

**INFLUENCE OF CASH MANAGEMENT PRACTICES ON PERFORMANCE OF  
SMALL SCALE ENTERPRISES IN MBALE TOWN, KENYA**

**BY**

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## DECLARATION

I declare this project report is my original work and has not been submitted for examination in any other university.

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### **Approval**

This Research project report has been submitted for examination with my approval as the university supervisor.

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## **ACKNOWLEDGEMENT**

I thank my supervisor, Dr. Robert K Mule for the guidance he has given me during the entire period of writing this Project Report. I also thank my family members and friends for the moral support they gave me while undertaking the course.

## **DEDICATION**

This project is dedicated to my entire family for their support and encouragement they gave me until the completion of this study.

## ABSTRACT

Globally, Small scale enterprises (SSEs) are acknowledged as vital and significant contributors to economic development through their critical role in providing job opportunities, nurturing the culture of entrepreneurship and are a vital link in the economy through their supply chain and intermediary role in trade. In Kenya, SSEs contribute over 50% of new jobs created in the year 2016 and over 20% to the GDP of the country. In recognition of this indispensable role, the government of Kenya has increased funding to the enterprise support programmes such as Uwezo Fund introduced in the year 2014 to fuel the development of these enterprises. Despite their significance and the increased efforts by the government of Kenya and other stakeholders to ensure the success of small scale enterprises, past statistics indicate that they exhibit high birthrates and high death rates with 40% of the startups failing by year two and at least 60% closing their doors by year four. Previous studies have mainly focused on working capital management practices and descriptively studied the cash management practices. None has investigated the influence of business record keeping, cash budgeting and cash conversion cycle on performance of SSEs. Therefore the purpose of this study was to analyze the influence of cash management practices on performance of SSEs in Mbale town, Kenya. Specific objectives of the study are to: determine the effect of maintaining business records on performance; establish the effect of preparing cash budget on performance and determine the effect of management of cash conversion cycle on performance. The study was anchored on the monetary theory and operating cycle theory of cash management. The study employed the correlation study design. A population of 150 SSEs was used. Reliability of questionnaires was tested on pilot data from 10 respondents which yielded alpha coefficients greater than .701 implying internal consistency. Content validity test was done using expert reviewers. Primary data was obtained using semi-structured questionnaire self-administered to the owners of the SSEs in Mbale town and secondary data from records in relevant offices. Data was analysed using Pearson correlation and multiple regression analyses to establish relationship and magnitude between cash management practices and performance of SSEs. The findings were that business record keeping was a positive significant predictor of performance ( $\beta = .353$  ( $p = .000$ )); cash budgeting was a positive significant predictor of performance ( $\beta = .215$  ( $p = .018$ )) and that management of cash conversion cycle was a positive significant predictor of performance ( $\beta = .449$  ( $p = .000$ )). The study concludes that embracing business record keeping practice by SSEs leads to improved performance; use cash budgeting leads to better performance and that managing cash conversion cycle leads to improved performance. Recommendations of the study are that; SSEs should intensify the practice of business record keeping; continue enhancing application of cash budgeting and SSEs should intensify practice of managing cash conversion cycle as this was found to enhance performance. The data collected was presented in tables, graphs and charts. The findings of this study will provide insight to owners/managers of SSEs, various policy-making and support organizations on how to minimize the trend of high business failures as a result of poor cash management.

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## **ABBREVIATIONS AND ACRONYMS**

<b>SSEs</b>	Small scale retail enterprise
<b>NGO</b>	Non-governmental Organizations
<b>MSME</b>	Micro, small and Medium Enterprises
<b>KNBS</b>	Kenya National Bureau of Statistics

## OPERATIONAL DEFINITION OF TERMS

**Small scale retail enterprises** - form of business unit that purchases stock or products from a supplier with the intention of reselling these products to a certain customer base. Retailers use a fixed location to sell their products commonly referred to as shop.

**Business Records** - art of keeping record of figures of all transactions in a regular and systematic manner for the purpose of providing means by which an enterprise can be conducted in an orderly manner

**Cash Conversion cycle**- the time taken from when the business enterprise makes cash outlay for purchase of inventory to the time cash is collected from the sale of its goods.

**Cash Budgets**- A plan for short term usage and sources of cash in the business that pays attention to periods of cash shortage or surplus

**Sales turnover**- is the total amount of revenue generated by a business during a specified period of time.

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## **CHAPTER ONE**

### **INTRODUCTION**

This chapter deals the background to the study, research problem, objectives of the study, research hypotheses, the scope of the study and conceptual framework of the study.

#### **1.1 Background to the Study**

Cash refers to notes and coins of a given currency and include cash at hand and cash in the bank. According to Tennent (2012), cash is the most precious resource of a business enterprise since it maintains constant value and can easily be converted to other assets or business resources. Cash is the basic input to keep business running for the foreseeable future and it's also the output expected to be realized after sale of products and services (Attom, 2014). The aim of cash management is to ensure business has adequate cash to keep the business liquid and invest surplus cash in profitable projects (Waweru, 2011).

Cash is both a fundamental resource and the means by which the entity acquires other resources. To manage cash is to manage the entity's ability to purchase assets, service debt, pay employees, and control operations. Thus, effective cash management directly correlates with the entity's ability to realize its mission, goals, and objectives. The term cash management has been defined in different ways by different scholars. For instance, Barrett (1999) defines cash management as the series of processes used by an organization to obtain the maximum benefit from its flow of cash funds. Storkey (2003) defines cash management as having the right amount of money in the right place and time to meet the government's obligations in the most cost-effective way. The Chartered Institute of Management Accountant (CIMA, 2002) observed that, cash management is imperative in every business organization as cash is said to be the life blood of any business. No business operation is isolative of cash management (Abioro, 2013).

The success of enterprises largely depends on a number of factors including sound cash management practices (Attom, 2014). The essence of cash management is to ensure positive cash flow for smooth business operation (Abioro, 2013). Barrett (1999) documents that the underlying objective of cash management is having enough cash available as and when it is needed, and that sound cash management involves better timing of expenditure decisions, earlier collection and banking of revenue, and more accurate forecasts of cash flows. This helps minimize the cost of any borrowing that is

necessary and facilitates investing surplus funds to achieve the best return overall. The Asian Banker Research (2011) documented that the main drivers for improving efficiency in cash handling are to minimize cost and increase security and therefore adequate forecasting is the key to minimize excess cash, but is also the most challenging task, as it is influenced by many variables. Moyer, Maguigan and Kretlow (2001) submit that effective cash management is particularly important for the following reasons: First, it assists in preparation of financial statement plan to support application for bank loans; secondly, it reduces cash shortage problem, thirdly, it helps firms to keep track of its cash resources which are used in inventories and accounts receivable, fourthly, it enables a firm to operate only a minimum of cash resources because of the high cost of, and limited access to capital.

Sound cash management involves better timing of expenditure decisions, earlier collection and banking of revenue, and more accurate forecasts of cash flows. This helps minimize the cost of any borrowing that is necessary and facilitates investing surplus funds to achieve the best return overall (Barret, 1999).

Cash management is a key component of efficient working capital management and is essential for success or failure of small enterprises (Nyabwanga *et al*, 2011). Particularly for the small-scale retail enterprises, the highest proportion of investments is in the inventory hence more dependent on sales for revenue. Small scale enterprises (SSEs) incur expenses in acquisition of goods before corresponding payments is received from the customers. However, sales vary due to seasonality and uncertainty thus cash from operations will determine the business financial power and the ability to run its activities successfully. As a result the business has to pay more attention to the timing of inflows and outflows so as not run out of cash. This is achieved through proper cash management.

Cash management practices are techniques which business enterprises implement concerning cash inflows, cash outflows and cash balances held at a time (Attom, 2014). Reider and Heyler (2003) identified three main cash management practices namely keeping business records, cash budgeting and cash conversion cycle.

