

**FINANCIAL MANAGEMENT PRACTICES AND FINANCIAL PERFORMANCE OF
SMALL AND MEDIUM MANUFACTURING ENTERPRISES IN KERICHO COUNTY,
KENYA**

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DECLARATION

This research project is my original work and has not been presented for a degree in any other University.

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This research project has been submitted for examination with the approval of the undersigned Supervisor.

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DEDICATION

This research project is dedicated to my family and friends for the support they continue to offer me.

ACKNOWLEDGMENT

I acknowledge the efforts of my supervisor, Dr. Koori for his professional guidance and dedication towards shaping my research project. I also recognize my friends who offer immense support during this research process. I thank the Almighty God for giving me the strength to undertake the project.

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ABBREVIATIONS AND ACRONYMS

EU	:	European Union
GDP	:	Gross Domestic Product
KNBS	:	Kenya National Bureau of Statistics
RoK	:	Republic of Kenya
SMEs	:	Small and Medium Enterprises
SD	:	Standard Deviation
VSE	:	Very Small Extent
ME	:	Moderate Extent
SE	:	Small Extent
LE	:	Large Extent
ROA	:	Return of Assets
CBD	:	Central Business District
NSE	:	Nairobi Securities Exchange

OPERATIONAL DEFINITION OF TERMS

Accounting System	This is a framework which is integrated into the organization's framework so as to enable accurate storage and dissemination of financial information.
Capital Budgeting	This is used to show the current financial position of the organization at a particular time. The essence of a budget is that it is a target set for management to keep within, achieve or surpass it.
Capital Structure Management	This responsible for ensuring that the organization's structure is well suited to meet its desired functions
Financial management Practices	These are the standard operating procedures developed by an entity to assist in executing accounting, financial reporting, budgeting and other financial activities.
Financial Performance	Refers to how well the manufacturing SMEs in Kericho are utilising their assets to create value to the firm.
Forms of financing	This is the practices used in the process of providing funds for business activities, making purchases or investments.
Small and Medium Manufacturing Enterprises	Refer to small and medium enterprises where small enterprises are the firms employing less than 49 employees and medium sized enterprises are firms employing 50 and 99 employees.
Working Capital Management	This refers to keeping in check the current assets and liabilities to maintain liquidity in the firm

ABSTRACT

Manufacturing SMEs play a crucial role in building and sustaining the economy in Kenya. They ensure that goods and services are provided to the citizens, reduction of poverty and promotion of other sectors of the economy. Despite their importance, manufacturing SMEs in Kericho County continue to perform poorly. Majority of the manufacturing SMEs (seventy two percent) recorded return on capital employed of less than five percent with only twenty eight percent of SMEs generating return on capital of over five percent in 2015. Performance of the SMEs in 2015, average return on capital on manufacturing SMEs was three percent. Similarly, in 2014, thirteen percent of SMEs in Kericho County had return on capital above ten percent, with forty one percent of manufacturing SMEs having negative returns. This performance is well below the average performance of SMEs comparable to developing countries of fifteen percent. The study general objective was to determine the effect that financial management practices have on the performance of manufacturing small and medium enterprises in Kericho County. The specific objectives were; to determine the effect of capital budgeting practices, working capital management practices and financing practices on the organizational performance of manufacturing SMEs in Kericho County and to determine the moderating effect of firm size on the financial management practices and organizational performance of manufacturing SMEs in Kericho County. The study used descriptive cross-sectional research design. The target population were all the manufacturing SMEs licensed at Kericho County. Sampling was done based on the location of the SMEs and their size. Data was collected using questionnaires containing open and closed ended questions. Likert scale was assessed to evaluate the study variables. Descriptive statistics, correlation and regression analysis were used to analyse the data. The study found out three main financial management practices adopted by the SMEs whereby; the most utilized financial management practice was Capital Budgeting, followed by Working Capital Management and lastly the Financing Practices. All the financial management practices were established to have a positive effect on the SMEs' performance. However, the financial management practices were found out to have moderate extents of adoption which indicates they were yet to be fully utilized in achieving improved performance. The findings also revealed that SME size had a positive but moderate influence on the SMEs. The found out that the financial management practices had a significant positive effect on the performance of the SMEs. The study therefore makes the conclusion the available financial management practices have a positive and significant effect on the current performance of the SMEs in Kericho County. Therefore, effective implementation and utilization of the financial management practices in the SMEs will translate to better and improved performance in the firms. The study recommends that managers/owners of the SMEs to make utilization of financial management practices as a key priority. The study also recommends that the managers/owners of the SMEs to highly consider their organizations' sizes while undertaking any managerial decision. The study recommends that the government and other regulatory bodies to create favourable policies on the implementation of financial management practices in the SMEs.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Small and Medium Enterprises are major players in the economic growth and development of a country through generation of employment, improvement of the gross domestic product (GDP), innovation and promoting other economic undertakings (Waweru and Ngugi, 2014). It is, therefore, imperative to accelerate the development of SMEs in every county if Kenya is to attain sustainable economic development. The success or failure of SMEs is associated with how accounting information is managed, that is, and how financial statements and reports are produced and utilized by the enterprises (Githinji, 2016).

How a particular SME manages its financial resources is crucial in measuring its performance and determining the likelihood of it failing or succeeding in the competitive industry (Wolmorans 2015). Poor financial practices and misuse of financial resources will negatively affect the overall performance of an entity and if not checked will lead to collapse of the business. The frequency of preparation and how useful the financial reports are to the management of the SMEs are a major determinant of how successful an entity is, that is, improved financial performance usually pays off in terms of increased business performance.

Most Small and medium enterprises use simple financial systems and are unable to hire qualified staff to initiate and oversee the formulation and implementation of financial practices (Makori, 2013). The use of inferior financial management systems and lack of skilled personnel leads to poor management of financial resources which translates into poor business performance. An enterprise will survive in the dynamic and competitive environment if it can innovate, properly manage its financial practices and functions, which means better performance and increased productivity.

In Kericho County, the number of SMEs has been increasing continuously contributing significantly in increasing the number of employment opportunities. This has improved significantly the performance and development of the region which was initially largely dependent on only agricultural produce (Kipsang 2014). The sector is however threatened by challenges in the financial aspect of the SMEs. Through this research, an attempt is made to deduce the universality of financial practices adopted by SMEs in Kericho, and evaluate whether financial practices are significant in the performance of these entities.

1.1.1 Financial Management Practices

Financial management practices are the standard operating procedures developed by an entity to assist in executing accounting, financial reporting, budgeting and other financial activities (Wolmorans, 2015). They are the activities performed by the accountant and financial officers in budgeting and asset management and control. Every component of the financial practices serves towards supporting the entity policies and mission through the establishment of accountability and providing the instructions needed to complete tasks (Kamande, 2015).

The success of most SMEs is attributed to sound financial practices and management of financial resources alongside creative marketing skills and good start-up idea. The presence of adequate initial start-up financing and good accounting system although vital to the development of effective financial management practices, they are only the starting points in the process of having a sound financial system (Marengo, 2013). The implementation of an effective financial practices system enables the business owners to control and maintain budgetary and future financial forecasting capability.

In most SMEs, financial practices include: maintaining good financial records which are used for planning, keeping track of credit history and ensuring business bills are paid on time, developing a good system to collect funds owed to the business, and computing and filing the annual tax returns (Kipsang, 2014). Having these practices carried out in the most effective way will ensure that the business stays in business for a long time. Success of Small and medium business and their survival is a concern globally with much of the SMEs failure being associated with financial problems such as poor management of funds (Githinji, 2016).

The most frequently used financial practices in the SMEs entail profit retention, fixed asset control, capital structure management, cash budgets, working capital management, financial reporting services and the application of information systems (Marengo, 2013). Accounting information system is a framework which is integrated into the organization's framework so as to enable accurate storage and dissemination of financial information. The working capital management refers to keeping in check the current assets and liabilities to maintain liquidity in the firm. On the other hand, management of the fixed assets constitutes keeping in track the assets in the firm which are non-current.

The capital structure management is responsible for ensuring that the organization's structure is well suited to meet its desired functions. The cash budget is used to show the current financial position of the organization at a particular time (Marfo-Yiadom, 2002). The essence of a budget is that it is a target set for management to keep within, achieve or surpass it. Proper budgeting acts as a tool to boost the organizational performance through providing a guideline on how the activities are conducted.

Profit retention refers to the amount of money taken back to business on annual basis from the cash profits made by the business (Romney et al, 2009). An SME that retains much of the cash profits has the liquidity and cash flows capable of expanding the business and exploiting any investment opportunities available. This is contrary to the firm that retains less due to the owners' cash requirements or other firm specific characteristics (Kambi and Ali, 2016). Working capital management on the other hand is the management of corporate funds to increase interest income earned by maximizing investments and reducing interest paid by minimizing borrowings (Kipsang, 2014).

1.1.2 Financial Performance of SMEs in Kenya

Performance may be termed to be the benefits obtained from the work activities and business processes carried out by the organization (Muhammad, 2014). It may also be described by how well the business is doing in wealth creation and acquiring of resources (Golda, 2013). This may be determined through comparing the expected results and any deviations noted. The

organizational performance constitutes two main areas namely; market performance and return to the stakeholders (Kipngetich, 2016).

Determining an entity's performance is based on both quantitative and qualitative measures. The quantitative measures aim to access the financial aspect and health of the SMEs (Klewitz and Hensen, 2014). The financial management mainly aims to maximise the wealth of the company. The main measures of the financial management include Return on Assets, Return on Capital Employed, and Return on Investment (McMahon, 2005). In the SME, financial performance is attained when profit and competitive advantage are gained. Qualitative measures of performance may include the non-financial measures such as customer satisfaction and workflow improvement.

Financial performance of the SMEs has also been found to be affected by the size of the firm. Firm size represents a contingent factor that largely determines the organizational characteristics and has been established to be an important macro-economic variable in the organizational literature. The organizational size is measured using the gross value of assets, gross sales, sales turnover or number of employees (Woodward, 2005). The size has a positive influence on the organization in terms of productivity, scales of production, competition and resource acquisition. Therefore, the larger firms are more likely to perform better as compared to the smaller firms (Kambi and Ali, 2016).

Several studies from Australia, United States of America and England have also showed that approximately 80% to 90% of manufacturing SMEs fail within 5-10 years a reason with most having Return of Assets (ROA) of less than 5% (Liang, 2016). In Kenya, despite of the significance of the SME industry, past statistics indicate that three out of five of the SMEs fail within the first few months of operation with only few having annual Return on Equity of more than 20% (Kenya National Bureau of Statistics, 2017). As such, of all the total SMEs started each year, only approximately 17.5% are able to survive past two years with the rest closing prior to that (Mugodo, 2014; Tarus, & Ng'ang'a, 2013).

In this study, ROA was chosen in accessing the financial performance of Small and Medium Manufacturing Enterprises in Kericho County. This aimed at determining the annual asset performance of the SMEs and is calculated through dividing the net income by the total assets. Empirically, the use of ROA as a measure of financial performance is supported by the numerous studies conducted such as Waithaka,(2013), Tsuma, and Gichinga, (2016) Makokha, Namusonge, and Sakwa, (2016). and Mutua, J., (2015) in their respective studies.

1.1.3 Financial Management Practices and Financial Performance of Small and Medium Manufacturing Enterprises

Implementation of sound financial management practices gives an entity a competitive edge as it improves its profitability and survival in the dynamic environment (Golda, 2013). This is because sound financial practices help small and medium manufacturing enterprises to have effective control on their cash flows, inventories, accounts receivable and payable, as well as enabling them to provide accurate and up to date financial reports (Kamande, 2015). They also enable a firm to appreciate and identify its strengths, weaknesses, opportunities and threats.

