

Cash Management Practices on Financial Performance of Small and Medium Enterprises in Nyeri Town, Kenya

Danson Kinyanjui, Dr. David Kiragu, Dr. Riro Kamau

Department of Accounting & Finance, Dedan Kimathi University of Technology, Kenya, P.O Box 657-10100, Nyeri

*Corresponding Author:

Danson Kinyanjui

Email: skdanson@gmail.com

Abstract: Small and Medium Enterprises (SMEs) lack adequate skills to manage and monitor their cash management practices leading to limited financial growth hence inability to compete while increasing their assets, opening more branches and growing their sales. This study sought to analyze effect of cash management practices (cash holding practices, use of technology and cash pooling practices) as well as analyze the combined effect of the cash management practices on financial performance of SMEs in Nyeri town, Kenya. The study employed a descriptive research design with target population being the registered SMEs in Nyeri town. Data was collected using a self-administered semi-structured questionnaire from a sample population of 62 SMEs operating in Nyeri town and registered by the business registrar's office in Nyeri County. Data was analyzed using statistical package for social sciences (SPSS) to generate descriptive and inferential statistics. Results obtained indicated that cash holding practices and use of technology in cash management had a relevant effect on financial performance of SMEs in Nyeri. The study recommended that all stakeholders in business operations ranging from suppliers, customers, and financiers should embrace use of technology to facilitate electronic data interchange. Future research could focus on comparative study of large organizations to establish whether the same factors affecting SMEs financial performance also affect large businesses.

Keywords: small and medium enterprises, cash management, financial performance, holding practices, technology, financial growth

INTRODUCTION

The world today has changed compared to the mid-twentieth century. The changes are due to globalization, technological advancement, socio-economic progress and establishment of numerous organizations, which keeps on changing at a very fast rate thus making competition fierce. This kind of global focus requires a change in how companies think about working capital management, and most notably, cash management as there is fundamental attitudes and communication different in cash and payments between the various regions especially America and Europe. In the globalized and knowledge-based economy, cash management practices aim to centralize payment and standardize the global treasury with the advance change in technology. Companies in world market must be able to generate sufficient cash to be able to meet immediate obligations and therefore continue trading [1]. Wealth and growth in today's world economy is primarily driven by optimal cash management practices. Several studies report that cash management practices are associated with a firm's innovative financial results, and an optimal cash balance that enables a firm to minimize the holding and opportunity costs associated with small and medium enterprises (SME's) cash balances [2]. Hence, management of a company should improve cash management practices to enhance innovative

performance. In the same way, micro and small-scale enterprises usually face some difficulties with short of security, inappropriate financial statement preparations well as unproductive accounts preparation and ineffective cash practices in the businesses [3-5] comment that small businesses, in particular, must pay attention to the timing of funds inflows and outflows to ensure that cash is available to meet their financing needs.

According to [6], effective cash management practices comprise critical analysis of determining the optimal amount of cash a business should maintain in their cash tills while minimizing the opportunity cost associated with either holding too much or holding too little [7]. Argued that objective of systematic analysis of cash flow management in the business is for SMEs to hold just the required amount of cash necessary to cater for the SMEs operations [8]. Highlights that cash management requires the use of business model like Baumal model or Miller-Orr model that will assist businesses to ascertain the required amount of cash in the entity to sustain the operation of the business.

According to [9] the significance of SMEs in the economic growth and job creation while trying to improve the living standards of the Kenyan residents

has signaled a lot of concern especially to academic field of research. This development has seen most SMEs employ local resources thus optimizing on their wealth. Thus, SMEs serve as drivers of economic development since they create many opportunities in the market as well as goods and services. The significance of SMEs in supporting economic growth and development is milestone and these contributes to better living standards to the owners and employees thus are considered to be the spine of the economy [10]. Financial performance is an objective measure of how well a firm can use assets from its primary mode of business and create revenues.

SMEs need to generate sufficient cash in order to meet their immediate business operations and obligations to ensure continuous trading. Improper cash management practices have consistently caused SMEs to face stiff competition in the market leading to their failure. Cash management practices by SMEs cause them to have limited growth regarding assets, branches, and increased sales; a gap this study sought to address. The objective of the study was to determine empirical evidence of cash management practices of SME's in Nyeri Town, Kenya and if these identified practices do

in fact influence the financial performance of the SME's. The study evaluated three aspects of cash management practices that included cash holding practices, technology use, and cash pooling practices and analyzed the combined effect of cash management practices and financial performance of SMEs.