Ademola, Samuel & Ifedolapo (2012) define business record keeping as the systematic control of an organizations record throughout their life cycle, in order to meet operational

business needs, statutory and fiscal requirements and community expectations. The transactions records kept include sales, purchases, income, and payments by an individual or organization. Record keeping is the foundation on which the totality of modern business depends on since it is used to ascertain the level of profitability and the level of business susceptibility to fraud (Abayomi and Adegoke, 2016). Record keeping serve as a basis for planning and controlling business operations, increases the chances of profitability and also helps to keep business in a sound and healthy state to face competition (Ademola *et al*, 2012). Business records for SSE include: details of cash receipts and payments; information of debtors and creditors; operating plan, capital needs, and expansion strategies. Business records enable the owner/managers keep track of business operations and formulate necessary control measures where possible (Attom, 2014).

Most researchers (Attom, 2014; Gul *et al.*, 2013) have focused their analysis on WCM although some few (Kasim *et al.*, 2015; Ademola *et al.*, 2012) have offered studies on record keeping and performance among SMEs and micro and small enterprises. For instance Attom (2014) focused on the influence of cash management practices on corporate profitability in Ghana. Kasim *et al.* (2015) on the other hand analyzed the role of book keeping on survival and growth of firms. Gul *et al.* (2013) examined the relationships between Working capital management and corporate performance of SMEs using secondary data and focused on financial performance. Kasim *et al.*, 2015 and Ademola *et al.*, 2012) investigate the role of book keeping on survival and growth of SSEs. However, these studies provide no evidence on the influence of record keeping on performance of SSEs in Mbale town, Kenya.

From the foregoing, although studies on cash management practices and performance have been carried out by various scholars, the studies do not provide clear-cut direction of the relationship between business record keeping and firm's performance. Further examination of these studies reveals that there is little empirical evidence of the influence of business record keeping on performance of firms in case of SSEs traders in the informal sectors in Kenya. Therefore, the present study is an attempt to fill this gap and to analyze the influence of business record keeping on performance of SSEs in Mbale town, Kenya.

A Cash budget is a plan for short term uses and sources of cash that pays attention to periods of cash shortage or surplus (Hatten, 2015). Cash budget is drawn up in businesses to ensure availability of adequate cash to achieve all operational goals (ACCA, 2012). Therefore, cash budget assess whether the entity has sufficient cash to pay off suppliers and other loans owing as well as sustain growth of the business. According to Reider and Heyler (2003), the preparation of a cash budget in a given business begin by determining the set of activities that will accomplish the business objectives and detailed forecast of cash receipts and cash disbursement followed by allocation of resources including cash to each of the activities based on priorities and relevance, and additional sources of funding identified if required. Cash budget provide projections on sources and usage of funds thus suitable for tracking cash receipts and payments to ascertain the cash position and ensures correct use of cash. Also it's used to map out strategies to obtain sufficient cash at all times to facilitate continuous business operations (Attom, 2014).

Most researchers (Hamza, Mutala and Antwi, 2015; Nyabwanga et al., 2012) have focused their analysis on WCM although some few (Kemp et al., 2015; Attom, 2014) have offered studies on cash budgeting and performance among SMEs and micro and small enterprises. For instance Nyabwanga et al., 2012 focused on the influence of working capital management practices on performance of SSEs. Hamza, Mutala and Antwi (2015) on the other hand analyzed the extent of cash budget preparation. Attom, 2014 examined general cash control procedures amongst micro and small enterprises. However, these studies provide no evidence on the influence of cash budgeting on performance of SSEs in Mbale town, Kenya.

From the empirical evidence, numerous studies on cash budgeting practice and performance have been carried out. However, the studies do not provide clear-cut direction of the influence of cash budgeting on performance. Critical analyses of these studies reveal that there is little empirical evidence of the influence of cash budgeting on performance amongst SSEs traders. Therefore, the present study is an attempt to fill this gap and to investigate the influence of cash budgeting on performance of SSEs in Mbale town, Kenya.



The cash conversion cycle is the time taken from when the firm makes cash outlay for raw materials or inventory to the time cash is collected from the sale of its goods (Hatten, 2015). It begins with the firm using cash to acquire inventory and hold it until it's eventually sold. Thereafter, the inventory is sold either by cash sale in which cash is replenished immediately or credit sale in which receivables is created and need to be collected to secure cash (Hatten, 2015; Ross et al, 2003). Each activity occur simultaneously and moves inventory closer to cash however cash flows and related activities are non-synchronized thus making cash flow management a challenge.

Prior researchers (Attom, 2014; Gul *et al.*, 2013; Nyabwanga et al., 2012) have focused their analysis on WCM and extent of tracing cash receipts and payments amongst micro and small enterprises although some few (Ebben and Johnson, 2011; Lyroudi and MaCarthy, 1993) have studied cash conversion cycle and performance among micro and small enterprises. For instance Attom (2014) focused on the extent of tracking cash receipts and payments in Ghana. Nyabwanga et al. (2012) on the other hand analyzed the efficiency of cash management practices. Gul *et al.* (2013) examined the relationships between Working capital management and corporate performance of SMEs using secondary data and focused on financial performance. Ebben and Johnson, 2011; Lyroudi and MaCarthy, 1993) explore the extent of cash conversion cycle practice amongst of small firms. However, these studies provide no evidence on the influence of cash conversion cycle on performance of SSEs in Mbale town, Kenya.

Globally, regionally and locally, numerous prior studies on cash conversion cycle practice and performance have been done. However, the studies do not provide clear-cut direction of the influence of cash budgeting on performance. Critical gap analyses of these studies reveal that there is no empirical evidence of the influence of cash conversion cycle on performance amongst SSEs traders. Therefore, the present study is an attempt to fill this gap and to investigate the influence of cash conversion cycle on performance of SSEs in Mbale town, Kenya.

In Kenya, SSEs are acknowledged as vital and significant contributors to economic development through their critical role in providing job opportunities, reducing poverty levels, nurturing the culture of entrepreneurship and are a vital link in the economy

through their supply chain and intermediary role in trade (Oketch, 2000). According to the Economic Survey of 2016, SSEs contributed over 50% of new jobs created in the year 2016 and over 20% to the GDP of the country. In recognition of this indispensable role, the government of Kenya has increased funding to the enterprise support programmes such as Uwezo Fund introduced in the year 2014 to fuel the development of these enterprises. Despite their significance and the increased efforts by the government of Kenya and other stakeholders to ensure the success of small scale enterprises, past statistics indicate that they exhibit high birthrates and high death rates with 40% of the startups failing by year two and at least 60% closing their doors by year four (Kenya National Bureau of Statistics, 2007; Fina Bank Report, 2007). Also a study by Bowen *et al.* (2009) established that up to 50 % of the small businesses in operation have a deteriorating performance and are said to stagnate at ‘small’ level hence do not progressively grow into medium or even large enterprises as envisaged in their conceptual plans.

SSEs face many obstacles that limit their long-term survival and development for instance lack of financial resources, lack of managerial experience and ever changing laws and regulations that undermine business operations (Maengwe and Otuya, 2016). However factors under direct control of owners/managers affect the business performance adversely for instance: shortage of operating funds and shortage of stock. According to the MSME establishment survey (2016), a total of 2.2 million SSEs establishments closed in the last five years, 2016 inclusive of which 73% of the total closures were enterprises in wholesale and retail trade as well as repair of motor vehicles and motor cycles sector. SSEs are the major agents of economic growth and employment. In Kenya, over sixty percent of SSEs are estimated to fail each year (Kenya National Bureau of Statistics, 2007). However, despite government efforts in Kenya to promote SMEs activity, not much progress seems to have been achieved, judging by the performance of the informal sector.

Although SSEs are acknowledged in Kenya as significant contributors to economic growth, it is estimated that up to 40% of the start-ups fail by year 2 and at least 60% close their doors by year four (4). Therefore, it is not clear, poor cash management practices contribute to these closures.