Financially well managed small and medium manufacturing enterprises have been established to be more efficient operationally. The financial management practices such as budgetary process not only enhance the operation of the SMEs but also enhance their efficiency (Golda, 2013). Additionally, the available literature indicates that the maximum application and commitment towards effective financial practices usually results in improved organization performance. However, the nature of the effect of the relationship may either be positive or negative depending on the financial practices that have been employed by the SMEs (Marembo, 2013).

On the examination of the relationship between the performance of the organizations and the financial practices put in place, it's important to note other intervening variables (Kitonga, 2013). Though this factors may not possess a direct and strong impact to the organization performance, it's important to take them into account (Kitonga, 2013). These factors include size of the firm, degree of exposure of the firm, capital market and intensity, and the market share. In this particular study, these variables will be held as the control factors.

1.1.4 Financial Performance of Small and Medium Manufacturing Enterprises in Kericho County

In Kenya, the classification of entities as small, medium and large is primarily based on the number of employees engaged and the annual turnover. As such, they entail businesses with six to fifty employees or with annual turnover of less than fifty million Kenya shillings (Milkah, 2014). The official definition in Kenya for SMEs is that small-enterprises are the firms employing less than 10 employees; small enterprises employ 10 to 49 employees and medium sized enterprises employ 50 and 99 employees. In Kenya, majority of enterprises at 92% are micro, 7% small and 1% medium (KNBS, 2016).

The SMEs have been of great benefit not only to the economy but also to the society at large. The sector employs over 4.6 million people which is over 30% of all employment and accounts for approximately 75% of all businesses. The sector also contributes 18.4% of the GDP and accounts for 87% of the new job creation (Kiveu, 2013). In Kenya, there are 1.56 million licensed SMEs and 5.85 million SMEs which are unlicensed. Manufacturing sector is yet to fully develop with the segment accounting for only 12% of all SMEs despite its potential in employment creation and absorbing enormous number of people (KNBS, 2016).

SMEs at Kericho are distributed across the six administration sub counties namely Kipkelion East, Kipkelion West, Ainamoi Constituency, Bureti, Belgut, and Sigowet- Soin. In 2016, the licensed SMEs by Kericho County were 47,340 out of which 1,857 were in manufacturing (Kericho County, 2016). In Kericho, the SMEs are a source of income to many households, however majority of the SMEs in the manufacturing sector and the so called *Jua Kali* firms continue to record poor performance over the years threatening incomes to majority of the households

1.2 Statement of the Problem

Financial management practices act as tool for the organizations to remain profitable while ensuring that they do not become bankrupt or insolvent. Through financial management, the managers are able to understand the current financial position of a particular firm and capability

in meeting future financial obligations (World Bank, 2014; Kiptoo, Kariuki, and Kimani, 2017). This ensures that all the business transactions are undertaken in an orderly and well managed manner (Gormoma, 2014). Particularly, this is important to the SME sector where any mismatch in the financial practices is probable to negatively impact on the performance to a high extent.

However, the SMEs still continue to underperform despite their huge role in economic development. This is the case for SMEs in Kericho County where the statistics from KNBS (2016) indicates that in 72% manufacturing SMEs recorded return on capital employed of less than 5% with only 28% of SMEs generating return on capital of over 5%. In 2014, 13% of SMEs in Kericho County had return on capital employed above 10%, with 41% of manufacturing SMEs having negative returns. Performance of the SMEs in 2015, average return on capital on manufacturing SMEs was less than 5% (KNBS, 2016). This raises increased concern on the effect of financial management practices have on the performance of the SMEs.

Studies have been conducted both locally and internationally trying to determine the relationship that exists between the financial management practices and the financial performance. Milkah (2014) conducted a study on financial performance of SMEs determinants. The study found out that the key financial practices in the SMEs capital budgeting and asset management. Musando, (2013) investigated the relationship that exists between financial planning and the financial performance of the SMEs in the CBD of Nairobi. The study found out that there was a significant positive relationship between the research variables. This concurs with the study done by Kamande, (2015) and Golda, (2013) who also established the same positive effect in their respective studies.

On the contrary, other studies established that minimal to no relationship at all between financial management practices and organizational performance such as Asian and Uwaoma (2017) who conducted a study on SMEs in Nigeria and their accounting practices found no significant relationship on Return on Equity and Return on Assets. While Musyoki, et al, (2015) obtained a negative correlation between credit risk management and how the SMEs in Kenya performed for the period of 2000-2006. This concurs to studies conducted by Ngugi *et al*, (2016) on the Growth of SMEs in Kenya.

The findings reviewed imply that the impact that financial management practices will have on the organizational performance has not be fully conclusive. Although various factors have been established to determine how the SMEs performed, the influence that the financial management practices have has not been well established. It is against this backdrop that this study was necessitated and answered the research question; what is the effect that financial practices have on the performance of manufacturing small and medium enterprises in Kericho County?

1.3 Research Objectives

1.3.1 General Objective

The general objective of the study was to determine the effect that financial management practices have on the financial performance of manufacturing small and medium enterprises in Kericho County.

1.3.2 Specific Objectives

The study was guided by the following specific objectives;

- i) To determine the effect of capital budgeting on the financial performance of manufacturing SMEs in Kericho County.
- ii) To determine the effect of forms of financing on the financial performance of manufacturing SMEs in Kericho County.
- iii) To evaluate the effect of working capital management on the financial performance of manufacturing SMEs in Kericho County.
- iv) To determine the moderating effect of firm size on the effect of financial practices on financial performance of manufacturing SMEs in Kericho County.

1.4 Research Hypotheses

The study tested the following research hypotheses:

H₀₁: Capital budgeting does not have a significant effect on the financial performance of manufacturing SMEs in Kericho County?

H₀₂: Financing practices does not have a significant impact effect on financial performance of manufacturing SMEs in Kericho County?

H₀₃: Working capital management does not have a significant effect on the financial performance of manufacturing SMEs in Kericho County?

H₀₄: Firm size does not have a significant effect on the effect of financial practices and financial performance of manufacturing SMEs in Kericho County?

1.5 Significance of the Study

The findings of this study are of great significance to a number of stakeholders who include county government, owners of SMEs, researchers and academicians, banks and other financial providers and potential investors, the county government of Kericho and other policymakers in the national and county governments. SMEs are the main channel of economic development and job creation in Kenya.

The government may find this study significant because it will cover in detail one of the major factors leading to failure of SMEs. Once the challenges facing SMEs ability to implement sound and prudent financial practices are identified, policy makers will utilize this information as input in policy formulation.

The owners of SMEs. The study provides them with a channel to express the challenges they face in managing their businesses with regard to financial management. After the identification of the issues they are facing, the owners and those charged with governance of SMEs will be able to

arrive at the most appropriate decision concerning the financial practices to adopt to improve their business performance

Researchers and academicians. This research acts as a reference material to future researchers on other related research topics and will assist academicians who are undertaking similar topics. Other researchers are therefore, be able to expand the argument of poor financial management practices as a cause of SMEs failure by providing reasons and possible solutions.

Banks and other financial providers. The study helps them to have a clear understanding of the impact of lending to SMEs and how they can assist SMEs to achieve performance excellence. The study would also be of value to banks when deciding which SMEs to finance based on their financial records.

Potential investors. This study provides the requisite information to potential investors on where to commit their funds with a high likelihood of receiving good returns. Through this study, they would be able to deduce the pervasiveness and quality of investing in the sector.

1.6 Scope of the Study

This study was on the relationship between financial practices and financial performance in the small and medium enterprise within Kericho County. The interest of Kericho County in this study was elicited by the fact that despite the increased recognition of importance of SMEs at Kericho as witnessed by emergence of new SMEs in the region, the SMEs still continue to underperform (KNBS, 2016). In addition, previous studies on SMEs have focused mainly on the relationship between financial management practices and financial performance of the entity detailing the negative and positive effects but not considering how these practices affect the overall organization performance.

This study was limited to the manufacturing SMEs operating within Kericho County. As such, the study was carried out in Kericho town which is the county headquarters of Kericho County and the largest urban centre within the county. The study was limited to exploring how the various financial practices adopted by manufacturing small and medium enterprises affect the performance of these entities.

The study was also confined to few financial management practices and strategies adopted by the small and medium enterprises in Kericho county in conducting their daily operations. This includes financial performance, financing practices and working capital management. The three practices were mainly chosen as they are the most adopted by the SMEs in oversee almost all day to day operations and hence the most appropriate.

The basic assumption of this study was that the participants who are the owners of the SMEs, workers employed to work within the SMEs and the county government of Kericho were willing to participate freely and give their honest response during the study. The responses sought from the respondents by the study included financial records and related financial information and what the county government is doing to regulate their operations.

1.7 Limitations of the Study

The researcher encountered various limitations during conducting of the study. To begin with, the respondents were reluctant in providing information concerning the financial practices and performance as they are sensitive. The researcher however addressed this by explaining the importance of this study to this business owners and assuring them that the data collected will be used solely for academic purposes. Also, due to time and financial constraints the study was limited to SMEs in Kericho County. This may not be an actual representation of the phenomena in SMEs in other regions. Additionally, study was only limited to three measures of financial practices namely; capital budgeting, working capital management and accounting practice. This may not be the entire financial practices undertaken by the SMEs. Despite this, the researcher ensured the data was collected comprehensively so as to enable generalization of the study's findings.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This section reviews the existing theoretical and empirical literature on the effect that financial practices have on the financial performance of manufacturing small and medium enterprises in Kericho County. The chapter reviews different theories related to the study and the empirical literature. The chapter finalizes by giving a summary of the literatures and the research gap.

2.2 Theoretical Framework

This study was guided by three main theories namely; Contingency Theory, Trade-Off Theory and Modern Portfolio Theory.

2.2.1 The Contingency Theory

Contingency Theory was proposed by Pike, (1986). The theory seeks to put across various business concepts and their applicability in the organizations. The Contingency Theory holds that organizations have differing structures in terms of the contextual factors like environment and technology (Henri, 2006). The theory therefore argues that effective resource allocation is obtained when there is a fit between the corporate design setting and the financial system operationalization. Therefore, the implementation of advanced investments is not a sure guarantee of better performance.

The theory gives much concentration on three aspects of the corporation that are assumed to have an association with the operation and design of the financial system. This entails the following, arrangement of the investment outcomes, the capital budgeting and professional competency of the firm. Determinants such as environment and the technology employed constitute the contextual factors which explain why there is a difference in the financial practices in firms. This is attributed to the fact that the contextual factor highly determines the organizational structure (Chenhall, 2003).

The theory's proposition to the study the organizations have varying financial management practices due to the differences in the contextual factors. Therefore there is no uniformity in the financial management practices to be employed in the firms. The success of one financial management practice in one firm will not necessarily translate to the same in another firm. In relation to the study, the SMEs in Kericho have to properly analyse their contextual factors before the adoption of any financial management practice. According to this theory, the financial management practices employed by the SMEs namely financing practices, budgeting and working capital management are highly determined by the specific contextual factors in each SMEs hence will tend to vary from one firm to another.

