

The Impact of Cash Management Practices toward Financial Performance of Small and Medium Enterprises in Indonesia

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ABSTRACT

Objective – The importance of SMEs in Indonesia has been becoming the center of attention for the government to help the national economy grow. However, there are still many problems that hinder the potential of SMEs to develop. One of the problems is financial Management in terms of cash management, which can help SMEs have better Management over cash and better performance. Therefore, this study aims to analyze the current two elements of cash management practice, forecasting (FOR) and cash mobilization (CML) done by SMEs in Indonesia and its impact on Return on Assets (ROA) and Gross Profit Margin (GPM) as the financial performance measurements.

Methodology – The research uses a quantitative approach from 90 SMEs in Java and Bali islands from April until July 2018. The data were analyzed descriptively using a 4-point scale questionnaire. A regression analysis was added to find out significant relationships between the variables.

Findings – The research found that SMEs owners/managers often do forecasting and rarely do cash mobilization practices. The regression analysis shows a significant relationship between cash management practices and ROA but a non-significant relationship between cash management practices and Gross Profit Margin (GPM).

Novelty – This research provides an insight of how cash management practices influence the financial performance in the context of SMEs.

Keywords: *Small and Medium Enterprises; Cash Management; Forecasting; Cash Mobilization; Financial Performance*

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I. INTRODUCTION

In recent decades, small business has played an essential role in spurring global economic growth due to its job creation ability. The importance of small and medium enterprises affects the flourishing economic prosperity of the most developing country and the developed continent such as the US and Europe. The data from SBA Office of Advocacy (2018) showed that US SMEs successfully employed 48% of the private workforce and results in strengthening the US economy for a 1.9% annual rate in 2015. Simultaneously, this good progress is also happening in Europe, where SMEs have employed 90 million people and are successful in generating added value as much as 3.9 trillion euro (Muller et al., 2016).

Indonesian government is actively promoting the importance of entrepreneurship by making several programs to trigger the society doing business and focusing on efforts to empower small-medium enterprises (Melissa et al., 2015). According to an Antara News (2020) report, the small business sector in Indonesia has contributed 61.7% of the state's gross domestic product (GDP). However, this good news cannot guarantee that there is no weakness among the SMEs in Indonesia. As a matter of fact, the growth of total SMEs in Indonesia is not followed by the growth of the performance itself. Figure 1 shows the growth of total employee that work in SMEs. During the last five years, from 2009 until 2013, the ability

of SMEs to absorb the workforce keeps increasing. The biggest rise happened at 6% or equal to 114,144,082 employees in 2013. However, the growth of its contribution toward national GDP is exceptionally fluctuating. The increasing growth only lasts up to the year 2011 at 6.76%. Meanwhile, the growth keeps decreasing from 6% in 2012 to 5.89% in 2013.

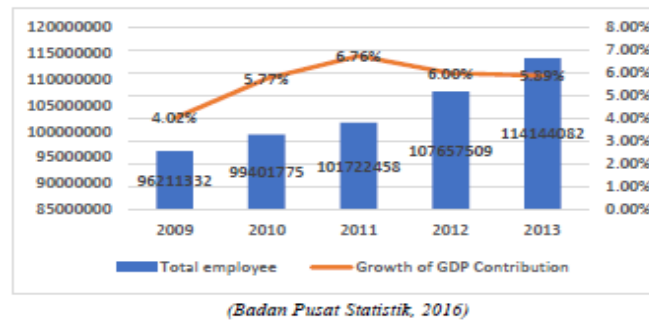


Figure 1. The Growth of SMEs Workforce (Badan Pusat Statistik, 2016)

The data indicate that SMEs in Indonesia are still facing some difficulties that make their performance seen from its contribution growth to GDP decreases. Several factors still become the concern of SMEs in Indonesia. The study from Adawiyah (2013) proves that SMEs' most inhibiting factor in developing is dominantly due to lack of financial support. Most SMEs in Banyumas rely on personal savings as a source of capital. Suci (2017) revealed that the weaknesses faced by SMEs in Indonesia in improving business capability are very complex, with one of the indicators is due to lack of financial support. Meanwhile, the previous study from Indarti and Langenberg (2004) revealed that the ease of access of financial resources is one of the success factors of the SME itself.