MATERIALS AND METHODS

Sampling and sample size

The study used a descriptive survey design where both qualitative and quantitative data was collected. The target population for the study was three hundred and eleven (311) registered SMEs as retrieved from Nyeri county business registrar office (Table 1). The SMEs were identified as five different categories that included retail shops, M-Pesa & electronics, food & cereals, clothing and hardware. According to [11] a sample of 20% to 30% of the target population is deemed adequate hence this study, calculated a representative sample size using 20% of the target population that gave 62 SMEs (Table 2). One respondent (finance officer or accountant) who handles cash or working capital maintenance in the selected SMEs category was purposively selected for data collection.

Table-1: Analysis of Target Population

Registered SMEs in Nyeri town	Total
Retail shops	122
M-pesa & Electronics	76
Food & Cereals	46
Clothing	33
Hard wares	34
Total	311

Table-2: Identified Sample Size

SMEs categories	Total Population	Sample Size	Percentage (%)
Retail shops	122	24	39.3
M-pesa & Electronics	76	15	24.4
Food & Cereals	46	9	14.8
Clothing	33	7	10.6
Hard wares	34	7	10.9
Total	311	62	100

DATA COLLECTION

A semi-structured questionnaire consisting of both closed and open-ended questions was used to collect both qualitative and quantitative data. Open-ended questions were designed to allow the respondents to provide information related to their opinions, attitudes and understanding on cash management practices and their impact on financial performance of the SMEs while closed-ended questions were designed to ascertain the extent to which cash management practices variables affected the financial performance of SMEs. Respondents were asked to indicate the extent to which they rate each cash management practices variable in a scale of one to five. Prior to actual data

collection, a pre-test of the questionnaire was done to ascertain the validity and reliability of the data collection tool. The questions were tested for relevance, comprehension, meaning and clarity and feedback obtained from participants was used to improve the data collection tool by eliminating any ambiguities. Cronbach's alpha was applied to verify the reliability of the tool where an alpha of 0.7 or larger was deemed acceptable [12] Calculated Cronbach's alpha coefficient was 0.713 which correspondent to a this study's threshold factor of 0.7 thus proofing that the questionnaire was strongly reliable for the intended purpose. The questionnaire was revised following

findings from the pilot study and final version adopted for use.

DATA ANALYSIS

The Statistical Package for Social Science (SPSS) version 20.0 was used to analyze data. The SPSS was used because of its suitability to analyze qualitative data, flexibility and customization and its broad coverage of the dependent and independent variables. Raw data was then entered into SPSS computer software and analyzed using descriptive statistics such as the percentages, means, and frequencies. Correlation was tested using correlation coefficient (r), in order to show strength of relationships between variables. Multi-linear Regression was used to establish the relationship between cash management practices (independent variables) and financial performance (dependent variable). The results were interpreted according to the R-values, R² values, the beta values and F- Statistic at the 5% level of significance. The multiple linear regression models applied was;

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3$$

Where:

Y = Financial performance of SMEs in Nyeri town, Kenya

β_0 = Autonomous factor

$\beta_1, \beta_2, \beta_3, \beta_4$ = are beta coefficients

X₁ = Holding practices

X₂ = Use of technology

X₃ = Cash pooling practices

RESULTS AND DISCUSSION

Effect of Cash Holding Practices on Financial Performance of SMEs

A descriptive analysis showed that credit rating recorded the highest mean of 3.94 followed by cash cycle with a mean score of 3.51 (Table 3). Controlling cash flow had a mean score of 2.74 while business processes had a mean score of 1.72. The finding revealed that credit rating, cash cycle, and controlling cash flow had an average score above average.

Table-3: A Descriptive Analysis of Cash Holding Practices on financial performance of SMEs

	N	Minimum	Maximum	Mean	Std. Deviation
Credit rating	53	2.00	5.00	3.9434	.92850
Business processes	53	1.00	5.00	1.7170	1.06297
Cash cycle	53	1.00	5.00	3.5094	1.20292
Controlling cash flow	53	1.00	5.00	2.7358	1.34666
Valid N (list wise)	53				

Relationship of cash holding practices on financial performance of SMEs

A regression analysis (Table 4) on different cash holding factors established that credit rating, cash cycle and controlling cash flow had positive and significant effect on financial performance of SMEs with $\beta = 0.425$ at P- Value 0.005, $\beta = 0.633$ at P- Value 0.000 and $\beta = 0.318$ at P- Value 0.003 respectively. This implies that SMEs should put more emphasis on

credit rating, cash cycle, and cash flow control as cash holding practices strategies since these parameters showed to impact positively on their financial performance. Business processes had a positive but insignificant effect on the financial performance with $\beta = 0.168$ at P-Value 0.208. It is thus concluded that cash holding practices under consideration had a positive impact on the financial performance of SMEs.

