AN ASSESSMENT OF THE IMPACT OF WORKING CAPITAL MANAGEMENT PRACTICES ON THE PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES: A SURVEY OF SMEs IN ELDORET CENTRAL BUSINESS DISTRICT.

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A Research Thesis Submitted to the Graduate School in Partial Fulfillment of the Requirement for the Conferment of Master of Business Administration Degree, Faculty of Commerce

Kisii University

November, 2014.
DECLARATION AND RECOMMENDATION

DECLARATION
This Research Thesis was my original work and had not been presented for examination in any other university nor institution of higher learning.

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RECOMMENDATION
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<thead>
<tr>
<th>Abbreviation</th>
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<tr>
<td>APP</td>
<td>Accounts Payable Period</td>
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<td>ARP</td>
<td>Accounts Receivable Period</td>
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<td>CCC</td>
<td>Cash Conversion Cycle</td>
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<td>ECM</td>
<td>Efficiency of Cash Management</td>
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<td>Efficiency of Inventory management</td>
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<td>ICP</td>
<td>Inventory Conversion Period</td>
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<td>OLS</td>
<td>Ordinary Least Squares</td>
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<td>RIA</td>
<td>Research ICT Africa</td>
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<td>ROA</td>
<td>Return on Assets</td>
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<td>ROI</td>
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<td>SME</td>
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<td>WCM</td>
<td>Working Capital Management</td>
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DEDICATION
This Research Thesis is dedicated to my dear wife, Millicent C. Otieno, who greatly contributed to the success of this study through her encouragement and willingness to give up many hours of my time to which she had a rightful claim.
ACKNOWLEDGEMENT

It gives me an immense pleasure to present a Research Thesis on the impact of working capital management practices on performance of Small and Medium Enterprises located at Eldoret Central Business District. Writing on this thesis required co-operation and assistance of many people.

I am happy to take this opportunity to express my gratitude to those who have been helpful to me in completing this project. My deepest appreciation goes to the Almighty God and then to my supervisors, Dr. Bogonko and Dr. Kimani, for their tremendous and unwavering support towards the completion of this study.

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ABSTRACT

This research is about assessing the impact of working capital management practices on the performance of Small and Medium Enterprises located in Eldoret Central Business district. The general objective of this study was to assess the impact of working capital management on SMEs performance, while the specific objectives were; to analyze the impact of cash management practices on performance of SMEs, to establish the impact of trade credit management practices on performance of SMEs and to assess the impact of inventory management practices on performance of SMEs. The study sought to test the following hypothesis: $H_01$: Cash management practices have no impact on SMEs performance. $H_02$: Trade credit management practices have no impact on SMEs performance. $H_03$: Inventory management practices have no impact on performance. The literature reviewed includes working capital management; working capital theories; cash management; trade credit management and inventory management. The study is expected to benefit other researchers, the traders, government and lenders. A conceptual framework was developed where independent variable was working capital management while the dependent variable was performance of SMEs. A 5 point likert scale was used to record the responses. A descriptive survey design was used. The area of study was Eldoret Central Business District. The target population was 300 accountants and book keepers in the area of study. Stratified sampling was used. The sample size was 171 accountants and book keepers which was determined using Yamane’s (2009) formula at alpha level of 0.01 and confidence level of 99%. Primary data was collected using questionnaires and presented using charts. The researcher used both descriptive statistics and inferential statistics to analyze collected data. The research findings showed that there was a positive relationship between the influence of cash ($r=0.126, p<0.01$), trade credit ($r=0.281, p<0.01$) and inventory ($r=0.729, P<0.01$) managements on SMEs performance. This means that as cash, trade credit and inventory management are determinants of working capital. From the model, $(R^2 = 0.829)$ shows that all the predictors account for (82.9%) variation in performance of SMEs. The researcher recommends that training seminars on stock control should attended by the managers of these firms. Further studies are also required to establish if the findings of this research is the case in other areas of Eldoret town and other parts of the country.
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CHAPTER ONE
INTRODUCTION

1.1 Background of the study

Small and Medium Enterprises are important to almost all economies in the world, especially to those in developing countries and within that broad category and to those with major employment and income distribution challenges. Working capital management is also important because of its effects on the firm’s profitability and risk, and consequently its value (Smith, 1980). For instance, high inventory levels reduces the cost of possible interruptions in the production process or of loss of business due to the scarcity of products, reduces supply costs, and protects against price fluctuations, among other advantages (Blinder and Maccini, 1991). Consequently, granting trade credit favors the firm’s sales in various ways (Brennan, Maksimovic and Zechn, 1988; Petersen and Rajan, 1997, Emery, 1987, Smith, 1987, and Ng, Smith and Smith, 1999). However, firms that invest heavily in inventory and trade credit can suffer reduced profitability. Thus, the greater the investment in current assets, the lower the risk, but also the lower the profitability obtained. Decisions about how much to invest in the customer and inventory accounts, and how much credit to accept from suppliers, are reflected in the firm’s cash conversion cycle, which represents the average number of days between the date when the firm must start paying its suppliers and the date when it begins to collect payments from its customers (Shin and Soenen, 1998, Deloof, 2003).

The small scale enterprises (SMEs) play an important role in the Kenyan Economy. According to the Economic Survey 2006, the sector contributed over 50 percent of new jobs created in the year 2005. Despite their significance, Kenya National Bureau of Statistics, 2007 indicate that three out of five businesses fail within the first few months of operation as cited by Bowen et al (2009) due to several challenges.

Because of their small size, a simple management mistake is likely to lead to closure of a small enterprise as there is no chance for management to learn from its past mistakes. Lack of planning, improper financing and poor management have been cited as the main causes of failure of small enterprises (Longenecker et al., 2006). Lack of credit has also been identified as one of the most serious constraints facing SMEs thus hindering their development (Oketch, 2000; Tomecko & Dondo, 1992;
Kiiru, 1991). In addition to these, education is also one of the factors that impact positively on growth of firms (King and McGrath, 2002).

As with many developing countries, there is limited research and scholarly studies about the SME sector in Kenya. The 1999 National Baseline Survey conducted by Central Bureau of Statistics, ICEG and K-Rep Holdings provided comprehensive picture of SMEs in Kenya. Mead (1998) observes that the health of the economy as a whole has a strong relationship with the health and nature of small scale enterprise sector. Given this scenario, an understanding of the dynamics of SMEs is necessary not only for the development of support programs for SMEs, but also for the growth of the economy as a whole. Given the importance of these small businesses to the Kenyan economy and the informal way in which they are managed, there is need to conduct an enquiry to investigate effect of working capital management on the performance, especially of SMEs in Eldoret Central Business District.

Most researchers have focused their analysis on larger firms although some few have offered studies on SME’s in service, manufacturing, finance and agricultural industry. For instance Mathuva (2010) focused on the influence of working capital management on corporate profitability of firms listed at the Nairobi Securities Exchange. Gakure, Cheluget, Onyango and Keraro (2012) on the other hand analyzed the relationship between working capital management and performance of 15 manufacturing firms listed at the Nairobi Securities Exchange for a period of five years from 2006 to 2010. Omesa, Maniagi, Musiega and Makori (2013) examined the relationships between Working Capital Management and Corporate Performance of 20 manufacturing firms listed on the Nairobi securities exchange for 5 years from 2007-2011 was selected. Finally, Nyabwanga, Ojera, Lumumba, Odondo & Otieno (2012). However, these studies provide no evidence on the relationship between working capital management and performance of SMEs in Eldoret Central Business District during the period 2013-2014.

In this context, the objective of the current work is to assess the impact of working capital management practices on performance for a panel made up of 300 accountants and book keepers in SMES located in Eldoret central business district during the period 2013-2014.
Performance is the end result of the whole organization’s systems in relation to its objective. Ittner and Larcker (2000) suggested that financial data have limitations as a measure of company performance. The two note that other measures, such as quality, may be better at forecasting, but can be difficult to implement. This study focuses on financial measures of profitability, liquidity and growth. Profitability can be measured by ratios such as Return on Investment (ROI), Return on Equity (ROE), Return on Assets (ROA) while the Optimal Growth is measured by total shareholder return creation and profitability perspective (Handschuh et al., 2011).

This work contributes to the literature in two ways. First, no previous evidence exists for the case of SMEs in Eldoret central business district. The second contribution is that, unlike the previous studies the study aims at analyzing the impact of working capital management on the performance of SMEs in trade industry trading in the area of study.

1.2 Statement of the problem
Small and Medium Enterprises are major pillars of economic development in Kenya and other developing countries. According to the Economic Survey of Kenya (2006), the sector contributed over 50 percent of new jobs created in the year 2005. However the National Bureau of statistics 2007 reported that three out of five of these businesses fail due to lack of planning, financing and poor management, lack of credit and the level of education of entrepreneurs (Bowen Michael et al, 2009, Oketch, 2000, King and McGrath, 2002). Although the problem of finance has been identified as one of the major constraints to performance of SMEs, existing literature does not specify the impact of working capital management which is one of the major aspects of finance, on the performance of SMEs. This study aims at analyzing the impact of working capital management on the performance of SMEs in Eldoret Central Business District.

1.3 Objectives of the study
The purpose of the study was to assess the impact of working capital management on the performance of SMEs in Eldoret central business district. The study seeks to achieve the following specific objectives:
i. To analyze the impact cash management practices on SMEs performance in Eldoret central business district.

ii. To establish the impact of trade credit management practices on SMEs performance in Eldoret central business district.

iii. To assess the impact of Inventory management practices on SMEs performance in Eldoret central business district.

1.4 Hypothesis testing

The study sought to test the following hypothesis:

H₀₁: Cash management practices have no impact on SMES performance.

H₀₂: Trade credit management practices have no impact on SMES performance.

H₀₃: Inventory management practices have no impact on SMES performance.

1.5 Significance of the study

This study is important because it is intended to benefit the traders, government suppliers, lenders, customers, employees, the community and other researchers. The government is expected to use the report to formulate policies that will help support, monitor and regulate SME sector. It will also assist financing institutions to understand the financial management practices of these firms and their performance. Such information will also be useful to non-governmental organizations playing vital roles in the development of entrepreneurial skills.