2.2.2 Trade-off Theory

Trade-off Theory was put across by Zechner (1989). The theory argues that attainment of optimal liquidity level is the ultimate aim of any organization. This is largely because it will imply that the firm is in a position to strike a balance between the cost of holding cash and the benefits accrued thereafter. The theory thus states that the financial policy of the firm is complicated more when there is presence of external financing which involves asset management and the liability clause. The firm can therefore gain profitability through weighing off the borrowing cost against the end result benefit. In this case, the cost of borrowing includes bankruptcy cost and payment of interest.

Debt financing is theorized to have benefits such as discipline instilled in the firm and the taxes to be deducted. From the debts that the firm has, it can be able to increase the net flow in profits, cash flows hence acting as a source of working capital. The theory however faces criticism from other scholars who argue that the debts shouldn't be used without limitations as this may increase the bankruptcy chances (Baxter, 2007). The relevancy of the theory to the study is thus it links the financial structures such as financing practices, budgeting and working capital management in firms to be directly linked to debt financing. The theory provides a basis of further understanding the impact of financing practices such as debt financing has on how SMEs perform. Based on this theory, the performance of the SMEs in Kericho will highly be determined by the efficiency and reliability of their financing practices and sources of finances.

2.2.3 Modern Portfolio Theory

Modern Portfolio Theory was initiated by Harry Markowitz in explaining uncertain future. The theory put a line of difference between the risk of assets' portfolio against the entire portfolio's risk (Amenc and Le Sourd, 2003). As such, the efficiency of the portfolio is largely determined by the set of assets which either return highly on a particular risk or a lower risks for a certain level of return. Therefore, the investor may opt to reduce the risk of accruing negative return through holding the portfolio of different assets so as to avoid the risk of higher loss (Brealey and Myers, 2003).

Therefore, there is a strong need to measure and integrate the risks which are involved in firms especially those that invest heavily on financial instruments. The theory's proposition is that the financial management strategies should act to ensure that risk managed by diversifying their asset investments in case one of them fails. The theory also provides a guideline on how investments should be undertaken in the SMEs so as to ensure maximal gains. According to this theory, all the financial management practices including working capital management, financing practices and cash budgeting should all be complementary to each other in fostering financial security and stability in the SMEs which is theorized to translate to improved performance.

2.3 Empirical Literature

The section is categorized into capital budgeting and organizational performance, financing practices on the organizational performance, working capital management on the organizational performance and firm size and financial performance.

2.3.1 Capital Budgeting and Financial Performance

The cash budget entails a plan that outlines the expected cash receipt and cash payments. It is thus used to show the current financial position of the organization at a particular time (Marfo-Yiadam, 2002). The budget aids to ensure that there is sufficient funds so as to meet the operational levels that are required by the budgets. The process of budgeting includes the initial investing screening and selection that are preceded by an estimated cash flow. This aids the managers in planning of investments and borrowing which facilitate the expenditure control. Proper budgeting acts as a tool to boost the organizational performance through providing a guideline on how the activities are conducted.

Nguyen (2014), accessed the relationship that existed between financial management practices and returns of SMEs in Australia. The study adopted an exploratory design in obtaining information pertaining to the study. The study established that most SMEs evaluate and review their capital projects prior to making any investment decisions. The study further found that though the SMEs highly regarded their fixed asset managements, they still had insufficient knowledge. The study however focused entirely on the asset management practices without considering other practices that may be present. This current study addressed other financial management practices employed by the SMEs including working capital management and sources of finances.

Atieno, (2013) investigated the financial planning practices adopted by SMEs operating at CBD of Nairobi. The study found that most SMEs practised financial planning practises by such as periodical budget estimations, activity-based budgeting and financial analysis. Hence implying that financial planning practices had positive impacts on the performance of the SMEs good maintenance of capital, managing risks, increased the efficiency of operations. The current study also confirmed the similar positive relationship on the SMEs in Kericho County.

2.3.2 Financing Practices and the Financial Performance

Turyahebwa *et al*, (2013) investigated the relationship that existed between financial management practices and the performance of SMEs situated in western Uganda. The study employed the positivist approach using both correlation and cross sectional research designs. The study found out that financial management accounted for a huge proportion of the organization's performance. Though the study affirmed that the financial management practices, it was not able to determine the relationship that existed. This current study investigated the relationship that exists and established a significant positive effect.

Waweru and Ngugi, (2014) conducted a study on the impact that financial management practices have on the performance of firms. The study used questionnaires in the data collection and random sampling was used in the data collection. Content analysis was employed to analyse the qualitative data. The study found out that financial innovations influence the performance of Micro and Small Enterprises in Kenya to a very great extent. On the contrary, the other variables had minimal impact on how the SMEs performed, thus indicating inconsistency in the study's findings. The current addressed this though establishing the exact relationship that exists between the research variables.

Momanyi and Njiru, (2016) conducted a study on the influence of financial risk identification on the SACCOs returns. The study used the descriptive research design with the population of the study being all the employees of the SACCOs. Data was collected using both primary and secondary means and analysed using SPSS Version 21. The study established that all the SACCOs adopted financial risk management practices so as to mitigate any risks. The current study confirmed the same relationship in the SMEs of Kericho country investigated.

Kambi and Ali, (2016) investigated the effects of financial risk management on the bank performances at the NSE. The study employed the descriptive research design with a census approach being used for the study. The study established that all the banks had put in place financial risk management practices. The study however was not able to determine the influence that the financial risk management practices had on the performance. This current study addressed this and established a significant positive effect.

2.3.3 Working Capital Management and the Financial Performance

Working capital management refers to the monitoring of the capital available for working and short term finances (Garrison, 1999). It entails the management of the corporate funds so as to increase the interest earned through the maximization of investments and reduction of the interests. This aims to ensure that the organization is able to effectively continue with its operations while having sufficient flow of cash for both short term and future operation expenses. Effective cash management thus ensures the timely provision of cash resources necessary to support the company's operations.

Hamza *et al*, (2015) investigated the cash management practices and performance of SMEs in Northern Region of Ghana. The study employed the descriptive cross sectional survey that allowed the collection of primary quantitative data by the use of structure questionnaires. The study found that the cash management efficiency had a positive impact in ensuring that the SMEs were successful. The study was however compared in an international setting and thus cannot be compared locally. The current study addressed this through providing a local empirical evidence from Kericho County.

Oluoch, (2016) conducted a study on the impact of cash management practice on the returns of the SMEs. The study was guided mainly by the liquidity theories and hold that the cash management practices have a positive influence on the performance. The study took place in Eldoret CBD with the data being collected using questionnaires to the sampled respondents. Both descriptive and inferential statistics were used in the data analysis. The study found out that the cash management practices had a significant positive impact on the performance. This study ascertained the same positive relationship on the SMEs in Kericho.

2.3.4 Firm Size and Financial Performance

The empirical relationship between the size of the firm, structure and profitability has established that the size has a positive influence on the profitability. Whereby, the rate of profit is directly linked to the rate of concentration and the ratio of marginal control (Collins & Preston, 2009). The positive correlation is brought about by the influence it has on the implementation of better strategies and differentiations that translate to increased efficiency. Further studies also suggest

that the larger firms are able to leverage their economies of scale (Montgomer, 2010; Sidhu and Bhatia, 2008).

The larger firms are thus able to produce the similar goods but at a cheaper price as they have accumulated more experience and are able to effectively spread their fixed costs. As pertaining to the marketing power, the larger firms are able to attract more premium profits due to the significant influence on the industry. They are thus able to bargain better for more conducive factor costs hence easily determining the quality and price of the goods. Therefore, through quality management, the firms are able to achieve their goals both in market share value and profit.

2.4 Summary and Knowledge Gap

Table 2. 1: Summary and Knowledge Gap

Author and Year	Study	Methodology, findings and recommendations	Research Gap
Kambi and Ali, (2016)	Effects of financial risk management practices on the financial performance of listed banks at the Nairobi Securities Exchange.	The study adopted a descriptive research design. A census approach was used since the target population is small. The study establishes that banks listed at Nairobi stock exchange have well design financial risk managements.	Though the study sensitizes the importance of financial risk management practices in organizations, it does not determine the exact relationship that exists between the variables.
Hamza <i>et al</i> , (2015)	Cash management practices and its effect on the financial performance of SMEs in the Northern Region of Ghana.	The study adopted a descriptive cross-sectional survey research design. The data was analysed using both descriptive and inferential statistics. The study revealed that SME financial performance was positively related to efficiency of cash management.	The study however only focused only on the cash management practices without investigating other financial management practices in the SMEs.
Mwangi, (2014)	Effects of benchmarking practices on the financial performance of SME's in Kenya,	The research used a casual research design collecting data. The study findings reveal a positive and significant relationship between benchmarking practices adopted by SME's and the financial performance.	Though the study indicates that benchmarking may be used as a financial management practice in SMEs, it does not indicate how it may be put into application.
Nguyen (2014)	The relationship between financial management practices and profitability of SMEs in Australia	The study used explanatory descriptive design. Found that asset management practices were vital in determination of the returns.	The study however focused entirely on the asset management practices without considering other financial practices that may be present.
Waweru and Ngugi, (2014)	Influence of financial management practices on the performance of Micro and Small Enterprises in	Simple random sampling technique was employed to select the sample. Content analysis was used to analyse qualitative data. The study found out that financial innovations influence the performance of	The study variables however had minimal impact on how the SMEs performed, indicating inconsistency in the study's

Author and Year	Study	Methodology, findings and recommendations	Research Gap
	Kenya.	Micro and Small Enterprises in Kenya to a very great extent.	findings.
Atieno, (2013)	The financial planning practices adopted by SMEs and their impact on the financial performance of the SMEs in Nairobi	A questionnaire-based survey method was used to collect data. The study found that most SMEs practiced financial planning practices.	The study only explored how financial planning affected financial performance and ignored other aspects of financial management.
Gul, <i>et al</i> , (2013)	Influence of working capital management (WCM) on performance of small medium enterprises (SMEs) in Pakistan	Quantitative research design was used. The data used was secondary. Results suggested that working capital management and size had positive association with profitability.	The study only investigated working capital management practices and did not carry out a study on other financial management practices.
Turyahebwa <i>et al</i> , (2013)	Relationship between financial management practices and business performance of SMEs in western Uganda	The study adopted a positivist with cross sectional and correlational designs. The findings indicated that financial management practices accounted for a large portion of the variance in business performance of SMEs.	The study confirmed the importance of financial planning practices on organization performance. However, the study was done in Uganda and only concentrated on business performance and not financial performance.
Nyabwanga, <i>et al</i> , (2013)	Effect of working capital management practices on the financial performance of SSEs in Kisii South District	Descriptive research design was used with Pearson's correlation coefficients. The study also revealed that small enterprises financial performance was positively related to efficiency of cash management.	The study did not consider large and medium enterprises and firms in other sectors.

