FINANCIAL MANAGEMENT PRACTICES AND FINANCIAL PERFORMANCE OF REGISTERED MICRO AND SMALL ENTERPRISES IN NAIROBI CITY COUNTY, KENYA

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DECLARATION

Declaration by the Student

This research proposal is my original work and has not been presented to any other examination body. No part of this research should be reproduced without my consent or that of Kenyatta University.

Signature…… Date……...

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Declaration by the Supervisor

This Research Proposal was done by the candidate under my supervision and has been submitted for defence with my approval as the Kenyatta University Supervisor.

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DEDICATION

This research proposal is dedicated to my parents, my sisters and my brother because they instilled me with the love for education and hunger to pursue knowledge. I also thank all those special people who offered a hand towards the completion of this work. Thank you all.

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OPERATIONAL DEFINITION OF TERMS

Agency Theory: Developed by Adam Smith, the theory explains the relationship between principals and agents in business, especially the incentives faced by financial planners and fund managers.

Capital Budgeting: Process in which a business determines and evaluates potential large expenses or investments.

Capital structures: The capital structure is how a firm finances its overall operations and growth by using different sources of funds.

Financial Management Practices: The planning, directing, monitoring, organizing, and controlling of the monetary resources of an organization.

Financial Performance: This is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues

Government Policy: This is used to describe any course of action by the government that intends to change a certain situation.

Micro and Small Enterprises: Micro enterprises is a small business employing nine or fewer people and small enterprises employ between ten to forty-nine people.

Performance: An analysis of a company's performance as compared to goals and objectives.

Return on Assets: An indicator that a firm’s profitability is relative to its total assets and gives an idea as to how efficient management is at using its assets to generate earnings.

Working Capital: The capital of a business that is used in its day-to-day trading operations, calculated as the current assets minus the current liabilities.

Working Capital Management: A company’s managerial accounting strategy designed to monitor and utilize the two components of working capital, current assets and current liabilities, to ensure the efficient operation of the company.

ABBREVIATIONS AND ACRONYMS

AIS	Accounting Information System
ARR	Accounting Rate of Return
CBA	Cost Benefit Analysis
CSM	Capital Structure Management
DV	Dependent Variable
EBIT	Earnings before Interest and Tax
EVA	Economic Value Added
FAM	Fixed Asset Management
FMP	Financial Management Practices
FRA	Financial Reporting Analysis
IRR	Internal Rate of Return
IT	Information Technology
MFIs	Micro Finance Institutions
MSEs	Micro and Small Enterprises
NPV	Net Present Value
PM	Performance Management
ROA	Return on Assets
ROI	Return on Investments
SME	Small and medium-sized enterprise
WACC	Weighted Average Cost of Capital
WC	Working Capital
WCM	Working Capital Management

ABSTRACT

Micro and Small Enterprises have a huge responsibility of promoting economic development of many nations in the world today. However, in third-world countries, sector has recorded poor performance even though they take a huge fraction of local businesses. It has been established that approximately 80% to 90% of MSEs collapse their operations within a decade. However, studies from developed nations find financial management practices to contribute immensely to MSEs' unfavourable business performance. This study establishes the relationship between financial management practices and financial performance of MSEs, and centres its investigation on MSEs in Nairobi County, Kenya, which has limited data on their financial management. The objectives of the study included examining the effects of capital budgeting on financial performance of MSEs; determining the effects of working capital management practices on financial performance of MSEs; and assessing the effects of capital structure decisions on financial performance of MSEs in Nairobi County, Kenya. In line with the above, the literature suggests that most research on the financial performance of MSEs is based on any one or a combination of the following key theories and frameworks: The Modern Portfolio Theory, the Signalling Model, and the Pecking Order Theory. The evaluation was done using questionnaire tailored towards collecting primary data to establish the effects of financial management practices on financial performance of MSEs. Since this study covers a broad study, a cross-sectional descriptive survey research study design was used guided by quantitative approach to data collection, analysis and reporting through some elements of qualitative approach of data. The target population of this study were owners, managers or accountants of MSEs operating in Nairobi County since they are the decision makers who ought to be familiar with the use of budgets. The target population of the study was 56, 055 MSEs. The researcher used simple random sampling to arrive at a sample size of 384 licensed MSEs of the total population with at least one respondent in each. Each strata had an equal proportion of respondents for questionnaires and to generate data collection units. The questionnaire was structured in five-point scale in line with the objectives set out to be achieved in the study. The data was analysed using SPSS and presented using frequency distribution tables, charts and graphs. For analyses of the relationships between independent and dependent variables, multiple regression analysis model was used. The model determined the relationship between financial management practices and financial performance of MSEs and showed that the firms' overall financial performance was positively affected by the FMPs. The findings specifically showed that capital budgeting and capital structure management practices each had a significant positive effect on the company's financial performance with WCM practices being the least contributor to the effect. On the other hand, the study found out that working capital management, as a leading financial management practice among MSEs has a significant negative influence on their financial performance. The findings of the study also established that the majority of the respondents disagreed that the company was making adequate return on their assets and the respondents were dissatisfied with the firm's performance. It was therefore recommended that the management of MSEs should put in place the most appropriate financial management practices to help them improve their return on assets. The MSEs need to improve on the process of preparing and publishing the firms' financial statements and capital structure as well as making sure that the management fully make use of debt facilities within their capabilities.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Micro and Small Enterprises (MSEs) contributes significantly to the economic growth of many developing countries; however, they lack accessibility to finance from formal sources (Maina, 2016). As a result, any hindrance to the growth of the MSE sector directly affects the performance of the nation because it acts as an umbrella under which many business establishments use to operate. They also create the biggest percentage of jobs as well as a 33-66 percent turnover in the private sector (Ntsika, 2002). It was estimated that in the private sector, MSEs contribute approximately 56 percent of jobs and 36 percent of GDP globally (Arianoff, 2010).

MSEs have a huge responsibility of promoting economic development of many nations in the world today. However, in third-world countries, sector has recorded poor performance even though they take a huge fraction of local businesses. Approximately 80% to 90% of MSEs collapse their operations within a decade (Abanis *et al*., 2013). The financial sustainability of MSEs dictate the levels of success or failure, as most firms suffer from insufficient working capital and cash flow for a profitable business. However, D'Amboise & Gasse (2006) state that financial management in MSEs has a sharp contrast with that of large firms because of poor systems put in place to manage their financial accounts. Furthermore, the MSEs usually lack well-trained employees to help in the management of their accounting systems. In most cases, the owner of the firms carries out all the tasks associated with finances, while sometimes he could hire a bookkeeper to support him. This pattern can be seen in both developing and developed countries (OECD, 2010).

In any country in the world today, MSEs act as the catalyst to economic development. According to ILO (2008), Japan and Germany have about 80 and 50 percent of their population working in the MSE sector. According to Hatten & Burns (2008), in the EU, the term MSE refers to firms with a specific number of workers, whereas the US rather calls it Small to Medium Business (SMB). Many countries classify their MSEs according to their employee base, which begins 10 to 100 (Norlaphoompipat *et al*., 2008). For instance, Turkey has one of the largest MSEs sector with approximately 99.95 of their businesses officially branded in this category. Turkish MSEs suffered in the last decade due to the economic crisis in the country, but they rose from such problems by significantly raising their share in the economy significantly. Such a move has helped the ruling government to initiate fundamental measures to achieve a sustainable growth (Abanis *et al*., 2013).

Since the inception of the term MSEs, the sector has become a powerful force of growth and development in many countries. Third World nations, such as Kenya continue to use MSEs as leading business venture for improving the livelihoods of its people. The term MSE is universal, but depending on the country, it takes account of several principles and measures, such as sales turnover, number of employees, and employment (Ayyagari, Beck & Demirguc-Kunt, 2006).

In Kenya, a micro-enterprise is considered to have from 1 to 10 employees, while a small enterprise is considered to have from 11 to 50 employees (Asiimwe, Linge & Sikalieh, 2016). According to Maina (2016), the potential of MSEs in both employment creation and generation of incomes for many Kenyan families makes them a key element in the poverty reduction strategy. Compared to the manufacturing sector in Kenya, MSEs contribute over two times the GDP, and 75 percent of new jobs originate from the sector. Firms in the sector employed approximately 5,086,400 people in 2014, an improvement from 4,624,400 in 2013 (Asiimwe, Linge & Sikalieh (2016). About Kshs.

10,000 per month was the estimated average income in 2015, which is more than twice that of unskilled employees (Kshs. 4,000). The sector also contributes to the GDP by about 18.4 percent through production, investment, risk taking, and exploiting new economic prospects to promote business and employment (Maina, 2016).

Today, MSEs in Kenya have stretched their boundaries to cover other areas including transport, garbage collection, water distribution and the production of appliances for both domestic and commercial use (ILO, 2002). Since the legal inception of the sector in 1972, the operations of the sector has grown tremendously. The government formally acknowledges its activities, which serve as the sustainable and self-motivated strategy for achieving national goals in all sectors of the economy.

1.1.1 Financial Management Practices of MSEs

Moore and Reichert (1989) state that financial management practices refer to the budgeting practices carried out by managers of various departments including asset management, supply chain management etc. The most common financial management practices that have been widely used are Capital Budgeting, Working Capital Management and Capital Structure Management which I am going to focus on in this study.

Capital budgeting techniques involves allocating or distributing financially-backed resources to be used for future investments. Since MSEs have minimal access to public funding, the small firms find capital budgeting a more important financial management practice for them compared to large companies. According to Ayyagari & Demirguc (2006) carried out a study on capital budgeting practices in SMEs while focussing on capital project selection. The researchers carried out a number of surveys and results showed that the leading investment practice for small firms was

payback method, even though large firms also complemented theirs with discounted cash flow models (Chanaron, 2008). In essence, these findings do not necessarily portray the lack of effective systems that lead to financial pressures on small firms. Therefore, this study examines a similar scope with MSEs in Nairobi County, Kenya.

Working capital (WC), refers to the total investment that a firm has in its current assets, in this case, those that MSEs can sell to pump cash in the business within 12 months (Keown; Martin; Petty; and Scott, 2005). Previous researchers have emphasized specific aspects of working capital management. Arianoff (2010) carried out a study in the United States of America with the aim of analysing the WCM in totality using a survey that focused on the existing WC policies that govern small-scale manufacturing companies. The researcher examined WC policies as well as the management of WC elements, such as cash, receivables, inventory management, and profitability (Meredith, 2013).

Capital Structure Management (CSM) according to (Romney, 2009) means overseeing the capital structure of an organization. The capital structure of a firm usually takes account of equity and equity. In both small and large businesses, debt includes long-term notes payable and bond issues, whereas equity takes account of detained earnings and common stock.

1.1.2 Financial Performance of MSEs in Nairobi City County

McMahon (1995) defines financial performance as the extent to which an enterprise is able to utilize its existing assets to make revenues. In an economic perspective, financial performance acts as a yardstick for measuring the financial wellbeing of a business's over a specific period of time,

which could be one month, three months, six months, annually etc. The researcher managed to compare the financial performance of similar companies operating in the same industry and in comparison it helps to compare similar firms across the same industry.

As of 2016, Nairobi County has 825 MSEs as reported by the licensing office. The contribution of MSEs to job creation in the country is regarded as immense. Ochanda (2014) states that SMEs in Nairobi County created 5.4 percent more jobs in 2015 compared to the previous year (Ochanda, 2014). With many researchers exploring the topic of financial management practices in SMEs today, this shows that it has a major influence on the financial performance of the small companies (Okadapau, Omwenga & Oboko, 2016).

Ahmad, Rani and Kassim (2011) conducted a research on SMEs in Malaysia and found out that due to various challenges, including poor financial management, nearly 80-90 percent of these small businesses go out of business within ten years. As stated in the 2016 Economic survey report, in the previous year of 2015, the MSE sector generated more than half of new employment opportunities in Kenya. According to Shisia *et al*., (2016), the MSE sector generated 469,000 fresh employment opportunities in 2014, an increase of 5.7 percent.

MSEs operating in Embakasi Sub-county go out of business in a span of three years (Shisia *et al*., 2016). KPMG Kenya in conjunction with Nation Media Group launched the top 100 MSEs survey in 2008 to identify the fastest growing firms in the sector. Furthermore, it helps the firms to exhibit their business excellence as they motivate other firms to learn from their successful entrepreneurship strategies (Ochanda, 2014). According to the selection criteria, any firm that qualifies the Top 100 list meant it has prospered in growing its market progressively, which has resulted into consecutive years of profitability. The categories of the top 100 MSEs include

distribution, manufacturing, real estate services, and supplies (Okadapau, Omwenga & Oboko, 2016).

