

**INFLUENCE OF WORKING CAPITAL MANAGEMENT PRACTICES ON
FINANCIAL PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN
MACHAKOS SUB-COUNTY, KENYA**

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DECLARATION

This is my declaration that this Research Project is my Original Work and has not been submitted for assessment in any other University or College for a Degree, Diploma or Certificate.

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This Research Project has been submitted for assessment with our approval as the University Supervisors.

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DEDICATION

This Research Project Proposal is dedicated to my University, South Eastern Kenya University in recognition of the unerring Support I am getting from the University's Lecturers. I am indebted not only for the University's intellectual Contribution, but also for their boundless enthusiasm and insightfulness and their equally remarkable humanity.

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ABSTRACT

Working capital can be considered as source of existence for all types of organizations, whether profit or non-profit organizations, therefore, it is a vital component for any profit making organizations for it influences operational level and sales volume. The purpose of this study was to assess the influence of Working Capital Management Practices on Financial Performance of SMEs in Machakos Sub-County, Kenya. This study was based on these objectives: assessment of the influence of cash management practices on financial performance, determination of the influence of receivables management practices on financial performance and the analysis of the extent to which inventory management practices influences financial performance of SMEs. The study adopted a cross-sectional survey research design which allowed the collection of primary quantitative data through structured questionnaires and interview methods. The target population was 159 Owners / Managers of SMEs trading in Machakos Sub-County. Random sampling technique was used to obtain a sample of 22 SMEs trading in Machakos Sub-County. The data was analyzed using both descriptive and inferential statistics. The findings of the study revealed that; working capital management practices were low amongst the SMEs, since majority had not adopted formal Working Capital Management Practices and there Financial Performance was on a low average. The study further revealed that SMEs financial performance was positively related to efficient cash management, efficient receivable management and efficient inventory management at 0.01 significance level. The coefficient of determination (R^2) indicated that 0.507 or 50.7% of the variables in F.P could be explained by the changes ECM, ERM and EIM. This study concluded that WCMPs have an influence on the F.P of SMEs; therefore, there is need for SMEs owners / managers to embrace EWCMPs as a strategy to improve their F.P in order to survive in the turbulent business environment. This study corroborates extant literature findings that established a positive relationship between WCMP and F.P

LIST OF ABBREVIATIONS

AR	-	Accounts Receivables
AP	-	Accounts payables
CCC	-	Cash Conversion Cycle
CCP	-	Cash Conversion Period
CMPs	-	Cash Management Practices
EDQ	-	Economic Order Quantity
ECM	-	Efficient Cash Management
ERM	-	Efficient Receivables Management
EIM	-	Efficient Inventory Management
FP	-	Financial Performance
IMPs	-	Inventory Management Practices
LSEs	-	Large Scale Enterprises
MKS	-	Machakos
NTC	-	Net Trade Cycle
RMPs	-	Receivables Management Practices
SSEs	-	Small Scale Enterprises
SMEs	-	Small Medium Enterprises
OWM	-	Owners Wealth Maximization
OCC	-	Operating Cash Cycle
WC	-	Working Capital
WCM	-	Working Capital Management
WCMPs	-	Working Capital Management Practices
WEQM	-	Wilson Economic Order Model

DEFINITION OF TERMS

Cash: Means all money items and other resources that are immediately available to help pay bills.

Cash Conversion Cycle: Means length of time in days it takes a firm to convert resource inputs into cash.

Economic Order Quantity: Means the quantity that minimizes total inventory holding costs and ordering costs.

Inventory: Means merchandize held for sale to customers.

Receivable: Means goods sold in credit, to customers.

Small and medium enterprises: In this study this term means those firms employing less than 20 workers with an investment of Kshs. 200,000 to Kshs. 2,000,000 excluding land and buildings.

TABLE OF CONTENT

Declaration.....	i
Dedication.....	.ii
Acknowledgement.....	iii
Abstract.....	iv
List of abbreviations	v
Definition of term.....	vi
Table of contents.....	vii

CHAPTER ONE: INTRODUCTION

1.1: Background to the Study.....	1
1.2: Problem statement.....	4
1.3: Research objectives.....	5
1.4: Research questions.....	5
1.5: Significance of this research study.....	5
1.6: Assumption of the study.....	6
1.7: Scope of the study.....	6
1.8: Limitation of the study.....	7

CHAPTER TWO: LITERATURE REVIEW

2.1: Introduction.....	8
2.2: Theoretical Review.....	8
2.3: Empirical Review.....	12
2.4: Literature overview.....	16
2.4.1: Cash Management.....	16
2.4.2: Inventory Management.....	18
2.4.3: Receivable Management.....	19
2.5: The Conceptual Framework.....	21

CHAPTER THREE: RESEARCH METHODOLOGY

3.0: Introduction.....	23
3.1: Research Design.....	23
3.2: The Area of Study and Target Population.....	23
3.3: Sample Size and Samplings Technique.....	23
3.4: Data Collection Procedures and Research Instrument.....	24
3.5: Instrument Validity and Reliability.....	24
3.6: Data Analysis.....	25

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSIONS

4.1: Introduction.....	26
4.2: Response Rate.....	26
4.2: Age of Respondents.....	26
4.3: Characteristics of the study sample.....	27
4.3.1 Age of Respondents.....	27
4.3.2: Number of years the SMEs has been in business.....	28
4.3.3: Level of education of respondents.....	28
4.4.1: Cash Management Practices and SMEs Financial Performance.....	30
4.4.2: Receivables Management Practices and SMEs Financial Performance.....	33
4.4.3: Inventory Management Practices and SMEs Financial Performance.....	34
4.5: Efficiency of Working Capital Management Practice.....	36
4.8: Financial Performance of the SMEs.....	38
4.9: The Relationship between Working Capital Management Practices and Financial Performance.....	39
4.10 Pearson's Correlation Coefficient Results.....	41
4.11 Multiple Regression Analysis.....	42

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1: Introduction	44
5.2: Summary of Findings.....	44
5.3: Conclusion.....	45
5.4: Recommendations.....	45
5.4.1: Cash Management.....	45
5.4.2: Inventory Management.....	46
5.4.3: Receivables Management.....	48
5.4.4: Training and Education.....	49
REFERENCES	50
APPENDICES	56
Appendix 1: Introduction Letter.....	56
Appendix 2: Timeframe for the study.....	57
Appendix 3: Sample questionnaire.....	58
Appendix 4: Proposed budget for the study.....	61
Appendix 5: List of SMEs in Machakos Sub-county.....	62

CHAPTER ONE: INTRODUCTION

1.1: Background of the Study

Working Capital is the difference between a firm's Current Assets and Current Liabilities (Krishna, 2010). Working Capital (WC) is defined as all the short-term assets used in daily operations of a firm. This primarily consists of Cash, Receivables, Inventory and Payables (.Hampton, 2009). Working Capital, the money needed for the day-to-day, operations of a firm, is described as investment of a firm's capital Current Assets and the use of Current Liabilities to fund part of the investment.

