

AN ASSESSMENT OF THE PERFORMANCE OF WORKING CAPITAL MANAGEMENT PRACTICES ON SMALL AND MEDIUM ENTERPRISES IN ELDORET MUNICIPALITY

Sila Kiprotich 

Department of Accounting and Finance, School of Business and Economics,
Moi University, Eldoret, Kenya
ksila32@gmail.com

Joyce Kimosop

Department of Management Science, School of Business and Economics,
Moi University, Eldoret, Kenya
joycekomen@yahoo.com

Joyceleen Sarmwei

School of Business and Economics, Eldoret, Kenya
jsarmwei@yahoo.com

Moses Abalo

Phd candidate, School of Business and Economics, Moi University, Kitale, Kenya
Mosesaballo@yahoo.com

Abstract

This study sought to understand how the working capital management practices affect the performance of SMEs in Eldoret municipality, Kenya and to ascertain which practice is efficient and necessary for the success of an enterprise. Study adopted a cross-sectional survey research design and in depth interviews which allowed the collection of primary quantitative data through structured questionnaires. The population of 536 respondents was targeted from the 85 law firms within Eldoret municipality, this included 147 owners/managers and 389 other employees. Mugenda and Mugenda formula (2003), was used to calculate the sample size

where a sample size of 224 respondents was found. Data was analyzed for descriptive and inferential statistics. Descriptive statistics such as tables, graphs, charts and percentages analysis was used for presentation of data. Linear regression model was used to analyze quantitative data. The equation indicated the contribution of each of the working capital management practices identified to the performance of SMEs. The standardized beta coefficient indicated that cash management contributes significantly to the performance of the SME ($p = 0.000$) and ($\beta = 1.023$) while inventory management also contributes significantly to the performance of the SME ($p = 0.000$) and ($\beta = -0.516$) and trade credit management also contributes significantly to the performance of the SME ($p = 0.000$) and ($\beta = 0.225$). The study therefore concluded that in order to influence performance, SME's must employ suitable working capital management practices that will enhance their performance especially the cash management practices and the trade credit management practices. The study therefore recommends adoption of working capital management practices to enhance performance of SME's.

Keywords: Assessment, Working Capital Management Practices, SME's Performance, Cash Management, Inventory Management, Trade Management.

INTRODUCTION

The knowledge and understanding of the working capital management practices of small, medium and large companies are presently not enough and many firms have gone into liquidation over the years as a result of running a deficit cash flow from operations, (William et al(1993) The focus of working capital management (WCM) is sustaining of the optimum balance of each of the working capital component. Wilson (1996) suggested that smaller company should embrace formal WCM practice with the hope of minimizing the probability of business failure, as well as to enhance business performance are less capital intensive and highly labor intensive, there are huge opportunities for this sector in an economy like Kenya. The other factors that are responsible for the fast growth of this sector are extensive promotion and support by the government, available grants and subsidies, raw material procurement, rising export demand for Kenyan products and rising domestic demand which is the result of overall economic growth. But, the growth rates can increase further if more development policies are put into action to improve the technology and marketing side of SME's and thus SME's can construct the most dynamic and vibrant sector of the economy (Michael et al 2009). Education is one of the factors that impact positively on the growth of firms (King et al

2000). Those entrepreneurs with large stocks of human capital, in terms of education and (or) vocational training, are better placed to adapt their enterprises to constantly changing business environments (King et al, 1998). Infrastructure as it relates to provision of access roads, adequate power, water, sewage and telecommunication has been a major constraint in the development of SMEs (Rogers al 1995). In Kenya, like much of Africa, although SME's sector plays a vital economic role but the SMEs face a great challenge in cash management, Inventory management and trade credit management.

The aim of cash management is to maintain adequate control over the cash position, to keep the firm sufficiently liquid and to use excess cash in profitable way. Cash management is important because cash constitutes the smallest portion of the total current assets, yet management's considerable time is devoted to managing it. Studies on cash balance management in Kenya have concentrated on companies especially publicly quoted companies see and Mugeru (1998) Ouma (2001). The SME's sector has remained unexplored as far as cash balance management is concerned. Cash shortage affects the SMEs potential to finance operation, reinvest and meet up with capital requirements and payments. The concept of working capital management is all about the attempting to manage the current assets, the current liabilities and the interrelationship that exists between them.