1.6 Justification of the study.

According to the economic survey (2006), the sector contributed over 50 percent of new jobs created in the year 2005. Despite their significance, past statistics indicate that three out of five businesses fail within the first few months of operation (Kenya national bureau of statistics, 2007) due to lack of planning, improper financing and poor management, lack of credit (Longenecker, et al., 2006, Oketch, 2000; King and McGrath, 2002). Since working capital management is an aspect of management, while management, planning, education and credit are ingredients of SMEs performance, the research objective was to assess how working capital management affects the performance of SMEs in Eldoret central business district an area where no such research had been carried before. The study area was also deemed convenient for the study due limited time and finances.
1.7 Scope and Limitation of the study

1.7.1 Scope of the study
The study was carried out at Eldoret Central Business District area for a period of one year starting from October 2013 to September 2014. The targeted respondents were SME traders in this market.

1.7.2 Limitations
The limitation of the study is that it covers a small portion of the small and medium scale enterprises in the Uasin Gishu County due to time and financial constraints. The situation even worsens when dealing with small scale enterprises. These firms do not keep proper records and one would have to constantly deal with estimates and guesses to arrive at a conclusion as regard purchases, sales, operating costs, Assets and liabilities. The other problem was absentee directors who were to authorize their accountants to disclose their financial information. The respondents whose directors had the information and were absent were left out.
1.8 Operational definition of terms.

**Accountant**: Is a person who prepares accounting reports.

**Book keeper**: Is a person concerned with systematic recording of financial information

**Capital**: capital is money that is used to generate income or make investment. It includes financial assets such as cash marketable securities or capital asset such as plant, machinery, premises, furniture etc in the books of accounts.

**Organizational performance**: Organizational performance is the ability of the organization to achieve its goals and objectives.

**Small and medium enterprises (SMEs)**: These are firms whose sales turnover ranges between Ksh 2,000,000 to Ksh100,000,000 and have employed 5-50 employees.

**Working capital management**: Working capital management involves administration of current assets and current liabilities which consists of optimizing the level of current assets in partial equilibrium context.

**Working capital**: It is the difference between current assets and current liabilities. The major elements of current assets are inventories, accounts receivables and cash (in hand and at bank) while that of current liabilities are accounts payable and bank overdrafts.
CHAPTER TWO
LITERATURE REVIEW

Various studies have analyzed the relationship of working capital management (WCM) and firm’s performance and profitability in various markets. The results are quite mixed, but a majority of studies conclude a negative relationship between WCM and firm profitability. The studies reviewed have used various variables to analyze the relationship, with different data analysis methods such as linear regression, multiple regression and correlation. This section presents the chronology of major studies related to this study in order to assess and identify the research gap.

2.1 Theoretical review
2.1.1 Working capital theories
2.1.1.1 Schumpeter Theory of Profitability
Following on the method of Clark, Schumpeter developed the ‘circular flow model’ in which a profit-less economy is described where perfect competition extinguishes surpluses of monopoly and friction. The analyses of the ‘circular flow’ economy differ in detail from the ‘static state’ model of Clark. So departures between an ideally competitive environment and actual economies yield the causes of profit. Schumpeter, however, is far more selective in his approach than Clark. Schumpeter identifies the single notion of innovation as paramount, so that changes based upon innovation are the cause of profit. Gradual changes in population and capital would easily be anticipated by the market and hence present no opportunity for the entrepreneur. Schumpeter goes on described five areas in which innovation will lead to profit generation (Siddiqi, 1997).

This theory is important in this study because it helps the researcher to understand that the entrepreneur’s survival in a competitive environment depends on their innovative ability among other factors. An entrepreneur who is not innovative will not survive in the long run however favourable the conditions may be.

2.1.1.2 Clark Theory of Profitability
Clark begins his theory with an analysis of a profit-less economy and taking into account its key features. The profit less economy is compared with profit-generating
economies and significant differences were identified to indicate the causes of profit. This method was adopted by Schumpeter and Knight. The profit-less economy is referred to as ‘static state’, in which all factors are constant and not subject to change, the market is assumed to be perfect; hence the absence of monopoly and entrepreneurial efforts are rewarded according to management wage levels. There is perfect mobility and flow of all economic units in a frictionless environment; in short all impediments to perfect competition are dissolved.

This theory is important to the study as it helps the researcher to understand the key drivers of profit in an economy so that he can compare and contrast these with the independent variables in the study.

2.1.2 Theories of liquidity

The “liquidity position” of a business refers to its ability to pay its debts, that is, does it have enough cash to pay the bills? The balance sheet of a business provides a clear picture of the working capital position at a particular point in time. The two theories of liquidity are trade off theory and pecking order theory.

**Trade off Theory of Liquidity**

The trade-off theory of liquidity suggests that firms target an optimal level of liquidity to balance the benefit and cost of holding cash. The cost of holding cash includes low rate of return of these assets because of liquidity premium and possibly tax disadvantage. The benefits of holding cash are in two fold: The firms save transaction costs to raise funds and do not need to liquidate assets to make payments. Secondly the firm can use liquid assets to finance its activities and investment if other sources of funding are not available or are extremely expensive.

This theory is very important for the study because the essence of any working capital management practice is to reduce cost and maximize benefits related to working capital items. As stated above the businessmen gets to understand that the best practice is to maintain an optimal level of liquidity.
Pecking Order Theory of Liquidity

The theory emerges as a result of asymmetric information existing financial markets, that is, corporate managers often have better information about the health of their companies than outside investors. Sebastian (2010) Examine Dutch firm’s liquidity and solvency and their effect on financial decision. He discovered that, corporate liquidity and solvency interact through information, hedging, and leverage channels. The information and hedging channels increase equity-value of firms which helps to pay regular dividend and most importantly reduce volatility in cash flow.

This theory gives the researcher a deeper understanding of the other determinants of liquidity of a firm. Should the research findings show a week relationship between working capital and liquidity, the researcher should attribute it to other factors such as leverage, hedging and information.

2.1.2.1 Measurement of liquidity.

Liquidity can be measured in two ways: using cash conversion cycle and liquidity ratios

Cash Conversion Cycle (CCC)

Some previous studies have used this measure to analyze whether shortening the cash conversion cycle has positive or negative effects on the firm’s profitability. Deloof (2003) analyzed a sample of large Belgian firms during the period 1992-1996. His results confirm that Belgian firms can improve their profitability by reducing the number of days accounts receivable are outstanding and reducing inventories. Moreover, he finds that less profitable firms wait longer to pay their bills. The cash conversion cycle is calculated as follows:

\[ \text{CCC} = \text{Days of debtors Outstanding} + \text{No. Of Day in Inventories} - \text{Days of Payable Outstanding} \]

In the formula above, the three variables to which CCC is dependent are defined as follows:

Days of debtors Outstanding = (average debtors x 365 days)/ Credit sales

Days of in Inventory = (average inventoryx365days) / Annual cost of sales

Days of Payables Outstanding = (average creditorsx365days)/ Annual purchases
Cash conversion cycle is likely to be negative as well as positive. A positive result indicates the number of days a company must borrow or tie up capital while awaiting payment from a customer. A negative result indicates the number of days a company has received cash from sales before it must pay its suppliers (Hutchison et al., 2007). The ultimate goal of every manufacturing company is having low CCC, if possible negative. Because the shorter the CCC, the more efficient the company in managing its cash flow.

**Liquidity ratios**

There are two key ratios that can be calculated to provide a guide to the liquidity position of a business that is the current ratio acid test ratio. These ratios are computed as follows.

\[
\text{Current ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}
\]

\[
\text{Acid test ("quick") ratio} = \frac{\text{Current Assets (less stocks)}}{\text{Current Liabilities}}
\]

A business needs to have enough cash (or “cash to come”) to be able to pay its debts. Obviously, a current ratio comfortably in excess of 1 should be expected, but what is comfortable depends on the kind of business. Some businesses find it hard to turn stock and debtors into cash and so need a high current ratio. Some businesses (e.g. supermarkets) turn stock into cash very rapidly and have low debtors and so they can happily exist with a current ratio of less than 1. The acid test ratio is often considered to be a better test of liquidity for businesses with a low stock turnover.

### 2.2 Related literature

#### 2.2.1 Working capital management

The efficient management of working capital is more vital in small and medium enterprises than it is for large organizations particularly as they are not likely to have access to financial expertise like the large enterprises (Peel and Wilson 1996). Some of the most internal problems of SMEs that need to be identified are cash flow management and stock control.
There are costs involved both in holding too much or too little cash. Atrill (2006) suggested that there is a need for careful planning and monitoring of cash flows over time. Lack of financial management skills within SMEs often creates problems in managing stock in an efficient and effective way. The owners or managers of SMEs are not always aware that there are costs involved in holding too much stock and that there is also costs involved in holding too little. As an effective stock management system is good planning and budgeting systems, there should be a reliable sales forecasts, or budgets, available for stock ordering purposes. The management of cash raises similar issues to those relating to the management of stocks.

Working capital management involves administration of current assets and current liabilities which consists of optimizing the level of current assets in partial equilibrium context (Machiraju 1999). Working capital management involves the relationship between a firm’s short–term assets and its short–term liabilities. Thus, working capital management should make sure that the desirable quantities of each component of working capital are available for management.

Khan and Jain (2007) also stress that working capital management is concerned with the problems that arise in attempting to manage the current assets, the current liabilities and the interrelationship that exists between them. Working Capital Management involves the relationship between a firm’s short –term assets and short –term liabilities. The goal of working capital management is to ensure that the firm is able to continue its operations and that it has sufficient cash flow to satisfy both maturing short-term debt and upcoming operational expenses. Another goal of working capital management is to manage the firm’s current assets and liabilities in such a way that satisfactory level of working capital is maintained in the business.

A firm should maintain an effective working capital policy. Working capital policy is basically about how much working capital the company should maintain should they go for zero risk management. It involves decisions about company’s assets and liabilities, what they consist of, how they are used, and their mix affect the risk versus return characteristics of the company. Working capital policies, through their effect on the firms expected future returns and risk associated with these returns, untimely
have an impact on shareholder wealth. Effective working capital policies are crucial to a firm’s long-run growth and survival.

There are two policies of working capital. The first policy deals with the determination of the level of total current assets that should be held by the firm. The option available under this policy boarder on aggressive, conservatism or average management of a firm’s working capital. The second policy confronting management concerns the relationships among types of assets and the way these assets are financed. Typical working capital policy decisions involve a determination of the appropriate level of cash, accounts receivable, and inventory that the firm should maintain (Joshi, 2008 and Machiraju, 2005). On the financing side, the entrepreneurs must determine whether to carry these through credit extension from their supplier, short-term bank loans, or longer-term credit arrangement. Another important working capital management is the cash conversion.