Working Capital Management focuses on the coordinated control of the firm's current assets and liabilities (George, 2010). Working Capital Management is concerned with the problems that arise in attempting to manage the Current Assets, the Current Liabilities and the interrelationship that exists between them (Khan & Jain, 2010). Current Assets are those assets which in ordinary course of business can be or will be converted into cash within one year without undergoing a diminution in value and without disrupting the operations of the firm (Khan & Jain, 2010). Current liabilities are those liabilities which are intended at their inception, to be paid in the ordinary course of business, within a year, out of current assets or earnings of the concern, (Khan & Jain,2010). The goal of Working Capital Management is to manage the firm's current assets and liabilities in such a way that a satisfactory level of working capital is maintained (Ramamoorth, 2010). The interaction between current asset and current liabilities is therefore the main theme of the theory of working capital management (Joy, 2010).

Working Capital Management (WCM) is the process of managing activities and processes relating to working capital. Working capital management is a very important component of corporate finance because it directly affects profitability of a firm. Efficient management of working capital is one of the pre-conditions for the success of an enterprise. Efficient management of working capital means management of various components of working capital in such a way that an adequate amount of working capital is maintained for smooth running of a firm and fulfillment of the objective of profitability (BPP Leaning Media, 2010).If a firm can minimize its investment tied up in current assets, the resulting funds can be invested in value creating projects, thereby increasing

the firm's growth opportunities and shareholders' return (Eramus, 2010). As pointed out by Filbeck & Krueger (2006), the ability of financial managers to effectively manage Cash, Receivables, Inventories and Payables has a significant impact on the success of a business. If capital invested in Cash, Receivables, and Inventories is not sufficient, the firm may have difficulty in carrying out its daily operations. They may result in declining Sales and in the end reduction in profitability (Ghosh & Maji, 2010).

Hence a firm is required to maintain a balance between liquidity and profitability while conducting its day-to-day operations. The existence of efficient working capital management practices can make a substantial difference between the success and failure of an enterprise and it is of particular importance to the managers of SMEs because it is them who strive for finances, for them it is usually on the higher side (Kwame, 2007). As established by Kasseven and Padachi (2006), efficient working capital management is vital for the success and survival of the SMEs, which needs to be embraced to enhance performance and contribution to economic growth.

However, as observed by Atril (2006)], there is evidence that many SMEs are not very good at managing working capital despite their high investments in current assets, and this has been a major cause of their high failure rates as compared to LSEs. According to him, majority of the SMEs operate with no credit department, implying that both the expertise and the information required to make sound judgments concerning terms of sales may not be available. They also lack proper debt collection procedures, hence they tend to experience increased risks of late payments and default by debtors who tend to increase where there is an exclusive concern for growth, and in the case SMEs may not be too willing to extend credit to customers who have poor credit risks. Also a study by Bowen (2009), debt collection was identified by 55% to be among the top five major challenges facing micro and small business.

Research studies have been undertaken on WCM in India, Pakistan, Mauritius, U.K, US, Belgium, Ghana and Nigeria to identify the push factors for firms to adopt good WCMPs and to investigate the association between WCMPs and profitability of both SMEs and

LSEs (Padachi 2006). However, in Kenya, specific research studies exclusively on the influence of WCM on corporate financial performance of SMEs are very scanty, in particular for the case of Machakos Sub-County, Kenya.

The world over, the SMEs sector is a key driver of economic growth. In developing countries like Kenya where there are few large companies, the sector is a key pillar for driving the economy, creating employment and eradicating poverty (Outlook, 2014). This indeed is the reason why it is important to enhance the growth of this sector. In Kenya, SMEs account for 500,000 jobs created annually, this translates to 85% of new jobs (Outlook, 2014).

A study by Microfinance Gateway Organization (2013), to establish the role of SMEs in economic growth indicated countries with a large share of SMEs employment have higher economic growth than their counterparts.

Small and Medium Enterprises, in Kenya, are generally acknowledged as vital and significant contributors to economic development through their perceived critical role in providing job opportunities, poverty reduction, and entrepreneurship development and their acting as intermediaries in trade (Oketch, 2000). This agrees with a study of UK SMEs by Burns (2001) that those SMEs, make a major contribution to the health of the economy and help to diversify opportunity in the society. SMEs in the UK have increased in importance, measured in terms of their share of manufacturing, employment and output. The number of SMEs continues to rise as does the number of people classified as self-employed.

According to the economic survey of 2006, SMEs contributed over 50% of new jobs created in the year 2005 and 20% of the GDP of Kenya. The government also estimates that SMEs employment is growing at the rate of 11% p.a. (FSD Kenya, 2009). In recognition of this indispensable role of SMEs, many micro-finance institutions have been on the forefront in providing these enterprises with micro-credit. This has seen their access to micro-credit increase from 7.5% in 2006 to 17.9% in 2009 (FSD Kenya 2009).

Despite their significant and increased efforts to ensure the success of SME, the ILO (2010), estimates that two-thirds of the SMEs were generating income equal or below the minimum wage, a sobering finding that must temper one's enthusiasm for the growth of SMEs as a solution to the county's poverty and employment problems. A study by Bowen (2009), also established that up to 50% of the SMEs in operation have a deteriorating performance and are said to stagnate at "Small" level, hence do not progressively grow into medium or even large enterprise as envisaged in their conceptual plans. Hansa (2009), in his study found out that SMEs struggle to reach a critical size at which they sustain themselves. He observed that they lack proper and efficient working capital management practices. A study by Chatterjee (2010) indicates that "poor" or "careless" working capital management is a major course of SMEs failure. This assertion was confirmed by Solomon (2010), when he stated that cash management, an important financial planning has become a common factor for SMEs failure in India. Some of the most important internal problems identified by Chatterjee (2010) which contributes to SMEs failure are inadequate Capital, Cash Flow Management, Receivables Management and Inventory Control.

