CASH MANAGEMENT AND FINANCIAL PERFORMANCE OF SMALL AND MEDIUM BUSINESS ENTERPRISES IN NAKURU COUNTY, KENYA

ONYANDO PAUL OTEYO

A Research Project Submitted in Partial Fulfillment of the Requirement for the Award of the Degree of Master of Business Administration (Finance Option), School of Business, Kenyatta University.

OCTOBER, 2018
DECLARATION AND APPROVAL

This project is my original work and has not been submitted for a degree or any other award to any university or other institution of learning.

Signature: ____________________ Date: ______________________________
Onyando Paul Oteyo

D53/NKU/PT/28616/2014

This research project has been submitted with my approval as the university supervisor.

Signature: ____________________ Date: ______________________________
Joseph M. Theuri,
Lecturer
Department of Accounting and Finance
School of Business
Kenyatta University
ACKNOWLEDGEMENT

I would like to extend utmost gratitude to everyone who made this research project possible. Though I am the author of this research project, many others have made great contribution towards its production. I sincerely thank Mr. Joseph Theuri, my supervisor for the continuous support and advice I received from him in this entire work. Without his support, it would have been very difficult to arrive at this stage successfully.

I am additionally grateful to Mr. Hillary Songok and Dr. Abel Anyieni. They always assisted me and sacrificed their time when I needed assistance from the Kenyatta University School of business from time to time. I also acknowledge the entire Kenyatta University administration student help desk who did not hesitate to receive the frequent phone calls made by Master of Business Administration student fraternity while seeking help and making enquiries.

Finally, I appreciate the moral support offered to me by my family, more so my parents who have been supportive to me even during difficult times. Without them it would have been impossible to attain this level of the paper.
# TABLE OF CONTENTS

DECLARATION AND APPROVAL ....................................................................................... ii

ACKNOWLEDGEMENT ................................................................................................. iii

TABLE OF CONTENTS ................................................................................................. iv

LIST OF TABLES ............................................................................................................ viii

LIST OF FIGURES ......................................................................................................... ix

ACRONYMS AND ABBREVIATIONS .......................................................................... x

OPERATIONAL DEFINITION OF TERMS ................................................................... xi

ABSTRACT ..................................................................................................................... xii

CHAPTER ONE: INTRODUCTION .............................................................................. 1

1.1 Background of the Study ....................................................................................... 1

1.1.1 Cash Management .......................................................................................... 1

1.1.2 Financial Performance .................................................................................... 2

1.1.3 Cash Management and Financial performance .............................................. 2

1.1.4 Small and Medium Enterprises ..................................................................... 4

1.2 Statement of the Problem ..................................................................................... 5

1.3 Objectives of the Study ....................................................................................... 6

1.3.1 General Objective .......................................................................................... 6

1.3.2 Specific Objectives ......................................................................................... 8

1.4 Research Questions ............................................................................................. 8
3.5 Data Collection.................................................................................................................27

3.5.1 Validity .........................................................................................................................27

3.5.2 Reliability ......................................................................................................................27

3.6 Data Analysis and Presentation .........................................................................................28

3.7 Ethical Considerations .......................................................................................................29

CHAPTER FOUR: RESEARCH FINDINGS AND DISCUSSION .................................................30

4.1 Introduction .......................................................................................................................30

4.2 Response Rate ..................................................................................................................30

4.3 Descriptive Statistics .......................................................................................................30

4.3.1 Bank and Cash Reconciliation ......................................................................................30

4.3.2 Cash Position ...............................................................................................................32

4.3.3 Credit Management .....................................................................................................34

4.3.4 Cash Planning ..............................................................................................................37

4.4 Inferential Statistical Analysis .........................................................................................39

CHAPTER FIVE: SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS .........................................................................................................................43

5.1 Introduction .......................................................................................................................43

5.2 Summary of Findings .......................................................................................................43

5.3 Conclusion .........................................................................................................................43

5.4 Recommendations ...........................................................................................................44

5.5 Suggestions for Further Research ..................................................................................45

REFERENCES .........................................................................................................................47

APPENDICES ..........................................................................................................................53
Appendix A: Questionnaire ..................................................................................................................53
Appendix B: Research Permit ...............................................................................................................57
LIST OF TABLES

Table 2.1 Summary of Research Gaps .................................................................20

Table 3.1 Target Population ..............................................................................24

Table 3.2 Sampling Frame ..................................................................................27

Table 4.1 Response Rate .....................................................................................30

Table 4.2 Bank and Cash Reconciliation .............................................................31

Table 4.3 Cash Position .......................................................................................32

Table 4.4 Credit Management Practices ............................................................34

Table 4.5 Cash Planning ......................................................................................37

Table 4.6 Regression Model Summary ...............................................................39

Table 4.7 Analysis of Variance ...........................................................................40

Table 4.8 Regression Coefficients .....................................................................40
# LIST OF FIGURES

<table>
<thead>
<tr>
<th>Figure</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1</td>
<td>Conceptual Framework</td>
<td>22</td>
</tr>
<tr>
<td>4.1</td>
<td>Effect of strict cash position</td>
<td>34</td>
</tr>
<tr>
<td>4.2</td>
<td>Optimizing mix of SMEs</td>
<td>36</td>
</tr>
<tr>
<td>4.3</td>
<td>Credit Policies Compliance</td>
<td>37</td>
</tr>
<tr>
<td>4.4</td>
<td>Opportunity Cost of Cash</td>
<td>39</td>
</tr>
</tbody>
</table>
ACRONYMS AND ABBREVIATIONS


B.A.F: Business Analysis Factors.

B.A.T model: Baumol-Allais-Tobin model.

C.B.D: Central Business District.

C.S: Cabinet Secretary.

G.D.P: Gross Domestic Product.


M.Es: Micro Enterprises

R.O.A: Return on Assets.

R.O.E: Return on Equity.

S.D.F: Social Development Factors.

SMEs: Small and Medium Enterprises.


OPERATIONAL DEFINITION OF TERMS

**Bank and cash reconciliation**: The process of comparing two related records from the bank and cash book, conducting an analysis of any differences and categorizing them then subsequently rectifying these differences.

**Cash management**: Cash management means management of the aspects of credit control, cash position, cash planning and cash flow projection.

**Cash planning**: The projection of cash payments and receipts through a cash budget.

**Cash position**: The liquidity status of a given entity at a particular point in time.

**Cash reconciliation**: Process used to verify how much cash the cash register has when business closes.

**Credit management**: The procedure of putting measures in a firm to control and minimize financial risks as well as improve revenues.

**Debtors’ collection period**: The time it takes between the recognition of a credit sale and clearing of debt through payment from the debtor.

**Financial performance**: The measure of a firm’s performance using the net profit margin indicator.

**Financial performance**: The measure of financial performance is profitability. The methods used to measure profitability are return on equity, sales, return on assets and net profit. Net profit margin is the major tool used to assess financial performance.

**Small and Medium Enterprise**: An enterprise with at least 6 employees and at most 100 employees.
The Government of Kenya has put much emphasis on SMEs’ development to enhance self-employment as well as poverty minimization and economic growth acceleration. Even though they are significant, available evidence shows that SMEs crumble within only a few months after establishment. This study aimed at assessing cash management and how it affects small and medium enterprises (SMEs) financial performance in Nakuru County, Kenya. It identified cash planning, cash and bank reconciliation, cash position and credit management as the independent variables. Financial performance, whose measure has been based on net profit margin, was used as the dependent variable of study. Many studies have been conducted with regard to SMEs and general financial performance, but none has since narrowed down to look into the cash management component and how it affects financial performance. Several studies have been referenced to indicate cash management as a possible factor affecting SMEs’ financial performance. The study also referred to three theories for its review; the pecking order theory, trade-off theory and Keynes liquidity theories. The research was based on a survey study where a cross-sectional study of SMEs was conducted. 73 SMEs were examined using quota sampling as the design basis. A total of 45 medium enterprises and 28 small enterprises were examined. Data collection was carried out using questionnaires and personal interviews as the collection instruments. The target respondents were owners of SMEs and their managers. Descriptive and regression analysis were conducted with the help of SPSS software. The study found that majority of SMEs practices timely reconciliation, frequent bank and cash reconciliations and establishment of an internal control system. Majority of SMEs maintained cash flow statements and established internal cash monitoring mechanisms. However, majority of SMEs did not conduct prequalifying debtors before granting credit and Liquidity analysis of SME before accepting credit sales. Preparing cash budgets and Understanding the firm’s cash operating cycle were highly prevalent among participating SMEs. There was a strong positive correlation \((r=0.859)\) between cash management and financial performance whereby 73.7% of performance of SMEs could be attributed to cash management. There was a significant relationship \((F =19.60 (4,74), P=0.000)\) between cash management and financial performance. Credit management \((p=0.003)\) and cash planning \((p=0.003)\) were significant. The research found out that many SMEs situated in Nakuru County, Kenya fail to conduct formal cash management practices. Even so, SMEs in Nakuru County, Kenya undertake part of their cash management practices formally in cases where they lack written-down policy statements regarding cash management practice. The study recommended that there is dire need for the management as well as staff charged with managing cash to undergo training in managing financial performance metrics in order for operation-level decisions to be attached to the expected outcomes.
CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

The government has identified SMEs as one of the vital sectors that contribute towards economic development (Weda, 2015). Heinonen, Soini & Veseli (2011) point out that SMEs play the role of reducing levels of poverty, thus creating job opportunities, mentoring entrepreneurship culture and creating inter-economic link via supply chain in trade activities. Sitharam (2014) further states that in the manufacturing sector, SMEs come fourth in rank after Agriculture, retail and wholesale trade, and the communication and transport sector. Weda (2015) makes reference to the economic survey conducted in 2006 and states that in the year 2005, at least twenty percent of the GDP is directly attributable to Small and Medium enterprises.

