



## CASH MANAGEMENT TECHNIQUES AND NON-FINANCIAL PERFORMANCE OF SMALL AND MEDIUM SIZE ENTERPRISES IN SOUTH-EAST, NIGERIA

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### Abstract

Cash management is a critical component of organizational success, with implications for both financial and non-financial performance, especially among small and medium size enterprises (SMEs). This study investigates the effect of cash management techniques of cash planning/budgeting and cash disbursement on non-financial performance measures of operational efficiency, customer retention, and new product development. The study focused on SMEs in South-East Nigeria. A structured questionnaire was sent to 1,150 SMEs cutting across several industry such as manufacturing, ICT, food services. A total of 905 were returned and used for analysis. The study hypotheses were tested using partial least square – structural equation modelling (PLS-SEM) 3.2.9. The results demonstrate that both cash planning/budgeting and cash disbursements have significant positive effects on operational efficiency, customer retention, and new product development. The findings suggest that SMEs prioritizing cash management are better positioned to streamline operations, enhance customer satisfaction, and foster innovation. The study contributes to the existing body of knowledge by providing a comprehensive assessment of cash management techniques, expanding the scope of performance metrics, and offering industry-specific insights. The conclusions have practical implications for managers seeking to optimize cash management strategies and enhance overall organizational performance.

**Keywords:** Cash Management Techniques, Cash Planning/budgeting, Cash Disbursement, Non-financial Performance, Operational Efficiency, Customer Retention, and New Product Development.

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### Introduction

Small and Medium-sized Enterprises (SMEs) are the engine of economic growth in developing economies like Nigeria, playing a critical role in employment generation, innovation, and regional development (Adeosun, & Shittu, 2022). However, SMEs in Nigeria, particularly in the South-East region, often face challenges related to financial management, hindering their long-term sustainability and growth (Marcel, 2023). Effective cash flow management is essential for SMEs. Studies by Abubakar, Sulaiman, Usman, and Mohammed (2019) and Ogundipe, Ogundipe, and Ajao (2012) highlight the positive effect of cash management practices on the financial performance of firms in Nigeria. Despite this recognition, research suggests that many SMEs lack robust cash management techniques, leading to issues like limited working capital, delayed payments, and difficulties in meeting financial obligations (Abubakar, et al., 2019; Ogundipe, et al., 2012).

This study investigates the relationship between cash management techniques and the non-financial performance of SMEs in South-East, Nigeria, by moving beyond traditional financial metrics to explore how well SMEs are functioning in areas critical for long-term success. The study explore how cash management practices influence customer retention, operational efficiency, and innovation. The research contributes to the existing body of knowledge in several ways. First, the study examine the link between cash flow management and non-financial performance in the specific context of SMEs in South-East, Nigeria. Second, the study provides valuable insights for



policymakers and financial institutions to develop targeted interventions that support SME growth. In addition, the study highlights the importance of non-financial performance measures for a comprehensive understanding of SME performance.

## **Review of Literature**

### **Cash Management Techniques**

Cash management is a critical aspect of financial management for small and medium-sized enterprises (SMEs). It involves the efficient collection, handling, and utilization of cash (Ebben & Johnson, 2011). Effective cash management ensures that a business has adequate cash flow to meet its short-term obligations, invest in growth opportunities, and avoid insolvency. For Small and Medium Enterprises (SMEs), maintaining a healthy cash flow is critical for survival and growth (Attayi, Emmanuel, & Oluwayemisi, 2022). Cash Management Techniques encompass a set of strategies that SMEs can leverage to optimize their cash inflows and outflows, ensuring sufficient liquidity to meet financial obligations and seize opportunities (Oladejo, Akande, Yinus, 2017). The primary techniques of cash management include cash planning and budgeting, and cash disbursement (Oladejo, Akande, Yinus, 2017; Attayi, et al., 2022).