Table-4: Analysis of Cash Holding Practices on Financial Performance of SMEs

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-1.493	.822		-1.816	.076
Credit rating	.425	.144	.316	2.946	.005
Business processes	.168	.131	.143	1.277	.208
Cash cycle	.633	.114	.611	5.580	.000
Controlling cash flow	.318	.101	.343	3.138	.003

Findings of the study showed that the cash holding practices had a positive effect on the financial performance of SMEs that concurred with a study by [13] which indicated that speeding up cash collection processes is through cash conversion cycle. The study further notes that when devising measures to shorten the cash conversion cycle, every cash manager must examine and evaluate each piece of the cycle, from order fulfillment to reconciliation of invoices in order to

identify opportunities for its improvement. On the other hand, [14] notes that improving collection processes and the days sales outstanding performance contributes to boosting SMEs liquidity through internal sources as well as its credit rating thus gaining an easier and more favorable access to external sources of funds.

Effect of Technology Use in Cash Management on Financial Performance of SMEs

Results obtained showed that agency banking recorded highest effect with a mean score of 3.9434 (Table 5) followed by mobile banking with a mean

score of 3.5094. Internet banking had a mean score of 1.8679 while ATM had a mean score of 1.4151. The finding revealed that agency banking and mobile banking had a mean score above average.

Table-5: A Descriptive Analysis of Technology Use on Financial Performance of SMEs

	N	Minimum	Maximum	Mean	Std. Deviation
Agency banking	53	2.00	5.00	3.9434	.92850
Mobile banking	53	1.00	5.00	3.5094	1.20292
Internet banking	53	1.00	4.00	1.8679	1.07485
ATM	53	1.00	2.00	1.4151	.49745
Valid N (list wise)	53				

Relationship of means of technology on financial performance of SMEs

Results obtained showed that agency and mobile banking had a positive and significant effect on the financial performance of SMEs with $\beta = 0.336$ at P-Value 0.037 and $\beta = 0.627$ at P-Value 0.000 respectively (Table 6). This is an indication that SMEs are making use of agency and mobile banking as cash management practices with a view of improving their financial performance. Internet banking and ATM had positive but insignificant effect on performance of with $\beta = 0.163$ at P-Value 0.202 and $\beta = 0.181$ at P-Value 0.534 respectively. It is thus evident that use of

technology in cash management showed a positive effect on the financial performance of SMEs. These findings concur with [15] who established that introduction of new technologies led to significant shifts in bank policies, and subsidiary banking started to lose ground to virtual banking as use of remote banking services increased. He also noted that globalization, competition, changing social trends and especially ICT advancements had caused an intense restructuring of the banking industry. According to [16] consumers' banking needs and demands have changed significantly over in recent years as nature of banking is also changing.

Table-6: Analysis of Technology Use on Financial Performance of SMEs

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-.521	.906		-.575	.568
Agency banking	.336	.157	.250	2.142	.037
Mobile banking	.627	.115	.604	5.435	.000
Internet banking	.163	.126	.141	1.293	.202
ATM	.181	.288	.072	.626	.534

The author further notes that what used to happen only in branches can now happen anywhere in the world at any period and through any delivery channel of consumer choice ATMs, either telephones or personal computers. This implies that conventional banking is more endangered by information technologies represented by electronic forms of client's interaction through ATMs, call centers, online banking and mobile banking that involve relatively cheaper costs and permit shoppers to choose from alternate delivery channels.