Source;

Researcher

(2018)

2.5 Conceptual Framework

The conceptual framework illustrates the interaction between independent variables and the dependent variable in the study (Mugenda and Mugenda, 2003). In this study, the independent variables were the various financial management practices namely; capital budgeting practices, working capital management practices, profit retention practices and the dependent variable was the SME financial performance. The conceptual framework is presented in the Figure

Independent variable

Dependent variable

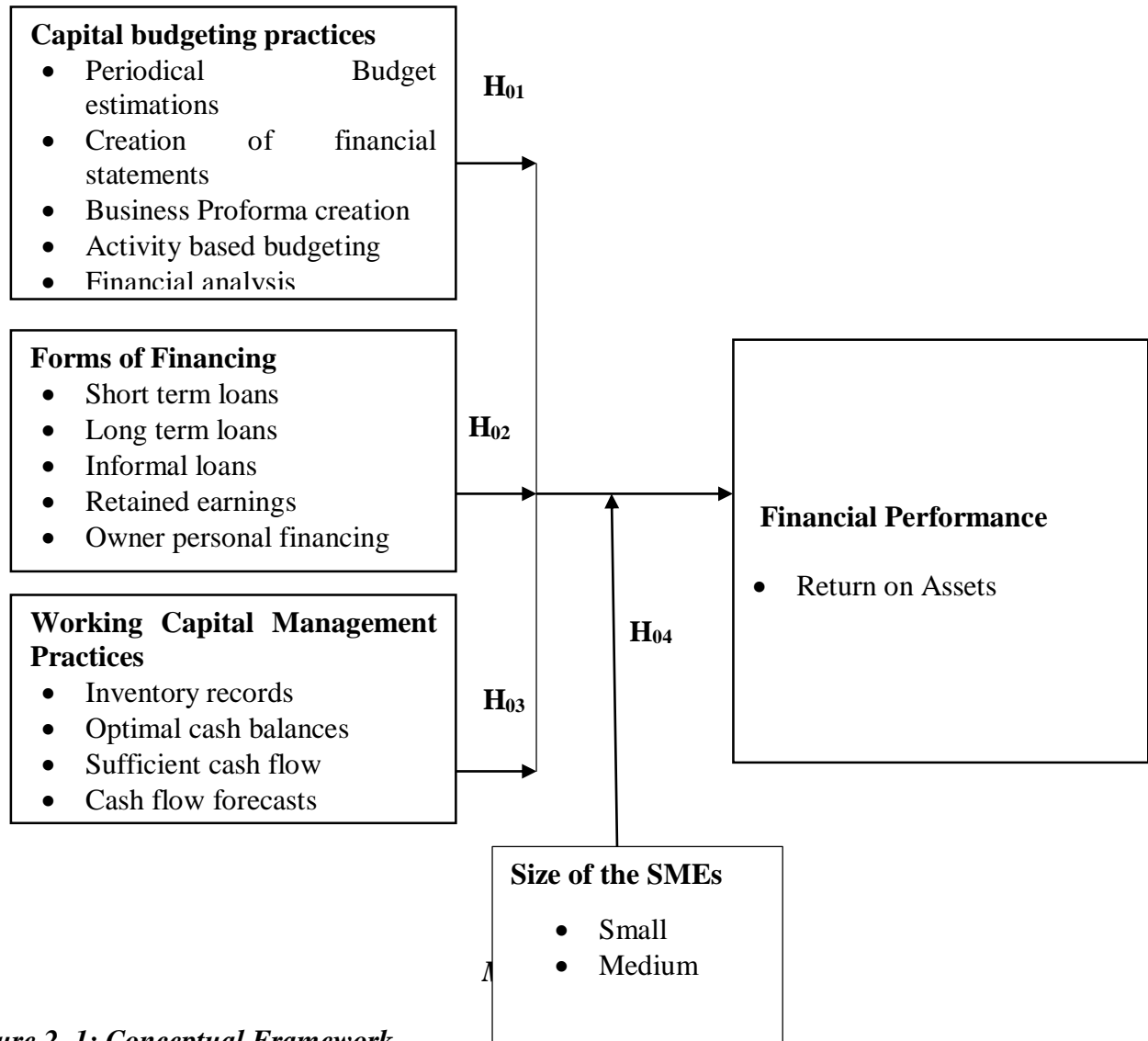


Figure 2. 1: Conceptual Framework

Source: Researcher (2018)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter constitutes the general approach that was adopted in accomplishing the objectives of the study. This entails the research design, study population, sampling method, data collection, data analysis techniques and the ethical considerations.

3.2 Research Design

The research design refers to the plan or scheme adopted by the study in conducting the study and addressing the various research questions. This study employed the descriptive research design in obtaining information about the effect of financial practices on the performance of manufacturing small and medium enterprises in Kericho County. The descriptive research design enables one to obtain information concerning the current situation and other phenomena and wherever possible to draw valid conclusion from the facts discussed (Creswell, 2008). Moreover, the research design enables description of the research variables while minimizing interference by the researcher hence the most appropriate for the study.

3.3 Target Population

The study population entails the group of items or elements that conform to certain specification and are of interest to the researcher (Mugenda and Mugenda, 2003). The study's population comprised of the all the manufacturing small and medium enterprises in Kericho County. SMEs at Kericho are distributed across the six administration sub counties namely Kipkelion East, Kipkelion West, Ainamoi Constituency, Bureti, Belgut, and Sigowet- Soin. By December 2016, the licensed SMEs by Kericho County were 47,340 out of which 1,857 were in the manufacturing sector as shown by Table 3.1 (KNBS, 2016). As such the owners, managers or their equivalents at these SMEs will be targeted. This population was chosen as they are directly involved with the operations at these SMEs and thus the most conversant for the study.

Table 3. 1 Target Population

Sub-County	Manufacturing SMEs
Kipkelion East	441
Kipkelion West	288
Ainamoi Constituency	237
Bureti	369
Sigowet- Soin	177
Belgut	345
Total	1,857

3.4 Sample Design

To identify the study population, Slovin's formula (1960).

Slovin's formula is:

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

Where n = number of samples, N = total population and e = error margin / margin of error at 7%

Therefore;

$$184 = \frac{1,857}{1 + 1,857(0.07^2)}$$

By applying the formula, a sample size of 184 was studied using at 7% margin of error. Stratified random sampling was used to identify a sample under each stratum. The weight of the stratum was identified by relating the number of respondents under the strata in relation to the entire population as shown by Table 3.2. Stratified random sampling is more appropriate as the sample is drawn from a population which is not homogeneous. The respondents were the SME owners, managing directors, finance managers and the accountants at the SMEs. Data was collected at specific period of time according to respondents' knowledge. However, reference on the study variables was done over five year period from 2011 to 2016.

Table 3. 2 Sample Frame

Sub-County	Target Population	Sample	Percent
Kipkelion East	441	44	24%
Kipkelion West	288	30	16%
Ainamoi Constituency	237	24	13%
Bureti	369	34	19%
Sigowet- Soin	177	19	10%
Belgut	345	33	18%
Total	1,857	184	100%

3.5 Data Collection

The study used purely primary data. The primary data was collected through self-administered questionnaires. The questionnaire was preferred as it enables first-hand information to be obtained from the respondents openly and clearly without necessarily revealing their identity. The questionnaire was semi structured having both open ended and closed ended questions designed to elicit specific responses for qualitative and quantitative analysis respectively. The questionnaires were administered to the SME owners, managing directors, finance managers and the accountants at the SMEs.

The questionnaires were divided into sub sections with the Likert Scale being used to rate the responses by the responses. The questionnaire was made up of three sections. Section A covered the demographic characteristics of respondents and the SMEs; Section B dealt on the financial practices adopted by the SMEs while Section C was on the organizational performance.

3.6 Pilot Study

To enhance reliability and validity, the questionnaire was pre-tested on 19 (10% of the sample) respondents. The sample was chosen using purposive sampling from SMEs in Kericho County. This area was selected due to it being on close proximity to the researcher hence more convenient. The selected respondents did not constitute the actual population of the study. The piloted sample then helped to reveal any shortcomings in the research instrument such as vague questions, clarity of questions and relevance.

3.6.1 Reliability of the Questionnaire

The data pre-test was used in testing the Cronbach alpha so as to determine the reliability. The Cronbach alpha was used to determine the internal consistency of the items in the survey instrument. This enabled gauging the reliability and improving it based on the summated scales of the study variables. The Cronbach's alpha coefficient having ranges of 0 and 1 were used in measuring the reliability so as to ensure that the values are above 0.7. This is because values greater than 0.7 are deemed to be reliable (Mugenda, 2008).

3.6.2 Validity of the Instrument

Data validity entails the accuracy of the research data collection instrument. The validity of the study was accessed using construct validity method. This was achieved using a panel of experts who are more familiar in the construct validity methods. Amendments of the questionnaires were then done as accordingly. Also to ensure validity, information from previous studies was put in place so as to cover all the areas of the study. The theoretical framework was used to arrive at the right answers for the research questions.

3.7 Data Analysis

The data was first cleaned so as to avoid any discrepancies before being analysed. The data was then coded and input into the computer. The data was then categorised and thereafter summarised using descriptive measures such as frequencies, percentages, means and inferential statistics. Tables and graphs were used for presentation of findings. Correlation Analysis was used to determine the relationship between the variables. To achieve this, data was coded and analysed by Statistical Package for Social Science (SPSS Version 20.0) program.

3.7.1 Analytical Model

A multiple regression model was used to determine the effect of financial practices and the financial performance of the SMEs. The multiple regression model was in the form:

3.7.1.1 General Model

$$Y_i = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon \quad (\text{Equation 3.1})$$

Where:

Y_i = Dependent Variable (SME Financial Performance measured using ROA)

β_0 = Constant

β_1, \dots, β_3 = Coefficient of the independent variable

X_1 = Capital Budgeting Practices (measured using a 5 point Likert Scale)

X_2 = Working Capital Management Practices (measured using a 5 point Likert Scale)

X_3 = Financing Practices (measured using a 5 point Likert Scale)

ε = error term

3.7.1.2 Moderating Variable Model

The moderating variable which is the size of the SME was introduced to the regression done with all the variables. This tested the extent to which the prediction power of the model improved as a result of introduction of SME size to the equation. The regression model took the following format (Nguyen, 2014):

$$Y_i = \beta_0 + (\beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3) Z_i + \varepsilon \quad (\text{Equation 3.2})$$

Where:

Y_i = Dependent Variable (SME Financial Performance measured using ROA)

β_0 = Constant

β_1, \dots, β_3 = Coefficient of the independent variable

X_1 = Capital Budgeting Practices (measured using a 5 point Likert Scale)

X_2 = Working Capital Management Practices (measured using a 5 point Likert Scale)

X_3 = Financing Practices (measured using a 5 point Likert Scale)

Z_j = SME Size (measured by the log of total assets owned)

ε = error term

3.7.2 Operationalization and Measurement of Study Variables

The study dependent variable was financial performance while the independent variables were capital budgeting practices, working capital management and SME Size. The measurement and operationalization is shown in Table 3.3.

Table 3. 3 Operationalization and Measurement of Study Variables

Variable	Indicator	Measuring of indicators	Scale	Tools of Analysis	Type of Analysis
Dependent	Financial Performance	5 Point likert scale based on: <ul style="list-style-type: none"> • Return on capital employed • Capacity to Embrace Opportunities • Capacity to Attract Capital • Risk Management • Liquidity of the firm's Assets • Operating profit margin 	Ordinal	Percentages Mean score	Descriptive statistics Correlation analysis Regression analysis
Independent	Capital Budgeting Practices	5 Point likert scale based on: <ul style="list-style-type: none"> • Periodical Budget estimations • Creation of financial statements • Business Proforma creation • Activity based budgeting • Financial analysis 	Ordinal	Percentages Mean score	Descriptive statistics Correlation analysis Regression analysis
Independent	Working Capital Management Practices	5 Point likert scale based on: <ul style="list-style-type: none"> • Short term loans 	Ordinal	Percentages Mean score	Descriptive statistics Correlation analysis Regression

		<ul style="list-style-type: none"> • Long term loans • Informal loans • Retained earnings • Owner personal financing 			analysis
Independent	financing practices	5 Point likert scale based on: <ul style="list-style-type: none"> • Inventory records • Optimal cash balances • Sufficient cash flow • Cash flow forecasts 	Ordinal	Percentages Mean score	Descriptive statistics Correlation analysis Regression analysis
Moderating	SME Size	Small- will be coded 1 Medium- Will be coded 2	Ordinal	Percentages Mean score	Descriptive statistics Correlation analysis Regression analysis

3.8 Ethical Considerations

Ethical standards in the study were maintained by ensuring that all information obtained from all sources was fully acknowledged. Permission to collect data was also sought from the university. Permission to collect data was also sought from the relevant government entities. Formal request to the respondents was done in writing. All information obtained by the study was used only for academic purposes and was treated with confidentiality. The researcher also ensured that no one or any organization or any party was harmed by this study.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter describes the findings obtained from the study, the data analysis and interpretations on the effect of determine the effect that financial management practices have on the performance of manufacturing small and medium enterprises in Kericho County. The data is summarized in form of frequencies, mean, standard deviations and presented in tables. The chapter further finalizes with a discussion of the study's findings.