SMEs are vital for developing nations due to the role they play in poverty reduction and growth of the economy (Kongolo, 2010). SMEs situated in developing countries experience a range of challenges, one of which is limited knowledge by the stakeholders in cash management. According to Macharia (2009), the major factor affecting SMEs’ financial performance is cash management. SMEs role in creating employment and development of the economy has been the topic of discussion recently amongst researchers, policy makers and governments. Small enterprise owners all over the world have similar characteristics and face similar constraints but differ in knowledge of how SMEs contribute to economic growth. SMEs can fuel economic growth in a big way as they drive innovation and inventiveness, expand on a country’s tax base and create employment (Widyaningrum, Raharjo & Nuzula, 2017)

1.1.1 Cash Management

Cash management refers to the step by step procedure of managing liquidity and cash flow of a firm as well as managing risks and processes related to capital optimization and cash flow (Juan
Management of cash covers many activities and has its major purpose as controlling the company’s cash flow and efficiently managing its funds. Efficient management of cash flow is vital for all companies. Soaga (2012) points out that the aim of managing cash is to find optimal cash level for creating the highest level of performance for an entity. The major components of cash management lie in the two aspects; financial reporting and financial management (Kinyajui, 2016). Under financial reporting the cash management tools include the cash flow statement, cash and bank reconciliation and the cash book. In financial management the components of cash management are credit control, cash position, cash planning and cash flow projection (Katz & Green, 2009).

1.1.2 Financial Performance
The aspect in SMEs has had its interpretation variously as identified by Teruel and Solano (2008). Applied studies have held that increase in profitability, output and efficiency is the best way to measure a firm’s performance (Teruel & Solano, 2008). Managerial performance assessment is difficult and not pegged on anything specific. According to Weda (2015) the gauge of financial performance is profitability. He suggests that the methods used to measure profitability are return on equity (ROE), sales, return on assets (ROA) and net profit. Net profit margin is the best way of measuring financial performance since it is the proportion of company net profit to company sales (Weda, 2015).

1.1.3 Cash Management and Financial performance
According to Juan &Martinez-Solano (2007), cash is a vital element of a corporation’s working capital as it forms the engine of the company. It is actually the aspect around which all matters financial center. Therefore, cash management is most vital for any enterprise’s financial success. Katz & Green (2009) state that availability of current assets, especially cash determines whether
a business will survive or wind up. Cash is very important for business operations as a current asset. In fact it is the most basic input required to make the business a going concern (Weda, 2015). A business might make profits but without sufficient cash to meet operational obligations it may be forced to close shop.

Katz & Green (2009) identified that the cash management approach to managing liquidity has been prominently used for a long time as a tool to control and plan liquidity. More generally, many financiers have looked at the working capital management, yet the major aspect has always been cash control, cash being one of the current assets items in the balance sheet. This measure is being considered an important tool in ensuring that funds are available to meet recurrent expenditure (Katz & Green, 2009). Many analysts advocate using cash and current ratios to measure liquidity and business performance rather than having a view of the financial management as a whole which entails many general factors. This measure also has the advantage of being able to carry out a cross section comparison as well as time comparison (Katz & Green, 2009). However, the ultimate gauge of cash management is its effect on an entity’s financial performance.

Many small and medium enterprises in Kenya are likely to have failed in financial performance mainly because of lack of knowledge or limited knowledge on cash management (Macharia, 2009). The New York Times has mentioned lack of cash cushion as one of the major reasons SMEs fail (Christensen, 2013). Christensen (2013) adds that amongst other methods, cash management is one of the key methods of financial management. This study however concentrated on assessment of cash management on small and medium business enterprises financial performance.
1.1.4 Small and Medium Enterprises

The term SMEs has a wide range of definitions, varying from one country to another (Nataraja & Wyrick, 2011). Generally these definition guidelines have their basis upon assets, headcount or sales. For instance, the Inter-American Development Bank refers to SMEs as entities having 100 employees as the maximum and whose revenue is less than 3 million dollars (Normah, 2007). In Europe, SMEs mean firms with a manpower of at most 250 employees while in the US, the same refers to organizations having a manpower base of at most 500 employees (Natarajan & Wyrick, 2011). The World Bank as a general guideline refers to SMEs to mean enterprises comprising of at most 300 employees and maximum annual revenue of 15 million dollars as well as 15 million dollars in assets at the most (Normah, 2007). There are varying definitions of the term SMEs in Kenya which have not yet been consolidated. For this paper, I dwelled on the meaning from the national survey carried out in the year 1999 on the S.M.E sector which defined a medium enterprise as that which contains a minimum of 11 and a maximum of 100 employees. The same study defined small enterprises as those which employ at most 10 employees and at least 6 (Macharia, 2009).

SMEs are regarded all over the globe as the economic backbone of the nation (Barr et. al., 2011). This domain plays a big role in the economic development and adds on to the GDP as well as employment creation. According to Macharia (2009), development goals and rapid industrialization in developing nations have largely been attached to the role played by SMEs in driving socio-economic development (Barr et. al, 2011).

Beck and Levin (2005) state that SMEs expand on entrepreneurship and competitiveness thus brings benefits to economic aggregate productivity, innovation and efficiency. This sector forms the primary vehicles through which innovative entrepreneurs supply the economy with skills and
ideas. Based on employment creation and the quick growth of enterprises globally, it is argued globally that SMEs are the key to economic growth. Normah (2007) explains that SMEs concentration is closely related to the most dominant activities of the economy. SMEs dominate economies the world over in terms of number of companies and employment creation. Despite this, this sector’s full potential is yet to be tapped (Omar et.al., 2009).

SMEs sector contributes to over fifty percent of new jobs that are created in Kenya, an example being the year 2005. Morara&Mureithi (2009) point out that most businesses in Kenya fall under the SME sector and therefore the Kenyan economy majorly depends on SMEs. Despite this significance, statistics carried out in the past show that out of five, three of such businesses came to a halt within the initial five years in operation (Kenya National Bureau of Statistics, 2007).

1.2 Statement of the Problem
Micro, small and medium enterprises (MSMEs) have a purpose in developed as well as developing economies (Afande, 2015). As a result, many governments have increased their interest in this sector with an aim of improving it. The Kenyan authorities or government has put much emphasis on the SMEs development as a way of enhancing self-employment as well as minimizing poverty and increasing growth of the economy. Even though they are significant, available evidence shows that SMEs slump within the initial months after establishment (Kimunyi, 2015). Sharu and Guyo (2015) indicate that SMEs have low chances of survival, with major challenges prompting 60% failures with regards to performance before 3 years of initial operation. Thinji and Gichira (2017) report that the SME’s success in the nation still poses humongous challenge even with some financial assistance emanating from the government as well as NGOs, in addition to non-financial incentives as well as facilities, favorable governmental policies and now MSE Act of 2012. Kamunge, Njeru and Tirimba (2014) add that
many SME entrepreneurs operate at the economy’s lower rankings, a large percentage lying among the listed 53% of Kenyans under the line of poverty using only USD 1 every day.