The objective of inventory management is to strike a balance between inventory investment and customer service' (Heizer & Render, 2008). In every kind of business, inventory management consists of a range of functions such as negotiating with suppliers, ordering, tracking, handling, transporting, storing of goods and materials. An effective inventory management will always give a competitive advantage to the business over its competitors posited by Shin and Soenen (1998), a firm's working capital results from the time lag between the expenditure for the purchase of raw materials and the collection from sale of finished goods. As submitted by Peel et al (1996) that for small enterprises to manage and control their working capital effectively; both internal and external working capital drivers must be taken into consideration, and also consideration of how sensitive such drivers are to changes in the business or market. Thus, a firm must be able to minimize inventory, control supply and apply payment pressure on customers. 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). The most common measures used in defining SMEs include firm size, number of employees, annual turnover, ownership of business and value of fixed assets (Abor and Adjasi 2007). However, each of these measures has been fiercely criticised, one way or the other (Chittithaworn et al. 2011). In his work entitled “a critique of SME led approaches to economic development”, Castel Branco (2003) argued that the economic contributions of SMEs are not clear owing to the ambiguity in defining SME.

Statement of the Problem

In stride towards vision 2030 our economy depend on different factors among them the contributions from the SMEs. SMEs contribute more to the gross domestic product, employment and innovations of the economy. Small and medium enterprises (SMEs) comprise the largest proportion of businesses in most economies and frequently offer the greatest potential for job creation (Asquith et al, 1994). The government of Kenya has placed a lot of emphasis on the development of SMEs as a means of encouraging self employment, poverty reduction and accelerating economic growth. This has seen SMEs contribute over 50% of the employment opportunities in Kenya and over 40% of the GDP. Despite their significance, recent studies show that 60% of the SMEs fail within the first few months of operation (KNBS, 2007). It is hard for the SMEs to access finances from the financial institutions since they lack proper working capital management as a requirement (William et al 1993).

Despite this, most SMEs in Kenya rarely use the concept of working capital management in their practical managerial decision making. As a result, many Small and Medium Enterprises have been facing challenges in balancing between surplus and shortage of working capital. This is why these firms have been experiencing slow growth because of inability to pay daily expenses of their operations and difficulty to exploit for new markets and undertake profitable projects due to shortage of working capital mainly because of poor working capital management. It is therefore, very important for SME's to understand the effects of poor working capital management. There is need for firms to have efficient working capital management practices. This study aims to evaluate the factors influencing the overall performance of SME's in relation to their working capital management practices.

EMPIRICAL REVIEW

Past Studies

Net working capital and gross working capital are two major concepts of working capital. The working capital, it is generally referred to net working capital, which is the difference between current assets and current liabilities (Petersen 1993) explain that the three major components of

current assets are accounts receivable, inventories and cash and equivalents. Current liabilities include primarily the accounts payable and debt due in less than one year. Shin & Soenen (1998) define that working capital is the result of the time interval between the paying for the purchase of raw materials and the collecting for the sale of the finished goods, the method in which working capital is managed can have a important impact on both the liquidity and profitability of the firms. The investment in working capital involves carrying costs and shortage costs, so the firms have to find the tradeoff between them. Brealey et al (2004) explains if firms collect earlier their receivables from their customers, the cost invested in the receivables mean the interest which would have been benefited, could be saved and used in business operation. The firm also forgoes the earnings of interest when it holds idle cash balances rather putting the money into use. The cost of holding inventory includes opportunity cost of capital, storage and insurance costs as well as the risk of spoilage or inventories become out of the date. All of these carrying costs urge firms to hold current assets to a minimum level. Carrying costs discourage large investments in current assets, however, too low level of current assets likely make firms to deal with the shortage costs. If the firm runs out of inventory of raw materials, it may lose the sales. If the firm runs out of cash, it may have to access the expensive external financing. The firm may also maintain too low level of accounts receivable. If the firm tries to minimize accounts receivable by restricting credit sale, it may lose customers shortage costs. If the firm runs out of inventory of raw materials, it may lose the sales. If the firm runs out of cash, it may have to access the expensive external financing. The firm may also maintain too low level of accounts receivable. If the firm tries to minimize accounts receivable by restricting credit sale, it may lose customers. 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.

Effectiveness of Cash Management as Working Capital Management Practice

Firms maintain certain percentage of assets as cash, but many firms have increased their cash holding levels. Ferreira & Vilela (2004) investigate European Monetary Union corporations of cash to assets ratio and show that corporations hold 15% of their total assets in cash or cash equivalents. Bates et al(2006) report that the average cash to assets ratio for U.S. industrial firms increases with 129 % from 1980 to 2004 and argue that the change in cash holdings is not the result of recent build-up but a “secular trend”. They use several variables to seek the

motivation of US firms for corporate cash holdings and find that in order of importance, the change in net working capital of cash is the most important one.