4.2 Response Rate

The target population of the study was all the manufacturing small and medium enterprises in Kericho County. In this regard, a total of 184 respondents were selected using stratified random sampling technique with the data collected using questionnaires. Of which, 124 questionnaires were duly filled and returned back that translates to a response rate of 67% as shown by Table 4.1. This is considered to be adequate enough in attainment of the objectives of the study (Mugenda and Mugenda, 2008).

Table 4. 1 Response Rate

Status	Frequency	Percent
Responded	124	67%
Not Respond	60	33%
Total	184	100%

Source: Research Findings, 2018

4.3 Reliability Analysis

The reliability of the data collection instrument was determined by the use of Cronbach's Alpha based on the average correlations of the items of the study. The results obtained as shown by Table 4.2 indicate that, Financial performance had a Cronbach Alpha of 0.714, Capital budgeting practices had a Cronbach Alpha of 0.826, Working capital management practices had a Cronbach Alpha of 0.777, Financing practices had a Cronbach Alpha of 0.73 and SME size had a Cronbach Alpha of 0.717. This means that based on the Cronbach Alpha values attained, the research instrument was reliable and valid as all the variables had values of higher than 0.7.

Table 4. 2 Reliability Analyses

Variable	Cronbach Alpha	No of Items
Financial performance	0.714	6
Capital budgeting practices	0.826	5
Working capital management practices	0.777	5
Financing practices	0.73	7
SME size	0.717	5
Overall	0.886	45

Source: Research Findings, 2018

4.4 Background Information

4.4.1 Gender of the respondents

This section sought out at determining the gender of the respondents undertaking in the study. As shown by Table 4.3, 66% were male while 34% were female. This indicates that despite there being slight male dominance, both genders were represented hence no biasness in the responses given.

Table 4. 3 Gender of the respondents

Gender	Frequency	Percent
Male	82	66
Female	42	34
Total	124	100

Source: Research Findings, 2018

4.4.2 Age of the Respondents

This section sought at determining the age of the respondents. Their age was used in accessing their experience levels and maturity. The findings are as shown by Table 4.4.

Table 4. 4 Ages of the Respondents

Age	Frequency	Percent
18-25	13	11
26-35	60	48
36-45	40	32
46 and above	11	9
Total	124	100

Source: Research Findings, 2018

The results reveal that 48% were between 26-35 years, 32% were between 36-45 years, 11% were between 18-25 years while the remaining 9% were above 46 years. This shows that most of the respondents (more than 80%) were above 25 years and were thus capable in providing accurate and reliable information concerning the study.

4.4.3 Academic Background

The academic background aimed at determining the qualifications of the respondents which was determined by the highest level of education attained. The findings are as per Table 4.5.

Table 4. 5 Education Level

Education	Frequency	Percent
Primary level	38	31
Secondary level	34	27
Certificate/Diploma	34	27
Graduate	6	5
Postgraduate	12	10

Total	124	100
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Source: Research Findings, 2018

As shown, 31% had reached up to primary level only, 27% up to secondary level and diploma/certificate each, 10% had Postgraduate degrees while only 5% had undergraduate degrees. This indicates that only a small proportion of the respondents (less than 45%) had gone beyond secondary level education which shows they were yet to fully equipped with the required financial management practices.

4.4.4 Respondents Position

This section aimed at establishing the respondents' position at the SMEs as a measure of their involvement in the operations of the organizations. The findings are shown by Table 4.6.

Table 4. 6 Respondents' Position

Position	Frequency	Percent
Owner	32	26
Partner	48	39
Line Manager	19	15
Director	23	19
Other Staff	2	2
Total	124	100

Source: Research Findings, 2018

As shown, 39% were partners, 26% were owners, 19% were directors, 15% were line managers while only 2% were other staff. This shows that all the respondents played a crucial role in ensuring the fulfilment of the operations of the SMEs therefore provided accurate information on the financial management practices undertaken.

4.4.5 Years of operation of SMEs

The years in which the SMEs had been operation was used in the determination of their age. The findings are as per Table 4.7.

Table 4.7 Years of operation of SMEs

Years of Operation	Frequency	Percent
Less than 2 years	39	32
2-4 years	35	28
5-8 years	26	21
8-10 years	12	10
More than 10 years	12	10
Total	124	100

Source: Research Findings, 2018

The results obtained indicate that 32% had been operational for less than 2 years, 28% for a period of 2-4 years, 21% for a period of 5-8 years, 10% for a period of 8-10 years and more than 10 years as well. This shows that most of the SMEs (more than 60%) had been operational for a considerable length of time thus well conversant with the market dynamics and financial practices employed by the firms.

4.4.6 SME Legal Formation

This section aimed at investigating how the SMEs had been formed legally and their constituent's major shareholders. The findings are as shown by Figure 4.8.

Table 4. 8 SME Legal Formations

Legal Formation	Frequency	Percent
Sole proprietorship	37	30
Partnership	45	36
Limited company	42	34
Total	124	100

Source: Research Findings, 2018

The findings reveal that 36% were formed through partnerships, 34% were Limited Companies and 30% were formed through sole proprietorship. Therefore, the most preferred SMEs formation was found out to be partnership and the least being sole proprietorship.

4.4.7 Number of employees in the SMEs

The number of the employees in the SMEs was used in gauging their sizes. The findings are shown by Table 4.9.

Table 4. 9 Number of employees in the SMEs

Staff Number	Frequency	Percent
Below 5 employees	45	36
6-10 employees	35	28
11-20 employees	19	15
21-50 employees	16	13
Over 50 employees	9	7
Total	124	100

Source: Research Findings, 2018

As shown, 36% had below 5 employees, 28% had 6-10 employees, 15% had 11-20 employees, 13% had 21-50 employees and 7% had over 50 employees. This shows that majority of the SMEs (more than 55%) had less than 10 employees which is an indication of their relatively small sizes.

4.5 Descriptive Analysis of Study Variables

4.5.1 Financial Management Practices Employed

The study sought to determine the financial management practices employed in the manufacturing SMEs in Kericho County. As shown by Table 4.10, the most utilized financial management practice was Capital Budgeting (mean of 3.97 and standard deviation of 0.764), followed by Working Capital Management (mean of 3.69 and standard deviation of 1.039) and lastly the forms of financing (mean of 3.40 and standard deviation of 1.188).

Table 4. 10 Financial Management Practices Employed

Financial Practice	VLE	LE	ME	SE	VSE	Mean	SD
Capital Budgeting	1	2	19	56	23	3.97	0.764
Working Capital Management	3	11	23	40	23	3.69	1.039
Sources of financing	8	11	36	22	23	3.40	1.188

Source: Research Findings, 2018

4.5.2 Capital Budgeting

The study sought to determine the extent to which cash budgeting had been adopted in the management of finances in the SMEs. Five point Likert scale was used where 1 was to very small extent, 2 small extent, 3 moderate extent, 4 large extent and 5 to a very large extent. The findings of the Likert scale questions are presented in Table 4.11.

Table 4. 11 Capital Budgeting

Capital Budgeting Practices	VLE	LE	ME	SE	VSE	Mean	SD
Periodical Budget estimations	7	10	22	35	27	3.64	1.185
Creation of financial statements	19	9	18	29	25	3.31	1.439
Financial analysis	4	14	17	41	24	3.68	1.108
Activity based budgeting	15	21	19	23	22	3.15	1.385
Business Proforma creation	10	23	15	37	15	3.23	1.237
Mean						3.40	1.271

Source: Research Findings, 2018

The findings show that to a great extent, there is financial analysis (mean of 3.68, standard deviation of 1.108) and periodical budget estimations in the SMEs (mean of 3.64, standard deviation of 1.185). While to a moderate extent, the SMEs create financial statements (mean of 3.31, standard deviation of 1.439), have activity based budgeting (mean of 3.15, standard deviation of 1.385) and creation of business proforma (mean of 3.23, standard deviation of 1.237). Overall, Cash Budgeting was established to be adopted in the SMEs to a moderate extent with an average mean of 3.40 and standard deviation of 1.271. This implies that despite the benefits accrued from the use of cash budgeting, it was yet to be fully integrated into the management of finances in the SMEs.

4.5.3 Financing Sources

The study sought to determine the extent to which financing sources had been adopted in the management of finances in the SMEs. Five point Likert scale was used where 1 was to very small extent, 2 small extent, 3 moderate extent, 4 large extent and 5 to a very large extent. The findings of the Likert scale questions are presented in Table 4.12.

Table 4. 12 Sources of finances

Financing Practices	VLE	LE	ME	SE	VSE	Mean	SD
SMEs use short term loans to bridge the financing gap	0	7	29	40	23	3.80	0.883
SMEs use long term loans to bridge the financing gap	2	27	19	37	15	3.38	1.086
SMEs use informal loans to bridge the financing gap	8	24	16	29	23	3.34	1.287
SMEs use retained earnings to bridge the financing gap	13	15	10	37	26	3.48	1.358
Business is financed by the owner's personal financing	18	17	8	30	27	3.32	1.479
Mean						3.46	1.219

Source: Research Findings, 2018

As shown, to a large extent, the SMEs use short term loans to bridge the financing gap (mean of 3.80, standard deviation of 0.883). To a moderate extent, the SMEs use retained earnings (mean of 3.48, standard deviation of 1.358), long term loans (mean of 3.38, standard deviation of 1.086) and informal loans (mean of 3.34, standard deviation of 1.287) to bridge the financing gap. To a moderate extent as well is the business financed by the owner's personal financing (mean of 3.32, standard deviation of 1.479). This shows that the financing practices were only moderately adopted in the SMEs having an average mean of 3.46 and standard deviation of 1.219. Hence meaning that the financing practices were not completely utilized in the financial management.

4.5.4 Working Capital Practices

The study sought to determine the extent to which working capital practices had been adopted in the management of finances in the SMEs. Five point Likert scale was used where 1 was to very small extent, 2 small extent, 3 moderate extent, 4 large extent and 5 to a very large extent. The findings of the Likert scale questions are presented in Table 4.13.

