

**WORKING CAPITAL MANAGEMENT PRACTICES AND FINANCIAL
PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN GARISSA
COUNTY, KENYA**

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DECLARATION

This research project is entirely unique with no submissions to other universities for credit towards a degree.

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Declaration by Supervisor

I certify that the applicant worked under my direction on the proposal described in this research proposal.

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DEDICATION

I dedicate this research project to my mother. Juweria Idle Abdi and my uncle Mohamed Adone Mursal for financial aid, appreciation, moral support and prayers for their contributions.

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ABBREVIATIONS AND ACRONYMS

AP	Accounts Payable
AR:	Accounts receivable
ILO	International Labor Organization
MSEA	Micro-Small Enterprises Authority
NPM	Net Profit Margin
SME	Small and Medium Enterprise.
SMS	Short Message Services
ROA	Return on Asset
SPSS	Statistical Package for Social Science

OPERATIONAL DEFINITION OF TERMS

Account Payable Management Practices	Policies, processes, and activities used by small and medium-sized companies in handling their credit purchases. Measured by documentation and reconciliations, settlement policy, settlement schedule, transaction expenses, and managing the term of accounts payable.
Cash Management Practices	Controls implemented to manage and pool cash effectively through budgeting, physical control, frequent reconciliation, and investment of surplus. Measured by cash budgeting and planning, physical control of cash flows, cash reconciliation, investment of cash surplus, and cash conversion cycle control.
Financial Performance	An indicator of how effectively a company utilizes its assets to generate revenue. Measured by return on assets.
Inventory Management Practices	Management of stock-related operations such as ordering, shipping, storage, and restocking. Evaluated through loss prevention measures, regular stock taking and control, inventory coding and sorting, and inventory conversion period control.
Inventory Turnover	Time taken for a business to use and replace its stock. Measured by the inventory turnover ratio.
Receivable Management Practices	Management of aged accounts receivables, including credit and collections. Evaluated through accounts receivable period control, debtor screening, debt recovery frameworks, trade credit rules, and delinquent management tactics.

Working Capital Policies implemented regarding the use of finances available
Management Practices within a year. Measured by inventory, cash, accounts payable,
and accounts receivable management.

ABSTRACT

Small and medium-sized enterprises (SMEs) are widely recognized as key drivers of economic growth, employment creation, and poverty reduction. Despite this significance, many SMEs in Kenya face persistent financial challenges that undermine their sustainability. In Garissa County, weak financial performance has been linked to inefficiencies in working capital management, a critical area encompassing cash management, inventory management, accounts receivable management, and accounts payable management. Guided by the Financial Advantage Theory, Cash Conversion Cycle Theory, Transaction Cost Theory, and Stakeholder Theory, this study sought to examine the effect of these working capital components on the financial performance of SMEs. The study adopted a descriptive research design, targeting a population of 1,009 SMEs registered in Garissa County. Using stratified random sampling, a representative sample of 278 SMEs was selected, and data were collected through structured questionnaires. The instrument's reliability was confirmed through Cronbach's Alpha values above 0.7, while validity was assured through expert review. Ethical considerations were strictly observed, including securing authorization from NACOSTI and Kenyatta University, ensuring informed consent of participants, confidentiality of responses, and appropriate acknowledgement of all secondary data sources. Both descriptive and inferential analyses were undertaken. Descriptive statistics (means, frequencies, and standard deviations) provided an overview of working capital practices, while inferential analysis employed multiple regression to test hypotheses. Diagnostic tests—including the Shapiro-Wilk test for normality, Variance Inflation Factor (VIF) for multicollinearity, and the Durbin-Watson statistic for autocorrelation—confirmed that the data met the assumptions of classical regression. The results showed that the four working capital components collectively explained 61.6% of the variation in SME financial performance ($R^2 = 0.616$; $F = 87.472$, $p < 0.05$). Inventory management emerged as the strongest predictor ($\beta = 1.279$, $p < 0.05$), followed by cash management ($\beta = 0.226$, $p < 0.05$). Conversely, accounts receivable management showed a significant negative effect in the multiple regression model ($\beta = -0.649$, $p < 0.05$), suggesting that poor debt collection practices and weak credit enforcement erode liquidity. Accounts payable management had a positive but statistically insignificant influence ($\beta = 0.043$, $p > 0.05$). The study concludes that working capital management—particularly inventory and cash management—is decisive for SME profitability, while inefficiencies in receivables and payables remain key vulnerabilities. It recommends that SME managers adopt structured budgeting, robust stock control systems, and effective debt recovery frameworks, while policymakers should strengthen SME financial literacy and provide enabling financing mechanisms. The study contributes both theoretically and practically by affirming the relevance of working capital theories in an emerging economy context and by providing actionable strategies for improving SME financial sustainability in Garissa County and similar settings.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Small and medium-sized enterprises (SMEs) play a crucial role in driving economic development, serving as vital contributors to the economies of many nations. Over the past decade, urban planners and policymakers have increasingly recognized the importance of small businesses in fostering economic progress and creating employment opportunities. SMEs account for 99% of all businesses and generate approximately 75 million jobs in the expanded European Union of 25 countries, highlighting their significance in economic structures. For instance, SMEs are regarded as the backbone of the British economy, as noted by the European Commission (2015) and supported by Padachi (2016). Recognizing their value, governments and development organizations worldwide have prioritized supporting SMEs to encourage private sector growth and sustainability. However, as Kargar (2018) emphasized, sustaining daily operations and cash flow is a persistent challenge for SMEs. Adequate liquid capital is essential for these enterprises to meet financial obligations, such as paying creditors, wages, and suppliers, and ensuring smooth operational continuity.

Developed nations such as the US, Canada, Britain, and Australia have long recognized the critical importance of ensuring the stability and growth of SMEs to support effective financial management and economic development (Deloof, 2014). Gul, Khan, Rehman, and Khan (2020) emphasize that maintaining sufficient working capital and liquidity is essential for the long-term viability of SMEs. In the UK, SMEs make up 99% of all businesses and employ between 14 and 23 million people, contributing significantly to the economy (BERR, 2015). These enterprises account for 1.48 billion British pounds in GDP and sales, highlighting their pivotal role. Despite limited resources and support, SMEs in the UK are notably more profitable

than large corporations, underscoring their efficiency and resilience.

The efficiency of SMEs is a driving force behind economic growth, as seen in the UK, where increased output from SMEs has a significant positive impact on the broader economy. Similarly, in Singapore, SMEs serve as the backbone of the economy, contributing 47% to GDP and accounting for 62% of all employment opportunities (Lazaridis & Tryfonidis, 2016). However, even profitable SMEs face risks of failure if they lack adequate cash flow to meet their debt obligations. This underscores the importance of considering additional current assets alongside financial outlays when making investment decisions, such as acquiring machinery or infrastructure (Deloof, 2018). In Africa, SMEs are instrumental in driving sustainable development, particularly in the informal sector (Harper, 2015). They dominate the continent's industry, representing over 90% of businesses and contributing 50% of employment and GDP (Lamberson, 2014).

Even though small and medium-sized enterprises are vital to the economies of many nations, many of them are still outside the conventional banking sector. 60% of Ghana's workforce and 90% of the country's business units were small and medium-sized enterprises (SMEs) (Kesseven, 2016). They've also been characterized as prolific and productive job producers, big business seed, and domestic economic engine. In Ghana and most other West African nations, working capital has been essential in every industry (Kargar, 2018). According to the Kenya Country Survey (2014), 10.54 million, or 69.3%, of Kenya's 15.2 million young men and women work for themselves. Therefore, entrepreneurship is the main driver of employment, economic growth and innovation, the promotion of the quality of goods and services, competitiveness, and economic stability. However, there are a number of societal examples of business failures, unfavorable attitudes toward the industry, and misconceptions about what makes a successful company work against such a decision. The general consensus

is that "money" is all that is necessary for success (Kaburi et al., 2013), but this ignores the fact that SMEs can succeed in other important ways as well.

Kenya's small and medium-sized businesses have performed well, creating jobs at low investment levels per worker, conducting more local economic activity, mostly using local resources, encouraging the production and use of local technology, and offering society low-cost skill training (ILO, 2014). However, despite the severe economic instability brought on by high borrowing interest rates and rates of inflation, the owners of these SMEs had made an effort to implement methods that would allow them to continue operating. Finding the most effective working capital management strategies was crucial for the financial performance of SMEs (Karim et al., 2017). According to Chittenden et al. (2012), businesses who have limited access to bank loans, equity, and long-term capital markets for business loans are less likely to be able to finance their investments in cash, accounts receivable, and inventory. In contrast to other industries, the SMEs sector had an extremely high failure rate.

Globally, small and medium-sized enterprises (SMEs) account for over 90% of businesses and provide more than 50% of employment opportunities, making them a critical driver of economic growth, innovation, and poverty reduction (World Bank, 2022). In both developed and emerging economies, effective working capital management has been linked to improved liquidity, operational efficiency, and profitability (OECD, 2021). Contemporary research underscores that SMEs in advanced economies such as the United States, the United Kingdom, and Singapore have strengthened their competitiveness through structured cash management frameworks, disciplined accounts receivable controls, optimized inventory systems, and strategic accounts payable practices (Gul et al., 2020). Nevertheless, global studies reveal that inefficiencies in working capital cycles remain a leading cause of SME financial distress, often resulting from poor credit collection, overstocking or understocking, and cash flow imbalances

(Mohammed, 2019). The global evidence therefore reinforces that robust working capital management is not merely a financial control mechanism but a strategic imperative for sustaining SME profitability and long-term growth.

Within Africa, SMEs contribute approximately 80% of employment and up to 40% of GDP, serving as a backbone for economic resilience across diverse sectors (AfDB, 2021). However, studies highlight that African SMEs face structural challenges, including limited access to affordable finance, inconsistent cash flow cycles, and weak receivables management systems (Kesseven, 2016; Abor, 2017). In West and Southern Africa, research demonstrates that while inventory management and cash conversion cycle optimization significantly improve profitability, accounts receivable inefficiencies and poor accounts payable scheduling frequently erode financial performance (Rodrigo et al., 2020; Iyewumi, 2019). Moreover, the COVID-19 pandemic amplified liquidity risks, with many SMEs struggling to maintain optimal working capital amidst disrupted supply chains and delayed payments from customers (OECD, 2021). Across the continent, recent empirical work affirms that targeted improvements in working capital practices—especially in cash flow forecasting, debtor management, and inventory loss prevention—are essential for stabilizing SME operations and ensuring sustainable profitability.

In Kenya, SMEs represent 98% of all registered businesses, employ over 14 million people, and contribute about 40% of the GDP (Micro and Small Enterprises Authority [MSEA], 2021). Despite their economic importance, many SMEs operate with minimal financial management structures, leading to high failure rates within the first five years of establishment (Kaburi et al., 2013; Noor, 2021). Studies in the Kenyan context reveal that ineffective cash management, prolonged accounts receivable periods, inadequate inventory controls, and poorly scheduled accounts payable practices are recurrent causes of reduced profitability (Owuor et al., 2021;

Mutai & Kimani, 2019). In Garissa County specifically, official trade reports indicate that more than 1009 registered SMEs across sectors such as wholesale, hospitality, transport, and manufacturing have faced declining net profit margins—falling by over 50% between 2014 and 2020—largely due to inefficiencies in working capital management (Garissa County Trade Report, 2021). This persistent decline underscores the urgent need for localized, evidence-based interventions to strengthen working capital practices as a pathway to restoring SME financial stability and promoting sustainable growth in the county.

1.1.1 Working Capital Management Practices

Working capital management (WCM) constitutes the independent variable in this study and refers to the deliberate strategies and practices employed by businesses to manage their short-term assets and liabilities in a manner that ensures operational efficiency, adequate liquidity, and sustained profitability (Ajanthan, 2019; Jengren, Li & Hanwen, 2020). In the context of SMEs, WCM is a particularly critical operational function given the sector's limited access to long-term financing and heavy reliance on internally generated funds to meet daily cash flow needs. Effective working capital management enables a firm to maximize its return on assets while simultaneously reducing the cost of meeting short-term obligations, thereby improving both solvency and market competitiveness (Guthmann & Dougall, 2015; Emery & Finnerty, 2014). The concept encompasses both gross working capital, which is the total investment in current assets, and net working capital, which is the difference between current assets and current liabilities (Panday, 2014; Zimmermeyer, 2018). Poor management of either dimension can lead to liquidity crises, disrupted operations, and deterioration in financial performance.

In general terms, WCM is measured through its core components—cash management, accounts receivable management, inventory management, and accounts payable management—which collectively determine a firm's liquidity position and operational agility (Teruel & Solano,

2015; Disney, Maltz, Wang & Warburton, 2016). Cash management involves forecasting, monitoring, and controlling cash inflows and outflows to ensure sufficient liquidity for operational requirements without retaining idle balances that could otherwise be invested productively (Abor, 2017). Accounts receivable management focuses on establishing sound credit policies, screening potential debtors, and enforcing timely collections to minimize the incidence of bad debts while maintaining customer relationships (Yator, 2018; Abor, 2017). Inventory management ensures that stock levels are sufficient to meet demand while avoiding the costs associated with overstocking or stockouts, both of which can negatively affect profitability (Dobie, 2015; Muller, 2019). Accounts payable management involves optimizing the timing and method of payments to suppliers in order to balance liquidity needs with the benefits of trade credit, while avoiding penalties and preserving strong supplier relationships (Muller, 2019; Dobie, 2015). Together, these measures form the operational backbone of WCM and directly influence a firm's capacity to generate sustainable returns.

In Garissa County, the performance of SMEs demonstrates the critical importance of effective WCM practices. According to the Garissa County Integrated Development Plan (CIDP) 2023–2027, the county's economy is dominated by the services sector, which contributes approximately 61% of Gross County Product (GCP), followed by agriculture at 29% and industry at 10% (Garissa County Government, 2023). While own-source revenue from business-related activities increased from KSh 80.6 million in 2019/20 to KSh 96.7 million in 2021/22, the trend has been marked by volatility, reflecting the vulnerability of SMEs to external shocks such as prolonged droughts, market disruptions, and security challenges (Garissa County Government, 2023; KNBS, 2023). Inconsistent cash flows, exacerbated by delayed receivables collection and irregular sales cycles, have left many SMEs struggling to meet supplier obligations on time. The Department of Trade's budget absorption rate of only

48.6% further indicates that resource allocation toward SME-supportive infrastructure and financial capacity-building has been insufficient, limiting the operational resilience of local businesses.

The behavioral trends of SMEs in Garissa reveal patterns of overstocking during seasonal peaks and understocking in off-peak periods, indicating weaknesses in inventory planning and control. In retail and wholesale sub-sectors, the extension of informal credit terms often results in accounts receivable periods that exceed 60 days, locking up significant amounts of working capital that could be used for other operational priorities. These practices have direct implications for liquidity and, consequently, profitability, as businesses face higher financing costs and miss out on growth opportunities. This operational environment underscores the necessity of adopting disciplined working capital management strategies that optimize cash flow, improve receivables turnover, rationalize inventory levels, and strategically schedule payables. Strengthening these practices is fundamental to enhancing the financial performance of SMEs in Garissa County and enabling them to withstand the structural and market-based challenges that characterize the region's business landscape.

1.1.2 Financial Performance

Financial performance refers to the extent to which an organization utilizes its resources to generate income and achieve its financial objectives, often serving as a primary benchmark of business success (Carton, 2014; Glen, 2013). In the context of small and medium enterprises (SMEs), financial performance is typically assessed using audited financial statements prepared at the end of the fiscal year, with common indicators including return on assets (ROA), return on equity (ROE), operating margin, net profit margin, and revenue growth (Appuhami, 2017; Lunardi, 2014). Among these, ROA is widely regarded as a robust metric because it evaluates how efficiently a firm converts its total assets into profits (Ang, 2016;

Riyanto, 2015). A higher ROA signals better asset utilization and greater capacity to generate returns, making it attractive to investors and stakeholders (Muritala, 2018; Mugure & Wanjohi, 2012). This study therefore adopts ROA as the primary dependent variable for measuring the financial performance of SMEs in Garissa County due to its relevance in capturing operational efficiency in resource utilization (Koontz & Donnell, 2018; Carton, 2014).

Beyond profitability, financial performance can encompass other dimensions such as liquidity, leverage, and cash flow, each of which contributes to a firm's financial stability and long-term viability (Carton, 2014; Appuhami, 2017). Liquidity measures, such as the current ratio, indicate a firm's ability to meet short-term obligations, while cash flow metrics, such as operating cash flow-to-equity ratios, demonstrate the sustainability of day-to-day operations (Carton, 2014; Koontz & Donnell, 2018). In SMEs, these measures are interdependent: effective liquidity management supports timely debt servicing, which in turn sustains profitability and operational growth (Ang, 2016; Riyanto, 2015). However, in the Kenyan SME context, structural challenges such as limited access to affordable credit, inefficient working capital management, and high operating costs frequently constrain financial performance (Mugure & Wanjohi, 2012; Muritala, 2018). Poor financial outcomes not only weaken competitiveness but also reduce the survival rates of SMEs, particularly in volatile markets (Appuhami, 2017; Carton, 2014).

In Garissa County, SMEs operate in an economic environment dominated by the services sector, which accounts for approximately 60–61% of the county's Gross County Product (GCP), followed by agriculture at 29% and industry at 10% (Kenya National Bureau of Statistics [KNBS], 2023; Garissa County Government, 2023). This sectoral composition makes SMEs particularly vulnerable to external shocks, including drought, market disruptions, and security challenges (Garissa County Government, 2023; World Bank, 2022). According to the

Garissa County Integrated Development Plan (CIDP) 2023–2027, own-source revenue (OSR) from business-related activities increased from KSh 80.6 million to KSh 96.7 million over the latest reporting period, but the trend has been inconsistent, reflecting volatility in local business performance (Garissa County Government, 2023). Moreover, the Department of Trade, Enterprise, and Tourism recorded a budget absorption rate of only 48.6%, suggesting underinvestment in SME-supportive infrastructure and business services (Garissa County Government, 2023; KNBS, 2023).

These dynamics highlight that SME financial performance in Garissa County is shaped not only by market opportunities but also by operational resilience and efficiency in managing working capital (Muritala, 2018; Appuhami, 2017). Effective working capital management—spanning cash, accounts receivable, inventory, and accounts payable—plays a critical role in sustaining profitability, enhancing liquidity, and safeguarding against market volatility (Carton, 2014; Koontz & Donnell, 2018). SMEs capable of aligning their asset utilization with prudent liquidity and cash flow strategies are better positioned to achieve stable financial performance despite environmental and structural challenges (Ang, 2016; Riyanto, 2015). In this context, the use of ROA as a proxy for financial performance will provide a reliable and empirically grounded basis for assessing the influence of working capital management on SME financial health in Garissa County (Appuhami, 2017; Lunardi, 2014).

Small and medium-sized enterprises (SMEs) in Garissa County are defined in line with the Kenya Micro and Small Enterprises Authority framework, where a small firm employs fewer than 50 people or has an annual turnover of less than KSh 50 million, and a medium-sized firm employs up to 500 people (MSEA, 2021). They operate across sectors such as professional services, farming, wholesale and retail trade, hospitality, and public transportation, with activities spread between urban centers and rural areas (Garissa County Government, 2023).

Despite their economic significance as drivers of local employment, income generation, and business diversity, SMEs in Garissa face persistent operational challenges. These include low managerial skills, limited access to affordable credit, inadequate financial literacy, poor cash flow management, and insufficient market information (Mugure & Wanjohi, 2020; Noor, 2021). Compounding these constraints are technological gaps and a lack of innovative production methods that could enable competitiveness in broader markets.

Performance trends in the county highlight the severity of these challenges. According to the *Garissa County Trade Annual Report (2021)*, there are 1,009 registered SMEs, with 98% managed as family-owned or inherited businesses, often operated by two to three close associates. Between 2007 and 2013, SMEs reported an average monthly turnover of approximately KSh 200,000. However, from 2014 to 2020, this figure declined to less than KSh 100,000, reflecting a drop of more than 50% in under five years (Garissa County Government, 2020). This downturn is mirrored in profitability, where shrinking margins have constrained reinvestment and growth prospects. Factors such as regional insecurity, which limits business operating hours, and the absence of robust working capital management systems have further undermined financial stability, leaving many SMEs vulnerable to closure (Otieno, 2016; Noor, 2021).

1.2 Statement of Problem

Small and medium-sized enterprises (SMEs) are globally recognized as the backbone of economic growth, contributing significantly to employment creation, innovation, and income generation (OECD, 2022; World Bank, 2023). In Kenya, SMEs account for approximately 98% of all businesses, employ about 14.9 million people, and contribute close to 40% of the Gross Domestic Product (Kenya National Bureau of Statistics [KNBS], 2023). Within Garissa County, SMEs are a critical driver of household livelihoods and county-level economic

activity, particularly in trade, small-scale manufacturing, and services (Garissa County Government, 2023). Their operational success is therefore directly linked to the socio-economic wellbeing of the county's population.