1.2: Problem Statement

In Machakos Sub-County, Kenya, data available from the County Registrar of Business Office, Ministry of Industrialization and Enterprise Development, indicates that more than 96% of registered companies in 2013 are Small and Medium Enterprises. This target group is identified as the catalyst for the economic development in the county, because they are perceived as major source of income and employment. However, this data also shows that more than three out of five newly registered SMEs yearly, close business operations within the first three years of business operation, this is because this sector has continued to face challenges; among them lack of proper financial management practices. This observation agrees with Kimuyu and Omiti (2000) study which established that lack of proper working capital management practices as the most important reason for business closures in Kenya. Therefore, the purpose of this study is to assess the influence of working capital management practices on financial performance of SMEs in Machakos Sub-County, Kenya.

1.3: Research Objectives

The specific objectives of this study are:

- (i) To assess the influence of Cash Management Practices on Financial Performance of SMEs in Machakos Sub-County, Kenya.
- (ii) To determine the influence of Receivables Management Practices on Financial Performance of SMEs in Machakos Sub-county County, Kenya.
- (iii) To analyze the extent to which Inventory Management Practices influences Financial Performance of SMEs in Machakos Sub-County, Kenya.

1.4: Research Questions

This study will endeavor to answer the following questions:

- (i) What is the influence of Cash Management Practices on Financial Performance of the SMEs in Machakos Sub-County, Kenya?
- (ii) What is the influence of Receivables Management Practices on Financial Performance of SMEs in Machakos Sub-County, Kenya?
- (iii) To what extent does Inventory Management Practices influence Financial Performance of SMEs in Machakos Sub-County, Kenya?

1.5: Significance of this Research Study

The findings of this study if adopted will assist all stakeholders, especially, owner/managers, county and national governments and scholars. This study will help owners/managers of the SMEs to appreciate the relevance of efficient working capital management practices. It will help them in the areas of decision making regarding financial performance, health cash management, prompt settlement of claims, further investment, financial solutions, optimizing cash flows etc.

The findings of this study will be useful to scholars because it will widen their understanding in matters of working capital management among the SMEs. Also it will be useful to the students and other parties who may need to understand more about working capital management.

The findings of study will be useful to the county and national governments in formulating the SMEs policy that will outline priorities and strategies for improving the performance and competitiveness of existing SMEs and creating news. These governments will be able to address in the SMEs policy aspects like; Providing enabling legal and regulatory frame work, improve access to physical infrastructure and work places, strengthening entrepreneurial culture, improving SMEs access to finance, building the capacity of SMEs stakeholders, promoting industrialization in the county and addressing cross-cultural issues like environment, ethics, gender, HIV/AIDS etc.

1.6: Assumption of the Study

In this proposed study it will be assumed that the sample to be taken will be a representative of the whole population. The questionnaire and interview methods used in data collection will be valid and will measure the desired variables. It is assumed that the respondents will respond objectively and faithfully in revealing information regarding financial performance of the SMEs in Machakos Sub-County, Kenya.

1.7: Scope of the Study

The study will be focusing on the SMEs in Machakos Sub-County, Kenya, employing not more than 20 workers with an investment of Kshs. 200,000 to Kshs. 2,000,000 (excluding land and building). This is mainly due to limited availability of resources to undertake the study on wide scale. It will only study the Influence of Working Capital Management Practices on Financial Performance of the SMEs in Machakos Sub-County, Kenya.

1.8: Limitation of the Study

The study will limit itself to only SMEs in Machakos Sub-County, Kenya, registered by the year 2009, with the County Registrar of Business, Ministry of Industrialization and Enterprise Development. For a more conclusive result, all SMEs in all counties in Kenya should have been studied. However this is not possible due to financial shortages and other constrains such as time and accessibility. It will not be possible to cover the opinions of all SMEs Owners/Managers in Machakos Sub-County, because tracing them will require considerable time, resources and other logistics. The results of the study may not allow varied generalizations. Also there is a limitation due to the use of questionnaire, interview and observation of owners/ managers as data collection tools, ignoring other stakeholders like the workers who actually do work in SMEs, customers and suppliers.

CHAPTER TWO

LITERATURE REVIEW

2.1: Introduction

This chapter outlines review of literature pertinent to the research questions. It is informed by references to published works with a view to understanding past research in the subject matter, enriching understanding of the research questions, refining methodology and assisting in the interpretation and understanding of the data collected. It covers conceptual and contextual analysis of relevant literature on working capital management practices in relation to financial performance of the SMEs in Machakos sub-county.

2.2: Theoretical Literature

Searching for a definition of Small and Medium Enterprises (SMEs) can be frustrating for there are as many definitions as there are authors on this subject. Over the years there have been many attempts at defining what constitutes Small and Medium Enterprises. Researchers and policy makers have used a variety of criteria including; total worth; relative size within the industry, number of employees, value of products, annual sales or receipts and net worth (Cochram, 1981). Therefore the benchmarks vary considerably. Research study by ICT Africa (2007), defined Small and Medium Enterprises as enterprises having less than 50 employees as recommended by the African Development Bank. This study will define SMEs as those firms employing less than 20 workers with an investment of Ksh.200, 000 to Ksh.2000, 000, excluding land and buildings.

Working Capital Management (WCM) is a very important component of corporate finance because it directly affects liquidity, profitability and growth of businesses of all sizes as the amounts invested in working capital are often high in proportion to total assets employed (Atril 2006). Medium and Small companies tend to have relatively larger amount of capital tied in Current Assets and Liabilities than Large Companies (Pass and Pike 1984). .In a study of Spanish SMEs, it was discovered that Current Assets comprise 69% and Current Liabilities over 52% of total assets and liabilities (Garcia-Turuel & Martinez-solano 2007). WCM involves the planning and controlling of

Current Assets and Liabilities in a manner that eliminates the risk of inability to meet short-term obligations and avoid excessive investments in these assets (Lamberson 1995). Christopher Pike and Richard Pass (1987) has argued that inadequate planning and control of WC are one of the main causes of business failures.

The management of short-term assets is as important as the management of long-term financial assets, since it directly contributes to the maximization of a business profitability, liquidity and total performance. Consequently, businesses can minimize risk and improve performance by understanding role and drivers of Working Capital (Lamberson, 1995). Also as established by several researchers (Peel & Wilson, 1997; Padach, 2006; Kotuti, 2003) efficient management of working capital is pivotal to the health and performance of Small Firms, hence their view that firms should employ the efficient working capital management practices as a strategy of improving their value.