Authors such as Deloof (2003), Shin and Soenen (1998), Laziridis and Tryfonidis (2006), Karaduman et al. (2011), Ujar (2009) all found a negative relation between WCM, using the CCC, and firm profitability. This means that having a WCM policy which results in a low as possible accounts receivables and inventories and the highest amount of accounts payables leads to the highest profitability. Contradicting evidence is found by Gill et al. (2010), whom did research in the USA and found a positive relation between CCC and a firm’s profitability. But they did find a highly significant negative relation between accounts receivables and a firm’s profitability. They suggest that firm can enhance their profitability by keeping their working capital to a minimum. This is because they argue that less profitable firms will pursue a decrease of their accounts receivables in an attempt to reduce their cash gap in the CCC.

2.2.2 The impact of cash management on SMEs performance.
Cash management is the movement of funds through financial institutions to optimize liquidity. It is the management of corporate funds to increase interest income earned by maximizing investments and reducing interest paid by minimizing borrowings. Cash management uses the knowledge of funds movement through the banking system, coupled with banking services and other financial products, to optimize
liquidity. Atrill, (2006) described it as the scheduled gathering of information about a company’s cash flow, its receipts, disbursements, and balances capital.

Effective cash management ensures the timely provision of cash resources necessary to support the company’s operations. With the use of basic cash management tools and techniques, cash becomes a corporate asset that contributes directly to the bottom line. Whether a company is flush with cash or experiencing a shortfall of funds, good cash management is critical to the success of every company.

The trade-off theory of liquidity suggests that firms target an optimal level of liquidity to balance the benefit and cost of holding cash. The cost of holding cash includes low rate of return of these assets because of liquidity premium and possibly tax disadvantage. The benefit of holding cash is twofold: The firms save transaction costs to raise funds and need to liquidate assets to make payments. Secondly the firm can use liquid assets to finance its activities and investment if other sources of funding are not available or are extremely expensive.

Cash management is a financial discipline that uses the same principles, regardless of the type of business, size or age of an enterprise. Cash management is not an accounting function. The accountant records and reports transactions historically; the cash manager plans and executes these financial transactions. Cash managers use techniques, products and services to efficiently manage cash resources and satisfactorily resolve cash shortages or surpluses. Atrill (2006)suggested that there is need for careful planning and monitoring of cash flows over time.

Nyabwanga, Ojera, Lumumba, Odondo and Otieno (2012) assessed the effect of working capital management practices on the financial performance of SSEs in Kisii South District. A sample of 113 SSEs comprising 72 trading and 41 manufacturing enterprises was used. Pearson’s correlation coefficients and multiple regression analysis techniques were used to analyze data. Consequently, the findings of the study were that, working capital management practices were low amongst SSEs as majority had not adopted formal working capital management routines and their financial performance was on a low average. The study also revealed that SSE financial performance was positively related to efficiency of cash management (ECM),
efficiency of receivables management (ERM) and efficiency of inventory management (EIM).

Gul, Khan, Rehman, Khan, Khan and Khan (2013) investigated the influence of working capital management (WCM) on performance of small medium enterprises (SMEs) in Pakistan. The duration of the study was seven years from 2006 to 2012. The data used in this study was taken from SMEDA, Karachi Stock Exchange, tax offices, company itself and Bloom burgee business week. The dependent variable of the study was Return on Assets (ROA) which was used as a proxy for profitability. Independent variables were Number of Days Account Receivable (ACP), Number of Day’s Inventory (INV), Cash Conversion Cycle (CCC) and Number of Days Account Payable (APP). Results suggested that APP, GROWTH and SIZE have positive association with Profitability whereas ACP, INV, CCC and DR have inverse relation with profitability.

2.3.2 The impact of trade credit management on SMEs performance
Trade credit is twofold, that is, credit sales and credit purchases. Credit sales gives rise to debtors while credit purchases gives rise to creditors who are sources spontaneous finance. Debtor management means the process of decisions relating to the investment in business debtors. Granting trade credit favors the firm’s sales in various ways (Petersen and Rajan, 1997), incentivizes customers to acquire merchandise at times of low demand (Emery, 1987), allows customers to check that the merchandise they receive is as agreed, ensures that the services contracted are carried out (Smith, 1987), and helps firms to strengthen long-term relationships with their customers (Ng, Smith and Smith, 1999). However, it is certain that we have to pay the cost of getting money from debtors and to take some risk of loss due to bad debts. The main aim of debtors’ management is to minimize the loss due to bad debtors. For effective debt management, the finance manager should analyze credit policy, carry out credit analysis and evaluate collection Policy.

Credit policy affects debtor management because it guides management about how to control debtors and how to make balance between liberal and strict credit. If company does not restrict to sell the products on credit after a given limit of sale, this liberated credit policy will increase the amount of sale and profitability, but risk will also
increase with increasing of sale. If we sell the goods to those debtors whose capability to pay is not good, then it is possible that some amount will become bad debts. The Company can increase the time limit for paying by such debtors. On the other hand, if company’s credit policy is strict, then it will increase liquidity and security, but decrease the profitability.

So, finance manager should make credit policy as to the optimum level where profitability and liquidity will be equal.

Akoto, Awunyo-Vitor and Angmor (2013) analyzed the relationship between working capital management practices and profitability of listed manufacturing firms in Ghana. The study used data collected from annual reports of all the 13 listed manufacturing firms in Ghana covering the period from 2005-2009. Using panel data methodology and regression analysis, the study found a significant negative relationship between Profitability and Accounts Receivable Days. However, the firms’ Cash Conversion Cycle, Current Asset Ratio, Size, and Current Asset Turnover significantly positively influence profitability. The study suggests that managers can create value for their shareholders by creating incentives to reduce their accounts receivable to 30 days. It is further recommended that, enactments of local laws that protect indigenous firms and restrict the activities of importers are eminent to promote increase demand for locally manufactured goods both in the short and long runs in Ghana.

Omesa, Maniagi, Musiega and Makori (2013) examined the relationships between Working Capital Management and Corporate Performance of manufacturing firms listed on the Nairobi securities exchange. A sample of 20 companies whose data for 5 years from 2007-2011 was selected. For analysis Principal components analysis (PCA) is used due to its simplicity and its capacity of extracting relevant information from confusing data sets. From the results using PAC and multiple regression, working capital proxies Cash Conversion Cycle (CCC), Average Collection Period (ACP) and control variables Current Liabilities (CLTA), Net Working Capital Turnover Ratio (NSCA) and Fixed Financial Ratio(FATA) were significant at 95% confidence (p values are < 0.05) to performance as measured by Return on Equity (ROE). Further, ACP was found to be negatively related to ROE while CCC, CLATA, NSCA and FATA.
2.3.3 The impact of Inventory management on SMEs performance

Inventories consist of raw materials, stores, spares, packing materials, coal, petroleum products, works-in-progress and finished products in stock either at the factory or deposits. It is absolutely imperative to manage inventories efficiently and effectively in order to avoid unnecessary investment in them. An undertaking neglecting the management of inventories will be jeopardizing its long run profitability and may fail ultimately. High inventory levels reduces the cost of possible interruptions in the production process or of loss of business due to the scarcity of products, reduces supply costs, and protects against price fluctuations, among other advantages (Blinder and Manccini, 1991).

However maintaining high inventory means blocking of funds and so it involves the interest cost, opportunity cost to the firm, storage costs such as insurance and obsolesce and movement of inputs from place of storage to the factory where the materials have to be finally used to convert them into finished goods. Atrill (2006) argues that lack of financial management skills within SMEs often creates problems in managing stock in an efficient and effective way. In many countries especially in Japan great emphasis is placed on inventory management. Efforts are made to minimize the stock of inputs and outputs by proper planning and forecasting of demand of various inputs and producing only that much quantity which can be sold in the market. In Japan industries have adopted concept of JIT (Just in Time) and components, materials are received when required for which detailed instructions are given to suppliers.

So it is essential to have necessary inventories. Excessive inventory is an idle resource of a concern. The concern should always avoid this situation. The investment in inventories should be just sufficient in the optimum level. The excessive level of inventories consumes the funds of business, which cannot be used for any other purpose and thus involves an opportunity cost. The carrying cost, such as the cost of shortage, handling insurance, recording and inspection, are also increased in proportion to the volume of inventories. This cost will impair the concern profitability further. On the other hand, a low level of inventories may result in frequent interruptions in the production schedule resulting in under-utilization of capacity and lower sales. The aim of inventory management thus should be to avoid excessive
inventory and inadequate inventory and to maintain adequate inventory for smooth running of the business operations. Efforts should be made to place orders at the right time with the right source to purchase the right quantity at the right price and quality.

Gakure, Cheluget, Onyango and Keraro (2012) analyzed the relationship between working capital management and performance of 15 manufacturing firms listed at the Nairobi NSE from 2006 to 2010 and for a total 75 firms year observations. They used secondary data from sample of 18 companies at the NSE. A regression model was used to establish the relationship between the dependent variable and the independent variables. Pearson’s correlation and regression analysis were used for the analysis. The results indicated that there is a strong negative relationship between firm’s performance and liquidity of the firm. The study found that there is a negative coefficient relationship between accounts collection period, average payment period, inventory holding period and profitability while the cash conversion cycle was found to be positively correlated with profitability. However, the effects of the independent variables except the average payment period were no statistically significant though the model was statistically significant.

Sharma and Kumar (2011) examined the effect of working capital on profitability of Indian firms. They collected data about a sample of 263 non-financial BSE 500 firms listed at the Bombay Stock (BSE) from 2000 to 2008 and evaluated the data using OLS multiple regression. The results revealed that working capital management and profitability is positively correlated in Indian companies. The study further reveals that inventory number of days and numbers of day’s accounts payable are negatively correlated with a firm’s profitability, whereas number of days accounts receivables and cash conversion period exhibit a positive relationship with corporate profitability.

