

**WORKING CAPITAL MANAGEMENT AND LOAN UPTAKE BY SMALL AND
MEDIUM ENTERPRISES IN LANGATA CONSTITUENCY, NAIROBI CITY
COUNTY, KENYA**

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DECLARATION

This project is my original work and has not been presented to any college or institution of higher learning for award of a degree in any university.

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DEDICATION

This work is devoted to my family for their help and support in each progression of my research.

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OPERATIONAL DEFINITION OF TERMS

Cash Management	A measure to utilize the cash resource for is financial health.
Creditors Management	These are the times of payable outstanding and it advises to what degree it takes an association to pay its requesting from trade banks, for instance, providers
Debtors Management	The process of managing debtors by ensuring debts are collected efficiently and on time.
Loan Uptake	Provision of loans by MFIs to small and medium enterprises
Microfinance	Financial and non-financial services for the poor and low income earners.
Microfinance Institutions	Financial institutions which specialize in banking administrations for low-salary groups or people who would not normally be acknowledged by traditional banks.
Working Capital	The capital of a business that is used as a piece of its ordinary trading operations, ascertained as the present resources less the liabilities.
Working Capital Management	Administration of working capital which incorporates managing inventories, records of sales on credit, payable and cash.
Small and Medium Enterprises	Small and privately owned businesses and they employ between 10 and 50 employees
Stock Management	It is the supervision of non-capitalized assets and stock items.

ABBREVIATIONS AND ACRONYMS

CA	Current Assets
CCC	Cash Conversion Cycle
NSE	Nairobi Stock Exchange
ROA	Return on Assets
ROE	Return on Equity
ROI	Return on Investment capital
SMES	Small and Medium Enterprises
WC	Working Capital

ABSTRACT

According to the CBK report the rate of loan uptake by SMEs in Kenya has been declining at a rate of 3.6 percent for the past 3 years. This trend is alarming since the general expectation is that the loan uptake should have an upward trajectory of up to 9 percent as envisaged in vision 2030. Therefore the general objective of this study was to access the link between working capital management and loan uptake by small and medium enterprises (SMEs) in Nairobi County. The study was guided by the following specific objectives; to establish the relationship between cash management practices and access to microfinance loans by SMEs in Nairobi County, to determine the association between the creditors management and access to microfinance loans by SMEs in Nairobi County ,to evaluate the relationship between debtors management and access to microfinance loans by SMEs in Nairobi county and to evaluate the relationship between inventory management and loan uptake in microfinance by SMEs in Nairobi county, Kenya. The theories guiding the study will be The Net Trade Cycle Theory, liquidity preference theory, inventory theory and the Finance Theory. Descriptive research design was used. The study adopted stratified random sampling method to select 362 respondents from a target population of 1712 respondents who were the SMEs in Langata Constituency. Primary data was used in this study. The questionnaires were dropped and collected later by the researcher. Data was analysed by the use of SPSS and presented in tables and figures. The findings indicated that changes in the dependent variable (loan uptake) is explained by the changes in the independent variables (cash management, account receivable management, account payable management, inventory management) and there was a significant correlation between the two variables. The study found that there was a significant negative relationship between cash management and loan uptake and that a positive change of a unit of cash management will result to the negative change of loan uptake. The study found that there was a significant negative relationship between inventory management and loan uptake and that a positive change of a unit of cash inventory management will result to the negative change of loan uptake. The study concluded that the relationship between account receivable management and loan uptake was positive and significant and that a positive change in the values of account receivable management will result to a positive change in the loan uptake. The study also concluded that the relationship between account payable management and loan uptake was negative and significant that a positive unit change of account payables resulted to negative units changes of loan uptake. The study recommends that SMEs should practice keeping an optimal levels of cash and the excess held cash should be used to purchase quick moving inventories. The study recommends that the SME owner should actively continue selling their commodities on cash basis and that receivables should be collected within the shortest time possible. The study recommends the SMEs to build a pool of funds to enable them borrow from it and expand easily other than depending on the bank loans which takes a lot of time before they are approved. The study recommends that the SME owners should create good relationships with the suppliers to increase the account payable period which will act as a loan to enable SME have enough cash to cater for operational expenses.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Small and Medium Enterprises (SMEs) have been perceived as financial and political advancement motivations in both developed and growing economies (Mwangi, 2011). The Kenya Government's duty to cultivate the development of SMEs rose as one of the key plans in 1986 report. It was reinforced as a need in 1989 report, a record that set out the methods for eradicating limitations to growth and access of microfinance services by SME sector.

Micro Finance Services allude to mostly small credits; savings mobilization and training in micro venture investment services stretched out to needy individuals to empower them attempt independent projects that create pay. Micro finance came from the the appreciation that micro business entrepreneurs and some poorer customers can be 'bankable', that is, they can reimburse both the principal and interest, on time and furthermore make investment funds, given that monetary services are customized to suit their necessities (Von, 2001). Micro finance is viewed as the provision of financial and non-financial services by Micro Finance Institutions (MFIs) to low pay groups without substantial security yet whose exercises are associated to revenue earning ventures (Lidgerwood, 1999 and Christen and Rosenberg, 2014).

These financial services incorporate savings, credit, payment facilities, settlements and insurance. The non-financial services basically involve training in micro venture speculation and business abilities. There is additionally a conviction that micro finance incorporates micro credit, micro savings and micro insurance (Roth, 2012).

Micro finance is a recent advancement. Its cause can be followed back to 1976, when Muhammad Yunus set up the Grameen Bank, as research, on the edges of Chittagong University campus in the town of Jobra, Bangladesh. The objective was to give insurance free credits to needy individuals, particularly in provincial zones, at full-cost loan costs that are repayable in incessant installments. Borrowers are grouped into groups and peer influence among them lessened the danger of default (Khan & Rahaman, 2007). In most scenarios, essential business expertise training ought to go hand in hand with the arrangement of micro loans to enhance the limit of the poor to utilize reserves (Webster and Fidler, 1996). Micro financing should emphasize on capital venture choices, general business administration and risk management. On the planet over, arrangement of micro finance services to the youth has been considered an inventive and practical way to deal with youth financial and micro venture exercises strengthening prompting era of revenue in order to enhance their employments and add to economic development. Discussions on stretching out the range of microfinance to the extremely poorest individuals progressively center around funds offices. For some youths, investment funds offices are basic in expanding the measure of wage under their control and in building resources. In remote zones, mobilization and intermediation of member saving might be essential initial steps previously getting to external loan resources.

1.1.1 Working Capital Management

Brigham and Daves (2012) observed that Management of Working Capital involves two major steps. It entails setting a working capital policy followed by day-to-day operationalization of the set policy. According to (Emery, 2014) it additionally includes making reasonable interests in money, attractive securities, receivables, and inventories too proper mix of short-term financing forming sound working capital management. Sound

working capital management for businesses is an important ingredient for the profitability, survival and success as well as liquidity. Maintaining the liquidity level is important in managing working capital to ensure smooth running of the day-to-day operations and enabling the business meet its obligation.

Liquidity is a necessity for ensuring a firm fulfills its short-term commitments and its constant stream can be assured after a gainful undertaking (Gitman, 2014). Working capital management is important because of its effects on the SME's profitability and risk, and consequently its value in enabling SMEs access microfinance (Smith, 2001). From one viewpoint, keeping up high inventory levels decreases the expense of conceivable interference's in the production procedure or of loss of business because of the shortage of items, diminishes supply costs, and ensures against value fluctuations, among various points of interest (Blinder & Maccini, 2012).

On the other, giving trade credit supports the company's sales in different ways. Trade credit can go about as an effective value cut (Brennan, Maksimovic and Zechner, 1988; Petersen and Rajan, 1997), incentivizes clients to secure stock then and again of low interest (Emery, 1987), enables clients to watch that the stock they get is as concurred too (amount and quality) and to guarantee that the services contracted are completed (Smith, 1987), also, causes firms to enhance long term associations with their clients (Smith and Smith, 1999). Conversely, SMEs that spend intensely in stock and exchange credit can endure lessened benefit. Consequently, the more prominent the interest in current assets, the lower the risk posed, yet additionally the lower the profitability acquired.

Then again, trade credit is an unconstrained wellspring of financing that lessens the sum required to finance the aggregates tied up in the inventory and client accounts. However, we should remember that financing from providers can have a high implicit expense if early installment discounts are accessible. Truth be told the open door cost may surpass 20 percent, contingent upon the discount rate and the discount period conceded (Wilner, 2012; Ng, Smith & Smith, 2014).

Choices about the amount to put resources into the client and stock records, and how much credit to acknowledge from providers, are reflected in the company's money transformation cycle, which reflects to the normal number of days between the date when the firm should begin paying its providers and the date when it starts to collect installments from its clients. Some past research have utilized this measure to break down in the case of shortening the money change cycle has positive or negative consequences for the firm's benefit (Shin & Soenen, 2016)

Most of these SMEs' assets are in the form of current assets. Also, current liabilities too are their main sources of external finance in respect to their difficulties in obtaining funding in the microfinance institutions (Petersen & Rajan, 2017) and the financing limitations that they encounter (Whited, 2013; Fazzari & Petersen, 2014). In this respect, Elliehausen and Woken (2013), Petersen and Rajan (2017) and Danielson and Scott (2014) show that small and medium-sized US firms use vendor financing when they have exhausted debt. Thus, efficient working capital management is particularly important for smaller companies (Peel and Wilson, 2016).

Cash management activities are viewed as one of the key parts of effective working capital administration. Cash management includes arranging and controlling money streams into and

out of the business, money streams inside the business, and money adjusts held by a business at a point in time (Pandey, 2014). As indicated by Wetson and Copeland (2018) cash management is worried about improving the measure of money accessible, amplifying the premium earned by extra assets not required instantly and decreasing misfortunes caused by deferrals in the transmission of assets.