The objective of WCM is to maintain the level of net capital that maximizes the owner's wealth, in the firm (Ngene, 2010). Owners wealth maximization or profit maximization theory assumes that efficient working capital management under competitive market conditions, results into profitability, which is considered as the most appropriate measure of a firm's performance, (Panday, 2010). According to Atril (2006), there is evidence that many SMEs are not good at managing their working capital and this has been cited as a major cause of their high failure rate compared with that of large business.

A well established goal for many companies is to have small working capital balance as possible and some well known companies pursue zero working capital strategies (Maness & Zietlow, 2005), why should companies have any working capital if some firms are doing fine without it and what are the determinants of policies? WCM Policies vary across the industries and as discussed in finance literature depend on the nature of the business company operates (Lamberg & Sandra, 2009). Weinraub & Visscher (1998) classify three different WCM policies; Aggressive, Moderate or Matching and Conservative. Aggressive policy is when WC investment and financing is characterized

by high risk and high returns. Moderate or Matching policy, entails lower risk and returns and Conservative policies have the lowest risk and return.

In the study of corporate finance, many scholars have used various theories to explain the measures to be taken in the management of working capital. Some of these theories include the Cash Conversion Cycle Model, Economic Order Quantity Model and Owners Wealth Maximization Model.

In this study, the researcher will use Cash Conversion Cycle and Economic Order Quantity Models in studying the influence of working capital management practices on financial performance of SMEs in Machakos sub-county.

Cash Conversion Cycle (CCC) is a model that expresses the length of time in days, that it takes a firm to convert resource inputs into cash flows (Khan, 2010). The Cash Conversion Cycle attempts to measure the amount of time each net input in shillings is tied up in the production and sales process before it is converted into cash through sales to the customers (Charterjee, 2010). Cash conversion cycle (CCC) is a popular measure of working capital management, Deloof (2003) for example, found that, the longer the time lag, the larger the investment in working capital.

A long cash conversion cycle might increase financial performance because it leads to higher sales. However, corporate financial performance might decrease with the cash conversion cycle if the costs of higher investment in working capital rise faster than the benefits of holding more investments and granting more trade credit to customers. This model looks at the amount of time needed to collect receivables and the length, of time a firm is afforded to pay its bills without incurring penalties (Charterjee, 2010). This model is extremely important for the SMEs, because it illustrates how quickly a firm can convert its products into cash through sales (Cheatham, 1983). Shin and Soenen (1998) researched the relationship between working capital and value creation for shareholders using the cash conversion cycle as the standard measure for working capital management.

Economic Order Quantity is the quantity that minimizes total inventory holding costs and ordering costs. It is the quantity to order so that the sum of ordering cost and holding cost is at its minimum. These costs will be equal to one another at the minimized cost point (Hornngren, 2009).

Economic Order Quantity is one of the oldest classical production scheduling models. The framework used to determine this order quantity is also known as Wilson Economic Order Quantity Model, or Wilson Model. This model was developed by Ford W. Harris in 1913, but R.H Wilson, a consultant who applied it extensively is given credit for his in- depth analysis (Hornngreu 2009).

The corporate finance literature has traditionally focused on the study of long term financial decisions such as the structure of Capital, Investments, Dividends and Firm's Valuations. However, Smith (1980) suggests that working capital management is important because of its influence on the firm's profitability and risk, and consequently its value.

Following this line of argument, recent studies have focused on how appropriate measures taken on working capital management practices improve the firm's profitability (Jose, 1996). In order to measure the working capital management, these studies have used measures based on the Cash Conversion Cycle, and Economic Order Quantity Models. These measures relate to the time lag between expenditure for the purchase of raw_materials and the collection of sales of finished goods. The longer this time lag, the larger the investment in working capital (Peterson, 1991). Thus according to Smith (1980), the length of the Cash Conversion Cycle determines the degree to which the firm must rely on external financing.

The longer Cash Conversion Cycle may increase the firms' sales and consequently their profitability, because of greater investment in inventories and trade credit granted. In addition companies may get important discounts, for early payments and therefore induce supplier financing (Emery, 1987).

However, keeping a high investment in working capital also has an opportunity cost, if firms forgo other productive investments to maintain that level (Jain, 2010). Specifically a large Cash Conversion Cycle may increase the firm's sales and consequently the profitability. This is the case of several reasons; firstly, large inventories can prevent interruptions in the production process and loss of business due to scarcity of products, while reducing supply costs and price fluctuations (Blinder, 1991). Secondly, by extending greater trade credit, the firm can increase its sales because it allows customers to check the merchandise they receive as agreed in quantity and quality, and to ensure that the services contracted are carried out (Peterson, 1997). This argument is also supported by Deloof and Jegers (1996) who suggest that granting trade credit stimulates sales because it allows customers to assess product quantity and quality before paying. It also helps a firm to strengthen long- term relationships with their customers (Smith, 1999), and it incentivizes customers to acquire merchandise at times of low demand (Emery, 1987).

Moreover, from point of view of accounts payable, firms may get important discounts for early payments reducing supplier financing (Emery, 1987). However, maintaining a long Cash Conversion Cycle also has an opportunity cost if the firm forgoes other more productive investments to keep and as Reheman (2007) suggests long Cash Conversion Cycle may be a primary reason why firms can go bankrupt. From these forgoing discussions, to effectively manage working capital, the firm needs to direct its attention to four short term assets: Receivable, Inventories, Cash and Short-Term Securities (Myers and Allen, 2005). Based on these, the researcher focused this study on: Cash management, Inventory management and Receivable management variables.

2.3: Empirical Literature

The management of working capital was found to have a significant influence on both profitability and financial performance in studies carried out in different countries.

To test the relationship between working capital management and corporate profitability Deloof (2003) used a sample of Belgian firms for a period of 1992 – 1996. By using correlation and regression tests, he found significant negative relationship, between gross operating income and receivables management, inventory management and cash

management practices of Belgian firms. Based on the study results, he suggests that managers can increase corporate profitability by reducing the number of days for accounts receivable and inventories.

Eljelly (2004) empirically examined the relationship between profitability and liquidity as measured by current ratio and cash conversion cycle on a sample of 929 firms in Saudi Arabia. Using correlation and regression analysis, he found significant negative relationship between the firm's profitability and its liquidity level as measured by liquidity ratio. This relationship is more pronounced for firms with high current ratios and long cash conversion cycles.