## **1.2 Statement of the Problem**

MSME establishment survey (2016) findings revealed that there is a high business failure rate amongst small businesses in Kenya by which 46.3% of the establishments closed down within the first year of operation although the trend in closing rate slows down with the age of the business which is an indication of business stabilizing with time. Notably, wholesale and retail trade as well as repair of motor vehicles and motor cycles sector accounted for 73% of the total business closures. Poor cash management practices by SSES cause them to have shortage of operating funds and therefore experience low business performance due to fluctuations in sales turnovers. Successful cash management system must have combination of recording, monitoring, planning and control systems to function effectively. Omitting one or more element will destabilize the cash management system consequently decreasing the ability to achieve full cash flow control hence business suffers from cash flow problems. Previous studies viewed each practice as an independent activity affecting the business performance in different levels hence achieving different results. In light of this, the study sought to analyse the influence of cash management practices on the business performance as well as the combined effect of cash management practices on business performance on enterprises with similar nature of operations in this case SSES in Mbale town Kenya.

## **1.3 Objectives of the Study**

The broad objective of this study was to analyse the influence of cash management practices on performance of small scale enterprises in Mbale town, Vihiga County. The specific objectives were to:

- i. Determine the effect of maintaining business records on performance of SSES in Mbale town, Kenya.
- ii. Establish the effect of preparing cash budget on performance of SSES in Mbale town, Kenya.
- iii. Determine the effect of management of cash conversion cycle on performance of SSES in Mbale town, Kenya.

#### **1.4 Research Hypothesis**

H<sub>01</sub>: Maintaining business records does not affect the performance of SSEs in Mbale town, Kenya.

H<sub>02</sub>: Cash budgeting does not affect performance of SSEs in Mbale town, Kenya.

H<sub>03</sub>: Managing of the cash conversion cycle does not affect performance of SSEs in Mbale town, Kenya.

#### **1.5 Justification of the Study**

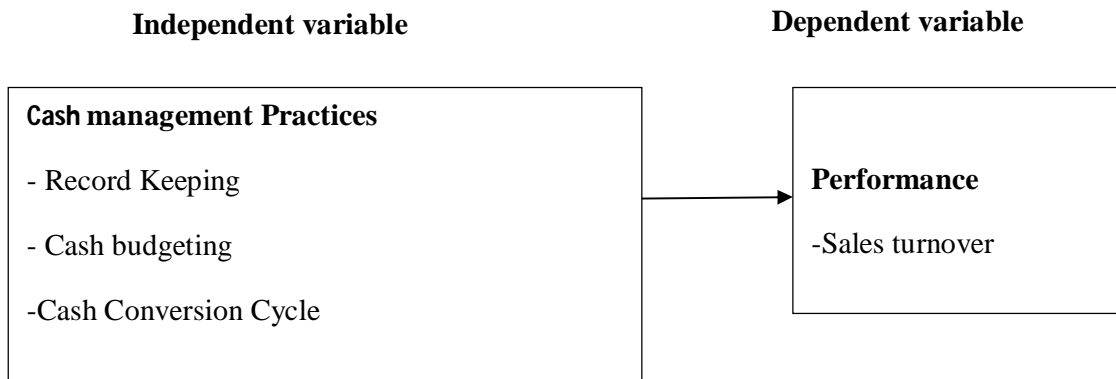
The positive growth of the Kenya economy characterised by improved infrastructure, growing property market and the devolution of services to rural areas has encouraged investments among many individuals. Many opportunistic entrepreneurs have invested heavily in SSES with some resigning from their formal employment to concentrate on business. Without proper guidance on managing cash, they may not achieve the goals as envisaged in their conceptual plans.

The findings of this study will be useful to existing and emerging SSEs businesses as it will enable them to know the effects of preparing cash budgets, managing for its inventories and maintaining business records influences on its performance. The challenges in cash management still experienced by SSEs will be outlined and hence useful in formulation of policies by respective statutory bodies and NGO's on the required technical assistance on cash management. The results of the study will also provide feedback on the potential of business succeeding in the Kenyan private sector hence an opportunity to invest in.

#### **1.6 Scope of the Study**

This study sought to analyse the influence of cash management practices on performance of SSEs in Mbale Town, Vihiga County. The focus of the study was on how the maintenance of business records, cash budgeting and management of cash conversion cycles affect performance of SSEs. The population of this study was the owners/managers of Small trader shop or retail service with up to 5 employees/ less operating within Mbale town and registered by the Vihiga county council under single business permit license as stipulated by Vihiga County Finance Act, 2015.

## 1.7 Conceptual Framework



**Figure 1.1: Cash Management Practices and Performance Relationship**

**Source: Adapted from Nyabwanga *et al.* (2011)**

It is perceived that a firm that follows proper cash management practices will be able to track the flow of its cash and also make efficient use of its cash resource which is likely to improve its performance. The cash management system comprise of the information of the business, internal systems of the business and a sound system of controls. The independent variables; Record keeping, cash budgeting, cash conversion cycle are interdependent thus they all work towards ensuring adequacy of cash to facilitate business operations. The cash conversion cycle comprise of inventories conversion period, payables conversion period and receivables conversion period. Success of the trading process indicated by high sales turnover is dependent upon the full integration of the cash management practices. Omitting any of the practice destabilizes the cash management system making it difficult to achieve higher sales turnovers.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

This chapter presents the literature related to this study. Specifically, this section covers theory of cash management, the various cash management practices and the empirical review of cash management practices.

#### **2.1 Theoretical Literature**

##### **2.1.1 Monetary Theory of Cash Management**

This theory views cash management as financial transactions such that cash balances could be treated in the same way as inventories of goods. Cash is held because it can be given up at the appropriate moment, serving then as its processor's part of the bargain in an exchange. Sales of SSES fluctuates periodically however, it has regular fixed costs such as rent and business permit license. Other operational expenses, sales and purchases will vary from time to time, hence calls for maintenance of surplus cash reserve to cover for these fluctuations. Miller-Orr model recognizes fluctuations in cash flows. The Miller-Orr model places an upper limit, lower limit and a target for cash balances. The firm allows its cash balances to wander in between the limits in such a way that when the balance reaches the upper limit, the firm transfers the amount between upper limit and optimal balance to investments opportunities. When the cash balance falls to the lower limit, the investments are sold and cash deposited to the account. Therefore, correcting cash balances to the target balance. Holding larger cash reserve will help reduce liquidity risk. The cash reserve can be increased by selling earning assets when lower limit is reached and cash holding cost decreased by buying earning assets when the upper limit is reached.

##### **2.1.2 The Free Cash Flow Theory**

This theory was developed by Jensen (1986). Free cash flow is cash flow in excess of that required to fund all projects that have positive net present values when discounted at the relevant cost of capital. Managers prefer to hold high cash level to enhance the volume of total assets in their control and these policies lead to the over investment issues. Too much free cash flow would result in internal insufficiency and the waste of corporate resources. Previous research findings have revealed that small business operators diverted business returns and operating capital to non-business areas thus depriving the business

necessary cash to sustain the operations and ability to meet its objectives. Excessive surplus funds if not put in profitable investment opportunities available result in increased agency costs, inefficient resource allocation, and wrongful investment. This implies that SSES need to have proper planning and control over its allocated cash and surplus cash whenever it exists.

### **2.1.3 Concept of Cash Management**

Reider and Heyler (2003) described cash management as a tool to maintain the company in the most economical, efficient, and effective manner possible with focus on the manner in which cash is used by the organization, considering the sources and uses of cash and the policies and procedures used to deal with over and under cash conditions. This description is in line with definition provided by various authors and researchers' such as Pandey (2004) who defined cash management as the process of planning and controlling cash flows into and out of the business, cash flows within the business, and cash balances held by a business at a point in time. On the other hand, Kytönen (2004) defined cash management as management of short-term assets and liabilities: assets such as cash, marketable securities, accounts receivable, prepaid expenses, and other current assets and liabilities such as accounts payable, notes payable, and accruals.

The cash management process starts with a cash infusion (Reider and Heyler, 2003). Cash is used to acquire products which are sold to customer and payments collected. The resulting cash is added to the business coffers. Successful businesses will therefore, collect more cash from customers than it spends out for providing and servicing its products and services. With cash at the centre of all business transactions, it creates a pattern of inflows and outflows. According to Ross et al (2004), the transaction patterns of cash inflows and outflows are unsynchronized and uncertain. It implies that, if left alone the cash flows will follow the same pattern hence leading to scarcity of cash at some point in time. The cycle of cash inflows and outflows plays a crucial role in a business's financial health for instance when cash inflows exceed cash outflows, it's a sign of good financial health. Having enough cash allows company management to concentrate on growth, finding new businesses, acquiring new customers, locating new business partners, developing new products, installing new processes, and so on whereas not having enough cash forces the company to fixate on getting more, sometimes to the

exclusion of growth and development (Reider and Heyler, 2003). In this regard, there is a greater need to regulate the cash flows of the business and this is done through cash management.