Holding money to cater for urgent needs brings about opportunity cost equivalent to the arrival which could have been earned in case the money had been contributed or put to profitable use. In any case, decreasing this open door cost by working with little money adjusts will expand the danger of not being able to meet obligations as they fall due, so an ideal money balance ought to be implemented. As indicated by Harris (2015), in numerous associations the development in access to credit has prompted a rising level of purchaser obligation which is significantly affecting business productivity. Accounts receivables administration is an issue for each foundation offering credit to its clients and the test for associations is to ensure net revenues by lessening benefits, reducing the expense to accumulate and maximize the money gathered.

Bellie *et al* (2012) noted that the perspective of Accounts receivables management ought not to be constrained to clients who can't pay; the key is for associations to utilize early distinguishing proof of records in danger to empower proactive administration of a client before they turned out to be bankrupt. Administration of records receivables which goes for keeping up an ideal harmony between every one of the records receivables segments, that is, money, receivables, stock and payables is a crucial piece of the general corporate

methodology to make esteem and is a vital wellspring of upper hand in organizations (Deloof, 2013).

1.1.2 Microfinance Loan uptake by Small and Medium Enterprises

Accessing credit is viewed as a critical factor in expanding the advancement of SMEs. It is contended that credit expands salary levels, builds work and in this way eases poverty. It is trusted that entrance to credit empowers destitute individuals to defeat their liquidity requirements and attempt a few speculations, for instance, the enhancement of farm innovation inputs along these lines prompting an expansion in agricultural yield (Hiedhues, 2015). Savings driven groups perform superior to credit-driven ones according to Allen 2015; Murray & Rosenberg 2016; Ritchie, 2017).

Access to micro-finance loans helps the poor in acquiring pay from microenterprises, smooth their wage and utilization (Zeller, 2014), enable family units to differentiate their salary sources. According to Mosley (2014) microfinance makes a significant commitment to the decrease of poverty. It helps increment wage procuring and resource building chances which make family units less dependent on a solitary resource type and thus manage calamities (Anand et-al; 2015).

Hassan (2013), noted that numerous Grameen Bank borrowers were literally constructing bigger houses. Panganiban (2018) propels that the wage of borrowers has risen and their resources base has broadened. Ventures made by credits seem to have been to a great degree gainful and to have contributed huge upgrades in family unit yield, wage and utilization.

1.1.3 Access of Microfinance by SMEs in Nairobi County

In Kenya, the small business sector has the potential as well as noteworthy assignment of bringing a huge number of individuals from the survivalist level including the casual economy to the mainstream economy.

Perceiving the basic role independent ventures play in the Kenya economy, the Government through Kenya Vision 2030 visualizes the strengthening of SMEs to wind up the key enterprises of tomorrow by enhancing their efficiency and advancement (Ministerial docket of Planning, National Development & Vision 2030).

Small and Medium Enterprises in Nairobi confront special difficulties which influence their development and profitability and subsequently decrease their capacity to contribute adequately to sustainable advancement. Small enterprises both in the formal and informal sectors in Kenya have failed to evolve into medium sized firms in the last five years (Ferrand, 2013). Marginally over 10percent of organizations stopped activities in under one year, 25percent ceased business somewhere in the range of one and two years, while another 20percent shut their entryways between their third and fifth anniversaries (Wanjohi, 2014).

Reports from Central Bank (2017) suggest that SMEs have only accounted for 21.23percent in 2017 of loan uptake from the microfinance institutions as compared to 34.17percent, 37.25percent in 2016 and 2015 respectively. According to 2017 financial year report by Faulu Bank, SMEs' product value dropped from 11.7B to 10.62B in year from January to December 2017. The report also shows the bank approved 18.74percent of the total SME loans applied, 32.10percent of the loans applied were declined and 49.16percent of the SME loans were

deferred. Financial year report by Sidian bank also shows that there was a drop in the SME loans from 13.4 billion to 11.4 billion in the year ending 31st December. The report also shows that the bank approved 27.28percent of the loans applied, 32.7percent of the loans were declined while 40.02percent of the loans were deferred. KWFT on the other hand reported a decline from Sh.6.23 billion to Sh. 6.12 billion a trend that was also witnessed by SMEP, RAFIKI DTM and SUMAC DTM which recorded a drop from Sh.1.7 billion to Sh.1.6 billion, Sh.3.2 billion to Sh.3.0 billion and Sh.1.49 billion to Sh.1.2 billion respectively. This trend is alarming as a result business owners within Nairobi County find it difficult to grow their businesses. Government interventions through tax incentives, market creation for SMEs have gone a long way in establishing a thriving business condition, SMEs still experienced problems in establishing a foot hold for sustainable growth (Kimuyu, 2014).

1.2 Statement of the Problem

In Nairobi city County, Kenya, SMEs are continually encumbered by the lack of easily accessible credit. According to the CBK report the rate of loan uptake by SMEs in Kenya has been declining at a rate of 3.6percent for the past 3 years. This trend is alarming since the general expectation is that the loan uptake should have an upward trajectory of 9percent as envisaged in vision 2030. According to Kenya National Bureau of Statistics (2013), three out of every five SME businesses in Kenya close down within the first two years of operation with majority of them unable to manage their working capital.

The government together with other private and public organizations realized that economic growth of the country is paramount on investing in the SME sector. As a result, these bodies have repeatedly encouraged citizens to be innovative and establish small enterprises in a move to create job opportunities. Kinyua (2014) conducted a study to establish factors that affect the

performance of small and medium-sized enterprises (SMEs) on the Jua Kali sector in Nakuru town. The findings on that study was based on performance and included factors such as management skills, macro-environment and access to business information. The study was broad since factors affecting SMEs are numerous. The study did not dwell on working capital management.

A study conducted by Mugo (2014) to investigate the factors influencing women entrepreneurs' on the growth of small and medium-sized enterprises (SMEs) growth in the city of Nairobi. The study revealed variables such as lack of entrepreneurial training and education, obsolete technology, lack of finances, lack of proper resource management and lack of proper management skills. The study outlined lack of finance as the key challenge that affects women entrepreneurs' on the growth of SMEs. The study was centered on women-owned enterprises instead of looking at all entrepreneurs collectively regardless of gender and also the study didn't indicate the causes of lack of finance. This study therefore will aim at establishing the effects of working capital management on loan uptake by the SMEs in Nairobi County, Kenya.

1.3 Objectives

1.3.1 General Objective

The general objective of this study was to establishing the effects of working capital management on loan uptake by the SMEs in Langata Constituency, Nairobi County, Kenya.

1.3.2 Specific Objectives

i) To establish the effect of cash management on loan uptake by SMEs in Nairobi County, Kenya.

ii) To determine the effect of creditors management on loan uptake by SMEs in Langata Constituency, Nairobi County, Kenya.

iii) To evaluate the effect of debtors management on loan uptake by SMEs in Langata Constituency, Nairobi County, Kenya.

iv) To evaluate effect of stock management on loan uptake by SMEs in Langata Constituency, Nairobi County, Kenya.

1.4 Hypotheses

The following null hypotheses was conveyed in line with the specific objectives:

H₀₁: Cash management has no effect on loan uptake by SMEs in Langata Constituency, Nairobi County, Kenya.

H₀₂: Creditors management has no effect on loan uptake by SMEs in Langata Constituency, Nairobi County, Kenya.

H₀₃: Debtors management has no effect on loan uptake by SMEs in Langata Constituency, Nairobi County, Kenya.

H₀₄: Stock management has no effect on loan uptake by SMEs in Langata Constituency, Nairobi County, Kenya.

1.5 Significance of the Study

This study was useful to the small and medium entrepreneurs as it helped in proper utilization of the MFIs' savings and proper management of capital. The SMEs owners acquired capital resources which are valuable, rare, hard to copy and non-substitutable, necessary to enhance their financial performance. The managers of the SMEs acquired knowledge which helped them engage in continuous quality improvement, thereby ensuring business growth and maintenance of a cleaner and healthier environment which enhances their public image. The Government will benefit from increased revenue in terms of taxes collected since the SMEs' sales revenue will be higher.

1.6 Scope of the Study

The study aimed in assessing the relationship between working capital management and loan uptake by small and medium enterprises (SMEs) in Nairobi City County, Kenya. The area of interest was Nairobi County since all types of SMEs are represented in the county and that there are variety of institutions offering loans. The study was limited to the small and medium enterprises based in Langata Constituency, Nairobi County, Kenya. The data included in the study was for years 2015 to December 2017.

1.7 Limitations of the Study

The research envisioned a few constraints which are imperative. Right away the researcher encountered non-reaction as a portion of the respondents were reluctant to save their time to fill in the questionnaire. This hindered the information gathering procedure and nature of data. Besides, a portion of the SMEs were not effortlessly available because of their area. To

guarantee the accomplishment of information collection, the researcher drew in research assistants who prepared to embrace information collection. Respondents were guaranteed of the privacy of their identities.

1.8 Organization of the Study

The project is organized into five chapters. The first chapter or introduction part presented the background, statement of the problem, objectives research questions, the significance of the study, the scope of the study, limitations of the study and the organization of the study. Chapter two presented literature review. The literature review will cover both empirical and theoretical literature review. The third chapter discusses research methodology which covered research design, the population of the study, sample and sampling technique, data collection, validity and reliability of the instrument, data collection procedure, data analysis and presentation and ethical considerations. Chapter four presents the data analysis and presentation. The last chapter, summarised, concluded and recommended on the study findings.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviewed past literature on the working capital management and access of loan services by small and medium enterprises. It presents theoretical framework, empirical review, conceptual framework and research gap and summary literature review.

