the convenient sample size of which 30 was selected.

Sample Technique

The sample size was extracted from the total population of the small and medium enterprises that are present in Limbe Town and a sample of 30 SMES' out of a total of 100 SMES' was obtained. The sampling technique that was utilized in this circumstance was simple random sampling as each item of the set population had an equal chance of being selected to being part of a sample.

Data Collection Method

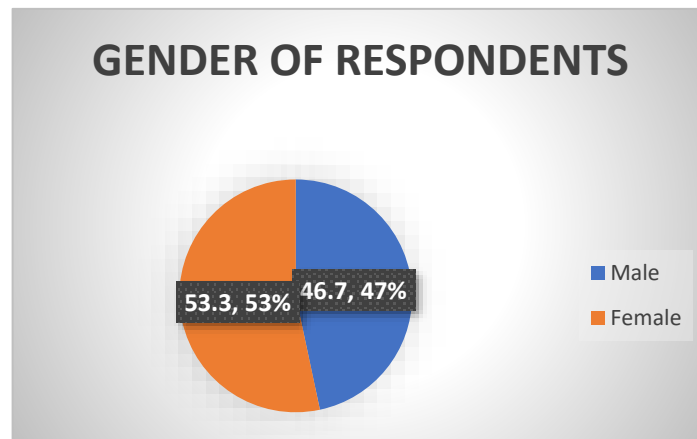
Data collection is a methodical process of gathering and analyzing specific information to proffer solutions to relevant questions and evaluate the results. It focuses on finding out all there is to a particular subject matter. Data is collected to be further subjected to hypothesis testing which seeks to explain a phenomenon (Friese, 2012).

Hypothesis testing eliminates assumptions while making a proposition from the basis of reason. For collectors of data, there is a range of outcomes for which the data is collected. But the key Purpose for which data is collected is to put a researcher in valid position to make predictions about future probabilities and trends (Friese, 2012).

The core forms in which data can be collected are primary and secondary data. While the former is collected by a researcher through first-hand sources, the latter is collected by an individual other than the user.

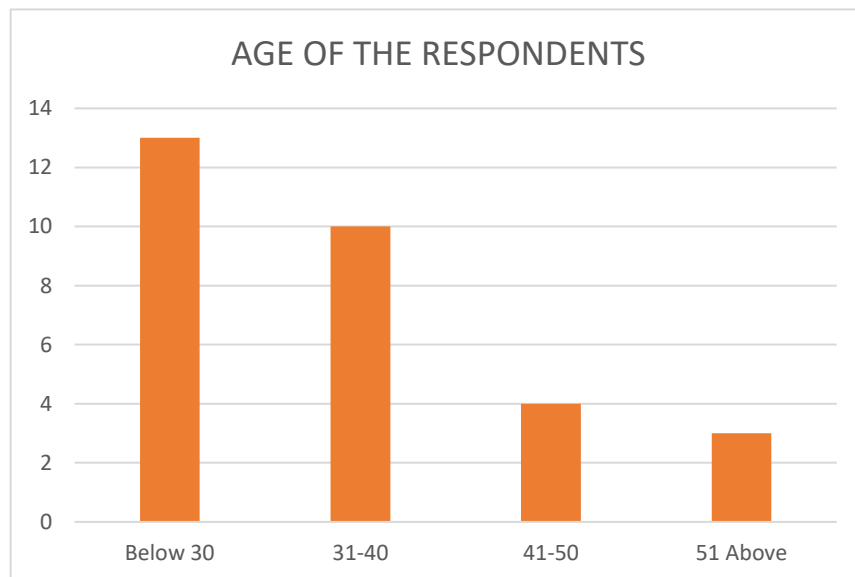
Gender of the respondents

Out of the 30 respondents that answered the questionnaires, the information collected shows that from the sample size of 30, male respondents amounted to 14 which translates into 46.67% of the sample population while female respondents amounted to 16 which translates into 53.33% of the sample population. This indicates that a majority of SMEs' in Limbe are run by Females as compared to males.