Working capital as cash substitute has been identified as a determinant of corporate cash holdings in previous studies but not in depth. Opler et al (1999) state that net working capital can be a substitute for cash deferred by their empirical test. Ferreira & Vilela (2004) investigate the corporate cash holdings of EMU countries and disclose that cash held by firm is negatively affected by the amount of liquid asset substitutes. Ozkan & Ozkan (2004) indicate that firms can use their non-cash liquid assets, defined as net working capital minus cash and marketable securities to substitute for cash holdings.

In recent empirical finance literatures, some in-depth studies have been conducted in discovering and providing the alternatives of explaining corporate cash holdings by working capital management. Bates et al (2006) argue that the average cash ratio increases because firms changes their characteristics, such as firms have riskier cash flow, they hold less inventories and accounts receivable and increase the R & D expenses.

Abel (2008) examine the Swedish manufacturer SMEs and find that high efficiency in the management of working capital means that current assets are quickly transferred into cash, in this way to move the balance from average investments in inventory and accounts receivable to cash and result in high cash holdings. Teruel & Solane (2008) analyse the Spanish SMEs Bates et al (2006) research the U.S. industrial firms from 1980 to 2004 and find that the average cash ratio increases because of the changes of the firms characteristics, such as firms cash flow becomes riskier, firms hold less inventories and accounts receivable, more investment in R & D. Kytönen (2005) conducts the empirical study on the determinants of corporate liquidity holdings for a sample of Finnish firms listed on Helsinki Stock Exchange and it is found that that firms size, growth opportunities, opportunity costs, cash flows, efficiency of working capital management, leverage, dividend policy and the probability of financial distress are important in determining liquidity holdings in Finnish firms. He points out that a firm with more efficient liquidity management operations is expected to have higher level of liquidity holdings. Niskanen & Niskanen (2007) examines the determinants of cash holdings in a sample of Finnish small and micro firms, which have multiple or long-term relationship with banks, hold less cash. Comparing with the small and micro firms, larger firms, confront financial constraints, have high debt to assets ratios and hold more cash.

Teruel & Solane (2008) analyse the Spanish SMEs Corporate cash holdings and find that firms with a higher amount of short-term debt will hold higher levels of cash because it might lower the risks of the non-renewal the short-term debt. Acharya et al (2006) reveal that credit spreads are positively instead of negatively related with cash holdings, moreover, the

positive correlations shows higher in riskier firms. “In the presence of financing constraints and cost of financial distress, riskier firms may choose to maintain higher cash reserves in order to reduce the possibility of a cash shortage in the future”.

Previous studies suggest that aggressive working capital management increase the corporate cash availability but meanwhile firms has to be prepared against the risk of holding less inventories, accounts receivable and increasing accounts payable. It is arguable that this is why the firms’ working capital management policy represents aggressive working capital management with also the characteristic of conservative working capital management. Weinraub & Visscher (1998) suggest that aggressive liquidity policy combine the higher levels of normally lower cost short-term debt and less long-term capital. Although capital costs are reduced, this increases the risk of a short-term liquidity problem. Harris (2005) states that it is important to understand the role and drivers of working capital management so that to reach the “right” levels of working capital, “firms can minimize risk, effectively prepare for uncertainty and improve overall performance, it minimizes the adverse effects of unforeseen events and provide financial flexibility in uncertain times by having working capital as a ready source of cash”. In the empirical parts of this study, it is to use the data to test if the relationship between working capital management and corporate cash holdings are supported by the empirical data.

Effectives of Inventory Management as Working Capital Management Practices

According to Mathur (2003) inventories include raw materials, consumable stores and spares (working-in-process & finished goods). In general, a manufacturing firm has all three elements of inventories stands for about 25 to 30 percent of the total assets. Brealey et al 19 (2004) describe that the firms have the raw materials and sell the finished products. The period between the investment in inventories and date of sales is the period of inventory. Inventory is viewed as an asset and a liability. Smith (1980) explains with a case analysing that “the tightened inventory policy reduces necessary borrowing to a lower level than does faster collection of receivables or slower payments of current liabilities.”