Despite their importance, SMEs in Garissa County have experienced a sustained decline in financial performance over the past decade. According to the *Garissa County Trade Report (2021)*, average monthly net profit per firm fell from approximately KSh 50,000 between 2007 and 2013 to less than KSh 24,500 between 2014 and 2021, representing a drop of over 50%. This decline has coincided with a fall in average firm survival rates to 17%, suggesting heightened vulnerability and business closures. Similar patterns are noted in the *KNBS Economic Survey (2023)*, which attributes part of this deterioration to weak financial management practices—particularly in liquidity and short-term asset-liability balancing. Poor working capital management, including excessive credit sales, low stock turnover, delayed supplier payments, and inadequate cash flow controls, has been identified as a major contributor to reduced profitability (Garissa County Government, 2023; Owuor, Agusioma & Wafula, 2021).

Existing literature confirms that effective working capital management (WCM)—encompassing cash, receivables, inventory, and payables management—has a significant influence on business profitability and liquidity (Ajanthan, 2019; Aggarwal & Zhao, 2020). However, empirical results remain mixed and are often context-specific. For instance, Wanyoike, Onyuma, and Kung'u (2021) found that inventory and payables management had no significant effect on operational performance in Kenyan supermarkets, while Owuor, Agusioma, and Wafula (2021) reported a strong positive relationship between WCM and financial performance in public universities. These sectoral differences highlight the need for localized evidence, as findings from other contexts may not directly apply to SMEs in Garissa,

which face unique challenges such as market informality, low financial literacy, and volatile cash flows.

This study therefore addresses a critical knowledge and practice gap by examining how working capital management practices influence the financial performance of SMEs in Garissa County. By focusing on measurable WCM components—cash management, accounts receivable management, inventory management, and accounts payable management—the research seeks to generate actionable insights for SME owners, policymakers, and financial institutions. Without such evidence, SMEs in Garissa risk continued financial decline, reduced competitiveness, and eventual exit from the market, with negative socio-economic consequences for the county and beyond.

1.3 Objective of the Study

The study was guided by general and specific objectives.

1.3.1 General Objective

The study's main goal is to determine how working capital management strategies affect the financial performance of small and medium-sized enterprises (SMEs) in Kenya's Garissa County.

1.3.2 Specific Objectives

The study seeks to:

- i. To Examine the effect of cash management practices on the financial performance of SMEs in Garissa County, Kenya.
- ii. To Assess the influence of accounts receivable management on the financial performance of SMEs in Garissa County, Kenya.
- iii. To Evaluate the effect of inventory management on the financial performance of SMEs in Garissa County, Kenya.
- iv. To Determine the influence of accounts payable management on the financial performance of SMEs in Garissa County, Kenya.

1.4 Research Hypotheses

Cash management practices have no significant effect on the financial performance of SMEs in Garissa County, Kenya

Accounts receivable management has no significant effect on the financial performance of SMEs in Garissa County, Kenya.

Inventory management has no significant effect on the financial performance of SMEs in Garissa County, Kenya.

Accounts payable management has no significant effect on the financial performance of SMEs in Garissa County, Kenya.

1.5 Significance of the Study

The study's findings will offer data that will help shape future regulations for Kenya's SME sector. The study's findings and outcomes should be taken into account by the owners and administrators of SMEs in order to inform their operations and management of SMEs. They will be able to create regulations as a result, which will help with efficient working capital management and lead to lower spills, waste, and theft as well as higher earnings.

For the purpose of informing all parties involved about the pertinent aspects of working capital management procedures that require improvement, the report will be published and made available. In conclusion, the study's outcomes and conclusions will be ideal for the government when formulating policies to guarantee that SMEs can avert losses with the assistance of adaptable rules in the market. If the government supported these initiatives, it would guarantee that small and medium-sized businesses operated profitably by concentrating on working capital management.

1.6. Scope of the Study

The primary focus of the study was to examine how working capital management strategies influence the financial performance of SMEs in Garissa County, Kenya. The research targeted

SMEs operating within the county, which was purposively selected due to its consistent decline in business performance over the study period. The proprietors of these SMEs constituted the unit of observation. The assessment of working capital management practices covered four key dimensions: cash management, accounts payable management, inventory management, and accounts receivable management. Financial performance was measured using the net profit margin as the primary indicator. The study utilized primary data covering the most recent five-year period (2018–2022), during which net profit margins showed a marked decline. Data collection and fieldwork were undertaken between July and November 2024.

1.7 Limitations of the Study

Primary data was collected using questionnaires. Initially, SME owners were reluctant to share their financial records due to confidentiality concerns and the lack of audited financial statements. However, the researcher assured participants that the data would be used exclusively for academic purposes and handled with strict confidentiality, which helped to address their hesitations and encourage participation.

1.8 Organization of the Study

This project is structured into five chapters. Chapter 1 covers the introduction, including the study's background, problem statement, objectives, research questions, scope, and limitations. Chapter 2 focuses on the hypotheses, conceptual framework, and a comprehensive review of relevant theories and empirical literature. Chapter 3 details the research methodology, discussing the design, target population, sampling approach, data collection methods, and analysis techniques. Chapter 4 presents the study's findings through descriptive and inferential analyses, along with diagnostic tests and discussions on their implications. Lastly, Chapter 5

summarizes the findings, offers conclusions, and provides recommendations for SME managers, policymakers, and researchers, emphasizing strategies for improving financial performance and sustainability.

CHAPTER TWO

LITERATURE REVIEW

2.1. Introduction

This chapter comprises literature regarding the financial performance and working capital administration of small and medium-sized enterprises (SMEs). It is subdivided into the theoretical review, empirical review, conceptual framework, and summary of literature and research gaps.

2.2 Theoretical Review

This section provides a discussion on theories that explain the link between the various variables employed in the study. The research is based on many theories, including Financing Advantage Theory, Cash Conversion Cycle Theory, Transaction Cost Theory, and Stakeholder Theory.

2.2.1 Financing Advantage Theory

The Financing Advantage Theory, often referred to as the trade credit advantage perspective, was first advanced by Schwartz (1974) and later expanded by Emery (1984) to explain the role of trade credit as a financing instrument. The theory argues that suppliers have a comparative advantage over formal financial institutions because they possess superior access to customer information, stronger monitoring capacity, and more effective enforcement mechanisms. Subsequent scholars such as Petersen and Rajan (1997) and Wilner (2000) strengthened this argument by demonstrating empirically that trade credit serves as an important liquidity source

for firms, particularly in credit-constrained environments. More recent studies, including Gul, Khan, and Rehman (2017) and Niskanen and Niskanen (2021), have continued to highlight the enduring relevance of the theory, especially for small and medium enterprises (SMEs) that depend heavily on supplier credit in contexts where access to bank financing is limited.

The theory rests on several assumptions. First, it assumes that suppliers inherently possess information advantages over banks because of their repeated transactions with customers, which allow them to assess creditworthiness more effectively (Joana, Vitorino & Moreira, 2011). Second, it presumes that suppliers enjoy enforcement advantages since they can restrict future deliveries or downgrade product quality in the event of non-payment, thus discouraging default. Third, it assumes that trade credit functions as both a financing and a competitive tool, enabling suppliers to retain customers, sustain long-term relationships, and expand market share. Finally, the theory presupposes a relatively stable macroeconomic environment where the carrying costs of receivables are manageable and where firms possess the managerial capacity to design and implement effective receivables policies (Williamson, 2013).

One of the major strengths of Financing Advantage Theory is its practical applicability across industries and firm sizes. It integrates both financial and operational perspectives by linking receivables management with broader strategic goals such as sales growth and customer retention. This has been particularly emphasized in SMEs, where trade credit often forms a substantial share of working capital (Gul et al., 2017). The theory also highlights how well-designed credit policies can strengthen customer loyalty and create competitive advantage, an argument reinforced by recent findings from Wasiuzzaman and Nurdin (2019), who showed that SMEs leveraging trade credit effectively improved liquidity and profitability simultaneously. Thus, the theory provides a comprehensive framework for understanding how

receivables management contributes not only to liquidity but also to sustained profitability.

Despite its strengths, the theory has several weaknesses. First, it was largely developed in the context of formal lending institutions, limiting its direct applicability to informal or semi-formal enterprises such as SMEs in developing economies (Joana et al., 2011). Second, it assumes the presence of sophisticated credit assessment systems, yet many SMEs in resource-constrained contexts lack the tools to evaluate creditworthiness effectively. Third, the theory tends to underplay the influence of external macroeconomic shocks—such as inflation, political instability, or market volatility—that can compromise the collectability of receivables regardless of managerial efficiency. In addition, as Love, Preve, and Sarria-Allende (2007) note, suppliers themselves face liquidity constraints that may reduce their ability to extend credit, undermining one of the central premises of the theory.

A key criticism of Financing Advantage Theory is that its predictions are highly context-dependent. While empirical evidence in developed markets supports the view that trade credit strengthens liquidity and profitability, findings from emerging economies are more mixed. For example, Fabbri and Klapper (2016) found that in developing countries, inefficient receivables management often results in liquidity shortfalls and financial distress, particularly where legal enforcement mechanisms are weak. Similarly, Owuor, Agusioma, and Wafula (2021) observed that poorly structured receivables practices in Kenyan universities created serious cash flow problems, undermining institutional performance. These findings echo the results of the present study, where accounts receivable management was found to have a significant negative impact on SME financial performance in Garissa County. This suggests that while the theory provides a useful framework, its assumptions do not always hold in practice. In resource-constrained and volatile environments, receivables may function less as a financing advantage and more as

a liability when collection systems are weak, customers default frequently, and firms lack the managerial capacity to enforce credit terms.

The relevance of Financing Advantage Theory to this study lies in its direct connection to accounts receivable management as a key dimension of working capital. For SMEs in Garissa County, where formal financial services are limited, suppliers often act as the primary financiers through trade credit. In principle, efficient receivables management should provide liquidity, sustain customer relationships, and support profitability, as the theory suggests. Yet, the study's findings demonstrate that in practice, weak enforcement mechanisms, delayed collections, and fragile customer relationships have turned receivables into a source of financial strain, leading to negative effects on profitability. This reinforces the argument that while the theory is useful in framing receivables as a strategic financing tool, its assumptions require adaptation to the local realities of SMEs in developing economies. Thus, the theory provides a conceptual anchor for this study, while the empirical evidence highlights the necessity of context-specific strategies to realize its intended benefits.

2.2.2 Cash Conversion Cycle Theory

The Cash Conversion Cycle (CCC) Theory was first articulated by Laughlin and Richards (1980) as a framework for evaluating the efficiency of working capital management. The theory conceptualizes the CCC as the time it takes for a firm to convert outflows invested in inventory and receivables back into inflows of cash from sales, net of payables. A shorter cycle is considered more efficient, as it indicates quicker recovery of cash and better liquidity, while a longer cycle reflects inefficiencies that may constrain profitability and firm value. Later scholars such as Gitman (2009), Padachi (2006), and more recently Aktas, Croci, and Petmezas

(2015) and Wasiuzzaman (2019) expanded its application, establishing the CCC as a critical operational metric for assessing liquidity and profitability across different industries, especially for SMEs.

The CCC Theory rests on several assumptions. It assumes that firms operate in relatively predictable markets, where inflows and outflows can be forecast with reasonable accuracy and where credit arrangements with customers and suppliers are relatively stable (Corey, Cheng & Wang, 2013). It further presupposes that managers have control over the three main elements of the cycle—accounts receivable, inventory, and accounts payable—and that adjustments in policy or operations can meaningfully influence liquidity. It also assumes that improvements in one or more components of the cycle will directly translate into enhanced profitability, provided external shocks such as inflation, political instability, or supply chain disruptions are minimal.

The strength of the CCC Theory lies in its integrative perspective, as it unifies liquidity management, operational efficiency, and profitability into a single analytical framework. This provides managers with a clear diagnostic tool for identifying bottlenecks in working capital flows and aligning short-term financial management with operational realities (Jose, Lancaster & Stevens, 1996). Empirical studies, such as those by Lazaridis and Tryfonidis (2006) and Baños-Caballero, García-Teruel, and Martínez-Solano (2014), demonstrate that a well-managed CCC significantly enhances profitability by optimizing the balance between receivables collection, inventory turnover, and payables deferral. The theory's applicability across diverse sectors further underscores its utility for SMEs, which often face acute liquidity constraints and must maintain efficient cash cycles to survive.

Nonetheless, the theory has several weaknesses. First, it assumes stability in credit and market conditions, which is rarely the case in volatile economies like those in developing countries, where inflation, currency fluctuations, and political risks disrupt cash flow predictability. Second, the CCC emphasizes quantitative efficiency, focusing on receivable days, payable days, and inventory days, but tends to underplay qualitative factors such as supplier trust, customer loyalty, and relationship dynamics that may influence working capital outcomes (Padachi, 2006). Moreover, its applicability diminishes in industries with inherently long production cycles—such as construction or heavy manufacturing—where inventory turnover is naturally extended, limiting the effectiveness of CCC as a performance measure (Gill, Biger & Mathur, 2010).

A further criticism of the CCC Theory is that while it links working capital efficiency to profitability, empirical results have not always been consistent. For instance, Sharma and Kumar (2011) observed that reducing the CCC improves firm value in Indian manufacturing SMEs, but Lyngstadaas and Berg (2016) found that excessively short CCCs can damage supplier relations and increase the risk of stockouts. Similarly, Afrifa and Padachi (2016) noted that while CCC improvements benefit SME profitability in the UK, the relationship is nonlinear, with very aggressive management sometimes undermining long-term sustainability. These contradictions suggest that the CCC should not be applied mechanistically but instead tailored to the firm's context, industry characteristics, and market dynamics.

The relevance of the CCC Theory to this study lies in its direct connection to the cash management variable under investigation. For SMEs in Garissa County, where access to external financing is limited and cash flows are often volatile, managing the CCC effectively is critical to survival and growth. By shortening the cycle—through faster receivables

collection, tighter inventory control, and judicious management of payables—these enterprises can maintain liquidity, meet obligations on time, and reinvest profits in expansion. The study’s findings on the positive and significant role of cash management reinforce the CCC’s practical value, showing that firms which prioritize efficient cash conversion are better positioned to achieve higher net profit margins and improved financial performance. Thus, CCC Theory provides a robust conceptual lens for analyzing how cash flow efficiency translates into profitability among SMEs in resource-constrained settings.

2.2.3 Transaction Cost Theory

The Transaction Cost Theory was first advanced by Ferris (1981) in the context of financial transactions and later developed extensively by Williamson (1985, 2013) to explain how organizations structure exchanges to minimize costs. The theory posits that firms incur transaction costs not only in market exchanges but also in day-to-day operations such as bill payments and contractual arrangements. In the case of working capital, particularly accounts payable, the theory emphasizes that firms can reduce costs by consolidating invoices, scheduling payments strategically (e.g., monthly or quarterly instead of daily), and negotiating favorable terms with suppliers. By aligning payment schedules with production cycles, firms ensure smooth operations while preserving liquidity. More recent studies such as DeLoof (2003), Klapper, Laeven, and Rajan (2012), and Afrifa and Tingbani (2018) have highlighted how efficient payable management can free up resources for investment and improve short-term financial performance.

The theory is underpinned by several assumptions. It assumes that firms act rationally to minimize the costs of economic exchanges while ensuring operational continuity. It

presupposes that organizations have sufficient bargaining capacity to structure contractual relationships that exploit economies of scale in payment processing and avoid liquidity shortfalls that might disrupt production (Williamson, 2013). It further assumes that managers can evaluate trade-offs between delaying payments to conserve cash and maintaining goodwill with suppliers to ensure an uninterrupted supply of inputs. Implicitly, the theory also assumes that external conditions—such as inflation and supplier credit availability—remain reasonably stable, allowing firms to plan payment schedules predictably.

A key strength of Transaction Cost Theory is its practical relevance to accounts payable management. It provides a clear rationale for why batching or delaying payments, within agreed credit terms, can reduce administrative costs, optimize cash flow, and free up funds for revenue-generating activities. By integrating operational efficiency with financial prudence, the theory helps managers understand how payables decisions can support both liquidity preservation and production continuity. Empirical work by Ng, Smith, and Smith (1999) and Afrifa and Tingbani (2018) confirms that effective payable management enhances firm value by lowering transaction costs and improving cash conversion efficiency. This makes the theory particularly useful for SMEs, which often face tighter liquidity constraints than larger firms.

Despite these advantages, the theory has limitations. It tends to generalize payment strategies without adequately considering variations in industry norms, supplier power, or firm size. SMEs, especially in developing economies, often lack bargaining strength and may be compelled to comply with strict supplier terms, limiting their ability to delay payments strategically (Deloof, 2003). Moreover, the theory focuses narrowly on cost minimization and administrative efficiency, overlooking relational and strategic aspects of supplier management such as trust, reputation, and long-term partnerships. As Lyngstadaas and Berg (2016) note,

excessively delaying payables may damage supplier relationships and lead to stockouts or supply chain disruptions, undermining the very efficiency the theory seeks to achieve.

A broader criticism of Transaction Cost Theory is that its applicability is highly context-specific. While evidence in developed economies often supports the cost-reduction benefits of payable optimization, studies in emerging markets present more mixed findings. For example, Mutai and Kimani (2019) observed that while payable management improved liquidity in Kenyan technical institutions, its effect on profitability was marginal. Similarly, Sharma (2019) emphasized that while delaying payables may enhance short-term liquidity, it does not necessarily translate into long-term profitability, especially in economies where SMEs depend heavily on maintaining goodwill with suppliers. These inconsistencies suggest that while the theory offers valuable insights, it cannot be applied in isolation without considering broader supply chain dynamics and contextual realities.

The relevance of Transaction Cost Theory to this study lies in its direct linkage to accounts payable management as one of the core components of working capital. For SMEs in Garissa County, where access to formal financing is limited and operating margins are tight, optimizing payment schedules and credit arrangements can provide temporary liquidity relief and reduce administrative costs. However, the study's findings showed that accounts payable practices, though widely adopted, had an insignificant impact on profitability, highlighting the limits of the theory in this context. This suggests that while transaction cost minimization is valuable, SMEs in Garissa require a more holistic approach that integrates payable management with cash and inventory practices to realize sustainable financial performance.

2.2.4 Financial Advantage Theory

The Financial Advantage Theory was first proposed by Schwartz (1974) and later developed by scholars such as Emery (1984) and Petersen and Rajan (1997) to explain how organizations benefit from extending and managing trade credit effectively. The theory argues that firms with well-structured accounts receivable systems enjoy a competitive advantage by leveraging their knowledge of customer behavior, monitoring repayment trends, and enforcing timely collections. By doing so, they minimize default risk, improve liquidity, and reduce reliance on external financing. More recent empirical studies, including Gul, Khan, and Rehman (2017), Fabbri and Klapper (2016), and Niskanen and Niskanen (2021), confirm that firms capable of efficiently managing receivables can strengthen working capital, enhance profitability, and sustain market share, particularly in credit-constrained environments.

The theory is built on several assumptions. First, it assumes that firms possess the institutional and managerial capacity to extend trade credit without undermining liquidity. Second, it presumes that organizations act rationally, carefully weighing the benefits of increased sales through credit against the risks of delayed or non-payment. Third, it assumes that economies of scale in receivables management can be achieved through integrated administrative processes, credit assessment mechanisms, and information systems that track customer payment behavior (Joana, Vitorino, & Moreira, 2011). Finally, the theory assumes relatively stable market conditions in which default risks are predictable and manageable, allowing receivables to function as a financing advantage rather than a liability.

A major strength of the Financial Advantage Theory is its explicit focus on receivables as a driver of financial performance. It highlights the dual role of receivables in expanding sales

and in enhancing liquidity when effectively managed. The theory also provides a clear framework for aligning credit policies, customer relationship management, and financial planning, making it particularly relevant for SMEs that rely heavily on trade credit as a financing source. Empirical evidence by Wasiuzzaman and Nurdin (2019) and Afrifa and Tingbani (2018) further underscores that receivables management, when complemented by effective debtor screening and timely collection practices, contributes directly to profitability by reducing the cost of external borrowing and maintaining a steady flow of working capital.

Despite these strengths, the theory has notable weaknesses. It was primarily developed with reference to formal financial institutions and large corporations, limiting its immediate applicability to SMEs in developing economies where financial literacy, credit infrastructure, and monitoring systems are less developed. Furthermore, it assumes a predictable operating environment, yet in volatile markets such as Kenya's arid and semi-arid regions, macro shocks, political risks, and customer defaults are frequent and often beyond managerial control. As Love, Preve, and Sarria-Allende (2007) observe, suppliers themselves may be liquidity-constrained, which undermines their ability to extend or enforce credit effectively, thereby challenging the universality of the theory.

A broader criticism of Financial Advantage Theory is that its predictions are not always supported by empirical outcomes, particularly in emerging markets. For example, Fabbri and Klapper (2016) found that in developing countries, inefficient receivables management often results in cash flow disruptions and reduced profitability, especially when legal enforcement mechanisms are weak. Similarly, Owuor, Agusioma, and Wafula (2021) showed that poorly structured receivables systems in Kenyan universities contributed to liquidity crises, undermining institutional performance. The present study's results reinforce this criticism:

while accounts receivable management was positively correlated with performance in simple regression, it became negative and significant in multiple regression ($B = -0.649$, $p < 0.001$), indicating that inefficiencies in collection and credit monitoring turn receivables into a liability rather than an asset.