Table 4. 13 Working Capital Practices

Working Capital Practices	VLE	LE	ME	SE	VSE	Mean	SD
Maintains proper records for all payables	21	10	24	30	15	3.09	1.362
Maintains inventory records which are updated regularly	11	19	22	30	19	3.27	1.263

Optimal cash balances are maintained by the company at all times	17	21	11	28	23	3.19	1.433
Receivables management system is fully automated	14	15	18	34	19	3.30	1.319
The company has a working capital management system	2	2	26	50	20	3.85	0.827
Prepares cash flow forecasts to identify future surpluses and deficits	10	18	23	32	18	3.30	1.23
Ensures there is sufficient cash flow to meet daily needs	11	11	27	35	16	3.33	1.208

Source: Research Findings, 2018

As shown by Table 4.13, to a large extent, the companies have working capital management system (mean of 3.85, standard deviation of 0.827). To a moderate extent, working capital management ensures there is sufficient cash flow to meet daily needs (mean of 3.33, standard deviation of 1.208), SMEs prepare cash flow forecasts to identify future surpluses and deficits (mean of 3.30, standard deviation of 1.23), receivables management systems are fully automated (mean of 3.30, standard deviation of 1.319) and optimal cash balances are maintained by the company at all times (mean of 3.19, standard deviation of 1.433). While to a low extent the SMEs maintain proper records for all the payables (mean of 3.09, standard deviation of 1.362). Thus, the working capital practices had a moderate extent of adoption in the SMEs as it had an average mean of 3.33 and a standard deviation of 1.440. This ensured that the firms had sufficient funds to cater for their current financial obligations.

4.5.5 SME Size

The study sought out to investigate the influence of the SME size on the operations and performance of the SMEs. Five point Likert scale was used where 1 was to very small extent, 2 small extent, 3 moderate extent, 4 large extent and 5 to a very large extent. The findings of the Likert scale questions are presented in Table 4.14.

Table 4. 14 Organization Size and Financial Practices

Organization Size and Financial Practices	VLE	LE	ME	SE	VSE	Mean	SD
The managers endeavor to increase the company's size at all costs	3	2	34	42	19	3.73	0.905
Large firms are more stable and mature, therefore generate greater sales because of their great production capacity	4	17	18	37	24	3.60	1.146
Firm size is an important determinant of an company's returns	8	17	26	34	15	3.31	1.164
Large firms face less difficulty in getting access to credit facilities from financial institutions, thus achieve greater strategic diversification	7	20	15	29	28	3.51	1.291

Large firms enjoy economics of scale and their average cost of production is low ensuring efficient operational activities	23	22	7	27	22	3.03	1.508
Mean						3.43	1.203

Source: Research Findings, 2018

The results obtained as per Table 4.14 show that the managers endeavor to increase the company's size at all costs (mean of 3.73, standard deviation of 0.905), larger firms are more stable and mature, therefore generate greater sales because of their great production capacity (mean of 3.60, standard deviation of 1.146) and larger firms face less difficulty in getting access to credit facilities from financial institutions, thus achieve greater strategic diversification (mean of 3.51, standard deviation of 1.291). To a moderate extent, firm size is an important determinant of a company's returns and to a low extent (mean of 3.31, standard deviation of 1.163), large firms enjoy economics of scale and their average cost of production is low ensuring efficient operational activities (mean of 3.03, standard deviation of 1.508). This shows that the size had a positive but moderate influence on the SMEs with an average mean of 3.43 and standard deviation of 1.203. The positive effect is brought about by reduced production cost and increased economies of scale.

4.5.6 SME Performance

This section sought to determine the level of performance in the SMEs. Five point Likert scale was used to rate the measures of performance where 1 was to very small extent, 2 small extent, 3 moderate extent, 4 large extent and 5 to a very large extent. The findings of the Likert scale questions are presented in Table 4.15.

Table 4. 15 SMEs' Performance

Financial Performance	VLE	LE	ME	SE	VSE	Mean	SD
Return on capital employed	0	2	42	40	15	3.69	0.758
Return on Assets	7	23	15	36	20	3.40	1.223
Return on Investments	11	23	26	23	18	3.14	1.258
Operating profit margin	19	18	19	20	23	3.11	1.453

The findings obtained showed that to a large extent, Return on capital employed had a mean of 3.19 and standard deviation of 1.318. To a moderate extent, return on assets had a mean of 3.40 and standard deviation of 1.223, Return on Investment had a mean of 3.14 and standard deviation of 1.258 and Operating profit margin had a mean of 3.11, standard deviation of 1.453. This shows that the SMEs were performing relatively good but there was need for more improvement which could be brought about by enhanced financial management practices.

4.6 Test for the Model Assumptions

4.6.1 Normality Test

The normality test was undertaken so as to ensure that the variables of the study are normally distributed. Skewness refers to the extent to which the distribution of values deviates from symmetry around the mean was used to test normality of the data while Kurtosis measures the

"peakedness" or "flatness" of a distribution was used in testing the normality of the study variables. The findings obtained are presented by Table 4.16.

Table 4. 16 Normality Test

	N	Min	Max	Mean	SD	Skewness	Kurtosis
Capital Budgeting	124	1.6	5	3.4032	0.80808	0.313	-0.463
Financing Practices	124	1.8	5	3.4645	0.81711	0.19	-0.873
Working Capital Management	124	1.43	5	3.3306	0.77122	0.355	0.133
SME Size	124	1.6	5	3.4371	0.83476	0.208	-0.723
SME Financial Performance	124	1.83	5	3.3602	0.80153	0.242	-0.281

Source: Research Findings, 2018

The results obtained show that Capital Budgeting had a Skewness value of 0.313 and Kurtosis value of -0.463, Financing Practices had a Skewness value of 0.19 and Kurtosis value of -0.873, Working Capital Management had a Skewness value of 0.355 and Kurtosis value of 0.133, SME Size had a Skewness value of 0.208 and Kurtosis value of -0.723, SME Financial Performance had a Skewness value of 0.242 and Kurtosis value of -0.281. Hence, for all the variables, skewness and kurtosis statistics were within +/-2 and hence the data was normality distributed. Therefore an implication that the normality assumption of linear regression analysis was in place.

4.7 Correlation Analysis

Correlation analysis was undertaken so as to find the nature and extent of relationship between the variables of the study. Table 4.17 shows the relationship established for the study variables.

Table 4. 17 Correlation Analyses

		SME Financial Performance	Capital Budgeting	Financing Practices	Working Capital Management	SME Size
Capital Budgeting	Pearson Correlation	.372**	1			
	Sig. (2-tailed)	0.000				
Financing Practices	Pearson Correlation	.536**	.495**	1		
	Sig. (2-tailed)	0.000	0.000			
Working Capital Management	Pearson Correlation	.716**	.510**	.652**	1	
	Sig. (2-tailed)	0.000	0.000	0.000		
SME Size	Pearson Correlation	.729**	.449**	.620**	.746**	1
	Sig. (2-tailed)	0.000	0.000	0.000	0.000	
	N	124	124	124	124	124

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

Source: Research Findings, 2018

As shown by Table 4. 17, Capital Budgeting had a Pearson Correlation of 0.372 and a p-value of 0.000, Financing Practices had a Pearson Correlation of 0.536 and a p-value of 0.000, Working Capital Management had a Pearson Correlation of 0.716 and a p-value of 0.000 and SME Size had a Pearson Correlation of 0.729 and a p-value of 0.000. This means that all the variables had a positive effect on the SMEs' performance. This means that an increase in these variables will cause an increase in the organization's returns. The effect was significant as all the p-values were less than 0.05. This means that they are able to predict the changes in the operational performance at any given time.

4.8 Regression Analysis

The regression analysis was used to establish the relationship that exists between the research variables. The independent variables for the study were the various financial management practices namely; Capital Budgeting, followed by Working Capital Management, Financing Practices, and the moderating variable was the SMEs size and the dependent variable was the financial performance of the SMEs.

4.8.1 Regression with the independent variables only

The study aimed at establishing the relationship between financial management practices and the financial performance. The regression analysis showed that financial management practices explain up 52.1% of the total variation of the performance of the SMEs at Kericho County ($R^2=0.521$). This means that only 47.9% of the changes in the performance are accounted for by other factors not presented in the model.

Table 4. 18 Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate
.722a		0.521	0.56148

a. Predictors: (Constant), Working Capital Management, Capital Budgeting, Financing Practices

The study further conducted the analysis of variance in establishing the significance of the model in describing the relationship that exists. The test of variance results as shown by Table 4.19 show that the model, $F_{(3, 123)} = 13.73$, $P < .001$ is valid for further analysis. This means that the independent variables are a good predictor of variations in performance.

Table 4. 19 Analysis of Variance

	Sum of Squares	Df	Mean Square	F	Sig.
Regression	41.19	3	13.73	43.55	.000a
Residual	37.832	120	0.315		
Total	79.022	123			

a. Predictors: (Constant), Working Capital Management, Capital Budgeting, Financing Practices

b. Dependent Variable: SME Financial Performance

The value of the constant in Table 4.20 shows that the performance of the SMEs will always exist at a certain minimum ($\beta_0 = 0.768$, $P = 0.004$). Financing Practices ($\beta_2 = 0.123$, $P = 0.149$) and Working Capital Management ($\beta_3 = 0.669$, $P = 0.000$) were found to influence the performance of the SMEs positively while Capital Budgeting ($\beta_1 = -0.018$, $P = 0.810$) impacted on the performance negatively. This implies that an increase in the financing practices and working capital management will result in improved performance while the capital budgeting will result in a decrease in the performance. All the variables except Capital Budgeting were significant as the p values were less than 5% ($P < 0.05$) meaning that they may be able to effectively explain any changes in the performance.

Table 4. 20 Model Coefficients

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	0.768	0.263		2.927	0.004
Capital Budgeting	-0.018	0.075	-0.018	0.241	0.810
Financing Practices	0.123	0.084	0.125	1.453	0.149
Working Capital Management	0.669	0.09	0.644	7.411	0.000

a. Dependent Variable: SME Financial Performance

4.8.2 Regression with Size as independent variable

This section sought out to determine the extent to which the prediction power of the model will improve as a result of introduction of SME size to the equation. As shown by Table 4.21, when SME size was introduced as an independent variable, the model explains up 60% of the total variation of the performance of the SMEs at Kericho County ($R^2=0.6$). This means that only 40% of the changes in the performance is accounted for by other factors not presented in the model. Thus shows that the independent variables had a positive relationship with the SMEs' performance.

Table 4. 21 Model Summary with Size as independent variable

R	R Square	Adjusted R Square	Std. Error of the Estimate
.774a	0.6	0.586	0.51554

a. Predictors: (Constant), SME Size, Capital Budgeting, Financing Practices, Working Capital Management

The study further undertook ANOVA analysis to establish the validity and effectiveness of the model in explaining the relationship between the study variables. As shown by Table 4.22, when size was introduced as an independent variable, the new model, $F_{(4, 123)} = 44.578$, $P < .001$ remained valid. Hence showing that the model was significant in describing the effect of SMEs size as an independent variable.

Table 4. 22 Analysis of Variance with Size as independent variable

Sum of Squares	Df	Mean Square	F	Sig.
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Regression	47.393	4	11.848	44.578	.000a
Residual	31.628	119	0.266		
Total	79.022	123			

a. Predictors: (Constant), SME Size, Capital Budgeting, Financing Practices, Working Capital Management

b. Dependent Variable: SME Financial Performance

The results in Table 4.23 indicate that after size was introduced as an independent variable, the same effect of the financial management variables. This shows that the SME size ($\beta_4 = 0.419$, $P = 0.000$) has a significant positive effect on how the SMEs performed.

Table 4. 23 Model Coefficient with Size as independent variable

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	T	Sig.
(Constant)	0.595	0.244		2.44	0.016
Capital Budgeting	-0.037	0.069	-0.037	0.536	0.593
Financing Practices	0.028	0.08	0.029	0.356	0.723
Working Capital Management	0.406	0.099	0.391	4.091	0.000
SME Size	0.419	0.087	0.437	4.831	0.000

a. Dependent Variable: SME Financial Performance

4.8.3 Regression with SME Size as Moderating Variable

This section sought to establish the moderating effect of SME size, the extended model was used and results obtained by running moderated multiple regression analysis. As shown by Table 4.24, when SME size was introduced as an independent variable, the resultant R^2 was 0.6 implying that the model explained up to 60% of the changes in the performance of the SMEs.