Stock market values is one of the common ways for measuring financial performance of firms over time by finding the annual average change in the stock market. Furthermore, return on assets (ROA) and return on capital employed (ROCE) are the common accounting ratios that are used to measure profitability. ROA is an indicator of how profitable a company is relative to its total assets. It is a percentage calculated by dividing a company's annual earnings by its total assets. ROCE measures the profitability and efficiency of a firm's capital employed by dividing Earnings before Interest and Tax by Capital Employed. Since most MSEs can estimate their total assets, this study will employ Return on Assets with the specific aim of examining or evaluating the performance of MSEs in Embakasi Sub- County, Kenya.

1.1.3 Micro and Small Enterprises in Kenya.

Inefficient and unsustainable financial planning may lead to loss of business efficiency which in turn may have an effect on growth of the MSEs in the country. However, there is a direct correlation between financial management and its likelihood to help MSEs in strengthening their business efficiency to address the challenges. Ochanda (2014) states that Kenya is one of the countries with high MSEs start-ups but non performing as well as closure of SMEs also high in numbers due to poor planning practices. A large number of distressed firms have been due to financial managers' failure to control and plan the available resources being the business current assets and current liabilities of their respective firms. Pais & Gama (2015) goes ahead to emphasise that financial planning involves all departments of management as well as the financial effects of marketing, production, and investment decisions. However, these areas are currently not utilised

by MSEs in Kenya and there is need to pay urgent attention to it. It's been identified that a major cause of business failure is lack of effective management practices during the early stages of MSEs. Business owners tend to be hands on in managing day to day activities in order to reduce operational costs.

1.2 Statement of the Problem

Financial management practices have a huge influence on the performance of MSEs and has become a significant topic in the field of entrepreneurship and MSE sector development. The SME sector in Kenya report weak performances almost every year due to poor financial management practices. The Kenya National Bureau of Statistics Economic Survey Report 2015 shows that the financial performance increased to 5.6 percent in 2014 and later declined to 4.7 percent in 2015 and as a result such decline leads to unemployment, crime and social injustice (Njue & Mbogo, 2017). Poor business performance remains unexplained in developing nations, which carried the bulk of these businesses (Maina, 2016).

Literature on financial management of many firms identifies the components of financial management practices crucial to the performance of every firm as financial planning and control, financial analysis, accounting information, management accounting, capital budgeting and working capital management (Abanis *et al*., 2013; Axelsson, Jakovicka & Kheddache, 2013). According to D'Amboise and Gasse (2006), accounting systems provide vital information to measure financial performance, which makes it indispensable for managers to provide accurate financial information pertaining to the accounting practices of businesses.

Since MSEs are yet to perform to their preferred expectations, failing to address this situation will affect their contribution to the economy (Lois and Annette, 2005). Wanyugu (2001) conducted a

study on the financial management practices of MSEs in Kenya a case of Kibera and found out that the performance of MSEs depends on the proper management of the financial practices. Siba (2012) did a research on the relationship between financial risk management practices and financial performance in Kenyan Banks. Siba found that bank managers are financial risk averse and avoid uncertain business ventures. Thus their performance relies on practices that they deem not risky. Nyongesa (2011) examined the relationship between financial management and financial performance practices of Kenyan insurance firms. The study revealed that a significant relationship exists between the two practices. However, the study failed to establish reasons for this correlation thus calling for more studies to be done.

Locally, previous studies including Kitonga (2013) examined financial management practices as well as financial performance and established their relationship in the Kenyan shipping industry. Demba (2013) also carried out a comprehensive research on the effects of financial management practices on the performance of Kenya Medical Training College. Although several studies have been done on financial management practices, none has given proper concentration on how factors of management practices such as capital budgeting, WCM practices and capital structure affect the financial performance of MSEs in Nairobi County. Therefore, this study seeks to ensure that MSEs in Nairobi County carry out their businesses in the long-term by adopting the most suitable financial management practices for the sector's perpetual growth.

1.3 Objectives of the Study

1.3.1 General Objective

To establish the effect of financial management practices on performance of MSEs in Nairobi City County, Kenya.

1.3.2 Specific Objectives

The following are the specific objectives that the researcher will focus on:

a) To examine the effects of capital budgeting techniques on the financial performance of MSEs in Nairobi City County, Kenya.
b) To determine the effects of working capital management practices on the financial performance of MSEs in Nairobi City County, Kenya.
c) To assess the effect of capital structure decisions on the financial performance of MSEs' in Nairobi City County, Kenya.

1.4 Research Questions

a) What are the effects of capital budgeting techniques on the financial performance of MSEs in Nairobi City County, Kenya?
b) What are the effects of Working Capital Management practices on the financial performance of MSEs in Nairobi City County, Kenya?
c) What is the effect of capital structure decisions on the financial performance of MSEs' in Nairobi City County, Kenya?

1.5 Significance of the Study

This study was significant to the MSE sector in different ways. MSEs were currently seeking sustainable financial management solutions to adopt and integrate in their business processes. Therefore, this study sensitized stakeholders to come up with sustainable financial management practices in a cost effective manner. This study provided a theoretical and empirical framework for research in sustainable financial management practices within the MSE sector of the Kenyan

economy. Academics and students alike found the study methodology and subsequent results rich enough to guide future research. Further, the study acted as an impetus to reignite interest in this critical area of study for polishing the existing practices to perfection.

Key financial management practices and infrastructure were increasingly being recognised as a key component in the growth of the MSE sub-sector; hence, policy formulation arising from the results of this study guided government, especially the Ministry of Trade, in instituting reforms that would make investment in the innovation more attractive. Policy makers were also in a position to formulate new policies or redesign the existing ones for a smooth achievement of objectives in the MSE sector. This helped supervisors to improve in the monitoring and evaluating their financial books and entire operations and thus making the parties concerned confident in their department. It also enriched the field of the business studies and management by adding information on specific factors contrary to generalization made in the past.

This study was also beneficial to future researchers and research students intending to write on organizational financial performance and managerial skills. Availability of this data from this study simplified the work of other researchers, which reduced the cost and time taken to collect, compile and analyse the data from the field. It provided the researcher with materials for more explanations on the literature review and solutions to the issues raised.

1.6 Scope of Study

The researcher carried out the study in Nairobi City County focusing on Embakasi Sub-County, but with much focus on the financial management practices of MSEs. Sessional Paper no.2 (1992) of the Government of Kenya (GoK) indicates that firms employing 1 to 9 employees are micro enterprises and those with 10 to 49 employees are considered small, this study will narrow down

its research using these parameters. This research included a review and examination of primary data in the last 5 years i.e. from 2011 to 2015 because recent focus resulted in the Micro and Small Enterprise Act of 2012 and it also gave us the most recent data. The study focused on Embakasi Sub-County because it had the highest percentage of active MSEs compared to other sub-counties in Nairobi County (Appendix 3). The study took approximately three months to complete, consistent with a target population comprising of employees at the executive, middle and lower level management of the MSE sector.

1.7 Limitation of the Study

This study depended on having access to people as well as important performance document. It was difficult to access all the necessary data for the perfection of the study because, due to privacy, access was denied or limited in ways that frustrate the researcher. Furthermore, with many managers of MSEs difficult to access, finding alternative interviewees could pose as a challenge if the scheduled ones are unavailable in the course of the data collection.

In addition, selected expert participants seemed busy, which forced the researcher to squeeze time to carry out the scheduled interviews. Most of them were sometimes intimidating, or impatient through the initial consent process. The attitude of some respondents towards questions, such as lack of unwillingness to give truthful answers to questions asked was another limitation to the study. There was no guarantee that each respondent would answer all the questions themselves.

1.8 Organization of the Study

This study consisted of five chapters. Chapter 1 comprised of the background of the study, statement of the problem, research objectives, research questions, and hypotheses. The chapter also covered significance of the study, limitation of study, and the scope. Chapter 2 comprised the

theoretical literature, empirical literature as well as the research gap and conceptual framework. Chapter 3 covered the research methodology including model derivation, while chapter four consisted of the study findings and discussion. Chapter 5 presented a summary of findings, conclusions, and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviews both the theoretical and empirical literature on the performance of MSEs. The first section reviews the relevant theories and exposes the theoretical foundation underlying on effects of financial management practices on performance MSEs. The second section covers the empirical literature, while the third section discusses the literature involving the research gap and eventually the conceptual framework.

2.2 Theoretical Literature

Theories help to explain, understand and challenge a phenomenon as well as outspread the existing knowledge about the concept in investigation within specific assumptions. The theoretical framework or literature refers to the structure that gives a diagrammatical illustration used to support a theory in a study. In line with the above, the literature suggests that most research on the financial performance of MSEs is based on any one or a combination of the following key theories and frameworks: The Modern Portfolio Theory, Signalling model, and Pecking Order Theory.

2.2.1 Modern Portfolio Theory

Hypothesised by Harry Markowitz in 1952, the Modern Portfolio Theory was founded on the notion that investors who are highly exposed to risk can construct portfolios with the intention of optimizing expected return as regards the risk levels in the market. The theory postulates that in order to achieve a higher reward, higher risk must play an inherent part in the transaction. When it comes to risk and investment, it stands out as an influential economic theory. According to Amenc & Le Sourd (2003), the modern portfolio theory puts forward that investors can maximize

their expected return by constructing a well-organized frontier portfolio. The main idea of MPT applies in this study as an important factor in the overall portfolio of MSEs, which is more important than the individual risk of an asset as well as its potential return. Therefore, the researcher would not consider investments on a stand-alone basis, but in terms of what they bring to the portfolio.

Garcia *et al* (2017) states that investors can reduce their portfolio's riskiness by placing their investments in more than one stock, as they also enjoy diversification. The Modern Portfolio Theory boasts in a wide range of benefits emanating from diversification. In a risk-benefit perspective, a lower return than expected is the most prevalent risk that most investors attract after buying stock. Therefore, measures the deviation from the average expected return. MPT categorizes each stock with its own standard deviation and calls it "risk." MPT is used to explain whether capital budgeting/investment appraisals chosen by a firm can be used through the firm's capitalization structure.

2.2.2 Signalling Model

Signalling Model was developed by Michael Spence in 1973 to examine the behaviour of individuals or organizations who have access to different information. In real life situations, according to Spence, there are many instances of signalling, as individuals signal how they interact with others. Organizations signal as well in their advertisements, recruiting, and annual reports, just to name a few. Spence (1973) comprehensively delves into the hiring process of a company and associates it to investing in a Lottery game and states that an employer has to contribute to play. However, the employer would never know if he made a wise investment until the last number is picked. Signals are the unknowns that only observable personal attributes can describe; however,

Spence (1973) denotes that signals are alterable, but indices are fixed. Indices refer to unchangeable attributes including gender, race, and sex.

Accordingly, signalling theory is widely explained and examined by many researchers who have written about financial management practices, such as human resource management, entrepreneurship, and strategic management. Spence (1973) asserts that these signals have fluctuating reliability levels, with some being highly correlated to prove that an enterprise is of good quality. In recent years, signalling theory has been on the rise, with many organisations applying its principles, which have eventually blurred out.

As stated by Hill *et al* (2010), an ideal level of WC usually guarantees balances efficiency and risk. Efficient WCM helps owners and managers to maintain optimal levels of WC with the aim of make the most of not only the financial values of shareholders, but also their affluence. A firm's general business objectives usually signal the maximization of profits as well as shareholder value. On the other hand, a firm's liquidity helps managers to meet their short-term maturing obligations. Therefore, when it comes to WCM, business managers and owners should seek effective ways to manage their finances, especially the needed cash for routine operations with the intention of maximising its impact.

2.2.3 Pecking Order Theory

The original version of the Pecking Order Theory was suggested by Donaldson (1961), and its modification done over two decades later by Mayer and Majluf (1984). Generally, the theory postulates that in corporate finance, assymentrical information and the cost of financing goes hand in hand. Since firms uses its internal funds, new equity and debt for financing their activities, they need to carefully choose their form of debt to play the role of external finance. When it comes to

the Pecking Order Theory of capital structure, Schulze *et al*. (2015) suggest that internal financing is the most desired financing decision in a firm.