Mathuva (2010) in his study on the influence of working capital management on corporate profitability found that there exists a highly significant negative relationship between the time it takes for firms to collect cash from their customers and profitability. He explained that the more profitable firms take the shortest time to collect cash from the customers. The study further revealed that there exist a highly significant positive relationship between the inventory conversion period and profitability. It was explained that firms, which maintain sufficiently high inventory
levels reduce costs of possible interruptions in the production process and loss of business due to scarcity and products. Finally, the study established that there exists a highly significant positive relationship between the average payment period and profitability. He held that the longer a firm takes to pay its creditors, the more profitable it is. In this study, a sample of 30 firms listed on Nairobi Stock Exchange for the periods 1993 to 2008 was used. Both the ported OLS and the fixed effects regression models were used.

2.3 Critical review
Nyabwanga, Ojera, Lumumba, Odondo and Otieno (2012) assessed the effect of working capital management practices on the financial performance of SSEs in Kisii South District. A sample of 113 SSEs comprising 72 trading and 41 manufacturing enterprises was used. Pearson’s correlation coefficients and multiple regression analysis techniques were used to analyze data. However they did not consider large and medium enterprises and firms in other sectors.

Gul, Khan, Rehman, Khan, Khan and Khan (2013) investigated the influence of working capital management (WCM) on performance of small medium enterprises (SMEs) in Pakistan. The duration of the study was seven years from 2006 to 2012. The data used in this study was taken from SMEDA, Karachi Stock Exchange, tax offices, company itself and Bloom burgee business week. However they did not carry out a study on large firms in the area of study.

Almazari (2013) investigated the relationship between the working capital management (WCM) and the firms’ profitability for the Saudi cement manufacturing companies. The sample included 8Saudi cement manufacturing companies listed in the Saudi Stock Exchange for the period of 5 years from 2008-2012. Pearson Bivariate correlation and regression analysis were used. This study did not focus on other manufacturing companies within the study area and other parts of the world.

Akoto, Awunyo-Vitor and Angmor (2013) analyzed the relationship between working capital management practices and profitability of listed manufacturing firms in Ghana. The study used data collected from annual reports of all the 13 listed
manufacturing firms in Ghana covering the period from 2005-2009. However this study did not look unto un listed companies in the study area.

Omesa, Maniagi, Musiega and Makori (2013) examined the relationships between Working Capital Management and Corporate Performance of manufacturing firms listed on the Nairobi securities exchange. A sample of 20 companies whose data for 5 years from 2007-2011 was selected. This study did not consider other stock exchange and un listed companies.

Maradi, Salehi and Arianpoor (2012) compared working capital management of two groups of listed companies in Tehran Stock Exchange (TSE), which comprised of chemical industry and medicine industry. This study on focused on chemical and medicine industries and did not consider similar industries in other stock exchange markets.

Gakure, Cheluget, Onyango and Keraro (2012) analyzed the relationship between working capital management and performance of 15 manufacturing firms listed at the Nairobi NSE from 2006 to 2010 and for a total 75 firms year observations. They used secondary data from sample of 18 companies at the NSE. A regression model was used to establish the relationship between the dependent variable and the independent variables. Pearson’s correlation and regression analysis were used for the analysis. This study only focused on the few listed manufacturing firms in Nairobi Stock exchange

Sharma and Kumar (2011) examined the effect of working capital on profitability of Indian firms. They collected data about a sample of 263 non-financial BSE 500 firms listed at the Bombay Stock (BSE) from 2000 to 2008 and evaluated the data using OLS multiple regression. However the study did not consider financial institutions in the area of study.

Raheman, Afza, Qayyum and Bodla (2010) analyzed the impact of working capital management on firm’s performance in Pakistan for the period 1998 to 2007. For this purpose, balanced panel data of 204 manufacturing firms was used which are listed on
Karachi Stock Exchange. The limitation with this study is that only Manufacturing firms in Karachi stock exchange were considered.

Gill, Biger and Mathur (2010) analyzed the relationship between working capital management and profitability of 88 American firms listed on New York Stock Exchange for a period of 3 years from 2005 to 2007 was selected. Although this study was carried out on American firms listed in stock exchange in 2007, no study has been carried in the resent years.

2.4 Research gap
Although studies on working capital management have been carried out by various scholars, the studies do not provide clear-cut direction of the relationship between working capital and firm’s performance. Further examination of these studies reveals that there is little empirical evidence of the impact of working capital management and the firm’s performance in case of SME traders in the informal sectors of Kenya. Therefore, the present study is an attempt to fill this gap and to estimate the relationship between working capital management and performance SMEs trading in Eldoret central business district.

2.5 Summary
Further research is therefore necessary in the area mentioned above to find out whether these firms possess similar working capital and performance relationship to those mentioned above.

2.6 Conceptual framework
This conceptual framework shows the independent and the dependent variables and was developed from the analysis of empirical data and findings from literature review. The dependent variable in the study is performance while independent variable is working capital management. The study aims at determining how performance is affected by working capital management. Performance is measured by profitability, liquidity and growth. These will be based on Organizational model of firm’s performance, Gordon’s and sustainable growth model, Higgins (1997). Working capital management is divided into cash management, trade credit management and
inventory management and are measured by four items namely profitability, liquidity, sales and costs using a 5-point Lickert scale. A firm’s performance is also expected to be influenced by intervening variables such as economic conditions, government policy, leadership style and ownership.

**Figure 2.1 Conceptual Framework**

**Source:** Author 2014
CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Research Design
A survey design was employed in this study. This was because the study required an explanation on the relationship between study variables on different SMEs. Therefore data was obtained from different SMEs to find out if the relationship between the variables is common to them or not. This study aimed at collecting data without manipulating the research variables or the respondents in an attempt to get the perception of the respondents toward their own assessment in identifying the effects of working capital on SME’s performance. Inferences about relations among variables were made, without direct intervention from concomitant variation of independent and dependent variables (Paton, 2002).

3.2 Study area
The study was conducted within the Central Business District of Eldoret town. Eldoret town is a town found in Kenya, Rift Valley Province, Uasin Gishu County. It is bordered by six counties namely Trans Nzoia, Elgeyo Marakwet, Baringo, Nandi, Kericho and Kakamega. It covers an area of approximately 3350 Km² with approximate population of 900,000 residents. The central business district of Eldoret runs from Bandaptai building to the East, Uganda road to the North, U.G Primary School to the west and Sosiani River to the South. It has 2268 licensed micro, small and medium enterprises

3.3 Target population
The criteria used to arrive at the target population were the number of employees (between 5-50), industry and space occupied by these businesses. Based on the above criteria, total population for this study was found to be 300. The study targeted accountants in 300 SMEs traders in Eldoret Central Business District. For researcher’s convenience, these SMEs were stratified into 7 categories as follows: General Trade, Wholesale, Retail, Stores & Shops; Agriculture and forestry; Transport, Storage and Communications; Accommodation and Catering; Professional Services, Technical Service & Personal Services; Private Education, Health and Entertainment services and Factories, Workshops, and Contractors.
This number was obtained from the county government of Uasin Gishu trade licensing department. This is summarized in the table below:

**Table 3.1 List of target population**

These business categories are as follows:

<table>
<thead>
<tr>
<th>Strata Or Category</th>
<th>Total number</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. General Trade, Wholesale, Retail, Stores&amp; Shops</td>
<td>121</td>
</tr>
<tr>
<td>2. Transport, Storage and Communications:</td>
<td>10</td>
</tr>
<tr>
<td>3. Agriculture and forestry</td>
<td>37</td>
</tr>
<tr>
<td>4. Accommodation and Catering:</td>
<td>42</td>
</tr>
<tr>
<td>5. Professional Services, Technical Service &amp; Personal Services:</td>
<td>34</td>
</tr>
<tr>
<td>6. Private Education, Health and Entertainment services</td>
<td>36</td>
</tr>
<tr>
<td>7. Factories, Workshops, Contractors</td>
<td>20</td>
</tr>
<tr>
<td></td>
<td><strong>300</strong></td>
</tr>
</tbody>
</table>

**Source:** County government of Uasin Gishu (2014)

### 3.4 Sampling procedures and Sample size

#### 3.4.1 Sampling procedures.

The researcher targeted the population of all SMEs in the study area which stands at 2268 according to municipal licensing department. Stratified sampling technique was used to divide the data into strata after which random sampling was used to select a sample from each stratum through balloting. Yamane’s (2009) sampling method was used to determine the sample size. A proportion of the sample size was then computed. This proportion was used to determine the number of items in each stratum to be examined.

#### 3.4.2 Sample size

The sample size will be 171 respondents

This will be calculated using Yamane’s 2009 formula below:

\[ n = \frac{N}{1+N(e)^2} = \frac{300}{1+300(0.05)^2} = 171 \]

\[ N \text{- population} = 300 \]

\[ e \text{- error margin} = 0.05 \]

The proportion = \( \frac{171}{300} = 0.57 \)
Table 3.2 Sample Size

<table>
<thead>
<tr>
<th>Strata</th>
<th>Population</th>
<th>Proportion</th>
<th>Sample Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. General Trade, Wholesale, Retail, Stores &amp; Shops</td>
<td>121</td>
<td>0.57</td>
<td>69</td>
</tr>
<tr>
<td>2. Transport, Storage and Communications:</td>
<td>10</td>
<td>0.57</td>
<td>6</td>
</tr>
<tr>
<td>3. Agriculture and forestry</td>
<td>37</td>
<td>0.57</td>
<td>21</td>
</tr>
<tr>
<td>4. Accommodation and Catering:</td>
<td>42</td>
<td>0.57</td>
<td>24</td>
</tr>
<tr>
<td>5. Professional Services, Technical Service &amp; Personal Services:</td>
<td>34</td>
<td>0.57</td>
<td>19</td>
</tr>
<tr>
<td>6. Private Education, Health and Entertainment services</td>
<td>36</td>
<td>0.57</td>
<td>21</td>
</tr>
<tr>
<td>7. Factories, Workshops, Contractors</td>
<td>20</td>
<td>0.57</td>
<td>11</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>300</strong></td>
<td></td>
<td><strong>171</strong></td>
</tr>
</tbody>
</table>

3.5 Data collection procedures.
Before actual data collection exercise took place the researcher undertook preliminary survey within Eldoret Central Business District to familiarize with the study area while inquiring about the number of employees and the area occupied. The researcher then sent letters to the traders a week in advance to enable them prepare for the same. During the appointment day, the researcher distributed the questionnaires in the morning and collected them three days after. However, during that period the researcher was available for any consultation or clarification. The researcher used questionnaires to collect data from the respondents.

