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RELATIONSHIP BETWEEN CASH MANAGEMENT LITERACY AND SOLVENCY POSITION OF WOMEN MICRO ENTREPRENEURS IN NAKURU TOWN, KENYA

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Abstract

The application of financial literacy practices in SMEs is important to ensure solvency of these ventures since inadequate financial literacy has been faulted as the main reason for failure of many small enterprises especially during start up. There was a need to explore the connection between cash management literacy and solvency position of women micro entrepreneurs in Nakuru Town. Explanatory research design was employed since the area under the study had not been well researched. Stratified proportionate random sampling was applied for a sample of 187 registered women entrepreneurs using of structured questionnaires. Data was analyzed using correlation and regression with the aid of SPSS. The research findings indicate that cash management has a significant positive relationship with solvency position of women micro enterprises in Nakuru Town. Conclusions can be made that women micro entrepreneurs are not able to keep business funds separate from personal funds. It was recommended that the county government of Nakuru should organize seminars and training on cash management.

Keywords: Cash management, literacy, solvency position, women

INTRODUCTION

All over the world, financial literacy has been given a considerable measure of attention and is accepted to be a key component to personal finance as it is applicable to any individual who settles on choice about money. Njoroge (2013) argues that financial literacy is an inclination to use information and aptitudes to direct money related assets successfully for a presence of budgetary prosperity. It involves the awareness of appropriately settling on choices relating to individual areas of finance. It likewise includes having information on financial concepts like loan costs monetary arrangements, time value of money, borrowings and reserve funds, profit and loss, resources and liabilities.

The history of financial literacy can be traced back to 1787 when John Adams identified that the real reason why financial literacy should be developed is because individuals were ignorant about management of their credit, cash and its circulation. The 1950s however marked the time where several countries began to embrace financial literacy and most of the research that was conducted revolved around aspects of financial management and financial literacy. In the United States of America programs were designed that sought to provide financial education and they specifically targeted the young population during the 1970s. Japan by the year 2000 also embarked on serious financial literacy and later in 2002 developed guidelines that were focused on the education of consumers on aspects of finance. By 2004 the Certified Public Accountants profession started a widespread financial literacy program. Uganda and Namibia adopted the same in 2012. United Kingdom further made it compulsory to include financial education in the curriculum of their schools (Singh, 2014).

According to Marcolin and Abraham (2006), the requirement for financial literacy has grown quickly in most recent decade in light of the fact that financial markets have been deregulated and credit has turned out to be less demanding to get as financial institutions contend firmly with each other for the market share. In a study by Cherugong, (2015) who looked to build up the impact of Women Enterprises Fund on financial improvement of women enterprises in Trans Nzoia, revealed that financial literacy had beneficial outcome on credit reimbursement among women in business. However, the study reported that these women require pre-entrepreneurial financial training to manage a business enterprise effectively and successfully (Orhan and Scott, 2001). This study therefore, seeks to fill this gap by establishing the relationship between financial literacy and solvency position of women entrepreneurs in Nakuru Town, Kenya. Specifically, the study investigated the relationship between cash management literacy and solvency position of women micro entrepreneurs in Nakuru Town.

The study sought to investigate the relationship between cash management literacy and solvency position of women micro entrepreneurs. In examining the relationship between cash management literacy and solvency position of women micro entrepreneurs, the following hypothesis was tested.

HO: Cash management literacy has no significant relationship with solvency position of women micro entrepreneurs.

Cash management literacy → Solvency position of women micro entrepreneurs

Figure 1: Conceptual framework

LITERATURE REVIEW

Cash Management literacy

Cash management literacy is segment of financial literacy, which for the purposes of this research was looked at as one of the autonomous variable of financial literacy. Cash management is a crucial skill for financial success. There are various techniques used for larger organization to maintain cash at an optimum required level. The famous model is miller-Orr cash management model. Women depending on their various financial literacy standards may or may not be utilizing this model.