Many studies have been done regarding the relationship between financial management and success of businesses in general. These projects have advanced to break down financial management into several of its contents such as capital management, working capital management, budget and budgeting aspects, capital structure and corporate social responsibility. In addition, several research studies have been carried out narrowing down financial management to management of working capital and success in SMEs such as impact of managing working capital on performance of SMEs (Wire, 2015). However, there are very scarce studies narrowing down working capital to the cash management component per se such as cash control methods like speedy collections (enhancing cash inflows) and slowing down disbursements or cash outlays, Baumol model of cash management, interest expense minimization, netting and pooling of both credit and debit positions, genuine receipting, cash conversion cycle concept, target balancing, automated investments, lock-box accounts, identifying emergency funding sources, bank and cash reconciliation, cash flow projection, cash planning, credit control/management amongst others. This creates a knowledge gap and is the motivation behind this study which seeks to assess the effect of cash management on the financial performance of SMEs within Nakuru County, Kenya.

1.3 Objectives of the Study

The study was undertaken under the following objectives

1.3.1 General Objective

The main objective of this study was to assess the effect of cash management on the financial performance of small and medium business enterprises within Nakuru County, Kenya.
1.3.2 Specific Objectives

i. To establish the effect of bank and cash reconciliation on financial performance of SMEs.

ii. To determine the effect of cash position on financial performance of SMEs

iii. To assess the effect of cash planning on financial performance of SMEs

iv. To establish the effect of credit management on financial performance of SMEs

1.4 Research Questions

i. What is the effect of bank and cash reconciliation on financial performance of Small and Medium Enterprises?

ii. What is the effect of cash position on financial performance of Small and Medium Enterprises?

iii. What is the effect of cash planning on financial performance of Small and Medium Enterprises?

iv. What is the effect of credit management on financial performance of Small and Medium Enterprises?

1.5 Significance of the Study

This study is of importance to entrepreneurs in that when one is an entrepreneur, business rewards can only be realized when cash is available to spring operations. According to Weda (2015), entities fail if they run out of cash and the bank has withdrawn credit. Weda (2015) also brings out the aspect that surprisingly, a business which makes profit on paper (on accrual basis of accounting) can wind up because it lacks sufficient cash flow. It is because of this that entrepreneurs need to have the necessary skills on cash management as explored in this study.

Secondly, the study will continuously assist in research studies. In Africa, there are few studies on SMEs and proprietorship as a whole. The study provides a reference point for literature
review while conducting studies in the future on entrepreneurship. Apart from supplementing other studies in the similar field, it is a source of further research in other directly and indirectly related topics. As a result more solutions will be found on SMEs problems.

Finally, policy makers will find this study of big significance. The major policy maker is the government. Cash management knowledge is very vital for policy makers. This study exposes the advantages of cash management in SMEs as well as importance of SMEs to the economy. The information available in this study assists economic planners realize that cash management is a major aspect for small and medium enterprises. As such, subsidies and development projects towards the growth of this sector will be enhanced if the government also has knowledge of how much this industry contributes to economic growth.

1.6 Scope of the Study
The current study focused on assessing the effect of managing cash on the financial performance of small and medium business enterprises. Cash management was assessed on the basis of bank and cash reconciliation, credit management, cash planning and cash position. The research was conducted within Nakuru County, Kenya between June, 2016 and March, 2017. The rationale behind selection of Nakuru County was based on its recognition as one of the most rapidly growing towns in the whole of Africa, an aspect majorly associated to growth in number of SMEs in the town according to the United Nations Habitat (Lwasa & Kinuthia-Njenga, 2012). This is a fact that was majorly associated with its growing number of SMEs. Due to this the county provides a good setting for the scope in terms of location of the study.

1.7 Limitations of the Study
While conducting the study, some limitations were encountered. One of these was that not all the SMEs in Nakuru County were accessed. Due to limited resources and time, not all the SMEs were visited to conduct the study wholesomely. As a result sampling techniques were to made use of to conduct the research on a representative portion of the population. Due to the numerous numbers of SMEs the sample chosen might have not been sufficient enough to represent all the SMEs within Nakuru County.
CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction
This chapter summarized information available from different researches conducted in the similar research field. In specific, the areas that were covered under this chapter were as follows: literature theoretical review, the empirical review, literature review summary, research gap(s) which the study endeavored to fill and the conceptual framework.

2.2 Theoretical Review
The sub-section encompassed discussion of the theories used in cash management. These theories ensure that cash flow and liquidity is maintained hence leading to good financial performance for the organization. Most of the cash management theories ensure that there is optimal cash in the business to see smooth running of all operations. By employing these theories, it makes it easier for SMEs stakeholders to know how to handle several cash-related challenges in the firm. The theories are as follows:

2.2.1 Trade off Theory
The term is employed by divergent authors to explore related theories. In all the theories, decision makers running an entity evaluate distinct costs as well as benefits of different leverage plans (Çerkezi, 2013). Modigliani and Miller (1963) established debt’s tax benefit. Subsequent research revealed optimal capital structure derived by the theory of trade-off. López-Gracia & Sogorb-Mira (2008) explain that this theory states that a firm has to make the choice between its quantity of equity financing and debt financing. It does this through weighing benefits against the costs or expenses on the two. The major objective of this theory entails expounding on the contention that firms are partially equity-financed and partly debt-financed. According to Cotei and Farhat (2009), a firm exhibits distress financially when it is not able to surpass debt
obligations. In case it carries on with failure in making its payments to the holders of debt, the entity can be considered insolvent.

Trade-off theory identifies tax advantage as being one of the benefits of debt-financing amongst others (López-Gracia & Sogorb-Mira, 2008). The theory also points out debt-financing disadvantages, one of these being costs associated with financial distress like non-bankruptcy costs (high staff turnover, supplier’s withdrawal) and bankruptcy costs. As leverage shoots up, there occurs a trade-off which is between bankruptcy and tax shield of interest; hence optimum cash balance will be realized in the capital structure. Citing trade-off theory, optimal debt amount is equivalent to one dollar of debt emanating from interest rate tax deductability with dollar marginal cost regarding debt that arises from enhanced default exposure (Hackbarth, Hennessy & Leland, 2007).

The theory can explain why capital structures are distinct between industries, while it fails to explain the reason profitable entities within the domain depict lesser debt ratios (the theory of trade-off estimates the opposite while profitable companies depict larger scopes with regards to tax shields, as such implying higher levels of debt (Adair & Adaskou, 2015). Citing the TOT, related trade credit are a signal to company creditors without private information concerning the entity; accessing credit depends on guarantees. This theory is therefore relevant to the study which seeks to establish the effect of managing credit on financial performance of SMEs.

2.2.2 Pecking Order Theory
Organizations continually make decisions on the means of financing them, taking care of exposure to risk, the theory Packing Order Theory states that firms inherently make such decisions reliant on a pre-set ranking system (Bhma, Jain & Yadav, 2018). This theory was advanced by Myers as well as Majluf in the year 1984. It offers a buffer between investment and
financing decisions. Firms first finance their needs using internal funds. Issuing out equity is expensive and would not be a first option of funding (Myers and Majluf, 1984). Therefore, it would be considered the last priority of funding the firm after internal funds and debt financing. Internal funding mainly comes from retained profit (López-Gracia&Sogorb-Mira, 2008). Hence when cash flows from operation are large, businesses use this as a way of financing new viable projects, paying dividends, repaying debts and for additional cash accumulation (López-Gracia&Sogorb-Mira, 2008).

Relying on the Pecking Order Theory, financing internally is prioritized. It becomes simpler to obtain and has minimal risk level. Even so, running a firm on exclusive internal finance cannot service it for the foreseeable period (Ni & Yu, 2008). External sources have to be sought when there is not enough retained earnings Managers as such prefer debt as compared to equity due to lesser cost. The relationship depicted between leverage of corporates and SMEs profitability and opportunities for growth support POT (Adair & Adaskou, 2015). This theory is therefore relevant to this study which seeks to assess the effect of cash planning on financial performance of SMEs.

2.2.3 Keynes Liquidity Theories

Keynes (1936) created the theory of Liquidity Preference to exhibit the purpose of rate of interest via the supply as well as demand of money. Keynes noted that money demand takes 3 forms which as transactionary, precautionary as well as speculative (Tily, 2006). The motive of transactions is tied to the demand of money or cash needs related to the most current transactions with regards to individual as well as business exchanges. Precautionary motive of holding money entails the urge to have balances of cash due to unforeseen contingencies. People hold cash in order to cater for factors like accidents or illness. Speculative motive entails the urge to hold
resources in the form of liquidity while speculating upcoming interest changes or prices of bond (Asensio, 2017).

Interest is a reward for parting with liquidity. The interest rate differs on debts of different lengths and maturities. The interest rate on daily loans will be different from the rates of interest on weekly, monthly and yearly loans. In behavioral finance, this theory determines the optimal cash balance of any firm, (Turyahebwa et. al., 2013). For instance, an organization that uses speculative motive for its money demand may fail to have optimal cash balance in an unstable economy (Turyahebwa et. al., 2013). This theory is therefore relevant to this study which seeks to determine the effect of cash position on financial performance of SMEs.