According to Reider and Heyler (2003), a workable cash management system needs to have several pieces in place to function effectively and these are: existence of internal and external information of the business; a proper internal system of the organization and a sound system of controls. Availability of information enables the business to keep track of the transaction patterns and for the owner to separate personal cash from business cash or ascertain profits/loss made. The internal and external information of the business includes details of accounts payable, receivables, transactions records, operating plan, capital needs, and expansion strategies and so on are that are vital for decision making. Through proper record keeping the business is able to have the relevant information for progress monitoring and decision making.

A proper internal system of the organization includes the cash collecting system and asset management system. These systems work towards getting money into the business and making it usable and also ensure that the business has sufficient cash at all times. A sound system of controls that includes budgeting and auditing enables the owner/manager to monitor business transaction hence make accurate predictions and correct judgement.

#### **2.1.4 Concept of Cash Management Practices**

The techniques of cash management and the degree of sophistication in business processes vary from entity to entity. Ekanem (2010) posit that individual owner-manager makes use of their knowledge and experience of the industry, as well as the knowledge and experiences of key employees and professionals in dealing with cash management problems. Record keeping, cash budgeting, and management of cash conversion cycle the common cash management practices.

#### **2.1.5 Record Keeping**

According to Ademola, Samuel & Ifedolapo (2012), record keeping is the systematic control of an organizations record throughout their life cycle, in order to meet operational business needs, statutory and fiscal requirements and community expectations. The



transactions records kept include sales, purchases, income, and payments by an individual or organization. Record keeping is the foundation on which the totality of modern business depends on since it is used to ascertain the level of profitability and the level of business susceptibility to fraud (Abayomi and Adegoke, 2016). Record keeping serve as a basis for planning and controlling business operations, increases the chances of profitability and also helps to keep business in a sound and healthy state to face competition (Ademola et al, 2012). The records can be kept in any particular way as long as it accurately reflects the business's income and expenses. Through proper record keeping the business is able to have the relevant information for progress monitoring and decision making.

### **2.1.6 Cash Budgeting**

Cash Budget is a plan for short term uses and sources of cash that pays attention to periods of cash shortage or surplus (Hatten, 2015). Cash budget is drawn up in businesses to ensure availability of adequate cash to achieve all operational goals (ACCA, 2012). Therefore, cash budget assess whether the entity has sufficient cash to pay off suppliers and other loans owing as well as sustain growth of the business. According to Reider and Heyler (2003), the preparation of a cash budget in a given business begin by determining the set of activities that will accomplish the business objectives and detailed forecast of cash receipts and cash disbursement followed by allocation of resources including cash to each of the activities based on priorities and relevance, and additional sources of funding identified if required.

The importance of a cash budget is to identify and highlight the cash incomes and expenses of a business so that it can make necessary adjustments to overcome a deficit, if necessary (Mungal and Garbharran, 2014). Adequate provisions are made to obtain more funds where a deficit is expected; surplus funds invested in profitable projects and corrective measures implemented where there is significant divergence from budget estimates. Moreover, external borrowing is explored by the business to have sufficient funds to sustain its operations during low sales period or take advantage of an upcoming opportunity (Atrill and McLanney, 2006). Failure to plan denies a firm's the chance to plot the overall direction of the business and to identify the ways of maximizing its strengths and overcoming its weaknesses.

### **2.1.7 Managing the Cash Conversion Cycle**

The cash conversion cycle is the time taken from when the firm makes cash outlay for raw materials or inventory to the time cash is collected from the sale of its goods (Hatten, 2015). It begins with the firm using cash to acquire inventory and hold it until it's eventually sold. Thereafter, the inventory is sold either by cash sale in which cash is replenished immediately or credit sale in which receivables is created and need to be collected to secure cash (Hatten, 2015; Ross et al, 2003). Each activity occur simultaneously and moves inventory closer to cash however cash flows and related activities are non-synchronized thus making cash flow management a challenge.

Inventory and accounts receivable are idle assets reducing cash availability until they can be converted into sales and collected. Changes in the level of inventory slows down or increase the flow of cash as do changes in the level of accounts receivable and accounts payable. (Hatten, 2015; Reider and Heyler, 2003). Too much inventory leads to cash drain due to associated costs such as transportation and storage whereas too little inventory will have high ordering cost and may not be adequate to meet the customers' needs thus affecting sales and the overall business performance. According to Hatten (2015), the goal of cash management is to commit just enough cash to inventory to meet demand. In this regard, retailers should have sufficient quantities of core products which are in-demand by their customers as this will increase/maintain sales and help reduce the possibility of shortages or closure of business in order to replenish the stock. Additionally, non-core products which consist of slow moving stock should be held in low quantities hence minimizing holding costs associated.

The ability to collect receivable quickly shows the effectiveness of the cash management system (Hatten, 2015). Sales are made on either cash or credit basis; however most businesses would prefer cash but are obliged to offer credit due to competitive forces the market offers (Waithaka, 2012). Proper analysis of customer payment history and building cash culture would help improve cash collections (Hatten, 2015). Additionally, limiting the amount of trade credit granted to customers, especially those with poor credit records, and insistence on cash payments for a majority of sales transactions ensure liquidity of small businesses and limits the costs of bad debts.

Payables are free short-term loans from suppliers representing a source of cash for the business. The trade terms negotiated between the owner and the supplier dictate when, how much and under what conditions payments are made; thus allows the small business owner effectively control cash outlays (Hatten, 2015). This therefore, enables the firm's minimized costs associated with making payments (Ross et al, 2003). Al-shubiri and Aburumman (2013) noted that the business should create a balance between policies governing inventory, payables and receivables to achieve maximum benefit.

### **2.1.8 The Concept of Business Performance**

Business performance refers to the business success in the market, which may have different outcomes (Belobo and Pelsler, 2014). It is assessed by measuring the success or failure of an organization in achieving its goals. Performance measurement is of significance to SSES as most of them operate with uncertainty. It plays a link role in that it provides feedback into the business strategy in order for any refinements to be applied (Ellis-Chadwick et al., 2007).

Business performance is multidimensional in nature measured using either the financial or non-financial measures or both against a given time frame based on organization's short-term plans and long-term strategies (Wiklund and Shepherd, 2005; Chong, 2008) therefore advantageous to integrate both dimensions. The performance measures include: market share, sales volume, return on Investments, return on Equity, return on Assets, profitability, established corporate identity and company reputation. In their study, Wiklund and Shepherd (2005) used gross margin, cash flow and growth in sales and employment as proxy of performance however argued that growth as a measure of performance of small enterprises is more accurate and accessible than accounting measures of financial performance. This assertion concurs with D'Souza and McDougal (1989) who argued that sales growth reflects both short and long-term changes in small enterprises and is easily obtainable. However both financial measures and non-financial measures reveal important information of small enterprise performance (Matchaba-Hove & Vambe, 2014).

### **2.1.9 Cash management Practices and Performance of Small Scale Enterprises**

SSES are characterized by low initial capital for investments; reliance on indigenous resources; managed by its owners in a personalized way; operation in unregulated and competitive markets with a relatively small share of the market (Amenya, 2007). Other characteristics include family management, opening for long hours, meagre turnover and succession problems (Sim, 1999 cited in Beranova 2011). These enterprises are independent, as they don't form part of a larger enterprise and stocks general goods only (Beranova, 2011). In this case outlets of specialized assortment or shops of branded goods are not included.

