

RELATIONSHIP BETWEEN WORKING CAPITAL MANAGEMENT AND PROFITABILITY OF SMALL-SIZE ENTERPRISES IN KISUMU COUNTY, KENYA

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Abstract

The study examined the relationship between working capital management and profitability of Small Size Enterprises in Kisumu County, Kenya in order to develop an understanding of dynamics of small size enterprises and a way for measuring the profitability and efficiency of working capital management in the absence of accounting records. The objectives were to establish the influence of accounts receivable on profitability and to determine the relationship between turnovers of inventory on profitability. The study was anchored on pecking order theory and trade off theory. The study adopted a cross sectional survey design. The targets population was 10,002 of small sized enterprises and a sample size of 370 small sized enterprises were

established by using Krejcie and Morgan's table. Primary data was gathered by using semi-structured questionnaire administered personally by drop and pick technique. Data was analyzed using descriptive statistics, the hypothesis was tested by use of Pearson moment correlation and multiple regression analysis. The findings of the study indicate a significant relationship between profitability and accounts receivables of small sized enterprises [$r=.440$, $p=0.000$], significant positive correlation between the profitability and inventory management [$r = .339$, $n=314$, $p =0.000$] and concluded that there was significant relationship between inventory management and profitability of SSEs as well as significant relationship between accounts receivables and profitability of SSEs. The recommends that managers should reduce inventory periods. The researcher recommends further study on relationship between working capital management, innovations and productivity among female owned SMEs in Kenya.

Keywords: working capital management, accounts receivable, inventory turnover, profitability, small-size enterprises

INTRODUCTION

The existence of efficient working capital management (WCM) can make a substantial difference between the success and failure of an enterprise. In Kenya small size enterprises are contributors to economic development by providing employment opportunities and reducing poverty levels. Despite their significance to economic development, small sized enterprises rate of startup is 40% but 60% of them collapse within the first two years of their operations causing retrenchment of human resources, high level of loan defaulters, and inadequate services delivery to the community.

As postulated by Bhattacharya (2001), the relationship between working capital management profitability may be seen through the liquidity-profitability trade-off theory. This theory proposes that there is a trade-off between liquidity and profitability; gaining more of one means giving up some of the other. At one end of the spectrum there are highly liquid firms which are not very profitable while at the other end are firms which are highly profitable but are not very liquid. The basic challenge is therefore to determine whether there is a firm proposition on how to handle small-size enterprises.

According to Brigham (2009) the theory of working capital management describes how working capital should be managed and demonstrates the benefits in terms of liquidity, solvency, efficiency, profitability, and shareholder wealth maximization which accrue to the company from appropriately managing working capital. Declining levels of liquidity, unless

remedied, may result in insolvency and eventually bankruptcy as the business's liabilities exceed its assets. The study carried out by (Garcia-Teruel & Martinez-Solano 2007) on effects of working capital management on SME profitability in Spain found a significant negative association between working capital management and SME profitability. In contrast to the findings to the study above (Uyar, 2009) found significant positive correlations between working capital components with firms' performance in Malaysia. While the above studies were carried out in Spain and Malaysia, the findings significantly differ hence require another study to confirm the correlations between working capital components with firm's profitability, moreover the studies were not on small-size enterprises.

In Kenya, small scale enterprises 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 (Atieno 2000).

According to the Economic Survey of 2006, small scale enterprises contributed over 50% of new jobs created in the year 2005 and over 20% to the GDP of the country. In recognition of this indispensable role, the government has instituted enterprise support programmes including the introduction of Women and Youth Enterprise Funds in the years 2006 and 2007 respectively to fuel the development of these enterprises. Many micro finance institutions have joined the forces in providing them with microcredit hence, causing their access to microcredit increase from 7.5% in 2006 to 17.9% in 2009 (FSD Kenya, 2009.)

THEORETICAL FRAMEWORK

The study was anchored on pecking order theory as well as trade-off-theory. The pecking order theory developed by Myers (1984) is an alternative capital structure theory. According to the pecking order theory, a firm's capital structure is driven by the firm's preference to finance with internally generated funds instead of with external financing. If external financing is required, debt is preferred over equity. The pecking order theory can be explained from the perspective of asymmetric information and the existence of transaction costs. Firms will first use internal equity financing, followed by external debt financing and finally external equity financing.