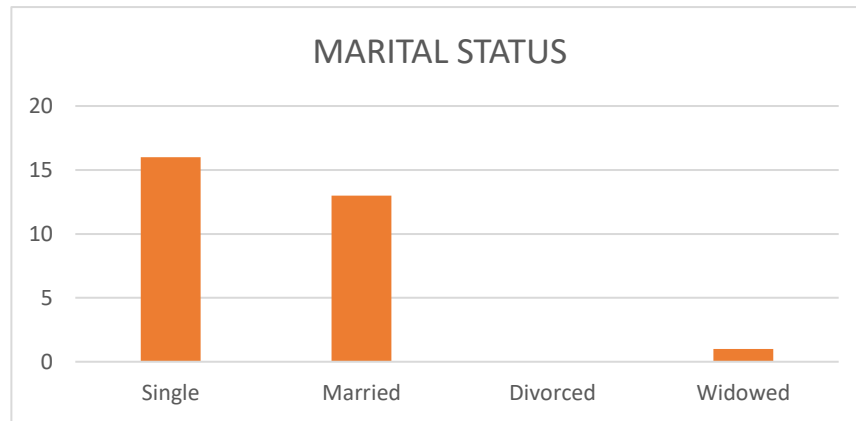
Age of the respondents

From the totality of 30 respondents ages of the respondent was categorized into four categories: namely those below the 30,31-40,41-50 and above 51 years. The bar graph below shows that 13 respondents fall into the first category of which is below the age of 30,10 of the respondents fall into the category of 31-40,4 of the respondents fall into the category of 41-50 and 3 of the respondents fall into the category above 51. This shows that respondents from the two first categories are indulging more in entrepreneurial activities compared those in the last two categories.



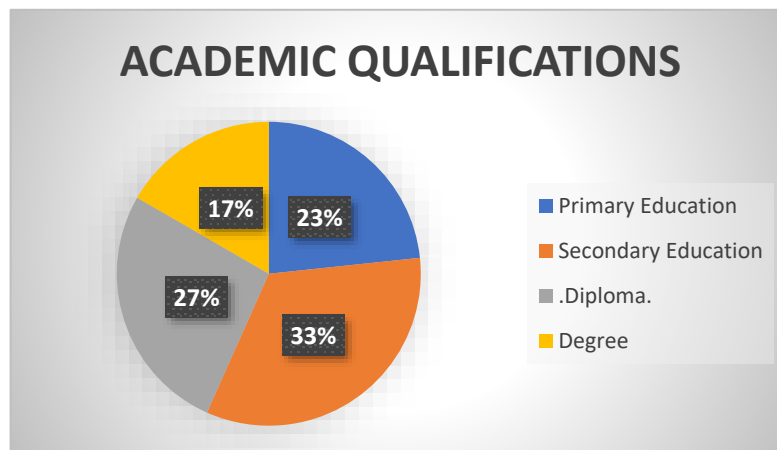
Marital Status for Respondents

the totality of 30 respondents Marital Status of the respondent was categorized into four categories: namely Single, Married, Divorced and widowed.in reference to the questionnaires that were collected from the respondents ,16 of the respondents was single,13 of the other respondents was married, none were divorced and only 1 was divorced. This implies that a great majority of the respondents were single and the second majority were married and the minority widowed



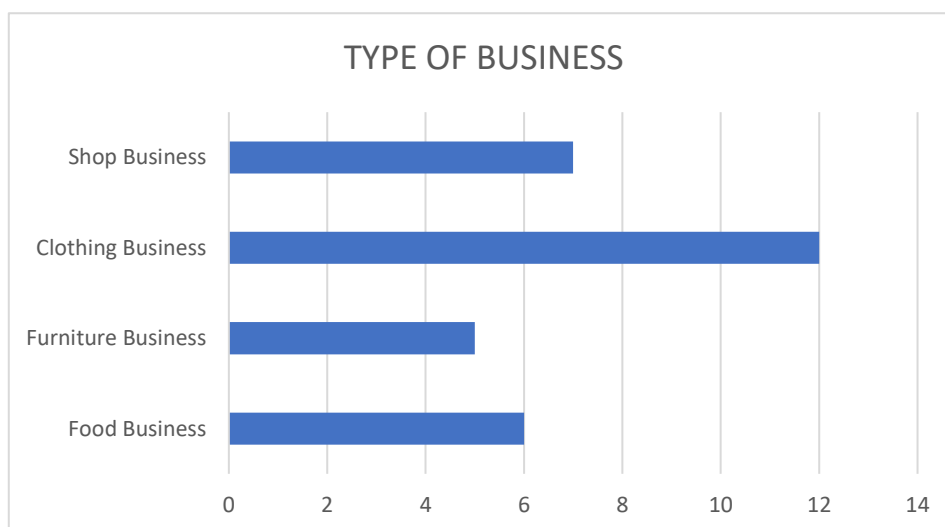
Academic Qualification

From the totality of 30 respondents' academic qualification of the respondent was categorized into four categories namely: Primary education, Secondary education, Diploma and Degree. From the data obtained from the questionnaires 17% of the respondents only had a Primary Education which equates to 7 of the respondents, 33% of the respondents only had a secondary education which equates to 10 of the respondents, 27% of the respondents only had diplomas which equates to 8 of the respondents and 17% of the respondents had a degree which equates to 5 of the respondents