Most SSES are managed by their owners who cannot afford to hire expertise to run the businesses for them (Rajaram, 2008). Therefore, firm's performance is related to individual owner-managers, firm-specific attributes, and external factors (Wijewardena&Tibbits, 1999). According to (Kazimoto, 2014), micro enterprises are susceptible to failure that is attributed to internal factors which include wrong pricing, negative cash flows, poor record keeping, management problems, lack of planning and faulty products as well as external factors that comprise government taxation, inadequate capital, poor markets and high rents.

The largest investment a SSES is in its inventory (Scarborough & Zimmerer , 2008). Because of this, cash management practices determine the success or failure of the enterprise. Scarborough and Zimmerer (2008) noted that poor inventory control leads to business failure as excessive amounts of cash is tied up in an accumulated inventory. This result in lack of funds that could lead to excessive borrowing and consequently business becomes insolvent because their liabilities are higher than their assets. Moreover, lack of planning through cash budgeting makes the firm loose the overall direction of the business hence unable to maximize on its strengths and overcome its weaknesses.

According to Reider and Heyler (2003), a workable cash management system must have these three pieces to function effectively. These are: Availability of both internal and external information of the business that include details of accounts payable, receivables, transactions records, operating plan, capital needs, and expansion strategies; Proper internal system of the organization that includes both cash collecting system and asset

management system and; Sound system of controls that includes budgeting and auditing together with availability of banking facilities. Absence of any one component has some adverse effects on the business (Ahmad, 2016). For instance, SSES maintain few or no records of their transactions. Therefore, the owner has difficulty to separate personal cash from business cash or ascertain profits/loss made (Dawuda and Azeko, 2015). Consequently, incomes are overestimated while expenses underestimated and this inevitably creates serious cash flow problems as the business runs out of cash (McMahon, 2006).

## **2.2 Empirical Literature**

### **2.2.1 Business Records and Performance of SSES**

A study by Attom (2014) on the cash management practices by micro and small-scale enterprises at Kasoa in the central region of Ghana. The study revealed that most of the micro and small-scale enterprises especially retail enterprises failed to keep records of their transactions. 78% and 80% of retail enterprises did not track cash receipts and payments respectively. Lack of transaction records made it difficult to separate funds for personal use and that for business purposes. Therefore, proper planning, monitoring and control of cash flows are largely influenced by the ability to keep track of all their financial transactions. However, the study did test the influence of keeping business records on performance.

A study by Ademola *et al.* (2012) on roles of record keeping in the survival and growth of Small scale enterprises found out that majority of the small scale enterprises do not keep a record of their activities. Many of them do not keep the records because they do not know how to keep the records, viewed record keeping as a time consuming activity or they kept the records in their heads. Many of the respondents are running the enterprises not bothering to know whether it is growing as there's no evidence of decline. The study emphasized that timely and accurate records must be kept by business organizations so that they can achieve the objectives for which they were set up. On the contrary, the study focused on the role of record keeping on survival and growth of SSEs, did not investigate the influence of business record keeping on sales

Another study by Kasim, Zubeiru and Mtala (2015) roles of record keeping in the survival and growth of small medium enterprises in Northern Ghana which revealed that about 79% of respondents kept records of all financial transactions of their business thus able to manage their cash flows and also determine the financial position of their business. This was an indication that techniques of cash management and the degree of sophistication in business processes vary from entity to entity however it affects the performance of the enterprise. However, the study focused on the role of record keeping on survival and growth of SMEs, did not investigate the influence of business record keeping on sales in the context of SSEs only.

Abdul-Rahamon and Adejare(2014) studied the impact of Accounting Records keeping on the Performance of the Small Scale Enterprises. The findings of the study were that there is a strong positive relationship between accounting record keeping and performance of small scale enterprises in Nigeria in that, a 1% increase in the level of accounting records keeping result to 12% increase in the level of performance. This implied that accounting record keeping increase the chances of the business operating and achieving success, and provide information to enable the control of cash in the business. However, the study was done in Nigeria, where the operating environment is different from Mbale town, Kenya.

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). However, they did not consider SSEs in other towns in Kenya, where operating environments are different. It looked at general working capital management (WCM) elements as opposed to specific WCM such as cash management practices.

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. However, they did not carry out a study on SSEs in the area of study.

Most researchers (Attom, 2014; Gul *et al.*, 2013) have focused their analysis on WCM although some few (Kasim *et al.*, 2015; Ademola *et al.*, 2012) have offered studies on record keeping and performance among SMEs and micro and small enterprises. For instance Attom (2014) focused on the influence of cash management practices on corporate profitability in Ghana. Kasim *et al.* (2015) on the other hand analyzed the role of book keeping on survival and growth of firms. Gul *et al.* (2013) examined the relationships between Working capital management and corporate performance of SMEs using secondary data and focused on financial performance. Kasim *et al.*, 2015 and Ademola *et al.*, 2012) investigate the role of book keeping on survival and growth of SSEs. However, these studies provide no evidence on the influence of record keeping on performance of SSEs in Mbale town, Kenya.

From the foregoing, although studies on cash management practices and performance have been carried out by various scholars, the studies do not provide clear-cut direction of the relationship between business record keeping and firm's performance. Further examination of these studies reveals that there is little empirical evidence of the influence of business record keeping on performance of firms in case of SSEs traders in the informal sectors in Kenya. Therefore, the present study is an attempt to fill this gap and to analyze the influence of business record keeping on performance of SSEs in Mbale town, Kenya.

### **2.2.2 Cash Budgeting and Business Performance of SSEs**

Hamza, Mutala and Antwi (2015) in their study of cash management practices and financial performance of small medium enterprises revealed that respondents had various reasons for not preparing cash budgets for instance 31.6% didn't need it at the time, 14.8% reported that it did not apply to their business while 16.5% of had no idea of what a cash budget is. However, the current study investigates the influence of cash budgeting on performance of SSEs in Kenya.

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. The findings of the study were that about 33% of respondents did not need cash budget and 17% had no idea of budget preparation. Consequently, the business enterprises did not invest temporary cash surpluses for profit and as such had no way of knowing how long the surplus will persist and when more cash will be needed for expenses. However, the study did not link cash budgeting practice with performance.

Another study by Attom (2014) on cash control procedures by micro and small-scale enterprises in Ghana indicated that low usage of cash budget (79%) to track cash inflows and outflows was one of the contributing factors towards unrelenting problem of volatile cash balances. However, the study did not link cash budgeting practice with performance. A study by Kemp et al.,(2015) in South Africa on usefulness of cash budgets among small scale retail enterprises revealed that respondents did not really make use of cash budgets to measure their respective businesses' solvency (mean of 2.80), profitability (mean of 2.88) and liquidity (mean of 2.94). Low usage of cash budget was attributed to inadequate information that can assist in measurement of financial performance and that the respondents are not equipped with the skills to effectively utilise cash budgets. However, the study did not investigate the influence of cash budgeting on performance of enterprises.

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 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. However, they did not carry out a study on SSEs in the area of study and the influence of cash budgeting and performance was not investigated.

Most researchers (Hamza, Mutala and Antwi (2015; Nyabwanga et al.,2012 ) have focused their analysis on WCM although some few (Kemp et al., 2015; Attom, 2014) have offered studies on cash budgeting and performance among SMEs and micro and small enterprises. For instance Nyabwanga et al., 2012 focused on the influence of working capital management practices on performance of SSEs. Hamza, Mutala and Antwi (2015) on the other hand analyzed the extent of cash budget preparation. Attom, 2014 examined general cash control procedures amongst micro and small enterprises. However, these studies provide no evidence on the influence of cash budgeting on performance of SSEs in Mbale town, Kenya.

From the empirical evidence, numerous studies on cash budgeting practice and performance have been carried out. However, the studies do not provide clear-cut direction of the influence of cash budgeting on performance. Critical analyses of these studies reveal that there is little empirical evidence of the influence of cash budgeting on performance amongst SSEs traders. Therefore, the present study is an attempt to fill this gap and to investigate the influence of cash budgeting on performance of SSEs in Mbale town, Kenya.