Dimitrios (2008) points out that on one hand, too much inventory demand more physical space, could lead to a financial distress, and increases the possibility of inventories damages, deterioration and losses. Moreover, holding large amount of inventory frequently indicates for inefficient and careless management, not efficient planned and scheduled, less consideration for process and procedures. On the other hand, too little inventories might lead to the interruption of operation in manufacture, increase the possibility of losing sales. “In manufacture cases good customs may become irate and take their business elsewhere if the desired product is not immediately available”.

Effect of Trade Credit Management as a Working Capital Management Practice

Trade Credit management involves the following steps: first, firms should decide the sales terms on which firms sell their goods to their customers. Second, firms should have decision-making on what evidence firm requires from their customer who owes the payment. Third, firms should analysis the risky customers and non-risky customers are likely to perform their bills, this is called credit analysis. Fourth, firms should draw up the credit policy, it means to what extent the firms allow their customers to pay their bills on credit terms. Fifth, Firms make the sales on credit and have the problem collecting the payment when the bills become due which is called collection policy (Brealey, 2004).

Cunat (2005) explains that the trade credit occurs when supplier make the sales on credit to their customers and allow them to postponed their payment when goods are already delivered. “The trade credit is described to be the suppliers as debt collectors and insurance providers”. On the one hand, the suppliers might be in a better position than banks or institute in terms of financing to their customers because suppliers could stop supplying the goods to their customers to alert the borrower. On the other hand, suppliers might act as liquidity providers insurance the liquidity adverse shock which might danger the survival of their customer relationships. However, “The supplier uses their extra enforceability power to lead on the basis of returns that are non-verifiable and stochastic. Therefore, this makes trade credit riskier than bank debt.

The Performance of Small and Medium Enterprises

The need for companies to align their performance measurement (PM) systems with their strategic goals is well documented in the literature (Kaplan, 1983; Eccles, 1991; Gregory, 1993). To address this need a number of frameworks and processes (approaches) for the development of PM systems have emerged. The most popular of these is the balanced scorecard (Kaplan and Norton, 1992), which emphasizes a balance between the use of financial and non-financial measures to achieve strategic alignment. The popularity of the balanced scorecard has acted as a catalyst for further research into the characteristics of, and approaches for developing, strategic PM systems (Neely et al. 1996a; 1996b; Bititci et al., 1997; Oliver and Palmer, 1998). These approaches have been designed primarily for use in a medium to large company context. Small- and medium-sized enterprises (SMEs) exhibit distinct characteristics that differentiate them from the majority of their larger counterparts (Storey, 1994).

Given these peculiarities, Peel and Wilson (1996) have stressed the efficient management of working capital, and more recently good credit management practice as being pivotal to the health and performance of the small firm sector. Along the same line, Berry et al

(2002) finds that SMEs have not developed their financial management practices to any extent and they conclude that owner-managers should be made aware of the importance and benefits that can accrue from improved financial management practices. The study conducted by De Chazal Du Mee (1998) revealed that 60% enterprises suffer from cash flow problems.

METHODOLOGY

A qualitative research design was adopted for the purposes of this study. This research design was adopted to accommodate the limitation in terms of time and resources available to conduct the study. Also included were the data collection methods and how these data are analyzed. This study used the survey design. The surveying research method as an empirical inquiry that investigates a contemporary phenomenon within its real-life context Reliability and Validity Tests were conducted after pilot testing the tools to respondents drawn from a few our SMEs not included in the sampling frame. The research instrument was thereafter modified on the basis of the pilot test before administering it to the study respondents. In order to ascertain the reliability of the research instrument, Cronbach Alpha was used and the cut-off point of 0.538 was obtained indicating that the instruments were reliable and that the information to be obtained was valid. Additionally, a normality test was conducted to establish the normal distribution of the data.

ANALYSIS AND DISCUSSION OF RESULTS

Linear Regression Analysis

Before regression analysis was done, to investigate the effect of working capital management practices on SMEs performance, the model used for the linear regression analysis was expressed in the general form $F=X_0+X_1B+X_2C+X_3D$. In interpreting the results of linear regression analysis, the coefficient of determination, the F-statistic and the regression coefficient were considered and their values are shown in the tables 7, 8 and 9.

Table 1: Model Summary

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1 | .959 ^a | .919 | .918 | .22452 |

a. Predictors: (Constant), Trade_Credit, Cash_Management, Inventory_Management

Predictors: (Constant), Cash management, Inventory management, Trade credit management

Dependent Variable: Performance of SMEs index

The model summary above indicates that 91.9 % (R Square = 0.919) of the regression model could be accounted for in the study.