Allini *et al* (2017) state that if a firm is forced to inject external funds for financing, debt, convertible securities, preferred stock, and common stock is the order of the desired financial sources. The benefits of such a sequence is that it helps the management to control the finances and eventually the entire firm. Furthermore, the firm will enjoy reduced costs of equity, and avoid reacting negatively to the market conditions, especially when a new equity is issued (Schulze *et al*., 2015).

When it comes to financial managers, the Pecking Order Theory has two fundamental assumptions about them, with asymmetric information being the first. As such, compared to investors, the financial managers of a firm have usually known the financial position of a business as well as its likelihood to excel in future projects. As stated by Khan & Yusop Adom (2015), firms usually aspire to keep such information exclusive because when they use internal funds, managers will not reveal their investment opportunities. According to Allini *et al* (2017), managers will usually protect their shareholders interest by working in favour of their firm, which is the second assumption. As such, the pecking order theory helps to give accurate details about the changes in the capital structure of a farm (Axelsson, Jakovicka & Kheddache, 2013).

2.3 Empirical Literature

For the purpose of study, this section follow the notion that the effects of financial management practices on performance of MSEs are defined and demarcated as the practices performed by the accounting officer in the areas of capital budgeting, working capital management practices, and capital structure decisions.

2.3.1 Capital Budgeting and Financial Performance

Business owners use capital budgeting to allocate resources for major capital, or investment, expenditures so as to increase their firm's value to shareholders. As stated by Brigham (2012), compared to large business, capital budgeting is more important to small businesses since they cannot access funding from public markets. McMahon *et al*. (2008) reported that Soldofsky (1964) interviewed 126 owners of small manufacturing businesses in Iowa, reported the earliest study of capital budgeting of MSEs. Regarding capital project selection techniques, Soldofsky's (1964) study results showed that only 4.1 percent employed accounting rate of return technique while 58% of respondents used payback period methods.

Ratten's (2014) conducted a study of 232 US-based small businesses, which pointed out that payback period method is the widely used method that small enterprises use for investment selection (Meredith, 2013). However, these results do not reflect the nonexistence of sophistication, which leads to financial pressures MSEs. The researcher analysed the level of access to capital projects using employed payback period and concluded that most firms use the same. Only a tenth of the firms confirmed that they use discount cash flow methods such as internal rate of return and net present value (D'Amboise & Gasse, 2006). Therefore, even though many small businesses have decided to adopt sophisticated techniques geared towards effective capital budgeting, these methods do not affect performance.

Njue & Mbogo (2017) conducted a research to investigate the determinants of financial accessibility by SMEs in Eldama Ravine Sub–County in Baringo County, Kenya. The study concluded that high transaction costs increase the cost of borrowing and also restrict access to external finance for some borrower groups. From the study the researcher further concluded that

lending institution consider the size of an enterprise while approving loan application. Ochanda (2014) also investigated the effects of financial deepening on entrepreneurial growth in Kenya, with indicators comprised of credit received by entrepreneurs/SMEs, the affordable nature of interest rates, savings culture coupled with the financial sector regulation. Major study findings indicated that the growth rate of the loans accessed by entrepreneurs/SMEs was on an unchanging progress in the period between 2006 and 2016.

2.3.2 Working Capital Management and Financial Performance

Brigham (2002) state that a wide range of historical data on WCM has been used to develop studies that focus on financial management. According to a survey conducted by Grablowsky and Lowell (2008), SMEs have been inadequately utilising cash management practices. With a sample of 66 small businesses located in Norfolk, Virginia, the researchers concluded that a majority (67 percent) of respondents do not employ forecasting of their cash flows in any financial period within the year. Such results conclude that cash management practices have become a non-existent practice within many MSEs today even though most of them have started adopting the same. Moore & Reichert (2010) surveyed the WCM practices of MSEs in Ghana using a sample of 800 firms to make public many weak working skills within the sector. The researchers recommended that active cash management in small enterprises should reflect an inclination to invest surplus cash on a long-term basis. However, the study did not clearly handle other aspects of business efficiency such as financial planning.

Inventory management refers to the supervision of stock and non-capitalized assets by ensuring the smooth flow of goods from manufacturers to the final consumer. D'Amboise and Gasse (2006) conducted a survey of Canadian shoes and plastic firms to investigate the existing management

techniques. According to the results, a majority (64 percent and 65.4 percent respectively) of the businesses incorporated formal systems for managing their inventory. On the other hand, Grablowsky and Rowell (2008) carried out a similar study and found that most small businesses in Sydney, Australia invested a 30% surplus of working capital in inventory, a very poor management technique. The study also concludes that only 6% of small businesses used a quantitative system to provide the relevant stakeholders with updated information on the nature and costs of their existing inventory.

Grablowsky (2008) also carried out a survey to investigate and compare the inventory levels in 94 large firms in South Africa. The results showed that they used sophisticated methods to determine inventory levels compared to small businesses. The study established that majority (95%) of the businesses have an inventory register, prepare periodic summaries of inventory usage and carry out periodic inventory counts. However, only 35% of the businesses have physical safeguard of inventory against theft and 25% use computer assisted software in managing inventory However, the study relied so much on secondary sources. The study recommended that MSE owners should put efforts to make sure that they improve the effectiveness of their inventory management by using sophisticated methods to determine inventory levels.

2.3.3 Capital Structure and Financial Performance

Capital structure refers to the ways in which an enterprise finances its operations as well as using various solicited funds. The term capital structure represents the proportionate relationship between the different forms of long term financing (López *et al*. 2015). By bringing together hybrid securities, debt and equity, a firm uses capital structure to finance its assets (Holmes, 2003). As

stated by Chechet & Olayiwola (2014), eighty percent of a company's ratio of debt to total financing represents leverage.

A firm can pump funds either externally or internally for the smooth operations of their activities. External soliciting of funds comes with two options to choose from: debt or equity. The management of MSEs calls for vital decisions centred on the firm's optimal capital structure. Heikal, Khaddafi & Ummah (2014) defines capital structure as a combination of both debt and equity used to finance the operations of a firm. Explanations vary from the irrelevancy hypothesis to the optimal capital structure where the cost of capital is minimized and the value of the firm maximized (Chechet & Olayiwola, 2014).

2.3.4 Firm Performance

2.3.4.1 Return on Assets

Return on Assets (ROA) indicated the level of a firm's profitability company is relative to its total assets. ROA gives an idea as to how efficient management is at using its assets to generate earnings. It is expressed as the ratio of annual earnings to total assets, measuring profitability of a firm's asset base and expressed as a percentage. Asset Turnover is the ratio of Net Sales Revenue to Average Total Assets and measures how efficiently the assets are being used to generate sales (Hewitt, M., Watkins & Yohn, 2017). The aforementioned ratios act as a basis for interpreting the success of a business after specific periods as compared to other rivals.

In a survey on the impact of corporate governance practices on performance of MSEs in Nigeria, Amoateng *et al*, (2017) utilised the annual reports of the MSEs from 2012 to 2016 financial years. Net Profit Margin (NPM) and Return on Assets (ROA) were used as proxies for performance and Ordinary Least Square (OLS) regression model was used to estimate the level of impact of

corporate governance on the performance of MSEs in Ghana. The results showed that role difference for CEO and board chairman has a negative and positive impact on both ROA and ROE. Similarly, the results showed that board size (BS) has an insignificant negative impact on ROA. Generally, the evidence obtained show that corporate governance has positive but insignificant impact on performance of SMEs (Idawati & Wahyudi, 2015).

2.4 Summary of Literature Review and Research Gaps

As stated by Wanyugu (2001), the management of financial practices is an important factor in the performance of MSEs in Kenya. There is a need to convince business financial management practitioners to change their financial management practices until business owners find evidence of their effects on MSE profitability as well as the relationship between the variables. The first major gap is that most empirical evidence comes from the developed economies such as the USA, the UK, Canada and Australia (Lois & Annette, 2005). There's lack of evidence from emerging economies, especially from developing economies, for example, Kenya. Secondly, there exist little research examining the impact of financial management practices on the profitability of small businesses (Waweru and Ngugi, 2014).

Table 2.1: Summary of the Literature Review and Research Gaps

Author & Year of Study	**Subject of Study**	**Findings**	**Gap**	**Focus of current study**
McMahon *et al*. (2013)	How capital budgeting of SMEs is done.	Most respondents used payback period methods whereas a few employed accounting rate of return technique.	Respondents focus on only one division of the studied company	The current research focused on financial budgeting techniques including profitability index, net present value, and IRR.

Burns and Walker (2012)	WC policy among small manufacturing firms in the USA.	Researcher found out that cash and inventory management; and relationships between WCM practices and profitability affects MSE performance.	The study did not clearly handle other aspects of business efficiency such as capital structures and capital budgeting.	Current research determined to focus on other aspects such as capital budgeting that affects the performance of MSEs.
Moore & Reichert (2010)	Working capital practices of SMEs in the Ashanti region of Ghana.	Weak WC skills in cash management and an inclination to invest surplus cash on a short-term basis.	The study did not clearly handle other aspects of business efficiency such as capital structures i.e. how to finance its overall operation.	The proposed study sought other aspects that affect business efficiency such as investment activities such as capital budgeting.
Ratten (2014)	Methods of investment selection for small businesses	The study relied on secondary data and found out that payback method is the preferred investment method.	There was over-reliance on secondary data sources to determine the method of investment selection for small businesses.	Current researcher used both primary and secondary data sources to prove there are other methods used for investment activities selection for small businesses such capital budgeting.
Mutanda (2014)	The perception of Small & Micro enterprises in the City of Durban Central Business District	Most SMEs did not understand the importance of investment activities such as capital budgeting	The researcher used a small sample population for the collection of data to arrive at its conclusions.	The proposed study used a large sample size for the data collection to arrive at a more efficient, reliable and valid conclusions and recommendations.
Uyar (2010)	Cost and management accounting practices: A survey of pharmaceutical companies	The study found out that there was no association between use of individual ratios and total earnings or total to sales was found.	The opinions of Executive management was insufficient	The current researcher sought the opinion of all employees' i.e. High level, middle level and low level employees (owners, managers and accountants).
Thevaruban (2009)	Financial problems	Researcher found that SMEs in Sri	There was lack of representative	The proposed study included

	affecting Small-scale industries in Sri Lanka	Lanka are unable to borrow due to insufficient cash inflow and low savings	from finance department such as finance officers and accountants.	representatives in the finance department as the decision makers and are familiar with the budget in their entities.
Grablowsky and Lowell (2008).	Cash management practices of small businesses in Norfolk, Virginia.	Study shows that a majority (67%) of respondents do not employ forecasting of their cash flows in any financial period within the year.	The researcher did not study other cash management practices such as supply chain finance, bank account and internal cash management.	The current researcher will focus on other cash management practices such as bank account management in Nairobi county, Kenya to ensure there is valid and reliable results.