Type of Business

This subsection depicts the various businesses that are run by the respondents. Data collected through the questionnaire indicated that 7 of the respondents run a shop business, 12 of the respondents run a clothing business, 5 of respondents run the furniture business and 6 of the respondents run the food business



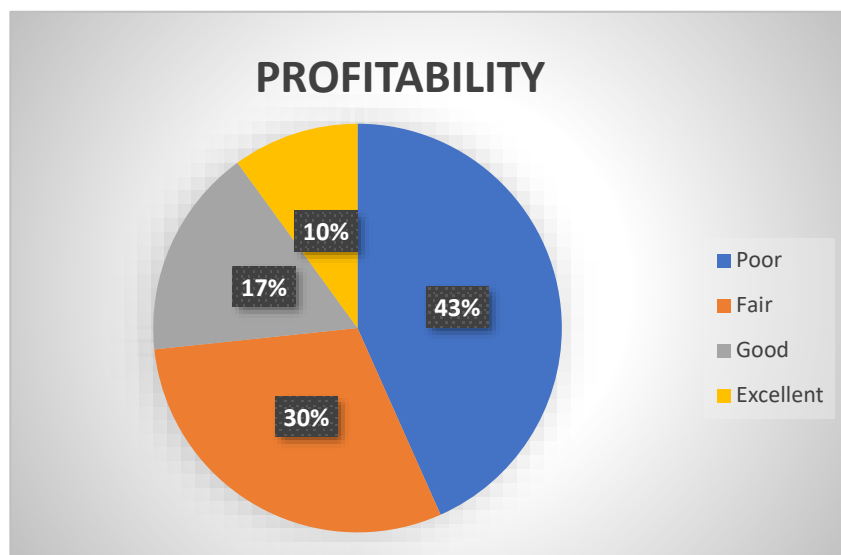
Position of the Respondent in the Business

The data obtained through the questionnaires clearly portrayed the position of the respondents from whom data was obtained. The data shows that 23% of the respondents are simply owners of the business, 47% of the respondents are managers, 17% of the respondents are accountants and 13% of the respondents are the sale clerks

S/N	Position of Respondent	NUMBER OF RESPONDENTS	PERCENTAGE
1	Owner	7	23
2	Manager	14	47
3	Accountant	5	17
4	Sale clerk	4	13

On a scale of 1-4, please rate the overall profitability of your SME.

The data that was collected from the 30 respondents portrayed that 13 of the respondents which represent 43% of the sample size state that there have poor profitability due to the issues of cash flow management, 9 respondents which represent 30% of the sample size state that their overall profitability is not excellent but rather it is fair enough, 5 of the respondents which represent 17% of the sample size stated that their profitability is good and 3 of the respondents which represents 10% of the sample size stated that their profitability is excellent.



CONCLUSION

In Conclusion, this study emphasizes the critical relationship between cashflow management and the profitability of Malawi's small and medium-sized enterprises (SMEs). The findings show a dynamic interplay in which effective cashflow management practices have a significant impact on SME profitability. Notably, the study identifies key areas of concern, such as the need for improved financial literacy and the importance of addressing specific challenges faced by SMEs, such as late supplies, overstocking of inventory, and insufficient cash reserves.

Moving forward, the recommendations aim to fill knowledge gaps and provide practical solutions for SMEs to improve their cashflow management and profitability. Adopting comprehensive practices beyond bookkeeping, taking part in financial literacy programs, and addressing supply chain challenges are all critical steps for SMEs. Furthermore, the government is urged to support financial literacy initiatives, incentivize SME participation in training programs, and establish financial assistance programs to aid in the implementation of effective cash flow management.

These recommendations provide a road map for SMEs and government stakeholders to work together to strengthen the financial resilience of Malawian businesses. By implementing these recommendations, SMEs can navigate challenges more effectively and contribute to the country's entrepreneurial landscape's long-term growth."

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