Table 2 ANOVA table for Regression

| ANOVA ^b | | | | | |
|--------------------|-----------------|----|-------------|---------|-------|
| Model | Sum of Squares | df | Mean Square | F | Sig. |
| 1 Regression | 126.268 | 3 | 42.089 | 834.984 | .000a |
| Residual | 11.090 220 .050 | | | | |
| Total | 137.357 223 | | | | |

a. Predictors: (Constant), Trade_Credit, Cash_Management, Inventory_Management

b. Dependent Variable: Performance

From the table 3, the summary ANOVA (analysis of variance) and F statistic which reveals the value of F (834.984) significant at 0.000 confidence level. According to Geller (2009), analysis of variance (ANOVA) is used to test the significance of variation in the dependent variable that can be attributed to the regression of one or more independent variables. Employment of this statistical procedure produces a calculated F value that is compared to a critical F value for a particular level of statistical probability. Obtaining a significant F value indicates that the results of the regression are indeed true and not the consequence of chance. Therefore, the F value 834.984 at 0.05 confidence level indicates that the independent variables (working capital management practices) greatly contribute to the variation in SMEs performance.

Table 3. Overall regression model

| Coefficients ^a | | | | | |
|---------------------------|-----------------------------|------------|---------------------------|---------|------|
| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
| | B | Std. Error | Beta | | |
| 1 (Constant) | -.351 | | .049 | -7.214 | .000 |
| Cash_Management | .517 | .011 | 1.023 | 47.614 | .000 |
| Inventory_Management | -.406 | .017 | -.516 | -23.670 | .000 |
| Trade_Credit | .186 | .016 | .225 | 11.323 | .000 |

a. Dependent Variable: Performance

a. Dependent Variable: Performance of SMEs

Performance of SMEs = -0.351 + 1.023(Cash management) – 0.516 (Inventory management) + 0.225 (Trade credit management)

The equation indicates the contribution of each of the factors identified above to the performance of SMEs. The standardized beta coefficient indicates that cash management contributes significantly to the performance of the SME ($p = 0.000$) and ($\beta = 1.023$) while inventory management also contributes significantly to the performance of the SME ($p = 0.000$) and ($\beta = -0.516$) and trade credit management also contributes significantly to the performance of the SME ($p = 0.000$) and ($\beta = 0.225$).

The researcher found out that most of the respondents 81.33% (mean 4.07) had high extents of agreement with the statement that cash management was an effective working capital management practice that enables proper dept management.

This finding is in agreement with Ferreira (2004) who stated that firms maintained certain percentage of assets as cash, but many firms have increased their cash holding levels. The most of the respondents 82.5 % (mean 4.13) agreed with the statement that reduction in the number of the debtors was an effectiveness of credit management as working capital management practice on performance of SME. This is in agreement of Wilson, et al (1997) in an empirical study of the demand for trade credit by small UK firms, also found strong evidence that credit management reduces that number of debtors and finances demand for trade credit. They summarized that small firms that pay trade credit liabilities late appear to do so when they reach their limit on short-term bank finance. These 'credit rationed' firms were, typically, growing and export oriented. In consequence, if the imposition of statutory interest significantly reduces the trade credit offered to smaller firms, this may lead to severe liquidity problems and increased failure rates unless alternative finance is readily available.

The results were as follows, the highest percentage of the respondents 83.30 % (mean 4.17) thought that one of the impacts of working capital management practices was improvement of the marginal return. Principal components analysis and cluster analysis confirm the identification of four distinct 'types' of companies with regard to patterns of working capital management. The first three 'types' of companies focused upon cash management, stock or debtors routines respectively, whilst the fourth 'type' were less likely to take-up any working capital management routines. Influences on the amount and focus of working capital management are discussed. Multinomial logistic regression analysis suggests that the selected independent variables successfully discriminated between the four 'types' of companies. The results suggest that small companies focus only on areas of working capital management where they expect to improve marginal returns.

The findings showed that Linear Regression Analysis before regression analysis was done, to investigate the effect of working capital management practices on SMEs performance,

the model used for the linear regression analysis was expressed in the general form $F=X_0+X_1B+X_2C+X_3D$. In interpreting the results of linear regression analysis, the coefficient of determination, the F-statistic and the regression coefficient were considered and their values are shown in the tables 5, 6 and 7.