Source: Author (2018)

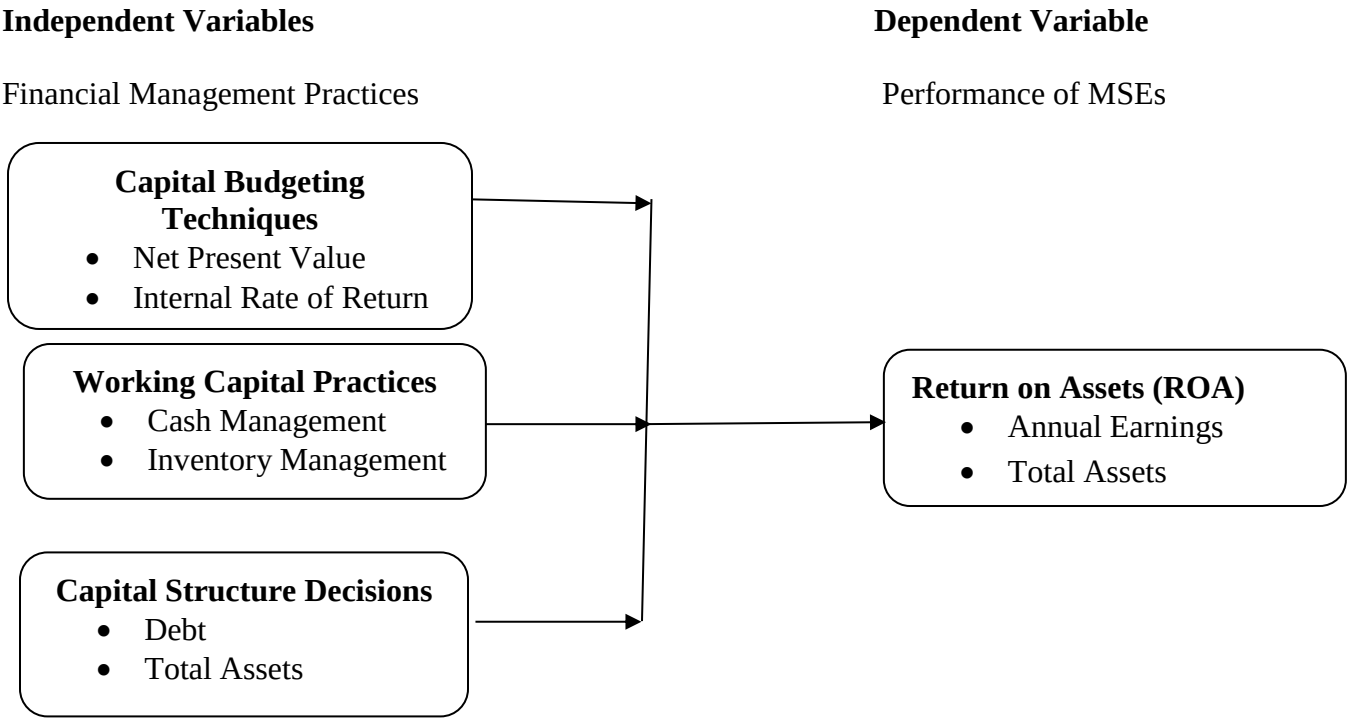
In the literature, financial management practices can help improve financial performance. Most studies indicated that most sophisticated capital budgeting techniques, such as Internal Rate of Return (IRR) as well as Net Present Value (NPV) had a positive relationship with ROA even though the old-fashioned approaches presented an inconsequential relationship. On the other hand, related reports show a negative relationship between financial performance and capital budgeting techniques. Local studies on capital budgeting techniques in various registered firms showed that owners rarely base their investment decisions on discounted cash flow methods. Therefore, this study sought to establish the effect of the financial management practices on financial performance of MSEs in Nairobi City County.

2.5 Conceptual Framework

Conceptual framework is a diagrammatical summary of the study objectives as represented by a graphical depiction of the study variables. In this case, it examined the relationship between

financial management practices of MSEs and their effect on their performance as shown in Figure 2.1.

Figure 2.1: Conceptual Framework



Source: Author (2018)

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction

This chapter presented and explained the procedures used to collect, measure and analyse data. It also highlighted the techniques used to gather data, a description of the target population, research design, sampling techniques, data collection, analysis and presentation methods.

3.2 Research Design

It referred to the approach to be used to bring together the different components of the study in a logical and coherent manner to address the objectives (Bachman & Schutt, 2016). The study adopted a cross-sectional descriptive survey to collect, analyse and present data with the aim of condensing the research to become researchable.

The descriptive survey sieved out people's opinions and facts by questioning participants to respond to specific questions (Kombo & Tromp, 2006). The researcher used the design to describe the ongoing situation in MSEs in relation to their financial practices. As such, it reduced the bias during data collection by focusing on a representative sample of the study. (Oso & Onen, 2008).

3.3 Study Locale

This study focused on MSEs based in Embakasi which is the largest Sub-County of Nairobi County as shown in Appendix 3. Embakasi Sub-County was curved into five constituencies, which include Embakasi Central, Embakasi East, Embakasi North, Embakasi South, and Embakasi West.

3.4 Target Population

This refered to a large collection of individuals or objects that were the focus of a query (Castillo, 2009). This study's target population consisted of MSEs owners, managers or accountants operating in Nairobi County, since they seem familiar with the use of budgets in their entities. The firms were categorised as micro (1 to 9 employees), and small-sized (10 to 49 employees) in the sub-county.

The target population was 56,055 owners, accountants or managers of the registered MSEs in Embakasi Sub-County which was derived as a proportionate of the registered MSEs in Nairobi City County as shown in Appendix 3. Appendix 2 shown the distribution of licenced Micro, Small and Medium Enterprises in all the counties in Kenya in which the researcher used to calculate the total number of registered MSEs in Nairobi County, Kenya (KNBS, 2016). Table 3.1 represent the target population/respondents of the study.

Table 3. 1: Target Population

Category of respondent	**Population frequency**
MSEs owners/managers/accountants	56,055

3.5 Sampling Procedure

McDaniel and Gates (2002) defines a sample as a sub-group carefully acquired to represent the target population due to their pertinent characteristics. The individuals for the study represent the large group, in this case, MSE owners or primary managers.

The proportionate stratified random sampling followed by simple random sampling of elements within the respective strata was used to obtain the respondents for questionnaires and to generate

data collection units in both micro and small enterprises in the sub-counties. Stratified random sampling was appropriate for the study because of the heterogeneous nature of the MSE sector). The following formula was used to determine the sample size:

$$\boldsymbol{n = \frac{z^2 pq}{d^2}} \text{ ..... } \textbf{\textit{Equation (i)}}$$

Where:

n = the desired sample size if the targeted population is greater than 10000

z= the standard normal derived at the required confidence level set at 1.96

p= the proportion in the target population with the measured characteristics. If there is no reasonable estimate, then use 50%

q= 1-p (1-0.5)

d= the level of statistical significant set. (Degree of accuracy here which is set at 0.05 corresponding to 1.96)

Consequently, the sample size will be:

$$\boldsymbol{n = \frac{(1.96^2)(0.50)(0.50)}{(0.050^2)}} = \textbf{384}$$

Therefore, the researcher used simple random sampling to select a sample size of 384 respondents from the 5 stratum. Each strata had an equal proportion of respondents as indicated in table 3.2. The researcher found out where the MSEs are located within Embakasi Sub-County to help narrow down the focus on the study location.

Table 3. 2: Sample Design

Strata (Constituencies)	Sampling Rate	Sample Size
Embakasi Central	20%	77
Embakasi East	20%	77
Embakasi North	20%	77
Embakasi South	20%	77
Embakasi West	20%	76
Total	**100%**	**384**

Source: Author (2018)

3.6 Data Collection Instruments

The study employed primary data to answer research questions comprehensively through a semi-structured questionnaire. Structured questions were designed to elicit written responses from the respondents. This method of data collection created a common ground for excluding each variable effectively. The researcher self-administered and pre-tested questionnaires on five respondents before the final copies were prepared. According to Zohrabi (2013), questionnaires were used because they were easier to prepare, and they cover a wider area within a short time.

3.7 Data Collection Procedures

Questionnaire were developed based on the objectives of the study to collect data. Two well-trained research assistants administered the questionnaires for this purpose. Structured questions were designed to elicit written responses from the respondents. This method of data collection created a common ground for excluding each variable effectively. The questionnaires were self-administered and pre-tested on five respondents before the final copies were prepared.

3.8 Data Validity and Reliability

3.8.1 Validity

Validity is the accuracy and meaningfulness of inferences based on research results (Mugenda and Mugenda, 2003). To ascertain the validity of the measurement scales, a critical evaluation of each of the constructs was conducted by reviewing theories and research findings relevant to the construct under consideration. The questionnaire were based on the theoretical framework to incorporate previous studies in the analysis. A pilot test was conducted to test validity of the

research instruments with regard to financial management practices of MSEs in Nairobi City County, Kenya.

3.8.2 Reliability

Saunders, Lewis and Thornhill, (2009) defined reliability as the degree to which a research instrument produces consistent results after repetitive trials. To ensure reliability, the standard definition of financial management practices was used in this study given on the target group before the questions in the questionnaire. The internal consistency and reliability of the variables was verified by computing Cronbach's alpha. The questionnaire also ascertained data reliability since it elaborated the relevant literature related to the study. Nunnally (1978) stated that reliability of a research instrument can be indicated at a minimal Alpha value of 0.6.

3.9 Data Analysis and Presentation

3.9.1 Data Analysis

According to Steelman, Hammer and Limayem (2014), data analysis is the process of packaging the collected information in a way that the finding can easily and effectively communicated. In the process of analysing the data, all the information collected and gathered were first edited to check on completion, clarity and consistency. The researcher perused through filled questionnaires and document sheets used to record the data for analysis. Quantitative data gathered using questionnaires was analysed using descriptive statistics, Statistical Packages for Social Sciences (SPSS).

The study used multiple regression model to determine the degree of relationship between independent and dependent variables. The model was used by the researcher to predict the value

of dependent variable based on the value of two or more other independent variables and determine whether they are statistically significant (Fisher, 1954).

Regression equation: $Y = ß_0 + ß_1X_1 + ß_2X_2 + ß_3X_3 + Ɛ$

Where:

Y = Firm performance as measured by Return on Assets (ROA)

X_1 = Unit change in Return on Assets as a result of a unit increase in capital budgeting

X_2 = Unit change in Return on Assets due to a unit increase in working capital management

X_3 = Unit change in Return on Assets due to a unit increase in capital structure decisions.

Ɛ = Error term (The difference between the calculated DV value and the actual value).

$ß_0$ = Constant

$ß_1$, **$ß_2$** and **$ß_3$** are regression coefficients (indicates the rate of change of dependent variable as a function of changes in the independent variables).

SPSS was used to analyse the data collected. The coefficient of determination measure was used to test the significance of the regression model and determine the relationship between financial management practices and financial performance of MSEs. The ANOVA statistics was used to present the regression model, which produced an F-significance value of p = 0.000 indicating that there is a 0.0 percent probability for false information.

3.9.2 Data Presentation

The data was presented using means, percentages, frequencies and standard deviation. The information was displayed using pie charts and graphs, prose-form and bar charts. This was done through tallying up of responses, percentage computing, response variation as well as description and interpretation of the data according to the study assumptions and objectives.

3.10 Ethical Considerations

Ethical considerations in research are the norms or standards that help to determine the difference between acceptable and unacceptable behaviours. Since this research uses human subjects, the researcher ensured that human rights are not violated by reviewing the research methodology to protect the participants against potential legal implications from any behaviour that may be deemed unethical. The researcher obtained permission from the relevant departmental section of the organizations to circulate the questionnaires. Drafted questions were pre-tested to remove ambiguity and those that had not yielded the required data were discarded. All the units of analysis were comprehensively studied and the whole population taken into account.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 Introduction

This chapter discussed an in-depth analysis of data collected from respondents who include MSEs either owners, managers or accountants operating in Embakasi sub-county. The researcher presented and interpreted all data with regard to the objectives percentages, tables, and graphs. The objectives of this study were to examine the effects of capital budgeting techniques on performance of MSEs in Nairobi County, Kenya, determine the effects of working capital management practices on performance of MSEs in Nairobi County, Kenya, and assess the effect of capital structure decisions on the performance of MSEs in Nairobi County, Kenya.

From the target population of 56,055 respondents in the study area, 384 respondents were sampled. From the distributed questionnaires for data collection purposes, 269 respondents filled and returned the same, which represented 70% of the total population. As stated by Mugenda & Mugenda (2003), it is sufficient for a study to yield justifiable results with a response rate of more than 50%. The response rates is shown in Figure 4.1:

Table 4.1: Response Rate

Category	**Frequency**	**Percentage**
Response	269	70
Non-Response	115	30
Total	**384**	**100**

Author (2018)

The response rate for this study was high because of the groundwork carried out to pinpoint reliable and willing groups of respondents from randomly selected MSEs in Embakasi sub-county. Furthermore, the research assistants were thoroughly trained and financially equipped to provide

satisfactory service to the respondents, as they addressed various challenges with the aim of reaching the desired high expectation.

4.2 Demographic Characteristics

This section presents the general information about the respondents and the firms, which include their positions in the firm, gender, level of education, age group, years worked in the firm, industrial sector of the firm, the firm's annual turnover as well as its level of financial management.

4.2.1 Position in the Firm

The positions of respondents in their respective firms was of importance because it helped to analyse whether financial management practices are carried out and monitored by lower-level managers, middle-level managers or top-level managers, from the 269 questionnaires returned. Table 4.2 shows the distribution of the respondents' positions in the firm.