Furthermore, Suryani et al. (2016) explained that lack of financial capability potentially leads SMEs in Indonesia to face failures toward performance and growth. Financial capability is a composite of an individual's knowledge, skill, and understanding to manage finance, including the ability to act according to the firm's financial circumstances. Thus, the financial capability of SME owners or manager will affect their ability to do financial management. Under this research, financial management is observed based on their knowledge of financial basic, saving/deposit, investment, insurance, and risk management. Although the result shows that SMEs have understood the importance of financial management, many still lack understanding because most SMEs do not have optimal investment decisions. The study also revealed that SMEs with better financial capability would become more likely to achieve better performance such as sales and profit growth because they performed better financial management. This conclusion indicates that the problems with low performance are because of the inability to manage finances and technology that inhibits them from doing financial records.

Hidayat (2015) argues that entrepreneurial incompetence causes the most impactful factor contributing to small businesses' failures in Cimahi. The entrepreneurial competence itself is related to several aspects such as human resources management, financial management, and creativity. The financial management aspect focused on the ability to do financial control, recording, financial resources, and also control on receivables. Another study from Aufar (2013) said that one of the main factors resulting in failure is the incapability of using accounting information, including how the business can perform financial accounting, management accounting, and cost accounting. All these aspects deal with how the transaction is recorded and how cash is allocated for production. Through a descriptive study, it was understood that certain factors such as educational background affects the inability both to create and utilize the accounting information. Ali and Kodrat (2017), in their latest study, also revealed that their case-study research on one of SMEs proves that one of SMEs' biggest failures is strategy and communication. The strategic factor deals with how the manager prepares its plan for the future operation that needs a resource allocation. In this case, budget preparation is needed to make the plan for resource allocation. Budget preparation is part of cash

management practices that explain how the owner/manager could allocate costs for future needs. This research supports a study from Anton et al. (2015) in three different clusters in Indonesia. They found that SMEs' ability in managing working capital management could improve business performance. However, the study also revealed that 80% of respondents could not get financial support from a bank as a capital source because they failed to compile the financial plan or budgeting. Capital constraint could affect potential growth of small businesses (Pangaribuan et al., 2018).

The reason behind the hesitation of a financial institution like a bank to give a loan to an SME is due to its bad cash management that could contribute to the risk of bad debt. In general, banks need SME financial statement as one of credit filling requirements (Azis & Rusland, 2009). According to Pandey (2020), small firms' failure is due to inadequate cash management. Indonesia's Central Bank report about "Business Profile of Micro, Small, and Medium Enterprises" (2015) also says that many SMEs in Indonesia still have weaknesses in many aspects, including the accountability that emphasizes the financial administration system management. Therefore, the practice of cash management is crucially needed for SMEs. Cash management practice will help SMEs to get financial support, create better performance, and better decision-making (Murwanto et al., 2006). The previous studies' research gap reveals to how extensive the SMEs in Indonesia have implemented financial management. Therefore, this study aims to fulfill this research gap. Furthermore, this study will also figure out the relation between cash management practice to SMEs' financial performance because effective cash management is a fundamental standing point to ensure the strong position of a firm's financing (Thevaruban, 2016). Besides, this study underlines the trade-off theory of liquidity. It explains that a firm should optimize liquidity to balance the benefit and cost of holding cash and thus could have better performance.

II. LITERATURE REVIEW

Definitions of SMEs

Since the term small-medium enterprises (SMEs) has been broadly defined, most countries in the world tend to determine their small-medium enterprises' definition under the law. It is because each country adjusts the definition of SMEs based on their economic condition. In Indonesia, the definition and detail information about SMEs have been varying across different institutions. A study from Suryani et al. (2016) prefers to define SMEs in Indonesia based on Indonesian Government Law no.20 in 2008. SMEs have several criteria that classify them into micro-business, small, or medium businesses. Small enterprises have total net assets of more than 50 million rupiahs up to 500 million rupiahs, excluding land and building for the business purpose and annual total sales of from 300 million rupiahs to 2.5 billion rupiahs. Meanwhile, medium enterprises are defined as a business with total net assets from 500 million rupiahs to 10 billion rupiahs, excluding land and building for business purposes with annual total sales from 2.5 billion rupiahs to 50 billion rupiahs.