2.3 Empirical Review
SMEs enhance growth of the economic domain; however SMEs globally, more so in Africa, still encounter several challenges (Sitharam, 2014). Cherko et al. (2018) indicate that some enterprises fail to sustain, some others remain for long period of time without transforming, and most are producing similar and non-standard products. There are many; external aspects such as accessing finance and competition as well as corruption and more barriers to trading. Internal factors, a number of which emanate from external factors, such as competency of management, inefficient skilled labor, strategies of marketing, level of innovation as well as technological investments (Heinonen, Soini & Veseli, 2011). Widyaningrum, Raharjo and Nuzula (2017) identified unskilled labor, inefficient education levels, funds sources, and governmental policies as problems. Even so, the largest challenge for SMEs regards how to earn and maintain competitive advantage in the industry.
Mwaniki (2012) indicates that few SMEs grow and become bigger enterprises. The reason lies on the numerous aspects which inflict on the industry’s stagnation regarding performance. These include: inability to access credit, regulatory frameworks of operation, and issues in management, market-based barriers as well as education or training. Small businesses face more competition from peers as well as large corporations in niche markets which were once considered preserved for smaller businesses. Accordingly, relying on the domestic markets for the purpose of business growth is a historical fact for a number of SMEs (Nabintu, 2013). The current study focused on assessing the effect of cash management on the financial performance of SMEs. Cash management was assessed on the basis of bank and cash reconciliation, credit management, cash planning and cash position.

2.3.1 Bank and cash reconciliation
According to Soaga (2012) on his study about “Basics of Cash Management for Financial Management and Reporting”, survival of entities heavily relies on liquidity. Soaga (2012) points out that bank and/or cash reconciliation is very vital for any system of book-keeping to gain optimal liquidity hence financial performance. He says that all systems require the process of comparing two different records from sources or systems, conducting an analysis of any differences and categorizing them then subsequently amending them (differences). He points out that for a business to remain healthy financially, the bank and cash book balances should be compared during bank reconciliation to point out any differences. Sharma & Kumar (2011) emphasize that man is to error and there are normally errors of fraud in the cash book and bank which must be pointed out and corrected accordingly. When fraudsters know that reconciliations are seldom done, they can take advantage of this to swindle the business of its cash.
Reconciliations should be carried out in a timely manner; periodically, for example monthly or even weekly (Soaga, 2012).

2.3.2 Credit Management
Weda (2015) conducted a study on “Influence of Managing Working Capital on Financial Performance of Small and Medium Manufacturing Enterprises in Nairobi County, Kenya”. In his study he states that proper working capital management in SMEs facilitates wealth creation. He found out that credit sales are a necessity for all firms today. He states that a firm cannot continue to exist if it does not trade on credit. Weda (2015) however also asserts that financial performance depends on how effective the organization’s credit policy is. When the firm sets a credit management policy, it should consider many factors such as profitability levels and the monopoly situation at hand. Entities with low annual gross profit cannot manage to have significant levels of bad debts and therefore must have a strict risk management process. Those with high profit margins may afford having significant levels of bad debt provisions. The firm must check to ensure the debtors’ payment period is shorter than the creditor’s payment period for sound cash flow. The major objective of maintaining debtors is so that the business increases its profit through expansion of sales to repeat customers and attract potential ones. Mathuva (2015) studied “The Influence of Managing Working Capital on Corporate Profitability Components.” He held that credit management is conducted in the form of creditors’ collection period amongst other methods. He found out that the shorter the collection period, the better a firm’s profitability will be (Mathuva, 2015).

2.3.3 Cash Planning
Hamza et al. (2015) on his study carried out on “Practices of Cash Management and Performance of SMEs in Ghana’s Northern Region” found out that SMEs in Northern Ghana are poor at cash
management resulting in poor financial performances. According to him cash planning is a cash management tool which actually means cash budgeting through a cash budget that shows projected cash payments and receipts. He states that this kind of budget also shows the anticipated cash outflows as well as inflows during the budget period. Hamza et. al. (2015) emphasizes that the preparation of cash budgets assist managers plan on how they will invest, borrow and control their expenditure (both capital and recurrent).

Hamza et. al. (2015) points out that even though preparation of cash budgets is a detailed process, it brings out the realization of the objective of ensuring there is enough cash to operate the entity throughout for better financial performance. He adds that it is wise to make provision for a little more than the optimal cash to have some to cater for error margins in planning, (Hamza et. al., 2015).

Sharma & Kumar (2011) while conducting a study on “Working capital management effect on firms’ profitability” observed that the shorter the cash conversion cycle, the higher the amount of profits a firm is likely to make. Cash conversion cycle can only be short if cash is planned for well. For instance, avoiding the use of cash on stagnant goods and instead investing it in moving goods as an inventory restructuring scheme (Sharma & Kumar, 2011).

2.3.4 Cash position
Soaga (2012) undertook research on “Basics of Cash Management for Financial Management and Reporting” where he concluded that survival of all entities heavily relies on liquidity. In his study he states that one of the most important and a dependable report in an entity is the cash position report. Before disbursing any payment, accountants and finance managers must know the cash position as pointed out by Sharma & Kumar (2011). Soaga (2012) emphasizes that cash position is the core of cash management. In addition, it acts as pre-reconciliation ensuring limited
errors of omission, commission, entry reversals and transposition. This ensures there is soundness in liquidity of the firm hence increase in profits (Soaga, 2012).

2.3.5 Financial performance

Weda (2015) on his study on “Influence of Managing Working Capital on Financial Performance of Small and Medium Manufacturing Enterprises in Nairobi County, Kenya” finds profitability as the most suitable measure for financial performance. Even though he says profitability is a difficult concept to measure due to the contradictions between economic and accounting profits, Weda (2015) suggests return on equity, sales, return on assets as well as net profit as some of the best methods used to measure profitability. Abor (2007), while studying “Debt Policy and Performance of SMEs” mentions profit margins or return on sales as an additional method of measuring profitability of a firm.

2.4 Summary of Literature as well as Research Gaps

Poor financial results in the SME industry have remained unexplained for a long duration especially in third-world nations where this industry occupies a big portion of the economy. However, developed and second world countries have found bad cash management schemes to lead immensely to such poor performances (Soaga, 2012). SMEs have not met their performance expectations and if this is not taken care of, their contribution in terms of economic growth will be badly hit as shown by studies by Soaga (2012) and Hamzaet. al. (2015). More so, such studies have shown that there exists unresolved contradictions which are applicable to the SME industry, hence the need for new studies in developing third world countries, for example Kenya to assist assess cash management on small and medium business enterprises financial performance. Therefore, this research is of importance not only due to the fact that fills the gap, but also because it addresses the gap knowledge.
Locally, there have been studies on practices of financial management in general such as Turyahhebwa et al. (2013) that entailed studying small and medium enterprises financial practices of management under a case study concentrated on Western Uganda. Weda (2015) also researched on working capital management impact on financial performance of small and medium manufacturing enterprises in Nairobi County, Kenya. Nyamao et al. (2012) conducted a study on “An assessment of working capital management practices on financial performance: A study of enterprises in small scale sector in Kisii South District of Kisii County, Kenya,” In West Africa nations, Hamza et al. (2015) carried out a study on “Practices of cash management and financial performance of SMEs in the Ghana’s northern region” but the study did not establish its applicability to all developing nations, more so third world countries like Kenya. Furthermore, the West African market is different from the East African market and requires different business models as identified by Atwal (2014). In addition, none of the studies done in the local region have been trimmed down to assess cash management on small and medium business enterprises financial performance. This is why this study sought to fill this research gap.
<table>
<thead>
<tr>
<th>Author</th>
<th>Title</th>
<th>Findings</th>
<th>Criticism</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hamza et. al. (2015).</td>
<td>Cash Management Practices and Performance of Small and Medium Enterprises (SMEs) in the Northern Region of Ghana.</td>
<td>SMEs in Northern Ghana are poor at cash management resulting in poor financial performances.</td>
<td>The findings do not apply to all developing nations. The East and West Africa market for instance require different business models for success as identified by Antwal, (2014).</td>
</tr>
<tr>
<td>Turyahubwa et. al. (2013).</td>
<td>Financial Management Practices in Small and Medium Enterprises in Selected Districts in Western Uganda.</td>
<td>Pecking order theory which holds that corporate management prefers to opt for financing internally over externally financing was proved with a case study of SMEs.</td>
<td>The study looked at financial management which is very general for only one study. The authors should have concentrated on a single component of financial management to exhaust the research well.</td>
</tr>
<tr>
<td>Soaga (2012).</td>
<td>Basics of Cash Management for Financial Management and Reporting</td>
<td>Survival of entities heavily relies on liquidity. Accrual basis of accounting is never apt for managing cash and therefore cash management should be given serious attention.</td>
<td>The findings apply to neither all developing nations nor all organizations. The East and West Africa market for instance require different business models for success as identified by Antwal, (2014). In addition, large enterprises have a significant debt to equity ratio compared to the SMEs. Therefore cash management could not be the most vital factor for them but rather capital structure management.</td>
</tr>
<tr>
<td>Abor (2007)</td>
<td>Debt Policy and Performance of SMEs</td>
<td>Capital structure, especially long-term, negatively affects SME’s performance.</td>
<td>The findings are applicable to Western and Southern African markets whose dynamics are distinct from the Kenyan market. In addition, the study only selected debt management in the</td>
</tr>
</tbody>
</table>
Sharma & Kumar (2011)  | Effect of working capital management on profitability of the firm | The shorter the cycle of cash conversion, the more profits a firm is likely to make | Although the study focuses on analysis of SMEs, it is based on a totally different market, India. The country’s market differs from the entire African market as observed by Black & Khanna (2007).