2.2 Theoretical Literature Review

This section reviewed the theories that supported the dependent and independent variables in the study. Theories considered in the study and were applied to support the independent variable (working capital management) are: Liquidity preference theory, Net credit cycle theory and Economic Order Quantity Model. Finance theory was also reviewed to support the dependent variable (loan uptake).

2.2.1 Liquidity Preference Theory

Liquidity concept was first brought about by John Maynard Keynes in his book *The General Theory of Employment, Interest and Money* in the year 1936 to clarify determination of the interest rate by the free market activity for cash. As per Jose (1996), liquidity hypothesis as a component of current resources and current liabilities is an imperative factor in deciding working capital strategies and shows company's ability of producing cash out in instances of need. Current proportion, analysis and money proportions as traditional proportions of

liquidity are inept in light of the fact that these asset report based measures can't give comprehensive and precise data about viability of working capital administration. Equations utilized for computing these proportions think about both liquid and working resources in like manner. Furthermore, made reference to traditional proportions are additionally not important as far as money flows (Richards & Laughlin, 1980).

SMEs ought to persist on using current measures of liquidity in management of working capital. This calls for management of a range of SMEs in the county to make sure that there is a stable and steady inflows as well as outflows of cash throughout the firm by acquiring of product, sales, production, collection and payment process which happens over a period of time. Pinches, (2002) recorded that the organizations current liquidity is a function of its cash exchange cycle, it could be extra suitable as well as precise to assess efficiency of management operational capital through cash conversion cycle, instead of measures of customary liquidity. This theory supports the stock management, debtors management, cash management to be maintained at optimal levels

2.2.2 Finance Theory

As pointed out by Akssoy (2006) finance hypothesis is under three standard principles: capital arranging, capital structure and working capital organization. Capital arranging and capital structure decisions are generally related with financing and managing whole deal theories. In any case, fiscal decisions about working capital are generally related with financing and regulating and now SMEs that endeavor both current assets and current liabilities at the same time. A great part of the time and cash related administration is implied as working capital organization.

Viability in working capital organization is basic especially for creation SMEs whose benefits are for the most part made out of current assets as it clearly impacts liquidity and execution of any SME (Rahemann & Nasrr, 2008). Kagar and Blumenthal (1993) set that the pattern for firms that set off course working capital organization methods in movement are better entertainers. Extraordinary levels of working capital can without a doubt achieve a substandard benefit for assets, insignificant proportion of it may procure lacks and inconveniences in keeping up regular activities. Higher proportion of working capital engages a SME to meet its temporary responsibilities less difficult. These results to extended getting limit and decreasing in default danger and profound decrease in expense of capital and augmentation in SME regard. Thusly, profitability in working capital organization impacts not simply here and now financial execution to the extent benefit, yet what's more whole deal budgetary execution (Moyer, 1992). The variable supported by this variable is the independent variable creditors' levels which are a source of finance to SMEs and the other variable supported is the dependent variable loan uptake by SMEs.

2.2.3 The Net Trade Cycle Theory

The cycle of net trade which was invented by Shin and Soenen (1998) is equal to the cycle of cash conversion in which the three mechanisms of the cycle of cash conversion that is receivables, payables and inventory are expressed sales percentage, making the cycle of net trading easy to do calculations as well as less difficult. Shin and Soenen (1998) noted the cycle of net trading to be a superior working measure of efficiency of capital as compared to the cycle of Cash Conversion and the biased CCC since it shows the total number of sales days the organization has to fund its operational capital as well as the working capital manager can simply approximate the financial wants of working funds expressed as sales

growth function expected. One of the reasons for making use of cycle of net trading is that it might be a straightforward tool to approximate for additional financing wants considering the working capital expressed as a function of the growth sales projected (Shin & Stulz, 2000).

SME within the County require embracing cash conversion cycle that is short for them to stay alive for a long-term. Beneath specific facts the SME market appears to reject lodgings for tasking smooth conduct inclining toward unpredictability of profit reflect instability of the income. The resulting effects are crucial and suggest SME managers focus their actions on making smooth money streams rather than basically utilizing accumulations for smoothing income. Various different ways exists in which budgetary susceptibility makes communication with SMEs regard. The variable supported by this variable is the independent variable cash level levels. SMEs in Nairobi County require embracing short cash conversion for easier business operations.

2.2.4 Inventory Theory

The objective of this theory is to determine the rules that the management can utilize to minimize the costs associated with maintaining inventory and meeting customer demand. Within management of inventory, economic order quantity (EOQ) is the quantity of order that reduces the entire costs of holding as well as costs of order. Economic order quantity applies only when products demand is stable throughout the year and that each novel order is delivered in complete when the inventory comes to zero. Regardless of the number of ordered units, a set cost is charged for placed every order.

According to Wasiam (2007), there is a cost of storage or a holding for every unit kept in storage space. This is occasionally expressed as a percentage of the cost of purchase of the

thing. The model of EOQ is use full in determining the maximum number of the products units to request in order to reduce the entire cost connected with the acquiring, delivery of the purchased product as well as its storage. The essential considerations to the answer are the cost of purchase per item, the whole demand for the year, storage cost for every item for each year plus the fixed cost to place the order. Heikkilä (2002) noted that the total quantity of times ordered as well affect the total cost; nevertheless this quantity may be established based on other considerations.

SMEs within the County might utilize the EOQ in their daily operations to make sure that they function within the best level of record which decreases the cost of holding as wells as ordering cost. The model of EOQ makes the assumption that, the cost of order is constant, there is fixed lead time, the rate of demand is also constant, and the price of purchasing the item is steady explicitly no discount is offered, the replacement is made instantly, and that the entire batch is delivered at one time. According to Heikkilä (2002), EOQ model is the quantity to ask for, in order that cost of ordering and carrying is reduced. The variable supported by this variable is the independent variable stock level levels. Daily stock levels should be managed to make sure that they function within the best level of record which decreases the cost of holding as wells as ordering cost.

2.3 Empirical Review

This section consists of empirical literature review on the dependent and independent variables. Prior research studies related to access of loan service, effects of debtors level, creditors level, cash level and inventory level is included in this section. The section

establishes the methodological, conceptual and contextual gap identified and how the current study tries to fill in the gaps.

2.3.1 Loan Uptake

Ayayi and Sene (2014) investigated the most applicable factors that promote financial self-sufficiency of SME's. Exploratory research design was applied and the study targeted 123 SME owners. The study established that a high quality credit portfolio, adequate interest rates, and effective management affect SMEs financial self-sufficiency. The findings also indicated that financial sustainability is vital under the conditions of shrinking and inconsistent donor aid, while the client outreach and the age of SME's affect it marginally. The study broadly looked at the factors but the current study is specifically investigating the effects of working capital management.

Schoof (2015) studied the barriers and incentives to enterprise start-ups in South Africa. The study collected data from established 91 SMEs and employed descriptive research design. The study found that due to insufficient a substantive credit ranking, adequate Collateral security or maybe assured of access for you to protected loans or maybe a credit line, young adults tend to be known as a high-risk expense making these experience complications inside accessing fund. The study concluded that finance institutions from the conventional industry typically value youngsters as high-risk lenders and so are shy to give credit ratings in favorable or maybe concessional terms. The above study failed to show the level of correlation of various barriers and incentives, the current study will show the level of significant and correlation between variables.

Chigunta (2016) investigated the determinants of loan uptake to the financial institutions by SMEs in Zambia. The study used inferential research design and descriptive research design. The study found that insufficient access to fund is amongst the significant troubles experiencing youngsters run companies globally. The study found that in developing countries, small businesses (SMEs) lack access to capital and money markets. The study established that investors are not willing to spend in proprietorships, partnerships or unlisted companies. The study established that financial institutions may shy away from loaning single women based on the premises that they have a larger possibility regarding default pertaining to loans while they may stop paying back their particular loans instantly they will find married. The study also found that almost all potential youngsters entrepreneurs (72percent) pointed that insufficient funds is the main reason behind dwindling of their business since financial institutions such as bank and microfinance failed to grant them loan due to lack of capacity to repay loan. The study was carried out in Zambia while the current study concentrates on SMEs in Kenya

2.3.2 Cash Management and Loan uptake

Teruel and Solane (2015) analyzed Spanish SMEs Corporate cash holdings relationship with financial performance. The study used descriptive research methodology and collected data from 232 SME. The independent variable used was cash level and the dependent variable was loan uptake. The research discovered that those organizations with more fluid resources will in general diminish their money levels in light of the fact that these benefits can be utilized as money substitutes and firms with a higher extent of short-term obligation will hold more elevated amounts of money, so it brings down the danger of non-reestablishing short term

obligations. The study concentrated on descriptive research design while the current study will use both descriptive and inferential research design.

Abel (2014) studied on the effects of working capital management on performance of 13,287 Swedish manufacturing SMEs. The study used exploratory research design. The variables of the study considered were cash levels, inventory management and account receivable management. The research discovered that high productivity in the administration of working capital quickens the present resources rapidly being moved into money with the goal that the equalization from normal interests in stock and records receivable are changed over into money prompting high money property. The investigation likewise demonstrated that organizations that decrease their inventories, records of sales can hurry their trade change cycle out similarly expansive and SME firms. The current study will include the four independent variables; cash levels, stock levels, account receivable levels and account payable levels while the reviewed study concentrated on the first three variables.

Teruel and Solano (2015) studied the effects of working capital management on SME profitability. The study utilized 8,872 small and medium-sized enterprises of period 2003-2012. Descriptive research design was used. The variables of the study considered were cash levels, inventory management and account receivable management. The study demonstrated that managers can make an incentive to firms and investors by decreasing the quantity of days in inventory and accounts receivable. The study also found out that limiting the cash conversion cycle also improves the firms' profitability. However the study didn't show the effects of increasing the cash conversion cycle which the current study will establish.