The Trade-Off Theory of Liquidity

This study used the trade-off theory of liquidity proposed by Modigliani and Miller (1958) as the framework. This theory explains that a firm should target an optimal level of liquidity to balance the cost and benefit of holding cash to increase the firm's growth and performance. The example of cost for holding cash can derive from the low-rate return of the asset and the possibility of tax loss. On the other hand, the benefit of holding cash is two-fold where the company can save the cost to raise funds and have sufficient funding or payment without liquidating their assets. As the importance of liquidity is highly asserted, there must be an effort to maintain the liquidity, especially for small businesses struggling to grow. In response, cash management practice is needed as the central importance of cash management is to maintain the firm's liquidity. By implementing cash management practice, a firm can pay its short-term obligation as they come due and finance day-to-day operations (Diacogiannis, 1994). Besides, Moyer et al., (2005) specifically said that cash management would help small businesses to increase their growth of sales that require cash

resource to increase receivables and inventories. Therefore, this study wants to examine the impact of effective cash management practice as a tool to maintain liquidity on small business performance.

Business Environment

SMEs have become the backbone for most countries to increase their national income. Many actions have been utilized to support SMEs' improvement in Indonesia, both from the government and academicians. From the perspective of academicians, many had tried to analyze SMEs' business environment, which some of it has become constraints that SMEs generally face. Abdullahi et al. (2015) argued that most SMEs are owner-centered, where the owner is the primary decision-maker for general business practices, including the day-to-day operation. Since the owner is the primary source of decision-making, SMEs' decision type follows the owner's experiences and characteristics (Hamza et al., 2015). Moreover, good decision-making is supposed to be taken by gathering adequate information to provide possible alternatives decisions and not based on some known facts only (Ahmed & Omotunde, 2012). For example, to address the liquidity crisis issue, SMEs have to look at their financial report to identify the root of the problem. The alternatives decision can be formed either has to reduce production cost or take some loan from the bank.

Further, Hessel and Parker (2013) argue that SMEs are more likely to have lacked capital and human resources, which has also become a constraint faced by SMEs to grow. The low number of human resources will make it hard for SMEs to manage their operation well especially when the employees have a low level of managerial training and skills (Cacciolatti & Lee, 2015). Lekhanya (2016) also stated that SMEs, dominated mainly by owner-manager authority, lack the necessary skills and capabilities to build a start-up business and operations. Due to this incapability of management skills, especially in financial Management, SMEs are perceived to have higher credit and operational risks that restrain them from getting financial access (Andrikopoulos & Khorasgani, 2018). Credit risk on SMEs is related to the risk of SMEs not able to pay back the loan. Besides, the treatment in giving loans from banks to SMEs has to be distinguished from a more prominent firm (Jindrichovska, 2013). In SMEs, banks need to work harder to assess the credit risk of SMEs because the information needed for the assessment is often not available. For example, a study from McCann and McIndoe-Calder (2012) tried to find a model which Bank can use in assessing the credit risk such as default risk attach to SMEs. However, this was not successful due to SMEs' information opacity, such as the unavailability of balance sheets or market outcome-based data. The bank must understand its characteristics since the owner influences credit risk in having appropriate and effective credit management (Jindrichovska, 2013). With better credit management, the credit risk will be lower.

Peel and Wilson (1996) posited that poor financial management has also made SME a typical business with less liquid with a more fluctuate profit and cash flow measures than larger businesses. In addition, the smaller business tends to expand their credit sales although there is no sufficient cash to fund the expansion. Meanwhile, this condition can make the business run out of cash because SMEs cannot finance the operation since there is no reserved cash and most of the sales income is in the form of receivable.

Cash Management

The firm uses cash to make purchases and payments. Business companies need cash to acquire both tangible and intangible assets used for production. However, success is not counted according to how much money it has in its bank account. The management over the cash is what all matters. In real cases, if the cash is well managed, the business leaders can decide the purchased inventories decision under the amount of cash owned (Tennent, 2012). For example, if a business analyzes its report and conclude that they do not have much money, they will tend to purchase cheaper goods or purchase products in lesser amount. According to Deb et al. (2015), cash management refers to the managing of cash balances held by a firm at a specific time, cash flow within the firm, and cash flow into and out of the firm. Meanwhile, Steiss and Nwagwu (2001) emphasize that cash management is focused on revenues and expenditures to avoid three potential problems: liquidity crisis, bad debt expenses, and abundant idle cash balances. This research

examines two elements of cash management, forecasting and cash mobilization as two main elements in cash management.