Lazaridis and Tryfonidis (2006) conducted a cross sectional study by using a sample of 131 firms listed on Athens Stock Exchange for the period of 2001 – 2004, and found statistically significant relationship between profitability and working capital management as measured through cash conversion cycle and its components (Cash, receivables, payables and inventories). Based on the results after analysis of data of this study by using correlation and regression tests, they suggest that managers can create profits for their companies by correctly handling the cash conversion cycle and by efficiently managing cash, receivables and inventories.

Raheman and Nasr (2007) studied the effect of different variables of working capital management on the operating profitability of firms listed on Pakistani Stock Exchange. They selected a sample of 94 Pakistani firms in Karachi city for a period of six years from 1999 – 2004 and found a strong negative relationship between variables of working capital management and profitability of the firm. They found out that as the cash conversion cycle increases, it leads to decreasing profitability of the firm; therefore they suggest that managers can create a positive value for the shareholders by reducing the cash conversion cycle to a possible minimum level.

Shin and Soenen (1998) researched on the relationship between working capital management and financial performance of Indian firms, using a sample of 58,985 firms covering the period of 1975 – 1994. The standard measure of working capital management is the cash conversion cycle. They examined this relationship by using correlation and regression analysis. They found a strong negative relationship between the length of cash conversion cycle and financial performance as measured by growth in sales, net income, market share etc. Based on these findings, they suggest that one possible way to create shareholder's value is to manage working capital efficiently by formulating sound policies for each component

Garcia-Ternel and Martinez-Solano (2007) examined the effects of working capital management on SMEs profitability on a sample of 8,872 small and medium enterprises in Spain covering the period of 1996 – 2002. Using correlation and regression analysis they demonstrated that managers could create value for their firms by efficient management of cash, receivables and inventories.

Reheman, Afza, Qayyum and Bodla (2010) analyzed the impact of working capital management on firms' performance in a sample of 204 firms listed on Pakistani Stock Exchange for the period 1998 – 2007. They used Pearson and Spearman's correlations and the results indicate that cash conversion cycle and inventory turnover in days are significantly affecting the firm's performance. They concluded that firms were in general facing problems with credit policies. The study recommends that effective policies must be formulated for individual components of working capital.

Sharma and Kumar (2011) examined the effect of working capital on profitability of a sample of 263 Indian firms listed at Bombay stock exchange from 2000 to 2008, using multiple regressions. The results revealed that working capital management practices and profitability is positively correlated in Indian firms. The study further reveals that, receivable management and cash management practices are negatively correlated with the firm's profitability whereas inventory management practices exhibits a positive relationship with a firm's profitability.

Oladipupo and Okafor (2013) examined the implications of a firm's working capital on its profitability. The study focused on a sample of 12 firms quoted on the Nigeria stock exchange over five years period 2002 – 2006 using both Pearson correlation and regression techniques, they observed that the shorter cash conversion cycle promotes high corporate profitability, therefore, they suggested that firms should formulate and follow a policy that encourages credit customers to pay their debts the shortest possible time.

Akoto, Awunyo-Victor and Angmor (2013) analyzed the relationship between working capital management practices and profitability of a sample of 13 firms listed in Ghana, covering the period of 2005 – 2009. Using correlation and regression analysis techniques, the study found a significant negative relationship between profitability and accounts receivable days. However, the firm's cash conversion cycle and inventories had significantly positive influence on profitability. The study suggests that managers can create value for their shareholders by encouraging debtors to settle their accounts within 30 days period. It further recommended that enactment of local laws that protect indigenous firms and restrict the activities of importers to promote demand for locally made goods both in short and long run in Ghana.

Mathuva (2010) examined the influence of working capital management components on corporate profitability by using a sample of 30 firms listed in the Nairobi stock exchange for the period 1993 – 2008. Using Pearson and Spearman's correlations, he found that there exists a highly significant negative relationship between the time it takes for firms to collect cash from their customers and profitability. He explained that the more profitable firms take the shortest time to collect cash from the customers. The study further revealed that there exists a highly significant positive relationship between the inventory conversion period and profitability. It is explained that firms which maintain sufficiently high inventory levels reduce costs of possible interruptions in the production process and loss of business due to scarcity of products. Finally, the study established that there exists a highly significant positive relationship between average payment period and profitability. He held that the longer a firm takes to pay its creditors, the more

profitable it is. He suggested that firms should follow fair working capital management practices.

Nyabwanga, Ojera, Lumumba, Alphonse and Otieno (2012) examined the effect of working capital management practices on the financial performance of small scale enterprises (SSEs) in Kisii South District using a sample of 113 SSEs. They used Pearson's correlation co-efficients and multiple regression analysis techniques to analyze data. The findings of the study were that working capital management practices were low amongst SSEs as majority had not adopted formal working capital routines and their financial performance was positively related to efficiency of cash management, (ECM) efficiency of receivables management (ERM) and efficiency of inventory management (EIM).

2.4: Literature Overview

This section gives detailed literature overview on cash management, inventory management and receivables management.

2.4.1: Cash management

Cash means currency in hand plus the demand deposits held in checking accounts in various commercial banks (George, 2010). Cash refers to all money items and sources that are immediately available to help pay bills (Hampton, 2009). Cash can be compared to inventories as it is also something of raw material that the company needs to do business (Erik, 2012).

The managers / owners of SMEs are not always aware that there are costs involved in holding too little cash balances (Chatterjel, 2010). In view of this he asserts that there is need for careful planning and monitoring of cash flow over time. He shows that the Economy Order Quantity and the Cash Conversion Cycle Models provide a conceptual foundation for cash management problem. Atril (2006), study found out that cash balances was generally proportionately higher for SMSEs than for larger businesses. Again more than half of those SMEs in the survey held surplus cash balances on a regular

basis. It is often comfortable for companies to hold large idle cash for liquidity purpose, so that they do not have to raise more capital at a short notice. John Maynard Keynes suggest three reasons for individuals to hold cash, he labeled these motives as; Transactional, Speculative and Precautionary. Shifting the emphasis away from individuals, Eugene F. Brigham and Joel F. Houston (2011) used these three motives to describe motives for corporations to hold cash, and concluded that corporations hold cash mainly for transactional and precautionary motives. The more predictable the inflows and outflows of cash for a firm the less cash that need to be held for precautionary and transactional motives. Readily borrowing power to meet emergency cash drains also reduces the need for these types of cash balances.