Cash planning involves forecasting future cash inflows and outflows. Techniques include sales forecasting, cost analysis, and scenario planning (Ebben & Johnson, 2011). Cash planning helps SMEs anticipate potential shortfalls and surpluses, allowing them to make informed decisions regarding investments, inventory management, and financing needs (Attayi, et al., 2022). Cash budgeting is closely related to cash planning, it involves the SMEs creating a detailed outline of expected income and expenses over a specific period (Kiige, Eric, & Henry, 2024). This budget serves as a roadmap, enabling SMEs to track their progress, identify areas for cost reduction, and ensure sufficient funds are available to cover upcoming expenses (Attayi, et al., 2022). Lastly, cash disbursement focuses on managing outgoing cash flow (Kiige, et al., 2024). Key strategies include negotiating extended payment terms with suppliers, prioritizing payments based on importance and due dates, and leveraging discounts for early payments (Ebben & Johnson, 2011). Additionally, SMEs can explore automating routine payments to streamline the process and avoid late fees (Oladejo, et al., 2017).

Therefore in line with previous studies such as Attayi, et al., (2022), cash planning and budgeting and cash disbursements were adopted as dimensions of cash management techniques.

### **Non-Financial Performance**

Non-financial performance measures play a significant role in assessing the performance of small and medium enterprises (SMEs) alongside traditional financial metrics (Akinrinola, 2019). Non-financial performance refers to the evaluation of a company's performance using indicators that are not directly tied to monetary values. These measures focus on aspects of the business other than financial metrics and are often leading indicators, providing forward-looking insights (Arshad, Rasli, Arshad, & Zain, 2013). Non-financial performance indicators can be quantitative or qualitative and encompass various aspects such as operational efficiency, customer retention and new product development, productivity, market share, sales targets, environmental impact, quality, and customer satisfaction (Arshad, et al., 2013; Akinrinola, 2019). Unlike financial



measures that are lagging indicators, non-financial performance measures help provide context for financial metrics and are crucial for understanding the full story behind financial fluctuations. Research indicates that SMEs are increasingly recognizing the importance of incorporating non-financial indicators to evaluate their overall performance (Abdullahi, Ardo, Hassan, & Ibrahim, 2021). These measures provide a more holistic view of the business's operations and can complement financial metrics to provide a comprehensive assessment.

Studies have shown that SMEs utilize a variety of non-financial performance indicators to evaluate their performance (Abdullahi, et al., 2021). This study adopted operational efficiency, customer retention and new product development as indicators for non-financial performance, this was in line with other studies such as Akinrinola (2019).

Operational efficiency, customer retention, and new product development are essential non-financial performance measures that offer valuable insights into different aspects of a company's operations, customer relationships, and innovation capabilities. Operational efficiency is a critical non-financial performance measure that evaluates how well a company utilizes its resources to produce goods and services. It focuses on optimizing processes, reducing waste, and improving productivity. Research by Akinrinola (2019) examined the impact of non-financial performance indicators, based on the balanced scorecard model, on the operational efficiency of deposit money banks in Nigeria. Efficient operations lead to cost savings, improved customer satisfaction, and enhanced competitiveness in the market.

Similarly, customer retention is another vital non-financial performance measure that reflects a company's ability to retain existing customers over time. It is closely linked to customer satisfaction and loyalty. Anayochukwu and Isaac (2023) asserted that customer experience directly impacts customer retention rates. Monitoring customer retention helps businesses understand the effectiveness of their products, services, and overall customer experience. High customer retention rates indicate strong customer relationships and can lead to increased profitability and sustainable growth. Also, new product development is a key driver of innovation and growth for businesses. It involves the successful introduction of new products or services to the market. Guzik (2023) highlights that innovation is crucial for bringing new products to market successfully. Monitoring the number of new products in the pipeline and the adoption rate of these products provides insights into a company's ability to meet customer needs and stay competitive. Successful new product development can lead to increased market share, revenue growth, and enhanced brand reputation (Guzik, 2023).

## **Hypotheses Development**

### **Cash planning and budgeting, and non-financial performance**

Cash planning and budgeting are essential practices for effective financial management in SMEs. However, their impact extends beyond just financial metrics, influencing non-financial performance indicators like operational efficiency, customer retention, and new product development. Cash planning and budgeting provide a clear picture of available resources, allowing SMEs to prioritize tasks and allocate resources efficiently (Achim & Alles, 2018). This leads to



streamlined operations and reduced waste, ultimately improving operational efficiency. Further, by anticipating potential cash flow shortfalls, SMEs can avoid disruptions and make informed decisions about staffing, inventory levels, and marketing investments (Drucker, 2008). This proactive approach fosters stability and a focus on long-term growth, further influencing operational efficiency and customer retention. In addition, effective cash management frees up resources for research and development, enabling SMEs to invest in new product development. This fosters a culture of innovation, leading to a competitive edge and potentially higher customer retention. Therefore, the following hypotheses were proposed for this study:

H<sub>1a</sub>: There is a positive relationship between cash planning and budgeting practices, and operational efficiency of SMEs.