Sankey (2013) postulates that the possibility of achieving an optimal working capital position of a firm is assumed to adhere to the pecking -order predictions, whereby, firms would rather invest internal funds in long -term investment projects than seek to maintain an efficient working capital position. In this study pecking –order theory is used with an assumption that small sized enterprises use more of its internal sources of funds before resorting to external

borrowings. On the other hand, trade-off-theory is also viewed as an important integral theory on working capital.

The term trade-off theory is used by different authors to describe a family of related theories. In all of these theories, a decision maker running a firm evaluates the various costs and benefits of alternative leverage plans. Often it is assumed that an interior solution is obtained so that marginal costs and marginal benefits are balanced. Pandey (2006) states there is a benefit for debt in that it serves to shield earnings from taxes. Since the firm's objective function is linear, and there is no offsetting cost of debt, this implied 100% debt financing. To avoid this extreme prediction, an offsetting cost of debt is needed. This theory also implies that firms do not have target cash balances but cash is actually used as a buffer between retained earnings and investment needs (Ferreira & Vilela,2004; Bratland & Hornbrink,2013) carried out an empirical study on relationship between working capital policies and stock performance in Swedish stock market. The results of this study show no clear relationship between Swedish firm's working capital policy and the return of trade-off but regarding the relation with risk and return, the result indicates that working capital has a significant correlation with risk and that the aggressive policy of managing working capital is riskier. Moreover, the size of firms neither affect the relationship between working capital policies and stock return nor the risk/ return tradeoff. The study above was carried out on corporate firms while the current study focuses on small sized enterprises.

LITERATURE REVIEW

Studies have been done on effects of working capital management on profitability by different scholars. Working capital management is very important in enterprises management because it directly affects the liquidity and profitability of a firm Rehman and Nasr (2007). The optimal management of working capital is very imperative since it is expected to contribute positively to the success of the firm. To reach optimal working capital management the firm manager should control the trade-off between liquidity, and profitability accurately.

Gull, Rehman& Khan (2013) investigated the influence of working capital management on performance of small medium enterprises (SMEs) in Pakistan. The duration of the study was from 2006 to 2012, from SMEDA, Karachi Stock exchange. The dependent variable of the study was Return on Assets(ROA) which was used as proxy for profitability, independent variable was number of days' account receivable (ACP), number of day's inventory (INV), cash conversion cycle (CCC) and number of days Account payable(APP). The above study did not capture Small-Sized Enterprises, use cross sectional design, Pearson product-moment of correlation and multiple regression analysis. Chowdhury and Amin (2007) investigated the impact of

working capital management activities on financial and operational performance of pharmaceutical firms listed in Dhaka Stock Exchange, Bangladesh. Cross sectional pooled data was analyzed with multiple regression models which show a positive association of working capital policies of firm with its profitability even in current assets management and performance of pharmaceutical firms as well. According to this study sampled firms are found efficient in managing cash, trade debtors, other receivables, inventory and payables. Above study did use the secondary data from financial records, while the current study is using primary data collected from entrepreneurs and Pearson product-moment of correlation analysis.

Uwonda & Okello, (2013) examined Cash flow management utilization by Small Medium Enterprises (SMEs) in Northern Uganda. The research adapted a cross sectional exploratory study. Data from a sample of 120-service sector SMEs were collected and analyzed. The study highlighted limitations in utilization of cash flow in SMEs especially in areas like cash flow projection; tax planning; and budgetary control; determination and interpreting financial statements. Further, utilization of redundant fixed assets, inability to offer cash and early discounts, failure to prepare bank reconciliation and poor credit policies were other concerns for SMEs. For SMEs to reach their potentials, they must design business plan, prepare cash flow projections and cash budgeting; ensure budgetary control, internal control system and control their spending habits; and improve on their credit policies. The study above adapted exploratory research design while the current study uses cross sectional survey.

In Kenya very little researches have been carried out on relationship between working capital management and Profitability. Despite the significance of Small-Size Enterprises(SSEs) to economic development, small their rate of startup is 40% but 60% of them collapse within the first two years of their operations causing HR attrition, high level of loan defaulters, and inadequate services delivery. Previous researches reveal that SSEs face challenges of keeping accounting records, financial statements and working capital management.