Mathuva (2015)  | The Influence of Working Capital Management on Corporate Profitability Components | The shorter the collection period, the better a firm’s profitability will be. | The Study analyzes firms as a whole but does not narrow down on SMEs per se. SMEs operate in a uniquely distinct way from other farms as pointed out by Weda (2015).
2.6 Conceptual Framework

The conceptual framework in Figure 2.1 show the variables in the study and how they relate. The indicators used to measure each variable are also indicated.

<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>Dependent Variable</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Bank and cash reconciliation</strong></td>
<td></td>
</tr>
<tr>
<td>• Frequency of reconciliation</td>
<td></td>
</tr>
<tr>
<td>• Timeliness of reconciliation</td>
<td></td>
</tr>
<tr>
<td>• Accuracy of reconciliation</td>
<td></td>
</tr>
<tr>
<td><strong>Credit management</strong></td>
<td></td>
</tr>
<tr>
<td>• Credit policies compliance</td>
<td></td>
</tr>
<tr>
<td>• Debtors’ collection period</td>
<td></td>
</tr>
<tr>
<td>• Debtors’ prequalification</td>
<td></td>
</tr>
<tr>
<td>• Liquidity pre-analysis</td>
<td></td>
</tr>
<tr>
<td>• SMEs asset mix</td>
<td></td>
</tr>
<tr>
<td><strong>Cash planning</strong></td>
<td>Financial Performance</td>
</tr>
<tr>
<td>• Opportunity cost of cash</td>
<td>• Net profit margin</td>
</tr>
<tr>
<td>• Cash budgeting</td>
<td></td>
</tr>
<tr>
<td>• Cash operating cycle</td>
<td></td>
</tr>
<tr>
<td>• Time value of money</td>
<td></td>
</tr>
<tr>
<td><strong>Cash position</strong></td>
<td></td>
</tr>
<tr>
<td>• Cash flow statements</td>
<td></td>
</tr>
<tr>
<td>• Cash position reporting policy</td>
<td></td>
</tr>
<tr>
<td>• Internal cash monitoring</td>
<td></td>
</tr>
</tbody>
</table>

Figure 2.1 Conceptual Framework.

Source: Author (2018)
According to the framework, the dependent variable is financial performance while the independent variables constitute bank and cash reconciliation, credit management, cash planning and cash position. This means that the financial performance as measured by net profit margin is dependent on bank and cash reconciliation, credit management, cash planning and cash position.
CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction
This chapter discussed the methods used in the research study. The areas covered under this topic include the research design, research population, the sampling framework and data collection procedures, reliability, validity, data analysis as well as presentation and ethical contribution of the study.

3.2 Research Design
The study adopted a descriptive-survey design. Descriptive research design entails a scientific method that concerns observing as well as describing a subject’s behavior without duly influencing it in any manner (Burns, 2010). This research was a survey study which explored how cash management affects success of SMEs and was a cross-sectional study. The collection of data approach was quantitative in nature. The survey design nature of research simplifies the answering of research questions in a more efficient way (Gall & Borg, 2009).

3.3 Target Population
The target population comprised of managers of small and medium enterprises. The study involved an exploration of small and medium enterprises within Nakuru County, Kenya. As at June, 2016, there were 9,666 SMEs within Nakuru County, Kenya which formed the population targeted of this study, (County Government of Nakuru data, 2016).

Table 3.1 Target Population

<table>
<thead>
<tr>
<th>Type of business</th>
<th>Number of businesses in Nakuru County</th>
<th>Percentage of population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medium enterprises</td>
<td>3,080</td>
<td>31.86</td>
</tr>
<tr>
<td>Small enterprises</td>
<td>6,586</td>
<td>68.14</td>
</tr>
<tr>
<td>Total</td>
<td>9,666</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Source: Nakuru County Government Data (2016)
3.4 Sampling

Sampling entails the procedure of choosing a representative portion of a whole population, mainly for study purposes, (Raosoft, 2004). Non-probabilistic sampling procedures were used. Quota sampling was involved as the sampling method. Raosoft (2004) describes quota sampling as a sampling technique where the researcher gathers representative data from a section of the population. Representative individuals are selected out of some chosen specific sub-group, (Raosoft, 2004). Based on a 5% error margin, 95% level of confidence and another 95% distribution of response, 73 SMEs formed the sample size to be examined for the purposes of this study,

Sample Size Calculation:

\[ n = \frac{95\% P}{(\varepsilon / c^2)} \]

Where:

- \( n \) = Size of the sample
- \( P \) = Population
- \( \varepsilon \) = Error Margin
- \( c \) = Confidence level

Therefore sample size = \( 9,666 \times 95\% \times 5\% / (95\%)^2 \)

=509

Finite population correction

\[ N_1 = \left\{ \frac{(n \times p)}{(n+p-1)} \right\} a_k \]

Where:

- \( N_1 \) = True sample
- \( n \) = Sample size
- \( P \) = Population
- \( a_k \) = Adjustment constant = 0.151
Hence \( N_1 = \left\{ \frac{509 \times 9,666}{(509+9,666-1)} \right\} \times 0.151 = 73 \)

In this study, a total of 23 medium enterprises and 50 small enterprises were examined.

**Table 3.2 Sampling Frame**

<table>
<thead>
<tr>
<th>Type of business</th>
<th>Number of businesses in Nakuru County</th>
<th>Percentage of population</th>
<th>Sample size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medium enterprises</td>
<td>3,080</td>
<td>31.86</td>
<td>23</td>
</tr>
<tr>
<td>Small enterprises</td>
<td>6,586</td>
<td>68.14</td>
<td>50</td>
</tr>
<tr>
<td>Total</td>
<td>9,666</td>
<td>100.00</td>
<td>73</td>
</tr>
</tbody>
</table>

**3.5 Data Collection**

The study relied on both secondary and primary methods of data collection. Primary data collection was through both personal interview (personal interviews) and questionnaires (researcher-administered questionnaires) with closed-ended and open-ended questions as the research instruments. In the small enterprises, personal interviews were conducted on the owners/managers as the target respondents. Questionnaires were sent to medium enterprises targeting managers as the respondents and collected after filling in of the details. Secondary data collection was carried out from journals, previous studies and other relevant material from the finance sector.

**3.5.1 Validity**

This means the extent by which a research study measures whatever it is supposed to, (Macharia, 2009). Soaga (2012) suggests that expert opinion is the best way to test whether a research is valid. Such opinion was sought from the research supervisor to boost accuracy of the study.

**3.5.2 Reliability**

Macharia (2009) says reliability is concerned with how the instrument used for testing in the research reveals similar results over several repeated trials. In essence, there has to be some form
of unreliability to a small extent in every research, but tests of reliability minimize this as much as possible, (Macharia, 2009). Test-retest method was used in this study to ascertain a good rate of reliability. A sum of 73 SMEs in Nakuru County were examined and reexamined again after a period of one month with similar instruments (researcher administered questionnaires and face to face interviews). This ensured the study instruments were as accurate as possible. Cronbach’s alpha was use for testing for due internal consistency. A coefficient of 0.75 was achieved in the pretetst which is higher than the 0.7 recommended by Blaxter et al. (2007).