Table 4.2: Position in the Firm

Category	Frequency	Percentage
Top Management	197	73
Middle Management	61	23
Lower Management	11	4
Total	**269**	**100**

Author (2018)

According to the results in Table 4.2, 73% of respondents were top-level managers, 23% were middle level manages, and 4% were lower-level managers. This shows that financial management practices in most MSEs in Embakasi sub-county are carried out by the top management.

4.2.2 Gender

The study took into account the gender orientations of the respondents in order to ascertain whether there exist any gender bias when it comes to financial management practices in MSEs located within Embakasi sub-county. Table 4.3 shows the distribution:

Table 4.3: Gender Distribution

Gender	Respondents	Percentage
Male	178	66
Female	91	34
Total	**269**	**100**

Author (2018)

According to the results in Table 4.3, 66% of respondent who took part in the study were male and 34% were female. This indicates that more males were inclined to take part in financial management practices compared to females.

4.2.3 Level of Education

This study found it important to determine the levels of education of respondents because it relates to the improvement of financial management practices of MSEs in Embakasi Sub-County. Table 4.4 summarizes the findings.

Table 4. 4: Level of Education

Level of Education	Response	Percentage
University	24	9
College	75	28
Secondary	132	49
Primary	38	14
Total	**269**	**100**

Author (2018)

As shown in Table 4.4, 9% of the respondents had attained university degrees; 28% had attained college diplomas, 49% had attained secondary school certificates; and 14% had attained primary school certificates.

4.2.4 Age Group

The researcher summarized the findings of the age groups of the respondents as shown in table 4.5.

Table 4.5: Age Group

Age Group	Response	Percentage
18-30	44	16.4
31-40	97	36.1
41-50	74	27.5
51-60	38	14.1
Over 60	16	5.9
Total	**269**	**100**

Author (2018)

As shown in Table 4.5, 16.4% of the respondents were aged 18-30 years; 36.1% were aged 31-40 years; 27.5% were aged 41-50 years; 14.1% were aged 51-60 years; and 5.9% were over 60 years of age. Therefore, most respondents in MSEs located in Embakasi Sub-county were in the age group of 31-40, and the least number were over 60 years of age.

4.2.5 Years Worked in the Firm

When it comes to the length of time the respondents in the study have worked in their respective firms, results showed that 14% have worked for 1-5 years, 25% have worked for 6-10 years, the majority (39%) of respondents have worked in the firm for 11-15 years, 18% have worked for 16-20 years, and the least (4%) have only worked for more than 20 years. Table 4.6 summarizes the findings.

Table 4.6: Years Worked in the Firm

Years Worked in the Firm	Response	Percentage
1-5	38	14
6-10	68	25
11-15	105	39
16-20	48	18
Above 20	10	4
Total	**269**	**100**

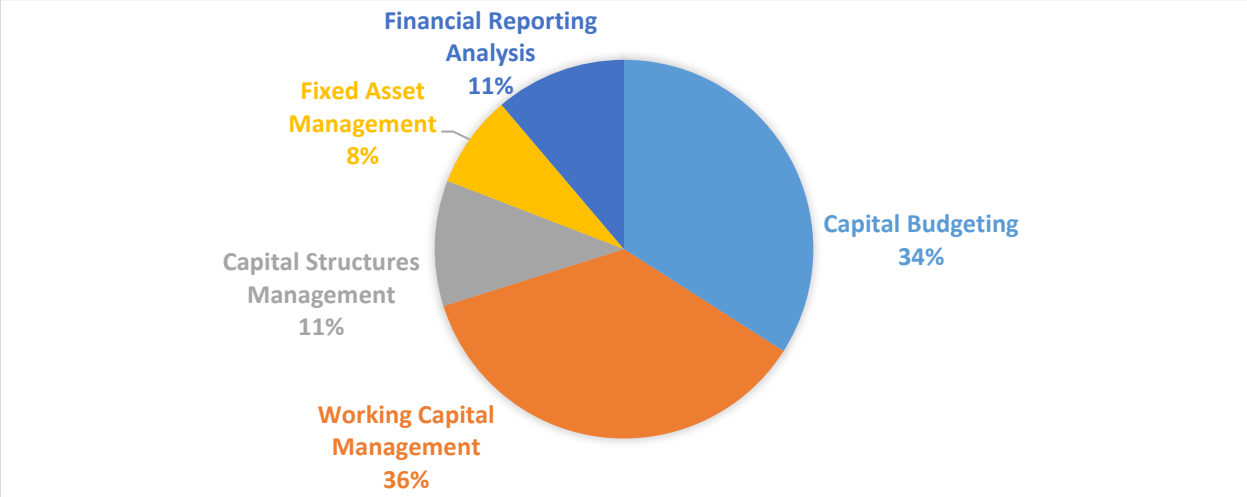
Author (2018)

4.3 Research Findings

4.3.1 General Financial Management Practices adopted by the MSEs

Since the most common financial management practices widely used today include Capital Budgeting, WCM, CSM, AIS, FAM and FRA, this study discussed the first three. Respondents were asked about the financial management practices they were currently using or are in the process of using. The results showed that 36% of MSEs use WCM, 34% use capital budgeting, 11% use CSM, 11% use FRA, and 8% use FAM. Figure 4.1 summarizes the findings.

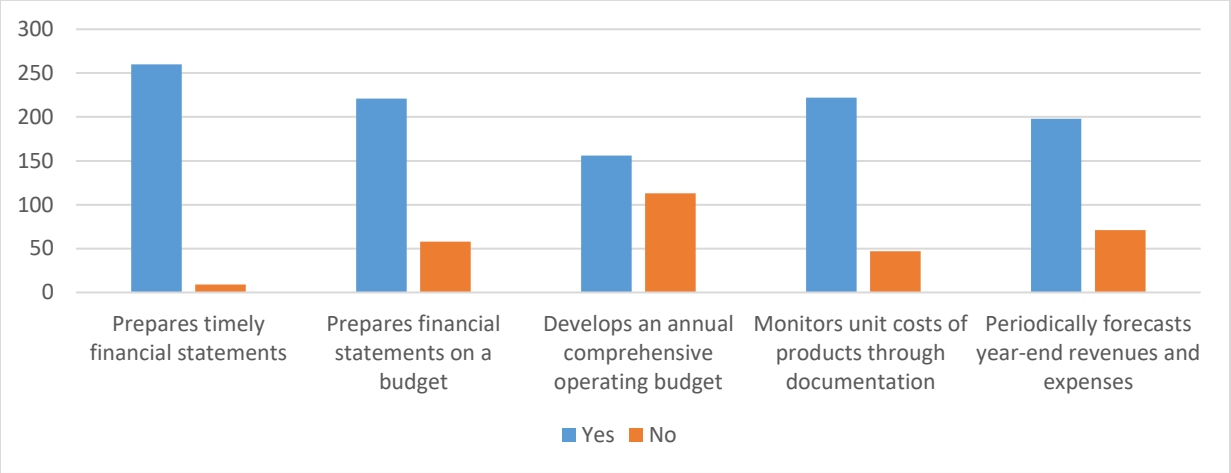
Figure 4.1: Financial Management Practices



Author (2018)

The 269 respondents were asked whether they apply specific financial management indicators to ensure high-quality financial transactions, analysis and management. According to the results, 97% of the respondents indicated that their firms prepare timely financial statements, 82% prepare statements on a budget, 58% develop annual comprehensive operating budget, 83% monitor unit costs of products through documentation, and 74% periodically forecast year-end revenues and expenses. Figure 4.2 summarizes the findings.

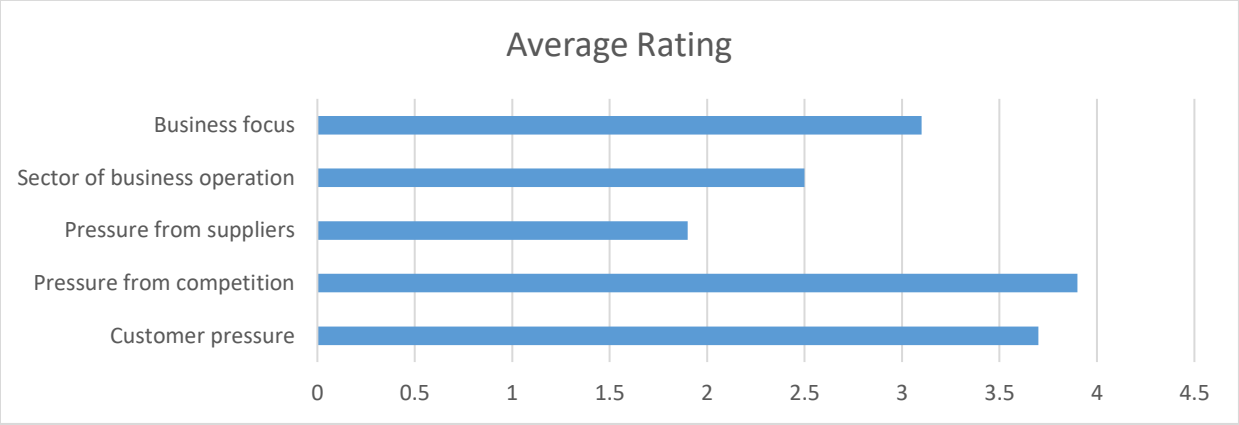
Figure 4.2: Financial Management Indicators



Author (2018)

Respondents from the MSEs under study were also asked about the factors influencing their decisions to adopt financial management practices, with the fiscal scale ranging from 1-4 (4 = very significant, 3 = significant, 2 = less significant, 1 = No significance). The average rating was as follows: customer pressure (3.7); pressure from competition (3.9); pressure from suppliers (1.9); sector of business operation (2.5); and business focus (3.1). Figure 4.3 shows the results.

Figure 4.3: Factors Influencing MSE to adopt FMP



Author (2018)

4.3.2 Capital Budgeting and MSE Performance

Since business owners must allocate resources for their capital, investments, and expenditures to find ways of increasing their firm's value to shareholders, this section presents the findings on the use of capital budgeting in MSEs based on the questionnaires.

4.3.2.1 Capital Budgeting and MSE Policies

The researcher asked the respondents whether they conduct capital budgeting in accordance with the company policies. Averagely, 85% of the respondents indicated that MSEs maintained these records as the company policies dictated while 15% indicated that they did not. Table 4.7 is a representation of the results.

Table 4.7: Capital Budgeting and MSE Policies

Response	Frequency	Percentage
Yes	229	85
No	40	15
Total	269	100

Author (2018)

4.3.2.2 Types of Capital Budgeting Practices in MSEs

The respondents were asked about the type of capital budgeting practices commonly used in their firms. Table 4.8 shows the results.

Table 4.8: Type of Capital Budgeting in MSEs

Type	Response	Percentage
Payback Period	150	56
Net Present Value	27	10
Internal Rate of Return	75	28
Discount Rate	17	6
Total	**269**	**100%**

Source: Author (2018)

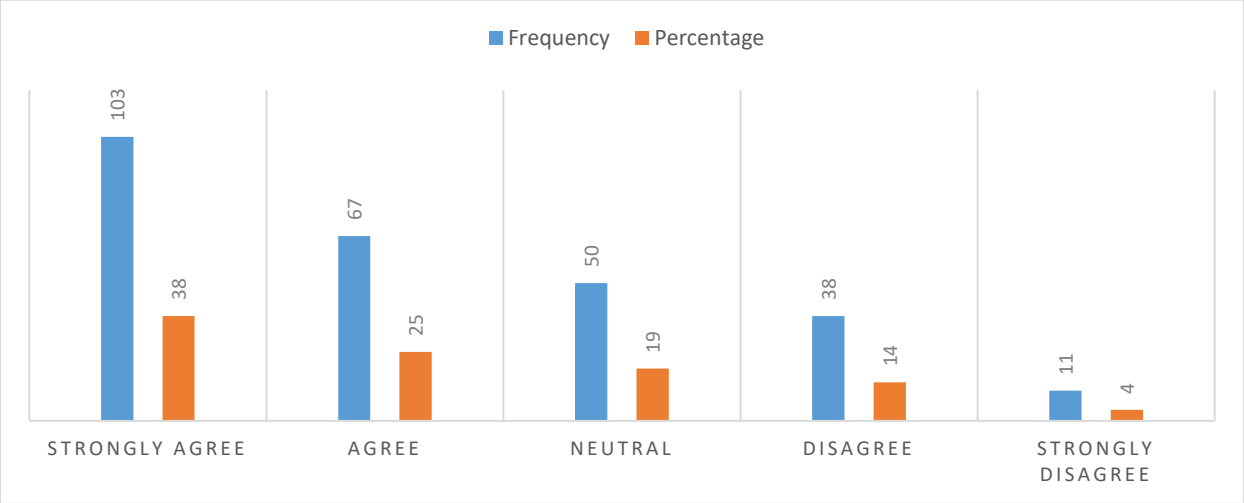
The results showed that 56% of the respondents answered that their MSEs used payback period; 28% indicated Internal Rate of Return, 10% indicated Net Present Value; and 6% indicated

Discount Rate. This results support Axelsson, H., Jakovicka, J. &Kheddache, M. (2013) who argues that most small businesses use both the payback period and the internal rate of return methods because they apply traditional or non-discount approaches.