Gakure, Chelugut, Onyango & Keraro (2012) analyzed the relationship between working capital management and performance of 15 manufacturing firms listed at Nairobi NSE from 2006 to 2010 and a total 75 firms were observed. They used secondary data from sample of 18 companies at NSE. Pearson's correlation and regression analysis were used for the analysis. The results indicated that there is a negative relationship between firm's performance and liquidity of firms. The study found that there is a negative coefficient relationship between average collection periods, average payment period. Inventory holding period and profitability while the cash conversion cycle was found to be positively correlated with profitability. However, the effects of the independent variables except the average payment period were not statistically significant yet overall model was statistically significant.

Objectives of the Study and Hypotheses

This study assessed the relationship between working capital management and profitability in order to develop an understanding of dynamics of small size enterprises and a way for measuring the profitability and efficiency of working capital management in the absence of accounting records and financial statements. The following null hypothesis were tested.

- i) *H₀₁: There is no significant relationship between account receivable management and profitability of Small scale sized enterprises in Kisumu County, Kenya*
- ii) *H₀₂: There is no significant relationship between turnover of inventory and profitability of Small scale sized enterprises in Kisumu, County Kenya*

RESEARCH METHODOLOGY

Research design

The study used a cross sectional survey research design. A survey is suitable when a study intends to describe events or opinions without manipulating variables (Oso and Onen, 2009). The design was appropriate because the researcher intended to correlate working capital management components with profitability of Small-Size Enterprises. As stated by (Mugenda, 2008 & Robson, 2002) a cross sectional design is imperative when the objective is to find out the relationships between variables but does not need to prove causation.

Target population and sample size

Study targeted 10,002 SSEs in Kisumu County spread in Seven Sub-Counties (Constituencies) namely, Nyando 909, Nyakach 979 Muhoroni 1240, Kisumu East 2114, Kisumu Central 2082, Kisumu West 1101, Seme 1577 as contained in LAIFOMSBR (2014) as shown on table 1.

Table 1: Small-Size Enterprises population in Kisumu County

Sub-Counties (constituencies)	Number of SSEs	proportion (%)
Nyando	909	9.09
Nyakach	979	9.79
Muhoroni	1240	12.40
Kisumu East	2114	21.14
Kisumu Central	2082	20.82
Kisumu West	1101	10.99
Seme	1577	15.76
Total	10,002	100

Source: Integrated revenue register Kisumu County (2015)

The study samples were selected by using stratified random sampling to determine the proportionate size of each sector of small sized enterprises where 370 respondents were drawn from seven Constituencies Nyando 34, Nyakach, 36 Muhoroni 46 Kisumu East78, Kisumu Central 77, Kisumu West 41 and Seme 58. Oso and Onen (2006) point out that stratified random sampling technique defines the strata in the main population and then selected from each stratum to form the sample. It ensured that each Constituency was represented in the sample.

Research instruments

The study used questionnaire methods to collect primary data from the respondents. Questionnaire was preferred because the Study is concerned mainly with the views perception and feelings of entrepreneurs and description of their financial status, which cannot be directly observed. Secondly, the sample size of 370 used in the study was also large and given the time constraints, questionnaires was the most ideal tool for collecting data. Further, a questionnaire is also the most suitable tool for survey research (Oso & Onen, 2009). The study used semi-structured questionnaire to enable the collection of quantitative data from the close and open ended sections. The questionnaire had a section on the demographic information and a section on SSEs profitability in which the respondents answered questions on working capital management practices and financial characteristics in their business, especially on accounts receivables, accounts payable, cash management, and inventory control in regard to the SSEs. The structure of the questionnaire was both closed ended either in Linkert scale or other ranking scale especially ranging from strongly agree to strongly disagree. The questionnaire was administered personally by the researcher with the help of six research assistants by using on the spot collection approach.

The content validity was conducted. This form of validity subjectively assesses the correspondence between the individual items and the concept through rating by expert judges. The designed instruments were counter checked by two expert lecturers in the department of management and entrepreneurship and also department of accounting and finance in order to ensure content validity. The content validity index (CVI) was then calculated. According to Waltz, Strickland, & Lenz (2005) the CVI is defined as the proportion of items given a rating of quite/very relevant by both raters involved or the proportion of items given a rating of 3 or 4 by both raters involved. According to this definition, both judges have to agree that any individual item is relevant in order for it to count towards the CVI. In this study, 32 out of 37 items were judged to be quite or highly relevant (a rating of 1= not relevant; 2 = somewhat relevant; 3 = quite relevant and; 4 = highly relevant) by both experts, and so the CVI was computed to be

.818 as shown in table below. Researchers have indicated that a CVI of .70 or higher is acceptable (Oso, 2013; Waltz, Strickland, & Lenz, 2005). The CVI for this study was 86%.