First, forecasting is focused on a presupposition about the most significant impact that could occur in the future based on the current, reliable conditions. In cash management, forecasting has been used as the appropriate guidance of reasonable control over the organization's cashflow. Forecasting helps organizations explain movements in economic time series reflected in the form of trend or business cycle (Nibbering et al., 2018). Forecasting also helps owner/manager to avoid 'surprise' toward condition such as the unexpected cash deficit or surpluses (Warren & Barnes, 2003). Meanwhile, the cash deficit or cash surpluses may be seen from cash balances which will be nearly impossible if there is no such budgeting record in the organizations (Attom, 2012). Moreover, many external stakeholders, like the investors, always look into the budget to forecast the future of the organization. Fay and Patterson (2018) argue that budget also will enable the internal stakeholder such as manager or owner to prepare a financial statement as budgeted income statement, balance sheet, and cash flow statement. Budget is about the overall summary of planned expense and revenue or, in the simplest term, a budget is the future saving and spending. It shows how organizations create their future expenditures and how much they will earn in return. Budget is crucial as part of forecasting because it provides the report of cost allocation plan so that managers can measure the firm's liquidity because liquidity refers to conditions where business able to pay expenses and liabilities, hence, very crucial for business survival and growth (Attom, 2012).

Second, cash mobilization is part of the total review of cash management so that an organization could obtain faster information to execute any excess cash (Finnerity, 2006). Cash mobilization has been divided into two major aspects of function: acceleration of receivables and acceleration of disbursement. Further, a firm is expected to emphasize four objectives of the daily transaction:

(1) Accelerating Collections: The collection is one activity that every firm should do to get their receivables paid off by third parties. This activity is crucial since receivable has a risk of being uncollected. Receivable has been part of organizations revenue when some products or services have been offered through credit payment. If a firm cannot collect its revenue as soon as possible, the firm will be hard to get enough cash to finance other operations activities. It will be even worse if the major revenue comes from credit selling since the risk of uncollectible receivables will even higher. In evidence, Agyei-Mensah (2010) argue that in an attempt to have higher sales, SME tends to have much willingness to extend credit to their buyer without knowing the credit risk level attached to them, which may cause a default. Meanwhile, the receivable may become an exclusive concern for the business growth. Therefore, an activity to control any credit is considered fundamental for small business to reduce default, affecting lower income. The credit control itself may be done by speeding up the collection of accounts receivable. Gitman et al. (1979) show that this practice has become one of the most critical cash management practices for a business. Besides, Dalton (2007) emphasizes that getting paid sooner from customers can be one way to make a cash flow recovery. In conclusion, the accelerating collection helps get additional cash and increase income.

(2) Controlling Disbursement of Fund: The payment decision is vital because it will affect the liquidity of the organizations. Gitman et al. (1979) found that larger firms tend to do slowing payment rather than the smaller firms, which put less emphasis on this area. It will enable the company to optimize earnings on the available fund by delaying cash outflows. Therefore, good cash management practices are supposed to manage that disbursement is made when it is due. However, this activity sometimes could be tough to be implemented. As a result, two approaches can be used (Steiss & Nwagwu, 2001). The company can centralize its payable, especially those which involve a large amount of money. This can be done using the centralized depository account. Another approach is establishing an administrative limit for any organizational cash outflow within a certain period that can be realized through a zero-balancing system. However, these practices may not be visible for SMEs since they still have small numbers of suppliers and customers to centralize deposits like most of the larger firms. Instead, Oluoch (2016) argued that using holding cash (cash reserved) that can be made through budgeting will benefit SMEs in how one of them is controlling payment. Besides, by keeping all the transaction records such as invoices, the company could

control when the latest payment is due, and a budget for cash outflow could be made to exercise the payment and prevent inappropriate use of funds (Al-Smirat, 2016).

