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ASSESSMENT OF CASH FLOW MANAGEMENT ON PROFITABILITY OF PRIVATE HOSPITALS IN KENYA'S KISUMU COUNTY

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Abstract

Financial performance is a thorough assessment of a business' general situation with regard to its costs, equity, liabilities, assets, income, and profitability. It is determined utilizing a range of business-related techniques that let consumers to compute specific information on an organization's prospective efficacy. Globally, financial performance of private hospitals has been having issues like weak government regulations, excessive taxation, limited access to government assistance, oversight, low operational efficiency market crashes and lack of economies of scale. Financial performance of Private hospitals in Africa is affected by revenue pressures, rising costs, stagnating margins and inadequate finances. In Kenya, private health sector has been facing challenges of the issue of sustainability in terms of ineffective financing practices. Financial performance of private hospitals in Kisumu County is affected by ineffective cost management which makes the hospitals have a shortage of operating funds. The study objective was to ascertain the impact of cash flow management on profitability of private hospitals in Kenya's Kisumu County. The study was anchored on theories of free cash flow, transaction cost and Baumol model of cash management. The research adopted correlational research design. Target Population for the study was 41 Private hospitals in the County of Kisumu. Structured questionnaires were used for data collection. Pilot testing and Cronbach's alpha were used to find questionnaire's reliability. The research reveals that cash flow

management, significantly influence performance of private hospital in County of Kisumu, Kenya. The research recommended that private hospitals should consider cash flow management when making decisions. The research is significant because it will help hospitals manage their cash properly to realize high return on investment.
Keywords: Financial Performance, Private Hospitals, cash flow management, Profitability, health sector, cost management

INTRODUCTION

Financial performance of private hospitals in China has been having issues like weak government regulations, excessive taxation, limited access to government assistance, oversight, low operational efficiency and lack of economies of scale (Wang 2024). In Saudi Arabia, private hospital's financial performance have been facing common occurrences like financial mismanagement, market crashes, and dishonest practices like fraud (Al Rahhaleh, Al-khyal, Alahmari, Daghran, and Al-Hanawi 2023). In Indonesia, a study by Umniyatun (2023) on financial performance of Private Hospitals showed that there were disruptions in cash flows in the period of the pandemic of COVID-19 which in turn had an impact on private hospitals' financial performance. The private hospitals recorded a decrease in the cost recovery rate and revenue. Regionally in Nigeria, financial performance of Private hospitals is affected by revenue pressure, rising costs and stagnating margins (Obansa and Orimisan, 2013), in Zambia, financial performance of private health facilities faces operational challenges such as inadequate finances which in turn affects their financial performance (Khondowe and Mpundu, 2024). In Uganda Poor financial performance issues are not exclusive to the health sector, with private hospitals being the most impacted (Ministry of Health, 2018). According to the "Compuscan" credit bureau's evaluation of Uganda's health sector Private hospitals in the nation from the years 2017 to 2019, the country did worse financially than the loan portfolio of medium and small-sized businesses (SMEs) in the banking industry (Banyan, 2019). Private hospital's financial performance in Kenya is affected by the issue of sustainability in terms of ineffective financing practices (Washika, 2023). Kenya's private hospitals financial performance is also affected by poor bench marking which has led to their poor performance (Matunga, 2013). Private hospitals in Kisumu County are affected by ineffective cost management which makes the hospitals have a shortage of operating funds in which has a big influence on their financial performance (Oruko, 2022).

Cash management involves managing the liquidity and cash flow of a business, in addition to controlling procedures and risks associated with capital optimization and cash flow

(Martinez-Solano and Juan, 2007). It is very crucial to effective working capital management and decide whether an organization succeeds or fails (Nyabwanga, 2011). According to (Nyabwanga, 2011), establishing a policy for cash balance will guarantee judicious cash budgeting and the investment of excess funds. Business organizations use cash management strategies in relation to cash balances, cash inflows and cash outflows retained at any one time (Attom, 2014). Since investors look at a company's cash flow first when assessing it, which reflects its cash management practices, efficient cash management that goes beyond increasing business's prospects of surviving but moreover helps draw in investors who can finance its expansion (Merchant Factors, 2013).