Cash Management is one part of WCM Practices and usually concerns the different processes and procedures of handling a company's liquidity, the monitoring and planning for it (Lamberg & Valming 2009). Cash Management is the process of planning and controlling cash flows into and out of the business, cash flows within the business, and cash balances held by a business at a point in time (Panday, 2004). Efficient Cash Management involves the determination of the optimal cash to be held by considering the trade-off between the opportunity cost of holding too little and too high (Ross, 2008) and as stressed by (Atril, 2006) there is need for careful planning and monitoring of cash flows over time so as to determine the optimal cash to hold. A study by Kwame (2007), established that the setting up of a cash balance policy ensures prudent cash budgeting and investment of surplus cash. This finding agrees with the findings by Kotut (2003) who established that cash budgeting is useful in planning for shortage and surplus of cash and has effect on the profitability of the firm. The assertion by Ross (2008) that reducing the cash time is tied up in operating cycle, improves business profitability and market value furthers the significance of efficient cash management practices in improving business profitability. This study tried to assess the influence of cash management practices on financial performance of SMEs in Machakos Sub-County, Kenya.

2.4.2: Inventory Management

Inventories are merchandise held for sale to customers (Karen, 2010). It may be defined as the goods held for eventual resale by the firm (Hampton, 2009). As cash, inventories are a vital element in the efforts to achieve the desired sales levels. The management of Inventory raises similar issues to those relating to the management of cash. There are costs involved in holding too much stock and too little stock (Chatterjee, 2010). A study by Chatterjee (2010) in SMEs indicates that 78% of respondents never applied quantitative techniques, for example Economic Order Quantity Model to try to optimize stock levels. This study also found out that one-third of SMEs relied on owner's/manager's experience on stock control optimization quantitative techniques.

Inventory management is one area which can significantly improve the cash flow of a company as it portrays pools of cash (Lamberg & Valming, 2009). Efficient Inventory Management Practices should answer the questions: How should it be ordered? When should it be ordered? What quantity and quality should be ordered? These questions relate to the problem of Economic Order Quantity and the problem can be answered by the analysis of the costs of maintaining certain levels of inventory as there are also costs involved in holding too much stock and also costs involved in holding too little, therefore, the need to put in place an effective stock management systems to ensure reliable sales forecasts to be used for stock ordering purposes (Atril, 2006).

Also Ross (2008), observed the Economic Order Quantity (EOQ) Model as one of the appropriate approaches of determining the optimal inventory levels that takes in account the inventory carrying costs, inventory shortage costs and total costs.

The Economic Order Quantity (EOQ) is determined by the use of the following formulae

$$EOQ = \sqrt{\frac{2AO}{C}}$$

Where A=Consumption of the inventory in units during the year,

O= Costs of placing one order including costs of receiving the goods/ordering costs.

C= Carrying Costs /holding cost per unit per annum.

Maintaining optimal inventory levels reduces the cost of possible interruptions or loss of business due to the scarcity of products, reduces the supply costs and protects against price fluctuations. The inventory conversion period has a negative impact on a business's profitability. For instance, shortening the inventory conversion period could increase stock out costs of inventory which results in losing sales opportunities and leads to poor profits (Deloof, 2003).

Managers of firms should therefore keep their inventory to an optimum level since mismanagement of inventory will lead to tying excess capital at the expense of profitable operations (Lizaridis & Dimitrios, 2005). This study tried to determine the influence of Inventory Management Practices on financial performance of SMEs in Machakos Sub-County.

2.4.3: Receivables Management

Receives represent credit sales that have not been collected; (Pinnches, 2010).

Receivables are amounts of money owed to a firm by customers who have bought goods and services on credit (Brigham & Houston, 2011). Receivables are asset accounts representing amounts owed to the firm as a result of the sale of goods or services in the ordinary course of business (Hampton, 2009). Receivables can be seen as assets of the firm or loans given to customers by the company, when there is a built up of receivables, funds are unavailable that could otherwise be put to more efficient use within the company and earn a return (Lamberg & Valming, 2009). Atril, (2006) asserts that Small Medium Enterprises often lack the resources to manage their Receivables effectively. He argued that it is not unusual for SMEs to operate without credit control department. This tends to mean that both expertise and the information required to make sound judgments concerning terms of sales and so on may not be available. SMEs also lack proper debt collection procedures, such as prompt invoicing and sending out regular statements. This tends to increase the risks of late payment and defaulting debtors. In an attempt to increase sales SMEs may be willing to extend credit to customers that are poor credit risks. While this kind of problem can occur in businesses of all sizes, SMEs seem

particularly susceptible. Another problem, Atril (2006) asserts faced by SMEs is their lack of market power.

Thus SMEs will often find themselves in a weak position when negotiating credit terms with large business. Moreover, when a large customer exceeds the terms of credit, the small supplier feel inhibited from pressing the customer for payment, in case future sales are lost. An evidence of this was shown by KASNEB News line (2009), which indicated that SMEs with annual sales of less than Kshs. 5,000,000 are likely to wait for an average of 60 days for their trade debtors to pay. The reason for the delay suffered by SMEs probably relates to bargaining power of customers. Thus customers of SMEs may well be large, which can use threat, perhaps an implied one of withdrawing customer, to force SME to accept late trade debtor settlement.

Provision of trade credit is normally used by businesses as marketing strategy to expand and maintain sales (I. M. Panday, 2009). Efficient Receivables Management augmented by a shorten creditors collection period, low levels of bad debts and sound credit policy often improves the businesses' ability to attract new customers and accordingly increase financial performance, and profitability, therefore the need for a sound credit policy will ensure that SMEs value is optimized (Ross, 2008). Cost of cash discounts, losses of bad debts and costs of managing credit.

Collections constitute the carrying costs associated with granting credits which increase when the amount of receivables granted are increased. Lost sales resulting from not granting credit constitute the opportunity cost which decrease when the amount of receivables are increased.

Firms that are efficient in receivables management should determine their optimal credit which minimizes total cost of granting credit (Ross, 2008).As observed by Michal Ski (2007) in his study, an increase in the level of accounts receivable in a firm, increases both the net working capital and the costs of holding and managing accounts receivable lead to decrease in the value of the firm. A study by Lazaridis & Dimitrios (2005) found out that firms who pursue increase in their accounts receivable to an optimal level

increase their profitability resulting from increased sales and market share. A study by Juan & Martinez (2002) emphasized that firms can create value by reducing their number of days of accounts receivable, thus confirmed the findings of Deloof (2003) who established that the length of receivables collection period has a negative effect on a firm's performance.