H<sub>1b</sub>: There is a positive relationship between cash planning and budgeting practices, and customer retention rates of SMEs.

H<sub>1c</sub>: There is a positive relationship between cash planning and budgeting practices and the number of new products developed by SMEs.

### **Cash disbursements and non-financial performance**

Cash disbursements play a crucial role in maintaining and enhancing various aspects of a SMEs non-financial performance. Non-financial performance indicators (NFPI) like operational efficiency, customer retention, and new product development are essential for the long-term sustainability and growth of an organization (Kumar & Gulati, 2010; Brown & Eisenhardt, 1995). Effective cash disbursements can enhance operational efficiency by ensuring timely procurement of raw materials, investing in advanced technologies, and maintaining optimal inventory levels (Tiago, Gaio, & Robles, 2018). Efficient cash management allows businesses to avoid delays in production, reduce wastage, and lower operational costs (Kumar & Gulati, 2010; Reichheld & Schefter, 2000).

Also, investments made through cash disbursements in areas such as customer service, quality improvement, and loyalty programs can significantly enhance customer satisfaction and loyalty. Timely and adequate cash disbursements ensure that a company can continually meet customer needs and expectations, which is crucial for retaining customers (Reichheld & Schefter, 2000; Kumar & Gulati, 2010). Lastly, cash disbursements are critical in funding research and development (R&D), acquiring necessary resources, and supporting marketing efforts for new products. Investments in NPD through cash disbursements can drive innovation and competitive advantage (Brown & Eisenhardt, 1995; Reichheld & Schefter, 2000). Consequently, this study posit that:

H<sub>2a</sub>: Cash disbursements have a significant positive impact on operational efficiency.

H<sub>2b</sub>: Cash disbursements have a significant positive impact on customer retention.

H<sub>2c</sub>: Cash disbursements have a significant positive impact on new product development.

## **Methodology**

### **Research Design and Study Participants**

In this study, a cross sectional survey design was used. This is because the study aims to understand the current association between cash disbursement practices and non-financial performance indicators like operational efficiency, customer retention, and new product



development. A cross-sectional survey captures data at a single point in time, making it ideal for this purpose (Mungai, 2014).

The population of the study comprised 150 SMEs purposively selected from the five Southeast State and registered with Small and Medium Enterprises Development Agency of Nigeria (SMEDAN). A structured questionnaire was used in eliciting data from the owners or managers of the SMEs. Out of a total of 1,150 copies sent, 905 copies were retrieved represented 78.69 percent returned rate. This is above the 60 percent acceptable response rate suggested for a survey (Fincham, 2008).

### Measures of Variables

This study employs a survey instrument to assess the relationships between cash management techniques and non-financial performance in SMEs. The independent variable is cash management techniques and it has cash planning and budgeting, and cash disbursements as dimensions. Each of the dimensions has 5 items such as “The organization has a clearly defined forecasting process for future cash inflows and outflows; the organization has established procedures for timely and accurate payments to suppliers”.

The dependent variable is non-financial performance and it has operational efficiency, customer retention and new product development as measures. Each of the measures is described using 5 items including “The organization has streamlined processes that minimize waste and redundancy; the organization receives positive feedback from customers regarding its products or services; and the organization invests resources in research and development activities”. All items were scale using 5-point Likert scale.