Cash management techniques comprise of measures implemented by a company to accomplish its goal of cash management which consists of liquidity maximization, cash flow control, raising the worth of wealth and reducing the cost of capital (Caviezel, 2007). If organizations do not understand proper cash management techniques, then it will be difficult to improve performance of an organization (Longenecker, 2006). (Akinsuline ,2003), revealed that the prosperity of a company venture is established by how the management organizes cash flows which leads to efficiency and effectiveness of cash management influences firm's performance and sustainability.

The term "financial performance" describes financial measurement of a business' employment and operations of its resources (Didin, Jusni & Mochamad, 2018). In addition to being used to gauge business' general long-term financial well-being, it can be utilized for comparison of comparable enterprises in identical sectors or for comparison of sectors or sectors together. Financial performance, according to CFI (2023), is a thorough assessment of an organization's overall position with regards to revenue, expenses, equity, liabilities, assets, and profitability; it is quantified utilizing a range of formulas related to business that allow users to calculate accurate data about the potential efficacy of a firm. According to Alfred (2007), financial performance of an organization serves as a signal of how well it has exploited its resources to produce income. Financial performance helps to tell an investor about the general well-being of an organization (Kenton, 2021). Therefore, financial performance is an essential measure of a company's success and competitive advantage. It is a critical component of the overall performance of the company (Onduso 2013).

There are several benefits of measuring financial performance in public sector organizations, including allowing managers to set up methods for assessing, managing, budgeting, inspiring, encouraging, commemorating, and enhancing strategic decision-making framework (Tamyko and Sierra, 2019). They further said the benefits of financial performance measurement systems in sector organizations are prognosis which allows the organizations to improve their productivity and mission effectively.

LITERATURE REVIEW

Sila (2018) ascertained the association between profitability and free cash flow of organizations registered on Securities Exchange in Nairobi using descriptive research design. The study was anchored on Pecking Order Theory, Modern Portfolio Theory, and Free Cash Flow Theory. Nairobi Security Exchange listed companies audited financial accounts and Capital Market Authority for the period of five years between 2013 to 2017 provided data in secondary form. The research discovered that the Cash Conversion Cycle and financial performance had positive but insignificant correlation, leverage had significant impact on financial performance and that organization size had negative and insignificant influence on financial performance. Research design which is descriptive was applied in the investigation; however, correlational research design will be applied in this study.

Ouma (2021) analyzed consequences of cash management on Nairobi County's small and medium-sized businesses' financial performance. Financial performance was gauged using net profit margin. The research used correlational and regression analysis. The research was based on Baumol's Theory, liquidity preference Theory, Miller-Orr Model, and cash conversion cycle. The study population was 43432 licensed SMEs in Nairobi County acquired in 2019 from the Kenya National Statistics Bureau. Primary data was collected using structured questionnaires distributed to 208 owners of SME's and secondarily data was obtained from publications, books, journals, newsletters, and other written materials. The research found a positive association between cash cycle management, liquidity management, and receivable collection and SME financial performance (net profit margin) in Nairobi County. The study was, however, carried out in Kisumu County.

Onyango (2018) while exploring cash management's impact on financial performance through return on investment of small-scale business by employing descriptive, regression and correlation analysis. The research's goals were to assess how cash management affected small businesses' sales turnover in Kampala central division, to examine influence of cash management on the return on investment of small businesses in Central Division in Kampala and to determine how cash management affects small businesses' profitability in Kampala central division. The companies' financial statements provided secondary data. The research revealed that that the financial performance was unaffected by cash management. The research, however, did not analyze private hospitals.

Wanjiku (2019) in his study of the analysis of free cash flow on manufacturing and related companies quoted on the Nairobi Security Exchange's profitability between 2013 and 2017 using descriptive survey. Secondary information was gathered from manufacturing companies' financial statements and audited annual reports that were taken from the Nairobi Security Exchange. The research's aim were to find out how operating cash flow impacted profitability of companies quoted on Nairobi Security Exchange, how investing cash flows influenced the profitability of businesses that are transacted on the Nairobi Security Exchange and to ascertain how financing cash flows impacted profitability of manufacturing firms that are registered on Nairobi Security Exchange. According to the research, free cash flow management has an impact on the profitability of manufacturing and allied firms in Kenya Positively. The research concentrated on manufacturing sector and used a descriptive study approach; this study focuses on private hospitals and uses correlational research design.