Grablowsky and Burns (1980) carried out a study on cash management practices of 66 microenterprises from various enterprises situated in and around Norfolk, Virginia. The outcomes demonstrated that 67 percent of respondents did not do estimation of cash streams. Another investigation by Cooley and Pullen (1979), viewed cash management as the way toward arranging and controlling money streams that comprised of three fundamental parts, including cash estimation practices, cash savings, and cash control through planning. Aminu (2012) further clarified that cash management unites activities involved about cash collection, its management, solvency management including obtaining and transfer of treasury resources and monitoring them, a technique for investing surplus cash for greater returns and financing deficiencies at the least cost possible. At the end of the day, it centers on genuine activity and disposes of one-time expenses and non-money charges and gives a clear picture of what the organization is really doing (Amuzu (2010).

Cooley and Pullen (1979); analyzed cash management practices of 122 private ventures occupied with marketing of petroleum and observed that 73 percent of respondents had encountered a cash in excess of the requirement. On the other hand, Murphy (1979) found that active management of cash by small ventures in the UK was not usual where the study reports that there was little disposition to invest surplus cash in the short term.

The studies above reveal that many people are not conscious of cash management practices. Women are not an exception. This would spell doom for small and medium enterprises since the success of these ventures solely depends on the entrepreneurs way of life including their cash management behavior. There is therefore need to investigate the relationship this would have on the solvency position for the business ventures of women in Nakuru Town. The study therefore investigated the relationship between cash management literacy a variable of financial literacy and the solvency position of women entrepreneurs.

Solvency

Jassy et al., (1998), characterize liquidity of a firm as when the aggregate resources of that firm are higher than its present liabilities, consequently it can meet its commitment. Solvency demonstrates a firm present and long term budgetary wellbeing and solidness consequently it impacts on the capacity of a firm to obtain credit, financing and investment capital. Solvency can impact performance of a firm given that partners are additionally intrigued by liquidity proportions of organizations. One of the principle worries of a business is to stay liquid. Alongside liquidity and feasibility, liquidity empowers a business to continue onward and stay in business. Liquidity is the limit of a business enterprise to have adequate resources to cover its liabilities. Business resources are the things the business claims, and the liabilities are what the business must pay. Businesses have issues with income every so often, particularly amid start up. In the event that the business has excessively numerous bills to pay and insufficient resources to meet those bills, the business will cease to exist. Solvency relates expressly to the declaration of financial position of business. Convectional bookkeeping condition is that Assets measure up to Liabilities in addition to capital.

On the chance that a business has inadequate resources, its advantage breaks even with risk then proprietor has no value. If the business has a larger number of claims than liabilities, the proprietor claims a greater amount of the business resources and can change them over into money if necessary. Liquidity is regularly computed as a proportion of assets over liabilities. Solvency looks at advantages of liabilities and checks whether there are sufficient resources to pay the bills. Ratios are the most widely recognized approach to quantify liquidity, it additionally incorporates liabilities: lenders, charges payable, advances repayable, leases and everything that the business owes (Idowu, 2010).

The ratios that measure solvency position are as follows: current ratio is the aggregate current resources separated by the aggregate current liabilities. The present resources are cash, account holders, stock, and prepaid costs. Other non-current resources like premises aren't considered in this proportion since it takes long time to convert them to cash to pay the

bills, and difficult to recover the underlying incentive because of depreciation. For a business to stay liquid and cover liabilities, it ought to have a present proportion of 2 to 1, indication that it has twice the same number of current resources over present liabilities (Jean & Murray, 2017).
Women in small and micro enterprises from time to time should check their solvency positions. However, in many cases they lack the financial literacy skills that enable them measure their liquidity position. In addition, many have not understood the indicators of poor solvency performance by analyzing variables such as cash management, debt management, credit management and inventory management which impact the solvency positions of their businesses. A lack of financial literacy is a predicament to both developing and industrialized economies. Evidence shows that even consumers in industrialized economies fall short to demonstrate a strong grasp of financial literacy. For this reason many consumers have not been able to protect themselves against financial risks (Ibrahim, Harun & Isa, 2009).