Table 4. 24 Model Summary with SME Size as Moderating Variable

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	Change Statistics			
						F Change	df1	df2	Sig. F Change
1	.722a	0.521	0.509	0.56148	0.521	43.55	3	120	0.00
2	.774b	0.6	0.586	0.51554	0.079	23.34	1	119	0.00

a. Predictors: (Constant), Working Capital Management, Capital Budgeting, Financing Practices

b. Predictors: (Constant), Working Capital Management, Capital Budgeting, Financing Practices, SME Size

The test of variance results obtained show that model one, $F_{(3, 123)} = 43.55$, $P < .001$ is valid for further analysis. When the moderating variable was introduced, the new model two, $F_{(4, 123)} = 44.578$, $P < .001$ remained valid. This shows the moderating variables had minimal but significant impact. Hence, the effect of independent variables on the model has significant effect on the dependent variables even after the moderating variable was introduced.

Table 4. 25 Model ANOVA with SME Size as Moderating Variable

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	41.19	3	13.73	43.55	.000a
	Residual	37.832	120	0.315		
	Total	79.022	123			
2	Regression	47.393	4	11.848	44.578	.000b
	Residual	31.628	119	0.266		
	Total	79.022	123			

a. Predictors: (Constant), Working Capital Management, Capital Budgeting, Financing Practices

b. Predictors: (Constant), Working Capital Management, Capital Budgeting, Financing Practices, SME Size

c. Dependent Variable: SME Financial Performance

The results in Table 4.26 indicate that after size was introduced as a moderating variable, the same effect of the financial management variables namely; Capital Budgeting ($\beta_1 = -0.037$, $P = 0.593$), Financing Practices ($\beta_2 = 0.028$, $P = 0.723$) and Working Capital Management ($\beta_3 = 0.406$, $P = 0.000$) was still retained.

Table 4. 26 Model Coefficient with SME Size as Moderating Variable

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	0.768	0.263		2.927	0.0040
	Capital Budgeting	-0.018	0.075	-0.018	0.241	0.8100
	Sources of funds	0.123	0.084	0.125	1.453	0.1490
	Working Capital Management	0.669	0.09	0.644	7.411	0.0000
2	(Constant)	0.595	0.244		2.44	0.0160
	Capital Budgeting	-0.037	0.069	-0.037	0.536	0.5930
	Sources of funds	0.028	0.08	0.029	0.356	0.7230
	Working Capital Management	0.406	0.099	0.391	4.091	0.0000
	SME Size	0.419	0.087	0.437	4.831	0.0000

a. Dependent Variable: SME Financial Performance

4.9 Discussion of Research Findings

4.9.1 Capital budgeting and the financial performance of SMEs in Kericho County

The study sought to determine the effect of capital budgeting on the organizational performance of manufacturing SMEs in Kericho County. The correlation analysis showed that incorporation of capital budgeting in the firms resulted in increased returns as it had a Pearson Correlation of 0.372. This is because, the cash budget aids to ensure that there is sufficient funds so as to meet the operational levels that are required by the budgets (Marfo-Yiadom, 2002). The positive relationship is further supported by Turyahebwa et al, (2013) who investigated the relationship

that existed between financial management practices and the performance of SMEs situated in Western Uganda. However, the regression model coefficients obtained ($\beta_1 = -0.018$, $P = 0.810$) implied that the cash budgeting may result in a negative impact on the performance which may be due to the additional costs incurred in the formulation and implementation of the budgets.

4.9.2 Sources of funds and the financial performance of SMEs in Kericho County.

The study also sought to determine the effect of Sources of funds on the organizational performance of manufacturing SMEs in Kericho County. The correlation analysis revealed that it had a significant positive effect on the performance implying that it resulted in increased returns as it had a had a Pearson Correlation of 0.536. This was further supported with the findings of the regression analysis whereby Sources of funds had a model coefficient of 0.123 and P value of 0.149. The findings concur with Milkah (2014) conducted a study on financial performance of SMEs determinants and also found a positive effect brought about by efficient sources of funds. Similarly, Atieno, (2013) investigated the financial planning practices adopted by SMEs operating at CBD of Nairobi and found that sources of funds had positive impacts on the performance of the SMEs good maintenance of capital, managing risks, increased the efficiency of operations.

4.9.3 Working capital management and financial performance of SMEs in Kericho County.

The study also sought to evaluate the effect of working capital management on the organizational performance of manufacturing SMEs in Kericho County. The correlation analysis was conducted that indicated that the working capital management practices had a positive effect on the performance whereby it had a Pearson Correlation of 0.716. This is attributed to the fact that efficient working capital management is essential in the management of corporate funds to increase interest income earned by maximizing investments and reducing interest paid by minimizing borrowings (Kipsang, 2014).

The study further conducted regression analysis whereby the same positive effect was obtained ($\beta_3 = 0.669$, $P=0.000$). Hamza et al, (2015) investigated the cash management practices and performance of SMEs in Northern Region of Ghana and also found that the cash management efficiency had a positive impact in ensuring that the SMEs were successful. However, Waweru and Ngugi, (2014) conducted a study on the impact that financial management practices have on the performance of firms and found out that working capital management had minimal impact on how the SMEs performed.

4.9.4 SME size and financial performance of manufacturing SMEs in Kericho County.

The study further sought to determine the moderating effect brought about by the size of the SMEs. The findings revealed that size had a positive influence on the SMEs with an average mean of 3.43 and standard deviation of 1.203. The positive effect is brought about by reduced production cost and increased economies of scale. This is because the firm size represents a contingent factor that largely determines the organizational characteristics and has been established to be an important macro-economic variable in the organizational literature (Woodward, 2005).

The correlation analysis also found that size had a significant positive effect on the performance. The positive correlation is also brought about by the influence it has on the implementation of better strategies and differentiations that translate to increased efficiency. The study further found out that based on the regression analysis, when SME size was introduced as an independent

variable, the resultant R^2 change in model improved to 0.6 from 0.521 and added value to the model which was however not significant ($\Delta R^2 = .079, P = .516$). This shows that the size of the SME had a positive but insignificant moderating effect.

The test of variance results obtained show that model one, $F_{(3, 123)} = 43.55, P < .001$ is valid for further analysis. When the moderating variable was introduced, the new model two, $F_{(4, 123)} = 44.578, P < .001$ remained valid. This shows the moderating variables had minimal but significant impact. Hence, the effect of independent variables on the model has significant effect on the dependent variables even after the moderating variable was introduced. This shows that the SME size ($\beta_4 = 0.419, P = 0.000$) has a significant positive effect on how the SMEs performed.

Further studies also suggest that the larger firms are able to leverage their economies of scale (Montgomer, 2010; Sidhu and Bhatia, 2008). Kambi and Ali, (2016) as well found out that larger firms are more likely to perform better as compared to the smaller firms. On the contrary Atieno, (2013) found insignificant influence brought about by the size on the performance of firms. Hence how a particular SME performs will be largely determined their specific sizes.

4.9.5 Financial management practices and financial performance of manufacturing small and medium enterprises in Kericho County.

The study also sought to find out the current performance state at the SMEs and how it was affected by the financial management practices put in place. It was established that the SMEs were performing relatively good with an average mean of 3.36 and 1.217 but there was need for more improvement which could be brought about by enhanced financial management practices. The study further conducted regression analysis so as to determine the relationship between the study variables.

The regression analysis showed that financial management practices explain up 52.1% of the total variation of the performance of the SMEs at Kericho County ($R^2=0.521$). This means that only 47.9% of the changes in the financial performance is accounted for by other factors not presented in the model. The study further conducted the analysis of variance whereby $P < .001$ implying it was valid for further analysis. All the financial management practices were established to influence the performance differently whereby; Sources of funds and Working Capital Management practices were found to influence the performance of the SMEs positively while Capital Budgeting impacted on the performance negatively.

This implies that an increase in the sources of funds and working capital management will result in improved performance while the capital budgeting will result in a decrease in the performance. All the variables except Capital Budgeting were significant as the p values were less than 5% ($P < 0.05$) meaning that they may be able to effectively explain any changes in the performance. Empirically, Golda, (2013) found out that maximum application and commitment towards effective financial practices usually results in improved organization performance. This relates to Wolmorans (2015) who established that poor financial practices and misuse of financial resources will negatively affect the overall performance of an entity and if not checked will lead to collapse of the business. However, Asian and Uwaoma (2017) who conducted a study on SMEs in Nigeria and their financial management practices found no significant relationship on Return on Equity and Return on Assets. This also contradicts Musyoki, et al, (2015) who obtained a negative correlation between the financial management practices employed and how the SMEs in Kenya performed.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter summarizes the study findings in the previous chapter. The chapter also contains the conclusions from the study and recommendations drawn from the findings. The chapter finally covers suggestions for further study in the quest of addressing the research question or achieving the research objective.

5.2 Summary of Findings

The general objective of the study was to determine the effect that financial management practices have on the financial performance of manufacturing small and medium enterprises in Kericho County. The study used descriptive cross-sectional research design. The target population were all the manufacturing SMEs licensed at Kericho County. Sampling was done based on the location of the SMEs and their size. Data was collected using questionnaires containing open and closed ended questions. Likert scale was assessed to evaluate the study variables. Descriptive statistics, correlation and regression analysis were used to analyse the data. The findings of the study are as summarised below;

The study found out three main financial management practices adopted by the SMEs whereby; the most utilized financial management practice was Capital Budgeting, followed by Working Capital Management and lastly the Sources of funds. All the financial management practices were established to have a positive effect on the SMEs' performance. This means that an increase in these variables will cause an increase in the organization's returns. The effect was significant which means that they are able to predict the changes in the financial performance at any given time. However, the financial management practices were established to have moderate extents of adoption which indicates they were yet to be fully utilized in achieving improved performance.

The study also sought to determine the moderating effect brought about by the size of the SMEs. The findings revealed that size had a positive but moderate influence on the SMEs which is brought about by reduced production cost and increased economies of scale. The correlation analysis also found that size had a significant positive effect on the performance. The study further found out that based on the regression analysis, when SME size was introduced as an independent variable, the resultant R^2 change in model improved which was however not significant. This shows that the size of the SME had a positive but insignificant moderating effect.

The study also sought to find out the current performance state at the SMEs and how it was affected by the financial management practices put in place. It was established that the SMEs were performing relatively good but there was need for more improvement which could be brought about by enhanced financial management practices. The study further conducted regression analysis so as to determine the relationship between the study variables. The regression analysis showed that financial management practices explain up 52.1% of the total variation of the performance of the SMEs at Kericho County. This means that only 47.9% of the changes in the performance is accounted for by other factors not presented in the model.

The study further conducted the analysis of variance whereby it was established to be valid for further analysis. All the financial management practices were established to influence the

performance differently whereby; Sources of funds and Working Capital Management practices were found to influence the performance of the SMEs positively while Capital Budgeting impacted on the performance negatively. This implies that an increase in the financing practices and working capital management will result in improved performance while the capital budgeting will result in a decrease in the performance. All the variables except Capital Budgeting were significant as the p values were less than 5% ($P < 0.05$) meaning that they may be able to effectively explain any changes in the performance.