Anand and Malhotra (2014) conducted an experimental examination on working capital execution of corporate firms in India by utilizing the procedure created by Anand and Gupta (2013) and gave estimates by utilizing the information of non-financial organizations with somewhere around three years of freely accessible records over the time of 2004 to 2005 to 2006 to 2007 for each organization and industry. Amid the time of study, corporate India had accomplished a compound Annual Growth rate of 26.3 percent in the net deals and 1.6 percent in the multi-year normal money working edge. The length of the working cycle and money change cycle had decreased by 10.2 percent and 12.7 percent individually on aggravated yearly premise. The investigation found almost no proof on the connection between working capital administration and profitability. The research neglected to demonstrate whether the connection between working capital and benefit was certain or negative.

Reheman (2016) examined the effect of working capital administration on benefit of 94 Pakistan firms recorded on Islamabad Stock Exchange for the time of 1999-2004. The factors considered were normal gathering period, stock turnover in days, and normal installment period and money transformation cycle on the networking profitability of firms. The examination presumed that there is a solid negative connection between working capital proportions specified above and benefit of firms. Moreover, it was noticed that administrators can make a positive incentive for the investors by lessening the money conversion cycle (CCC) up to an ideal level. The study concentrated on descriptive research design while the current study will use both descriptive and inferential research design.

Lazaridis and Tryfonidis (2016) did an experimental investigation on impacts of working capital on financial execution of 131 organizations recorded in the Athens Stock Exchange (ASE) for the time of 2001-2004. They discovered that there is a critical negative connection

between money change cycle and gross working benefit. The discoveries uncover that chiefs can make benefits for their organizations by taking care of effectively the money change cycle and keeping every part of working funding to an ideal level. The investigations focused on a descriptive research design while the current and flow study will utilize both elucidating and inferential research design.

2.3.3 Stock Management and Loan uptake

Anichebe and Agu (2015) investigated the effects of stock management on organization effectiveness in Enugu Nigeria. Utilizing a descriptive research and furthermore a test size about two hundred and forty eight (248) respondents. Stock management was the independent variable and organizational effectiveness was the dependent variable. The study found that there was huge association between handy stock administration and organizational effectiveness. Inventory management oversaw economy might have been discovered should bring a critical effect on organizational productivity. There was a great correspondence between inventory management and organizational profitability. The study generally investigated stock management in general, the current study will establish the effects of stock levels on access of loan by SMEs.

A research to study the ideal stock levels of SMEs in India was completed by Swaminathan (2016), in which the investigation discovered that changing raw materials and completed merchandise as a part of stock is quicker than the stock in general to achieve the sensible levels in the SME sector. Descriptive research design was used and Data collected from 1184 SME owners in India. The study found that inventory conversion period has an undesirable effect on a business's performance. The study found that shortening the inventory conversion

period could increase stock out costs of inventory which results in losing sales opportunities and leads to poor performance. The study left a gap in that it did not consider the demand levels and the availability of raw materials. The study also contradicts with Dimitrios (2016) study which discovered that a lot of stock could require more physical space, could prompt a financial misery, and expands the likelihood of inventories harms, disintegration and misfortunes. Also, holding substantial measure of stock much of the time demonstrates inefficient and thoughtless administration practices and processes.

Singh (2016) studied the relationship between inventory management and working capital management focusing on the importance of inventory management in India. Descriptive research design was used and data was collected from 879 SMEs. The study discovered that organizations or firms with a poor stock administration can cause difficult issues which demolish the long haul gainfulness and firms' survival possibilities. Likewise firms with well-thought stock administration can diminish the stock to an ideal level which has no negative impact on generation and deals. The investigation likewise demonstrated that the extent of stock straightforwardly influences the working capital and its administration. The study did not indicate the level of correlation between the inventory and working capital in which the current study endeavors to fill that gap.

Deloof (2013) carried out an experimental study on the influence of control of inventory on SMEs' performance in Belgium. Data was collected from 561 SMEs. The variables of the study was inventory conversion period while the dependent variable was performance of SMEs. The study found that the period of inventory conversion has a negative impact on performance of SMEs. The results of the study as well noted that, shortening the period of

inventory conversion might increase costs of stock out of inventory that consequences in loss of sales opportunities as well as leading to firms performing poorly. However, the study did not consider the effects of holding huge volume of inventory on loan accessibility and performance.

2.3.4 Debtors Management and Loan uptake

Michalski (2015) studied the effects of account receivables on financial performance of SMEs in Canada. The study used descriptive survey design. 159 SMEs were considered in the study. The independent variables were; debtors collection period and cost of collection while the dependent variable was the financial performance of SMEs. The study found that an escalation in the level of accounts receivables increases both the net working capital and the costs of holding and managing accounts receivables and both leads to a decrease in the value of the SME. The current proposed research study seeks to fill the gap (contextual gap) as it will focus on SMEs loan uptake in Kenya.

Baveld (2015) carried out a research on the link between profitability and accounts receivables during current global crisis period in Netherlands. Descriptive and panel analysis was used. The research objectives were researching on how open recorded firms in the Netherlands deal with their working capital. The examination looked at two periods; the non-emergency time of 2004-2006 and the financial emergency time of 2008 - 2009. Baveld's discoveries reflected critical negative connection between records receivables and gross working benefit amid non-emergency period. Then again, amid emergency period, no huge connection between these two factors was watched. The aftereffects of this investigation may

recommend that the connection between records receivables and association's benefit is changed in the midst of an emergency in a way that a few firms ought not to keep their accounts receivables at least with the end goal to boost profitability amid emergency periods. The momentum proposed examine consider tries to fill the niche'(logical hole) as it will major on SME loan uptake in Kenya.

Mathuva (2014) studied the influence of working capital management components upon corporate profitability by using a sample of 30 companies listed on the Nairobi Stock Exchange (NSE) from 1993 to 2008. Both the pooled OLS and the fixed effects regression models were used. Independent variables used were; inventory management, cash management, account receivable management and account payable management. The discoveries of his investigation portrayed that there is a very huge negative connection between records gathering period and profitability. Concerning the connection among profitability and the stock conversion time frame or the normal installment time frame, the outcomes were certain and significant. The above study concentrated companies named in Nairobi stock exchange while the current study will investigate the SMEs loan uptake.

2.3.5 Creditors Management and Loan uptake

Wilson (2016) in an exact investigation of the interest for trade credit by small UK firms found a solid proof of a financing interest for exchange credit. The investigation discovered that those little firms that compensation exchange credit liabilities late seem to do as such when they achieve their breaking point on here and now bank finance. These credit apportioned firms were regularly developing and fare arranged. In result, if the burden of

statutory intrigue essentially lessens the exchange credit offered to smaller firms, this may prompt serious liquidity issues and expanded failure rates except if elective finance is promptly accessible. Various different answers for the issue generally installments have been advanced.

Nobanee and AlHajjar (2017) examined a sample of 2,123 Japanese non-financial companies listed in the Tokyo Stock Exchange for the period 1990-2004. Descriptive and inferential research designs were used. The independent variables of the study were cash conversion cycle, receivables collection period, inventory conversion period and account payable period. The study discovered that organization managers can expand benefit by shortening the money conversion cycle, the receivables gathering period and the stock change time frame. The outcomes likewise proposed that expanding the payables deferral period could build benefit. In any case, chiefs ought to be cautious in light of the fact that expanding the payables deferral period could harm the organization's credit notoriety and damage its productivity over the long haul. The study established that delaying payments to suppliers allows companies to assess the quality of the products that were bought and can be an inexpensive and flexible source of financing. The current proposed research study seeks to fill the gap (contextual gap) as it will focus on SME loan uptake in Kenya.

Wilson and Summer (2014) in an observational investigation of the demand for trade credit by small UK companies. Descriptive survey design was used. The variables considered were creditor's level and trade credit access. The study established that those small companies that reimburse their trade credit liabilities late seem to do as such when they achieve their threshold on short-lived bank loans. These credit proportioned companies were regularly

developing and export prescribed. The study established that, if the inconvenience of statutory interest essentially decreases the trade credit offered to littler companies, this may prompt extreme liquidity issues and more disappointment rates unless backup cash is promptly accessible. The study left a gap in that it is not clear the effects of late payment on access to credit facilities.

According to Wilson (2014) poor management of credit practices is one of the fundamental reasons of delayed payment. A total of 1009 huge Belgian Retail stores of non-financial nature were examined for a period of 1992-1996. The findings revealed that managers can raise Retail stores profitability by decreasing the days in inventories and accounts receivable. Based on the research, Retail stores that are less profitable strain their payable accounts.

According to Falope and Ajilore (2014), delaying suppliers' payments allows companies to evaluate the products quality that were bought also it can be cheap as well as flexible financing source. Nevertheless, we ought to remember that late payment might have a very high implied cost when payment discounts are made early. While money is as well confined in operational capital, the bigger the investment in existing resources, the lesser the risk but as well the lesser the productivity gained.

2.4 Summary of Literature Review and Research Gap

The following is the reviewed research gaps from the above empirical literature.