An examination by Raffer (2010 reasoned that Suppliers dependably check the liquidity position of the organizations before giving products on credit. The financial specialists are also guided by liquidity position as it gives an indication about how much the venture is unsafe. The study report that liquidity, profitability and solvency are firmly related in light of the fact that when one increases the other declines and for this reason they determine the financial performance of enterprises.

Theory of Financial Literacy

Financial literacy is a region that was first championed by the Jumpstart Foundation for individual monetary education in its research on financial literacy among secondary school students. Financial literacy theory is a best in class hypothesis that acquires hypothetical points of view from different speculations together with monetary financial aspects, general brain research, human science and administration to reveal the financial conduct of people (Hogarth, & Hilgert, 2002). Previous studies have found that financial literacy is a multi-dimensional zone containing commonality of monetary items, comprehension of budgetary ideas, having the scientific abilities fundamental for successful management of financial resources and budgetary conduct, for example, financial planning. Literature on financial literacy started by recording basic connections between financial literacy and a considerable amount of financial practices, for example, money administration, debt and saving practices, retirement planning, resource proprietorship and interest in cash and capital markets (Wagland &Taylor, 2009).

The theory of arranged behavior, every now and again used to comprehend and foresee human conduct, has been applied to online shopping conduct, investment conduct and debt reduction practices. The trans-theoretical model of change (TTM), which is utilized to see how shoppers dispose of undesirable practices and create positive practices, has been applied to saving and obligation reduction practices (Xu, & Zia, 2012)

Existing literature has revealed a correspondence between financial literacy and a few distinctive monetary practices and results, for example, paying bills on time, tracing everyday expenditure, planning, paying credit card consistently, setting aside savings and diversifying investments. Further research has prompted that financial literacy is definitely connected with getting ready for old age, investment of funds and accumulation of wealth, market participation and better monetary spreading in various investment opportunities (Grablowsky, & Burns, 1980). In this study, financial literacy theory was used to observe the influence of financial literacy contributes to better decision making in matters such as cash management literacy and its influence on the solvency of the entrepreneurial firms for women.

RESEARCH METHODOLOGY

This study employed explanatory research design**.** The population of the study comprised of all 187 enrolled women small scale entrepreneurs working in Nakuru Town which have been in existence for at least five years as indicated by Nakuru County Governments branch of Trade and Industrialization Statistics. Further, stratified sampling was used to classify business into strata's while stratified proportional sampling was utilized to decide the quantity of respondents from every stratum who formed the final sample. Simple random sampling was used to decide the last respondents to be met in light of years of experience they have been doing business for this situation at least five years. Primary data was used which was collected using structured questionnaires. Validity and reliability of the data instruments was enhanced through pilot testing.

Data was examined with the guide of the latest version 21 Statistical Package for Social Sciences (SPSS). Data was initially be "cleaned" through missing values analysis to guarantee consistency, comprehensiveness and culmination in data anticipated. Descriptive statistics like frequencies and percentages were used to summarize the data regarding cash management literacy and solvency position. Inferential statistics like while regression analysis was used to test how the dependent variable varies with the independent variable. Research hypotheses was tested at 5% significance level using the regression while F-statistic was used to measure whether the model fits the data significantly.