(3) Controlling Over Bank Balance: To manage the bank balance, a firm should have a bank account and regularly maintain it. A study from Hamza et al. (2015) found that most SMEs in developing countries such as Ghana maintained their bank account to increase the chances of getting a bank loan. Furthermore, this will allow small business to minimize the tendency of cash shortage and make monthly reconciliation between the bank balance and the cash book (Ahmad, 2016).

(4) Investment of Cash Surplus: A business must be aware that they should minimize the amount of cash surplus by transforming it into something more profitable. It can be converted into more valuable resources such as fixed assets or investment channels. Several studies have utilized this practice as a reflection of good management practices for SMEs. However, the importance of this practice is still less considered by small businesses. A study from Enow and Kamala (2016) revealed that most South African SMEs have low intention to invest their cash surplus in short-term or long-term investment and even put the cash surplus into a bank deposit. Ahmad (2016) then found a high percentage of SMEs in Malaysia holding cash surplus, which indicates small investment. Putting the cash surplus into bank deposits will allow SMEs to get an additional return from the interest.

Hypothesis 1 (H1): The interaction between Forecasting (FOR) and Cash Mobilization (CML) influences Return on Assets (ROA).

Hypothesis 2 (H2): The interaction between Forecasting (FOR) and Cash Mobilization (CML) influences Gross Profit Margin (GPM).

Hypothesis 3 (H3): Forecasting (FOR) influences Return on Assets (ROA).

Hypothesis 4 (H4): Cash Mobilization (CML) influences Return on Assets (ROA).

III. RESEARCH METHODOLOGY

This study uses quantitative approach to test the impact of SMEs' cash management practices on their financial performance. The data were collected in 2018 using a questionnaire in two formats, open and close-ended questionnaires. The close-ended used a four Likert scale. The survey design is cross-sectional as to examine a particular phenomenon at a point in time, representing the objective of this study to figure out the SMEs' current management practices in Indonesia. The secondary data measured SMEs' financial performance through their financial statements. Since the study is conducted using survey design, the cash management practice will be analyzed using the descriptive statistic derived from the survey result. This is needed as the study tries to answer whether SMEs in Indonesia perform proper cash management practices and what kind of management practices it is. Meanwhile, the multiple regression test will be used to know the degree of correlation or the significance between cash management practices and financial performance. The samples are the SMEs in Java and Bali obtained from Bank Indonesia's database. However, due to lack of significant responses, the researcher also collected the data by directly coming to the SMEs to obtain the response more effectively. Overall, there are 90 samples used in this study.

IV. FINDINGS AND DISCUSSION

From the survey, the distribution of the respondents is mostly from West Java with 30 respondents (33%) and followed by Central Java with 28 respondents (31%), East Java with 16 respondents (18%), Special Region Yogyakarta with 10 respondents (11%), and Bali with 6 respondents (7%). For the respondent's position in the business, the result shows that 73 respondents (81%) are business owners. Only 9 respondents (10%) are full-time accountants, 5 respondents (6%) are managers, and 3 respondents (3%) are part-time accountants. The respondents are mostly undergraduates (45.6%), master's degree (5.6%), high

school graduates (34.4%), elementary school (2.2%), and middle school (12.2%). Furthermore, the respondent business profile shows that almost 85 respondents (94%) are sole proprietorships, four respondents (5%) are in the form of CV, and one respondent (1%) is a corporation. The survey reveals majority of the respondents in this research are start-up businesses where 61% of the business has been established for 0-5 years. Moreover, the respondents who are self-employed is 13 respondents (14%), employ 1-5 people is 61 respondents (68%), employ 6-10 people is nine respondents (10%), employ 11-15 people is six respondents (7%), and employ more than 15 persons is one respondent (1.1%). Lastly, majority of respondents confirm that their businesses include trading, hotel, and restaurant business for 45 respondents (50%), agricultural, farms, and fisheries (1%); manufacturing (12%); electricity, gas, and clean water (1%); transportation and communication (1%); Finance, rental, and company services (2%); and others (33%). As this research seeks to understand the extent of SMEs in Indonesia in doing their cash management practice, the explanation of the survey result is presented particularly in terms of forecasting and cash mobilization, as an element of effective cash management.