Table 2.1: Summary of Literature Review and Research Gap

Authors	Context and Focus	Major Findings	Gaps Identified	Current study Focus
Singh (2014)	Relationship between inventory management and working capital management	Poor stock administration causes difficult issues which demolish the long haul gainfulness and firms' survival possibilities.	The study did not indicate the level of correlation between the inventory and working capital	The current study indicated the level of correlation between the inventory and loan uptake
Reheman (2016)	effect of working capital management on benefit of 94 Pakistan firms	There was a solid negative connection between working capital proportions and benefit of firms	Studied firms listed in Pakistan Stock exchange	Studies SMEs in Kenya.
Swaminathan (2015)	The ideal stock levels of SMEs in India	Inventory conversion period has an undesirable effect on a business's performance	Indian SMEs were considered	Kenyan SMEs were considered
Michalski (2016)	Effects of account receivables on financial performance of SMEs in Canada	An increase in the level of accounts receivables leads to a decrease in the value	Canadian SMEs were considered	Kenyan SMEs were considered

Baveld (2012)	Profitability and accounts receivables during current global crisis period in Netherlands	There was a critical negative connection between records receivables and gross working benefit	The study was done in Netherlands	The study was carried out in Kenya
Schoof (2014)	Barriers and incentives to enterprise start-ups in South Africa	Insufficient substantive credit ranking, adequate Collateral security are the barriers	No correlation on various barriers and incentives and enterprise survival.	The current study will show the level of significant and correlation between variables.
Chigunta (2016)	Determinants of loan uptake to the financial institutions by SMEs in Zambia	SMEs lack access to capital and money markets. Investors are unwilling to invest in proprietorships, partnerships or unlisted companies	Cross country analysis was used.	This study will focus on local analysis hence the results will be Kenyan specific findings.
Wilson and Summer (2017)	Investigation of the demand for trade credit by small UK companies.	Companies that reimburse their trade credit liabilities late achieve their threshold on short-lived bank loans	UK small companies were considered	Kenyan SMEs will be considered
Anichebe and Agu (2014)	Effects of stock management on organization effectiveness in Enugu Nigeria	There was huge association between handy stock administration and organizational effectiveness	Nigerian SMEs were considered	Kenyan SMEs will be considered

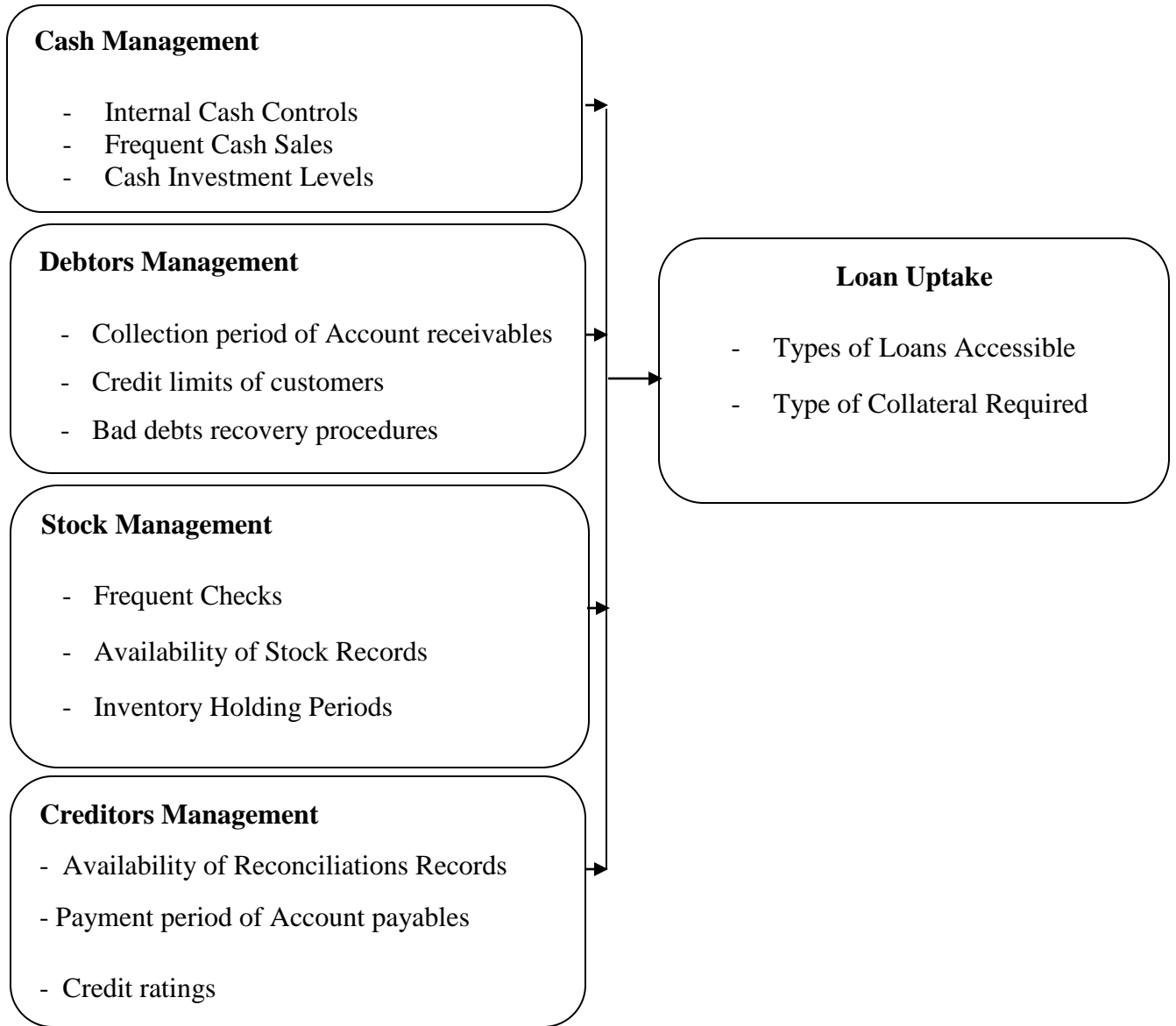
Deloof (2015)	The influence of control of inventory on SMEs' performance in Belgium	The period of inventory conversion has a negative impact on performance of SMEs.	The study did not consider the effects of holding huge volume of inventory on loan accessibility and performance.	The effects of inventory levels on loan accessibility will be investigated.
Anand and Malhotra (2014)	Experimental examination on working capital execution of corporate firms in India	Investigation found almost no proof on the connection between working capital administration and profitability	India small companies were considered	Kenyan small companies were considered
Falope and Ajilore (2014)	Creditors management and performance of firms	Delaying suppliers' payments allows companies to evaluate the products quality	Descriptive statistics were used	Both descriptive and inferential statistics were used
Teruel and Solane (2015)	Spanish SMEs Corporate cash holdings relationship with financial performance	Firms with more liquid assets tend to reduce their cash levels because these assets can be used as cash substitutes.	Spanish SMEs were considered	Kenyan SMEs will be considered

Source: Researcher's Literature Review (2018)

2.5 Conceptual Framework

Independent variables

Dependent Variables



Source: Researcher (2018)

Figure 2.1: Conceptual Framework

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The chapter introduces and clarifies the research design and strategies that were utilized to gather break down and present information. It gives full points of interest how the information was gathered and prepared. The section hence, outlines into research design and the purpose behind such structure, target populace and the source, testing strategies utilized, depiction of research instrument, information gathering system and information research procedure.

3.2 Research Design

Descriptive research methodology was used. As per Orodho (2004) descriptive research is utilized when the problem has been very much established. It is also suitable as it aims to depict and build up the impacts among the examination factors (Mugenda and Mugenda, 2009). As a general group, SMEs can be ordered into a few unmistakable sub bunches dependent on sort of movement. Given these conditions, a cross-sectional investigation configuration was likewise suitable. The elucidating study configuration was material likewise since the investigation is gone for giving a clearer picture of SMEs working capital administration. Correspondingly, component of a diagnostic examination configuration was utilized to set up the connection between working capital management and loan uptake by SMEs.

3.3 Target Population

The target population is the subset of a large population that has similar characteristics of which the general conclusion of the study can be drawn (Castillo, 2009). The target population of the study comprised of 1712 SMEs in Langata constituency licensed by the Nairobi County government as at December 2017. The target respondents were the proprietors or managers of the SMEs of interest.

3.4 Sampling Design

Sampling as described by Geteria (2012), is the process of choosing the units of the target population which are to be included in the study in such a way that the sample of selected elements represent the population. Stratified random sampling was adopted to determine the SMEs to participate in the study. Purposive sampling was applied to select the managers or proprietors. According to Mugenda and Mugenda (2003) 10percent-30percent of the population is a good representation. The sample size was 362 managers as shown in the table 3.1 below.

Table 3.1 Sampling Frame

SMEs classifications	Target Population	Sample Percentage	Sample
Service	221	20percent	44
Manufacturing	421	20percent	84
Retail	1165	20percent	234
Total	1712		362

Source: Nairobi County (2018)

3.5 Data Collection Instruments

Primary data was collected using a semi structured questionnaire. Questionnaire was preferred as it was moderately quick to gather information in a standardized and more objective way certainly more so than interviews (Saunders, Lewis & Thornhill, 2012). The Questionnaire was administered through “drop and pick later” method. Secondary data was collected using the published financial articles and journals for the dependent variable. The questionnaire used a likert scale key with 1 representing strongly agree, 2 representing disagree, 3 representing neutral, 4 representing agree and 5 represented strongly agree

3.6 Validity and Reliability of Research Instrument

3.6.1 Validity

Mugenda and Mugenda, (2009) define validity as the degree to which results obtained from the analysis of the data actually represent the phenomenon under study. Predictive validity was tested in this study. Predictive validity is the extent to which a score on a scale or test predicts scores on some criterion measure (Chen, 2015). To assess the validity, the researcher consulted the supervisor to determine the validity of the instruments and offered suggestions on content. Fifteen SMEs were targeted for pilot, five from service sector, five from manufacturing and five from retail sector. The purpose of pre-testing the research instrument was to: Verify whether the questionnaire is clear to the respondents, establish whether the questionnaire effectively addresses the data needed for the study, assess and identify any problems respondents would encounter in completing the questionnaire that may not have

been foreseen when constructing the questionnaire this was used to test the correctness of the data collection tools (Kothari, 2003). The test indicated that the questionnaires were valid.