The relevance of Financial Advantage Theory to this study lies in its direct connection to accounts receivable management as a key component of working capital. For SMEs in Garissa County, where access to bank credit is limited, trade credit often substitutes as a primary financing mechanism. The theory suggests that if SMEs can strengthen receivables systems through clear trade credit policies, effective debtor screening, timely collections, and reliable record-keeping, they can improve liquidity, reduce bad debts, and enhance net profit margins. Nonetheless, the study's findings highlight that the assumptions of the theory are not fully realized in practice. Weak enforcement, delayed payments, and limited credit management capacity mean that receivables undermine rather than improve performance. Thus, while the theory provides a useful conceptual framework, its application in this study underscores the need for context-specific adaptations that align receivables management with the realities of SMEs in resource-constrained environments.

2.2.5 Stakeholder Theory

The concept of Stakeholder Theory was first introduced by Freeman (1984) as a response to the narrow shareholder-centric model of corporate governance. Freeman argued that organizations do not exist solely to serve shareholders but rather have obligations to a wide range of individuals and groups—termed stakeholders—who are affected by or can influence the achievement of organizational objectives. These stakeholders include employees,

customers, suppliers, lenders, government entities, and the wider community. Subsequent refinements by Donaldson and Preston (1995) emphasized the normative and instrumental dimensions of the theory, arguing that stakeholder engagement is not only a moral obligation but also a practical necessity for organizational survival and long-term success. More recent work, such as Freeman, Harrison, Wicks, Parmar, and de Colle (2010), has expanded the theory's application to strategic management and corporate social responsibility, highlighting its broad relevance across sectors.

The theory is based on several assumptions. It assumes that firms are embedded within a network of stakeholder relationships, and organizational performance depends on the health of these relationships rather than on shareholder returns alone (Meek & Gray, 2015). It presupposes that stakeholders create added value through their contributions—such as labor, capital, or regulatory support—and that this value must be distributed fairly to maintain trust and cooperation. Furthermore, it assumes that stakeholders are interdependent, meaning that neglecting one group (e.g., employees or suppliers) can eventually harm others (e.g., shareholders). Finally, it assumes that measuring firm success solely through financial returns is insufficient; instead, broader metrics of wealth creation and stakeholder well-being should be integrated into performance evaluation (Belkaoui, 2002).

A key strength of Stakeholder Theory is its holistic view of organizational performance. By expanding the focus from shareholder value to stakeholder well-being, it provides a comprehensive framework for sustainable business management. It highlights the importance of balancing financial goals with ethical, social, and environmental responsibilities, which is particularly relevant in contemporary debates on ESG (environmental, social, and governance)

practices. Empirical studies, such as Harrison and Wicks (2013) and Freeman et al. (2010), confirm that firms that actively manage stakeholder relationships often enjoy stronger reputations, higher employee engagement, better customer loyalty, and ultimately improved long-term profitability. This makes the theory especially valuable for SMEs, which rely heavily on close relationships with local stakeholders.

Despite its strengths, Stakeholder Theory has several weaknesses. One limitation is its lack of precision in defining and prioritizing stakeholders. In practice, organizations often face conflicts between competing stakeholder demands, making it difficult to determine whose interests should prevail. Additionally, the theory assumes that managers can act as neutral arbiters balancing multiple claims, which may not always be realistic given limited resources and external pressures. As Jensen (2002) notes, focusing on too many stakeholders simultaneously can dilute strategic direction and lead to inefficiency. Furthermore, the theory does not always account for power imbalances, where dominant stakeholders (e.g., governments or large creditors) may influence decision-making at the expense of weaker groups.

Critics also argue that Stakeholder Theory, while appealing conceptually, is challenging to operationalize. Empirical studies show mixed results regarding the link between stakeholder management and financial performance. For instance, Phillips, Freeman, and Wicks (2003) highlighted the difficulty of measuring “added value” across heterogeneous stakeholder groups. Similarly, Parmar et al. (2010) observed that while stakeholder engagement improves legitimacy, it does not always guarantee improved financial returns in the short term. In developing country contexts, such as Kenya, weak institutional frameworks, limited

enforcement of stakeholder rights, and volatile markets further complicate the practical application of the theory. These criticisms suggest that while stakeholder orientation can enhance long-term sustainability, its benefits are not automatic and require deliberate managerial and policy strategies.

The relevance of Stakeholder Theory to this study is tied directly to its emphasis on financial performance as a shared outcome for multiple stakeholders. In SMEs within Garissa County, profitability is not only a measure of shareholder return but also the foundation for employee livelihoods, supplier stability, and local community development. By conceptualizing net profit margin as a key indicator of wealth creation, this study adopts the stakeholder perspective that financial outcomes must be distributed equitably among all contributing parties. The theory therefore supports the analysis of financial performance as the dependent variable in this research, highlighting that SME sustainability depends on managing working capital practices—such as cash, receivables, inventory, and payables—in ways that benefit all stakeholders, not only owners.

2.3 Empirical Review

This section provides an empirical relationship between the variables under investigation. The literature reviewed pertains to the administration of working capital and financial performance.

2.3.1 Cash Management and Financial Performance

Mohammed (2019) conducted a longitudinal study to examine how the cash conversion cycle (CCC) influences the profit-generating capacity of diverse firms. The study adopted a dynamic continuous data analysis framework, enabling the tracking of cash flow movements, reconciliation practices, and the control of cash conversion over time. Using a census approach,

the research analyzed financial records of firms over the five-year period from 2008 to 2012. Profitability was measured using return on equity (ROE) and net profit margin. The findings revealed a statistically significant and robust negative correlation between the CCC and profitability, suggesting that longer cash holding and delayed receivables collection reduced financial performance. While the study effectively demonstrated the impact of liquidity management efficiency on profitability, it was conducted across heterogeneous firms in unspecified geographical settings, leaving a contextual gap regarding SMEs in underdeveloped regions such as Garissa County, Kenya, where cash flow challenges are compounded by market informality and limited access to financial infrastructure.

In a related context, Wongthatsanekorn (2019) investigated the effect of cash management practices on the profitability of private hospitals listed on the Thailand Stock Exchange. The study employed both panel data and cross-sectional regression models, covering the period 2002–2008, and analyzed specific cash handling indicators such as payment delay patterns, currency movement control, and cash investment practices. Profitability was proxied using asset turnover and return on assets (ROA). Results showed a negative relationship between payment delays and asset turnover, alongside an inverse association between the CCC and overall operational efficiency. While these findings underscore the strategic importance of precise cash reconciliation and mastery over currency conversion for financial health, the study was industry-specific (healthcare) and geographically distinct from Kenya's SME sector, creating a contextual and sectoral gap addressed in the current research.

Similarly, Gul, Khan, Khan, and Rehman (2018) explored the link between CCC and profitability in the Pakistani financial sector, covering the years 2010–2016. Drawing data from the Karachi Stock Exchange, the Small and Medium Enterprise Development Authority

(SMEDA), Pakistan's tax offices, and Bloomberg, the study utilized correlation and multiple regression analyses to assess the effect of cash conversion timing, investment of surplus funds, and liquidity control measures on profitability. ROA was used as the primary performance metric. Findings indicated no statistically significant positive relationship between CCC and profitability, suggesting that in the financial services sector, other factors may overshadow cash cycle management. Nonetheless, the study's narrow focus on financial institutions—where cash inflows and outflows differ structurally from product-based SMEs—presents a contextual gap, as it does not account for operational realities such as inventory-linked cash cycles prevalent among SMEs in Garissa County.

From these studies, a clear methodological and contextual gap emerges. Prior research predominantly focused on large-scale or sector-specific entities (e.g., hospitals, financial institutions) in contexts with more developed capital markets. There is limited evidence on how cash management practices—encompassing the actual movement of currency, reconciliation of cash, cash deployment for investments, mastery over currency exchange, and control of the cash conversion cycle—affect the financial performance of SMEs operating in low-resource and high-risk environments such as Garissa County. The current study bridges this gap by employing primary data from SMEs between 2018 and 2022, using net profit margin as the key performance indicator, and contextualizing cash management within the unique challenges of the county's business ecosystem.

2.3.2 Accounts Receivable Management and Financial Performance

Owuor, Agusioma, and Wafula (2021) conducted a study examining the financial performance

and accounts receivable management practices of Kenya's Chartered Public Universities. The study employed both descriptive and inferential statistical methods, using secondary panel data collected from the annual reports of 31 publicly recognized universities in Kenya between 2017 and 2019. The study used a census survey approach and analyzed the data using SPSS Version 25. Findings revealed that the management of accounts receivable had a significant but indirect impact on the financial performance of these institutions, which were measured primarily through return on assets (ROA) and net profit margin. However, this study was centered on public universities, which operate within a different financial structure than small and medium-sized enterprises (SMEs). The current study, therefore, focuses on SMEs in Garissa County, Kenya, examining the impact of accounts receivable management on the financial performance of these smaller entities, where cash flow and liquidity challenges are more pronounced.

Siele and Tibbs (2019) focused on the Kericho Water and Sanitation Company Limited (KEWASCO), a public utility in Kenya, analyzing the relationship between accounts receivable management and financial performance. The study used secondary data from the Kenya National Audit Office and KEWASCO's financial reports from 2010 to 2014, supplemented by surveys conducted among employees in the business department. Using regression and correlation analyses, the study found a significant positive relationship between efficient accounts receivable management and financial performance, as measured by return on equity (ROE). Despite this valuable insight, the study was constrained to the water and sanitation sector, which differs from the SME context in Garissa County, where businesses face more varied challenges in cash flow management and credit control. Therefore, while KEWASCO's findings provide useful insight, they do not fully capture the dynamics of accounts receivable management in smaller, more fragmented businesses operating in regions with varying levels

of financial support.

Similarly, Torky (2020) explored how accounts receivable management impacts the profitability of Saudi Arabian manufacturing companies. This study, employing a quantitative research design, found a positive relationship between efficient receivables management and financial performance. However, it is important to note that while Torky's findings align with those of previous studies, they are limited by their focus on large-scale manufacturing businesses in Saudi Arabia. The context of the study contrasts with SMEs in Kenya, where access to finance, financial literacy, and working capital management practices differ significantly. This gap highlights the need for the current study, which examines accounts receivable management in the context of SMEs in Garissa County, Kenya.

Rodrigo, Rathnayake, and Pathirawasam (2020) examined the role of inventory management practices in influencing the profitability of Sri Lankan manufacturing firms, using secondary data from publicly available annual reports from 2014 to 2018. Although the study primarily focused on manufacturing firms listed on the Colombo Stock Exchange, it provided valuable insights into how inventory management strategies, including the timing of inventory turnover and the effectiveness of accounts receivable collection, directly influenced financial performance. The study found that a quicker inventory turnover was associated with higher profitability, emphasizing the importance of managing both accounts receivable and inventory together. However, the findings were specific to the manufacturing industry in Sri Lanka, a context that differs from the broader SME landscape in Garissa County. While inventory management is critical, its relationship to receivables and the overall performance of SMEs in the region remains underexplored, presenting an opportunity for the current study to bridge this gap.

These studies collectively demonstrate the significant role of accounts receivable management in influencing financial performance, but they also highlight gaps in research, particularly in the context of SMEs in developing regions like Garissa County. The current study builds on these findings by focusing on the unique challenges SMEs in Garissa face, using net profit margin as the key performance metric. This approach aims to extend the existing body of knowledge by investigating the specific practices that enhance cash flow management and profitability in a low-resource, high-risk environment.

2.3.3 Inventory Management and Financial Performance

Inventory management plays a crucial role in determining the profitability of businesses, especially for small and medium-sized enterprises (SMEs) that often operate on tight cash flows. Torky (2020) examined the impact of inventory management strategies on the profitability of manufacturing firms in Saudi Arabia. The study employed a quantitative research design, using secondary data to analyze the relationship between inventory management practices and financial performance. The findings demonstrated a strong positive relationship between effective inventory control and profitability, suggesting that well-managed inventory systems can improve operational efficiency and reduce costs, leading to higher profits. While this study provides valuable insights into inventory management in large manufacturing companies, its context does not fully align with SMEs in developing countries like Kenya. The current study seeks to bridge this gap by focusing on SMEs in Garissa County, where resource constraints and financial management challenges may differ significantly from the Saudi Arabian manufacturing sector.

Rodrigo, Rathnayake, and Pathirawasam (2020) also contributed to the understanding of

inventory management in manufacturing by exploring the effect of inventory turnover on financial performance in Sri Lankan manufacturing firms listed on the Colombo Stock Exchange. This study utilized a quantitative research approach, analyzing secondary data from annual reports between 2014 and 2018. The findings revealed a strong inverse relationship between inventory conversion duration and return on assets (ROA), indicating that faster inventory turnover is associated with better financial performance. However, the study's focus on manufacturing firms in Sri Lanka may not be directly applicable to SMEs in Garissa County, where SMEs may face different challenges related to inventory management, including limited access to financing and a less developed supply chain infrastructure.

Moreover, Padachi (2006) highlighted the importance of managing inventory effectively for SMEs in developing countries. His study found that a longer inventory conversion period was associated with poorer financial performance, as it increased the cost of holding unsold goods. This relationship underscores the need for SMEs in Garissa County to implement efficient inventory management practices to minimize holding costs and improve profitability. Unlike the previous studies that focused on large or listed companies, Padachi's findings are more relevant to SMEs, as they deal with more frequent inventory turnover and limited capital for holding inventory.

The relationship between inventory management and financial performance in SMEs has been underexplored in the context of Garissa County. Most existing studies, including those by Torky (2020) and Rodrigo et al. (2020), focus on large manufacturing firms or markets outside of Kenya. This creates a gap in understanding how inventory management directly influences the financial outcomes of SMEs in Garissa. The current study addresses this gap by focusing on small and medium-sized businesses in Garissa County, evaluating how their inventory

management practices contribute to their profitability and sustainability.

2.3.4 Account Payable Management and Financial Performance

In 2019, Mutai and Kimani looked into how techniques for managing accounts payable affected the cash flow of state technical training schools in Kenya's Rift Valley region. Due to the small amount of interviewees, a census poll was used for the study. There were 38 respondents from the available population; 19 were directors and 19 were accountants. The surveys were filled out by the people themselves. The pilot test was given to public technical schools in the Nyanza area with five questions. The study found that the way state Technical Training Institutions in the Rift Valley Region handled accounts payable had a big effect on their ability to pay their bills. That being said, the earlier study was done in state organizations, which left a gap in the background. This study, which is mostly about small and medium-sized businesses (SMEs), tries to fill that gap.

Sharma (2019) explored the ways of managing account payables in particular ventures in the consumable goods industry in India. In this study, population of all FMCG firms in India were included in the population of this study. Case study considered five individuals working in the FMCG organizations. Information for financial variables was obtained from a sample that included data of the above five companies belonging to the FMCG sector for 10 years. The study employed judgment sampling as a part of nonprobability sampling Universal techniques A probability sampling technique. Analyzed secondary data. The source of financial statement data of the aforementioned FMCG firms was the firms' websites to attain the information for fiscal years from 1st April 2007 to 31st March, 2017. When comparing this ratio with finance theories and norms, the analysis identified that Britannia actually enjoyed a rather high

monetary value for its accounts payable turnover ratio. Also, it had the highest value among all the firms under analysis in the study conducted. The study focused on enterprises in the consumable products market in Kenya and thus identified a contextual void. This work focused on the evaluation of the financial performance of Small and Medium Enterprises (SMEs) in Garissa County – Kenya.

Iyewumi (2019) examined the relationship between account payable management practices and the business performance of the oil firms. The subject of research investigation was the Nigerian energy market. It was also based on a sampled inventory of oil plantations in Nigeria 1995 – 2016 from where secondary data was sourced. To assess the perceived relationship in this study, it applied Ordinary Least Square estimation techniques. This research established that account payables were an important factor in the financial performance of oil firms. The results and policy recommendations may not be relevant to SMEs sector because sectors' operations and key performance indicators are many as the study was conducted on a specific sector known as the oil sector.

2.4 Summary of Empirical Literature

The reviewed empirical literature analyzes the relationship between working capital management practices—cash management, accounts receivable, inventory management, and accounts payable—and financial performance across various sectors. Studies from contexts such as universities, water and sanitation companies, manufacturing firms, and SMEs highlight the importance of these practices but also reveal conceptual and contextual gaps. The current study addresses these gaps by focusing on the financial performance of SMEs in Garissa

County, Kenya, offering a unique perspective to complement existing research. Findings are synthesized in Table 2.1.

Table 2.1 Summary of Empirical Literature

Author & Year	Focus of the Study	Key Findings	Research Gaps	Current Study
Rodrigo <i>et al.</i> (2020)	Explored the effect of inventory management strategies on the financial performance of listed manufacturing companies in Sri Lanka.	Found that inventory conversion time negatively affects market value added, cash flow from operations, and return on assets.	Contextual gap in focusing on Sri Lankan manufacturing enterprises.	Examined how inventory management practices impacted the financial performance of SMEs in Garissa County, Kenya.
Yndon & Yaundu (2020)	Examined the financial performance and inventory management strategies of GlaxoSmithKline, an NSE-listed company.	Demonstrated a positive correlation between return on assets and all predictive variables, with inventory to asset ratio being significant at 5%.	Focused on Nigerian listed businesses.	Addressed the financial performance of SMEs in Garissa County, Kenya, focusing on inventory management.
Siele & Tibbs (2019)	Examined the financial results and accounts receivable management strategies of Kericho Water and Sanitation Company Limited, Kenya.	Found that KEWASCO's financial performance was highly impacted by accounts payable.	Focused on a water and sanitation company, a different industry.	Focused on the accounts payable and financial performance of SMEs in Garissa County, Kenya.
Wongthatsaneko (2019)	Assessed the impact of cash management strategies on corporate profit margins of private hospitals listed on the Thailand Stock Exchange.	Showed that the asset turnover rate was negatively correlated with payment deferral periods.	Conceptual and contextual gap by focusing on listed private hospitals in Thailand.	Addressed cash management strategies and financial performance of SMEs in Garissa County, Kenya.

Mohammed (2019)	Evaluated the impact of CCC on the performance of firms listed on the NSE.	Discovered a statistically significant inverse link between return on assets and cash conversion ratio.	Conducted longitudinal analysis over a four-year period, focused on listed firms.	Examined how cash conversion cycles influence the financial performance of SMEs in Kenya.
Ahaya (2018)	Determined how various pharmaceutical companies in Nigeria handle working capital and its effect on financial success. Researched the connection between SME financial performance and accounts receivable management techniques in Mogadishu, Somalia.	Found a direct association between financial performance and the average payment duration.	Focused on Nigeria's pharmaceutical firms, presenting a contextual gap.	Focused on the working capital practices and financial performance of SMEs in Garissa County, Kenya
Adam & Caroline (2018)	Examined how the cash exchange cycle affected profits in the Pakistan market from early 2010 to 2016.	Found that accounts receivable had a positive effect on the financial success of small businesses in Mogadishu.	Contextual gap as the study was conducted in Mogadishu, Somalia.	Addressed this gap by focusing on SMEs in Garissa, Kenya.
Gul <i>et al.</i> (2018)	Investigated how Embu Water and Sanitation Ltd.'s accounts receivable management influenced financial health.	Established a strong link between rising Average Payment Period (APP) and profitability.	Contextual gap as the study focused on the Pakistani financial market.	Focused on SMEs operating in Garissa County, Kenya.
Tibbs & Munene (2018)	Analyzed how cash management practices affected the financial performance of SSEs in Kisii County, Kenya.	The study was done on a single public entity and lacked generalizability to other sectors.	Focused on a single public entity in Embu.	Examined the accounts receivable management of SMEs across various sectors in Garissa, Kenya.
Nyabwanga <i>et al.</i> (2018)		Found that working capital management practices were influenced by the industry context.	Did not include large and medium enterprises or firms in other sectors.	Investigated cash management practices and their impact on SMEs in Garissa County, Kenya.

Mohamed & Aaron (2018)	Investigated how inventory management practices affected financial performance in Mogadishu, Somalia. Examined the effect of working capital management, including average days of goods, payables, and collections, on Nigeria's oil and gas industry.	Found that effective stock planning was statistically linked to better financial success. Found that working capital management practices significantly affected profitability.	Contextual gap as the study focused on Mogadishu, Somalia. Focused on Nigeria's oil and gas industry from 1995 to 2011, presenting a contextual gap.	Addressed this gap by examining SMEs in Garissa, Kenya. Contextualized working capital management practices to SMEs in Garissa, Kenya.
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Source: Empirical Literature Review (2024).