### **2.2.3 The Cash Conversion Cycle and the Business Performance of SSEs**

A study by Ebben and Johnson (2011) on cash conversion cycle management in small firms found out that change in cash conversion cycle affected its performance and in turn the firms took a reactive approach to cash conversion cycle. Thus higher performing firms were more likely to increase their cash conversion cycles while lower performing firms were more likely to decrease their cash conversion cycles. However, lengthening the inventory conversion period to increase their cash conversion cycles, increased the storage and inventory management costs as well as the risk of inventory obsolescence

whereas shortening the inventory conversion period resulted in insufficient inventory hence decreased sales revenue and an overall reducing effect on the cash inflows. However, the study did not cover SSEs.

Lyrودي and MaCarthy (1993) evaluated the cash conversion cycle of small firms and found out that there is a positive relationship between the cash conversion cycle and receivables conversion period whereas a negative relationship between the cash conversion cycle and inventory conversion period and cash conversion cycle and payables deferral period. The negative relationship is as a result of decrease in sales which causes the accounts receivable to decrease proportionally and the inventory of unsold goods building up or on the other hand, a decrease in sales causing receivables and inventory to decrease accordingly. However, the study did not explore the link between cash conversion cycle and performance of SSEs in Mbale town, Kenya.

Another study by Nyabwanga et al., (2012) assessed the effect of working capital management practices on the financial performance of SSEs in Kisii South District. The findings of the study were that a 26.4% increase in financial performance could result from every unit change in efficiency of cash management. Thus firms that managed their working capital elements effectively had higher financial performances; hence, emphasizing that efficient working capital management (receivables, inventory and payables) is an indispensable component for the success of small scale enterprises.

A study by Attom (2014) on the cash management practices by micro and small-scale enterprises at Kasoa in the central region of Ghana. The study revealed 78% and 80% of retail enterprises did not track cash receipts and payments respectively. Lack of transaction records made it difficult to separate funds for personal use and that for business purposes. Therefore, proper planning, monitoring and control of cash flows are largely influenced by the ability to keep track of all their financial transactions. However, the study did test the influence of cash conversion cycle on performance.

A study by Kemp et al.,(2015) in South Africa on usefulness of cash budgets among small scale retail enterprises revealed that respondents did not really make use of cash budgets to measure their respective businesses' solvency and low usage of cash budget

was attributed to inadequate information that can assist in measurement of financial performance and that the respondents are not equipped with the skills to effectively utilise cash budgets. However, the study did not investigate the influence of cash conversion cycle on performance of enterprises.

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 dependent variable of the study was Return on Assets (ROA) which was used as a proxy for profitability. Independent variable was Cash Conversion Cycle (CCC). Results suggested that that CCC had negative association with Profitability. However, they did not carry out a study on SSEs in the area of study and the influence of cash budgeting and performance was not investigated.

Prior researchers (Attom, 2014; Gul *et al.*, 2013; Nyabwanga et al.,2012) have focused their analysis on WCM and extent of tracing cash receipts and payments amongst micro and small enterprises although some few (Ebben and Johnson, 2011; Lyroudi and MaCarthy,1993) have studied cash conversion cycle and performance among micro and small enterprises. For instance Attom (2014) focused on the extent of tracking cash receipts and payments in Ghana. Nyabwanga et al. (2012) on the other hand analyzed the efficiency of cash management practices. Gul *et al.* (2013) examined the relationships between Working capital management and corporate performance of SMEs using secondary data and focused on financial performance. Ebben and Johnson, 2011; Lyroudi and MaCarthy, 1993) explore the extent of cash conversion cycle practice amongst of small firms. However, these studies provide no evidence on the influence of cash conversion cycle on performance of SSEs in Mbale town, Kenya.

Globally, regionally and locally, numerous prior studies on cash conversion cycle practice and performance have been done. However, the studies do not provide clear-cut direction of the influence of cash budgeting on performance. Critical gap analyses of these studies reveal that there is no empirical evidence of the influence of cash conversion cycle on performance amongst SSEs traders. Therefore, the present study is an attempt to fill this gap and to investigate the influence of cash conversion cycle on performance of SSEs in Mbale town, Kenya.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

This chapter section focuses on the method and procedures that will be used in the study. It describes the procedures that will be used by the researcher to collect and analyse data. It covers the following areas: research design, location of the study, population of study, sampling procedure, data collection procedure, data analysis and test of significance.

#### **3.1 Research Design**

The study was conducted using the correlation research. Pearson correlational analysis and multiple regression analysis will be done to estimate the association and relationship between the study variables as guided by the objectives of the study. This design is appropriate since it allows determination of statistical relationship between the variables of the study and also it is impossible to manipulate the independent variable.

#### **3.2 Study Area**

Mbale town is classified as zone A as per the Vihiga County Finance Act, 2015 and is found in Western Kenya on Longitude 34°43'59.3"E, latitude 0°07'00.8"N. Located along Kakamega-Kisumu highway, Mbale town is the headquarter of Vihiga county and has several banks and many trading SME's with no large scale retailers. Vihiga county has a total of 113000 licensed enterprises of which 108480(96%) are micro enterprises (MSME establishment survey, 2016).

#### **3.3 Population of the Study**

The study targeted owners or managers of small trader shop or retail service with up to 5 employees/ less (Vihiga County Finance Act, 2015) operating within Mbale town in Vihiga County and registered by the Vihiga county council under single business permit license. The study population comprised of 150 SSEs in various activities that included trading, chemist, bookshops, hardware, cosmetics and cloth stores, electronic and electrical stores.

#### **3.4 Sample and Sampling Techniques**

Mugenda and Mugenda (2003) define sampling as process of selecting individuals for a study. They recommend a sample of more than 30 or at least 10% as appropriate for

social sciences. The study utilized a sample of 75 managers of SSES selected using random sampling technique from a population of 150 SSES consisting of trading, chemist, bookshops, hardware, cosmetics and cloth stores, electronic and electrical stores in Mbale town and registered by Vihiga county Council.

### **3.5 Data Collection Method**

Primary data is raw data that is collected by the researcher for analysis under consideration. A Structured questionnaire was self-administered to the owners/managers of the SSES in Mbale town to gather primary quantitative data. The questionnaire was designed to elicit responses relating to cash management practices and it was divided into 2 parts namely: biographical information of the respondents and cash management practices information of the business. A 5-point likert scale will be used to capture the perceptual responses. Secondary data was collected using desk review.

### **3.6 Validity of Research Instruments**

According to Kothari (2004) Validity is the most critical criterion and indicates the degree to which an instrument measures what it is supposed to measure. Validity can also be thought of as utility. In other words, validity is the extent to which differences found with a measuring instrument reflect true differences among those being tested. Mugenda and Mugenda (2003) define validity as the accuracy and meaningfulness of inferences, which are based on research results.

The study applied content validity as a measure of the degree to which data was obtained from the research instruments meaningfully and accurately reflect or represent a theoretical concept. Content Validity of the questionnaire was ensured by giving it to the research experts in the field of finance to review.

### **3.7 Reliability of Research Instruments**

Reliability is the degree to which results obtained from the analysis of the data actually represent the phenomenon under study. Kothari (2004) explains that a measuring instrument is reliable if it provides consistent results. As proposed by Mugenda and Mugenda (1999), the pilot was administered on 10 respondents leaving an effective

sample of 140 respondents. These 10 respondents who participated in the pilot were not included in the final study.

**Table 3.1: Pilot results based on Cronbach’s Alpha Reliability Test**

Variables	No. of Items	Cronbach’s Alpha
Business record keeping	3	0.713
Cash budgeting	3	0.723
Cash conversion cycle	3	0.750
Business performance	1	0.765

**Source: Field Data, 2017**

All the variables had alpha values of above 0.701, indicating strong internal consistency among measures of variable items.

### 3.8 Data Analysis

Questionnaires received from the respondents were checked for completeness with repeated calls being made for incomplete questionnaires to maintain the number of respondents. Categorization and coding were done and data entered into SPSS for windows version 20 for analysis by which both descriptive and inferential test were used in the analysis. Mean and frequencies were used to describe the data to give meaning to distribution of responses. Pearson correlation coefficient was used to establish relationships between variables.