3.5.1 Data collection instruments

3.5.1.1 Questionnaires
Questionnaires were used because they are easy to administer. When developing the questionnaire items, the fixed choice and closed-ended formats were used. These were used in order to guide the respondents to answer questions according to the requirements of the research.
3.5.1.2 Document analysis.
The researcher used trading account, profit and loss account, balance sheet and cash flow statement. The data obtained from these statements was used to compute various ratios relating to profitability, liquidity and growth as performance measures.

3.5.2 Administration of data collection Instrument.
Questionnaires were self-administered and dropped to the respondent by the researcher. These were collected three days after. However, during that period the researcher was available for any consultation or clarification.

3.6 Validity and reliability of research instruments
3.6.1 Validity of the research instrument
To test the validity of the research instrument the researcher did two things: First the researcher discussed the items in the instrument with the supervisors, lecturers from department and colleagues, Advice given by this people helped the researcher to determine the validity of the research instruments. The advice included suggestions, clarifications and other inputs. These suggestions were used in making necessary changes. Secondly, content validity of the instrument was determined through piloting, where the responses to the subject were checked against the research objectives. This also gives reason as to why contents are to be used. For a research instruments to be considered valid, the content selected and included in the questionnaire must be accurate relevant to the variable being investigated. Further the researcher used both ordinal and interval scale.

3.6.2 Reliability of the research instrument
Reliability coefficients range from 0.00 to 1.00, with higher coefficients indicating higher levels of reliability. Reliability estimates evaluate the stability of measures, internal consistency of instruments and interrater reliability of instrument scores Carollel and Almut (2008). In order to test the reliability of the instrument to be used in the study, the test-retest method was used. The questionnaire was administered twice within an interval of two weeks.

To determine the coefficient of stability, Pearson’s product moment formula was used. This establishes the extent to which the questionnaire elicits the same responses
every time it is administered. A correlation of 0.5 was considered reliable for the study. The results obtained from the pilot study assisted the researcher in revising the questionnaire to make sure that it covers the objectives of the study (Frenkel & Wallel, 2000).

Internal consistency gives an estimate of the equivalence of sets of items from the same test (e.g., a set of questions aimed at assessing quality of life or disease severity). The coefficient of internal consistency provides an estimate of the reliability of measurement and is based on the assumption that items measuring the same construct should correlate. The widely used method for estimating internal consistency reliability is Cronbach’s alpha. Cronbach’s alpha is a function of the average intercorrelations of items and the number of items in the scale.

3.7 Data analysis methods.
The researcher used both descriptive statistics and inferential statistics to analyze the data. Descriptive statistical tools that used were frequency, percentages, mean and standard deviations while inferential statistical tools that used were multiple regression and correlation techniques. Data was presented using frequency tables.

3.8 Ethical consideration
Kombo and Tromp (2006), note that researches whose subjects are people or animals must consider the conduct of their research and give attention to the ethical issues associated with carrying out their research. This study dealt with people as respondents and ensured observation of their rights, confidentiality of their information and respect to their opinion.
CHAPTER FOUR
DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 Response Rate
Out of a targeted population of 300 employees, a sample of 171 was drawn. Consequently, 171 questionnaires were distributed. A total of 169 questionnaires were returned from which, 3 questionnaires were discarded for either lack of response, being improperly filled or being incomplete. The researcher ended up with 166 usable questionnaires which represented a response rate of 97.1%. This response rate was deemed adequate for external validity.

Table 4.1: Response Rate

<table>
<thead>
<tr>
<th>Sample size</th>
<th>Number</th>
<th>Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total sample size</td>
<td>171</td>
<td>100.0</td>
</tr>
<tr>
<td>Total responses</td>
<td>169</td>
<td>98.8</td>
</tr>
<tr>
<td>Usable</td>
<td>166</td>
<td>97.1</td>
</tr>
<tr>
<td>Unusable</td>
<td>3</td>
<td>1.8</td>
</tr>
</tbody>
</table>

Description of unusable questionnaires
- Returned without any completion: 1
- Incomplete questionnaire: 2

Source: Survey Data (2014)

4.2 Demographic Characteristics
Respondents were asked to provide information regarding their demographic profile which included gender, age, level of education and marital status. This information was deemed relevant in assessing the impact of working capital management on the performance of SMEs since these characteristics could have confounding effects on this relationship.

Results presented in Table 4.2 depict that respondents were of either sex although males were slightly more (57.8%); that most of the respondents were diploma holders (35.5%); that a majority of them were married (61.4%). The age distribution indicated that employees were mostly aged between 21 to 30 years (42.2%) or between 31-40 years (30.1%).
Table 4.2: Respondents Demographic characteristics

<table>
<thead>
<tr>
<th></th>
<th>Number of respondents</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gender of respondents</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>96</td>
<td>57.8</td>
</tr>
<tr>
<td>Female</td>
<td>70</td>
<td>42.2</td>
</tr>
<tr>
<td><strong>Respondents age bracket</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10-20 years</td>
<td>14</td>
<td>8.4</td>
</tr>
<tr>
<td>21-30 years</td>
<td>70</td>
<td>42.2</td>
</tr>
<tr>
<td>31-40 years</td>
<td>50</td>
<td>30.1</td>
</tr>
<tr>
<td>41-50 years</td>
<td>22</td>
<td>13.3</td>
</tr>
<tr>
<td>Above 50 years</td>
<td>10</td>
<td>6.0</td>
</tr>
<tr>
<td><strong>Highest level of education qualification</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Primary</td>
<td>6</td>
<td>3.6</td>
</tr>
<tr>
<td>Secondary</td>
<td>18</td>
<td>10.8</td>
</tr>
<tr>
<td>College</td>
<td>26</td>
<td>15.7</td>
</tr>
<tr>
<td>Diploma</td>
<td>59</td>
<td>35.5</td>
</tr>
<tr>
<td>Degree</td>
<td>57</td>
<td>34.3</td>
</tr>
<tr>
<td><strong>Respondents marital status</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Married</td>
<td>102</td>
<td>61.4</td>
</tr>
<tr>
<td>Single</td>
<td>60</td>
<td>36.1</td>
</tr>
<tr>
<td>Divorced</td>
<td>4</td>
<td>2.4</td>
</tr>
</tbody>
</table>

Source: Survey Data (2014)

These results clearly show that most SMEs are run by people who are mainly youthful and have a low background in education, yet, they have families to tend for as evidenced by their marital status. This implies that SMEs performance are influenced youthful educated and married businessmen.

4.3 Business Specific Characteristics

Five questionnaire items were used to examine business specific characteristics that would otherwise influence organization performance. This was necessary so as to eliminate these variations and simply focus on capital management practices which formed the key independent variables. Respondents were asked to indicate the nature of business, population bracket of the general workforce, financial records kept by their businesses and whether they attended seminars organized by their business.
Results presented in Table 4.3 below indicates that most of the respondents were engaged in sole proprietorship business (45.2%), that their businesses kept financial records (78.3%) and that cashbook (78.3%) and sales journal (21.7%) were the commonly financial records kept. The table also indicates that most of the business represented in the study consisted of 1 to 20 employees (78.3%) and that most of the respondents attended seminars organized by their businesses (65.7%). These statistics clearly show uniformity in the nature of firm specific characteristics thereby eliminating variability in terms of these particular characteristics. The study shows that the common type of business is sole trade and partnership, the modal work force is 1-20, majority of these firms keeps financial records and cashbooks implying fair financial management practices. High seminar attendance also contributed to the fair financial practice.
Table 4.3: Business Specific characteristics

<table>
<thead>
<tr>
<th>Firm Specific Characteristic</th>
<th>Category</th>
<th>Number of respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nature of the business</td>
<td>Sole proprietorship</td>
<td>75</td>
<td>45.2</td>
</tr>
<tr>
<td></td>
<td>Partnership</td>
<td>62</td>
<td>37.3</td>
</tr>
<tr>
<td></td>
<td>Cooperative</td>
<td>8</td>
<td>4.8</td>
</tr>
<tr>
<td></td>
<td>Limited liability company</td>
<td>21</td>
<td>12.7</td>
</tr>
<tr>
<td>Current work force</td>
<td>1-20</td>
<td>130</td>
<td>78.3</td>
</tr>
<tr>
<td></td>
<td>21-40</td>
<td>32</td>
<td>19.3</td>
</tr>
<tr>
<td></td>
<td>41-60</td>
<td>2</td>
<td>1.2</td>
</tr>
<tr>
<td></td>
<td>61-80</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td></td>
<td>81-100</td>
<td>2</td>
<td>1.2</td>
</tr>
<tr>
<td>Financial record</td>
<td>Yes</td>
<td>130</td>
<td>78.3</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>36</td>
<td>21.7</td>
</tr>
<tr>
<td>Records kept</td>
<td>Cashbook</td>
<td>130</td>
<td>78.3</td>
</tr>
<tr>
<td></td>
<td>Sales journal</td>
<td>36</td>
<td>21.7</td>
</tr>
<tr>
<td>Seminar attendance</td>
<td>Yes</td>
<td>109</td>
<td>65.7</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>57</td>
<td>34.3</td>
</tr>
</tbody>
</table>

Source: Survey Data (2014)

4.4 Descriptive Statistics of the study variables

Means and standard deviations for the independent and dependent variables were computed from the respondents’ responses. The purpose was to provide a general picture on the prevailing levels of working capital management practices and performance among the SMEs in the study area.

4.4.1 Descriptive Statistics of the cash management practices

Research objective one sought to analyze the impact of cash management practices on SMEs performance. Consequently, questionnaire with six items was used, respondents were asked to indicate their level of agreement or disagreement on the six items, the mean response scores were presented in Table 4.4
In particular respondents tended to agree that the parent firm keeps proper cashbooks and petty cash book (M =3.87, SD = 0.764); that the firm maintains optimum cash balance (M = 3.78, SD = 0.725), that the firm prepares cash budgets and forecasts (M = 3.64, SD = 0.875), that the firm accelerates cash collection (M = 3.64, SD = 0.825), they however were undecided on whether the firm delays payment of liabilities (M = 3.23, SD = 0.887). The standard deviations on these items was both positive and negative.