2.5 Conceptual Framework

To effectively guide a study, a conceptual framework is a technique used to clarify research concepts and detect conceptual discrepancies as shown in Figure 2.1

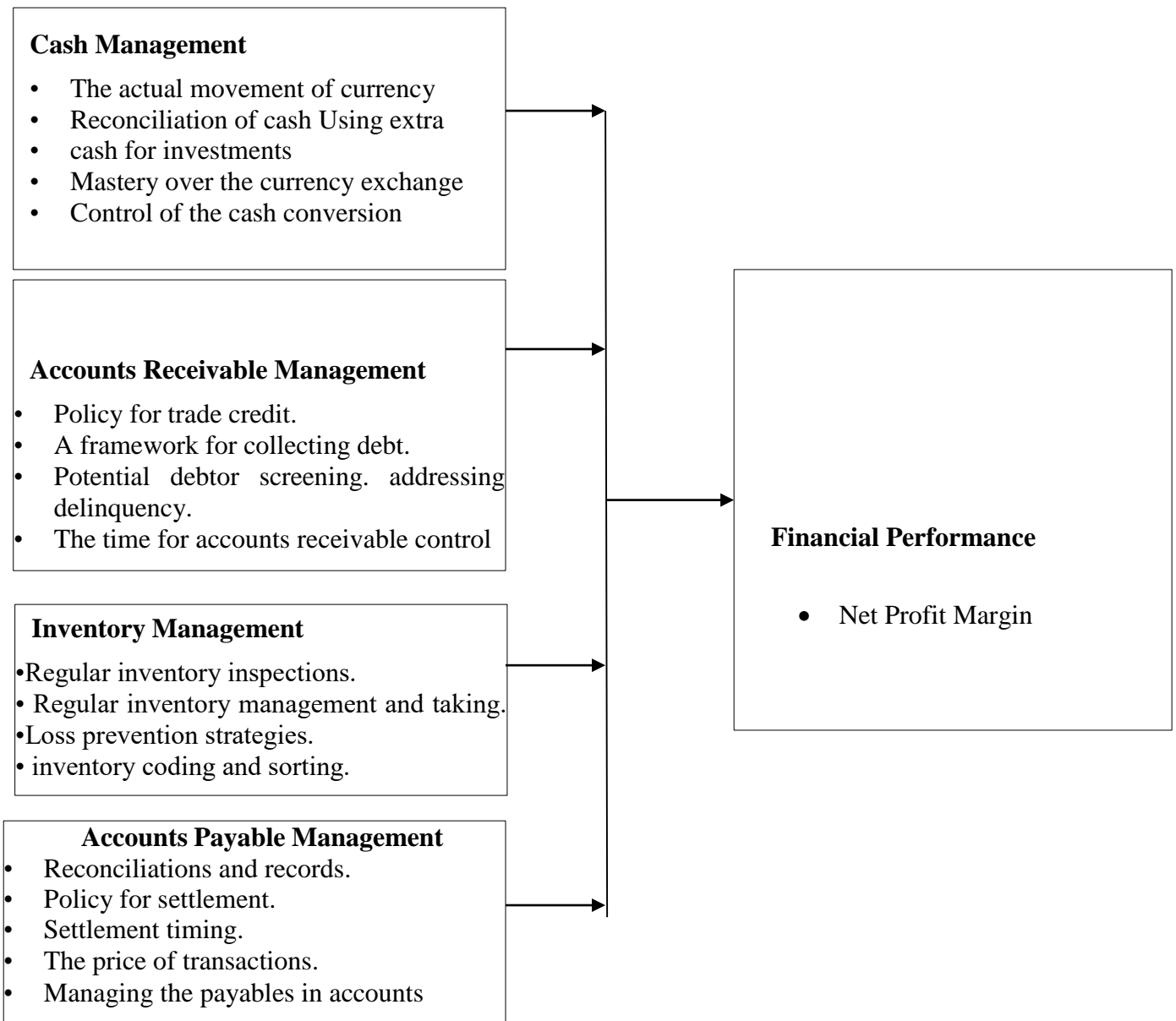


Figure 2.1: Conceptual Framework

Source: Researcher (2024)

The conceptual framework illustrates how working capital management practices—cash management, accounts receivable management, inventory management, and accounts payable management—affect the financial performance of SMEs. Cash management ensures that liquidity is maintained through budgeting, reconciliation, prudent investment of surplus funds, and strict control of cash movements, thereby reducing financial distress and supporting profitability (Gitman, 2009; Mohammed, 2019). Accounts receivable management, which involves establishing trade credit policies, debtor screening, and timely collection systems, is essential in ensuring steady inflows of cash; however, inefficiencies in these processes can lead to liquidity constraints and diminished profitability (Gul, Khan, & Rehman, 2018; Owuor, Agusioma, & Wafula, 2021).

Inventory management plays a vital role in optimizing resource utilization by ensuring regular inspections, effective stock coding, and loss-prevention strategies that minimize wastage and avoid stockouts or overstocking. Such practices strengthen operational efficiency and improve profitability (Mathuva, 2009; Rodrigo, Rathnayake, & Pathirawasam, 2020). Accounts payable management, though often less influential, contributes to sustaining supplier relationships and liquidity by emphasizing proper reconciliation, settlement planning, and minimizing transaction costs (Deloof, 2003; Mutai & Kimani, 2019). Collectively, the framework posits that efficient working capital management practices positively influence SME financial performance, measured through net profit margin, by enhancing liquidity, reducing risks, and improving operational continuity.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter lays forth the plan for how the research achieved objectives. This section provides a concise description of the study's intended participants, as well as the study's sampling strategy, sample size, validity and reliability of the tests, methods of data collecting, processing, and presentation.

3.2 Research Philosophy

This study adopted a positivist research philosophy, emphasizing objectivity, empirical observation, and measurable outcomes. Positivism views external phenomena as stable and quantifiable, focusing on establishing causal relationships between variables, such as working capital management practices and financial performance, through systematic data collection and statistical analysis. The approach ensured objectivity, reliability, and replicability, producing generalizable insights applicable to similar contexts, such as SMEs in Garissa County.

3.3 Research Design

The research design for this study is based on the framework described by Kothari (2004), who defines research design as the blueprint that structures the study, guiding the research process and addressing key questions to derive meaningful results. This study adopts a non-experimental, informative methodology, which is particularly suitable for understanding the relationship between working capital management practices and the financial performance of small and medium-sized enterprises (SMEs) in Garissa County. Non-experimental research, as

noted by Saunders et al. (2009), is used when the researcher investigates variables that have already occurred and cannot be manipulated, such as past financial performance and existing working capital practices. This design allows for the empirical investigation of how these variables relate to one another without influencing or altering the SMEs' financial decisions.

This study aligns with **explanatory research**, as explained by Sekaran and Bougie (2011), which seeks to establish causal relationships between variables. The aim is to explore how working capital management—encompassing areas like cash management, accounts receivable, inventory, and accounts payable management—affects the financial performance of SMEs. By using a non-experimental approach, this study can identify these relationships as they naturally exist in the context of SMEs without direct interference. This approach is important because it reflects real-world practices and the organic management of working capital in SMEs, particularly in a setting like Garissa County, where resources and operational conditions vary.

The non-experimental design is also justified because it allows for the observation and analysis of existing practices and financial outcomes. The study will investigate historical data from SMEs in Garissa County, such as financial statements and performance reports from 2018 to 2022. These data points, which represent past operational and financial conditions, will provide insights into how working capital management impacts financial success. By focusing on already existing data, the study respects the operational realities of SMEs, allowing for empirical analysis without the need for experimental manipulation.

Moreover, the non-experimental design is appropriate for this study's context, where practical constraints such as limited access to funding, technological resources, and accurate data

collection methods make it difficult to conduct controlled experiments. The study, therefore, uses real-world data from SMEs, including interviews with business owners and managers and surveys, to analyze how working capital management strategies influence financial performance. This design provides a comprehensive understanding of the topic while remaining grounded in the operational environment of SMEs in Garissa County.

In conclusion, the non-experimental, informative design is well-suited to the objectives of this study, as it allows for a thorough examination of the natural relationship between working capital management and financial performance in SMEs. This approach is effective in addressing the research questions while maintaining the integrity of the SMEs' real-world operations.

3.4 Target Population

Yin (2017) defines the population as a grouping of similar items or research units of analysis. 1,009 SMEs in Garissa County were the study's target population. These small and medium-sized companies fit within the primary groups shown in Table 3.1.

Table 3.1: Target Population

Sector	Population Size	Percentage
Wholesale Stores	247	24%
Food and Beverages Restaurants	179	18%
Hardware Stores	162	16%
Construction and Manufacturing Firms	131	13%
Transport and General Oriented Companies	161	16%
Petroleum Dealers and Related Businesses	129	13%
Total	1009	100%

Source: Garissa County (2024)

3.5 Sampling Design and Procedure

The research employed a stratified random sampling design, with Yamane's finite population formula to determine the sample size (Otabor, 2016). When there is a great deal of population variance, stratified random sampling is used (Taherdoost, 2016). A sample from each stratum was created using simple random. The formula that Kothari (2004) developed in order to determine the sample size was employed by the study.

$$n = \frac{N}{1 + N(e^2)}$$

- **n** = required sample size
- **N** = population size
- **e** = margin of error (level of precision, often 0.05 or 5%)

$$n = \frac{1,009}{1 + 1,009(0.05^2)}$$

$$n = \frac{1,009}{1 + 1,009(0.0025)}$$

$$n = \frac{1,009}{1 + 2.5225}$$

$$n = \frac{1,009}{3.5225}$$

$$n \approx 278$$

Thus, the sample size for the study was 278

Table 3.2 Sample Size Determination

Sector	Population	Sample Size
Wholesale Stores	247	68
Food and Beverages Restaurants	179	49
Hardware Stores	162	45
Construction and Manufacturing Firms	131	36
Transport and general Oriented Companies	161	44
Petroleum Dealers and related Businesses	129	36
Total	1,009	278

Source: Garissa County (2024)

3.6 Data Collection Instrument

The study utilized a structured questionnaire as the primary tool for data collection. This method ensured standardized responses, promoting consistency and simplifying the analysis process. The questionnaire was specifically designed to collect detailed information aligned with the study's objectives, covering demographic data, working capital management practices, and financial performance. Structured questions minimized ambiguity by providing clear response options, enabling participants to give precise and relevant answers. This format also allowed for efficient data collection across a diverse range of SMEs, making it an effective instrument for exploring the relationships between the independent and dependent variables. The structured approach ensured the reliability and validity of the data for empirical analysis.

3.6.1 Operationalization and measurement of variables

What matters is financial success, and what doesn't is inventory management, accounts due management, cash management, and accounts payment management. It is shown in Table 3.3 how these factors are operationalized.

Table 3.3 Operationalization and measurement of variables

Variable	Type	Indicators	Measurement	Scale
Inventory Management	Independent	- Inventory control framework implementation Loss prevention policies Inventory coding and sorting practices	Likert scale statements assessing agreement with practices related to inventory management (e.g., periodic stock-taking, safety measures)	Ordinal (1-5 Likert scale)
Accounts Receivable Management	Independent	- Presence of a credit policy Effectiveness of debt collection Screening process for potential debtors Records management for debtors Delinquency control measures	Likert scale statements evaluating the effectiveness of credit administration, debt collection frameworks, and debtor monitoring practices	Ordinal (1-5 Likert scale)
Cash Management	Independent	- Cash budgeting and planning framework - Physical control of cash movement Regular cash reconciliation Policy for surplus cash investment Liquidity control for optimal investment	Likert scale statements gauging the extent of adherence to Cash Management such as cash flow monitoring and investment of surplus funds	Ordinal (1-5 Likert scale)
Accounts Payable Management	Independent	- Documentation of financial transactions Policy for settlement scheduling	Likert scale statements regarding payment scheduling policies, documentation processes,	Ordinal (1-5 Likert scale)

		Transaction cost considerations	and transaction costs for payables	
		Control of payment periods for accounts payable		
Financial Performance	Dependent	- Net profit margin Growth in net profit Return on assets (ROA)	Ratio of net profit to sales, or overall financial performance ratings on Likert scale	Ratio and/or Ordinal (Likert scale for subjective assessment)

Source: Research Data (2024)

3.7 Pilot Testing

Pilot testing is a critical step in ensuring the effectiveness and appropriateness of the research instrument before the final data collection. This process helps to identify and address potential issues related to validity, reliability, clarity, and comprehensiveness of the questionnaire. By conducting a pilot test, the researcher ensures that the instrument is well-designed to gather accurate and relevant data aligned with the study's objectives. The pilot phase allows for refinement and adjustment of the questionnaire based on feedback and observations, ensuring that the final instrument is robust and reliable for measuring the intended variables effectively. This section discusses the validity and reliability of the research instrument used in the study.

3.7.1 Validity of the Research Instrument

According to Kombo and Tromp (2011), the degree to which a test used in a research study collects the information it is meant to gather is its validity. Construct and content validity tests will be carried out to ensure that the instrument measures what it should. To ensure that each component of the questionnaire collected data for a specific purpose and that the data was

closely tied to the conceptual framework for the investigation, the questionnaire will be divided into many sections for construct validity. To ensure content validity, the researcher conferred with the study directors and two more subject-matter experts to confirm that the questions measure or test the anticipated outcomes. Based on their assessment, the instrument will be appropriately modified prior to being used for the final data collection activity.

3.7.2 Reliability of the Research Instrument

Reliability is defined by LoBiondo-Wood and Haber (2014) as the accuracy of a research tool. The reliability of the Cronbach Alpha test was used to examine any relationships between the different responses. The dependability of the items increases with Cronbach's Alpha coefficient proximity to 1, and vice versa (Tavakol & Dennick, 2011; Drost, 2011).

3.8 Data Collection Procedures

The data collection process involved obtaining necessary approvals, including a Kenyatta University Graduate School letter and a NACOSTI permit. Questionnaires were distributed to SME proprietors and retrieved after a set duration. A Likert scale (1 to 5) was used to ensure clarity and consistency, enhancing response reliability and incorporating interval measurement for straightforward analysis (Barua, 2013). The survey consisted of six sections, covering respondents' demographics, accounts payable, inventory, and receivable management practices, as well as financial performance as the dependent variable.

A pilot test was conducted with 27 questionnaires (10% of the target population) in Wajir County, chosen for its environmental similarities to Garissa County. This pilot helped identify and revise unclear questions, ensuring the validity and relevance of the questionnaire to the study's objectives.

3.9 Data Analysis and Presentation

According to Cooper and Schindler (2011), data analysis involves using statistical techniques, creating summaries, finding trends, and condensing a large amount of data into a manageable amount. Before being entered into SPSS version 26, the gathered data will be examined to ensure its accuracy and completeness. Using this statistical package, the researcher examined frequency distributions, association and dispersion measures (range and standard deviation), and descriptive statistics that estimate central tendency (mean). To ascertain the level of correlation between the independent and dependent variables, inferential statistics will be produced. Additionally, a 5% significance level criterion was used to evaluate the study's hypotheses' applicability (Deloof, 2003).

The research utilized a cross-sectional linear regression model, as outlined in the model below, which is deemed suitable for cross-sectional data:

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \epsilon$$

Where: Y – Financial performance

β_0 : Intercept

X1: Cash management practices

X2: Accounts Receivables Management

X3: Inventory Management

X4: Accounts Payables Management

The factors are β_1 – β_4 , and the error term is ϵ .

3.10 Diagnostic Tests

When estimating the empirical model, it was essential to ensure that the Classical Linear Regression Model (CLRM) assumptions were not violated. The estimates generated could not be Best Linear Unbiased Estimates (BLUE) if the CLRM assumptions are broken. According to Fadhili et al. (2011), the study conducted tests for normality, multicollinearity, autocorrelation, heteroscedasticity, and panel unit root test to confirm non-violation.

3.10.1 Normality

Given that this research will mostly use multiple regression analysis for data analysis, it will be assumed that the data follows a normal distribution. The Shapiro-Wilk, Kolmogorov-Smirnov, Normal Q-Q Plot, and Jarque-Bera tests are all applicable for assessing normalcy. The research will use the Shapiro-Wilk test due to its superior comprehensiveness compared to other tests (Field, 2009; Gujarati & Porter, 2004; Razali & Wah, 2011). The scores from the sample need to be compared to scores that are normally distributed and have similar measures of variability. If the coefficient is not statistically significant ($p > 0.05$), the sample distribution would closely resemble a normal distribution since there is no noticeable difference between the two.

On the other hand, the distribution in question is regarded as non-normal when the test is significant ($p < 0.05$) (Jackson, 2009). Non-parametric statistics are performed when the normalcy test fails since they do not depend on the normalcy of the data.

3.10.2 Multicollinearity

When one or more independent variables have a strong correlation—enough so that one can be used to predict the other—this is known as multicollinearity. Almost every element of multiple

regression analysis is impacted by multicollinearity, which is detrimental to the analysis overall, particularly when there is a significant degree of correlation between the independent variables (Aczel & Sounderpandian, 2009). The study used variance inflation factors (VIF) to test for multicollinearity.

3.10.3 Autocorrelation

When panel data are used, an autocorrelation test is required. Error terms between periods are correlated when there is autocorrelation. When autocorrelation is present, error terms become biased and inefficient, leading to incorrect conclusions (Kock & Lyne, 2012). Because the Durbin Watson test can be used at several delays, it will be used in this study's serial correlation analysis. For this test, the absence of first order serial autocorrelation is the null hypothesis. In accordance with the data (Rumana, Tapati, Rahman & Majumder, 2012), the null hypothesis is denied and the residuals are autocorrelated when the P value exceeds the 5% significance level. The robust standard errors method can be employed to rectify the issue when the autocorrelation assumption is violated, as recommended by Wooldridge (2002).

3.11 Ethical Consideration

The study of right and bad behavior is known as ethics (Resnik, Rasmussen, & Kissling, 2015). By first getting approval from the appropriate authorities, the study made sure that ethical guidelines are followed. Requested are a research permit from NACOSTI and a letter of authorization for research from Kenyatta University. The sources of the data were credited, and the pertinent literature study was referenced and noted.

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND DISCUSSION

4.1 Introduction

This section details the results of the study. they comprise descriptive and inferential. Further, they are presented per objective.

4.2 Reliability Test Results

Reliability testing using Cronbach's Alpha ensured the research instrument consistently measured the constructs, with values of 0.7 or higher indicating acceptable internal consistency.

The reliability results for the study variables are presented in Table 4.1.

Table 4.1: Reliability Test Results

Variable	Cronbach's Alpha	N of Items	Comments
Inventory Management Techniques	0.906	5	Reliable
Accounts Receivable Management Techniques	0.763	5	Reliable
Cash Management Techniques	0.783	5	Reliable
Accounts Payable Management Techniques	0.912	5	Reliable
Performance	0.844	5	Reliable

Source: Research Data (2024).

The findings confirmed high reliability across all variables, with Cronbach's Alpha values exceeding 0.7. Inventory management had a Cronbach's Alpha of 0.906, indicating excellent reliability, while accounts receivable management scored 0.763, reflecting strong internal consistency. Cash management recorded 0.783, ensuring reliable assessment of practices like

budgeting and liquidity control. Accounts payable management exhibited the highest reliability at 0.912, demonstrating consistent measurement of payment scheduling and creditor management. Performance measures scored 0.844, reliably capturing financial outcomes such as profitability. These results validate the research instrument's robustness and suitability for analyzing the relationship between cash management and financial performance among SMEs in Garissa County.

4.3 Response Rate

Reliability testing was undertaken to establish the credibility and consistency of the research instrument in measuring the intended constructs. This involved calculating Cronbach's Alpha, a widely used statistical metric for evaluating internal consistency. With a threshold of 0.7 or above signifying acceptable reliability, the analysis ensured that the items within each variable effectively captured the constructs under investigation, confirming the instrument's dependability for the study. The results of the reliability analysis are presented in Table 4.2.

Table 4.2: Response Rate

Category	Frequency	Percentage (%)
Completed Responses	223	80
Non-Responses	55	20
Total	278	100

Source: Research Data (2024)

The study achieved an 80% response rate, with 223 of 278 participants completing the questionnaires, surpassing the 70% threshold for excellence (Mugenda & Mugenda, 2003). This high rate, attributed to effective tools and follow-up, ensures robust, representative data, reducing non-response bias and strengthening the analysis of Cash Management's impact on

financial performance in Garissa County SMEs.

4.4 Demographic Characteristics

Understanding the demographic characteristics of respondents and the SMEs they represent is critical to providing context for the study's findings. This section examines key aspects such as the gender of the respondents, the age of the SMEs, their business segments, and the education levels of the participants. These characteristics offer insights into the diversity of the sample, the operational longevity of the enterprises, and the potential influence of education and industry representation on Cash Management. By analyzing these demographics, the study establishes a comprehensive profile of the respondents and their businesses, ensuring the results are grounded in a clear understanding of the sample's composition.