4.3.2.3 Effect of Capital Budgeting on MSEs Performance

The respondents were requested to indicate the extent to which they agree that capital budgeting affects the performance of MSEs in Nairobi County. Figure 4.4 summarises the findings.

Figure 4.4: Effect of Capital Budgeting on MSEs Performance



Author (2018)

As shown in Figure 4.4, majority of the respondents (38%) strongly agreed that capital budgeting affects performance of MSEs in Nairobi County; 25% agreed; 19% were neutral, 14% disagreed and 11% strongly disagreed. This results reflect findings by Brigham (2012) that compared to large business, capital budgeting is more important to small businesses since they cannot access funding from public markets.

4.3.3 Working Capital Management and MSE Performance

The respondents were requested to indicate whether there exist a Working Capital Management system in their firm. Table 4.9 represents the results.

Table 4.9: Existence of WCM Practices

Response	Frequency	Percentage
Yes	89	33
No	180	67
Total	269	100

Author (2018**)**

Results on Table 4.9 shows that only 33% of the respondents indicated that there exist WCM systems in their firms, while 67% indicated that they use them. This resonates with Grablowsky and Lowell (2008) that small businesses do not employ forecasting of their cash flows in any financial period within the year.

4.3.3.1 Cash Flow Projections

The respondents were asked whether their firms project their cash inflows and outflows (cash flow projections). Table 4.10 indicates the results.

Table 4.10: Cash Flow Projections in MSEs

Response	Frequency	Percentage
Yes	99	37
No	170	63
Total	**269**	**100**

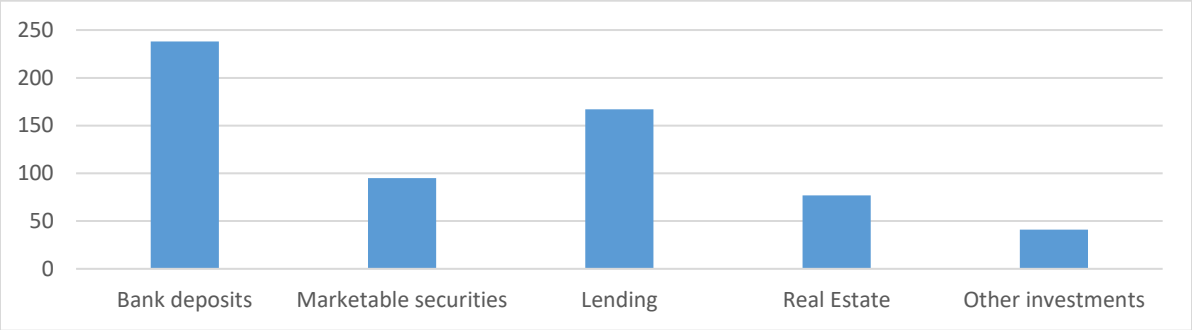
Author (2018**)**

According to Table 4.10, 63% of respondents showed that they do not carry out cash projections in their respective firms. This finding reflects the results from the survey conducted by Grablowsky and Lowell (2008), which concluded that SMEs have inadequately utilising cash management practices.

4.3.3.2 Methods of Investing Excess Cash

The respondents were also requested to indicate the various ways in which their firms invest excess cash. Figure 4.5 shows the results.

Figure 4.5: Methods of Investing Excess Cash in MSEs



Author (2018)

According to Figure 4.5, the majority of respondents indicated that MSEs use bank deposits to keep excess cash. This results echo Moore & Reichert (2010) recommendations that active cash management in small enterprises should reflect an inclination to invest surplus cash on a long-term basis.

4.3.3.3 Effects of WCM Practices on MSEs

The respondents were asked to indicate the extent to which they agree that WCM practices influence the performance of MSEs in Embakasi sub-county. The results are shown in Table 4.11.

Table 4.11: Effects of WCM Practices on MSEs

Type	Frequency	Percentage
Strongly Agree	107	40
Agree	77	27
Neutral	17	6
Disagree	50	19
Strongly disagree	18	8
Total	**269**	**100**

Source: Author (2018)

According to the results in Table 4.11, majority of respondents (40%) indicated that they strongly agree that WCM practices influence the performance of MSEs. Furthermore, 27% indicated that they "agree"; 6% were "neutral"; 19% disagreed; and 8% strongly disagreed. These results match a similar study carried out by Grablowsky and Rowell (2008) who found that most small businesses invest their surplus working capital in inventory, which is a very poor WCM technique.

4.3.4 Capital Structure Management and Financial Performance

4.3.4.1 Debt Financing

The respondents were asked whether their firms use debts for financing. Table 4.11 indicates the results.

Table 4.12: Debt Financing in MSEs

Response	Frequency	Percentage
Yes	199	74
No	70	26
Total	**269**	**100**

Author (2018**)**

According to Table 4.12, 74% of respondents indicated that their respective firms use debts for financing, while 26% indicated did not agree. These findings reflect Mutanda (2014) conclusions that since MSEs have minimal access to public funding, they constantly borrow debts for financing.

4.3.4.2 Effects of Capital Structures on MSEs Performance

The respondents were asked to indicate the extent to which they agree that debt and equity influence the performance of MSEs in Embakasi sub-county. The results are shown in Table 4.13.

Table 4.13: Effects of Capital Structures on MSEs Performance

Response	Frequency	Percentage
Strongly Agree	113	42

Agree	51	19
Neutral	39	14
Disagree	26	10
Strongly Disagree	40	15
Total	**269**	**100**

Source: Author (2018)

According to the results in Table 4.13, majority of respondents (42%) strongly agreed that debt and equity financing influence the performance of MSEs in Nairobi County. Furthermore, 19% agreed that capital structures influence MSE performance; 14% were neutral on the issue; 10% disagreed; and 15% strongly disagreed. These results reflect Chechet & Olayiwola (2014) argument that the management of MSEs make vital decisions centred on the firm's optimal capital structure.

4.4 Descriptive Analysis

This study ought to identify the effects of financial management practices on the performance of MSEs in Nairobi County, Kenya as shown in table 4.14. A 5-point Likert scale was used to rate the respondents' perception of the extent of use of the various practices with 1 point being accorded to strongly disagree, 2 points to disagree, 3 points to neutral, 4 points to agree and 5 points to strongly agree. The respondents were, thus, requested to state their extent of agreement to each of the statement provided. The practices whose use was tested included capital budgeting, working capital management, and capital structure management based on mean ranking.

4.4.1 Capital Budgeting

The study examined the importance of specific phases in the capital budgeting process in a Likert Scale of 1-5. (5= Strongly Disagree, 4= Disagree, 3=Neutral, 2=Agree, 1=Strongly Agree). The findings were as is indicated in Table 4.14.

Table 4.14: Capital Budgeting

Category	*N*	*Mean*	*Std. Deviation*
Determination of an investment budget	269	4.67	1.026
Search and identification of projects	269	4.78	9.69
Screening and definition of projects	269	4.63	1.171
Sector of business operation	269	4.36	1.193
Project appraisal and decision choice	269	4.25	1.201
Implementation	269	4.22	1.183
Control and post-audits	269	4.38	1.001

Table 4.14 shows the respondents' perception on the importance of specific phases in the capital budgeting process. Analysis show that majority of the respondents (M = 4.78 and stdv = 0.969) indicated that the most important phase in the capital budgeting process was the search and identification of projects; project appraisal and decision choice; implementation; and control and post-audits (mean = 4.25, mean = 4.22 and mean = 4.38) had lower numbers of respondents. The results support Schall & Sundem (2013) who argued that decision-making is increasingly more complex today because of uncertainty and most capital projects assimilate several variables and possible outcomes.

4.4.2 Working Capital Management

The researcher also examined the indicators of working capital management to determine their effect on the performance of MSEs. Table 4.15 presents a summary of the research findings.

Table 4.15: Working Capital Management

Category	*N*	*Mean*	*Std. Deviation*
The company has a working capital management system	269	4.22	1.014
Maintains inventory records which are updated regularly	269	4.81	0.312
Receivables management system is fully automated	269	4.16	0.501
Maintains Optimal cash balances at all times	269	4.29	1.100
Ensures there is sufficient cash flow to meet daily needs	269	4.45	0.301
Maintains proper records for all payables	269	4.51	1.003
Prepares cash flow forecasts to identify future surpluses and deficits	269	4.45	0.478

Table 4.15 shows the use of elements of WCM, with most respondents indicating that the firms maintain inventory records which are updated regularly (M = 4.81). Consequently, the respondents acknowledged the existence of WCM system in the firm (M = 4.22), and that they maintain proper records for all payables (M = 4.51). Lower numbers of responders indicated that the MSEs maintains optimal cash balances at all times (M = 4.29) and that receivables management system is fully automated (M = 4.16). Further, they indicated that their companies prepares cash flow forecasts to identify future surpluses and deficits (M = 4.45). The results support (Jameela, 2003) who recommended that MSE owners should put efforts to make sure that they improve the effectiveness of their WCM by using sophisticated methods.

4.4.3 Capital Structure Management

The study examined the manifestation of use of capital structure management to determine the extent to which it affects the performance of MSEs. Table 4.16 presents the findings.

Table 4.16: Capital Structure Management

Category	***N***	***Mean***	***Std. Deviation***
The capital structure of the company is appropriate	269	3.82	0.378
The company has fully utilized the debt facility	269	3.40	0.471
The company relies of debt only	269	3.52	0.509
The company relies on equity capital only	269	1.96	1.151
The company has foreign ownership	269	2.17	0.871

Results on Table 4.16 indicate that most respondents (M = 3.82) with a (stdv = 0.378) indicated that the capital structure of the company is appropriate. A high number of respondents (M = 3.52) also indicated that the company relies of debt only, which is a common phenomenon with MSEs under study. The least respondents (Mean = 1.96) indicated that the company relies on equity capital only. The results reflect Mutanda (2014) conclusions that since MSEs have minimal access to public funding, they constantly borrow debts for financing.

4.4.3 Firm Performance

This study examined the respondents were views on ROA as the variable concerned with firm performance. The study sought to determine the level at which respondents agreed or disagreed with various statements relating to annual earnings and total assets and whether employees were satisfied with the current performance of their respective MSEs. Table 4.17 presented the findings, which showed a mean of 3.56 to demonstrate that the majority of the respondents disagreed that the use of assets by management are efficient. Furthermore, the majority of employees were also dissatisfied with the process of acquisition of assets tied to the company's long-term plan (Mean = 3.49). In addition, the majority of the respondents disagreed that the company's total assets are adequate with the resulting mean of 2.98.

Table 4.17: Firm Performance

Category	***N***	***Mean***	***Std. Deviation***
The use of assets by management are efficient	269	3.56	1.153
The process of acquisition of assets are tied to the company's long-term plan	269	3.49	1.125
Company's total assets are adequate	269	2.98	0.987

The findings of the study established that the majority of the respondents disagreed that the company was making adequate return on their assets and the respondents were dissatisfied with the firm's performance. These findings reflect that of the Modern Portfolio Theory, which is an important factor in the overall portfolio of a firm rather than the individual risk of an asset as well as its potential return. Therefore, the MSEs did not consider investments on a stand-alone basis, but in terms of what they bring to the portfolio.

4.5 Research Instruments Testing

The previous section presented the descriptive statistics on financial management practices and performance of MSEs in Nairobi Kenya. However, in order to draw inferences about the population from the sample, the researcher applied the multivariate regression model to establish the relationship between the DV and IV. Table 4.18 presents the correlation between the observed and predicted values of the DV. It implies that its association of 0.913 with financial management practices (Capital Budgeting, WCM, and CSM) and financial performance was very good.