3.6 Data Analysis and Presentation

Data analysis as well as its interpretation was carried out using descriptive-statistic methodology and linear multiple regression analysis method with the assistance of the SPSS software. Regression analysis got applied to indicate the significant relationships between dependent variable and independent variable. It also helped indicate the magnitude of impact with regards to multiple independent variables on the study’s dependent variable. The model used the formula below:

\[
\hat{Y} = a + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon
\]

Y refers to financial performance which is the due dependent variable.

a is the regression constant. This means it is the value of y when \(X_4 = X_3 = X_2 = X_1\).

\(\beta_1, \beta_2, \beta_3, \text{ and } \beta_4\) refer to changes in Y with respect to a unit fall or increase in \(X_1, X_2, X_3\) and \(X_4\) respectively.

\(X_1\) represents bank and cash reconciliation,

\(X_2\) represents credit management,
$X_3$ represents cash planning while

$X_4$ has been used to symbolize cash position.

$\varepsilon$ refers to an error term since some unspecified variables might also affect the financial performance of SMEs.

Presentation of data was made with the use of tables, pie charts and bar graphs.

### 3.7 Ethical Considerations

Barr et al. (2011) defines ethics as the philosophical reflection, upon a people’s morals and the way in which they live together, habits and customs of groups, individuals or mankind as a whole. This research maintained high integrity, transparency and quality throughout the study. While seeking for information from the target population, permission was obtained first before interrogating any respondent. In addition, informed consent of the respondents was sought first. The researcher respected anonymity and confidentiality of the respondents and their names did not appear anywhere whatsoever. The researcher also ensured that participation by the participants was voluntary and not coerced or done under duress. All manner of harm such as psychological harm was avoided toward the participants. Finally, the study tried to be as independent and unbiased as possible while maintaining objectivity.
CHAPTER FOUR: RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction
This chapter entails the findings of the study and the discussion on the findings. The chapter is divided into two parts; descriptive and inferential analysis.

4.2 Response Rate
Table 4.1 shows the response rate.

<table>
<thead>
<tr>
<th></th>
<th>Frequency-</th>
<th>Percentage-</th>
</tr>
</thead>
<tbody>
<tr>
<td>Responded</td>
<td>79</td>
<td>85.87%</td>
</tr>
<tr>
<td>Respondent did not respond</td>
<td>13</td>
<td>14.13%</td>
</tr>
<tr>
<td>Total</td>
<td>92</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source, Author (2017)

Out of the ninety-two questionnaires given to respondents, seventy-nine were responded to while thirteen respondents did not give their feedback. As such, the response rate was 85.87%. This was a good rate of response because it is more than the 70 percent which is recommended by Mugenda and Mugenda (2010) for descriptive-type studies.

4.3 Descriptive Statistics

4.3.1 Bank and Cash Reconciliation
The study sought to establish the bank and reconciliation practices of participating SMEs. The findings are depicted in the Table 4.2
Table 4.2 Bank and Cash Reconciliation

<table>
<thead>
<tr>
<th></th>
<th>SD</th>
<th>D</th>
<th>N</th>
<th>A</th>
<th>SA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Timely reconciliation has positive effect on financial performance of SMEs</td>
<td>9.59</td>
<td>13.70</td>
<td>4.11</td>
<td>64.38</td>
<td>8.22</td>
</tr>
<tr>
<td>Frequent bank and cash reconciliations have a positive effect on financial performance of SMEs.</td>
<td>6.85</td>
<td>9.59</td>
<td>6.85</td>
<td>64.38</td>
<td>12.33</td>
</tr>
<tr>
<td>Establishment of an internal control system has positive impact on SME’s financial performance.</td>
<td>12.3</td>
<td>13.7</td>
<td>2.7</td>
<td>42.5</td>
<td>28.8</td>
</tr>
</tbody>
</table>

The researcher sought to find out whether timely reconciliation has positive impact on financial performance. Nine point five nine percent (9.59%) of the respondents strongly disagree that timely reconciliation has positive effect on financial performance while thirteen point seven zero percent (13.70%) of the respondents disagree with the statement. Four point one one percent (4.11%) of the respondents were neutral, sixty four point three eight percent (64.38%) of the respondents agree that timely reconciliation has positive effect on the financial performance and eight point two two percent (8.22%) of the respondents strongly agree. The study concludes timely reconciliation has positive effect on financial performance of SMEs. The findings are summarized in figure 4.2 above.

Out of the respondents 12.33% of the them strongly agreed that cash reconciliation has an effect on financial performance, sixty four point three eight (64.38%) agreed to this statement, six point eight five (6.85%) were neutral, nine point five nine percent (9.59%) disagreed whereas the remaining six point eight five percent (6.85%) strongly disagreed to the statement. The study concludes bank and cash reconciliation has a positive effect on financial performance of SMEs.
The researcher also sought to find out cash and bank reconciliation has a positive effect on financial performance of SMEs. 12.3% of the respondents strongly disagreed with the statement; 13.7% of the respondents disagree. Forty two point five percent (42.5%) of the respondents agree that cash and bank reconciliation has a positive impact on SMEs financial performance while twenty 28.8% of the respondents strongly agree. The study concludes cash and bank reconciliation has a positive effect on financial performance of SMEs.

4.3.2 Cash Position
The study entailed establishing the cash position practices of SMEs in the study. The study’s findings are presented in Table 4.3.

Table 4.3 Cash Position

<table>
<thead>
<tr>
<th></th>
<th>SD</th>
<th>D</th>
<th>N</th>
<th>A</th>
<th>SA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maintaining cash flow statements leads to better financial performance</td>
<td>6.849</td>
<td>8.219</td>
<td>6.849</td>
<td>67.12</td>
<td>10.96</td>
</tr>
<tr>
<td>Establishment of internal cash monitoring mechanisms has a positive impact on SMEs’ financial performance</td>
<td>11.0</td>
<td>17.8</td>
<td>2.7</td>
<td>39.7</td>
<td>28.8</td>
</tr>
</tbody>
</table>

The researcher sought to establish if establishment of an internal control system has positive effect on financial performance, six point eight four nine percent (6.849%) of the respondents strongly disagree with the statement, eight point two one nine percent (8.219%) of the respondents disagree that establishment of an internal control system has positive effect on financial performance. sixty seven point one two percent (67.12%) of the respondents agree with the due statement and ten point nine six percent (10.96%) of the respondents strongly agree. The
study concludes establishment of an internal control system has positive impact on SMEs financial performance. The findings are summarized in figure 4.4 above.

The researcher sought to depict if maintaining cash flow statement leads to better financial performance, eleven percent (11%) of the respondents strongly disagree, and 17.8% of the engaged respondents disagree maintaining cash flow statement leads to better financial performance. Thirty nine point seven percent (39.7%) of the respondents agree maintaining cash flow statement leads to better financial performance while 28.8% of the respondents strongly agree to the statement. The study concludes maintaining cash flow statements leads to better financial performance in SMEs.

Lastly table 4.8 postulates if establishing of internal cash monitoring mechanisms has a positive effect on SMEs financial performance, eleven percent (11%) of the respondents strongly disagreed with the statement, sixteen point four percent (16.4%) disagree establishing of internal cash monitoring mechanisms has a positive effect on financial performance. Forty five point two in percentage (45.2%) of the respondents agree while twenty three point three percent (23.3%) of the respondents strongly agree with the statement. The study concludes that establishing of internal cash monitoring mechanisms has a positive effect on financial performance of SMEs.
The researcher also sought to find out whether strict cash reporting policy has positive effect on financial performance of SMEs. Results in Figure 4.1 show that sixty four point three eight percent (64.38%) of the respondents depicted yes while thirty five point sixty two percent (35.62%) of the respondents depicted no. The study concludes that a strict cash reporting policy has a positive effect on financial performance of SMEs.

4.3.3 Credit Management
The study sought to find out credit management practices of SMEs in the study. The findings are presented in Table 4.4.

<table>
<thead>
<tr>
<th>Table 4.4 Credit Management Practices</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>Shorter debt collection periods have a positive effect on SMEs financial performance</td>
</tr>
<tr>
<td>Prequalifying debtors before granting credit has a positive effect on financial performance SMEs</td>
</tr>
<tr>
<td>Liquidity analysis of SME before accepting credit sales has</td>
</tr>
</tbody>
</table>
a positive effect on financial performance of SMEs

Table 4.4 above illustrates whether shorter debt collection periods have a positive effect on financial performance of SMEs, 9.6% of the respondents engaged strongly disagreed to the statement, 12.3% of the respondents disagreed that shorter debt collection periods have a positive effect on financial performance. 49.3% of the respondents agree to the statement while twenty six percent (26%) of the respondents strongly agree. The study concludes shorter debt collection periods have a positive effect on financial performance of SMEs.