4.4.1 Gender of Respondents

To understand the demographic composition of the study participants, respondents were asked to indicate their gender. Gender distribution is a critical factor as it provides insights into the representation of different groups in the sample and may offer perspectives on how gender influences business practices and decision-making within SMEs. The respondents were asked to indicate their gender as shown in Figure 4.1:

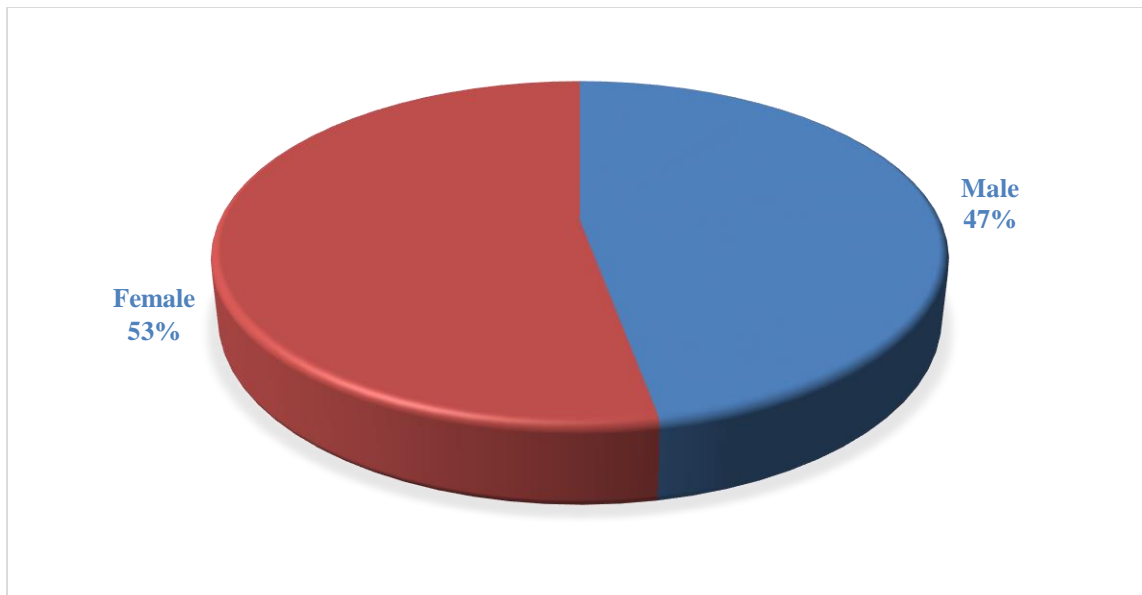


Figure 4.1: Gender

Source: Research Data (2024)

The gender distribution of the respondents shows that a majority were female, comprising 52.90% of the participants, while 47.10% were male. This indicates a slightly higher representation of female respondents compared to males, suggesting a balanced gender representation, with females being the predominant group in the sample. This finding aligns with studies that highlight the increasing role of women in entrepreneurship, particularly in developing regions, where women are often at the forefront of small business ownership. For instance, Harper (2015) emphasized the significant contributions of women in informal and formal business sectors across Africa, noting their critical role in driving local economic activities.

4.4.2 Age of the SMEs

The study also sought to determine the age of the SMEs, which reflects the length of time these

businesses have been in operation. The age of an SME can be an important determinant of its experience, resilience, and ability to manage financial and operational challenges effectively.

Figure 4.2 shows the age of the SMEs.

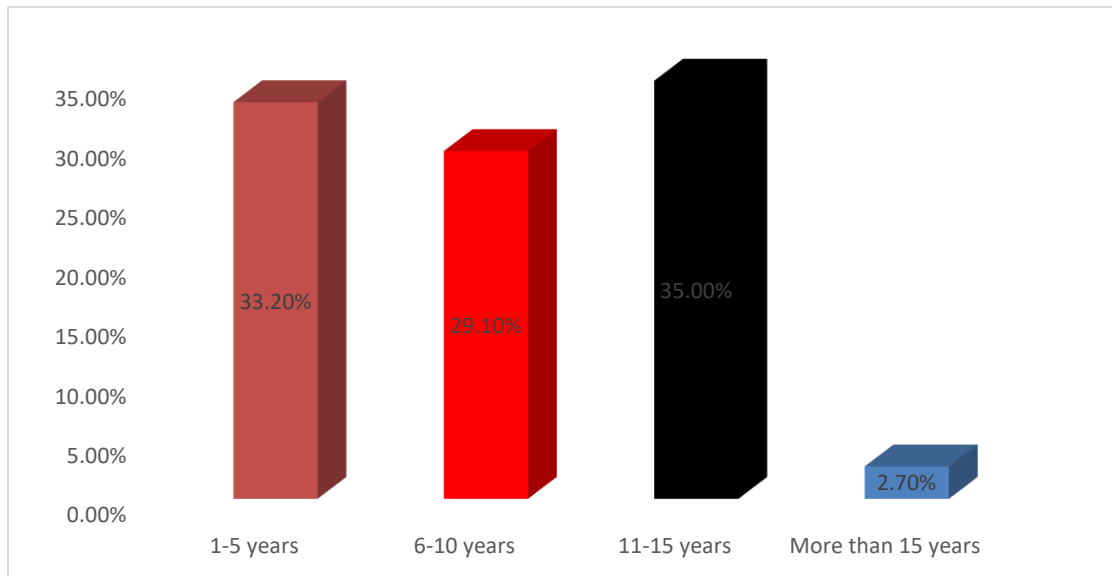


Figure 4.2: Age of SME

Source: Research Data (2024)

The age distribution of SMEs in the study shows a majority (35%) having been in operation for 11-15 years, followed by 33.20% for 1-5 years, and 29.10% for 6-10 years. Only a small percentage (2.70%) of SMEs have been in existence for more than 15 years. This distribution underscores the resilience and adaptability of SMEs, particularly those in operation for more than a decade. Longer operational periods often reflect stability, experience, and the ability to navigate financial and market challenges.

The results corroborate findings from Lamberson (2014), who noted that SMEs with a longer operational history tend to have better management practices and financial structures, which contribute to their survival in dynamic markets. Additionally, Kargar (2018) emphasized that

older SMEs are more likely to have established robust Cash Management , which are essential for financial sustainability. The relatively high proportion of newer SMEs (1-5 years) also highlights the entrepreneurial dynamism in Garissa County, where small enterprises continue to emerge despite economic challenges.

4.4.3 Business Segment

The research categorized the SMEs based on their business segment to assess the diversity of enterprises included in the study. Understanding the distribution of SMEs across various sectors offers valuable insights into the dominant industries in the region and their specific characteristics. Figure 4.3 shows the business segment distribution.

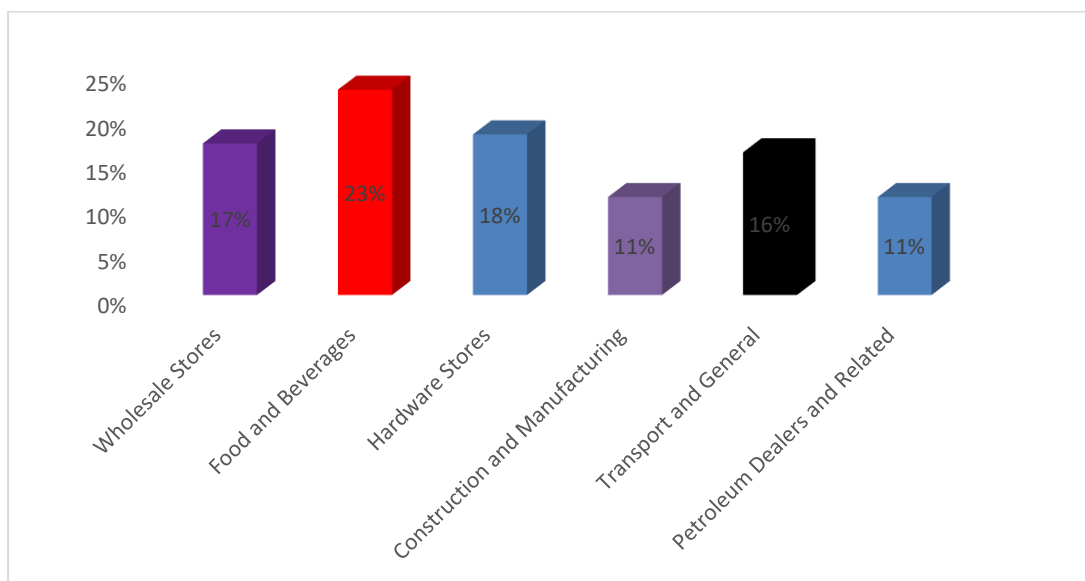


Figure 4.3: Business Segment

Source: Research Data (2024)

The distribution of SMEs across business segments reveals a diverse sample, with the highest representation from "Food and Beverages Restaurants" (29%), followed by "Wholesale Stores"

(17%). Other segments, such as "Construction and Manufacturing Firms" (14%), "Transport and General Oriented Companies" (16%), "Hardware Stores" (13%), and "Petroleum Dealers and Related Businesses" (11%), highlight the varied nature of SME activities in Garissa County.

These findings align with observations by the International Labour Organization (ILO, 2014), which noted that SMEs in developing regions often reflect the predominant economic activities of their localities. Food and beverage businesses, as the most represented segment, demonstrate the critical role of SMEs in addressing basic consumer needs, a trend also highlighted by Kesseven (2016). Furthermore, the relatively lower representation of petroleum-related businesses underscores the challenges faced by capital-intensive sectors, as noted by Gul et al. (2020), who emphasized the importance of targeted financial support for such industries. The sectoral diversity in the sample reflects the adaptability of SMEs in tapping into various market opportunities within the region.

4.4.4 Education Level

The education level of the respondents was analyzed to explore their academic backgrounds and its potential influence on business management practices. Educational qualifications may play a role in shaping the financial literacy, strategic planning, and operational capabilities of SME managers or owners. Figure 4.4 shows the education level of participants.

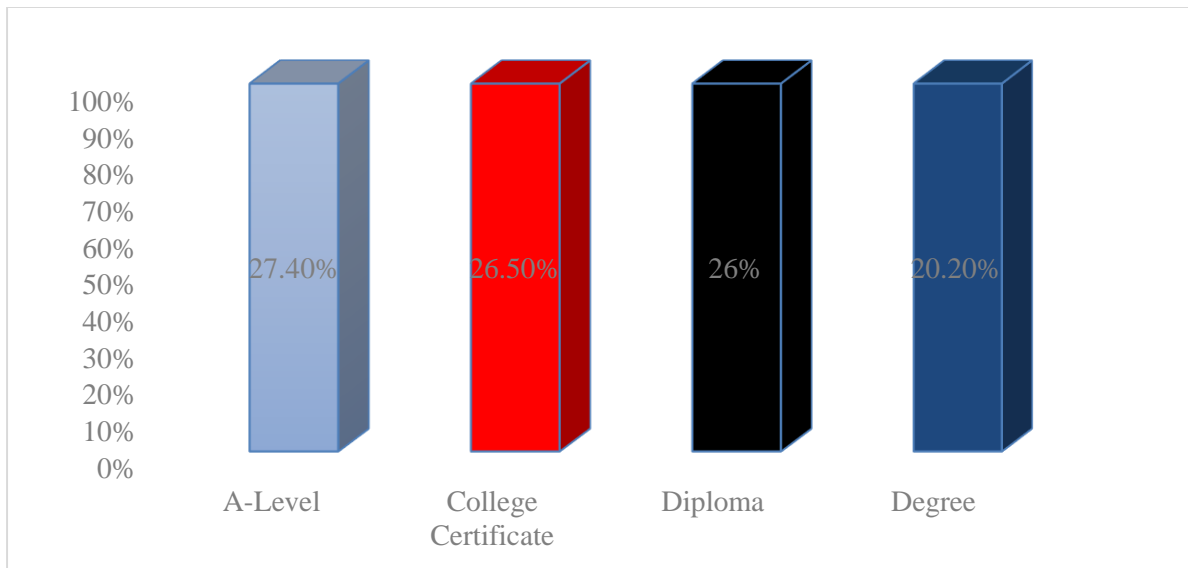


Figure 4.4: Education Level

Source: Research Data (2024)

The educational qualifications of respondents indicate a broad distribution, with a majority holding A-Level qualifications (27.4%), followed closely by those with College Certificates (26.5%) and Diplomas (26%). Degree holders constitute the smallest group, representing 20.2% of the respondents. This distribution suggests that while many SME managers or owners have foundational education, advanced qualifications are less prevalent.

These findings are consistent with Kaburi et al. (2013), who noted that most SME owners in Kenya operate with basic to intermediate educational backgrounds. The relatively high proportion of respondents with A-Level and Diploma qualifications reflects the accessibility of these educational tiers in the region, which may provide sufficient skills for basic business operations. However, the lower percentage of degree holders aligns with studies such as Harper (2015), which highlighted that advanced education levels are often concentrated in larger firms or urban-centric enterprises. Despite these disparities, the presence of basic to intermediate

education among respondents aligns with the argument by Gul et al. (2020) that education enhances financial literacy, strategic decision-making, and operational efficiency in SMEs. The findings emphasize the need for targeted training programs to bridge gaps in financial management and strategic planning for SME owners with lower educational qualifications.

4.5 Descriptive Statistics

The descriptive statistics are presented per objective.

4.5.1 Cash Management Techniques

The first objective was to establish the impact of Cash Management techniques on performance. Table 4.3 shows the respondents' perception:

Table 4.3: Descriptive Statistics for Cash Management

Statement	Mean	Standard Deviation
The SME has a strictly implemented cash budgeting and planning framework for all departments/ units.	3.91	0.87
The SME physically controls movements in cash to avoid loss or misuse.	4.11	0.81
The SME carries out regular reconciliation of transactions involving cash.	4.00	0.78
The SME has a prudent policy to guide investment of surplus Casg	3.99	0.82
The SMEs liquidity control policy is effective in maintaining optimal levels of liquidity while taking advantage of Investment Options	4.14	0.76
Average	4.03	0.808

Source: Research Data (2024)

The study's first objective was to evaluate the effect of Cash Management techniques on the financial performance of SMEs in Garissa County. Descriptive statistics in Table 4.3 reveal an overall mean score of 4.03 and a standard deviation of 0.808, indicating strong agreement among respondents on the effectiveness of these practices. The low standard deviation reflects consistency in the adoption of Cash Management techniques across the SMEs surveyed.

One of the highlighted practices is the implementation of a cash budgeting and planning framework, which received a mean score of 3.91 and a standard deviation of 0.87. This implies that, on average, respondents moderately agreed that such frameworks are in place and effectively utilized. The variation in responses, though slightly higher, suggests that while some SMEs are consistent in this practice, others may face challenges in fully adopting structured cash budgeting systems.

Another critical practice is the physical control of cash movements, which was rated highly by respondents with a mean score of 4.11 and a standard deviation of 0.81. This high mean indicates that SMEs prioritize securing cash and minimizing risks associated with loss or misuse. The relatively low standard deviation shows that this practice is uniformly implemented across the sampled SMEs.

The regular reconciliation of cash transactions was also identified as a common practice, with a mean score of 4.00 and a standard deviation of 0.78. The strong mean reflects that SMEs consistently ensure accuracy in their cash records, contributing to sound financial management. Similarly, the standard deviation shows minimal variability, indicating widespread adoption of this practice.

The presence of prudent policies guiding the investment of surplus cash received a mean score

of 3.99 and a standard deviation of 0.82. This indicates that SMEs generally agree on the importance of investing excess funds wisely to optimize returns, although some variability exists, which could reflect differing levels of investment knowledge or access to suitable investment opportunities.

Lastly, liquidity control policies, aimed at maintaining optimal cash levels while leveraging investment options, had the highest mean score of 4.14 and a standard deviation of 0.76. This suggests that respondents perceive these policies as highly effective, with minimal variability in their implementation. Such practices ensure that SMEs balance liquidity needs with opportunities for growth.

In conclusion, the analysis of means and standard deviations reveals that Cash Management techniques are widely recognized and effectively implemented by SMEs in Garissa County. The relatively high mean scores and low standard deviations across all metrics underscore the critical role of Cash Management in fostering financial stability and efficiency. These practices collectively ensure that SMEs maintain liquidity, safeguard resources, and optimize financial performance.

The findings reveal that cash management techniques are widely adopted and effectively implemented among SMEs in Garissa County, with a strong emphasis on liquidity control policies and securing cash movements. These results align with the observations of Gitman (2009), who emphasized the importance of liquidity control and cash budgeting for operational efficiency. The prioritization of practices such as physical control of cash movements and liquidity management reflects a deliberate effort by SMEs to safeguard resources, minimize financial risks, and optimize operational cash flows. Such practices are crucial in ensuring that

businesses maintain financial stability while effectively navigating daily cash demands.

The study also highlights the critical role of regular cash reconciliation in fostering sound financial management. This finding corroborates prior research by Padachi (2006), which identified cash reconciliation as a vital aspect of the cash conversion cycle, ensuring accuracy and transparency in financial records. Furthermore, the consistent implementation of this practice across SMEs reflects a strong culture of financial discipline and compliance. However, while many SMEs demonstrate well-structured cash budgeting frameworks, there remain challenges in ensuring that all enterprises adopt comprehensive cash planning systems. This observation resonates with Laughlin and Richards' (1980) view that inconsistencies in cash planning can undermine the effectiveness of broader cash management strategies.

The practice of prudent investment of surplus cash further underscores the strategic focus of SMEs on optimizing returns while maintaining liquidity. This aligns with Schwartz's (1974) advocacy for leveraging surplus cash to enhance profitability and long-term growth. By channeling excess resources into productive investments, SMEs can ensure a steady growth trajectory and improve financial performance. These findings collectively highlight that effective cash management practices, when consistently implemented, play a pivotal role in supporting financial stability, reducing operational inefficiencies, and enabling SMEs to capitalize on emerging opportunities.

4.5.2 Accounts Receivable Management Techniques

Table 4.4 shows the results for Accounts Receivable Management Techniques

Table 4.4: Descriptive Statistics for Accounts Receivable Management Techniques

Statement	Mean	Std dev
The firm has a well spelt out trade credit policy to guide the credit administration decisions made.	4.00	0.81
The SME has an effective debt collection framework that ensures efficient and effective collections of dues from debtors.	3.90	0.86
The SME has a well implemented system for screening potential debtors to guide advancement of credit.	4.16	0.82
The SME keeps proper debtors record to ease monitoring and give information regarding credit worthiness of borrowers.	4.06	0.83
The SME implements a strict delinquency control system to ensure debts are repaid promptly.	3.95	0.85
Average	4.014	0.834

Source: Research Data (2024)

The study assessed the effectiveness of accounts receivable management techniques among SMEs in Garissa County. The descriptive statistics in Table 4.4 reveal the perceptions of respondents regarding practices such as trade credit policies, debt collection frameworks, debtor screening systems, record maintenance, and delinquency control mechanisms.

The results show an overall mean score of 4.014 and a standard deviation of 0.834, indicating a strong agreement among respondents on the effectiveness of these practices. The relatively low standard deviation reflects consistency in the implementation of accounts receivable management techniques across the surveyed SMEs. A well-defined trade credit policy, which

guides credit administration decisions, achieved a mean score of 4.00 with a standard deviation of 0.81. This demonstrates that SMEs generally agree on the importance of having clear policies in place to manage credit terms and conditions. The moderate variability suggests that while many SMEs have implemented these policies effectively, others may still face challenges in formalizing or enforcing them.

The presence of an effective debt collection framework received a mean score of 3.90 and a standard deviation of 0.86. This indicates that respondents recognize the significance of having structured mechanisms to ensure efficient collection of dues, though the slightly higher standard deviation points to some variability in its application among SMEs.

Debtor screening practices were rated the highest, with a mean score of 4.16 and a standard deviation of 0.82. This suggests that most SMEs place a high priority on assessing the creditworthiness of potential debtors before extending credit. The relatively consistent standard deviation implies that this practice is well-adopted across the surveyed firms.

Proper maintenance of debtor records was also highly rated, with a mean score of 4.06 and a standard deviation of 0.83. This finding highlights the importance SMEs attach to tracking debtor information to monitor credit risk and ensure informed decision-making regarding credit administration.

Lastly, the implementation of a strict delinquency control system, designed to ensure timely repayment of debts, had a mean score of 3.95 and a standard deviation of 0.85. While respondents generally agreed on the effectiveness of such systems, the variability suggests that some SMEs may encounter challenges in enforcing stringent controls.

The analysis of means and standard deviations highlights the strong emphasis SMEs place on

accounts receivable management techniques to optimize financial performance. Practices such as debtor screening, record maintenance, and trade credit policies are particularly effective in ensuring steady cash flows and minimizing credit risks. The consistent adoption of these techniques among SMEs underscores their critical role in sustaining operational and financial stability.

The study demonstrates that accounts receivable management techniques are a cornerstone of financial stability among SMEs in Garissa County. Practices such as trade credit policies, debtor screening, and delinquency control are widely adopted, reflecting the emphasis on optimizing cash inflows while minimizing credit risks. This aligns with Gul, Khan, and Rehman's (2018) assertion that well-defined credit policies help streamline credit administration, ensuring timely collections and fostering business sustainability. Such practices enable SMEs to maintain steady cash flows and reduce the financial strain associated with delayed payments or non-performing accounts.

The role of debtor screening in safeguarding financial performance is particularly noteworthy. The findings reveal that SMEs prioritize assessing the creditworthiness of potential debtors, a practice that is consistent with Joana, Vitorino, and Moreira's (2011) emphasis on evaluating customers to minimize credit risks. Effective screening ensures that only reliable clients are extended credit, reducing the likelihood of bad debts and fostering a more sustainable credit environment. Furthermore, the maintenance of proper debtor records supports this process, providing critical information for monitoring creditworthiness and enhancing decision-making in credit administration.

Delinquency control mechanisms, such as strict repayment policies, are also central to effective

accounts receivable management. These findings echo the views of Deloof (2003), who emphasized that robust delinquency management frameworks significantly enhance the efficiency of credit recovery processes. By implementing structured systems to address overdue accounts, SMEs can mitigate losses and maintain a healthy financial position. Together, these practices underscore the importance of proactive accounts receivable management in ensuring operational continuity and safeguarding the financial health of SMEs.

4.5.3 Inventory Management Techniques

Table 4.5 shows the descriptive results for inventory management techniques.