Table 1. Frequency of occurrence of Variable X1 (Forecasting)

Forecasting (X1)	Never 1		Rarely 2		Often 3		Always 4		Mean
	Freq.	%	Freq.	%	Freq.	%	Freq.	%	
Cash Budget Preparation	12	13	22	24	22	24	34	38	2.87
Cash Inflow Supervision	2	2	6	7	23	26	59	66	3.54
Cash outflow Supervision	4	4	11	12	29	32	46	51	3.30
Cash Balance Control	3	3	9	10	24	27	54	60	3.43

The variable Forecasting (X1) are constructed from four items which are cash budget preparation, cash inflow supervision, cash outflow supervision, and control over bank balance. Table 1 shows the descriptive result over this four-item of variable forecasting (X1). The table shows that the respondent often makes cash budget preparation because the weighted average is 2.87 or equal to 3 (often). Furthermore, it was found that the reason why 34 respondents (37%) never or rarely prepare cash budget is that 41% of respondents did not need it, 21% of respondents had no idea about budgeting, 14% of respondents said cash budget was not applicable for their business, 12% could not make it, and 12% of respondents had no time for preparing cash budget. The table also reveals that the respondents know how much money inflows to the business since the weighted average of their response is 3.54 (in the scale of 4). The majority respond that they always do cash inflow control by 66% (59 respondents). In addition, 51% of the response says they always supervise their cash outflow with the weighted average response is equal to 3.30 (answer between scale 3-4), which means they often control their cash flow. It can be concluded that SMEs in Indonesia tend to have balance knowledge toward the cash inflow rather than cash outflow. Besides, the average result of respondent control over their cash balance shows the value of 3.43, which means that they often maintain and control their cash balance. It can be concluded that the respondent often does forecasting because the overall weighted average of this variable is 3.29 or equal to 3 (often).

For X2 variable (Cash Mobilization), nine items are used to describe this variable. Compared to the forecasting, respondent has lower cash mobilization practice occurrence. SMEs in Indonesia have rarely been trying to accelerate the collection of its receivable where only 24 respondents (27%) claimed that they always try to collect their receivable as soon as possible. Contradictory, SMEs in Indonesia have made a sufficient effort regarding the management control over the disbursement where 69% of the respondents always pay the liability on time, with 59% of them also pay debts on time. From this standpoint, although the respondent seems to have balance control over the cash inflow and outflow in the forecasting section, the extended effort to maintain it is better on the disbursement (cash outflow) with a weighted average of 3.56. The respondent also proved to have a slight tendency to hold too much cash (cash surplus), where only nine respondents (10%) claim to have a cash surplus. Simultaneously, more than 70% of respondents

also rarely invest their money in financial assets or other physical assets whenever they have a cash surplus. As a result, SMEs' cash mobilization in Indonesia as one of the elements of effective cash management practice is still low since the overall weighted average of this variable is 2.73 (scale 2-3).

Table 2. Frequency of occurrence of Variable X2 (Cash Mobilization)

Cash Mobilization	Never		Rarely		Often		Always		Mean
	1		2		3		4		
	Freq.	%	Freq.	%	Freq.	%	Freq.	%	
Acceleration on A/R collection	25	28	22	24	19	21	24	27	2.47
Liability disbursement	1	1	10	11	17	19	62	69	3.56
Records kept on Cash Transaction	8	9	16	18	14	16	52	58	3.22
Savings maintained	5	6	19	21	29	32	37	41	3.09
Bank Account maintained	13	14	21	23	17	19	39	43	2.91
Cash surplus	21	23	35	39	25	28	9	10	2.24
Investment cash surplus on financial instrument	48	53	29	32	5	6	8	9	1.70
Investment cash surplus on physical asset	27	30	38	42	16	18	9	10	2.08
Debt payment	8	9	10	11	19	21	53	59	3.30

The dependent variable is the financial performance of the SMEs. Specifically, the financial performance measure used in this study is the profitability measure of ROA and gross profit margin. From the analysis, table 3 shows the mean ROA of the respondent is equal to 0.3824. It means that the SMEs can generate profit from its asset by as much as 38%. Besides, the overall weighted mean for the gross profit margin is equal to 0.5060. This result indicates that the SMEs have 50% of gross profit from their net sales. According to Leach & Melicher (2009), SMEs' financial performance in Java and Bali is in a good condition because the ROA >25% and gross profit margin >50% are considered to have high attractiveness in high-performance ventures.