Wadesango (2019) employed both quantitative and qualitative research techniques to examine cash flow management's impact on sustainability and profitability of Zimbabwe's 14 small and medium-sized enterprises. Interviews and questionnaires were employed to obtain data in primary form. Chi square test method was applied to analyse and test data. Cash flow management according to the study positively and significantly affected SME's profitability and sustainability. The analysis was undertaken in Zimbabwe however this research was done in Kisumu Kenya.

Jama (2017) on his study of Impact cash management practices on the profitability of the Puntland, Somalia-based bottled purified businesses. The research was based on Baumol model theory. The 46-sample size was established using the Slovene formula. Questionnaires were used to gather primary data. Based on research, cash management practices have an influence on the profitability of bottled purified companies. The study used quantitative research design however this study will use correlational research design.

METHODOLOGY

Research Design

Research design was defined by Wilson (2005) as research plan. According to Saunders (2012), research design's objective is to develop a concept that represents how researchers would respond to the study questions. As stated by Kothari (2008), research design is a comprehensive framework, strategy, and rational figure of demonstration that directs the researcher at different phases of the research process. This research took correlational research design for description and effect determination in the connection between and among the variables of the research. Jackson (2009) and Nyakundi (2017) confirmed the place of correlational design in determining influence of dependent variables to independent variables.

Study Area

The research area is the geographical boundary in which research was conducted in. Kisumu is among the 47 counties in Kenya located on coordinate's latitude 0.091702 longitude 34.767956.

Target Population

Private hospitals were the intended target demographic in Kisumu County. The research was conducted in all levels 4 and level 5 private hospitals in Kisumu County as its target demographic. The research's target population was 41 private hospitals located throughout Kisumu County with 41 target respondents.

Sources of Data and Data Collection

The research employed data in primary form which was collected by use of Questionnaires. Questionnaire was used to get data in primary form on how cash management techniques impact Private hospital's financial performance in Kenya's Kisumu County. Questionnaires were administered by researchers. There were two sections to the questionnaire; the first portion was concerning the general data about the respondent. The effects of management of cash strategies on financial performance of Kisumu County's Private health facilities were examined in the second section.

Reliability of the Research Instrument

A test of the study tool's internal consistency is called reliability. How much a research instrument yields trustworthy results after multiple tests is measured by its reliability (Kothari, 2004). According to (Cooper & Shnidler. 2006), Piloting ought to range between 1–10% based on the sample size. The questionnaire was administered at 5 private hospitals in Kisumu County. Respondents were chosen using purposive selection. Pilot test participants are not considered in the analysis. Reliability is the rate whereby analysis tools yield similar data or results after several test cycles is known as (Cooper, 2003). Internal consistency technique involving 10 respondents drawn from 5 hospitals was used to test how reliable a research tool is using Cronbach's alpha. According to Nunnally (1978), a research instrument's reliability should be demonstrated by a Cronbach's alpha of at least 0.7.

Table 1. Reliability Statistics

Cronbach's Alpha	No of items
0.862	4

Validity of the Research Instrument

Validity is the degree whereby instruments evaluate their intended purpose and ask relevant, accurate questions (Kothari, 2004). Validity was described by Mugenda & Mugenda (2003) as the precision and importance of conclusions derived from research findings. Content validity was employed in the study as a metric to gauge how much information comes from research tools. The questionnaire's content validity was assessed by distributing it to finance research specialists for evaluation. A pilot study was undertaken to determine research tool, and results were derived from comparing the targets and objectives.

RESULTS AND DISCUSSION

The error term is thought to have a normal distribution hence testing the model's normalcy is crucial to verify and ensure the residuals have a normal distribution. This research is adopting Jaque & Bera (1987) statistics in testing normality and to determine if regression residuals have a standard distribution. The null hypothesis states that alternative hypothesis is that the data is not regularly distributed. It is based on two degrees of freedom and uses the chi square distribution. whereas the residuals are. Figure1 show that data used in this study followed normal distribution. In statistics, normal distribution assumption in data analysis is essential to ensure that results of study are viable.