Table 4.5: Descriptive Statistics on Inventory Management Techniques

Statement	Mean	Std. Deviation
The SME carries out periodic inspection of inventory to inform the stocking needs and verify that the goods are in good and safe state	4.13	0.844
The SME has a well laid out framework that ensure regular stock taking and control	3.94	0.911
The firm has established an effective inventory related loss prevention plans	4.06	0.8
The SME has adopted an effective coding and sorting practice for dealing with inventory to ease control of stock movement	4.13	0.78
Average	4.065	0.834

Source: Research Data (2024)

The study examined inventory management practices among SMEs in Garissa County to evaluate their impact on financial performance. The descriptive statistics presented in Table 4.5 illustrate the respondents' perceptions of various inventory management techniques.

The results reveal an overall mean score of 4.065 with a standard deviation of 0.834, indicating that most respondents agree on the effectiveness of inventory management practices in their enterprises. The relatively low standard deviation reflects consistency in how inventory management is implemented across the SMEs surveyed.

Periodic inspection of inventory to inform stocking needs and ensure goods are in good and safe condition was rated highly, with a mean score of 4.13 and a standard deviation of 0.844. This indicates that respondents perceive regular inventory checks as essential for maintaining quality and preventing stock-related issues. Such inspections enable SMEs to plan effectively for restocking and ensure optimal inventory levels.

The establishment of a well-laid framework for regular stock-taking and control received a mean score of 3.94 and a standard deviation of 0.911. This finding suggests that while many SMEs recognize the importance of consistent stock-taking practices, some variability in implementation exists. Regular stock-taking ensures that businesses can monitor stock movement and reduce discrepancies.

Effective inventory loss prevention plans were also rated positively, with a mean score of 4.06 and a standard deviation of 0.8. This finding highlights that SMEs prioritize strategies to prevent inventory losses, such as theft or spoilage, thereby protecting their assets and ensuring operational efficiency.

Lastly, adopting effective coding and sorting practices for inventory control received a high

mean score of 4.13 and a standard deviation of 0.78. This indicates that most respondents view these practices as crucial for simplifying stock management and improving accuracy in inventory tracking.

In summary, the analysis underscores the strong emphasis SMEs in Garissa County place on inventory management practices. These practices, including regular inspections, loss prevention strategies, and effective inventory coding, are integral to maintaining operational efficiency and financial stability. The consistency in responses further highlights the importance of inventory management as a key component of overall business success.

The findings emphasize the critical role of inventory management techniques in enhancing financial performance among SMEs in Garissa County. Practices such as record-keeping, reconciliation, and creditor settlement policies are widely implemented, reflecting the importance of maintaining accurate and up-to-date inventory records. This aligns with the views of Rodrigo, Rathnayake, and Pathirawasam (2020), who highlighted that effective inventory tracking minimizes operational disruptions and ensures optimal stock levels. Accurate record-keeping enables SMEs to avoid stockouts or overstocking, thereby reducing unnecessary costs and maximizing operational efficiency.

Reconciliation of creditors' accounts further reinforces the effectiveness of inventory management practices. Regular reconciliation ensures that credit advances from suppliers are accurately monitored and planned for, reducing the risk of overdue payments. This finding is consistent with the assertions of Padachi (2006), who identified reconciliation as a critical component of efficient working capital management. Such practices foster stronger relationships with suppliers and ensure that businesses remain financially disciplined in

managing their liabilities.

Additionally, the presence of well-defined creditor settlement policies and planning for transaction costs underscores the strategic approach SMEs take toward inventory management. These practices reflect Deloof's (2003) argument that minimizing transaction costs through effective planning enhances profitability and financial sustainability. By optimizing creditor settlements and reducing unnecessary financial outflows, SMEs can improve their liquidity position and ensure that resources are directed toward growth initiatives.

4.5.4 Accounts Payable

The study also sought to determine the Accounts payables in Garrissa, as shown in Table 4.6:

Table 4.6: Descriptive Statistics for Accounts Payables

Statement	Mean	Standard Deviation
The SME keeps good records for all credit advances given by Suppliers of the Firm	3.91	0.8
The SME owners regularly reconcile the creditors account to ensure credit advances are kept on track and planned for.	4.01	0.78
The business has a well spelt out creditors' settlement policy that optimizes the benefits accruing to the firm.	4.05	0.81
The business entity is effective in planning for settlements to ensure debts are paid on time	4.04	0.82
The SME recognizes the impact of transaction costs and makes proper planning to ensure the costs are effectively minimized.	4.04	0.84
Average	4.01	0.81

Source: Research Data (2024)

The results show an overall mean score of 4.01 with a standard deviation of 0.81, indicating that most respondents agree on the effectiveness of the accounts payables management practices adopted by their SMEs. The relatively low standard deviation reflects consistency in how these practices are implemented across the surveyed SMEs.

Maintaining accurate records of all credit advances given by suppliers was rated moderately, with a mean score of 3.91 and a standard deviation of 0.8. This suggests that SMEs place importance on tracking credit transactions, though some variability in implementation indicates differences in record-keeping practices among the enterprises.

The regular reconciliation of creditors' accounts to ensure credit advances are monitored and planned effectively was rated higher, with a mean score of 4.01 and a standard deviation of 0.78. This finding highlights the emphasis SMEs place on maintaining accurate records and ensuring timely reconciliation, which minimizes risks associated with overdue payments and strengthens supplier relationships.

The presence of a well-defined creditors' settlement policy was rated positively, with a mean score of 4.05 and a standard deviation of 0.81. This suggests that SMEs generally prioritize establishing policies that maximize the benefits of credit arrangements, ensuring that obligations are met in a timely and strategic manner.

Effective planning for settlements to ensure timely payment of debts received a mean score of 4.04 and a standard deviation of 0.82. This finding indicates that SMEs are focused on maintaining financial discipline and sustaining good relationships with creditors, even though there is some variability in how this practice is implemented across different enterprises.

Lastly, recognizing the impact of transaction costs and planning to minimize them was rated

highly, with a mean score of 4.04 and a standard deviation of 0.84. This underscores the importance SMEs place on optimizing financial outflows and reducing unnecessary expenses associated with accounts payables.

In summary, the results indicate that SMEs in Garissa County adopt a variety of effective accounts payables management techniques, including maintaining accurate records, reconciling accounts, and planning creditor settlements. These practices contribute to maintaining financial stability, strengthening supplier relationships, and improving operational efficiency.

4.5.5 Financial Performance

The study also sought to determine the participant’s perspectives of financial performance in their organization. The findings are as shown in Table 4.7:

Table 4.7: Descriptive Statistics on Financial Performance

Statement	Mean	Std. Dev
The SME has experienced growth in net profit margin over the past year.	4.13	0.792
Sales revenue has consistently increased over the past financial year.	4.02	0.808
The SME maintains a healthy balance between its assets and liabilities.	4.03	0.819
The business effectively controls costs, resulting in improved profitability.	4.01	0.811
There has been a positive cash flow from the operating activities of the SME.	4.13	0.809
Average	4.06	0.808

Source: Research Data (2024)

The results indicate an overall mean score of 4.06 with a standard deviation of 0.808, suggesting that most respondents agree on the positive financial performance of their SMEs. The low standard deviation implies a relatively high level of consistency in the responses across the surveyed enterprises.

Growth in net profit margins over the past year was rated highly, with a mean score of 4.13 and a standard deviation of 0.792. This finding indicates that most SMEs have experienced profitability improvements, reflecting effective operational strategies and financial practices.

Sales revenue, which has consistently increased over the past financial year, was rated positively with a mean score of 4.02 and a standard deviation of 0.808. This result suggests that many SMEs have successfully enhanced their revenue generation capabilities, likely driven by improved market presence and operational efficiency.

Maintaining a healthy balance between assets and liabilities was also rated favorably, with a mean score of 4.03 and a standard deviation of 0.819. This highlights that SMEs generally prioritize financial stability by ensuring an equilibrium between their resources and obligations, thus safeguarding their solvency.

Effective cost control measures, resulting in improved profitability, were rated similarly, with a mean score of 4.01 and a standard deviation of 0.811. This indicates that SMEs are focused on minimizing operational expenses to maximize their financial outcomes, a practice critical for sustainable growth.

Lastly, a positive cash flow from operating activities was rated highly, with a mean score of 4.13 and a standard deviation of 0.809. This underscores the ability of SMEs to generate sufficient cash from their core business activities, ensuring liquidity and financial health.

The results reveal that SMEs in Garissa County demonstrate strong financial performance across various metrics, including profitability, revenue growth, and effective cost management. These practices collectively contribute to sustaining operational efficiency and long-term business viability.

4.6 Diagnostic Tests

Before conducting regression analysis, it is essential to ensure that the dataset meets the key assumptions required for reliable and valid results. Diagnostic tests were performed to evaluate the assumptions of normality, multicollinearity, and autocorrelation. These tests are crucial in determining whether the regression model adheres to the principles of the Classical Linear Regression Model (CLRM). The findings from the diagnostic tests are detailed below.

4.6.1 Normality Test

The study conducted normality tests using shapiro-wilk, as shown in Table 4.8:

Table 4.8: Normality Tests

Variable	Shapiro Wilk (sig)
Cash Management	0.07
Accounts Payable Management	0.12
Accounts Receivable Management	0.21
Inventory Management	0.09
Performance	0.27

Source: Research Data (2024)

The results of the normality tests presented in Table 4.8 indicate that the variables under study exhibit normal distributions. The Shapiro-Wilk test values for all variables—Cash Management (sig = 0.07), Accounts Payable Management (sig = 0.12), Accounts Receivable

Management (sig = 0.21), Inventory Management (sig = 0.09), and Performance (sig = 0.27)—are all greater than the 0.05 significance threshold. This suggests that none of the variables significantly deviate from normality.

4.6.2 Multicollinearity

The study assessed multicollinearity using VIF, as shown below:

Table 4.9: Collinearity Diagnostics

	Tolerance	VIF
1 (Constant)		
Inventory Management	0.801	1.249
Accounts Receivable Management	0.34	4.55
Accounts Payable Management	0.315	3.18
Performance	0.965	1.036

a Dependent Variable: Performance

Source: Research Data (2024)

The collinearity diagnostics in Table 4.9 indicate that Inventory Management has a tolerance of 0.801 and a VIF of 1.249, showing minimal multicollinearity. Accounts Receivable Management has a tolerance of 0.34 and a VIF of 4.55, while Accounts Payable Management has a tolerance of 0.315 and a VIF of 3.18. These values suggest some moderate multicollinearity but remain within generally acceptable thresholds (VIF < 10). Performance, as the dependent variable, has a high tolerance of 0.965 and a VIF of 1.036, indicating no multicollinearity concerns. Overall, while Accounts Receivable and Accounts Payable Management exhibit moderate multicollinearity, all variables are within acceptable levels, suggesting that multicollinearity is not a major issue in this model.

4.6.3 Autocorrelation

The Durbin-Watson test was applied to assess autocorrelation, yielding a statistic of 1.957. This value, being near 2, indicates no significant autocorrelation in the regression model's residuals, confirming their independence. This finding validates the model's reliability and ensures that error terms are not systematically correlated, supporting the robustness of the predictions.

4.7 Regression Results

4.7.1 Multiple Regression Analysis

The study conducted multiple linear regression model. Table 4.10 shows the model summary:

Table 4.10: Model Summary

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.785a	0.616	0.609	0.23721

a Predictors: (Constant), Accounts Payable Management, Inventory Management, Cash Management , Accounts Receivable Management

Source: Research Data (2024)

The R Square value of 0.616 indicates that 61.6% of the variance in financial performance is explained by the independent variables: Inventory Management, Accounts Payable Management, Cash Management, and Accounts Receivable Management. This highlights the significant role of these practices in influencing SME performance in Garissa County. The Adjusted R Square value of 0.609 further confirms the model's robustness, accounting for predictors relative to sample size and minimizing overfitting. A small difference between R Square and Adjusted R Square underscores the model's reliability. The standard error of the estimate, 0.23721, indicates a close alignment between predicted and actual values, ensuring

precision. Collectively, the results affirm the strong impact of working capital management practices on financial performance, providing a solid basis for analysis.

Table 4.11: ANOVA

ANOVA						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	19.687	4	4.922	87.472	.000b
	Residual	12.266	218	0.056		
	Total	31.954	222			

a Dependent Variable: Performance

b Predictors: (Constant), Accounts Payable Management, Inventory Management, Cash Management , Accounts Receivable Management

Source: Research Data (2024)

Table 4.11 presents the ANOVA results, confirming the regression model's statistical significance with an F-value of 87.472 and a p-value of 0.000, well below the 0.05 threshold. This indicates that the independent variables—Inventory Management, Accounts Payable Management, Cash Management, and Accounts Receivable Management—collectively have a significant impact on financial performance. The regression Sum of Squares (19.687) highlights the explained variability, while the residual Sum of Squares (12.266) represents the unexplained portion, emphasizing the model's ability to minimize errors. The high F-value further demonstrates the model's strong predictive power, validating its effectiveness in examining the relationship between working capital management practices and SME financial performance. Table 4.11 shows the coefficient of regression results

Table 4.12: Coefficient of Regression

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.229	0.198		6.2	0.000
	Cash Management	0.226	0.031	0.347	7.396	0.000
	Accounts Receivable Management	-0.649	0.175	-0.825	-3.7	0.000
	Inventory Management	1.279	0.214	1.349	5.966	0.000
	Accounts Payable Management	0.043	0.041	0.045	1.058	0.291

a Dependent Variable: Performance

Source: Research Data (2024)

The resultant equation is thus;

$$Y = 1.229 + 0.226X_1 + 1.279X_2 - 0.649X_3 + 0.043X_4$$

- Y = Financial Performance
- X₁ = Cash Management
- X₂ = Inventory Management
- X₃ = Accounts Receivable Management
- X₄ = Accounts Payable Management

The regression analysis presented in Table 4.12 highlights the significant relationships between working capital management practices and the financial performance of SMEs. Inventory Management demonstrated a strong and positive influence, with a coefficient of 1.279 and a t-value of 5.966. This finding underscores the importance of well-structured inventory practices, such as regular stock inspections, loss prevention strategies, and efficient coding systems, in enhancing operational efficiency and boosting profitability.

In contrast, Accounts Receivable Management showed a negative and statistically significant effect on financial performance, with a coefficient of -0.649 and a t-value of -3.700. This indicates that inefficiencies in managing accounts receivable, such as delayed collections or ineffective credit policies, adversely impact financial outcomes. To mitigate these effects, SMEs must prioritize timely debt collection and implement robust credit management systems to maintain steady cash flows.

Accounts Payable Management, while exhibiting a positive relationship with financial performance, was not statistically significant, as reflected by a coefficient of 0.043 and a t-value of 1.058. This suggests that accounts payable practices may have a less pronounced impact compared to other components of working capital management within SMEs.

Overall, the results highlight that Inventory Management and Cash Management are the most critical factors positively influencing financial performance, while inefficiencies in Accounts Receivable Management pose significant challenges. These findings align with existing literature on working capital management, emphasizing the vital role of cash and inventory management in driving profitability. The study also reinforces the need for effective receivables practices to address the detrimental effects of delayed collections. In contrast, the limited impact of accounts payable management suggests its influence may vary based on specific SME dynamics. Collectively, these insights provide SME managers with actionable strategies to optimize their working capital practices and enhance financial outcomes.

4.7.1 Cash Management and Financial Performance

The first objective of the study was to examine the effect of cash management practices on the financial performance of SMEs in Garissa County. Cash management was conceptualized in

terms of budgeting frameworks, liquidity control, transaction reconciliation, and prudent investment of surplus funds. Given that SMEs often face volatile cash flows and limited financing alternatives, understanding the role of cash management is critical to establishing how internal liquidity practices influence profitability and sustainability.

Table 4.13 presents the model summary for the regression between cash management and financial performance.

Table 4.13 Model Summary for Cash Management

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.598 ^a	.357	.354	.30486

a. Predictors: (Constant), Cash Management

The results show an R-value of 0.598, indicating a strong positive correlation between the two variables. The R Square value of 0.357 implies that cash management alone explains 35.7% of the variance in financial performance among SMEs in Garissa County. The Adjusted R Square of 0.354 demonstrates consistency of the model when adjusted for the sample size, and the standard error of 0.30486 reflects a relatively small deviation between predicted and observed performance values. These statistics highlight that effective cash management is a substantial predictor of financial outcomes in SMEs.

Table 4.14 shows the ANOVA results for the regression model. The findings reveal a highly significant model with an F-statistic of 122.820 and a p-value of 0.000, confirming that the regression model is statistically significant at the 5% level.

Table 4.14: ANOVA for Cash Management

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	11.415	1	11.415	122.820	.000 ^b
	Residual	20.539	221	.093		
	Total	31.954	222			

a. Dependent Variable: Performance

b. Predictors: (Constant), Cash Management

This means cash management practices collectively and significantly contribute to predicting the financial performance of SMEs. The regression sum of squares (11.415) compared to the residual sum of squares (20.539) indicates that the model explains a notable portion of the total variability in performance, strengthening the argument that cash management plays a critical role in SME financial health.

Table 4.15 provides the regression coefficients for cash management. The unstandardized coefficient (B) for cash management is 0.389, with a t-value of 11.082 and a p-value of 0.000, which confirms a positive and statistically significant relationship with financial performance.

Table 4.15: Coefficient of Regression for Cash Management

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized	t	Sig.
		B	Std. Error	Coefficients		
1	(Constant)	2.545	.139		18.369	.000
	Cash Management	.389	.035	.598	11.082	.000

a. Dependent Variable: Performance

This suggests that a one-unit improvement in cash management practices leads to a 0.389-unit increase in financial performance, holding other factors constant. The standardized beta

coefficient (0.598) further indicates that cash management is a strong determinant of SME performance compared to other working capital management components.

The findings demonstrate that cash management has a positive and significant impact on the financial performance of SMEs in Garissa County. This supports the theoretical foundation of the Cash Conversion Cycle Theory, which emphasizes that firms with efficient cash flow practices maintain greater liquidity, reduce financial distress, and optimize profitability (Gitman, 2009). By implementing structured budgeting, reconciling transactions regularly, and exercising control over liquidity, SMEs can stabilize their financial base and enhance operational efficiency.

Empirically, these results align with Mohammed (2019), who established that proper cash management practices enhance profitability through stable liquidity and the capacity to exploit investment opportunities. Similarly, Mungai (2014) observed that cash flow planning and reconciliation in SMEs reduce operational risks and foster long-term sustainability. More recent evidence by Owuor et al. (2021) confirms that liquidity optimization remains a critical determinant of SME survival in uncertain market conditions. In contrast, SMEs that lack proper cash flow management often face insolvency risks, constrained growth, and missed market opportunities.

The implications of this study are twofold. First, managerially, SME owners and managers in Garissa must prioritize the establishment of structured cash budgeting frameworks and adopt regular reconciliation systems to safeguard liquidity and reduce risks of misappropriation. Second, at a policy level, capacity-building programs should be introduced to enhance SME owners' financial literacy in liquidity management, particularly in regions like Garissa where

access to external finance is limited. In line with Lienert (2009) and Pandey (2014), strengthening cash management is not merely an operational necessity but a strategic lever for SME competitiveness and financial sustainability

4.7.2 Accounts Receivable and Financial Performance

The second objective of the study was to determine the effect of accounts receivable management practices on the financial performance of SMEs in Garissa County. Accounts receivable management was conceptualized in terms of trade credit policies, debtor screening, debt collection frameworks, record maintenance, and delinquency control. Given that receivables constitute a major component of working capital, inefficient management can compromise liquidity and strain profitability, while effective receivables practices ensure steady cash inflows and financial sustainability.

Table 4.16 presents the model summary for the regression between accounts receivable management and financial performance.

Table 4.16: Model Summary for Accounts Receivable

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.636 ^a	.405	.402	.29329

a. Predictors: (Constant), Accounts Receivable Management

The results show an R-value of 0.636, indicating a strong positive correlation between the two variables. The R Square value of 0.405 implies that accounts receivable management explains 40.5% of the variance in financial performance among SMEs. The Adjusted R Square of 0.402 confirms the robustness of the model, while the standard error of 0.29329 reflects relatively

low prediction error. These results suggest that accounts receivable management practices significantly contribute to explaining differences in SME performance.

Table 4.17 provides the ANOVA results for the regression model. The findings reveal a highly significant model with an F-statistic of 150.475 and a p-value of 0.000, which is well below the 0.05 threshold.

Table 4.17: ANOVA for Accounts Receivable

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	12.944	1	12.944	150.475	.000 ^b
	Residual	19.010	221	.086		
	Total	31.954	222			

a. Dependent Variable: Performance

b. Predictors: (Constant), Accounts Receivable Management

This confirms that accounts receivable management practices significantly predict the financial performance of SMEs in Garissa County. The regression sum of squares (12.944) compared to the residual sum of squares (19.010) shows that a substantial portion of performance variability is accounted for by receivables management, further reinforcing the importance of this predictor.

Table 4.18 shows the regression coefficients for accounts receivable management. The unstandardized coefficient (B) for accounts receivable management is 0.501, with a t-value of 12.267 and a p-value of 0.000, confirming a positive and statistically significant relationship with financial performance.