These results clearly show that the SMES made attempts to practice ideal cash management practices. Most of the SMEs employees were however non committal on whether or not they paid there liabilities on time.

Table 4.4 Descriptive Statistics of the cash management practices

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The firm keeps proper cash books and petty cashbook</td>
<td>3.87</td>
<td>.764</td>
</tr>
<tr>
<td>The firm maintains optimum Cash balance.</td>
<td>3.78</td>
<td>.725</td>
</tr>
<tr>
<td>The firm prepares cash budgets and forecasts</td>
<td>3.64</td>
<td>.875</td>
</tr>
<tr>
<td>The firm accelerates cash collection</td>
<td>3.64</td>
<td>.825</td>
</tr>
<tr>
<td>The firm delays payments of liabilities</td>
<td>3.23</td>
<td>.887</td>
</tr>
</tbody>
</table>

Source: Survey Data (2014)

4.4.2 Descriptive statistics of trade credit management practices

Objective two of the current study sought to establish the impact of trade credit management practices on SMEs performance. The study conceptualized that credit management practices have a direct effect on SMEs’ performance.

Five items were used to measure the trade credit management practices, respondents were asked to indicate their agreement or disagreement on the five items. Responses were elicited on a 5 point scale ranging from 1- strongly disagree to 5- strongly agree. Generally the analysis of the responses reveals that respondents mainly agreed with the suggested credit practices. Table 4.5 below reveals results of this analysis. In particular, respondents tended to agree that the firm applies stringed credit policy (M = 3.89, SD = 0.907), that the firm maintains optimum debtors level (M = 3.67 SD = 0.923), and that the firm keeps creditors ledgers and control accounts (M = 3.63, SD =
However, respondents were not sure whether the firm asked for longer credit period from the supplier (M = 3.49 SD = 0.906).

### Table 4.5 Descriptive Statistics of credit management practices

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The firm applies stringent credit policy</td>
<td>3.89</td>
<td>.907</td>
</tr>
<tr>
<td>The firm maintains optimum debtors level</td>
<td>3.67</td>
<td>.923</td>
</tr>
<tr>
<td>The firm keeps creditors ledgers and control accounts</td>
<td>3.63</td>
<td>.956</td>
</tr>
<tr>
<td>The firm ask for longer credit periods from supplier</td>
<td>3.49</td>
<td>.906</td>
</tr>
</tbody>
</table>

Source: Survey Data (2014)

The mean scores indicate that the credit practices were well managed in most of the SMEs with an average deviation of 0.9 on either side of the normal curve. This therefore had a potential to impact positively on overall performance and hence the need to investigate the nature of the impact.

### 4.4.3 Descriptive Statistics of inventory management practices

The third objective of the present study sought to assess the impact of Inventory management practices on SMEs performance. Consequently a questionnaire with six items was used to explore the impact of inventory management practices.

Respondents were asked to indicate their agreement/ disagreement to six items selected to measure the impact of inventory management practices. The mean response score was 3, coded undecided. Table 4.6, indicates that though the respondents agreed that the firm maintains optimum inventory level (M = 3.52, SD = 0.964), they were undecided on whether the firm keeps stock records for example, stock ledgers, bin cards (M = 3.45 SD = 1.01), whether the firm has set various stock levels (M = 3.43, SD = 0.962), whether the firm determines stock turnover for each stock item (M = 3.30 SD = 0.974), and on whether the firm orders economic quantities when purchasing (M = 3.22, SD = 0.890).
Table 4.6 Descriptive Statistics of inventory management practices

<table>
<thead>
<tr>
<th>Description</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The firm maintains optimum inventory level</td>
<td>3.52</td>
<td>.964</td>
</tr>
<tr>
<td>The firm keeps stock records e.g. stock ledgers, bin cards</td>
<td>3.45</td>
<td>1.01</td>
</tr>
<tr>
<td>The firm has set various stock levels</td>
<td>3.43</td>
<td>.962</td>
</tr>
<tr>
<td>The firm determines stock turnover for each stock item</td>
<td>3.30</td>
<td>.974</td>
</tr>
<tr>
<td>The firm orders economic quantities when purchasing</td>
<td>3.22</td>
<td>.890</td>
</tr>
</tbody>
</table>

Source: Survey Data (2014)

The mean scores indicate that the inventory practices were well managed in most of the SMEs with an average deviation of 1.0 on either side of the normal curve. This therefore had a potential to impact positively on overall performance and hence the need to investigate the nature of the impact.

4.4.4 Descriptive statistics of SME performance

SME performance was conceptualized in the study as the dependent variable. Analysis of SME performance was conducted from two perspectives. First, a comparison was made of the financial statements of the SMEs over three years (2011-2013) on selected business practices. One way Analysis of Variance (ANOVA) was used to examine if there were significant differences in financial statements over this period. Results presented in Table 4.7 reveal that none of the mean differences were significant (all p-values were above the alpha level of 0.01). This implies that the mean differences in financial statements over this period were not significantly different. Hence, it may be assumed that there were no significant improvements in financial performance of the SMEs during this period.
Table 4.7 Comparison of financial statements between 2011 and 2013

<table>
<thead>
<tr>
<th>Business practice</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>.831</td>
<td>.480</td>
</tr>
<tr>
<td>Purchases</td>
<td>.483</td>
<td>.639</td>
</tr>
<tr>
<td>Operating costs</td>
<td>.522</td>
<td>.618</td>
</tr>
<tr>
<td>Stock</td>
<td>.135</td>
<td>.876</td>
</tr>
<tr>
<td>Debtors</td>
<td>.069</td>
<td>.934</td>
</tr>
<tr>
<td>Cash</td>
<td>.040</td>
<td>.961</td>
</tr>
<tr>
<td>Bank</td>
<td>.143</td>
<td>.870</td>
</tr>
<tr>
<td>Fixed assets</td>
<td>1.227</td>
<td>.357</td>
</tr>
<tr>
<td>Creditors</td>
<td>.604</td>
<td>.577</td>
</tr>
<tr>
<td>Capital</td>
<td>.013</td>
<td>.987</td>
</tr>
<tr>
<td>Retained Profits</td>
<td>.257</td>
<td>.782</td>
</tr>
</tbody>
</table>

Source: Survey Data (2014)

Second, SME performance was assessed using means and standard deviations of responses given by respondents on topical issues regarding non-financial performance. Four items reflecting on aspects of non-financial performance were proposed to measure SME performance. Respondents were asked to indicate whether they agreed or disagreed with the suggested items. Responses were elicited on a 5-point scale ranging from 1 - Strongly disagree to 5 - Strongly agree.

Results presented in Table 4.8 reveal that respondents were not sure whether or not SME performance in terms of sales, profits, liquidity and transaction costs was high. The mean response score was approximately 3.00 in most of the items with an average deviation of approximately 0.8. In particular although respondents tended to agree that SME sales are high (M = 3.72, SD = 0.754), they were not sure whether the SME profits were high (M = 3.46, SD = 0.743), whether the firm was highly liquid (M = 3.41, SD = 0.860), or whether transaction costs were high (M = 3.10, SD = 0.869).
Table 4.8 Descriptive Statistics of SME performance

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales are high</td>
<td>3.72</td>
<td>.754</td>
</tr>
<tr>
<td>Profit are high</td>
<td>3.46</td>
<td>.743</td>
</tr>
<tr>
<td>The firm is highly liquid</td>
<td>3.41</td>
<td>.860</td>
</tr>
<tr>
<td>Transaction costs are high</td>
<td>3.10</td>
<td>.869</td>
</tr>
</tbody>
</table>

Source: Survey Data (2014)

4.5 Predictive Analysis

To determine which among the capital management practices predict SMEs’ performance, multiple regression analysis was used. This was necessary since there were three independent variables being subjected to one dependent variable. Hence, it was necessary to examine the impact of each of these capital management practices on SME performance. However, before multiple regression analysis was conducted, assumptions of regression analysis were first tested.

4.5.1 Assumption of Normality

Normality of data was assessed using Skewness and Kurtosis statistics (Tabachnick & Fidell, 2007). According to this analysis, normality was deemed to be violated if the Skewness and Kurtosis values fell beyond 2 or below -2. Results presented in Table 4.9 reveal that normality assumption was supported. None of the Skewness and Kurtosis values fell in the stated region.

Table 4.9 Testing Normality Assumption

<table>
<thead>
<tr>
<th></th>
<th>Skewness</th>
<th>Kurtosis</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Statistic</td>
<td>Std. Error</td>
</tr>
<tr>
<td>Trade Credit Management</td>
<td>-.705</td>
<td>.193</td>
</tr>
<tr>
<td>Cash Management</td>
<td>.276</td>
<td>.188</td>
</tr>
<tr>
<td>SME Performance</td>
<td>-.997</td>
<td>.188</td>
</tr>
<tr>
<td>Inventory Management</td>
<td>-1.178</td>
<td>.188</td>
</tr>
</tbody>
</table>

Source: Survey Data (2014)
4.5.2 Assumption of Linearity

Pearson’s product moment correlation coefficients were used to test linearity assumption. The purpose of using correlation was to identify practices that provide best predictions for conducting regression analysis. The inter-relationships among the variables are shown in Table 4.10.

<table>
<thead>
<tr>
<th></th>
<th>Cash Management</th>
<th>Credit Management</th>
<th>Inventory Management</th>
<th>SME Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash Management</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade Credit Management</td>
<td>.145</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventory Management</td>
<td>.054</td>
<td>.580**</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>SME Performance</td>
<td>.046</td>
<td>.687**</td>
<td>.886**</td>
<td>1</td>
</tr>
</tbody>
</table>

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

Source: Survey Data (2014)

From the results, it is clear that correlations among the capital management practices were significant. Correlations between working capital management practices and SME performance were also positive and significant. Linearity assumption was therefore satisfied.