In Table 4.4 above prequalifying debtors before granting credit has positive effect on financial performance SMEs was summarized, sixteen point four percent (16.4%) of the respondents strongly disagree, eight point two percent (8.2%) of the respondents disagree that prequalifying debtors before granting credit has positive effect on financial performance. 52.1% of the respondents engaged agreed and twenty one point nine percent (21.9%) of the respondents involved strongly agreed. The researcher concludes prequalifying debtors before granting credit has positive effect on financial performance of SMEs.

The research involved finding out if liquidity analysis of SMEs before accepting credit sales has a positive impact on financial performance of SMEs. Results in Table 4.4 15.1% of the involved respondents strongly disagree, 9.6% of the respondents disagree with the statement, 47.9% of the engaged respondents agree that liquidity analysis of SMEs before accepting credit sales has a positive impact on their financial performance and 24.7% of the respondents engaged strongly agree with the statement. The study concludes liquidity analysis of SMEs before accepting credit sales has a positive effect on financial performance.
The researcher sought to find out if optimizing mix of SMEs asset has a positive effect on their performance financially, sixty four point three eight percent (64.38%) of the respondents depicted yes while thirty five point six two percent (35.62%) of the respondents depicted no. the study concludes optimizing mix of SMEs asset has a positive effect on their financial performance.

![Pie Chart](image)

**Figure 4.2 Optimizing mix of SMEs**

Figure above illustrates whether credit policies compliance affect SMEs’ financial performance. Sixty nine point eight six percent (69.86%) of the respondents said yes while thirty point one four percent (30.14%) of the respondents depicted no. The study concludes credit policies compliance affect SMEs’ financial performance.
4.3.4 Cash Planning

The study also assessed cash planning practices. The findings are presented in Table 4.5.

Table 4.5 Cash Planning

<table>
<thead>
<tr>
<th>Statement</th>
<th>SD</th>
<th>D</th>
<th>N</th>
<th>A</th>
<th>SA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recognition of time value and opportunity cost of cash has a positive</td>
<td>13.70</td>
<td>10.96</td>
<td>4.110</td>
<td>46.58</td>
<td>24.66</td>
</tr>
<tr>
<td>effect on financial performance of SMEs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Understanding the firm’s cash operating cycle leads to better financial</td>
<td>9.589</td>
<td>16.44</td>
<td>4.110</td>
<td>45.21</td>
<td>24.66</td>
</tr>
<tr>
<td>performance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Preparing cash budgets is necessary and has a positive effect on financial</td>
<td>9.59</td>
<td>16.44</td>
<td>2.74</td>
<td>41.10</td>
<td>30.14</td>
</tr>
<tr>
<td>performance of SMEs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The researcher sought to find out if recognition of time value and opportunity cost of cash has a positive effect on financial performance of SMEs, thirteen point seven percent (13.7%) of the respondents strongly disagree with the statement, ten point nine six percent (10.96%) of the
respondents disagree that recognition of time value and opportunity cost of cash has a positive effect on financial performance of SMEs. Forty six point five eight percent (46.58%) of the respondents agree while twenty four point six six percent (24.66%) of the respondents strongly agree recognition of time value and opportunity cost of cash has a positive effect on SMEs financial performance. The study concludes recognition of time value and opportunity cost of cash has a positive effect on SMEs financial performance. The findings are summarized in figure 4.7 above.

Table 4.5 illustrates that understanding the firm’s cash operating cycle leads to better financial performance of SMEs. Nine point five eight percent (9.58%) of the respondents strongly disagree, sixteen point four four percent (16.44%) of the respondents disagree understanding the firm’s cash operating cycle leads to better financial performance. Forty five point two one percent (45.21%) of the respondents agree while twenty four point six six percent (24.66%) of the respondents strongly agree with the statement. The study concludes understanding the firm’s cash operating cycle leads to better financial performance.

The researcher sought to establish whether preparing cash budgets is necessary and has a positive effect on financial performance of SMEs, nine point five nine percent (9.59%) of the respondents strongly disagree while sixteen point four four percent (16.44%) of the respondents disagree with the statement. Two point seven four percent (2.74%) of the respondents were neutral while 41.1% of the engaged respondents agree and thirty point one four percent (30.14%) of the respondents strongly agreed preparing cash budgets is necessary and has a positive impact on due financial performance. The researcher concluded preparing cash budgets is necessary and has a positive effect on financial SMEs financial performance. The findings hereby are as summarized in figure 4.9 above.
The study also sought to establish whether opportunity cost of cash has a positive effect on financial performance of SMEs. For the findings sixty four point three eight percent (64.38%) of the respondents depicted yes while thirty five point sixty two percent (35.62%) of the respondents depicted no. The study concluded opportunity cost of cash has a positive effect on financial performance of SMEs.

Figure 4.4 Opportunity Cost of Cash

4.4 Inferential Statistical Analysis

Regression analysis was conducted to assess the effect of managing cash on the financial performance of SMEs within Nakuru County, Kenya. The findings are presented in this section

Table 4.6 Summary of Regression Model

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.859a</td>
<td>.737a</td>
<td>0.685</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Net Profit Margin

b.
Table 4.6 shows the model summary. The findings deicted a positive correlation coefficient of $r = 0.859$, $(r^2) = 0.737$ (exhibiting that 73.7% concerning probability of Net Profit Margin is influenced by bank and cash reconciliation, credit management, cash planning and cash position. The due results are in tandem with Kabelti (2013), Deloof (2003) as well as Raheman and Nasr (2007) who had established the possibility of a positive relationship between cash management elements and the firms’ financial performance.

Table 4.7 Analysis of Variance

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>12.946</td>
<td>4</td>
<td>3.24</td>
<td>19.60</td>
<td>0.000</td>
</tr>
<tr>
<td>Residual</td>
<td>12.220</td>
<td>74</td>
<td>0.17</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>25.167</td>
<td>78</td>
<td>0.17</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Analyzing variance in the Table 4.7 shows that the F value 19.60 is significant (p=0.000). This then indicates that there is a relationship between Net Profit Margin and cash management tools (bank and cash reconciliation, credit management, cash planning and cash position).

Table 4.8 Regression Coefficients

<table>
<thead>
<tr>
<th>Variables</th>
<th>B</th>
<th>Beta</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>1.640</td>
<td>7.752</td>
<td>.000</td>
<td></td>
</tr>
<tr>
<td>Bank and cash reconciliation</td>
<td>0.160</td>
<td>0.902</td>
<td>0.72</td>
<td></td>
</tr>
<tr>
<td>Credit management</td>
<td>0.084</td>
<td>1.213</td>
<td>0.003</td>
<td></td>
</tr>
<tr>
<td>Cash planning</td>
<td>0.051</td>
<td>1.113</td>
<td>0.003</td>
<td></td>
</tr>
</tbody>
</table>
Results in Table 4.8 show the regression coefficients. The beta values can be substituted in the regression model as shown below

\[ \hat{Y} = 1.640 + 0.084 X_2 + 0.051 X_3 + \varepsilon \]

Where \( Y \) refers to financial performance which is the dependent variable, \( X_2 \) represents credit management, \( X_3 \) represents cash planning while \( \varepsilon \) refers to an error term since some unspecified variables might also affect the financial performance of SMEs.

Findings in Table 4.8 also show the significance of the variables in the study.

There was no significant relationship (\( p=0.72 \)) between bank and cash reconciliation and financial performance of small and medium business enterprises within Nakuru County, Kenya. A unit change in bank and cash reconciliation was found to result in a 0.160 change in financial performance of small and medium business enterprises within Nakuru County, Kenya. This finding is in disagreement with Soaga (2012) who pointed out that bank and/or cash reconciliation is very vital for any system of book-keeping to gain optimal liquidity hence financial performance. The finding is also in disagreement with Sharma & Kumar (2011) who emphasized that man is to error and there are normally errors of fraud in the cashbook and bank which must be pointed out and corrected accordingly.

There was a significant relationship (\( p=0.003 \)) between credit management and financial performance of small and medium business enterprises within Nakuru County, Kenya. A unit change in credit management was found to result in a 0.084 change in financial performance of

| Cash position | 0.051 | 0.127 | 0.696 | 0.42 |
small and medium business enterprises. This is consistent with Mathuva (2015) who also found a significant relationship between the two variables. The finding is also consistent with findings of Weda (2015) that proper working capital management in SMEs facilitates wealth creation. He found out that credit sales are a necessity for all firms today. He states that a firm cannot continue to exist if it does not trade on credit.