Table 3. Descriptive Statistic Result of Variable Y (Financial Performance)

	N	Minimum	Maximum	Mean	Std. Deviation
ROA	90	0.00	1.00	0.3824	0.25493
Gross Profit Margin	90	0.00	0.96	0.5060	0.21152
Valid N (listwise)	90				

Table 4 shows the summary model of multiple linear regression results which focuses on ROA as the dependent variable (Y). The R² of the model explaining the collaborative relationship between the independent variables (FOR and CML) toward the dependent variable is 12%. Although the R² of the first model is below 50%, this does not indicate that the relationship is inherently wrong. This study is trying to analyze respondents' cash management practices. Such data may vary from one respondent to another, which makes it has low R². Therefore, the R² is still statistically significant for the researcher to conclude the relationship between the variables. Moreover, the adjusted R² value of this model is 10%, meaning that the influence factor of the independent variables (FOR and CML) toward the dependent variable (ROA) is 10%. Meanwhile, the rest 90% is influenced by other factors not explained in this study. For the model of multiple regression itself, the model built by the researcher is significant because the value is 0.004 or less than alpha 0.05 and the F-statistic > F-table (5.937 > 3.11). This indicates that the independent variables (FOR and CML) simultaneously influence the dependent variable of (ROA) and thus, H₀ is rejected. The result is presented in Table 4.

H1: The interaction between Forecasting (FOR) and Cash Mobilization (CML) influences Return on Assets (ROA) → ACCEPTED

Table 4. Model Summary Table of Multiple Linear Regression (ROA)

Model	R	R ²	Adjusted R ²	Std. Error of the Estimate
1	0.347*	0.120	0.100	0.24187
a. Predictors: (Constant), CML, FOR				
b. Dependent Variable: ROA				

Table 5. ANOVA Table of Multiple Linear Regression (ROA)

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	0.695	2	0.347	5.937	0.004 ^b
Residual	5.090	87	0.059		
Total	5.784	89			
a. Dependent Variable: ROA					
b. Predictors: (Constant), CML, FOR					

Table 6 is the model summary for the second model where gross profit margin (GPM) becomes the dependent variable toward FOR and CML as independent variables. The value of R² is 20% indicating that the independent variables (FOR and CML) represent the dependent variable (GPM) as much as 20%. However, the adjusted R² of this model shows a negative value. Meaning that there is very low goodness of fit in which FOR and CML are insignificant explanatory variable for the dependent variable (GPM). As a result, the significance of the model shown in Table 7 is low because the value is bigger than alpha 0.05 for 0.420. Moreover, the value of F-statistic < F-table (0.877 < 3.11) thus, H₀ is accepted.

H2: The interaction between Forecasting (FOR) and Cash Mobilization (CML) influences Gross Profit Margin (GPM) → REJECTED

Table 6. Model Summary Table of Multiple Linear Regression (GPM)

Model	R	R ²	Adjusted R ²	Std. Error of the Estimate
1	0.141*	0.020	-0.003	0.21181
a. Predictors: (Constant), CML, FOR				
b. Dependent Variable: Gross Profit Margin (GPM)				

Table 7. ANOVA Table of Multiple Linear Regression (GPM)

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	0.079	2	0.039	0.877	0.420 ^b
Residual	3.903	87	0.045		
Total	3.982	89			
a. Dependent Variable: ROA					
b. Predictors: (Constant), CML, FOR					

The result is quite different when the dependent variable is ROA. This may occur because of the difference in accounting report methodology where income (sales) can be written in two different forms: cash basis or accrual basis. According to Motto et al. (2017), SMEs in Indonesia have been trying to move the recording process based on an accrual basis instead of a cash basis. Moreover, cash management practice focuses on the management over cash which the collection and disbursement of physical cash are different from the recording. Therefore, the possibility of cash management practice influences the gross profit margin decreases.

In terms of the regression model, the independent variables, cash mobilization and forecasting have significant relationships with ROA but not with GPM. Thus, the second model cannot be used. From the multiple regression coefficients result in table 8, the coefficient of FOR (forecasting) variable is 0.789 with a t-statistic value is 0.779. The t-table value at a significance level of 0.05 is 1.990. As a result, this research

fails to reject H0 because the t-statistic < t-table (0.779 < 1.990) means there is no relationship between forecasting and variable ROA.