3.6.2 Reliability

Reliability of the research instrument is its level of internal consistency over time (Kothari, 2003). A reliable instrument therefore, is the one that constantly produces the expected results when used more than once to collect data from two samples drawn from the same population. To assess the reliability, the researcher consulted the supervisor to determine the reliability of the instruments and offer suggestions on content. Suitability of the instrument was tested using Cronbach's alpha. A Score above 0.7 was accepted.

3.7 Data Collection Procedure

The questionnaires was administered to the respondents and introduction letter from the University was sought to declare the purpose of the study to dispel any fear from the respondents. The researcher made follow ups and the fully completed questionnaires was picked from the respondents after one week aided by some research assistants because of the vast area the data was collected from.

3.8 Data Analysis and Presentation

The data was analyzed by application of descriptive analysis and inferential analysis. Once the questionnaires were gathered, they were scrutinized to make sure they were duly completed and are consistent, after which they were numbered. This was followed by checking that all items were answered according to instructions to reduce errors and maintain the validity of the data. The data was coded, and entered into the computer for analysis using the SPSS. It was presented in form of tables and figures.

3.8.1 Operationalization and Measurement of Variables

The independent variable of the study was working capital management. The indicators of working capital management were cash management, debtors management, stock management and creditors management. The dependent variable was loan uptake. The table 3.2 presents how the study variables was operationalized and measured.

Table 3.2: Operationalization and Measurement of Variable

Variable	Type	Operationalization	Measurements
Loan Uptake	This was the Dependent variable	Loans advanced to SMEs	-Type of loans accessible -Collateral required
Cash Management	Independent variable	Cash level	-Internal cash controls -Frequent cash sales -Cash investment levels
Stock Management	Independent Variable	Optimal stock level	- Frequent Checks - Stock records - Inventory holding periods
Debtors Management	Independent Variable	Debtors level	- Average collection period - Credit limits - Doubtful debts collection procedures
Creditors Management	Independent Variable	Creditors level	- Average payment periods - Credit ratings -Availability of records

Source: (Researcher, 2018)

3.8.2 Model Specification

The general empirical model to be used in the study is defined as follows:

$$Y_{it} = \beta_0 + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \epsilon_{it} \dots\dots\dots(3.1)$$

Where β_0 denotes the constant or the value of Y when all independent variables are equal to zero, Y_{it} is the dependent variable denoting SMEs performance i at time t . i denotes the observation (SME), $i =$ credit limits and credit ratings while t the time period $t=$ 2012.....2016. X_{1it} denotes cash levels, X_{2it} –denotes debtors levels, X_{3it} denotes stock levels and X_{4it} denotes creditors levels. β_1 , β_2 , β_3 and β_4 are the coefficients of X_1 , X_2 , X_3 and X_4 respectively. ϵ_{it} denotes the models error term

3.9 Ethical Consideration

Chen (2015) argued that ethics are moral principles that oversee conduct or the directing of an activity. Before gathering information the researcher was guided by the University code of conduct and got authority from significant authorities. This involved getting research permit from NACOSTI and an approval letter from University Graduate School. The questionnaire likewise ensured a statement demonstrating information secrecy, safe custody and members were not required to indicate their names to prevent uncovering of respondents.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND DISCUSSIONS

4.1 Introduction

The chapter presents the findings on the effects of working capital management on loan uptake by the SMEs in Langata Constituency, Nairobi County, Kenya. Data was analysed and presented in subsection below. The findings were guided by the specific objectives of the study; establish the relationship between the cash management and loan uptake, determine the relationship between creditors management and loan uptake, evaluate the relationship between the debtors management and loan uptake and evaluate the relationship between the stock management and loan uptake by SMEs in Langata Constituency, Nairobi County, Kenya.

4.1.1 Reliability Tests

In order to establish reliability of the research instruments, the researcher conducted a pilot study. The Cronbach Alpha (α) generated by SPSS was used. It demonstrates the degree to which an arrangement of test units can be dealt as measuring one dormant variable (Cronbach, 1951). The reliability test of a coefficient of 0.7 is suggested for any researchable examination. The findings are shown in Table 4.1.

Table 4.1: Pilot Study Results

Variable	Cronbach Alpha (α)
Cash Management	0.723
Inventory Management	0.812
Debtors Management	0.798
Creditors Management	0.871
Loan Uptake	0.773

Source: Researcher, (2019)

From the findings, cash management had Cronbach Alpha (α) of 0.723, inventory management had 0.812, debtors management had 0.798, creditors management had 0.871 and loan uptake had 0.773. Since all the Cronbach Alpha (α) coefficients are above 0.7, this shows the research instruments were reliable.

4.1.2 Response Rate

The sampled respondents targeted were 362 SME owners. 293 completely filled questionnaires were returned to the researcher for analysis. This represented 81 per cent response rate and according to Mugenda and Mugenda (2003) it was a good representation of the sampled population. Figure 4.1 presents the data.

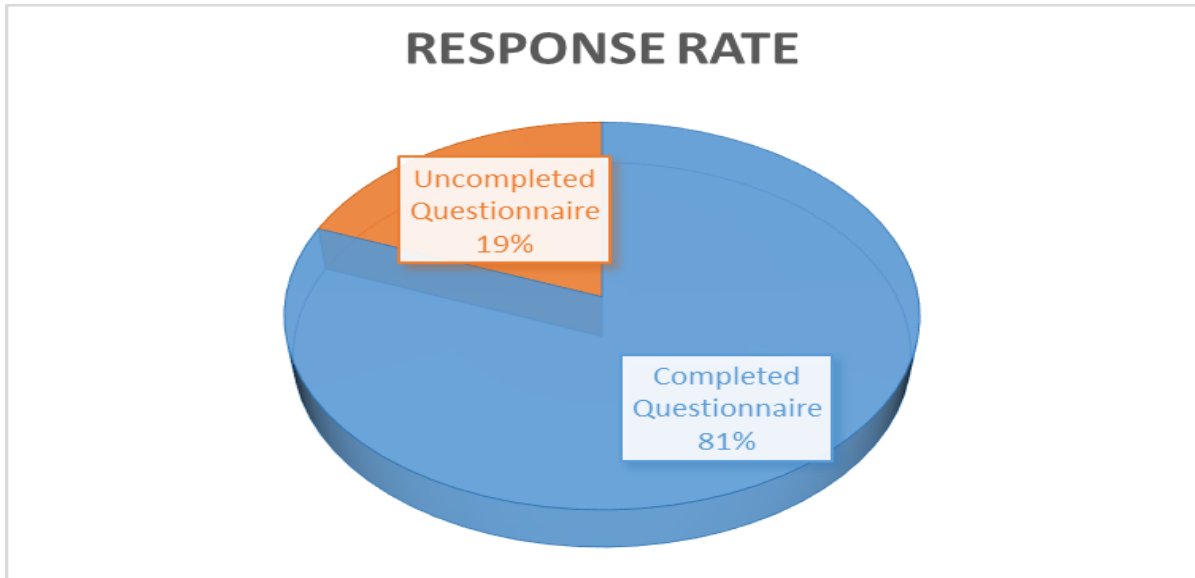


Figure 4.1 Response Rate

Source: Field Data (2019)

4.2 Demographic Characteristics

The section presents the gender of the respondents and the number of years they had operated the SME business.

4.2.1 Gender of the Respondents

The researcher requested the SME owners to indicate their gender and the duration of operating the SME business. The results were crosstabulated and presented in the table below.

Table 4.1 Gender and Duration of SME operation Crosstabulation

		How long have operated the business			Total
		less than 5 years	6-10 years	more than 10 years	
Gender of the respondents	male	47	77	46	170
	female	31	54	38	123
Total		78	131	84	293

Source: Field data (2019)

The findings indicate that 47, 77, and 46 men had operated the business for less than 5 years, 6-10 years and more than ten years respectively. The total of men in the study were 170 representing 58 per cent of the respondents. 31, 54 and 38 women operated the business for a period of less than five years, 6-10 years and more than ten years respectively. The number of women represented in the study were 123 representing 42 per cent. It is clear than in all categories of years of operations, the men are more than the women indicating that in Langata constituency the number of men owned SMEs are more than the women owned SMEs.

4.3 Descriptive Analysis

This section presents the descriptive data based on the four specific objectives. Mean and standard deviation was used to interpret the findings.

4.3.1 Effect of Cash Management

The study required the respondents to indicate the level of cash management using various indicators of cash management. The results were presented in the tables below. Table 4.2 presents the findings on how the SME owners controlled their business proceeds. 1 represented they keep it in office till, 2 represented they deposit it in the bank, 3 represented they spend immediately the proceeds and 4 represented they buy more stock.

Table 4.2 Control the Proceeds

	N	Minimum	Maximum	Mean	Std. Deviation
How do you control the proceeds generates on a daily basis	293	1	4	2.84	1.151
Valid N (listwise)	293				

Source: Field data (2019)

The mean presented of 2.84 and a low standard deviation of 1.151 indicates that majority of the SMEs deposit their business proceeds in their bank accounts.