Effect of Cash Pooling Practices on Financial Performance of SMEs

Analysis of cash pooling practices showed that cash target balance had a positive and significant effect on financial performance of SMEs with $\beta = 0.608$ at P-Value 0.005 (Table 7). This means that SMEs should set minimum cash balance to enhance financial performance. On the other hand, cash concentration, holding cost and marketable securities had positive but

insignificant effect on financial performance of with $\beta = 0.045$ at P-Value 0.845, $\beta = 0.268$ at P-Value 0.084 and $\beta = 0.145$ at P-Value 0.626 respectively. It is thus evident that cash pooling practices under consideration had a significant or insignificant positive effect on the financial performance of SMEs. The findings assert earlier findings by [2], which showed that an optimal cash balance enables a firm to minimize its holding and opportunity costs with SMEs cash balances. According to [17], to manage cash balance, retail shops businesses should have their desired cash level, an upper limit and lower limit on cash balances. The theory states that when the cash balance reaches the upper limit, the company has too much cash. It then should use its cash to buy marketable securities to bring the cash balance back to its desired cash level. When the cash balance hits the lower limit, the company lacks cash [18] views that most firms try to minimize the sum of the cost of holding cash and the cost of converting marketable securities to cash. Baumol's cash management model helps in determining a firm's optimum cash balance

under certainty [19] noted that cash concentration represents an automatic transfer of the balances from clearly specified subaccounts to a single account,

named master or header cash pool account, on a date value basis.

Table-7: Analysis of Cash Pooling Practices on Financial Performance of SMEs

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.001	.851		.001	.999
Cash concentration	.045	.230	.037	.196	.845
Cash target balance	.608	.204	.586	2.973	.005
Holding cost	.268	.152	.200	1.767	.084
Marketable securities	.145	.295	.058	.491	.626

Combined Effect of Cash Management Practices on Financial Performance of SMEs

Results showing relationship between independent variables (cash holding practices, technology use in cash management, cash pooling practices) and dependent variable (financial performance of SMEs) is as shown in table 8 and table 9. The results show that cash holding practices, technology use and cash pooling practices had a positive and significant effect on financial performance

of SMEs in Nyeri town in Kenya $\beta = 0.701$ at P- Value 0.000, $\beta = 0.298$ at P- Value 0.005 and $\beta = 0.437$ at P-Value 0.004 respectively. This indicates that a combination of the cash management practices had a positive effect on financial performance of SMEs. These findings concur with a study by [6] which established that small businesses must pay attention to the timing of cash income and outflows in order to guarantee that cash is ready to meet their financing requirements.

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	44.693	3	14.898	20.096	.000 ^b
Residual	36.326	49	.741		
Total	81.019	52			

a. Dependent Variable: Financial performance of SMEs

b. Predictors: (Constant), Cash pooling practices, Holding practices, Technology use

The model was significant with the F- Statistic = 20.096 at P- Value 0.000 < 0.05. This is an indication that cash management practices have a positive and significant effect on the financial performance of SMEs in Nyeri town, Kenya.

Table 9: Analysis of Combined Effect of Cash Management Practices

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-1.429	.826		-1.731	.090
Cash Holding practices	.701	.101	.675	6.915	.000
Technology use	.298	.101	.321	2.954	.005
Cash pooling practices	.437	.145	.325	3.013	.004

Additionally, efficient cash management practices includes the purpose of the optimal cash to hold by weighing the trade-off between the opportunity cost of holding too much cash and the trading cost of holding too small [7]. It is thus necessary for thorough planning and monitoring of cash flows over time in order to determine the optimal cash to hold since optimal cash management can have a significant impact on overall financial performance management.

According to [20] efficient cash management leads to growth of SMEs. The authors noted that cash planning helps in forecasting cash inflows and outflows

thereby only allowing little cash stored to meet obligations of the firm proper cash management through the investment of surplus cash positively affect the growth of the enterprises as the firm benefits profits from invested money [21] pointed out that management skill, nature of goods and credit policy among other factors to affect the growth of the businesses.

CONCLUSION

From the findings, it is concluded that cash management practices evaluated in this study showed positive impact on the financial performance of SMEs when considered independently as well when combined.

This implies that all the three cash management practices (variables) should be looked at concurrently, as the overall financial performance of SMEs will be greatly improved.

Recommendations for Further Research

Based on its findings, this study recommends the following:

1. SMEs should ensure that they focus on credit rating, reduced cash cycle and controlled cash flow to enhance financial performance.
2. All stakeholders in business operations ranging from suppliers, customers, and financiers should embrace use of technology to facilitate electronic data interchange.
3. Cash pooling parameters considered in this study (target cash balance, cash concentration, holding cost and marketable securities) should be considered in SMEs operations for enhanced financial performance.
4. Future research may adopt a comparative study of large organizations to establish whether the same factors that affect SMEs financial performance also apply to them.
5. Future research should focus on other types of cash management composition variables that affect the financial performance of SMEs.

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