Table 5 Model Summary

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1 | .959 _a | .919 | .918 | .22452 |

a. Predictors: (Constant), Trade_Credit, Cash_Management, Inventory_Management

Predictors: (Constant), Cash management, Inventory management, Trade credit management

Dependent Variable: Performance of SMEs index

The model summary above indicates that 91.9 % (R Square = 0.919) of the regression model could be accounted for in the study.

Table 6 ANOVA table for Regression

| ANOVA _b | | | | | |
|--------------------|-----------------|----|-------------|---------|-------------------|
| Model | Sum of Squares | df | Mean Square | F | Sig. |
| 1 Regression | 126.268 | 3 | 42.089 | 834.984 | .000 _a |
| Residual | 11.090 220 .050 | | | | |
| Total | 137.357 223 | | | | |

a. Predictors: (Constant), Trade_Credit, Cash_Management, Inventory_Management

b. Dependent Variable: Performance

a. Predictors: (Constant), Cash management, Inventory management, Trade credit management

b. Dependent Variable: Performance of SMEs

From the table 6, the summary ANOVA (analysis of variance) and F statistic which reveals the value of F (834.984) significant at 0.000 confidence level. According to Geller (2009), analysis of variance (ANOVA) is used to test the significance of variation in the dependent variable that can be attributed to the regression of one or more independent variables. Employment of this statistical procedure produces a calculated F value that is compared to a critical F value for a particular level of statistical probability. Obtaining a significant F value indicates that the results of the regression are indeed true and not the consequence of chance. Therefore, the F value 834.984 at 0.05 confidence level indicates that the independent variables (working capital

management practices) greatly contribute to the variation in SMEs performance.

Table 7 Overall regression model

| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|----------------------|-----------------------------|------------|---------------------------|---------|------|
| | B | Std. Error | Beta | | |
| 1 (Constant) | -.351 | | .049 | -7.214 | .000 |
| Cash_Management | .517 | .011 | 1.023 | 47.614 | .000 |
| Inventory_Management | -.406 | .017 | -.516 | -23.670 | .000 |
| Trade_Credit | .186 | .016 | .225 | 11.323 | .000 |

a. Dependent Variable: Performance

a. Dependent Variable: Performance of SMEs

Performance of SMEs = $-0.351 + 1.023(\text{Cash management}) - 0.516 (\text{Inventory management}) + 0.225 (\text{Trade credit management})$.

The equation indicates the contribution of each of the factors identified above to the performance of SMEs. The standardized beta coefficient indicates that cash management contributes significantly to the performance of the SME ($p = 0.000$) and ($\beta = 1.023$) while inventory management also contributes significantly to the performance of the SME ($p = 0.000$) and ($\beta = -0.516$) and trade credit management also contributes significantly to the performance of the SME ($p = 0.000$) and ($\beta = 0.225$).

At the greatest difficulty faced by SMEs in managing working capital management was slow movement of the stock that was represented by 84.62 % (mean 4.24). The amounts invested in working capital are often high in proportion to the total assets employed and so it is vital that these amounts are used in an efficient and effective way. However, there is evidence that small businesses are not very good at managing their working capital. Given that many small businesses suffer from under capitalization, the importance of exerting tight control over working capital investment is difficult to overstate. The disagreement could have come up because of the difference in places where the research was undertaken.

CONCLUSION

The findings from this research area concluded that effective working capital management is not practiced by the small scale businesses. One of the research objectives was to analyze the extent to which small and medium, business manage their finances with regards to business

survival. These sixty (60) participants who have been trained by VTF Programme have a little Knowledge in financial management in terms of record keeping, savings for the business, financing their business, among others; but practicing it regularly is the problem. These entrepreneurs may find it difficult to trace their money especially when they encounter transactional problems with the financial institutions (banks may ask for advice slips). This confirms Marfo -Yiadom's (2002) assertion that effective financial management (proper records keeping) would help them appreciate the difference between working capital and profit leading to business survival.

RECOMMENDATIONS

Based on the research findings and conclusions from the study, the following recommendations were suggested that customers' creditworthiness should be assessed before credit is given. Small scale businesses should for instance should asses then risk or cost of maintaining credit customers with their returns to the business. If it will cause any liquidity problem, credit should not be given. A clear debt collection procedure should therefore be maintained If debt collection from customers is becoming difficult to deal with, factoring would be another option. They should however bear in mind the cost associated with it. Effective inventory technique should be applied by small scale businesses. Goods should be purchased as and when needed and also take advantage of discounts to make bulk purchases.

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