5.3 Conclusions

The study found that the three main financial management practices to be adopted by the SMEs to be Capital Budgeting, Working Capital Management and Sources of funds. However, the financial management practices are only moderately implemented in the firms. The study therefore concludes there is recognition of the importance accrued from using financial management practices in boosting the performance but they are yet to be fully integrated in their operations. This could be brought about by challenges experienced in adopting the financial management practices such as financial constraints, lack of expertise, inadequate policies and low awareness level on these practices.

The study also found out that the SMEs size had a moderating effect on how the SMEs performed. As such the larger SMEs were in better position to have improved performance as compared to the smaller SMEs. The study thus concludes that SME size is a huge determinant of the performance of the SMEs. The managers and owners of the SMEs should therefore yearn to increase their assets and value so as to be able to effectively compete in the dynamic market environments. The same influence brought about by the size of the firm was established by Milkah, (2014) who investigated the determinants of financial performance of small and medium enterprises in Kenya.

The further found out that the financial management practices had a significant positive relationship on the performance of the SMEs. The study therefore makes the conclusion that the current performance of the SMEs in Kericho County may be accounted largely by the financial management practices that have been put in place. Therefore, effective implementation and utilization of the financial management practices in the SMEs will translate to better and improved performance in the firms. This is brought about by having more organized, transparent, and reliable management of finances both for short and long term obligations of the SMEs.

5.4 Recommendations of the Study

5.4.1 Managerial Recommendations

The study established that the financial management practices have a positive effect on the performance of the SMEs. The study therefore recommends that managers/owners of the SMEs to make utilization of financial management practices as a key priority. They should therefore not only formulate the financial management strategies, but also constantly monitor and evaluate their efficiency. This will act to improve the low implementation levels of the practices. The study also recommends that before the adoption of any particular financial management practice, the managers/owners of the SMEs to first determine the suitability of that particular financial management practice based on the organization structure, culture and policies. This will ensure that the financial management practices put in place are able to meet and surpass their set objectives and targets. The study further recommends that the managers/owners of the SMEs to highly consider their organizations' sizes while undertaking any managerial decision.

5.4.2 Policy Recommendation

The study recommends that the government and other regulatory bodies to create favourable policies on the implementation of financial management practices in the SMEs. This will ensure that there is effectiveness, efficiency as well as consistency in the use and adoption of financial management practices in the SMEs. The study also recommends that the government and other policy makers to provide incentives which encourage more SMEs to adopt the financial management practices. Additionally, there should be creation of avenues through which the SMEs may be able to help each other's in enhancing their financial management capabilities.

5.5 Suggestions for Further Research

The study makes several suggestions for further researcher on areas which emerged during the study and require further research. To begin with, the scope of the study was limited entirely to the SMEs in Kericho County. This may not be an actual representation of SMEs in other regions in the country. The study thus recommends further studies to be conducted in other regions so as to enable comparison of the findings of the study. The study also only focused on three financial management practices namely sources of funds, working capital management and capital budgeting. This is not an exhaustive list of all the available financial management practices. So as to enable comprehensive determination of the phenomenon that exist, it is suggested further studies to be undertaken on other practices such as accounting, retained profits and asset management. The study also recommends further studies on organizations in other sectors of economy so as to enable generalization of the study findings. The study further recommends that a further study should be carried out to investigate the challenges facing successful implementation of financial management practices.

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APPENDICES

Appendix I: Questionnaire

This purpose of this questionnaire is to collect data for purely academic purposes. The study seeks to determine the effect that financial management practices have on the performance of manufacturing small and medium enterprises in Kericho County. All information will be treated as confidential. Kindly respond to all questions as accurately as possible in the spaces provided

SECTION A: BACKGROUND INFORMATION

1. **Please indicate your gender**

- a) Male []
- b) Female []

2. **Please indicate your age**

- a) 18-25 []
- b) 26-35 []
- c) 36-45 []
- d) 46 and above []

3. **Please indicate your highest level of education**

- a) Primary level []
- b) Secondary level []
- c) Certificate/Diploma []
- d) Graduate []
- e) Postgraduate []

4. **What position are you holding currently?**

- a) Owner []
- b) Partner []
- c) Line Manager []
- d) Director []
- e) Other Staff []

5. **How long has your firm been in operation?**

- a) Less than 2 years []
- b) 2-4 years []
- c) 5-8 years []
- d) 8-10 years []
- e) More than 10 years []

Please specify the exact years as at December 2016.....

6. **SME legal formation**

- a) Sole proprietorship []
- b) Partnership []
- c) Limited company []

7. Current SME number of employees

- a) Below 5 []
- b) 6-10 []
- c) 11-20 []
- d) 21-50 []
- e) Over 50 []

SECTION B: FINANCIAL MANAGEMENT PRACTICES IN SMALL AND MEDIUM ENTERPRISES IN KERICHO COUNTY

8. In your own opinion, to how often are the following financial management practices reviewed?

Statement	Monthly	Quarterly	Biannually	Annually	Every 2-5years
Capital Budgeting					
Working Capital Management					
Sources of funds					

9. Capital Budgeting

Please rate the extent to which the following practices have been adopted in the SME using a scale of 1 to 5 where 1 is very small extent, 2 is small extent, 3 is moderate extent, 4 is large extent and 5 is to a very large extent.

Statement	1	2	3	4	5
Periodical Budget estimations					
Creation of financial statements					
Financial analysis					
Activity based budgeting					
Business Proforma creation					

10. In which other ways have capital budgeting practices adopted by your SME have affected financial performance?

.....

11. Sources of funds

Please rate the extent to which the following in relation to sources of funds in the SME using a scale of 1 to 5 where 1 is very small extent, 2 is small extent, 3 is moderate extent, 4 is large extent and 5 is to a very large extent.

Statement	1	2	3	4	5
SMEs uses short term loans to bridge the financing gap					
SMEs uses long term loans to bridge the financing gap					
SMEs uses informal loans to bridge the financing gap					
SMEs uses retained earnings to bridge the financing gap					
Business is financed by the owner's personal financing					

12. In which other ways does retained profit practices affect SME financial performance?

13. Working Capital Management

Please rate the extent to which the following practices have been adopted in the SME using a scale of 1 to 5 where 1 is very small extent, 2 is small extent, 3 is moderate extent, 4 is large extent and 5 is to a very large extent.

Statement	1	2	3	4	5
The company has a working capital management system					
Prepares cash flow forecasts to identify future surpluses and deficits					
Ensures there is sufficient cash flow to meet daily needs					
Maintains proper records for all payables					
Maintains inventory records which are updated regularly					

Statement	1	2	3	4	5
Receivables management system is fully automated					
Optimal cash balances are maintained by the company at all times					

14. In which other ways does working capital practices affect SME financial performance?

.....

15. Are there any other financial management practices employed in your organization?

.....

SECTION C: SME SIZE AND ORGANIZATION PERFORMANCE

16. How would you rate the overall size of your organization?

- a) Very Large ()
- b) Large ()
- c) Moderate ()
- d) Small ()
- e) Very Small ()

17. This section aims at establishing the whether size affects performance in your organization. Please rate the following concepts that describe the various indicators using a Likert Scale of 1–5 whereby 1 is strongly disagree 2 is disagree, 3 is neutral, 4 agree and 5 strongly agree.

Size	1	2	3	4	5
The managers endeavor to increase the company’s size at all costs					
Large firms are more stable and mature, therefore generate greater sales because of their great production capacity					
Firm size is an important determinant of an company’s returns					

Large firms face less difficulty in getting access to credit facilities from financial institutions, thus achieve greater strategic diversification					
Large firms enjoy economics of scale and their average cost of production is low ensuring efficient operational activities					

18. In your own opinion has the size your organization influence how it performs? Please explain

.....

SECTION D: FINANCIAL PERFORMANCE OF MANUFACTURING SMES IN KERICHO COUNTY

17. Please indicate your annual sales and investment in the SME for the last 5 years

Year	2016	2015	2014	2013	2012
Annual sales					
Accumulated Annual investment/cost					
Approximate annual costs					

18. What is the growth rate of your company performance?

- a) Very high ()
- b) High ()
- c) Moderate ()
- d) Low ()
- e) Very Low ()

19. List the kind of performance that your company needs to improved?

.....

SECTION E: FINANCIAL PERFORMANCE OF MANUFACTURING SMES IN KERICHO COUNTY

20. Please rate the extent to which financial management practices have helped to improve the following financial performance measures of performance at your organization using a scale of 1 to 5 where 1 is very small extent, 2 is small extent, 3 is moderate extent, 4 is large extent and 5 is to a very large extent.

Statement	1	2	3	4	5

Statement	1	2	3	4	5
Return on capital employed					
Return on Assets					
Return on Investment					
Operating profit margin					

21. Are there any other ways in which the financial management practices impacts on the organizational performance in the SMEs?

.....

22. In your own opinion what is the general influence of financial management practices on the organizational performance in the SMEs.

.....

END

Thank you for your time

Appendix II: Research Proposal Approval



KENYATTA UNIVERSITY
GRADUATE SCHOOL

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

P.O. Box 43844, 00100
NAIROBI, KENYA
Tel. 810901 Ext. 4150

Website: www.ku.ac.ke

Internal Memo

FROM: Dean, Graduate School

DATE: 11th June, 2018

TO: Cheruyot Benard
C/o Accounting and Finance Dept.

REF: D53/CTY/28210/2014

SUBJECT: APPROVAL OF RESEARCH PROPOSAL

We acknowledge receipt of your revised Research Proposal as per our recommendations raised by the Graduate School Board of 9th May, 2018 entitled "Financial Management Practices and Financial Performance of Small and Medium Manufacturing Enterprises in Kericho 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.

ANNBELL MWANIKI
FOR: DEAN, GRADUATE SCHOOL

C.c. Chairman, Department of Accounting and Finance

Supervisors:

1. Dr. Koori
C/o Department of Accounting and Finance
Kenyatta University

AM/lnn

Appendix III: University Data Collection Authorization



KENYATTA UNIVERSITY
GRADUATE SCHOOL

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

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

Website: www.ku.ac.ke

Our Ref: D53/CTY/28210/2014

DATE: 11th June, 2018

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

Dear Sir/Madam,

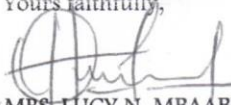
RE: RESEARCH AUTHORIZATION FOR CHERUYOT BENARD – REG. NO.
D53/CTY/28210/2014.

I write to introduce Mr. Cheruyot Benard who is a Postgraduate Student of this University. He is registered for MBA degree programme in the Department of Accounting and Finance.

Mr. Cheruyot intends to conduct research for a MBA Project Proposal entitled, “Financial Management Practices and Financial Performance of Small and Medium Manufacturing Enterprises in Kericho County, Kenya”.

Any assistance given will be highly appreciated.

Yours faithfully,


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

HL/lnn


Appendix IV: NACOSTI Data Collection Approval

THIS IS TO CERTIFY THAT: **Permit No : NACOSTI/P/18/70431/23431**
MR. CHERUYOT BETT BENARD **Date Of Issue : 10th July,2018**
of KENYATTA UNIVERSITY, 30160-200 **Fee Received :Ksh 1000**
NAIROBI,has been permitted to conduct
research in Kericho County

on the topic: FINANCIAL MANAGEMENT
PRACTICES AND FINANCIAL
PERFORMANCE OF SMALL AND MEDIUM
MANUFACTURING ENTERPRISES IN
KERICHO COUNTY, KENYA.

for the period ending:
6th July,2019

.....
Applicant's
Signature


Director General
National Commission for Science,
Technology & Innovation

.....