There was also a significant relationship (p=0.003) between cash planning and financial performance of small and medium business enterprises within Nakuru County, Kenya. A unit change in cash planning was found to yield 0.051 change in financial performance of small and medium business enterprises. These findings are similar to those of Sharma & Kumar (2011) who also found a relationship between cash planning and performance. The findings are also similar to findings of Hamza et al. (2015) that SMEs in Northern Ghana are poor at cash management resulting in poor financial performances.

Findings in Table 4.8 show that Cash position had no significant relationship (p=0.42) with financial performance of small and medium business enterprises within Nakuru County, Kenya. A unit change in cash position was found to result in a 0.051 change in financial performance of SMEs. This is in contrast to findings of Sharma & Kumar (2011) and Soaga (2012) who emphasized that cash position is the core of cash management.
CHAPTER FIVE: SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction
This chapter entails summary of the research findings, conclusion and recommendations of the study.

5.2 Summary of Findings
The current study focused on assessing the effect of cash management on the financial performance of SMEs. Cash management was assessed on the basis of bank and cash reconciliation, credit management, cash planning and cash position. The study found that majority of SMEs practices timely reconciliation, frequent bank and cash reconciliations and Establishment of an internal control system. Majority of SMEs maintained cash flow statements and established internal cash monitoring mechanisms. However, majority of SMEs did not conduct prequalifying debtors before granting credit and Liquidity analysis of SME before accepting credit sales. Preparing cash budgets and Understanding the firm’s cash operating cycle were highly prevalent among participating SMEs. The results depicted strong positively correlated scenario ($r=0.859$) between cash management and financial performance whereby 73.7% of performance of SMEs could be attributed to cash management. There was a significant relationship ($F =19.60 \ (4,74), \ P=0.000$) between cash management and financial performance. Credit management ($p=0.003$) and cash planning ($p=0.003$) were significant.

5.3 Conclusion
The paper concluded that most SMEs in Nakuru County, Kenya fail to undertake formal cash management practices. Even so, SMEs in Nakuru County, Kenya conducted some of the cash management practices via informal means whereby they did not depict any written policy statements regarding cash management practices.
The study also concluded that there is a significant positive relationship between financial performance and Cash management of SMEs in Nakuru County, Kenya. These results suggest that managers can create value for their shareholders by effective bank reconciliation statement, credit management, cash position and cash planning.

Additionally, the paper concluded that the management needs to develop a comprehension of appreciating the daily activities of carrying out cash management in relation to the SMEs financial performance. At the same time, managers involved in the day-to-day cash management operations need to become conversant with the language of management relating to cash management operations so as to put in place a process that ensures high impact on firms’ performance.

5.4 Recommendations
To ascertain the link existent between effective cash management with improved financial performance, company management has to commit to the development a comprehension in the company on the manner in which cash management impacts on financial performance. There is dire call for both management as well as staff charged for managing cash to have thorough training in managing metrics on financial performance so that the decisions arrived at the level of operation are related to duly expected outcomes. The general educational programs should be conducted among SMEs managers to increase their awareness level on the purpose of cash management in their businesses and how related effect of other personnel daily activities affect the entity’s overall performance.

The establishment of internet has sparked many innovations in managing cash. For instance, through the use of internet the SMEs could automatically curtail surplus funds into profitable
ventures. This area should be considered by SMEs investing in ventures. A treasury function which is web-enabled attracts many advantages. It enables enhanced regulation on cash positions as well as creating portfolio management portals and short-term instruments trading such as call accounts which function overnight, treasury bills and the rest found in money markets. To assist increase financial reporting standards in SMEs, it is required that entrepreneurs/managers make ample use of the packages of computerized accounting. Computer spreadsheets are of utmost importance to modern firms and enable management to prepare many financial reports. For instance, budgets on cash are important in managing cash. Company management usually utilize cash budgets to determine surplus as well as deficit amounts of cash. Computer spreadsheets assist in preparation of many cash budgets on the basis of expected future situations.

The SME managers should invest their cash surpluses in ventures that yield high returns such as treasury bills or in overnight call accounts which yield high returns. This will help avoid keeping large cash balances in non-interest yielding current accounts. They should also make use of computerized accounting packages to help improve their efficiency in cash management. The National Board for Small Scale Industries (NBSSI) should design and print more simplified record keeping documents, like the current cash book, for use by the SMEs. The use of field staff by financial institutions to collect deposits from the SMEs at their place of business is laudable and should be maintained. The financial institutions should monitor the savings habits of their clients especially during their peak and lean periods and improve their advisory services to enable the entrepreneurs invest in short-term instruments.

5.5 Suggestions for Further Research
This study was limited to the data which was collected from the population as sampled. Even so, there exists numerous SMEs that are registered all over the country. As such, there is
requirement for researchers to avoid disregarding larger as well as different sets of samples in order to consider the divergent environments where some operate. The stance will enable comparison and contrast between results from distinct studies. Owing to the limited period in terms of time, it was not possible to collect the comprehensive data required for the measurement of the relationship between Cash Management and financial performance of SME’s in Kenya. To this end, the paper calls on other researchers to widen it through covering secondary data on a wider time period, for example ten years. In comparison to the 2 years utilized for this study, divergent results can be derived through engaging a larger time period.
REFERENCES


Hamza, K., Mutala, Z., & Antwi, S. K. Cash management practices and financial performance of small and medium enterprises (SMEs) in the northern region of Ghana.


APPENDICES

Appendix A: Questionnaire

I am Onyando Paul Oteyo, a student at Kenyatta University undertaking a Master of Business Administration, specializing in Finance. I am undertaking a research on Assessment of Cash Management on Financial Performance of Small and Medium Business Enterprises in Nakuru County, Kenya. Your response will be accorded confidentiality. It will be used for academic purposes only. Please answer all the questions honestly and exhaustively.

Please tick where appropriate

1. General information

Type of business: Small enterprise □

Medium enterprise □

Position held ..............................................................

Gender    Male □

Female □

Highest level of education University degree □

College diploma □

High school □

Others (Specify) ......................................................
2. **Assessment of bank and cash reconciliation on financial performance of SMEs.**

For question a-c, on a scale of 1-5 indicate the extent of your agreement with cash and bank reconciliation parameters effect on financial performance.

1-Strongly disagree 2-Disagree 3-Neutral 4-Agree 5-Strongly agree

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Timely reconciliation has positive effect on financial performance of SMEs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b) Frequent bank and cash reconciliations have a positive effect on financial performance of SMEs.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>c) Establishment of an internal control system has positive effect on financial performance of SMEs.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

d) Does accuracy of cash and bank reconciliation has a positive effect on financial of SMEs?

3. **Assessment of credit management on financial performance of SMEs.**

For question a-c, on a scale of 1-5, indicate the extent to which you agree with the credit management parameters effect on financial performance.

1-Strongly disagree 2-Disagree 3-Neutral 4-Agree 5-Strongly agree

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Shorter debt collection periods have a positive effect on financial performance of SMEs.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
b) Prequalifying debtors before granting credit has a positive effect on financial performance SMEs.

c) Liquidity analysis of SME before accepting credit sales has a positive effect on financial performance of SMEs.

d) Does optimizing mix of SMEs asset has a positive effect on their financial performance?

e) Does credit policies compliance affect SMEs’ financial performance?

4. Assessment of cash planning on financial performance of SMEs.

For question a-c, on a scale of 1-5, indicate the extent to which you agree with the credit management parameters effect on financial performance of SMEs.

1-Strongly disagree  2- Disagree     3-Neutral  4-Agree       5-Strongly agree

<table>
<thead>
<tr>
<th>Question</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Recognition of time value and opportunity cost of cash has a positive effect on financial performance of SMEs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b) Understanding the firm’s cash operating cycle leads to better financial performance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>c) Preparing cash budgets is necessary and has a positive effect on financial performance of SMEs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

5. Assessment of cash position on financial performance of SMEs.
For question a and b, on a scale of 1-5, indicate the extent to which you agree with the cash position parameters effect on financial performance.

1-Strongly disagree  2- Disagree  3-Neutral  4-Agree  5-Strongly agree

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Maintaining cash flow statements leads to better financial performance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b) Establishment of internal cash monitoring mechanisms has a positive effect on financial performance of SMEs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

c) Does strict cash reporting policy have positive effect on financial performance of SMEs?

6. Measure of financial performance

<table>
<thead>
<tr>
<th></th>
<th>Amount in Kenyan Shillings</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Financial year 2014</td>
</tr>
<tr>
<td>Net profit</td>
<td></td>
</tr>
<tr>
<td>Sales</td>
<td></td>
</tr>
<tr>
<td>Net profit margin</td>
<td></td>
</tr>
</tbody>
</table>
Appendix B: Research Permit