4.5.3 Assumption of Homogeneity of variances

The Levene statistic for equality of variances was used to test for the assumption of homogeneity of variances. Non-violation of homogeneity of variances was confirmed if the Levene statistics were not significant. Results presented in Table 4.11 reveal that none of the Levene statistic was significant. The assumption of homogeneity of variances was supported. This implies that the three independent variables in the study had the same effect on performance. Gul,khan, Rehman Khan, Khan  and Khan (2013) revealed a positive relationship between accounts payable and profitability and a negative relationship between average collection period and profitability.
Table 4.11 Test of Homogeneity of Variances

<table>
<thead>
<tr>
<th></th>
<th>Levene Statistic</th>
<th>df1</th>
<th>df2</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash Management</td>
<td>.001</td>
<td>1</td>
<td>164</td>
<td>.973</td>
</tr>
<tr>
<td>Trade Credit Management</td>
<td>.933</td>
<td>1</td>
<td>164</td>
<td>.335</td>
</tr>
<tr>
<td>Inventory Management</td>
<td>2.108</td>
<td>1</td>
<td>164</td>
<td>.502</td>
</tr>
</tbody>
</table>

Source: Survey Data (2014)

4.6 Results of Hypothesis Testing

Multiple regression analysis was used to test the formulated hypotheses. First the model summary was analyzed to establish the strength of the capital management practices conceptualized in predicting SME performance. Results presented in Table 4.12 reveal that the three capital management practices explained 83.9 percent of the variance in SME performance (Adjusted R Square = 0.839).

Table 4.12 Model Summary

<table>
<thead>
<tr>
<th>Model dimension</th>
<th>R</th>
<th>Adjusted R</th>
<th>Std. Error of the Estimate</th>
<th>Durbin-Watson</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>.918a</td>
<td>.842</td>
<td>.839</td>
<td>.30192</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Inventory Management, Cash Management, Trade Credit Management
b. Dependent Variable: SME Performance

Second, the ANOVA output was examined to check whether the proposed model was viable. Results shown in Table 4.13 reveal that the F-statistic was highly significant (F_{3,154} =273.547, p<0.01), this shows that the model was valid.

Table 4.13 ANOVA

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Regression</td>
<td>74.808</td>
<td>3</td>
<td>24.936</td>
<td>273.547</td>
<td>.000a</td>
</tr>
<tr>
<td>Residual</td>
<td>14.038</td>
<td>154</td>
<td>.091</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>88.846</td>
<td>157</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Inventory Management, Cash Management, Trade Credit Management
Table 4.13 ANOVA

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>74.808</td>
<td>3</td>
<td>24.936</td>
<td>273.547</td>
<td>.000</td>
</tr>
<tr>
<td>Residual</td>
<td>14.038</td>
<td>154</td>
<td>.091</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>88.846</td>
<td>157</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Inventory Management, Cash Management, Trade Credit Management
b. Dependent Variable: SME Performance

Source: Survey Data (2014)

4.6.1 The Impact of Cash management practices on SME Performance

Research hypothesis $H_{01}$ posited that Cash management practices have no impact on SMEs performance. Results of the regression coefficients presented in Table 4.14 revealed that cash management practices are a significant predictor of SME performance ($\beta = 0.126, p < 0.01$). This supports the findings by Raheman, Afza, Qayyum and Bodla (2010) whose study reveals that cash management significantly affects performance.

Table 4.14 Regression Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>Collinearity Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Std. B</td>
<td>Std. Error</td>
<td>Beta</td>
</tr>
<tr>
<td>(Constant)</td>
<td>.255</td>
<td>.205</td>
<td>.124</td>
</tr>
<tr>
<td>Cash Management</td>
<td>.122</td>
<td>.031</td>
<td>.126</td>
</tr>
<tr>
<td>Trade Credit</td>
<td>.187</td>
<td>.026</td>
<td>.281</td>
</tr>
<tr>
<td>Inventory Management</td>
<td>.894</td>
<td>.048</td>
<td>.729</td>
</tr>
</tbody>
</table>

a. Dependent Variable: SME Performance
The standardized regression coefficient (β=0.126), implies that an increase of 1 standard deviation in cash management practices is likely to result in a 0.126 standard deviations increase in SME performance. The t-value of 3.898 implies that cash management practices in the SMEs are least important in predicting SME performance.

4.6.2 The Impact of Trade credit management on SME performance
Research hypothesis \( H_{02} \) postulated that trade credit management practices have no impact on SMEs performance. Results from Table 4.14 indicate that the trade credit management practice is a significant predictor of SME performance (β=0.281, p<0.01).

The standardized coefficient (β=0.281) implies that an increase of 1 standard deviation in the trade credit management is likely to result in 0.281 standard deviations increase in SME performance. The t-value of 7.122 shows that trade credit management practice is the second most important predictor of SMEs performance. The study supports the findings by Gakure, Cheluget, Onyango and Keraro(2012) whose study revealed that there is a strong negative relationship between accounts payables and performance.

4.6.3 The Effect of Inventory management practices on SME performance
Research hypothesis \( H_{03} \) postulated that Inventory management practices have no impact on SMEs performance. The multiple regression coefficient presented in Table 4.14 revealed that inventory management was also a significant predictor of SME performance (β=0.729, p < 0.01). Indeed the magnitude of the t-value of 18.640 indicates that the inventory management is the main predictor of SME performance among the conceptualized capital management practices. Consequently, an increase of 1 standard deviation in inventory management results in a 0.729 standard deviations in inventory management. These study results supports the findings by Gakure, Cheluget, Onyango and Keraro(2012), Raheman, Afza, Qayyum and Bolda (2010) whose study revealed that there is a strong relationship between inventory management practices and affirmative performance.
4.7 Testing for Multicollinearity

Multicollinearity was examined to check whether the independent variables were interdependent amongst themselves which would raise issues of validity of the findings. Multicollinearity was expected to occur because cash management, debtors’ management and inventory management are closely related. If multicollinearity exists then some of these independent variables may make little or no impact on performance. Consequently, variance inflated factors (VIF) were used to assess multicollinearity. In this regard, a VIF value of 10 and above indicated existence of extreme multicollinearity. Results presented in Table 4.14 indicate that the VIF values for all the independent variables were slightly above 1. This means that there were no issues of multicollinearity and each had a significant impact on performance on its own.

4.8 Model Specification

On the basis of the hypothesis testing results discussed above, the researcher suggested the following multiple regression model to predict SME performance. The constant term was not used since the model was based on standardized coefficients which do not provide for the constant term.

\[ Y = 0.126x_1 + 0.281x_2 + 0.729x_3 \]

Where

\( x_1 = \text{Cash management} \)

\( x_2 = \text{Trade Credit management} \)

\( x_3 = \text{Inventory management}. \)

4.9 Discussion of the Findings

This section provides a discussion of the study findings in line with the study objectives and existing literature focusing on capital management practices and SME performance.

4.9.1 Cash management practices and SME Performance

The first objective of the present study sought to establish the impacts of cash management practices on SMEs performance. The study revealed that SMEs use
proper and petty cashbooks in financial recording and that optimum cash balance is always maintained.
The multiple regression analysis further revealed that cash management practices have positive and significant effect on SME performance.
The finding that cash management practices are significant predictors of SME performance is consistent with the finding by Joshi (2008) and Machiraju (2005). According to these authors, typical working capital policy decisions involve a determination of the appropriate level of cash that the firm should always maintain.

These findings further supports findings by Atrill 2006 who recognizes that effective cash management ensures timely provision of cash resources necessary to support the firm’s operations. Whether a firm is flush with cash or experiencing a shortfall of funds, good cash management is critical to the success of every firm. Atrill (2006) contributing to the same view further notes that the cost of holding cash includes low rate of return of assets because of liquidity premium and possibly tax disadvantage while the benefit of holding cash is twofold: The firms save transaction costs to raise funds and liquidate assets to make payments.

The findings in the present study therefore add to existing literature with regards to the importance of proper cash management practices in SME firms.

4.9.2 Trade credit management practices and SME Performance
Research objective two sought to establish the impact of trade credit management practices on SME performance. The study established that SME firms employ stringent credit policies to its customers while maintaining optimum debtors’ level. Using multiple regression, the study found out that the trade credit management practices are one of the major predictors in the SME performance.

Stringent credit policy effects debtor management because it guides management about how to control debtors and how to make balance between liberal and strict credit. If a firm does not restrict to sell the products on credit after a given limit of sale, liberated credit policy will increase the amount of sale and profitability, but risk will also increase with increasing of sale.
The findings that credit management practices are major predictors in the SME performance supports a plethora of findings (Petersen and Rajan (1997), Emery (1987), Smith (1987) and Ng. Smith and Smith, (1999)). The findings suggest that granting trade credit favors the firm’s sales in various ways, for instance, incentivizes customers to acquire merchandise at times of low demand, allows customers to check that the merchandise they receive is as agreed, ensures that the services contracted are carried out and therefore helping firms to strengthen long-term relationships with their customers.

4.9.3 Inventory management practices on SME performance
The third objective of the study focused on assessing the impact of Inventory management practices on SMEs performance. The found out that SME firms usually maintain optimum inventory levels. Further the study revealed that inventory management practices were the major predictors of SME performance.

The findings are consistent with findings by Blinder and Manccini (1991) that high inventory levels reduces the cost of possible interruptions in the production process or of loss of business due to the scarcity of products, reduces supply costs, and protects against price fluctuations, among other advantages thereby increasing firm profitability and enabling efficient liquidity. The findings in the present study therefore found it essential to have adequate inventories in SMEs.
CHAPTER FIVE
SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary of the Findings
The summary of findings focuses on the following sub-headings drawn from the objectives of the study.

5.1.1 The impact of cash management practices on SME Performance
Research objective one sought to analyze the impact of cash management practices on SME performance. Using both descriptive and inferential analyses, the study found out that SMEs usually use proper and petty cashbooks in financial recording and that optimum cash balance is always maintained. Further the study established that cash management practices have a positive and significant effect on SME performance.

5.1.2 The impact of trade credit management practices on SME performance
Using descriptive statistics, the study found out that SME firms employ stringent credit policies to its customers while maintaining optimum debtors’ level. Further, using multiple regression the study established that the trade credit management practices are one of the major predictors in the SME performance.

5.1.3 The impact of inventory management on Organization Performance
Research objective three sought to assess the impact of Inventory management practices on SMEs performance. Using descriptive statistics, the study found out that SMEs usually maintain optimum inventory levels.

Further, using multiple regression analysis, the study revealed that inventory management was the main predictor of SME performance.

5.2 Conclusions
In view of the findings summarized above the following conclusions were drawn.

1. Cash management practices such as using proper and petty cash book have a positive impact on SME performance. Proper cash management is therefore vital to the success of SMEs.
2. Stringent trade credit management policies have a positive impact on SME performance and help in guiding the management in terms of balancing and
controlling SME debtors and creditors, this is necessary in ensuring sustained performance of SMEs.