The study employed the following regression model

$Y= \beta 0+\beta_1 X_1 + \varepsilon_i$

Y=solvency position

β_0= regression constant

β_1, Beta Coefficients for cash management literacy

ε_i = Stochastic error term assumed to be normally distributed

ANALYSIS AND FINDINGS

Respondents were asked to indicate the extent to which they agreed with cash management literacy statements. Table 2 presents the results of the analysis. On cash management literacy, the results indicate that a fair majority 52(53.6%) of the respondents were in agreement that the goals they have for managing their money enhances their solvency position (mean=3.299). A larger majority of the respondents 53(77%) were in agreement that they often keep up to date cash flow statement for their businesses (mean=2.443). Grablowsky and Burns (1980) carried out a study on cash management practices of 66 microenterprises from various enterprises situated in and around Norfolk, Virginia. The outcomes demonstrated that 67 percent of respondents did not do estimation of cash streams. The results also indicate that respondents 56(57.8%) agreed that surplus cash flow is put to work i.e. for business expansion, to pay off debts, or to maintain a certain level of working capital (mean=3.371). There was neutrality among a fair majority of the respondents 45(46.4%) on whether the respondents were able to keep business funds separate from personal funds (mean=2.958). Further, there was disagreement among most respondents 68(70.1%) on whether they have the ability and knowledge to draw simple business budget (mean=2.0825) with 48(49.5%) being disagreeing that they usually keep accounting records for their business (mean=2.453). In a research by Cork and Nixon (2000), poor administration and bookkeeping practices are hampering the ability of small firms to raise funds. The results indicate that all the standard deviation values were greater than 1 indicating that the respondents had disparity in perspectives regarding cash management literacy.

Table 1: Descriptive results for cash management Literacy

Cash Management literacy statements N=97	Strongly disagree	Disagree	Undecided	Agree	Strongly Agree	Mean	Std.
The goals I have for managing my money enhances my solvency position	11 (11.3%)	13 (13.4%)	21 (21.6%)	40 (41.2%)	12 (12.4%)	3.299	1.191
I often keep up to date cash flow statement for my business	12 (12.4%)	12 (12.4%)	16 (16.5%)	35 (36.1%)	18 (40.9%)	2.443	1.306

Table 1...

Surplus cash flow put to work i.e. for business expansion, to pay off debts, or to maintain a certain level of working capital	13 (13.4%)	12 (12.4%)	16 (16.5%)	38 (39.2%)	18 (18.6%)	3.371	1.293
I am able to keep business funds separate from personal funds	12 (12.4%	14 (14.4%)	45 (46.4%)	18 (18.6)%	8 (8.2%)	2.958	1.079
I have the ability and knowledge to draw simple business budget	37 (38.1%)	31 (32%)	16 (16.5%)	10 (10.3%)	3 (3.1%)	2.082	1.114
I usually keep accounting records for my business	23 (23.7%)	25 (25.8%)	35 (36.1%)	10 (10.3%)	4 (4.1%)	2.453	1.089

Solvency position literacy

Respondents were asked to indicate the extent to which they agreed with solvency position literacy statements. On solvency position of women micro enterprises, the results on table 3 indicate that 47(48.4%) were in disagreement that women micro enterprises have very little liabilities (mean=2.783) and sufficient assets according to a larger majority 59(60.9%) of the respondents (mean=2.38). Lusardi and Tufano (2009); Mason and Wilson (2000) clarified financial literacy as the procedure in which people utilize a mix of abilities, assets, and relevant learning to process data and settle on choices with information of the financial implication of that choice. There was no big margin among the respondents on whether the current assets of women micro enterprise were more than the current liabilities, with 46(38.4%) being in disagreement while 35(36.1%) were in agreement (mean=2.732). Jackson et al., (2002), characterize liquidity of a firm as when the aggregate resources of that firm are higher than its present liabilities, consequently it can meet its commitment. Further, respondents 45(46.4%) were in agreement that they have had no difficulty in repaying their debts to suppliers (mean=2.690) but they held neutral opinion 53(54.6%) on whether they pay their suppliers as soon as they deliver goods (mean=2.742). An examination by Khidmat and Rehman (2014), reasoned that Suppliers dependably check the liquidity position of the organizations before giving products on credit. The financial specialists are also guided by liquidity position as it gives an indication about how much the venture is unsafe. The study report that liquidity, profitability and solvency are firmly related in light of the fact that when one increases the other declines and for this reason they determine the financial performance of enterprises. Cash management skills have enabled women micro enterprises in Nakuru Town liquidity position to be steady according to 54(55.7%) of the respondents (mean=3.319). For a business to stay liquid and cover liabilities, it ought to have a present proportion of 2 to 1, indication that it has twice the same number of current resources over present liabilities (Jean & Murray, 2017). It can be implied that there was greater cohesion in the responses among the respondents as indicated by all standard deviations of the mean values which were less than.