H3: Forecasting (FOR) influences Return on Assets (ROA) → REJECTED

Table 8. Coefficient Table of Multiple Regression (ROA)

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	0.789	0.173		4.561	0.000		
Forecasting	0.035	0.045	0.084	0.779	0.438	0.879	1.138
Cash Mobilization	-0.191	0.056	-0.367	-3.418	0.001	0.879	1.138

However, the multiple regression results in Table 8 show the regression coefficient value of variable Cash Mobilization (CML) equal to -0.191 with a t-test value of -3.418 in which it is bigger than the t-table (-3.418 > -1.990). As a result, the H0 is rejected, meaning there is a linear relationship between cash mobilization (CML) toward the ROA.

H4: Cash Mobilization (CML) influences Return on Assets (ROA) → ACCEPTED

From the analysis result of multiple regression, the structural equation for the model is written as:

$$*ROA = 0.789 + 0.035 FOR - 0.191 CML*$$

* = significance level 5%

In Table 8, variable CML has the most significant value below the fair value ($\alpha = 0.05$) toward the ROA as one of the financial performance measures in terms of profitability. This significance is influenced by the researcher’s questions, such as acceleration on the receivable, bank account maintenance, investment on cash surplus, and disbursement control, constructed into a nine-item of list question. However, the relationship of variable CML toward ROA is negative, meaning that SMEs with lower cash mobilization will be more likely to have a higher impact on the ROA. In other words, the more SMEs owner/manager hold their cash within the firm, the more ROA there will be. The high cash mobilization may decrease the ROA because there are two proxies that represent cash mobilization in terms of investment on cash surplus. Horne & Wachowicz (2008) explained that the least likely firm invests their cash surplus, the bigger the opportunity lost to generate more profit from the assets themselves (the investment). As a result, the ROA will decrease. Besides, the low investment also indicates that there is a possibility of a high occurrence of excess cash, which also may result in lower ROA. This is because the high excess cash will lead managers to invest it below the cost of capital or waste it on company inefficiency instead of productive purpose (Zaheer, 2017). Moreover, although the variable of forecasting (FOR) has a positive coefficient in this model, it has no significant correlation toward ROA. This result is different compared to the previous study from Hamza et al. (2015), Olouch (2016), and Al-Smirat (2016) because they used different proxies to measure the financial performance of the SMEs.

V. CONCLUSION

The survey result of cash management practices shows that SME owners/managers are aware of the basics of cash management because the weighted average of respondents shows good value for forecasting practice and cash mobilization. The degree of SMEs in forecasting is between often and always while cash mobilization between rare and often with cash inflow supervision as the dominant practice that more often to be done. This indicates that SMEs currently has a deeper concern in term of forecasting rather than cash mobilization. In forecasting, cash inflow supervision has become the dominant action for SMEs

owner/manager without making the budget preparation. SMEs still have low awareness of this practice because 41% say they do not need it for this time.

Although the SME owners/managers have deep concern about the cash inflow, they also have a good understanding of the importance of not being delinquent for any liability. It shows that liability and debt disbursement control have become the dominant practice that reflects cash mobilization. Furthermore, SMEs' owners/managers also maintain their bank account and work hard to accelerate their receivables. Unfortunately, the understanding of respondents in optimizing cash surplus through investment still low.

In conclusion, from all these practices, the regression result found out that the overall cash management practice only has a relationship toward financial performance (ROA) instead of gross profit margin. Besides, the variable that has a significant effect is only the cash mobilization, while forecasting has no impact on the ROA. This finding does not support the previous studies by Hamza et al. (2015), Olouch (2016), and Al-Smirat (2016) but strengthens the past research by John (2014), Saluja and Kumar (2012), and Abioro (2013), in which liquidity tend to have a negative influence on profitability especially on ROA, where cash management acts as one of the instruments to support and maintain the liquidity of the company. Lastly, there is a negative-significant relation between cash management practice and financial performance (ROA), it is recommended for SMEs owner-manager to maintain equilibrium between the cash management practice and the financial performance itself. There are several recommendations for future research. First, the scope of study should be wider. Second, the float control as one of the cash management variables should be included in the future study to see whether any different outcome can be derived to improve this research finding.

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