Table 4.18: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.913[a]	.908	.895	.12761

a. Predictors: (Constant) CBM, WCM, CSM

As shown in Table 4.18, R-Square measures the proportion of the variance in the DV as explained by variations in the IV. The implication is that there is 89.5% of variance or correlation between DV and IVs, meaning financial management practices affect 89.5% of variations leading to financial performance.

Table 4.18 represents the ANOVA statistics which was used to measure the significance of the regression model. The researcher applied an F-significance value of p = 0.000, meaning there is a 0.0% probability of getting erroneous information from the regression model.

Table 4.19: ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	15.367	3	3.015	271.714	.000[a]
Residual	.633	12	.075		
Total	16.000	15			

a. Predictors: (Constant) CBM, WCM, CSM
b. DV: ROA

Table 4.19 shows the regression coefficients which compares the level of independence to determine the variable that has greater effects on financial performance of MSEs.

Table 4.20: Regression Coefficients

	Unstandardized Coefficients		*Standardized Coefficients*		
Model	***B***	***Std. Error***	***Beta***	***t***	***Sig.***
(Constant)	15.007	.499		25.361	.000
CBM	.350	.049	.919	7.154	.000
WCM	-.503	.049	-1.312	-10.265	.000
CSM	.969	.027	1.466	-13.265	.000

a. DV: ROA

According to Table 4.20, the regression model established is as follows:

$$\mathbf{ROA = 15.007 + 0.350X_1 – 0.503X_2 + 0.969X_3}$$

Where:

$\mathbf{X_1}$ = Unit change in Return on Assets as a result of a unit increase in capital budgeting

$\mathbf{X_2}$ = Unit change in Return on Assets due to a unit increase in working capital management

$\mathbf{X_3}$ = Unit change in Return on Assets due to a unit increase in capital structure decisions.

$\mathbf{ß_0}$ = 15.007, $\mathbf{ß_1}$ = 0.350, $\mathbf{ß_2}$ = -0.503 and $\mathbf{ß_3}$ = 0.969

The regression constant shows that when the IVs (Capital Budgeting, Working Capital Management and Capital Structure Management) are constant at zero, financial performance value would be 15.007. This indicates that the absence of the three FMPs would lead to dismal financial performance in MSEs.

The regression model also established that MSEs would improve their financial performance by 0.919 with a unit positive increase in capital budgeting if other factors remain constant. On the

other hand, financial performance would decrease with a unit increase in WCM by a factor of 1.312 provided that other factors remain constant. Furthermore, with other factors constant, a unit increase in CSM would lead to a 1.466 increase in financial performance.

4.6 Discussion

This chapter synthesized the information gathered from respondents in Micro and Small Enterprises in Nairobi County Kenya. The analysis showed that a number of issues related to financial management practices affect the financial performance of the firms. To begin with, the study established that various financial management practices are commonly used by MSEs, and concurs with previous studies.

For instance, the researcher established that capital budgeting affects the performance of MSEs in concurrence with the findings of Schall & Sundem (2013) who argued that decision-making is increasingly more complex today because of uncertainty and most capital projects assimilate several variables and possible outcomes. Likewise, the use of WCM practice significantly influences the day-to-day operations of the firms, which eventually affects financial performance.

These results concur with previous studies, as Ahmad, Rani and Kassim (2011) asserted that the importance of a good practice in WCM is stressed by the presence of an ideal level of its elements. As reflected in the results, Brigham (2012) advice that the management of small firms should make timely decisions when acquiring capital equipment since it has the potential to improve the firm's profits significantly. However, improper decisions may bring about dreadful consequences for the enterprise, since it would fail to sell capital equipment over the short term. From the research it can be concluded that capital budgeting, working capital management and capital structure management affect the financial performance of MSEs in Nairobi County Kenya.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The purpose of the study was to establish the effect of financial management practices on financial performance of registered micro and small enterprises in Nairobi County, Kenya. This chapter presents the summary of the findings, conclusions and recommendations of the study.

5.2 Summary of Findings

The study presented its findings using frequency distribution tables, bar graphs, pie charts and histograms in order to capture capital budgeting, working capital management and capital structure management as factors affecting MSEs' financial performance. To begin with, the study established that various financial management practices are commonly used by MSEs, and concurs with previous studies.

The researcher determined the effect of capital budgeting on performance of MSEs in Nairobi County, Kenya. As shown in Table 4.19, the respondents indicated that capital budgeting positively affects financial performance (regression coefficient = 0.35; p= 0.000). The researcher found out that capital budgeting is an important financial management practice that positively affects performance with 35% of the variance explained. As discussed in the literature review, business owners use capital budgeting to allocate resources for major capital, or investment, expenditures so as to increase their firm's value to shareholders. It helps in examining the long-term investments of their products and services with the intention of creating measurability and accountability through the capitalization structure.

The researcher determined the effects of working capital management practices on performance of MSEs in Nairobi County, Kenya. As presented in Table 4.19, the respondents indicated that WCM negatively affects financial performance (regression coefficient = -0.503; p= 0.000). The researcher found out that WCM negatively affects performance with 50.3% of the variance explained. This supports the notion that small businesses rarely use quantitative systems to provide the relevant stakeholders with updated information on the nature and costs of their existing inventory.

The researcher assessed the effects of capital structure management on the financial performance of MSEs. As presented in Table 4.19, the respondents indicated that WCM negatively affects financial performance (regression coefficient = 0.969; p=0.000). The researcher found out that WCM positively affects financial performance with 96.9% of the variance explained. The literature review supports this notion. By bringing together hybrid securities, debt and equity, a firm uses capital structure to finance its assets (Holmes, 2003). As stated by Chechet & Olayiwola (2014), eighty percent of a company's ratio of debt to total financing represents leverage.

5.3 Conclusion of the Study

With the intention of fulfilling the main objectives of the study, the researcher accomplished a comprehensive theoretical analysis. The results of the study reveal that there is a positive relationship between financial performance success and the predictor variable capital budgeting. Therefore, this study concluded that MSES have put in place robust capital budgeting practices for allocating or distributing financially-backed resources to be used for future investments.

The results of the study reveal that there is a negative relationship between financial performance success and the predictor variable WCM. This is because the businesses have failed to put up active cash management that reflect an inclination to invest surplus cash on a long-term basis.

Furthermore, the study found out that capital structure positively affects the financial performance of micro and small enterprises. Therefore, a firm's capital structure stands out as one of the most important choices because from a technical perspective, it helps in balancing between equity and debt that a business uses to finance its assets, day-to-day operations, and future growth.

The findings specifically showed that capital budgeting and capital structure management practices each had a significant positive effect on the company's financial performance with WCM practices being the least contributor to the effect. On the other hand, the study found out that working capital management has a significant negative influence on their financial performance. Therefore, it is important to acknowledge the positive effects because among the various FMPs, not all of them have the potential to improve the financial performance of all firms irrespective of the nature of their business activities.

5.4 Recommendations of the Study

It is therefore recommended that the management of MSEs should put in place the most appropriate financial management practices to help them improve their return on assets. As a case in point, they need to improve on the process of preparing and publishing the firms' financial statements and capital structure as well as making sure that the management fully make use of debt facilities within their capabilities.

In addition, the researcher recommends that MSEs should begin encouraging each other to rely on and manage equity capital. The top management of the firms should also strive to make sure they are listed in the Nairobi Securities Exchange (NSE), which would definitely improve their capital base. Finally, this study recommends that MSEs should come up with the best strategies to minimize adverse effects on their financial performances.

5.5 Recommendations for Further Studies

Since this research study limited its analysis with data collected from the sample population, future researchers should consider exploring larger samples because Kenya has registered MSEs sprinkled across the country. This will help in the accurate generalisation of results as well as taking into account the various environments in which they operate in order to compare other outcomes from similar studies.

The researcher experienced a number of limitations with the model used in this study: using ROA to represent financial performance. Future researchers should make use of other proxies to measure the effect of FMPs on the financial performance of MSEs. Furthermore, it is recommended that they should apply a different model to examine the relationship, which could solicit different results. Since this study restricted its scope to the MSEs sector in Nairobi, Kenya, further studies can focus on other sectors of the economy, which may exude diverse conclusions.

Furthermore, the researcher restricted the analysis of this study to the reluctant responses obtained from respondents using the questionnaire. As such, it is recommended that future studies should utilise other fit and reliable methods of collecting data including interviews, focus group discussions etc. to improve the response rate, which helps to streamline the findings.

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APPENDICES

Appendix 1: Data Collection Instrument: Questionnaire

Please tick your preferred selection in the box provided or honestly state your views. Any opinion expressed shall be used ONLY for purposes of this research and any errors or misunderstanding therefore shall be the responsibility of the researcher and not your own or those of your firm.

SECTION A: GENERAL INFORMATION (Tick where applicable)

1. What is your position in the firm?
   - (a) Top Management [ ]
   - (b) Middle Management [ ]
   - (c) Lower Management [ ]
2. What is your gender?
   - (a) Male [ ]
   - (b) Female [ ]
3. What is your highest level of Education?
   - (a) Secondary school [ ]
   - (b) Middle level college [ ]
   - (c) University [ ]
   - (d) Post- university [ ]
   - (e) Other (specify) [ ]
4. What is your age group?
   - (a) 18-30 [ ]
   - (b) 31-40 [ ]
   - (c) 41-50 [ ]
   - (d) 51-60 [ ]
   - (e) Over 60 [ ]
5. How many years have you worked in the firm?
   - (a) 0-5 years
   - (b) 6-10 years
   - (c) 11-15 years
   - (d) Over 15 years

6. What is the level of financial management in your firm?
   (a) High [ ]
   (b) Medium [ ]
   (c) Low [ ]
   (d) None [ ]

SECTION B: GENERAL FINANCIAL MANAGEMENT PRACTICES ADOPTED BY THE COMPANY

7. Which of the following financial management practices are you using currently or are in the process of using? (You may tick more than one)

Financial Management Practices	**Tick**
Capital Budgeting	
Working Capital Management	
Capital Structures	
Others (Specify)	

8. Does your business practice any of the following financial management indicators to ensure high-quality financial transactions, analysis and management? (You may tick more than one)

Financial Management Indicators	**Yes**	**No**
Prepares timely financial statements		
Prepares financial statements on a budget		
Develops an annual comprehensive operating budget		
Monitors unit costs of products through documentation		
Periodically forecasts year-end revenues and expenses		

9. What significance does the following factors has on your decision to adopt financial management practices (4 = very significant, 3 = significant, = less significant, 1=No significance)

	Rating (Tick)			
Factors influencing financial management	**1**	**2**	**3**	**4**
Customer pressure				
Pressure from competition				
Pressure from suppliers				
Sector of business operation				
Business focus				

SECTION C: EFFECTS OF FINANCIAL MANAGEMENT PRACTICES ON PERFORMANCE

Capital budgeting

10. Is capital budgeting conducted in accordance with company and sector policies?

(a) Yes [ ]
(b) No [ ]

11. Which of the following capital budgeting practices are used in your firm and why?

(a) Payback Period [ ]
(b) Net Present Value [ ]
(c) Internal Rate of Return [ ]
(d) Discount Rate [ ]

Reason……

12. To what extent do you agree that Capital Budgeting affects the performance of MSEs in Nairobi County, Kenya? (5= Strongly Disagree, 4= Disagree, 3=Neutral, 2=Agree, 1=Strongly Agree)

(a) Strongly Disagree [ ]
(b) Disagree [ ]
(c) Neutral [ ]
(d) Agree [ ]
(d) Strongly Agree [ ]

13. Please assign the phases in the capital budgeting process as presented below a number between 1 and 5 depending on their importance for the firm's capital budgeting process. (5= Strongly Disagree, 4= Disagree, 3=Neutral, 2=Agree, 1=Strongly Agree)

	Rating (Tick)				
Phases of Capital Budgeting	**1**	**2**	**3**	**4**	**5**
Determination of an investment budget					
Search and identification of projects					
screening and definition of projects					
Sector of business operation					
Project appraisal and decision choice					
Implementation					
Control and post-audits					

Working Capital Management Practices

14. Does the firm has a Working Capital Management System?

(a) Yes [ ]
(b) No [ ]

If yes, which one? .....

15. Does your company utilize any formal cash management models for optimal cash balance?

(a) Yes [ ]
(b) No [ ]

If YES, please specify which model the company use.