Table 4.3 Cash Management Practices

	N	Minimum	Maximum	Mean	Std. Deviation
Cash Internal control are practiced at all times	293	1	5	4.40	1.037
We do cash sales more often in our SMEs	293	1	5	4.41	.923
We invest the cash not immediately required to cater for operational costs	293	2	5	4.61	.635
Valid N (listwise)	293				

Source: Field Data (2019)

Table 4.3 findings indicates that the SMEs practice internal control at all times as it is represented by a high mean of 4.40 and a standard deviation of 1.037. The findings indicates that majority of the SMEs do cash sales more often as evidenced by a mean of 4.41 and standard deviation of 0.923. The study also presented that SMEs invest the cash not immediately required to cater for operational costs (Mean=4.61, Std Deviation=0.635).

The study findings agrees with Teruel and Solane (2015) study which concentrated on Spanish SMEs Corporate cash holdings relationship with financial performance. The research discovered that those organizations with more fluid resources will in general diminish their money levels in light of the fact that these benefits can be utilized as money substitutes and firms with a higher extent of short-term obligation will hold more elevated amounts of money, so it brings down the danger of non-reestablishing short term obligations.

4.3.2 Effects of Inventory Management

This subsections presents the findings on indicators of inventory control in the SMEs. Findings on the level of agreement were presented in the table below.

Table 4.4 Inventory Management

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
How can you rate the inventory levels in your SME	293	1	5	2.44	.994
There is availability of list of inventories at all times	293	1	5	2.62	1.267
The SME does frequent stock taking to ensure the level of inventory	293	1	5	2.73	1.207
Valid N (listwise)	293				

Source: Field Data (2019)

A mean of 2.44 and a standard deviation of 0.994 in the table 4.4 below indicates that majority of the SMEs keep a low level of inventory in their business. Low mean of 2.62 and standard deviation of 1.267 indicated that majority of the respondents disagreed that There is availability of list of inventories at all times. A mean of 2.73 and standard deviation of 1.207 indicated that the SME does not frequently take stock taking. The study concurs with Singh (2008) on the study of the relationship between inventory management and working capital management in India. The study findings indicated that firms with a poor stock administration can cause difficult issues which demolish the long haul gainfulness and firms' survival possibilities. Likewise firms with well-thought stock administration can diminish the stock to an ideal level which has no negative impact on generation and deals.

4.3.3 Effect of Debtors Management

The researcher sought to establish the level of debtors in the SMEs targeted. Various indicators of debtors were used. The percentage of sales on credit ranged from 1 representing 0percent-5percent, 2 representing 6percent-10percent and 3 representing 11percent and above

. SME account receivable payment policy ranged from 1 representing 1-15 days, 2 represented 16-30 days and 3 represented 31 days and above.

Table 4.5 Effect of Debtors Management

	N	Minimum	Maximum	Mean	Std. Deviation
What percentage of your sales consists of credit sales	293	1	3	1.46	.563
What is your SME account receivable payment policy	293	1	3	1.37	.525
Recovery of bad debts is always done	293	1	5	4.45	.760
We always insist selling on cash basis	293	1	5	4.70	.661
Valid N (listwise)	293				

The findings in table 4.5 indicates that majority of the SMEs' credit sales ranges between 0-5 per cent as evidenced by a low mean of 1.46 and standard deviation of 0.563. The mean of 1.37 and standard deviation of 0.525 indicates that the account receivable collection period ranges from 1-15 days. It is clear that the recovery of bad debts is always done as represented by a high mean of 4.45 and a standard deviation of 0.760. A mean of 4.70 and standard deviation of 0.661 presents that SMEs always insist on selling on cash basis. The study disagrees with Michalski (2011) on the effects of account receivables on financial performance of SMEs in Canada. The study found that an escalation in the level of accounts receivables increases both the net working capital and the costs of holding and managing accounts receivables and both leads to a decrease in the value of the SME.

4.3.4 Effects of Creditors Management

The study sought to establish the SMEs account payable management practices. The findings were summarized in the table below. Account payable payment policy was measures by 1-15 days represented by 1, 16-30 days by 2 and 3 represented 31 days and above.

Table 4.6 Effects of Creditors Management

	N	Minimum	Maximum	Mean	Std. Deviation
What is your account payable payment policy	293	1	3	1.71	.672
The SME maintains account payables records and reconciliation	293	1	5	4.44	.848
We do timely payment on the account payables	293	1	5	4.19	1.052
Preparation of payment reports is always timely	293	1	5	4.16	1.107
The SME was in a position to access more loan types for the last 5 years	293	1	4	2.84	.979
Valid N (listwise)	293				

Source: Field Data (2019)

The study found that the creditor's payment period was between 1-15 days as evidenced by a low mean of 1.71 and a standard deviation of 0.672. A high mean of 4.44 and a low standard deviation of 0.848 indicated that the SME maintains account payables and reconciliation records. Majority of the respondents argued that they do timely payment of account payables (mean=4.19, Std Dev=1.107). As demonstrated by a high mean of 4.16 and standard deviation of 1.107 it was true that the SMEs prepared timely payment reports always. The study contradicts Falope and Ajilore (2014) study which found that delaying suppliers' payments allows companies to evaluate the products quality that were bought also it can be cheap as well as flexible financing source.

4.3.5 Loan uptake

The researcher requested the respondents to indicate whether the SME was in a position to access loans and provide the required collateral for the loan uptake. The findings were presented in the table below.

Table 4.7 Loan uptake

	N	Minimum	Maximum	Mean	Std. Deviation
The SME was in a position to access more loan types for the last 5 years	293	1	4	2.84	.979
The SME was in a position to provide the collateral needed for loan uptake	293	1	5	3.23	1.407
Valid N (listwise)	293				

The study found that the SME were not in a position to access more loan types for the last 5 years (2013 to 2017) as evidenced by a mean of 2.84 and standard deviation of 0.979. A mean of 3.23 and a standard deviation of 1.407 indicated that minority of SMEs were in a position to provide the collateral needed for loan uptake. The study concurs with Schoof (2012) study on the barriers and incentives to enterprise start-ups in South Africa. The study found that due to insufficient a substantive credit ranking, adequate collateral and character, young adults tend to be known as a high-risk expense making these experience complications inside accessing fund. The study also concurs with Chigunta (2012) on the investigation of the determinants of loan uptake to the financial institutions by SMEs in Zambia. The study found that in developing countries, small businesses (SMEs) lack access to capital and money markets. The study also found that almost all potential youngsters entrepreneurs (72percent) pointed that insufficient funds is the main reason behind dwindling of their business since financial institutions such as bank and microfinance failed to grant them loan due to lack of capacity to repay loan.

4.4 Inferential Statistics

This section presents data related to regression analysis where the correlation analysis, analysis of variance and regression coefficients were presented.

4.4.1 Correlation Analysis

Table 4.8 Correlation Analysis

		Cash management	Inventory management	Debtors management	Creditors management	Loan uptake
Cash management	Pearson Correlation	1	-.062	-.049	-.097	-.078
	Sig. (2-tailed)		.288	.402	.096	.183
	N	293	293	293	293	293
Inventory management	Pearson Correlation	-.062	1	.124*	.134*	-.105
	Sig. (2-tailed)	.288		.034	.022	.072
	N	293	293	293	293	293
Debtors management	Pearson Correlation	-.049	.124*	1	.202**	.034
	Sig. (2-tailed)	.402	.034		.001	.562
	N	293	293	293	293	293
Creditors management	Pearson Correlation	-.097	.134*	.202**	1	-.077
	Sig. (2-tailed)	.096	.022	.001		.186
	N	293	293	293	293	293
Loan uptake	Pearson Correlation	-.078	-.105	.034	-.077	1
	Sig. (2-tailed)	.183	.072	.562	.186	
	N	293	293	293	293	293

*. Correlation is significant at the 0.05 level (2-tailed).

** . Correlation is significant at the 0.01 level (2-tailed).

Source: Field Data (2019)

Table 4.8 presents the correlation coefficients for the five variables (cash management, account receivable management, account payable management, inventory management and loan uptake). The findings indicate that there is no possibility of autocorrelation between variables since all the significance values are less than 0.8. The highest significance value was 0.562 which is way below 0.8.

4.4.2 Regression Analysis

The study sought to determine the extent to which the dependent variable (loan uptake) is explained by the independent variables (cash management, account receivable management, account payable management, inventory management). This was presented in the below table using the Adjusted R square.

Table 4.9 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.909 ^a	.827	.713	1.61911

a. Predictors: (Constant), Creditors management, cash management, Inventory management, Debtors management

The findings in table 4.9 indicates that 71.3 per cent changes in the dependent variable (loan uptake) is explained by the changes in the independent variables (cash management, account receivable management, account payable management, inventory management). 29.7 per cent changes in the dependent variable is explained by other variables not considered in the model.

Table 4.10 ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	20.774	4	5.193	1.981	.001 ^b
	Residual	754.994	288	2.622		
	Total	775.768	292			

a. Dependent Variable: Loan uptake

b. Predictors: (Constant), cash management, account receivable management, account payable management, inventory management

The findings in table 4.10 indicates that the model was significant (P=0.001) at 95 per cent confidence level in explaining the relationship between dependent and independent variables.