Data collection procedure

The researcher was given a research clearance permit from the National Commission for Science, Technology and Innovation. Further, permission was also sought and granted from the School of Postgraduate studies Jaramogi Oginga Odinga University. The researcher proceeded to the field to collect data from the 336 SSEs in Six Constituencies in Kisumu city after having carried out pilot study in Nyando Constituency using a sample size of 34 respondents hence excluded in the from the actual survey. The instruments were administered by the researcher and six trained research assistants through on spot collection method. The respondents who were not able to read and write, the questions were read out for them and services of an interpreter was sought.

Data analysis approach

The quantitative data was analyzed by using the descriptive and inferential statistics. The statistical tests such as pearson moment product correlation coefficient and multiple regression analysis were used.

FINDINGS & DISCUSSION

Influence of the account receivable management on profitability of small scale size enterprises in Kisumu County, Kenya

For the appropriateness of the account receivable management, a Likert-scaled based questionnaire, in which respondents choose from 5-point score; very low, low, average, high and very high was used. The respondents were asked to score on the statements based on their view on appropriateness of the statements to the account receivable management. Their responses were summarized in percentages as in Table 2.

Table 2: Appropriateness of account receivable management

Statements on account receivable	VL	L	A	H	VH	MH
Sell products or services on credit	93 (29.6%)	45 (14.3%)	66 (21.0%)	74 (23.6%)	23 (7.3%)	13 (4.1%)
Allow discounts for prompt payments by customers	94 (29.9%)	43 (13.7%)	78 (24.8%)	62 (19.7%)	25 (8.0%)	12 (3.8%)
Set up Credit policy to customers	93 (29.6%)	45 (14.3%)	66 (21.0%)	74 (23.6%)	23 (7.3%)	13 (4.1%)

VL-Very low, L-Low, A-Average, H-High, VH-Very high, MH-Moderate high

The findings of the study show that, a sizable majority 29.6% (93) of respondents did sell products or services on credit while about a fifth of them (21.0%) 66 of them sold on credit. However, 30.9% (97) others sold on credit sales. In fact, in the same proportion respondents had indicated that they had setting up credit policy to customers. The result also showed that in 29.9% (94) of the businesses allow discounts for prompt payment by customers to a very low extent. Only 19.7% (62) of the businesses generously allow discounts for prompt payments.

Hypothesis testing on account receivable management

The null hypothesis was “there is no statistical significant relationship between account receivable management and profitability of small scale sized enterprises in Kisumu County, Kenya”. This relationship was investigated by use of a bivariate Pearson correlation analysis. The Pearson product-moment correlation coefficient was computed to gauge the strength and direction of their relationships. The scores from the account receivable management questionnaire was the independent variable, while dependent variable was the profitability of SSEs scores. Preliminary analyses were performed to ensure no violation of the necessary assumptions of Pearson product-moment correlation.

The findings of the study, as indicated by the Pearson moment correlation results in Table 3 shows that there was a significant relationship between business profitability and account receivable management in small sized enterprises. There was a fairly strong, significant positive correlation between the two variables [$r = .440$, $n=314$, $p < 0.05$], with high levels of management of account receivable associated with high levels of profitability of the small scale sized enterprises.

Table 3: Pearson correlation between account receivable management and profitability level

		Profitability	Account Receivable Management
Profitability	Pearson Correlation	1	.440**
	Sig. (2-tailed)		.000
	N	314	314
Account Receivable Management	Pearson Correlation	.440**	1
	Sig. (2-tailed)	.000	
	N	314	314

** . Correlation is significant at the 0.05 level (2-tailed).

Given that there was a statistical significance ($p < 0.05$), there was sufficient evidence to reject the null hypothesis; consequently, the study indicated that there was significant relationship between account receivable management and profitability of SSEs. The findings did not

conform to the findings of (Deloof 2003; Lazaridis et al 2006; Padachi 2006), however the findings of (Sharma & Kumar 2011; Nyabwanga et al 2012) showed a positive relationship which conforms to the findings of this study. The rationale of the deviating in number of days Accounts receivable and profitability is caused by a longer span taken by the firm to receive payments from customers. Lazaridis et al (2006) states in his findings that firms decrease the accounts receivables so that the cash conversation gap can be reduced, however ,Sharma and Kumar (2011) who carried out a study in Indian firms and found a positive relationship and states that firms can improve the profitability by lengthening the credit period for their customers, the rationale they came up with was that Indian companies grant longer credit periods in order to sustain the local markets and hedge stiff competition. The other reason for this significance difference is political and environmental influence of competitive force from multinational companies (MNCs) over the company they were studied. Control variables in the model do not have significant effect.