### Results And Discussions

**Table 1**

*Details of the Participants*

S/N	Type of SMEs	Number
I	Manufacturing	19
ii	Agriculture	48
iii	Food Services	138
iv	Transportation	102
V	Retail	315
vi	Real Estate	78
vii	Contractors/General Merchandise	96
viii	Oil and Gas Services	49
ix	ICT	60
	<b>Total</b>	<b>905</b>

**Source:** Survey Data, 2024.

Table 1 shows the details of the respondents based on the types of business. 19 of the participants are manufacturing SMEs, 48 are into agriculture, 138 are involve in food services, transportation



contributed 102 of the participants, 315 are in retailing industry, 78 are from real estate, 96 are contractors/general merchandise, 49 are into oil and gas sector, while 60 are into ICT. This distribution highlights a comprehensive representation across various sectors, with the retailing industry having the largest number of respondents, followed by food services and real estate, respectively. The diversity of the respondents' business types contributes to the robustness and generalizability of the findings.

### Test of Hypotheses

This study investigates the relationship between cash management techniques and non-financial performance of Small and Medium Enterprises (SMEs) in Southeast Nigeria. Partial Least Squares - Structural Equation Modelling (PLS-SEM) was chosen as the statistical technique for analyzing the data. Several factors made PLS-SEM the ideal choice for this research. PLS-SEM is well-suited for exploring relationships in new models, where understanding the general connections between variables is more important than strictly confirming specific hypotheses. Also, since the participant pool was relatively small. Compared to covariance-based SEM (CB-SEM), PLS-SEM is less sensitive to sample size limitations. Some of the variables did not follow a normal distribution, which can be problematic for CB-SEM. PLS-SEM is more flexible and can handle data that deviates from normality assumptions. The study potentially included variables where the indicator variables define the underlying concept (formative constructs). PLS-SEM can accommodate these types of constructs. A core focus was predicting how cash management techniques might influence non-financial performance aspects. PLS-SEM is particularly effective for this type of research that aims to explain the variance in the dependent variables.

The interpretation of the results follow that path coefficients ( $\beta$ -values) between .10 - .029, .30 - .49, and .50 - 1.0 are considered weak, moderate, and high correlations, respectively. Also, effect size ( $f^2$ -values) of 0.020 to 0.150, 0.150 to 0.350, and over 0.350, are considered small, medium, or large, respectively (Cohen, 1988). The study hypotheses were grouped into two clusters. The results of the first cluster are showed in table 2:

H<sub>1a</sub>: There is a positive relationship between cash planning and budgeting, and operational efficiency.

H<sub>1b</sub>: There is a positive relationship between cash planning and budgeting, and customer retention.

H<sub>1c</sub>: There is a positive relationship between cash planning and budgeting and new products development.

**Table 2**

*Predictive Accuracy, Predictive Relevance and Effect sizes ( $f^2$ )*

Paths	Correlation coefficient ( $\beta$ )	Standard Error	t-value	p-value	Effect Size $f^2$	Decision
CPB -> OE	0.694	0.057	2.102	0.00	0.30 Medium	Accepted
CPB -> CR	0.511	0.118	3.081	0.02	0.36 Large	Accepted



CPB -> 0.499                      0.219                      5.528                      0.01                      0.35 Large                      Accepted  
 NPD

Note: CPB = Cash planning and budgeting, OE = Operational Efficiency, CR = Customer retention, NPD = New product development.  $r^2$ , 0.19 = weak;  $r^2$ , 0.33 = moderate;  $r^2$ , 0.67 = substantial, Chin (1988). P-value < 0.05 = significant, Effect size ( $f^2$ ) of 0.02 = small; 0.15 = medium, while 0.35 = large effect (Hair et al., 2014).

**Source:** SmartPLS 3.2.9 Output on Research Data, 2024.

Result of hypothesis 1a shows that cash planning and budgeting had a positive significant effect on operational efficiency of the SMEs ( $\beta = 0.694$ ;  $p < 0.05$ ; t-value = 2.102 > 1.96). The outcome shows that SMEs that with effect cash planning and budgeting practices are likely to achieve significant improvements in their operational efficiency, which implies that they can function with fewer resources, minimal waste, and reach their set goals more effectively. Hence, the stated hypothesis was accepted. Also, result of hypothesis 1b affirms that cash planning and budgeting had a significant positive effect on customer retention ( $\beta = 0.511$ ;  $p = 0.00 < 0.05$ ; t-value = 3.081 > 1.96). This implies that implementing cash planning and budgeting practices can lead to higher customer retention rates. Lastly, outcome of hypothesis 1c indicated that cash planning and budgeting had a positive significant effect on new product development ( $\beta = 0.499$ ;  $p = 0.00 < 0.05$ ; t-value = 5.528 > 1.96). This indicated that the implementation of proper cash budgeting and planning can help the SMEs achieve a well-defined process for new product development.