Table 4.11 Regression Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	8.392	1.637		5.126	.000
	Cash management	-.085	.055	-.090	-1.536	.010
	Inventory management	-.091	.050	-.107	-1.811	.001
	Receivable management	.064	.064	.060	1.002	.007
	Payable management	-.069	.049	-.084	-1.401	.002

a. Dependent Variable: Loan uptake

Source: Field data (2019)

Table 4.11 presents the study's regression coefficients in the second column (B). It indicates that when all the variables are held constant the value of loan uptake will be 8.392 ($B_0=8.392$). The study findings also indicates that the value of $B_1=-0.085$, $B_2=-0.091$, $B_3=0.064$ and $B_4=-0.069$. The adopted regression line therefore was Loan uptake= -0.085 (cash management)+ -0.091 (inventory management)+ 0.064 (receivable management)+ -0.069 (account payable management) + ϵ

The coefficient for cash management indicate that there was a significant negative correlation between cash management and loan uptake ($B_1=-0.085$, $P=0.10$). The values indicated that a positive change of a unit of cash management will result to the negative change of loan uptake. Therefore if cash management changes by 1 unit loan uptake will change by -0.085 units. The study findings disagrees with Teruel and Solano (2015) study on the effects of working capital management on SME profitability. The variables of the study considered were cash levels, inventory management and account receivable management. The study found that limiting the cash conversion cycle also improves the firms' profitability. Anand and Malhotra (2014) conducted an experimental examination on working capital execution of corporate firms in India. The investigation found almost no proof on the connection between working capital administration and profitability. The findings concurs with Reheman (2010) study on the examination of the effect of working capital administration on benefit of 94 Pakistan firms recorded on Islamabad Stock Exchange for the time of 1999-2004. The examination found that there is a solid negative connection between cash levels and benefit of firms.

The coefficient for inventory management indicate that there was a significant negative correlation between inventory management and loan uptake ($B_2=-0.091$, $P=0.001$). The values indicated that a positive change of a unit of cash inventory management will result to the negative change of loan uptake. Therefore if inventory management changes by 1 unit, loan uptake will change by -0.091 units. The study disagrees with Anichebe and Agu (2013) investigation on the effects of inventory management on organization effectiveness in Enugu Nigeria. The study found that there was huge association between handy stock administration and organizational effectiveness and that there was a great correspondence between inventory

management and organizational profitability. The study agrees with a research study on the ideal stock levels of SMEs in India by Swaminathan (2011), in which the investigation discovered that changing raw materials and completed merchandise as a part of stock is quicker than the stock in general to achieve the sensible levels in the SME sector. The study found that inventory conversion period has an undesirable effect on a business's performance.

The correlation between account receivable management and loan uptake was found to be positive and significant ($B_3=0.064$, $P=0.007$). A positive change in the values of account receivable management will result to a positive change in the loan uptake. A unit change in the inventory management will result to 0.064 units change of loan uptake. The findings disagrees with Baveld (2012) who carried out a research on the relationship between profitability and accounts receivables during a global crisis period in Netherlands. Baveld's discovered that there was a critical negative connection between receivables and gross working benefit amid non-emergency period.

The study also reveals that the correlation between account payable management and loan uptake was negative and significant ($B_2=-0.069$, $P=0.002$). It indicates that a positive unit change of account payables will result to negative units changes of loan uptake. 0.069 units changes of loan uptake was brought by -1 unit changes of account payable management. The study concurs with Wilson and Summer (2012) in an observational investigation of the demand for trade credit by small UK companies. The variables considered were creditor's level and trade credit access. The study established that those small companies that reimburse their trade credit liabilities late seem to do as such when they achieve their threshold on short-

lived bank loans. The study established that, if the inconvenience of statutory interest essentially decreases the trade credit offered to littler companies, this may prompt extreme liquidity issues and more disappointment rates unless backup cash is promptly accessible.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This section presents the summarised study findings, conclusions made based on the summary and recommendations for the study.

5.2 Conclusions

The study aimed to investigate the effects of working capital management on SMEs loan uptake in Langata Constituency, Nairobi City County Kenya. The sampled respondents targeted were 362 SME owners. 293 completely filled questionnaires were returned to the researcher for analysis. It was clear that men were more than the women indicating that in Langata constituency the number of men owned SMEs are more than the women owned SMEs. The study indicated that majority of the SMEs deposit their business proceeds in their bank accounts and that the SMEs practice internal control at all times. The findings indicates that majority of the SMEs did cash sales more often.

Majority of the SMEs keep a low level of inventory in their business and that majority of the respondents disagreed that there is availability of list of inventories at all times. It was clear that the SME owners do not frequently take stock taking. Majority of the SMEs' credit sales were low indicating that SMEs always insisted on selling on cash basis and that SMEs preferred to collect the receivables immediately after sale on credit. It is clear that the recovery of bad debts was always done on time.

The study found that the creditors were paid within the first two weeks after the purchase on credit and that the SME maintained account payables and reconciliation records. Majority of

the respondents argued that they do timely payment of account payables and SMEs prepared timely payment reports always. The study found that the SME were not in a position to access more loan types for the last 5 years (2013 to 2017) and that minority of SMEs were in a position to provide the collateral needed for loan uptake.

5.3 Conclusions of the Study

The findings concludes that changes in the dependent variable (loan uptake) is explained by the changes in the independent variables (cash management, account receivable management, account payable management, inventory management) and there was a significant relationships between the two variables. There was a significant negative relationship between cash management and loan uptake and that a positive change of a unit of cash management will result to the negative change of loan uptake.

The study concludes that there was a significant negative relationship between inventory management and loan uptake and that a positive change of a unit of cash inventory management will result to the negative change of loan uptake.

The study concluded that the relationship between account receivable management and loan uptake was positive and significant and that a positive change in the values of account receivable management will result to a positive change in the loan uptake. The study also concluded that the relationship between account payable management and loan uptake was negative and significant that a positive unit change of account payables resulted to negative units changes of loan uptake.

5.4 Recommendations

The study recommends that SMEs should practice keeping an optimal levels of cash and the excess of held cash should be used to purchase quick moving inventories. The study recommends that the SME owner should actively continue selling their commodities on cash basis and that receivables should be collected within the shortest time possible.

The study recommends the SMEs to build a pool of funds to enable them borrow from it and expand easily other than depending on the bank loans which takes a lot of time before it they are approved and availed to their accounts. This may prompt liquidity and less disappointment when the cash is promptly accessible.

The study recommends that the SME owners should create good relationships with the suppliers to increase the account payable period which will act as a loan to enable SME have enough cash to cater for operational expenses.

5.5 Suggestions for Further Study

The study aimed to investigate the effects of working capital management on loan uptake in SMEs. The study used primary data to arrive at the findings and conclusions, therefore the study suggests a further similar study which will use secondary data. The study was limited to a small scope, an expanded scope should be considered and results compared with the current study.

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APPENDICIES

Appendix I: Specimen Letter to Respondents

Dear sir/ madam,

REF: PERMISSION TO COLLECT DATA

I am a student at Kenyatta University, pursuing a Masters of Business Administration (finance option). I am doing a research on working capital management and loan uptake by SME in Nairobi County, Kenya. I request you to kindly answer to the questions provided as truthfully as possible. The information gathered will be for academics purposes only and confidentiality will be maintained.

Your response was be highly appreciated.

Thank you.

Yours Faithfully,

Kenneth Omolo

Appendix II: Questionnaire

Kindly take a few minutes of your busy time to respond to the questions/statements presented in this questionnaire.

Section A: General and Personal Information

1. Kindly indicate your gender

Male ()

Female ()

2. How long have operated the business?

a) Less than 5years ()

b) 5- 10years ()

c) More than 10years ()

Section B: Effects of Cash Management

3. How do you control the proceeds generated on a daily basis?

a). Keep it in office till ()

b). Deposit it in the bank ()

c). Spend immediately the proceeds ()

d). Any other specify.....

4. In this section, please tick the appropriate option that best reflects the extent to which you agree with the following statements

1 = Strongly disagree, 2 = Disagree = 3 = Neutral 4 = Agree, 5= Strongly agree

	To what extent do you agree with the following statements	1	2	3	4	5
A	Cash Internal control are practiced at all times					
B	We do cash sales more often					
C	We invest the cash not immediately required to cater for operational costs					

Section C: Effect of Inventory Management

5. How can you rate the inventory levels in your SME?

a) Poor ()

b) Low ()

c) Moderate ()

d) High ()

6. How often do you do stock taking?

- a) Daily ()
- b) Monthly ()
- c) Quarterly ()
- d) Annually ()
- e) Other specify.....

7. In this section, please tick the appropriate option that best reflects the extent to which you agree with the following statements

1 = Strongly disagree, 2 = Disagree = 3 = Neutral 4 = Agree, 5= Strongly agree

Statements	1	2	3	4	5
There is availability of list of inventories at all times					
The SME does frequent stock taking to ensure the level of inventory					

Section D: Effect of Debtors Management

9. What percentage of your sales consists of credit sales?

- a) 0percent-5percent ()
- b) 6percent-10percent ()

c) 11percent and above ()

10. What is your SME account receivable payment policy?

a) 1-15 days ()

b) 16-30 days ()

c) 31days and above ()

11. In this section, please tick the appropriate option that best reflects the extent to which you agree with the following statements

1 = Strongly disagree, 2 = Disagree = 3 = Neutral 4 = Agree, 5= Strongly agree

	Statements	1	2	3	4	5
A	Recovery of bad debts is always done					
B	We always insist selling on cash basis					
C	Our debtors level is at manageable level					

Section E: Effects of Account Payables Management

12. Does your SME purchase goods on credit? Yes () No ()

13. What is your account payable payment policy?

a) 1-15 days ()

c) 31days and above ()

b) 16-30 days ()

14. Kindly rate the following practices on payables in your organization

1 = Strongly disagree, 2 = Disagree = 3 = Neutral 4 = Agree, 5= Strongly agree

		1	2	3	4	5
A	The SME maintains account payables records and reconciliation					
B	We do timely payment on the account payables					
C	Preparation of payment reports is always timely					

SECTION E: Loan uptake

15. This subsection is concerned with investigation of the loan uptake by the SMEs. Please respond to the questions accordingly.

1 = Strongly disagree, 2 = Disagree = 3 = Neutral 4 = Agree, 5= Strongly agree

Statements	1	2	3	4	5
The SME was in a position to access more loan types for the last 5 years					
The SME was in a position to provide the collateral needed for loan uptake					

Thank you for your participation