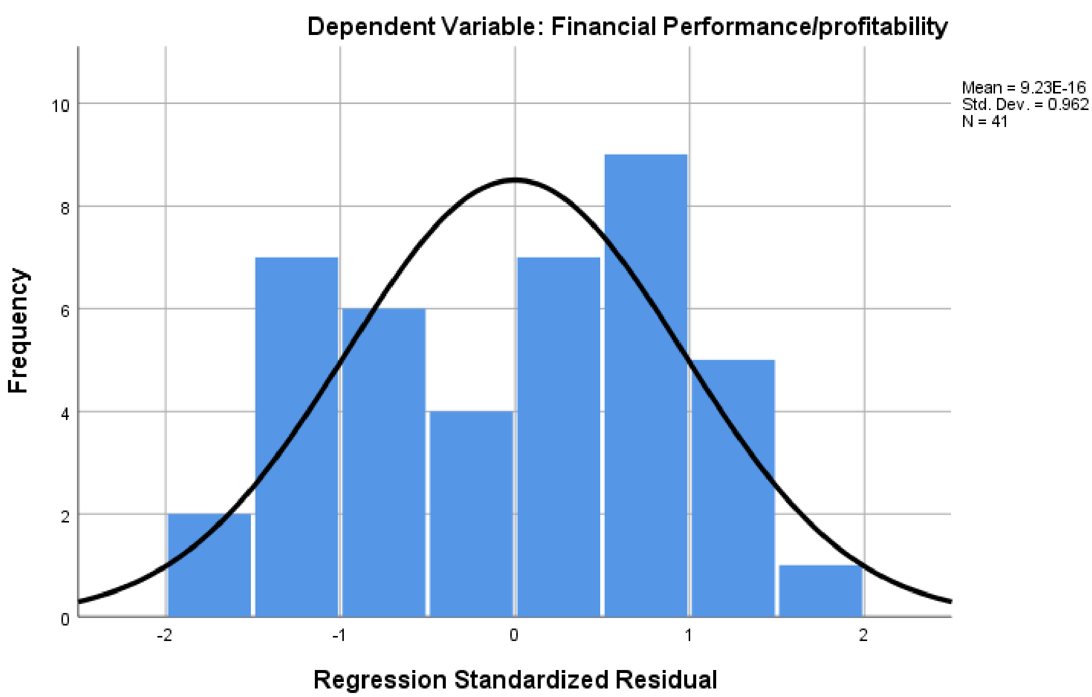

Figure 1: Histogram of Financial Performance Profitability

Table 2. Coefficient of Cash Flow Management

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.736	.170		10.215	.000
	Cash flow management	.197	.052	.269	3.756	.001

Results in table 2 reveals that cash flow management positively but significantly influence profitability of private hospitals in Kisumu County (B= 0.197, p=0.001). This signifies that as cash flow management improves, profitability increases. Results in figure 1 are consistent with empirical studies reviewed such as Sowett (2020), in his investigation into the consequence of cash flow management on Kenya's mutual fund financial performance using panel data which was in secondary form, the research showed that cash flow management from operations had significant influence on financial performance, investing management of cash flow had positive and insignificant influence on financial performance and financing management of cash flow had an insignificant impact on financial performance. The results were backed by Mburu (2023) who examined the management of cash flow and financial performance of Kenyan companies quoted on Nairobi Stock Exchange under manufacturing sector. The investigation employed casual effect research design and quantitative analysis

The analysis discovered that there was positive significant connection among cash from financing and investing activities with financial performance and no significant impact of cash from operating activities on performance, Omaliko, Mordi & Okpala (2023) who studied Nigerian firms' performance and cash flow management using data in secondary form gathered from yearly published financial reports, the outcomes of the investigation demonstrated that cash flow management had positive and significant influence on firm performance, Wadesango (2019) who evaluated the influence of cash flow management on 14 small and medium-sized businesses' sustainability and profitability in Zimbabwe using primary data. The study is consistent withAli and Mukhongo (2016) and Chivuyi (2023) who revealed positive association between cash flow management and financial performance. Results contradicted Wijewaradana and Munasighe (2015) who studied cash flow management and business performance in Colombo security exchange using secondary data. The study revealed that operating cash flow does not support business performance indicators because it is not included in the analysis while investing and financing cash flow operations were significantly and negatively correlated with ROA, a measure of financial performance.

CONCLUSION AND RECOMMENDATIONS

The study analyzed the impact of cash flow management on profitability of private health facilities in Kisumu County Kenya which demonstrated that cash flow management significantly and positively influence private hospitals' profitability of in Kisumu County. This research therefore finds cash flow management is related to private hospitals' performance in Kenya's Kisumu County.

The study recommends that private hospitals should consider cash flow management when making decisions because the results of the study revealed that cash flow management significantly and positively influenced profitability of Kisumu County's Private hospital hence the conclusion that cash flow management is related to performance of private hospitals in Kisumu County in Kenya.

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