A study by Shushma & Bhapes (2007) also affirmed that putting in place a sound debt collection procedure is pivotal in improving efficiency in receivables management, therefore, better performance and profitability of firms. This study tried to analyze the extent to which Receivables Management Practices influence financial performance of SMEs in Machakos Sub-County.

In summary, the literature review indicates that WCM impacts on the financial performance and profitability of the firm but there still is ambiguity regarding the appropriate variables that might serve as proxies for WCM. This study investigated the relations between a set of such variables (cash management, inventory management and receivables management practices) on financial performance of a sample of SMEs in Machakos Sub-County.

2.5: The Conceptual Framework

Based on the literature under review the researcher has conceptualized the model variables interrelationship as shown in figure 2.1. The model hypothesizes that efficiency in working capital management practices as measured by efficiency in cash management, efficiency in receivables management and efficiency in inventory management has an influence on financial performance of SMEs, as proxied by the growth in sales. Among other various variables that influence working capital management practices of firms include nature of business, business fluctuations, price level, demand conditions, growth and expansions (Ben-Horini & Levy 1994).

Independent variables (WCMP)

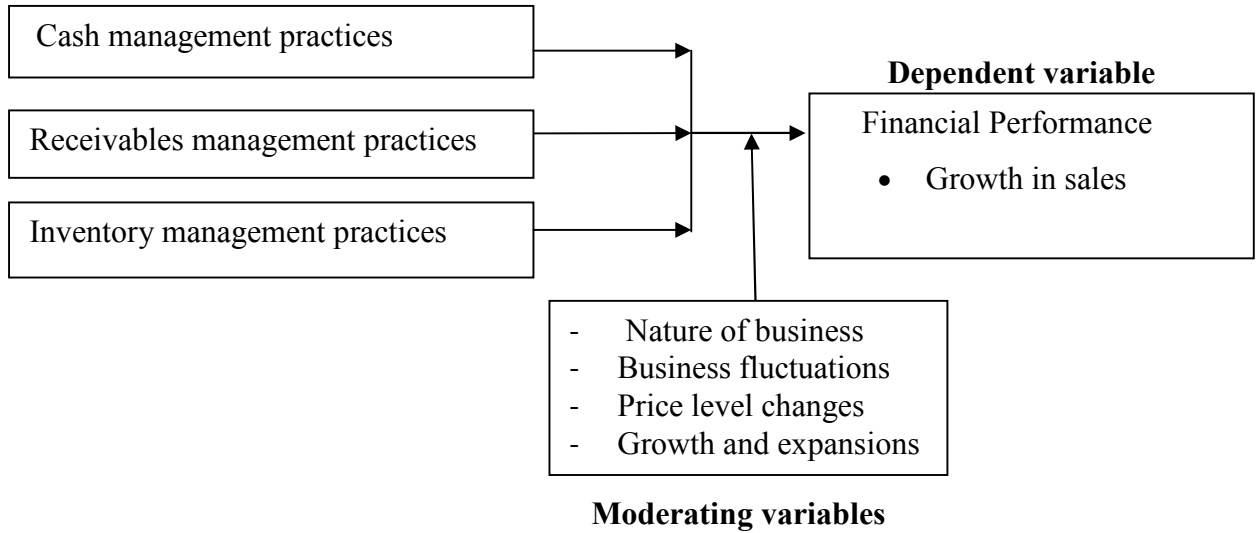


Fig.No.2.1 Conceptual Framework for the research

Source: Researcher, (2015)

CHAPTER THREE

RESEARCH METHODOLOGY

3.0: Introduction

This chapter outlines the research design, target population, data collection procedure or method and data collection tools used and their administration. It also describes how the data was analyzed, presented and displayed.

3.1: Research Design

This study adopted a cross-sectional survey design, centered on working capital management practices. Cross-sectional survey is a study in which a population is sampled and studied over the course of only a single contact period by the use of, one survey, one questionnaire or one observation. Marfo-yeedom (2003), studied working capital management practices of SSEs in six towns in the central Region of Ghana, using cross-sectional survey design, in which he obtained faster and efficient results, In this current study, the researcher preferred this design since it provides a quick, efficient and accurate means of accessing information about the population and is appropriate where there is lack of secondary data, as it is the case of SMEs of Machakos sub-county.

3.2: The area of Study and Target Population

The target population of this study was 159 owners/ managers of trading SMEs operating and registered by the year 2009, within Machakos Sub- County. All SMEs are privately owned and registered with the County Registrar of Business, Ministry of Industrialization and Enterprise Development for the period 2011-2015, (Government of Machakos County).

3.3: Sample size and Sampling Technique

The researcher would have wished to work on the whole population of 159 SMEs, but he was prevented from doing so, because that was too difficult to handle effectively, considering the fact that, it was a basic research. According to Orodho (2012), the sample size should neither be excessively large nor too small, it should be optimal. As a result 20% of 159 SMEs, that is 32, trading SMEs were selected by random sampling technique

to constitute the study sample, from the following five areas of Machakos town: Machakos Kitui Road 6, Machakos Kangundo Road 6, Ngei Road 7, Syokimau Avenue 7, and Wote Road 6. The principal factor that influenced the selection of the five areas was their nature of business. Random sampling method ensured that the sample selected accurately reflected the population of all SMEs in Machakos Sub-County, Kenya since all the target population of these areas in Machakos town had an equal and independent chance of being selected (Oso & Ones, 2005).

3.4: Data Collection Procedures and Research Instrument

The questionnaire eliciting the details of working capital management practices were dropped physically at the owners/managers offices of the 32- SMEs selected randomly. The respondents of this study were owners/managers. The accompanying letter requested an interview or telephone conversation; because most of the respondent's do not have financial background, the researcher had to explain most of the technical terms to help in obtaining the appropriate responses. Also to prevent the situation whereby some of the respondents (Owners/Managers) may try to hide information, the researcher visited each and examined the documents requested for. Also during the visit, the researcher had an opportunity to interview and observes how things were done in the various SMEs. Each questionnaire was coded and only the researcher knew which organization or person had responded. The coding technique was only used for the matching purpose of the returned completed questionnaires with those delivered to the respondents.

3.5: Instrument Validity and Reliability

The content validity and reliability of the instrument was determined by the experts and peer advice. According to Berg and Gall (1989), validity is the degree by which the sample of test items represents the content the test is designed to measure.