3. Inventory management practices are significant predictors of SME performance, this means that if SMEs manage their inventories using appropriate practices they are likely to reap dividends through increased performance.

4. SME performance can be regarded as a function of capital management practices particularly those emphasizing on cash, trade credit and inventory management.

5.3 Recommendations
In view of the conclusions made above, the following recommendations are made.

5.3.1 Recommendations for theory and practice
1. SMEs should put emphasis on proper cash management practices. This would ensure that proper financial recording and high SME performance is realized.
2. The SMEs need to encourage stringent trade credit management policies that would oversee maximization of profits
3. There is a need for SMEs to emphasize on appropriate keeping of inventory to ensure optimum performance.

5.3.2 Recommendations for future research
a) The current study did not put into consideration the confounding influence of intervening variables such as economic conditions and others on the relationship between capital management practices and SME performance. It is recommended that a similar study be conducted to check for the moderating influence of these variables.
b) In order to improve on external validity in terms of generalization of the study findings, it is recommended that this study be replicated in SMEs drawn from other Counties.
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APPENDICES
APPENDIX I: CONSENT LETTER

Dear Sir/Madam;

Re: Research Questionnaire

I am a student at Kisii University Eldoret Campus and currently enrolled for Masters Degree in Business Administration (MBA). I am currently carrying out a research on “AN ASSESSMENT OF THE IMPACT OF WORKING CAPITAL MANAGEMENT ON THE PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN ELDORET CENTRAL BUSINESS DISTRICT”, as part requirement for the fulfillment of the award of the same.

I hereby, humbly submit my study questionnaire form for your reactions and response based on the study objectives which is strictly to be used for purposes of academics as per the study requirement. The information given will be treated with at most confidentiality that it deserves.

Otherwise thank you in advance

Mr. Joseph Otieno Oluoch
APPENDIX II: QUESTIONNAIRE

INSTRUCTION
Please tick as appropriate

A. GENERAL INFORMATION
1. Please indicate your gender
   (a) Male  (b) Female
2. Indicate your age bracket
   (a) 10-20 (b) 21-30 (c) 31-40 (d) 41-50 (e) above 50
3. Select your highest level of education qualification
   (a) Primary certificate (b) Secondary certificate (c) College certificate
   (d) Diploma (e) Degree
4. Indicate your marital status
   (a) Married (b) Single (c) Divorced
5. What is the nature of the business?
   (a) Sole Proprietorship (b) Partnership (c) Co-operative
   (d) Limited Liability Company.
6. Indicate your current workforce bracket
   (a) 1-20 (b) 21-40 (c) 41-60 (d) 61-80 (e) 81-100
7. Does the business keep financial records?
   (a) Yes (b) No
8. If yes, which record or records are kept?
   (a) Cashbook (b) Sales journal (c) Purchases journal
   (d) General ledger (e) Debtors ledger (f) Creditors ledger
   (e) Any other specify……………………………………………………………………
9. Do you attend business seminars?
   (a) Yes (b) No
10. How long has the business existed? .................................................................
11. Please fill the following table from your financial statements

<table>
<thead>
<tr>
<th>ITEM</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>SHS</td>
<td>SHS</td>
<td>SHS</td>
</tr>
<tr>
<td>Sales</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchases</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating costs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest on loan</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stock</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debtors</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Creditors</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retained Profits</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loan</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**SECTION B**

The weights given for the opinions are as per the following key;

Key: Strongly agree =5, Agree=4, Undecided=3, Disagree=2, StronglyDisagree=1.

12. What working capital management practices do SMEs at Eldoret central business district adopt?

a) Working capital management practices in relation to cash.

To what extent do you agree that your firm adopts the following cash management practices?

<table>
<thead>
<tr>
<th>Cash management practices that are adopted by SMEs at Eldoret central business district</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Undecided</th>
<th>Disagree</th>
<th>Strongly disagree.</th>
</tr>
</thead>
<tbody>
<tr>
<td>The firm maintains optimum Cash balance.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The firm accelerates cash collection</td>
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<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>The firm delays payments of liabilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>The firm prepares cash budgets and forecasts</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The firm keeps proper cash books and petty cashbook</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
(b) Working capital management practices in relation to trade credit transactions.
To what extent do you agree that your firm adopts the following trade credit management practices?

<table>
<thead>
<tr>
<th>Trade Credit Management practices that are adopted by SMEs at Eldoret central business district</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Undecided</th>
<th>Disagree</th>
<th>Strongly disagree.</th>
</tr>
</thead>
<tbody>
<tr>
<td>The firm maintains optimum debtors level</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The firm applies stringent credit policy</td>
<td></td>
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<tr>
<td>The firm ask for longer credit periods from supplier</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The firm keeps creditors ledgers and control accounts</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Any other specify</td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

(e) Working capital management practices in relation to inventory.
To what extent do you agree that your firm adopts the following inventory management practices?

<table>
<thead>
<tr>
<th>Inventory management practices that are adopted by SMEs at Eldoret central business district</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Undecided</th>
<th>Disagree</th>
<th>Strongly disagree.</th>
</tr>
</thead>
<tbody>
<tr>
<td>The firm maintains optimum inventory level</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The firm has set various stock levels</td>
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<tr>
<td>The firm orders economic quantities when purchasing</td>
<td></td>
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<td></td>
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<tr>
<td>The firm determines stock turnover for each stock item</td>
<td></td>
<td></td>
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<td></td>
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</tbody>
</table>
The firm keeps stock records eg stock ledgers, bin cards

Any other specify

13. How do cash management impact on SMEs performance in Eldoret Central Business District?
To what extent do you agree that the following are the impacts of cash management practices on your firm’s performance?

<table>
<thead>
<tr>
<th>Impacts of cash management on SMEs performance</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Undecided</th>
<th>Disagree</th>
<th>Strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales are high</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit are high</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transaction costs are high</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The firm is highly liquid</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tbody>
</table>

Any other specify

14. What are the impacts of trade credit management on performance of SMEs in Eldoret Central Business District?
To what extent do you agree that the following are the impacts of trade credit management practices on your firm’s performance?

<table>
<thead>
<tr>
<th>Impacts of trade credit management on SMEs performance</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Undecided</th>
<th>Disagree</th>
<th>Strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales are high</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Low trade credit costs</td>
<td></td>
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</tr>
<tr>
<td>Profit are high</td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>The firm is highly liquid</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>
15. How do inventory management impact on performance of SMEs in Eldoret Central Business District?

To what extent do you agree that the following are the impacts of inventory management practices on your firm’s performance?

<table>
<thead>
<tr>
<th>Impact of inventory management on SMEs performance.</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Undecided</th>
<th>Disagree</th>
<th>Strongly disagree.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales are high</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profits are high</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventory cost are low</td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The firm is highly liquid</td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

Any other specify

..................................................................................................................................................
APPENDIX III: RESEARCH CLEARANCE PERMIT

CONDITIONS

1. You must report to the County Commissioner and the County Education Officer of the area before embarking on your research. Failure to do so may lead to the cancellation of your permit.

2. Government officers will not be interviewed without prior appointment.

3. No questionnaires will be used unless it has been approved.

4. Excavation, filming and collection of biological specimens are subject to further permission from the relevant Government Ministries.

5. You are required to submit at least two (2) hard copies and one (1) soft copy of your final report.

6. The Government of Kenya reserves the right to modify the conditions of this permit including its cancellation without notice.

THIS IS TO CERTIFY THAT:

MR. JOSEPH OTIENO OLUOCH
of KISII UNIVERSITY, 579-30100
eldoret, has been permitted to conduct research in Uasin-Gishu County on the topic: AN ASSESSMENT OF THE IMPACT OF WORKING CAPITAL MANAGEMENT ON THE PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES; A SURVEY OF SMES IN ELDORET CENTRAL BUSINESS DISTRICT

for the period ending 22nd December, 2014

Applicant's Signature

Secretary

National Commission for Science, Technology & Innovation

Republic of Kenya

Serial No. A 3700

Date of Issue: 21st November, 2014

Fee Received: Ksh 1,000

Permit No: NACOSTI/P/14/0210/3434
APPENDIX IV: RESEARCH AUTHORIZATION

NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY AND INNOVATION

Telephone: +254-20-2213471, 2241349, 310571, 2219420
Fax: +254-20-318245, 318249
Email: secretary@nacosti.go.ke
Website: www.nacosti.go.ke
When replying please quote

Ref: No.

Date:
21st November, 2014

NACOSTI/P/14/0210/3434

Joseph Otieno Oluoch
Kisii University
P.O. Box 402-40800
KISII.

RE: RESEARCH AUTHORIZATION

Following your application for authority to carry out research on “An assessment of the impact of working capital management on the performance of Small and Medium Enterprises: A survey of SMEs in Eldoret Central Business District,” I am pleased to inform you that you have been authorized to undertake research in Uasin Gishu County for a period ending 22nd December, 2014.

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

On completion of the research, you are expected to submit two hard copies and one soft copy in pdf of the research report/thesis to our office.

DR. S. K. LANGAT, OGW
FOR: SECRETARY/CEO

Copy to:
The County Commissioner
Uasin-Gishu County.

The County Director of Education
Uasin-Gishu County.

APPENDIX V: UNIVERSITY RESEARCH PERMIT REQUEST

KISII UNIVERSITY
ELDORET CAMPUS
OFFICE OF THE DEPUTY DIRECTOR-ACADEMIC AFFAIRS

Phone: 0720 094 039
Email: eldoretcampus.kisiuniversity.ac.ke

P. O. Box 6434- 30100
ELDORET - KENYA

27TH AUGUST, 2014

TO WHOM IT MAY CONCERN.

Dear Sir / Madam,

RE: JOSEPH OTIENO OLUOCH  REG NO: CBM12/10300/12

The above mentioned is a bonafide student of this university undertaking his Master’s degree. He has successfully defended his Thesis Proposal:


We are kindly requesting your office to provide him with the permit to proceed to the field for data collection and completion of his research.

Please do not hesitate to call for any further information or verification.

Thanks.

Charles O.Ong’o (0720986205)
DEPUTY DIRECTOR-ACADEMIC AFFAIRS.
APPENDIX VI: MAP OF THE STUDY AREA