#### 3.8.1 Model Specification

Multiple regression models were used to establish the relationship and magnitude between cash management practices (independent variables) and business performance of SSEs (dependent variable). The regression model used was:

$$Y_i = \beta_0 + \beta_1 X_{1i} + \beta_2 X_{2i} + \beta_3 X_{3i} + \varepsilon_i$$

$Y_i$  = is Sales turnover (for  $i = 1 \dots 150$ )

$i$  = represents the number of SSEs in the study sample.

$X_1$  = maintaining business records

$X_2$  = preparation of cash budgets (cash budgeting)

$X_3$  = management of cash conversion cycle (CCC)

$\beta_0$  = Y intercept in the equation

$\beta_1$  = measure of effect of business records on performance.

$\beta_2$  = measure of effect of cash budgeting on performance.

$\beta_3$  = measure of effect of cash conversion cycle on performance.

$\varepsilon$  = error term.

## CHAPTER FOUR

### RESULTS AND DISCUSSION

This chapter presents the study results and discussion in terms of demographics and study objectives

#### 4.1 Response Rate

Out of the 140 questionnaires administered to the respondents, 126 of them were returned constituting a response rate of 90.00 % of the administered questionnaires.

#### 4.2 Demographic Characteristics of the Sample

The study sought to establish the background of the respondents in the study in terms of gender, marital status, age bracket, the highest education attained and SSEs category. The results were as shown in the following sections.

**Table 4.1: Respondent's Gender**

Gender	Frequency	Percent	Valid Percent	Cumulative Percent
Male	69	54.8	54.8	54.8
Female	57	45.2	45.2	100.0
Total	126	100.0	100.0	

**Source: Field data, 2017**

Table 4.1 indicates that majority of the respondents were males (54.8%) meaning that most of SSEs in Mbale town are dominated by male.

**Table 4.2 Respondent's Age**

Age	Frequency	Percent	Valid Percent	Cumulative Percent
20-30 years	21	16.7	16.7	16.7
1-40 years	25	19.8	19.8	36.5
41-50 years	29	23.0	23.0	59.5
Above 50 years	51	40.5	40.5	100.0
Total	126	100.0	100.0	

**Source: Field data, 2017**



As shown in Table 4.2, the majority (40.5%) of SSEs managers or owners were aged above 50 years, while the least (16.7%) were aged between 20-30 years. This indicates that majority of SSEs in Mbale town are owned by elderly people.

**Table 4.3: Respondent's Marital Status**

Marital status	Frequency	Percent	Valid Percent	Cumulative Percent
Married	48	38.1	38.1	38.1
Single	37	29.4	29.4	67.5
Divorced	25	19.8	19.8	87.3
Separated	16	12.7	12.7	100.0
Total	126	100.0	100.0	

**Source: Field data, 2017**

Table 4.3 shows that 38.1 % of respondents were married, 29.4 % were single, and 19.8% were divorced while only 12.7 % were separated. This implies that most of SSEs in Mbale town are owned by married people.

**Table 4.4: Highest Education Attained**

Education attained	Frequency	Percent	Valid Percent	Cumulative Percent
Primary	33	26.2	26.2	26.2
Secondary	53	42.1	42.1	68.3
Diploma	24	19.0	19.0	87.3
Degree	16	12.7	12.7	100.0
Total	126	100.0	100.0	

**Source: Field data, 2017**

The findings in the Table 4.4 shows that 42.1% of the respondents are secondary school holders, 26.2 % are primary school leavers, 19.0% have diploma qualification and only 12.7 % have degree qualification. This implies that data for the study was obtained from functionally literate learned respondents who have easily got used to cash management practices and sales turnover matters hence the reliability of the data.

**Table 4.5: SSE Category**

SSEs category	Frequency	Percent	Valid Percent	Cumulative Percent
Trading	44	34.9	34.9	34.9
Chemists and Cosmetics	30	23.8	23.8	58.7
Bookshops	18	14.3	14.3	73.0
Hardware stores	12	9.5	9.5	82.5
Cloth stores	12	9.5	9.5	92.1
Electronics and electrical stores	10	7.9	7.9	100.0
Total	126	100.0	100.0	

**Source; Field data, 2017**

Table 4.5 shows that 34.9 % of SSEs in Mbale town engage in trading, 23.8 % are involved in chemists and cosmetics business while only 7.9 % were in electronics and electrical stores.

### **4.3: Descriptive Statistics on Cash management practices**

Descriptive statistics on the extent of practice of cash management practices namely frequencies, percentages; mean and standard deviations were computed.

#### **4.3.1 Extent of Business Record Keeping**

The extent of business record keeping among the SSEs in the sample was measured using three items. Respondents were asked to rate the extent to which business record keeping was practiced. Responses were elicited on a 5-point scale (1-very low, 2-low, 3-moderate, 4-high, and 5-very high). These responses were then analyzed using frequencies, means and standard deviations. Results presented in Table 4.6 suggest that the respondents rated moderately all the constructs of business record keeping. The overall mean response score for all the items was 3.00, coded as moderate meaning that business record keeping is moderately practiced by SSEs in Mbale town. The most highly rated practice was the preparation of income statements (Mean = 4.00, Std. Dev =1.14).

**Table 4.6: Rating of Extent of Business Record Keeping (n=126)**

Constructs	5	4	3	2	1	Mean	Std. Dev
<b>Overall Mean = 3.000</b>							
a. We keep records of all cash payments on a daily basis	17(13.5%)	30(23.8%)	31(24.6%)	30(23.8%)	18(14.3%)	3.00	1.26
b. We keep records of all cash receipts on daily basis	10(7.9%)	40(31.7%)	28(22.2%)	27(21.4%)	21(16.7%)	3.00	1.23
c. We prepare income statements for our SSE	28(22.2%)	53(42.1%)	24(19.0%)	12(9.5%)	9(7.1%)	4.00	1.14

**Key:** *Very high=5, High =4, Moderate=3, Low=2, Very low=1*

**Source:** Field data, 2017

### **4.3.2 Extent of Cash Budgeting**

The extent of cash budgeting among the SSEs in the sample was measured using three items. Respondents were asked to rate the extent to which cash budgeting was practiced. Responses were elicited on a 5-point scale (1-very low, 2-low, 3-moderate, 4-high, and 5-very high). These responses were then analyzed using frequencies, means and standard deviations.

**Table 4.7: Rating of Extent of Cash Budgeting (n=126)**

Constructs	5	4	3	2	1	Mean	Std. Dev
<b>Overall Mean = 3.000</b>							
a. We prepare cash budgets and forecasts	16(12.7%)	28(22.2%)	49(38.9%)	18(14.3%)	15(11.9%)	3.00	1.16
b. Cash collections are collated to facilitate cash budget preparation	28(22.2%)	16(12.7%)	24(19.0%)	34(27.0%)	24(19.0%)	3.00	1.43
c. All cash disbursements are aggregated to allow for preparation of cash budgets	25(19.8%)	59(46.8%)	12(9.5%)	8(6.3%)	22(17.5%)	4.00	1.35

**Key:** *Very high=5, High =4, Moderate=3, Low=2, Very low=1*

**Source:** Field data, 2017

Results presented in Table 4.7 indicate that the overall mean response score for all the items was 3.00, coded as moderate meaning that cash budgeting is moderately practiced by SSEs in Mbale town. The most highly rated practice was aggregation of cash disbursements to allow for preparation of cash budgets (Mean = 4.00, Std. Dev. =1.35).

### **4.3.3 Extent of Management of Cash Conversion Cycle**

The extent of management of cash conversion cycle among the SSEs in the sample was measured using three items. Respondents were asked to rate the extent to which cash conversion cycle management was practiced. Responses were elicited on a 5-point scale (1-very low, 2-low, 3-moderate, 4-high, and 5-very high). These responses were then analyzed using frequencies, means and standard deviations.