Table 4.18: Coefficient of Regression for Accounts Receivable

		Coefficients^a				
Model		Unstandardized Coefficients		Standardized	t	Sig.
		B	Std. Error	Coefficients		
1	(Constant)	2.157	.157		13.765	.000
	Accounts Receivable Management	.501	.041	.636	12.267	.000

a. Dependent Variable: Performance

The standardized beta coefficient (0.636) indicates that accounts receivable management is a strong determinant of performance, second only to inventory management in terms of predictive power. This means that a one-unit increase in the effectiveness of receivables management leads to a 0.501-unit increase in financial performance, holding other factors constant.

The findings demonstrate that accounts receivable management has a positive and significant impact on the financial performance of SMEs in Garissa County. This supports the theoretical foundations of the Financing Advantage Theory and Transaction Cost Theory, which emphasize that firms maintaining efficient credit policies and minimizing collection costs enhance liquidity and reduce risks of bad debts (Eljelly, 2004). By screening debtors effectively, setting structured credit terms, and enforcing repayment frameworks, SMEs are able to maintain consistent working capital, thereby safeguarding profitability and operational continuity.

Empirically, these results are consistent with Gul, Khan, and Rehman (2018), who found that well-structured credit policies and debtor management systems significantly improve liquidity

and reduce defaults in SMEs. Similarly, Owuor, Agusioma, and Wafula (2021) established that inefficiencies in receivables management contribute to cash flow problems in Kenyan universities, highlighting that receivables practices remain a critical determinant of financial sustainability. More recently, Siele and Tibbs (2019) also confirmed that delinquency control frameworks strengthen organizational stability by minimizing exposure to bad debts.

The implications of this study are significant. For SME managers, the results underscore the importance of developing clear trade credit policies, conducting thorough debtor screening, and enforcing structured debt collection systems. These practices ensure that credit granted to customers translates into timely cash inflows, thereby supporting liquidity and profitability. For policymakers and financial institutions, the findings point to the need for training and capacity-building programs that enhance SMEs' ability to manage receivables effectively, especially in credit-reliant sectors such as wholesale and retail. As noted by Jagongo and Makori (2013), effective accounts receivable management not only improves firm-level outcome.

4.7.3 Inventory Management and Financial Performance

The third objective of the study was to determine the effect of inventory management practices on the financial performance of SMEs in Garissa County. Inventory management was operationalized in terms of regular stock inspections, adoption of inventory coding and sorting systems, loss-prevention strategies, and structured stock-taking frameworks. Efficient inventory control is crucial for SMEs, as it ensures that stock levels are optimized to meet demand without incurring excessive holding costs, while also minimizing losses from spoilage, theft, or obsolescence.

Table 4.19 presents the model summary for the regression analysis between inventory

management and financial performance.

Table 4.19: Model Summary for Inventory Management

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.690 ^a	.475	.473	.27541

a. Predictors: (Constant), Inventory Management

The results show an R-value of 0.690, indicating a strong positive correlation between the two variables. The R Square value of 0.475 suggests that inventory management explains 47.5% of the variance in financial performance among SMEs in Garissa County, which is the highest explanatory power among the working capital management components analyzed. The Adjusted R Square of 0.473 demonstrates the model’s robustness, while the standard error of 0.27541 indicates a relatively close alignment between predicted and actual performance values.

Table 4.20 shows the ANOVA results. The regression model is statistically significant with an F-statistic of 200.283 and a p-value of 0.000, confirming that inventory management practices are strong predictors of financial performance.

Table 4.20: ANOVA for Inventory Management

ANOVA^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	15.191	1	15.191	200.283	.000 ^b
	Residual	16.762	221	.076		
	Total	31.954	222			

a. Dependent Variable: Performance

b. Predictors: (Constant), Inventory Management

The regression sum of squares (15.191) is notably larger than the residual sum of squares (16.762), highlighting the high proportion of performance variability explained by inventory practices. This reinforces the importance of effective inventory control as a driver of profitability and operational efficiency in SMEs.

Table 4.21 provides the regression coefficients. The unstandardized coefficient (B) for inventory management is 0.654, with a t-value of 14.152 and a p-value of 0.000, confirming a positive and statistically significant relationship.

Table 4.21 Coefficient of Regression for Inventory Management

Coefficients^a						
Model		Unstandardized Coefficients		Standardized	t	Sig.
		B	Std. Error	Coefficients		
1	(Constant)	1.877	.156		12.061	.000
	Inventory Management	.654	.046	.690	14.152	.000

a. Dependent Variable: Performance

The standardized beta coefficient (0.690) further underscores that inventory management is the strongest predictor of financial performance compared to cash management and accounts receivable management. This means that a one-unit improvement in inventory management effectiveness results in a 0.654-unit increase in SME performance, holding other variables constant.

The findings clearly demonstrate that inventory management has the strongest positive and significant impact on the financial performance of SMEs in Garissa County. This aligns with

Resource-Based View (RBV) Theory, which emphasizes that internal resources such as effective stock management provide firms with a competitive advantage and improved financial outcomes (Barney, 1991). Efficient inventory control enables SMEs to optimize resource utilization, minimize wastage, and respond effectively to market demand, thereby boosting profitability and sustainability.

Empirically, these results support Rodrigo, Rathnayake, and Pathirawasam (2020), who found that effective inventory practices—including regular inspections, reconciliations, and coding systems—significantly improved the profitability of Sri Lankan manufacturing firms. Similarly, Torky (2020) highlighted that companies with structured inventory frameworks experience lower operating costs and improved efficiency. Closer to the Kenyan context, Mathuva (2009) established that inventory management strongly influences profitability among listed firms, emphasizing the need for SMEs to adopt systematic approaches to stock control.

The implications are considerable. For SME managers, adopting consistent stock inspections, coding systems, and theft/loss-prevention policies is essential to ensure that resources are not wasted and that products remain available to meet customer needs. For policymakers and support agencies, training programs on modern inventory management techniques—such as digital tracking, just-in-time systems, and demand forecasting—can help SMEs in regions like Garissa move from traditional, manual practices to more efficient models. As noted by Deloof (2003), inventory efficiency is critical in minimizing transaction costs and improving liquidity, making it a cornerstone of financial performance.

4.7.4 Accounts Payable Management and Financial Performance

The fourth objective of the study was to examine the effect of accounts payable management practices on the financial performance of SMEs in Garissa County. Accounts payable was measured through record-keeping of supplier credit, reconciliation of creditor accounts, settlement policies, debt repayment planning, and transaction cost management. Effective payables management is expected to help SMEs balance liquidity preservation with timely supplier payments, thereby ensuring smooth operations and sustainable business relationships.

Table 4.22 presents the model summary for the regression analysis between accounts payable management and financial performance.

Table 4.22 Model Summary for Accounts Payable Management

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.076 ^a	.006	.001	.37914

a. Predictors: (Constant), Accounts Payable Management

The results show a weak R-value of 0.076, with an R Square of 0.006, suggesting that accounts payable management explains only 0.6% of the variance in financial performance. The Adjusted R Square of 0.001 indicates that, when adjusted for sample size, the explanatory power is negligible. The standard error of 0.37914 is higher than in other models, reflecting weaker predictive accuracy. These results imply that accounts payable practices, in isolation, are not a strong determinant of SME financial outcomes in Garissa County.

Table 4.23 shows the ANOVA results for the regression model. The F-statistic of 1.293 with a p-value of 0.257 indicates that the model is statistically insignificant at the 5% level.

Table 4.23: ANOVA for Accounts Payable Management

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.186	1	.186	1.293	.257 ^b
	Residual	31.768	221	.144		
	Total	31.954	222			

a. Dependent Variable: Performance

b. Predictors: (Constant), Accounts Payable Management

This means that accounts payable management does not significantly predict financial performance. Unlike cash and inventory management, which explained substantial performance variability, payables practices alone appear to have limited impact on SME profitability in this context.

Table 4.24 provides the regression coefficients. The unstandardized coefficient (B) for accounts payable management is 0.073, with a t-value of 1.137 and a p-value of 0.257, confirming that the relationship between accounts payable and financial performance is positive but statistically insignificant.

Table 4.24 Coefficient of Regression for Accounts Payable Management

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.818	.218		17.514	.000
	Accounts Payable Management	.073	.064	.076	1.137	.257

a. Dependent Variable: Performance

The standardized beta coefficient of 0.076 further underscores the weak contribution of accounts payable management compared to other working capital management components. This implies that even though SMEs may engage in reconciliation or settlement policies, these practices do not significantly influence their profitability or financial stability.

The findings suggest that, unlike cash, receivables, and inventory management, accounts payable management has an insignificant effect on SME financial performance in Garissa County. This observation resonates with the Trade-Off Theory, which highlights that while delaying payments can preserve liquidity, excessive reliance on supplier credit may erode trust and lead to strained relationships that offset any short-term cash flow benefits (Myers, 1984). The weak relationship observed here implies that supplier payment policies may not be the main driver of SME profitability in this context, possibly because these firms operate on relatively small scales with limited bargaining power over supplier terms.

Empirically, the results partially align with Mutai and Kimani (2019), who found that accounts payable practices contribute to liquidity but have limited direct influence on profitability in Kenyan technical institutions. Similarly, Sharma (2019) emphasized that while effective creditor management improves cash flow flexibility, its effect on firm performance is often indirect and context-dependent. Conversely, Mathuva (2009) observed that delaying payables improved liquidity in listed Kenyan firms, suggesting that the limited role of payables in Garissa SMEs may be due to sector-specific dynamics, such as reliance on immediate supplier payments in food, retail, and wholesale sectors.

The implications of this study are important. For SME managers, the findings suggest that while maintaining proper records and reconciling accounts is essential for accountability,

payables management alone is insufficient to drive profitability. Managers should avoid overemphasizing supplier credit as a liquidity tool and instead integrate it with stronger cash and inventory management practices to achieve financial stability. For policymakers, the results highlight the need to enhance SMEs' access to formal credit facilities, reducing overdependence on supplier financing. This would allow SMEs to manage payables more strategically without jeopardizing supplier trust or business continuity.

4.8 Hypothesis Testing

The hypotheses formulated in Chapter One were tested using regression analysis. Both multiple and single linear regressions were employed to provide comprehensive evidence on the relationship between working capital management practices and the financial performance of SMEs in Garissa County. The multiple regression model revealed that the four practices—cash management, accounts receivable management, inventory management, and accounts payable management—collectively explained 61.6% of the variance in SME performance ($R^2 = 0.616$), with the overall model statistically significant at the 1% level ($F = 87.472$, $p = 0.000$). This underscores the centrality of working capital management in determining SME profitability and operational sustainability. Each hypothesis was then tested individually to establish the specific role of each working capital component.

4.8.1 Cash Management and Financial Performance

The first hypothesis (H01) stated that *cash management has no significant effect on the financial performance of SMEs in Garissa County*. The regression results indicated a positive and significant relationship between cash management and performance, with a coefficient of 0.226, a t-value of 7.396, and a p-value of 0.000. These results demonstrate that improvements

in cash management practices significantly enhance SME financial outcomes. The null hypothesis was therefore rejected, confirming that proper cash management exerts a meaningful influence on SME performance.

This finding is theoretically consistent with the Cash Conversion Cycle Theory, which highlights that effective management of cash inflows and outflows reduces financial distress, sustains liquidity, and facilitates investment opportunities (Gitman, 2009). From an empirical perspective, the results resonate with Mohammed (2019), who established that firms with structured cash budgeting and control frameworks exhibit stronger profitability due to improved liquidity cycles. Similarly, Mungai (2014) found that SMEs in KwaZulu-Natal with systematic reconciliation practices experienced greater financial stability. Recent studies such as Owuor, Agusioma, and Wafula (2021) also corroborate the notion that liquidity optimization is indispensable in turbulent environments, allowing firms to weather market shocks and maintain solvency.

The evidence indicates that cash management is not merely an operational requirement but a strategic lever for competitive advantage. SMEs that consistently implement budgeting frameworks, liquidity control policies, and prudent surplus investments can avoid insolvency, seize growth opportunities, and achieve sustainable profitability.

4.8.2 Accounts Receivable Management and Financial Performance

The second hypothesis (H02) posited that *accounts receivable management has no significant effect on the financial performance of SMEs in Garissa County*. The regression results revealed a negative and statistically significant relationship, with a coefficient of -0.649, a t-value of -3.700, and a p-value of 0.000. This suggests that ineffective receivables management

practices—such as weak credit policies, delayed collections, or inadequate delinquency controls—erode financial performance. Consequently, the null hypothesis was rejected, and it was concluded that accounts receivable management significantly influences SME financial performance, but in a negative direction when inefficiencies prevail.

This outcome aligns with Transaction Cost Theory, which explains that the costs of managing credit, monitoring debtors, and enforcing collections can undermine financial outcomes when poorly structured (Williamson, 1981). Empirical studies provide supporting evidence: Owuor et al. (2021) reported that weak receivables practices in Kenyan universities led to liquidity crises, while Siele and Tibbs (2019) found that inadequate delinquency controls heightened financial strain in utility companies. Conversely, Gul, Khan, and Rehman (2018) showed that well-defined credit policies and debtor screening enhanced liquidity and profitability in SMEs, suggesting that the negative effect in Garissa is reflective of inefficiencies rather than an inherent flaw in receivables management.

The findings emphasize that while extending trade credit can stimulate sales, without robust collection frameworks and debtor evaluation, SMEs expose themselves to liquidity shortfalls and bad debts. For Garissa SMEs, this means strengthening receivables practices is vital to avoid cash flow bottlenecks that compromise profitability and long-term sustainability.

4.8.3 Inventory Management and Financial Performance

The third hypothesis (H03) stated that *inventory management has no significant effect on the financial performance of SMEs in Garissa County*. Regression results revealed a positive and highly significant effect, with a coefficient of 1.279, a t-value of 5.966, and a p-value of 0.000. Inventory management was shown to be the strongest predictor of financial performance

among all working capital components. The null hypothesis was therefore rejected, confirming that efficient inventory control significantly enhances SME financial outcomes.

This finding is consistent with the Resource-Based View (RBV) Theory, which asserts that internal capabilities, such as well-structured inventory systems, form strategic resources that create sustainable competitive advantage (Barney, 1991). Empirical evidence strongly supports this conclusion: Rodrigo, Rathnayake, and Pathirawasam (2020) demonstrated that effective inventory practices, including stock inspections and coding systems, significantly boosted profitability in Sri Lankan firms. Similarly, Torkey (2020) established that firms with efficient inventory frameworks experienced lower operational costs and improved profitability. In Kenya, Mathuva (2009) found that inventory efficiency was a critical determinant of firm performance on the Nairobi Securities Exchange.

The results highlight that SMEs in Garissa must adopt systematic stock inspections, implement theft and loss prevention measures, and embrace digitalized inventory systems such as barcoding and just-in-time controls. Such practices minimize wastage, prevent overstocking or stockouts, and ensure resources are deployed efficiently, directly contributing to profitability and competitive advantage.

4.8.4 Accounts Payable Management and Financial Performance

The fourth hypothesis (H04) asserted that *accounts payable management has no significant effect on the financial performance of SMEs in Garissa County*. The regression analysis showed a positive but statistically insignificant relationship, with a coefficient of 0.043, a t-value of 1.058, and a p-value of 0.291. This suggests that, while accounts payable practices may contribute marginally to liquidity management, they do not exert a significant influence on

profitability. As a result, the null hypothesis was not rejected.

This outcome resonates with the Trade-Off Theory, which holds that while delaying payments can preserve liquidity, overreliance on supplier credit may damage relationships and create operational inefficiencies (Myers, 1984). Empirical studies confirm this mixed influence. Sharma (2019) observed that although strategic payables management improves cash flexibility, its effect on profitability remains indirect. Similarly, Mutai and Kimani (2019) found that accounts payable practices supported liquidity in Kenyan institutions but did not translate into stronger profitability. In contrast, Mathuva (2009) found that delayed payments improved liquidity among listed firms, highlighting that the role of payables is highly context-specific.

The findings imply that for SMEs in Garissa, accounts payable management is not a decisive driver of performance, possibly due to limited bargaining power with suppliers and reliance on immediate payment terms in retail and wholesale sectors. Strengthening supplier relations through timely settlements may preserve goodwill, but without stronger cash and inventory management practices, the impact on profitability remains marginal.

CHAPTER FIVE

SUMMARY, RECOMMENDATIONS, AND CONCLUSIONS

5.1 Introduction

This chapter provides a comprehensive summary of the study's findings, conclusions, and recommendations regarding the influence of Cash Management on the financial performance of SMEs in Garissa County, Kenya. The summaries are organized by each objective of the study, providing a coherent understanding of the results. Conclusions offer insights into key findings, while recommendations focus on policy, managerial implications, and suggestions for further research.

5.2 Summary of Findings

This section summarizes the study findings regarding the influence of cash management, accounts receivable management, inventory management, and accounts payable management on the financial performance of SMEs in Garissa County. The results integrate both descriptive statistics and regression outcomes, highlighting the overall contribution of working capital management practices to SME performance. The multiple regression model demonstrated that the four components collectively explained 61.6% of the variance in financial performance ($R^2 = 0.616$), indicating a strong explanatory power. The ANOVA results further confirmed the statistical significance of the model, meaning that together these practices have a substantial impact on profitability, liquidity, and operational stability. The following subsections present the summarized findings for each objective.

5.2.1 Cash Management and Financial Performance

The descriptive analysis revealed that SMEs in Garissa County strongly agreed on the

importance of cash management, with an overall mean score of 4.03 and a standard deviation of 0.808. Practices such as liquidity control policies (mean = 4.14) and physical control of cash movements (mean = 4.11) were rated most highly, showing that SMEs place strong emphasis on safeguarding cash and maintaining optimal liquidity levels. Regular reconciliation of cash transactions (mean = 4.00) and prudent surplus investment (mean = 3.99) were also widely acknowledged as effective practices, although with some variability across firms.

Inferential analysis confirmed these perceptions. Regression results showed a positive and statistically significant effect of cash management on financial performance, with a coefficient of 0.226 ($p < 0.001$). In the simple regression, cash management alone explained 35.7% of the variation in performance ($R^2 = 0.357$). The study therefore concluded that cash management is a critical determinant of SME profitability and stability, as it enables firms to meet financial obligations, minimize risks of liquidity shortages, and seize investment opportunities.

5.2.2 Accounts Receivable Management and Financial Performance

Descriptive results indicated that SMEs moderately agreed on the effectiveness of accounts receivable management practices, with an overall mean of 4.01 and a standard deviation of 0.834. Debtor screening practices (mean = 4.16) and proper maintenance of debtor records (mean = 4.06) were rated highly, suggesting that most firms recognized the need to evaluate creditworthiness and monitor debtors systematically. Trade credit policies (mean = 4.00) and delinquency control mechanisms (mean = 3.95) were also seen as important, although debt collection frameworks (mean = 3.90) showed some variability in implementation.

From regression analysis, however, accounts receivable management was found to have a negative and statistically significant impact on SME performance ($B = -0.649$, $p < 0.001$). This

suggests that while some receivables practices are in place, inefficiencies in implementation—such as delays in collection or inconsistent enforcement of credit policies—undermine liquidity and weaken profitability. In the single regression, receivables explained 40.5% of the variance in performance ($R^2 = 0.405$), but the negative coefficient in the multiple regression highlights the risks associated with poorly structured receivables management. The study therefore concluded that receivables, if not properly managed, become a source of financial vulnerability rather than a driver of growth.

5.2.3 Inventory Management and Financial Performance

Inventory management emerged as the strongest driver of SME financial outcomes. Descriptive findings revealed a high overall mean of 4.07 with a standard deviation of 0.834, indicating consistent agreement among respondents. Practices such as periodic inspection of stock (mean = 4.13), adoption of effective coding and sorting systems (mean = 4.13), and inventory loss prevention plans (mean = 4.06) were rated highly, reflecting their importance in reducing wastage and ensuring availability of goods. Regular stock-taking frameworks (mean = 3.94) were also recognized, though with slightly higher variability in practice.

Regression analysis confirmed that inventory management had the strongest positive and significant effect on performance, with a coefficient of 1.279 ($p < 0.001$). In the single regression, inventory explained 47.5% of the variance in SME performance ($R^2 = 0.475$), the highest explanatory power of all four predictors. These results demonstrate that effective stock control, coding systems, and loss-prevention measures are central to SME profitability, as they reduce costs, ensure responsiveness to customer demand, and improve overall operational efficiency.

5.2.4 Accounts Payable Management and Financial Performance

Descriptive analysis showed that SMEs generally agreed on the importance of accounts payable practices, with an overall mean score of 4.01 and a standard deviation of 0.81. The highest-rated practices included creditor settlement policies (mean = 4.05), timely planning for debt repayment (mean = 4.04), and recognition of transaction costs (mean = 4.04). Record-keeping (mean = 3.91) and reconciliation of creditor accounts (mean = 4.01) were also viewed as important, though slightly less consistently implemented.

Nonetheless, regression results revealed that accounts payable management had a positive but statistically insignificant effect on financial performance ($B = 0.043$, $p = 0.291$). The simple regression indicated that payables explained only 0.6% of the variance in performance ($R^2 = 0.006$). This suggests that while SMEs maintain basic creditor management practices, these do not significantly translate into higher profitability. The limited effect is likely due to reliance on small-scale supplier arrangements and immediate payment expectations in the sectors dominant in Garissa, such as retail and food businesses. Thus, accounts payable practices were found to play a supplementary rather than decisive role in SME financial outcomes.