Results of the second cluster is showed in table 3.

H<sub>2a</sub>: Cash disbursements have a significant positive impact on operational efficiency.

H<sub>2b</sub>: Cash disbursements have a significant positive impact on customer retention.

H<sub>2c</sub>: Cash disbursements have a significant positive impact on new product development.

**Table 3**

*Predictive Accuracy, Predictive Relevance and Effect sizes ( $f^2$ )*

Paths	Correlation coefficient ( $\beta$ )	Standard Error	t-value	p-value	Effect Size $f^2$	Decision
CD -> OE	0.611	0.011	4.272	0.01	0.27 Medium	Accepted
CD -> CR	0.396	0.115	6.314	0.04	0.35 Large	Accepted
CD -> NPD	0.514	0.210	8.482	0.00	0.36 Large	Accepted

Note: CD = Cash disbursements, OE = Operational Efficiency, CR = Customer retention, NPD = New product development.  $r^2$ , 0.19 = weak;  $r^2$ , 0.33 = moderate;  $r^2$ , 0.67 = substantial, Chin (1988). P-value < 0.05 = significant, Effect size ( $f^2$ ) of 0.02 = small; 0.15 = medium, while 0.35 = large effect (Hair et al., 2014).

**Source:** SmartPLS 3.2.9 Output on Research Data, 2024.

Result of hypothesis 1a shows that cash disbursements had a positive significant effect on operational efficiency ( $\beta = 0.611$ ;  $p = 0.01 < 0.05$ ; t-value = 4.272 > 1.96). This shows that higher cash disbursements, which may include investments in technology, training, or other operational improvements, enhances the SMEs operational efficiency. The also affirmed that cash



disbursements had a significant positive effect on customer retention ( $\beta = 0.396$ ;  $p = 0.04 < 0.05$ ;  $t\text{-value} = 6.314 > 1.96$ ). This provides evidence that SMEs that offer financial incentives through loyalty programmes or timely refunds, are able to retain customers. Result of the last hypothesis showed that cash disbursements had a positive significant effect on new product development ( $\beta = 0.514$ ;  $p = 0.00 < 0.05$ ;  $t\text{-value} = 8.482 > 1.96$ ). This result indicates that SMEs that disburse the right amount to investment in new product development are more likely to come up with new products.

### **Discussion of Findings**

The study discovered that all cash management practices (i.e., planning/budgeting and disbursement) significantly affect non-financial performance, including operational efficiency, customer retention, and new product development. It is for this reason that the findings borrow from previous authors such as Ondiek, Deya, and Busaka (2013) who further drive home the point stating that good cash budgeting practices are key to a company's liquidity and operational efficiency. Also, Odo, and Udodi (2022) found that superior cash management strategies can help the firm to manage its operations in a more efficient manner by maximizing resource distribution through proper working capital management. These studies agree with the recent findings that proper cash planning and disbursement practices streamline operations, reduce costs, and improve overall efficiency.

The nexus between cash management and customer retention has also been examined, with Dittmar, Mahrt-Smith, and Servaes (2003) asserting that companies with cash management can offer better credit terms, enhancing customer satisfaction and retention. Further, Jose, Lancaster, and Stevens (1996) found that efficient cash management allows for investments in customer service, which can lead to higher retention rates. These studies align with the current findings, indicating that effective cash planning and disbursement enable investments in customer-focused initiatives, thereby improving retention.

Pertaining to new product development, Brown and Petersen (2011) found that firms with effective cash management could better support research and development activities due to financial stability. Soet, Muturi, and Oluoch (2018) assert that firms with liquid assets are more capable of funding innovative projects without jeopardizing operational stability. These studies support the current findings that cash management significantly influences new product development by ensuring funds are available for innovation.