**Table 4.8: Rating of Extent of Cash Conversion Cycle Management (n=126)**

Constructs	5	4	3	2	1	Mean	Std. Dev
<b>Overall Mean = 4.000</b>							
a. Calculation and tracing of stock holding period	30(23.8%)	36(22.2%)	42(33.3%)	6(4.8%)	12(9.5%)	4.00	1.18
b. Computation and tracing of creditors repayment period	25 (19.8%)	56(44.4%)	18(14.3%)	18(14.3%)	9(7.1%)	4.00	1.17
Debtors collection period is regularly calculated	52(41.3%)	24(19.0%)	20(15.9%)	18(14.3%)	12(9.5%)	4.00	1.38

**Key:** *Very high=5, High =4, Moderate=3, Low=2, Very low=1*

**Source:** Field data, 2017

The findings in Table 4.8 indicate that the overall mean response score for all the items was 4.00, coded as high meaning that cash conversion cycle is highly practiced by SSEs in Mbale town.

#### 4.4: Effect of maintaining Business Records on Performance

In order to assess the effect of maintaining business records on performance, multiple regression analysis was performed and the results are summarized in the Table 4.9.

**Table 4.9: Multiple Regression Analysis Estimation Results on the Effect of cash management practices on performance of SSEs in Mbale town**

Model	Unstandardized		Standardized	T	Sig.	Collinearity Statistics	
	Coefficients		Coefficients				
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	.089	.171		.523	.604		
Business record keeping	.353	.064	.430	5.479	.000	.125	7.995
Cash budgeting	.215	.088	.158	2.448	.018	.186	5.385
Cash conversion cycle	.449	.100	.421	4.482	.000	.087	11.440

a. Dependent Variable: Performance

**Source: Field data, 2017**

Table 4.8 exhibits the results of the multiple regression analysis. The results indicate that business record keeping was a positive significant predictor of performance ( $\beta = .353$  ( $p = .000$ )). This value is statistically significant since the p-value is less than 0.01. It can be inferred from this value that a unit change in business record keeping leads to an increase in performance of 0.353, all things being fixed. This result corroborates the findings of Abdul-Rahamon and Adejare, 2014 and Nyabwanga *et al.*, 2014 who found a positive relationship between business record keeping and performance of enterprises. However, the results contradict the findings of Gul et al., 2013 who found a negative and significant ( $p = 0.001$ ) relationship between record keeping and performance.

From the findings of objective one, it can be concluded that embracing business record keeping practice by SSEs leads to improved performance.

#### 4.5: Effect of Cash Budgeting on Performance

To establish the effect of cash budgeting on performance of SSEs, multiple regression analysis was performed and the results are summarized in the Table 4.9.



The results indicate that cash budgeting was a positive significant predictor of performance ( $\beta = .215$  ( $p = .018$ )). This value is statistically significant since the p-value is less than 0.05. It can be inferred from this value that a unit change in cash budgeting practice leads to an increase in performance of 0.215, all things being fixed. This result corroborates the findings of Nyabwanga *et al.*, 2012 who found a positive relationship between cash budgeting and performance. However, the results contradict the findings of Gul et al., 2013 who found a negative relationship between cash budgeting and performance.

From the findings of objective one, it can be concluded that embracing cash budgeting practice by SSEs leads to improved performance.

#### **4.6: Effect of Management of Cash Conversion Cycle on Performance**

To establish the effect of management of cash conversion cycle on performance of SSEs, multiple regression analysis was performed and the results presented in the Table 4.9.

The findings indicate that management of cash conversion cycle was a positive significant predictor of performance ( $\beta = .449$  ( $p = .000$ )). This value is statistically significant since the p-value is less than 0.01. It can be inferred from this value that a unit change in management of cash conversion cycle leads to an increase in performance of 0.449, all things being fixed. This result corroborates the findings of Ebben and Johnson, 2011; Attom, 2011 and Nyabwanga *et al.*, 2012 who found a positive relationship between cash conversion cycle and performance. However, the results contradict the findings of Gul et al., 2013 who found a negative relationship between cash conversion cycle and performance.

From the findings of objective one, it can be concluded that practicing management of cash conversion cycle by SSEs leads to improved performance.

## **CHAPTER FIVE**

### **SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS**

This chapter presents a summary of study findings, conclusions and recommendations based on the major findings.

#### **5.1 Summary of Findings**

Based on multivariate analysis, objective one found that business record keeping positively and significantly affects performance of SSEs in Mbale town.

Objective two found out that cash budgeting positively significantly affects performance, whereas objective three found that cash conversion cycle positively significantly affects performance of SSEs in Mbale town.

#### **5.2 Conclusions of the Study**

From the findings of objective one, it is concluded that embracing business record keeping practice by SSEs leads to improved performance in terms of sales turnover.

From the findings of objective two, it can be concluded that use cash budgeting leads to better performance.

Lastly, based on the findings of objective three, the study concludes that managing cash conversion cycle leads to improved performance.

#### **5.3 Recommendations of the Study**

Based on conclusion of objective one, SSEs in Mbale town should intensify the practice of business record keeping.

From the conclusion of objective two, SSEs in Mbale town should enhance application of cash budgeting as this was found to improve performance.

Lastly, from the conclusion of objective three, SSEs should intensify practice of managing cash conversion cycle as this was found to enhance performance.

#### **5.4 Limitations of the Study**

The outcome of the study cannot be generalized to all SSEs in Kenya since the study was limited to SSEs in Mbale town and did not incorporate all SSEs in Kenya. The study adopted a correlation research design.

#### **5.5 Suggestions for Further Research**

An exclusive study on the cash management constraints facing SSEs in Kenya should be carried out. Future research should be conducted on determinants of cash management practices adoption and performance in Kenya and compare their performance over a period of time using secondary data. Future studies could also explore the relative importance of cash management practices. Further research could be conducted based on county regions in various parts of Kenya since such areas represent a variation in cultural orientation and habits. Comparisons could be done on whether or not there is any variation or similarity. Lastly, future research efforts could dwell on comparative analysis of working capital management practices and performance and use more robust research designs such as time series.

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## APPENDICES

### Appendix I: Questionnaire

This questionnaire seeks to collect information on influence of cash management practices on performance of SSEs in Mbale town, Kenya. You have been selected to participate in this survey. All information received will be treated confidentially and used for academic purposes only. I am therefore, kindly requesting for your support in terms of time, and by responding to the questions below.

#### Section A: Questionnaire to Respondents

1. Respondent gender (please select one).  
Male  Female
2. Marital status  
Married  Single  Divorced  Separated
3. Indicate your age bracket ( please tick one)  
20-30 years  31-40 years  41-50 years  above 50 years
4. The highest education/qualification attained  
Primary  Secondary  College  Diploma  Degree
5. SSEs category  
Trading  Chemists and cosmetics  Bookshops  Hardware Stores  Cloth stores  Electronics and electrical

#### BUSINESS RECORD KEEPING

6. How do you rate the following constructs of record keeping in your organization /business? Key: Very High (5), High (4), Moderate (3), Low (2), and Very Low (1)

Indicators of Business record keeping	Very High	High	Moderate	Low	Very Low
• I/We keep records of all cash payments on a daily basis					
• I/We keep records of all cash receipts on a daily basis					
• I/We prepare income statement for my /our SSE					

### CASH BUDGETING

7. How do you rate the following constructs of cash budgeting in your business?

Key: Very High (5), High (4), Moderate (3), Low (2), and Very Low (1)

<b>Indicators of cash budgeting</b>	Very High	High	Moderate	Low	Very Low
• I/We prepare cash budgets and forecasts					
• Cash collections are collated to facilitate preparation of cash budgets					
• All cash disbursements are aggregated to allow for preparation of a cash budget on a regular basis					

### CASH CONVERSION CYCLE

8. How do you rate the following constructs of cash conversion cycle in your organization? Key: Very High (5), High (4), Moderate (3), Low (2), and Very Low (1)

<b>Indicators of cash conversion cycle</b>	Very High	High	Moderate	Low	Very Low
• The practice of calculating and tracing stock holding period					
• The practice of computing and tracking creditors repayment period					
• Debtors collection period is regularly calculated .					

### BUSINESS PERFORMANCE

9. How do you rate the following constructs of business performance in your organization? Key: Very High (5), High (4), Moderate (3), Low (2), and Very Low (1)

<b>Business performance indicators</b>	Very High	High	Moderate	Low	Very Low
• Sales turnover relative to competitors					