- ✓ Baumol Model [ ]
- ✓ Miller Orr Model [ ]
- ✓ Stone Model [ ]
- ✓ Break Neck [ ]

16. Does the firm prepare cash inflows and outflows (Cash flow) projections?

(a) Yes [ ]
(b) No [ ]

17. In which of the following areas does the firm invest excess cash and why?

(a) Bank deposits [ ]
(b) Marketable securities [ ]
(c) Lending [ ]
(d) Real Estate [ ]
(e) Other investment. Please state _____

Reason.....

18. In your opinion, to what extent do you agree with the following statements to determine the effect of WCM on the performance of MSEs in Nairobi County, Kenya? (5= Strongly Disagree, 4= Disagree, 3=Neutral, 2=Agree, 1=Strongly Agree)

	Rating (Tick)				
Working Capital Management	**1**	**2**	**3**	**4**	**5**
The company has a working capital management system					
The firm updates and maintains inventory records regularly					
Receivables management system is fully automated					
The firm maintains optimal cash balances					
Ensures there is sufficient cash flow to meet					
Maintains proper records for all payables					
Prepares cash flow forecasts to identify future					

Capital Structures Management

19. Does the firm use debts for financing?

    (a) Yes [ ]
    (b) No [ ]

Give reason (s) for your answer…….....

20. If the answer stated above (18) is yes, rank the ease of access of sources of funds and give reasons:

    1= easiest to access
    2= moderately easy
    3= easy
    4= moderately difficult
    5= most difficult

Source of funds	**Ranking**	**1**	**2**	**3**	**4**	**5**
SACCOS						
Friends and Relatives						
Banks						
Microfinance Institutions						

Reason (s)……

21. In your opinion, to what extent do you agree that the following elements of capital structure management to determine how they affect the performance of MSEs in Nairobi County, Kenya? (5= Strongly Disagree, 4= Disagree, 3=Neutral, 2=Agree, 1=Strongly Agree)

	Rating (Tick)				
Elements of CSM	**1**	**2**	**3**	**4**	**5**
The capital structure of the company is appropriate					
The company has fully utilized the debt facility according to its capabilities					
The company relies of debt only					
The company relies on equity capital only					
The company has foreign ownership					

Firm Performance

22. Please tick one box per question (5= Strongly Agree, 4= Agree, 3=Neutral, 2=Disagree, 1= Strongly disagree).

Return on Assets (ROA)	**5**	**4**	**3**	**2**	**1**
The use of assets by management are efficient					
The process of acquisition of assets are tied to the company's long-term plan					
Company's total assets are adequate					

23. What is the company's total earnings relative to its assets?

(a) Less than 10,000 [ ]
(b) 10,000-20,000 [ ]
(c) 20,001-30,000 [ ]
(d) 30,001-40,000 [ ]
(e) 40,001-50,000 [ ]
(f) More than 50,000 [ ]

24. Are the earnings generated by the firm adequate? Give reasons for your answer.

(a) Yes [ ]
(b) No [ ]

Reason(s)…….....

25. Are the company's returns profitable relative to its assets? Give reasons for your answer.

(a) Yes [ ]
(b) No [ ]

Reason(s)…….

THANK YOU FOR YOUR CO-OPERATION. YOUR EFFORT IS HIGHLY APPRECIATED

Appendix 2: Distribution of Licensed MSEs in Kenya by County

County	Licenced				Unlicensed ('000)
	Total ('000)	Micro (%)	Small (%)	Medium (%)	
Total	**1,560.5**	**92.2**	**7.1**	**0.7**	**5,850.3**
Nairobi	268.1	83.8	14.8	1.4	782.5
Nyandarua	17.6	96.1	3.2	0.7	83.6
Nyeri	30.5	97.5	1.9	0.6	85.9
Kirinyaga	30.3	96.9	2.8	0.3	125.4
Muranga	14.2	97.1	2.6	0.4	99.4
Kiambu	92.4	91.4	7.9	0.7	170.8
Mombasa	41.9	90.6	8.7	0.6	163.9
Kwale	14.2	93.5	5.4	1.1	89.9
Kilifi	29.9	96.6	2.8	0.7	271.5
Tana River	1.8	95.9	2.9	1.2	33.4
Lamu	9.2	97.0	2.9	0.2	29.5
Taita Taveta	22.5	94.2	4.4	1.4	60.5
Marsabit	2.2	94.5	5.1	0.3	37.9
Isiolo	2.6	94.0	5.3	0.8	15.0
Meru	95.1	97.5	2.3	0.2	143.4
Tharaka	8.4	96.3	3.7	-	72.2
Embu	21.0	95.1	4.6	0.3	84.8
Kitui	16.7	97.5	2.5	-	71.5
Machakos	39.1	91.8	7.8	0.4	234.4
Makueni	27.4	97.7	2.2	0.1	106.3
Garissa	3.9	96.8	2.8	0.4	47.3
Wajir	1.8	98.3	0.8	0.8	3.7
Mandera	23.7	96.7	3.3	-	55.8
Siaya	14.2	97.2	2.2	0.6	190.5
Kisumu	40.2	84.6	13.2	2.2	197.0
Migori	39.7	91.6	8.1	0.3	133.5
Homa Bay	48.5	93.6	5.9	0.5	134.4
Kisii	27.3	91.2	8.0	0.7	170.0
Nyamira	35.7	96.2	3.7	0.2	62.7
Turkana	7.3	93.1	6.4	0.4	108.8
West Pokot	3.1	97.5	2.5	-	64.4
Samburu	6.6	94.7	5.1	0.2	28.1
Trans-Nzoia	16.3	95.6	3.8	0.6	83.3
Baringo	16.9	96.3	3.7	-	84.1
Uasin Gishu	57.6	94.2	5.6	0.2	151.2
Elgeyo Marakwet	5.6	96.8	3.2	-	21.8
Nandi	12.9	95.0	4.7	0.3	84.6
Laikipia	13.6	95.9	3.6	0.5	52.4
Nakuru	118.2	92.6	6.6	0.8	257.9
Narok	21.6	92.1	7.0	0.9	100.5
Kajiado	46.1	92.4	6.7	0.9	101.9
Kericho	19.8	85.9	12.7	1.4	73.3
Bomet	14.0	95.9	4.1	-	156.0
Kakamega	53.0	92.6	6.4	1.0	300.4
Vihiga	11.3	96.0	3.9	0.1	78.5
Bungoma	17.2	92.8	6.9	0.3	269.7
Busia	28.0	97.6	1.5	0.9	76.6

Source: KNBS (2016)

Appendix 3: Registered MSEs in Nairobi Sub-County

Strata (Sub- Counties)	Total MSEs in Nairobi County (Target Population = N)	Sample Size	Percentage
Dagoretti	27,457	40	10.41%
Embakasi	56,055	81	21.09%
Kamukunji	23,108	34	8.85%
Kasarani	21,786	32	8.34%
Kibera	13,240	19	4.95%
Langata	12,404	18	4.69%
Makadara	17,591	26	6.77%
Mathare	17,394	25	6.51%
Roysambu	20,031	29	7.55%
Ruaraka	18,027	26	6.77%
Starehe	21,869	32	8.34%
Westlands	15,385	22	5.73%
Total	264, 347	384	100%

Source: KNBS (2016)

Appendix 4: Approval of Research Proposal

KENYATTA UNIVERSITY
GRADUATE SCHOOL

E-mail: dean-graduate@ku.ac.ke
Website: www.ku.ac.ke
P.O. Box 43844, 00100
NAIROBI, KENYA
Tel. 810901 Ext. 4150

Internal Memo

FROM: Dean, Graduate School

DATE: 28th June, 2018

TO: Mercy Wathimo Kinyua
C/o Business Administration Dept.

REF: D53/CTY/PT/31900/2015

SUBJECT: APPROVAL OF RESEARCH PROPOSAL

We acknowledge receipt of your revised Research Proposal as per our recommendations raised by the Graduate School Board of 30th May, 2018 entitled **"Effect of financial management practices on financial performance of registered micro and small enterprises in Nairobi County, Kenya"**.

You may now proceed with your Data Collection, Subject to Clearance with Director General, National Commission for Science, Technology and Innovation.

As you embark on your data collection, please note that you will be required to submit to Graduate School completed Supervision Tracking Forms per semester. The form has been developed to replace the Progress Report Forms. The Supervision Tracking Forms are available at the University's Website under Graduate School webpage downloads.

Thank you.

ELIJAH MUTUA
FOR: DEAN, GRADUATE SCHOOL

C.c. Chairman, Department of Business Administration

Supervisors:

1. Dr. John N. Mungai
C/o Department of Accounting and Finance
Kenyatta University

Appendix 5: KU Research Authorization Letter

KENYATTA UNIVERSITY
GRADUATE SCHOOL

E-mail: dean-graduate@ku.ac.ke
Website: www.ku.ac.ke

P.O. Box 43844, 00100
NAIROBI, KENYA
Tel. 8710901 Ext. 57530

Our Ref: D53/CTY/PT/31900/2015

DATE: 28th June, 2018

Director General,
National Commission for Science, Technology
and Innovation
P.O. Box 30623-00100
NAIROBI

Dear Sir/Madam,

RE: RESEARCH AUTHORIZATION FOR MERCY WATHIMU KINYUA – REG. NO. D53/CTY/PT/31900/2015

I write to introduce Ms. Mercy Wathimu Kinyua who is a Postgraduate Student of this University. She is registered for MBA degree programme in the Department of Accounting and Finance.

Ms. Kinyua intends to conduct research for a MBA Project Proposal entitled, "Effect of financial management practices on financial performance of registered micro and small enterprises in Nairobi County, Kenya".

Any assistance given will be highly appreciated.

Yours faithfully,

MRS. LUCY N. MBAABU
FOR: DEAN, GRADUATE SCHOOL

Appendix 6: NACOSTI ID

THIS IS TO CERTIFY THAT:
MS. MERCY WATHIMU KINYUA
of KENYATTA UNIVERSITY, 0-100
Nairobi,has been permitted to conduct
research in *Nairobi County*

on the topic: *EFFECT OF FINANCIAL MANAGEMENT PRACTICES ON PERFORMANCE OF REGISTERED MICRO AND SMALL ENTERPRISES IN NAIROBI COUNTY, KENYA.*

for the period ending:
30th July,2019

Permit No : NACOSTI/P/18/54229/23888
Date Of Issue : 31st July,2018
Fee Recieved :Ksh 1000

.....
Applicant's Signature

.....
Director General
National Commission for Science, Technology & Innovation

CONDITIONS

1. The License is valid for the proposed research, research site specified period.
2. Both the Licence and any rights thereunder are non-transferable.
3. Upon request of the Commission, the Licensee shall submit a progress report.
4. The Licensee shall report to the County Director of Education and County Governor in the area of research before commencement of the research.
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7. The Licensee shall submit two (2) hard copies and upload a soft copy of their final report.
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REPUBLIC OF KENYA

NACOSTI

National Commission for Science, Technology and Innovation

RESEARCH CLEARANCE PERMIT

Serial No.A 19802

CONDITIONS: see back page

Appendix 7: Research Authorization Letter

NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY AND INNOVATION

Telephone: +254-20-2213471,
2241349,3310571,2219420
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When replying please quote

NACOSTI, Upper Kabete
Off Waiyaki Way
P.O. Box 30623-00100
NAIROBI-KENYA

Ref: No. **NACOSTI/P/18/54229/23888**

Date: **1st August, 2018**

Mercy Wathimu Kinyua
Kenyatta University
P.O Box 43844-00100
NAIROBI

RE: RESEARCH AUTHORIZATION

Following your application for authority to carry out research on ***"Effect of financial management practices on performance of registered Micro and Small Enterprises in Nairobi County, Kenya"*** I am pleased to inform you that you have been authorized to undertake research in **Nairobi County** for the period ending **30th July, 2019.**

You are advised to report to **the County Commissioner and the County Director of Education, Nairobi County** before embarking on the research project.

Kindly note that, as an applicant who has been licensed under the Science, Technology and Innovation Act, 2013 to conduct research in Kenya, you shall deposit **a copy** of the final research report to the Commission within **one year** of completion. The soft copy of the same should be submitted through the Online Research Information System.

BONIFACE WANYAMA
FOR: DIRECTOR-GENERAL/CEO

Copy to:

The County Commissioner
Nairobi County.

The County Director of Education
Nairobi County.