In summary, the study established that working capital management practices are critical to the financial performance of SMEs in Garissa County. Inventory management and cash management were found to have the strongest and most positive impacts, highlighting their centrality in ensuring profitability, liquidity, and efficiency. Accounts receivable management was revealed to be a significant but negative predictor of performance when poorly implemented, demonstrating the risks of delayed collections and weak credit policies. Accounts payable management, while important for maintaining supplier relations, was shown to have

no significant effect on profitability in this context.

Overall, the findings underscore the need for SMEs to adopt a holistic working capital management approach. By integrating strong cash flow controls, efficient receivables frameworks, robust inventory systems, and structured payables policies, SMEs can enhance their operational sustainability, minimize financial risks, and achieve long-term profitability.

5.3 Conclusions

This section presents conclusions drawn from the study objectives, highlighting how each aspect of working capital management—cash management, accounts receivable management, inventory management, and accounts payable management—contributes to the financial performance of SMEs in Garissa County. The conclusions are based on both descriptive and inferential findings, demonstrating that while all four practices are important, their impacts vary in strength and direction.

5.3.1 Cash Management and Financial Performance

The study concludes that effective cash management is indispensable for enhancing the financial performance of SMEs in Garissa County. The findings established that practices such as structured cash budgeting, systematic reconciliation of financial transactions, prudent investment of surplus funds, and strict liquidity control frameworks significantly improve profitability and financial stability. SMEs with well-developed cash management systems were found to be better positioned to withstand unexpected financial shocks, sustain daily operations, and take advantage of investment opportunities when they arise.

The evidence therefore suggests that cash management forms the backbone of SME resilience, ensuring businesses have adequate liquidity to settle obligations while maintaining capacity for

growth. Without strong cash flow controls, SMEs are more likely to experience liquidity shortages, operational disruptions, and constrained competitiveness. Consequently, cash management is not merely a support function but a cornerstone of financial growth and operational efficiency for SMEs in the region.

5.3.2 Accounts Receivable Management and Financial Performance

The study concludes that accounts receivable management practices play a critical but challenging role in SME financial performance. While descriptive results indicated that SMEs acknowledge the value of debtor screening, trade credit policies, and record maintenance, the regression analysis showed that inefficiencies in receivables handling negatively impact profitability. This means that when receivables are poorly managed—through delayed collections, weak enforcement of credit terms, or inadequate delinquency controls—they create liquidity bottlenecks that undermine business continuity and growth.

The findings therefore imply that accounts receivable management can either strengthen or weaken SME financial performance depending on its efficiency. SMEs that establish clear credit policies, enforce structured debt collection frameworks, and maintain reliable debtor records are better equipped to safeguard liquidity and minimize risks of bad debts. Conversely, SMEs with weak receivables practices face heightened risks of revenue loss and financial instability. Overall, receivables management emerges as a double-edged determinant of performance, requiring careful balancing between extending credit to stimulate sales and ensuring timely collections to sustain liquidity.

5.3.3 Inventory Management and Financial Performance

The study concludes that inventory management is the strongest driver of financial

performance among the working capital components examined. The findings revealed that SMEs with consistent stock inspections, effective loss-prevention strategies, and efficient coding and sorting frameworks achieved greater profitability and operational efficiency. Proper inventory control was shown to minimize wastage, reduce costs, and ensure that businesses maintained adequate stock levels to meet customer demand without overstocking or understocking.

This conclusion highlights that SMEs in Garissa County that prioritize systematic inventory processes are better positioned to adapt to market needs, sustain operational efficiency, and improve profitability. Inventory management therefore represents a strategic capability that enables SMEs to optimize resource utilization and maintain a competitive advantage. Firms that neglect inventory efficiency risk facing financial leakages through losses, stockouts, and inefficiencies, which ultimately erode profitability. Thus, inventory control stands out as a decisive element for long-term business success.

5.3.4 Accounts Payable Management and Financial Performance

The study concludes that accounts payable management has a limited and statistically insignificant effect on SME financial performance in Garissa County. While descriptive results showed that SMEs commonly engage in creditor reconciliation, settlement policies, and planning for debt repayment, regression analysis demonstrated that these practices do not significantly translate into profitability improvements. This suggests that accounts payable practices, though necessary for accountability and supplier relationships, are not primary drivers of financial success in this context.

The findings further indicate that poorly managed payables—such as delayed settlements and

inadequate documentation—can strain supplier trust and disrupt operations, while efficient payables management may support liquidity but not necessarily enhance profitability. SMEs should therefore treat accounts payable as a supportive rather than decisive financial practice, ensuring it complements stronger cash and inventory management systems. Balancing short-term liabilities with liquidity preservation remains essential for maintaining supplier relationships and sustaining smooth operations, but by itself, accounts payable management does not guarantee improved performance outcomes.

In conclusion, the study emphasizes that efficient working capital management—particularly in the areas of cash management and inventory management—is a critical determinant of financial performance for SMEs in Garissa County. While accounts receivable management also plays an important role, its effect depends heavily on the efficiency of its implementation, with poorly managed receivables becoming a liability rather than an asset. Accounts payable management, on the other hand, was shown to have little direct influence, suggesting its contribution is more complementary than central.

Overall, the study affirms that SMEs that adopt integrated working capital management practices are better positioned to enhance profitability, maintain liquidity, and achieve long-term operational sustainability. By addressing inefficiencies in receivables and strengthening cash and inventory systems, SMEs can significantly improve their financial outcomes and competitiveness in the dynamic business environment of Garissa County.

5.4 Recommendations

The study provides several recommendations for SMEs, focusing on enhancing financial performance through improved Cash Management . These recommendations are structured

around the independent variables of the study: cash management, accounts receivable management, inventory management, and accounts payable management.

5.4.1 Cash Management

The study emphasizes the importance of implementing robust Cash Management frameworks for SMEs. Businesses should adopt detailed and comprehensive cash budgeting systems to plan and monitor cash inflows and outflows effectively. This will ensure that sufficient liquidity is maintained to meet short-term financial obligations while allowing for investment in growth opportunities. Additionally, SMEs should perform regular reconciliation of cash transactions to identify and address discrepancies promptly. Policies should also be introduced to guide the prudent investment of surplus cash in low-risk ventures, ensuring additional income generation without compromising liquidity. Effective liquidity control mechanisms are vital to strike a balance between maintaining operational stability and taking advantage of potential investment opportunities.

5.4.2 Accounts Receivable Management

The study highlights the need for SMEs to strengthen their accounts receivable management practices to enhance cash flow and minimize risks associated with bad debts. SMEs should establish clear trade credit policies that outline the terms and conditions for credit issuance, repayment schedules, and penalties for default. Efficient debt collection systems are critical to ensuring timely payments from customers, thereby avoiding cash flow disruptions. SMEs should also invest in screening potential debtors to assess their creditworthiness before extending credit. Accurate and up-to-date records of all debtors should be maintained to support informed decision-making and effective credit monitoring. These measures will enable SMEs

to manage receivables efficiently, ensuring steady cash inflows and improved financial performance.

5.4.3 Inventory Management

Effective inventory management is crucial for optimizing resource utilization and minimizing operational costs. SMEs should conduct regular inspections of inventory to evaluate stock levels, identify damaged or obsolete items, and ensure that inventory meets business requirements. Implementing loss prevention strategies, such as enhanced security measures and monitoring systems, can help minimize theft and wastage. Businesses should adopt efficient inventory coding and sorting practices to streamline stock management and reduce errors in tracking inventory movement. Furthermore, SMEs should establish comprehensive inventory control frameworks that define reorder levels, safety stock thresholds, and replenishment timelines. These practices will help SMEs align their inventory with market demand, reduce carrying costs, and avoid stockouts or overstocking, ultimately contributing to better financial outcomes.

5.4.4 Accounts Payable Management

To improve accounts payable management, SMEs need to develop clear policies for settling obligations in a timely and efficient manner. This includes implementing strategic payment schedules that allow businesses to meet their financial commitments while maintaining sufficient liquidity for other operational needs. Accurate documentation of all payables-related transactions is essential to ensure transparency, accountability, and compliance with financial reporting standards. SMEs should also take proactive steps to minimize transaction costs, such as negotiating favorable payment terms with suppliers or taking advantage of discounts for

early payments. By effectively managing their payables, SMEs can strengthen supplier relationships, maintain a stable supply chain, and reduce the financial strain associated with delayed payments or penalties.

5.5 Recommendations for Future Research

While this study has offered valuable insights into the relationship between working capital management practices and the financial performance of SMEs in Garissa County, further research is needed to extend, refine, and deepen understanding of these dynamics. Several areas emerge as particularly important for future scholarly exploration.

First, there is a need to broaden the geographical and sectoral scope of inquiry. This study focused on SMEs within Garissa County, but future research should incorporate comparative studies across different regions of Kenya and beyond, capturing urban centers such as Nairobi and Mombasa as well as other arid and semi-arid counties like Wajir and Turkana. Such comparative research would reveal how differences in local market conditions, financing infrastructure, and supply chain structures shape the effectiveness of cash, receivables, inventory, and payables management. Moreover, sector-specific analyses are needed to account for variations in working capital requirements between retail, hospitality, manufacturing, and service enterprises. By disaggregating findings in this way, future studies can provide more context-sensitive guidance that recognizes the heterogeneity of SME operations.

Secondly, future research should move beyond the cross-sectional design adopted in this study and embrace longitudinal approaches. Tracking SMEs over several years would provide a clearer picture of how working capital practices influence performance across time, particularly during periods of market instability or economic shocks. Longitudinal evidence would also

address concerns of reverse causality, since SMEs that perform better may simply have more capacity to adopt effective management systems. Closely related, event-based or shock-responsive studies could provide new understanding of whether strong working capital management helps SMEs absorb external disruptions such as droughts, inflationary spikes, or changes in county-level business regulation.

Another promising direction lies in strengthening causal identification. While this study established significant associations, it was not designed to isolate causal pathways. Future studies could employ quasi-experimental methods such as instrumental variable approaches, regression discontinuity designs, or difference-in-differences models in contexts where natural policy or program rollouts create variation in SME exposure to training or financing initiatives. Even more compelling would be the use of field experiments or randomized controlled trials, where interventions such as digital cash-flow monitoring tools, receivables tracking systems, or inventory control templates are introduced to SMEs to measure their direct impact on financial outcomes. Such research would contribute rigorous evidence on what specific interventions work best and under what conditions.

Measurement also presents fertile ground for improvement. This study relied on survey data, but future work should supplement perceptions with objective data sources such as financial statements, point-of-sale records, mobile money ledgers, or supplier invoices. Incorporating detailed measures of the cash conversion cycle—such as days sales outstanding, days inventory outstanding, and days payables outstanding—would allow for more precise modeling of working capital efficiency. Similarly, broadening performance indicators beyond profitability and revenue growth to include cash buffer days, employment creation, survival rates, and customer service levels would provide a richer picture of SME resilience. The integration of

psychometric measures of managerial attitudes toward risk, financial discipline, and strategic planning could also reveal how owner characteristics shape working capital outcomes.

Finally, one of the most intriguing findings of this study was the contradictory effect of accounts receivable management. While simple regression indicated a positive relationship, the multiple regression revealed a negative coefficient, suggesting that inefficiencies in receivables handling may erode financial performance. Future studies should unpack this anomaly by investigating the mechanisms through which receivables management either strengthens or weakens SME liquidity. Qualitative research, such as case studies or in-depth interviews, could illuminate the practical barriers SMEs face in enforcing credit policies and collecting debts, as well as the strategies they use to overcome these challenges. This kind of inquiry would capture the lived experiences behind the quantitative results, offering richer explanations for why receivables sometimes act as a liability rather than an asset.

In summary, future research on working capital management should be broader in scope, more rigorous in design, more refined in measurement, and more attentive to the practical realities faced by SMEs. By addressing these directions, scholars can generate stronger evidence to guide both policy and practice, ultimately enabling SMEs to optimize their financial systems, withstand shocks, and achieve sustainable growth.

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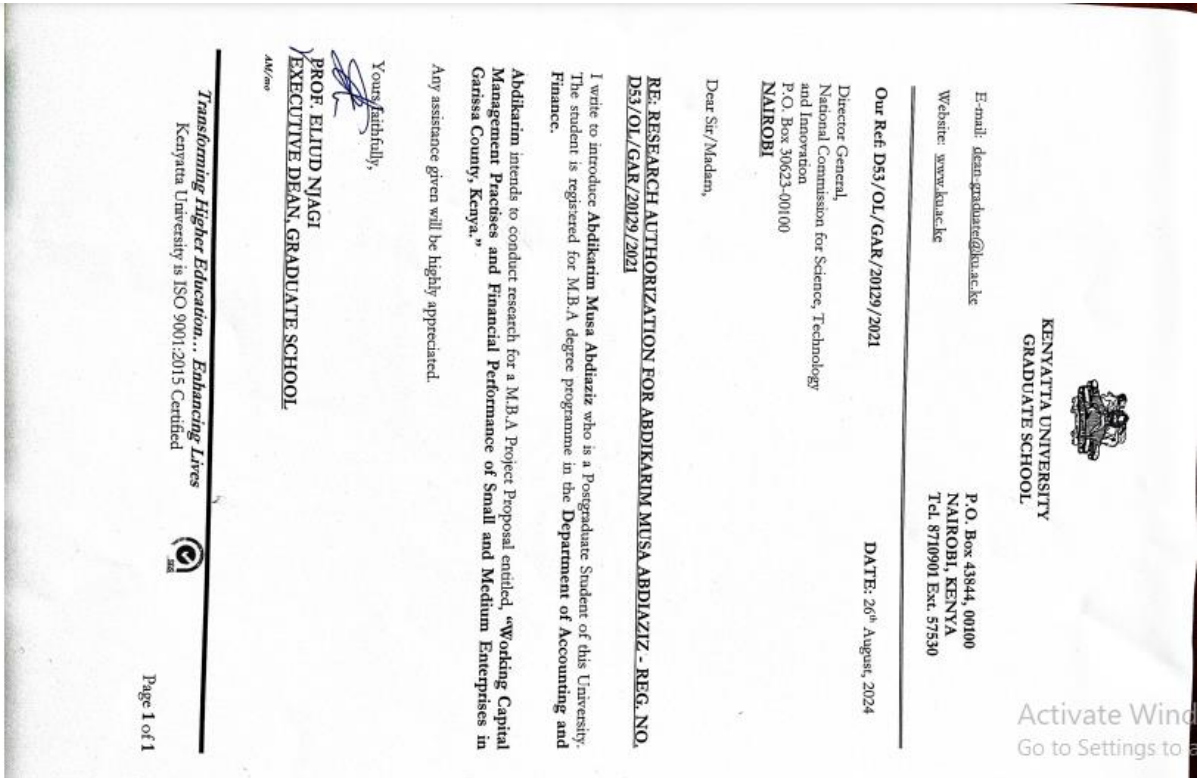
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APPENDICES

Appendix I: KU Letter of Approval



Appendix II: NACOSTI Research Permit

 **REPUBLIC OF KENYA**

 **NATIONAL COMMISSION FOR
SCIENCE, TECHNOLOGY & INNOVATION**

Ref No: **650593** Date of Issue: **12/September/2024**

RESEARCH LICENSE



This is to Certify that Mr. **ABDIKARIM ABDIAZIZ MUSA** of **Kenyatta University**, has been licensed to conduct research as per the provision of the **Science, Technology and Innovation Act, 2013 (Rev.2014)** in **Garissa** on the topic: **WORKING CAPITAL MANAGEMENT PRACTICES AND FINANCIAL PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN GARISSA COUNTY, KENYA** for the period ending : **12/September/2025**.

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See overleaf for conditions

Appendix III: Questionnaire

Hello, am a post graduate researcher at Kenyatta university, school of business, economic and tourism. I am conducting a study on working capital management practice and financial performance of small and medium enterprise in Garissa county. I would largely appreciate your input on the subject by completing this questionnaire, your responses are anonymous. Thank you for your participation.

Section A: General Information

Kindly indicate the Business Segment to which your SME belongs (Tick appropriately).

- | | |
|--|--------------------------|
| Wholesale Stores | <input type="checkbox"/> |
| Food and Beverages Restaurants | <input type="checkbox"/> |
| Hardware Stores | <input type="checkbox"/> |
| Construction and Manufacturing Firms | <input type="checkbox"/> |
| Transport and general Oriented Companies | <input type="checkbox"/> |
| Petroleum Dealers and related Businesses | <input type="checkbox"/> |

For how long has your SME been in existence? Tick accordingly.

1-5 years

6 -10years

11-15 years

More than 15 years

3. Please tick your Gender

Male

Female

4. Respondents level of
education:

O level

() A-Level

College Certificate

() Diploma

Degree

() Others

Section B: Cash Management

To what extent are the following statements valid regarding the implementation of Cash Management ideals or practices by your SME? Tick appropriately.

Use; 1- not at all, 2-small extent, 3- moderate extent, 4- great extent and 5 - very great extent

s/n	Statement	1	2	3	4	5
a.	The SME has a strictly implemented cash budgeting and planning framework for all departments/ units.					
b.	The SME physically controls movements in cash to avoid loss or misuse.					
c.	The SME carries out regular reconciliation of transactions involving cash.					
d.	The SME has a prudent policy to guide investment of surplus cash.					
e.	The SMEs liquidity control policy is effective in maintaining optimal levels of liquidity while taking advantage of investment options.					

Section C: Accounts Receivable Management Practices

Indicate in your very honest opinion, the extent to which the following statements hold truth pertaining to the debtors’ management practice by your SME. Tick appropriately.

SCALE: Use; 1- not at all, 2-small extent, 3- moderate extent, 4- great extent and 5 –very great extent

s/n	Statement	1	2	3	4	5
a.	The firm has a well spelt out trade credit policy to guide the credit administration decisions made.					
b.	The SME has an effective debt collection framework that ensures efficient and effective collections of dues from debtors.					
c.	The SME has a well implemented system for screening potential debtors to guide advancement of credit.					
d.	The SME keeps proper debtors record to ease monitoring and give information regarding credit worthiness of borrowers.					
e.	The SME implements a strict delinquency control system to ensure debts are repaid promptly.					

Section D: Accounts Payable Management Practices

Please indicate the extent to which the following propositions are correct with regard to the creditors' management practice adopted by the SME? Tick appropriately. **SCALE:** Use; 1- not at all, 2-small extent, 3- moderate extent, 4- great extent and 5 – very great extent

s\n	Statement	1	2	3	4	5
a.	The SME keeps good records for all credit advances given by suppliers of the firm.					
b.	The SME owners regularly reconcile the creditors account to ensure credit advances are kept on track and planned for.					
c.	The business has a well spelt out creditors' settlement policy that optimizes the benefits accruing to the firm.					
d.	The business entity is effective in planning for settlements to ensure debts are paid on time.					
e.	The SME recognizes the impact of transaction costs and makes proper planning to ensure the costs are effectively minimized.					

Section E: Inventory Management Practices

To what extent are the following statements valid regarding the model of inventory management utilized by the SME? Tick appropriately.

SCALE: Use; 1- not at all, 2-small extent, 3- moderate extent, 4- great extent and 5 –very great extent.

s/n	Statement	1	2	3	4	5
a.	The SME carries out periodic inspection of inventory to inform the stocking needs and verify that the goods are in good and safe state.					
b.	The SME has a well laid out framework that ensure regular stock taking and control.					
c.	The firm has established an effective inventory related loss prevention plans.					
d.	The SME has adopted an effective coding and sorting practice for dealing with inventory to ease control of stock movement.					

Section F: Financial Performance

To what extent are the following statements valid regarding the performance of the SME? Tick appropriately.

s/

n Statement	1	2	3	4	5
--------------------	----------	----------	----------	----------	----------

a. The SME has experienced growth in net profit margin over the past year.

b. Sales revenue has consistently increased over the past financial year.

c. The SME maintains a healthy balance between its assets and liabilities.

The business effectively controls costs, resulting in improved

d. profitability.

There has been a positive cash flow from the operating activities of the

e. SME.

The SME's return on assets has improved significantly, reflecting better

f. financial performance.

THANK YOU!

Appendix IV: SPSS Output

Model Summary

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.785 ^a	.616	.609	.23721

a. Predictors: (Constant), Accounts Payable Management, Inventory Management, Cash Management , Accounts Receivable Management

ANOVA Results

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	19.687	4	4.922	87.472	.000 ^b
	Residual	12.266	218	.056		
	Total	31.954	222			

a. Dependent Variable: Performance

b. Predictors: (Constant), Accounts Payable Management, Inventory Management, Cash Management , Accounts Receivable Management

Coefficient of Regression

Coefficients^a

Model		Unstandardized Coefficients		Standardized	t	Sig.
		B	Std. Error	Coefficients		
				Beta		
1	(Constant)	1.229	.198		6.200	.000
	Cash Management	.226	.031	.347	7.396	.000
	Accounts Receivable Management	-.649	.175	-.825	-3.700	.000
	Inventory Management	1.279	.214	1.349	5.966	.000
	Accounts Payable Management	.043	.041	.045	1.058	.291

a. Dependent Variable: Performance