The coefficient of determination ($R^2 = .193$) as shown in table 4.19, computed and indicates that the two variables shared about 19.3 per cent of their variance, meaning there was a considerable overlap between the two variables. This means that the account receivable management accounted for about 19 per cent of the variability in respondents' scores on the profitability of SSEs scale. This was a sizeable amount of variance on the profitability of SSEs in Kisumu County explained by one independent variable

The relationship between turnover of inventory and profitability of SSEs in Kisumu County, Kenya

The respondents were asked to give their opinion on the management of inventory in their businesses. Their responses were tabulated in Table 4.

From Table 4, the findings of the study indicate that majority 61.5% (193) of the respondents rate their review of inventory as generally high, however 16.3% (51) of them held that their inventory review was low. More than a quarter 27.7% (85) of the respondents rate their use of computer as high, but some (12.4%) 39 of the respondents held the perception that use of computer in managing inventory was very low in their enterprise.

However, about a fifth (20.7%) 65 of them had a perception that their preparation for inventory budget was average, while 28.0% (88) of the respondents rated their preparation of inventory budget as high.

Table 4: Ways of stock management (n = 314)

Stock management	VL	L	A	H	VH	MH	Mean	S.E
Review of inventory	30 (9.6%)	21 (6.7%)	45 (14.3%)	85 (27.1%)	108 (34.4%)	25 (8.0%)	3.76	0.08
Prepare inventory budget	28 (8.9%)	27 (8.6%)	65 (20.7%)	88 (28.0%)	84 (26.8%)	22 (7.0%)	3.59	0.07
Use computer in managing inventory	39 (12.4%)	29 (9.2%)	61 (19.4%)	87 (27.7%)	73 (23.2%)	25 (8.0%)	3.44	0.08
Apply stock taking procedures	29 (9.2%)	34 (10.8%)	71 (22.6%)	80 (25.5%)	75 (23.9%)	25 (8.0%)	3.48	0.07
Calculate average stock	47 (15.0%)	38 (12.1%)	48 (15.3%)	77 (24.5%)	81 (25.8%)	23 (7.3%)	3.37	0.08

The findings of the study also show that 25.5% (80) of respondents believed that the way they apply stock taking procedures in their businesses was high enough, but another 23.9% (75) believed their application of stock taking procedures was not only high but very high. Despite all that, a significant proportion (22.6%) 71 of the respondents held reservation on stock taking procedures in their enterprise and said they were average, as another 9.2% (29) of the respondents bluntly declared that their stock taking procedures were very low. As regards calculation of average stock, 25.8% (81) of the respondents rated it as very high and another 24.5% (77) as high.

Hypothesis testing on turnover of inventory

The study sought to establish whether there was any statistical significant relationship between business profitability and turnover of inventory among the small sized enterprises in Kisumu County. The Pearson Product-moment correlation coefficient was used to measure the strength and direction of the relationship, if it exists. Prerequisite preliminary analyses were performed to ensure no violation of the necessary assumptions of Pearson Product-moment correlation.

Table 5: Pearson correlation between inventory management and profitability level

		Profitability	Inventory Management
Profitability	Pearson Correlation	1	.339**
	Sig. (2-tailed)		.000
	N	314	314
Inventory Management	Pearson Correlation	.339**	1
	Sig. (2-tailed)	.000	
	N	314	314

** . Correlation is significant at the 0.05 level (2-tailed).

It was established, as shown in the SPSS output in Table 5, that there was a moderate, significant positive correlation between the two variables [$r = .339$, $n=314$, $p =0.000$], with high levels of inventory management resulting into high levels of profitability of the small sized enterprises. Suffice, there was sufficient evidence to reject the null hypothesis and consequently the study indicated that there was significant relationship between inventory management and profitability of SSEs. The management of inventory influences positively the profit generations and as a consequence the return on assets (ROA). The obtained profitability was moderately correlated with the inventory turnover ($r=.339$). This implies that the inventory turnover is explained by the length of enterprise operating cycles.