Table 2: Descriptive results for Solvency position

Solvency position literacy statements N=97	**Strongly disagree**	**Disagree**	**Undecided**	**Agree**	**Strongly Agree**	**Mean**	**Std.**
My enterprise has very little liabilities	23 (23.7%)	24 (24.7%)	15 (15.5%)	21 (21.6%)	14 (14.4%)	2.783	0.401
I have sufficient assets in my business	9 (9.3%)	15 (15.5%)	14 (14.4%)	25 (25.8%)	34 (35.1%)	2.381	0.349
The current assets of my enterprise are more than the current liabilities	23 (23.7%)	12 (12.4%)	16 (16.5%)	25 (25.8%)	21 (21.6%)	2.732	0.365
I have no difficulty in repaying my debts to suppliers	18 (18.6)%	10 (10.3%)	24 (24.7%)	23 (23.7%)	22 (22.7%)	2.690	0.301
I pay my suppliers as soon as they deliver goods	15 (15.5%)	10 (10.3%)	53 (54.6%)	10 (10.3%)	9 (9.3%)	2.742	0.348
Cash management skills have enabled business liquidity position to be steady	12 (12.4%)	17 (17.5%)	14 (14.4%)	36 (37.1%)	18 (18.6%)	3.319	0.303

Table 3 present the model summary for the regression analysis between the predictor variables and the dependent variable. The overall R^2= 0.799 which indicates 79.9 percent of the variation in the dependent variable is explained by the predictor variable which is included in the model, while 20.1 % variation in the dependent variable is explained by other factors that are not included in the model denoted by **(ε)** in the model.

Table 3: Model Summary[b]

					Change Statistics		
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	Sig. F Change
1	.715[a]	.799	.660	.35006	.799	57.614	.000

a. Predictors: (Constant), cash management literacy,

b. Dependent Variable: solvency

The following multiple regression equation was obtained;

SOLP = 2.475+ 0.263 CAML + ε

Where;

SOLP — Solvency position

CAML — Cash management literacy

Table 4: Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	2.475	.743		3.331	.050
	Cash management	.263	.125	.153	2.104	.000

a. Dependent Variable: solvency

The results on table 4 indicate that there exists a statistically significant positive relationship between cash management literacy and solvency position of women micro enterprises in Nakuru Town ($\beta = 0.263$, $p<0.05$). Numerically, the 0.263 beta coefficient of cash management literacy implies that when cash management literacy increases by an additional unit, solvency position of women micro enterprises in Nakuru County increases by 0.263. Thus, null hypothesis (H_0) "cash management literacy has no significant relationship with solvency position of women micro entrepreneurs" was thus rejected by concluding that cash management literacy has a statistically significant relationship with solvency position of women micro enterprises in Nakuru Town. The research findings agree with those of Aminu (2012) who asserts that cash management unites activities involved about cash collection, its management, solvency management including obtaining and transfer of treasury resources and monitoring them, a technique for investing surplus cash for greater returns and financing deficiencies at the least cost possible.

CONCLUSIONS AND RECOMMENDATIONS

It was concluded that there exist a significant relationship between cash management literacy and solvency position of women micro enterprises. The goals that women micro entrepreneurs have for managing their money enhances their enterprises solvency position which may also be as a results of updated cash flow statements of the women operated enterprises. Women micro enterprises surplus cash flow is put to work i.e. for business expansion, to pay off debts, or to maintain a certain level of working capital. Further, conclusions can be made that women micro entrepreneurs are not able to keep business funds separate from personal funds and they have less ability and knowledge to draw simple business budget.

Further, it was recommended that The County government of Nakuru should organize seminars and training through the respective ministry to train women micro entrepreneurs about cash management in a bid to ensure that women micro entrepreneurs are able to keep business funds separate from personal funds and they have the ability and knowledge to draw simple business budget.

The study was limited to entrepreneurs specifically the women entrepreneurs in Nakuru town whose businesses are of different size. Therefore the generalization of findings was limited to the target population characteristics only.

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