Contrarily, not all studies align with these positive correlations. Some researchers found mix results regarding the relationship between cash management and non-financial performance. For example, Baumol (1952) argued that excessively cash management could lead to liquidity constraints, potentially stifling growth and innovation. Additionally, Myers and Majluf (1984) suggested that firms might prioritize immediate financial stability over long-term strategic investments, which could negatively impact customer retention and new product development. These contrasting views highlight the potential downsides of overly conservative cash management practices, suggesting a need for balance.



### Conclusion and Recommendations

This study provides compelling evidence that effective cash management techniques are crucial for boosting non-financial performance in SMEs. The significant positive effects of both cash planning/budgeting and cash disbursements on operational efficiency, customer retention, and new product development highlight this relationships.

Based on these findings, the study recommended: Firstly, SMEs should prioritize the development of a robust cash flow forecasting and budgeting system. This allows for informed decision-making and proactive management of financial resources. Secondly, SMEs should implement strategic cash disbursement policies cover every aspects of the business. This could involve offering rebates or early payment discounts to encourage faster payments from suppliers/customers, or allocating funds for targeted investments in operational improvements or new product development initiatives.

### Contributions to Knowledge

This study makes several important contributions to the existing body of knowledge on cash management and its effect on non-financial performance. The study examines the effects of both cash planning/budgeting and cash disbursements on non-financial performance, providing a more holistic understanding of the role of cash management in organizational success. In addition, the study broadens the scope of performance measures beyond traditional financial indicators. This approach aligns with the growing emphasis on non-financial performance as a key driver of long-term sustainability and competitiveness. Further, provide industry specific context to the understanding of cash management and non-financial performance. Hence, helping SMEs owners and managers better understand the challenges and opportunities faced in the sector. Most, importantly, the findings reinforce the critical role of cash management in driving organizational performance, underscoring the need for businesses to prioritize cash management as a strategic imperative. This study adds to the growing body of evidence supporting the link between effective cash management and overall organizational success.

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**QUESTIONNAIRE**

**SECTION A: CASH MANAGEMENT TECHNIQUES**

Indicate your level of agreement with the following sentences from 1= Strongly Agree; 2= Agree; 3= Neutral; 4= Disagree; 5= Strongly Disagree

CASH MANAGEMENT TECHNIQUES					
S/N	Cash Planning and Budgeting				
1	The organization has a clearly defined forecasting process for future cash inflows and outflows.				
2	Budgets are created that align with the forecasted cash flow and reflect realistic expectations.				
3	Variances between budgeted and actual cash flows are regularly monitored and analyzed.				
4	The organization has a contingency plan in place to address potential cash flow shortfalls.				
5	The budgeting process is flexible and can be adjusted to accommodate changing business conditions.				
S/N	Cash Disbursements (5 items):				
1	The organization has established procedures for timely and accurate payments to suppliers.				
2	The organization leverages discounts offered by suppliers for early payments.				
3	Internal controls are in place to minimize errors and delays in processing cash disbursements.				
4	The organization negotiates extended payment terms with suppliers whenever possible.				
5	The organization utilizes technology to streamline and automate cash disbursement processes.				

**SECTION B: SUSTAINABLE DEVELOPMENT**

Indicate your level of agreement with the following sentences from 1= Strongly Agree; 2= Agree; 3= Neutral; 4= Disagree; 5= Strongly Disagree

SUSTAINABLE DEVELOPMENT						
S/N	Operational Efficiency	1	2	3	4	5
1	The organization has streamlined processes that minimize waste and redundancy.					



2	Resources are allocated effectively to achieve organizational goals.					
3	The organization leverages technology to improve operational efficiency.					
4	The organization has a culture of continuous improvement focused on optimizing processes.					
5	Employees are empowered to identify and implement efficiency improvements.					
<b>S/N</b>	<b>Customer Retention</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
1	The organization receives positive feedback from customers regarding its products or services.					
2	The organization experiences low customer churn rates.					
3	Customers are willing to recommend the organization's products or services to others.					
4	The organization implements strategies to build strong customer relationships.					
5	The organization is responsive to customer inquiries and complaints.					
<b>S/N</b>	<b>New Product Development</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
1	The organization invests resources in research and development activities.					
2	The organization has a well-defined process for new product development.					
3	The organization regularly introduces new products or services to the market.					
4	New product development efforts are aligned with customer needs and market trends.					
5	The organization measures the success of new product development initiatives.					