A coefficient of determination was calculated from Table 5 (0.339 squared) to find how much variability of profitability level was caused by inventory management. A coefficient value of $R^2 = .115$ indicated that the two variables shared about 11.5 per cent of their variance, meaning there was a substantial overlap between them variables. It also implies that 11.5% of variability of profitability level of SSEs was caused by inventory management.

This finding is consistent to Dinku (2013), Gill, Biger and Mathur (2010), (Pedachi 2006 and Lakshan 2007) which had revealed, though insignificant, positive relationship to the small sized enterprises. Similarly, (Gill, Biger and Mathur 2010) on the sample of manufacturing industry firms with similar methodology, found an insignificant positive relationship. Positive relationship inventory turnover and return on asset (ROA) does not indicate that small sized enterprises can increase their return on asset by increasing the duration of inventory stock since the relationship was not significant and which cannot be true in the practical business world.

However, on the contrary studies by Raheman and Nasr (2007), Padachi (2006), Garcia-Teruel and Martinez-Solano (2007), Deloof (2003) found negative relationship between the number of days the inventory is held and the profitability. This result is further investigated by (Pedachi 2006 and Lakshan 2007). Even though they applied similar methodology, their findings were quite different; such a variation is occurred due to an environmental difference and sample size they considered

Summary of the Findings

The foundation of the study was on the assumption that small sized enterprises do play a major role in the world economy in general and Kenya in particular but also be recognized as the main contributors to economic development.

To assess the influence of accounts receivable on profitability of Small-Size Enterprises in Kisumu County, Kenya. This was investigated by use of a pre-designed questionnaire tailored to collect the views of the respondents on management of accounts receivable and interview

schedule targeting business group leaders. In Kisumu County, the idea of debts collections among small sized enterprises was still a major challenge. The study revealed that 26.4% (83) of the SSE businesses never reviewed their levels of receivables. The Pearson moment correlation conducted indicated that there was a significant relationship between business profitability and account receivable management in small sized enterprises, which was fairly a strong, significant positive correlation between the two variables [$r = .440$, $n=314$, $p=000$]

To establish the relationship between turnover of inventory and profitability Small-Size Enterprises in Kisumu County, Kenya. Inventory turnover was investigated by use of pre-designed questionnaire, which sought to explore its constructs that are related to profitability. Only 14.6% of the respondents determined their inventory level based on economic order quantity which is the accounting principle. In furtherance, the findings of the study established that the majority, 51.0% (155), of the SSE businesses in Kisumu County, reviewed the level of stock every month. When The Pearson Product-moment correlation coefficient was used to measure the strength and direction of the relationship, the findings was revealed a moderate, significant positive correlation between the two variables [$r = .339$, $n=314$, $p <.05$], with high levels of inventory management resulting into high levels of profitability of the small scale sized enterprises hence rejected the null hypothesis and concluded that there was significant relationship between inventory management and profitability of SSEs.

CONCLUSION

The conclusions were drawn from the objectives of the study. Working capital management is an imperative component of financial management decisions in all enterprises regardless of its location, position, nature and type. The ability of the enterprise to operate for longer time depends up on a proper trade-off between management of investment in long term and short term funds (working capital). It can be concluded that as a person matures the potential of owning business increases. The majority of ages 20-25 (41.7%), could be attributed to the youth empowerment programs started in Kenya in 2011 by the government encouraging the youth and female gender to start businesses and to prepare them to own and grow their businesses.

RECOMMENDATIONS

The recommendations of the study are hereby presented and guided by the study objectives. This study recommends that Managers/owners should focus on reducing cash held by customers as soon as possible because it is better to receive inflows sooner than later this can be achieved by the enterprises offering cash discount for prompt payments. As inferred this study in which 7.0 % of respondents review their stocks annually, it is recommended that the

small sized enterprises should review stock quarterly and maintain moderate inventory levels in order to reduce the problems of stock out and overstocking which cause business interruptions and loss of customers. The lack of skills and knowledge in financial management has been revealed by this study as the major persistent hindrances to small sized enterprises profitability in Kisumu County.

SUGGESTIONS FOR FURTHER RESEARCH

- i The following area is recommended for further research: Relationship between working capital management, innovations and productivity among female gender owned SMEs in Kenya
- ii A research can also be conducted to establish the influence on innovations, business training on growth of small and sized entrepreneurs in Kenya
- iii Influence of Inventory systems management on profitability of Micro and small sized enterprises

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