According to Shanghuerzy (2003), reliability refers to the consistency of measurement and is frequently assessed using the test-retest reliability method. Reliability is increased by including many similar items on a measure, by testing a diverse sample of individuals and by using uniform testing procedures. The researcher selected a pilot group of 7

individual SMEs from the target population in Machakos town, to test validity and reliability of the research instrument.

The pilot study allowed pre-testing of the research instrument. The clarity of the instrument items to the respondents was necessary as it enhanced the instrument's validity and reliability. The aim was to correct any inconsistencies that may arise from the instrument, to ensure it measured what was intended. The pilot data was not included in this actual study analysis. Cronbach's coefficient alphas was computed using the formula: $\text{Alpha} = \frac{NP}{[1 + P(N-1)]}$, where, N equals the number of items and P equals the interterm correlation to determine the intended consistency of the questionnaire constructs measuring the Efficiency in Cash Management, Efficiency in Inventory Management, Efficiency in Receivables Management and Financial Performance. The obtained Cronbach alphas for EMC, EIM, ERM and Financial Performance were listed in a table. The alphas value was acceptable if it exceeds the 0.7 threshold as recommended by Giliem and Giliem (2003).

3.6: Data Analysis

The data collected were quantitative and it was analyzed by descriptive statistics: weighted average, mean and standard deviation. Correlation and multiple regression analysis were used to measure the relationship between Working Capital Management Practices and Financial Performance of SMEs in Machakos Sub-County. The Financial Performance Model that was adopted for this study is as summarized below:

$$FP = \beta_0 + \beta_1 ECM + \beta_2 EIM + \beta_3 ERM + e,$$

Where, FP= indicator,

$\beta_0, \beta_1, \beta_2 \& \beta_3$ = Coefficients,

EMC = Efficiency in Cash Management

EIM = Efficiency in Inventory Management

ERM = Efficiency in Receivables Management and

e = Error Variable.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1: Introduction

This chapter gives details of data analysis, explains and discusses the results obtained and undertakes comparative analysis of the results in relation to previous studies in similar and closely related to the influence of working capital management practices on financial performance of SMEs. To achieve this, the construct of working capital was defined to constitute Cash Management Practices, Inventory Management Practices and Receivables Management Practices of Small and Medium Enterprises in Machakos Sub-county.

4.2: Response Rate

Table No.4.1. Questionnaire response rate

Area	No. of questionnaires Distributed	No. of questionnaires returned	%Total
Machakos Kitui Road	6	5	15.625
Machakos Kangundo Road	6	3	9.375
Ngei Road	7	5	15.625
Syokimau Road	7	6	18.750
Wote Road	6	3	9.375
Total	32	22	68.75

Source: Survey data 2015

Response Rate is sometimes known as completion rate or return rate. In Survey Research, Response Rate means the number of people who answered the survey questions divided by the number in the sample or population. It is expressed in the form of percentage. Table No.4.1 above, shows the response rates of the questionnaire per area under study.

All the responses were valid with an overall response rate of 68.75% which is quite high, because response of 27% has been reported to be high (O. Regan 2012) based on the fact that typical rates for studies addressing financial issues are in the region of 10% to 12% (Koch & Grath, 1996, Galetkanycz, 1997). Contacts prior to the dispatch of the questionnaire, follow up calls and visitations probably accounted for the high response rate. However, Visser, Krosnick,

Marquette and Curtin (1996) showed that studies with lower response rates near 20% yielded more accurate measurements than did studies with higher response rates near 70%. In another survey, Keeter, Kennedy, Dimock, Best and Craghile (2006) compared results of a short study with a 25% response rate with results from a more rigorous longer study that yielded a higher response rate of 50% and found that the two surveys yielded results that were statistically indistinguishable, therefore, the presumption that a lower response rate means lower survey accuracy is null and void.

4.3: Characteristics of the study sample

4.3.1: Age of Respondents

The majority of the respondents 45.5% fell in the 36-45 years age bracket (Fig. No. 4.1). This implies that most of the SMEs in Machakos Sub-County are owned or managed by middle aged persons who were mature enough to answer the questions in the questionnaire correctly.

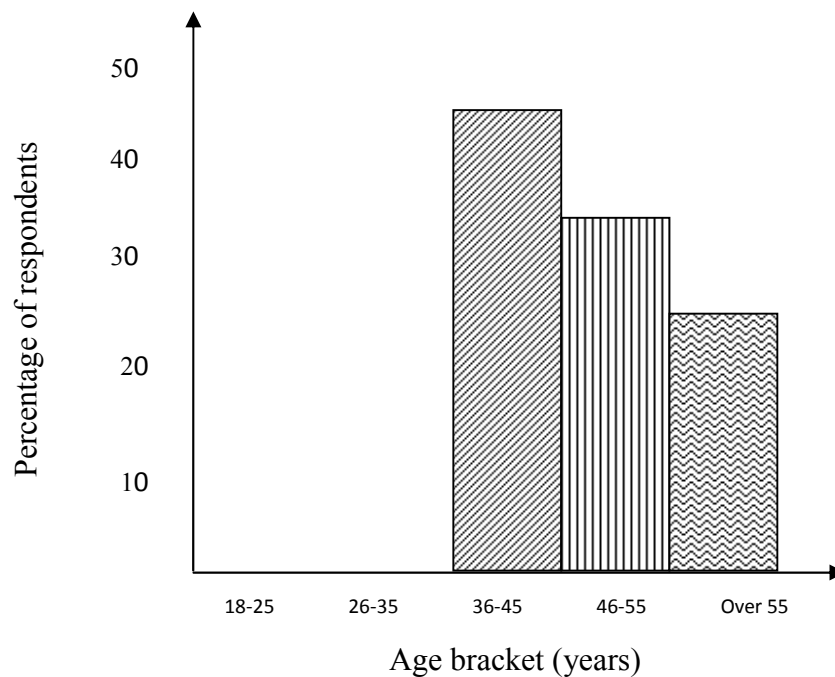


Fig. No. 4.1. Questionnaire response rate

Source: Survey study 2015

4.3.2: Number of years the SMEs has been in business

This study further sought to establish the number of years the SMEs has been in business, (Fig. No. 4.2) shows that most of the respondents 45.45% have been in business between 6 to 10 years. This could be due to the fact that majority of these SMEs were established within the last 10 years when the government encouraged many citizens to engage in business activities for self employment.

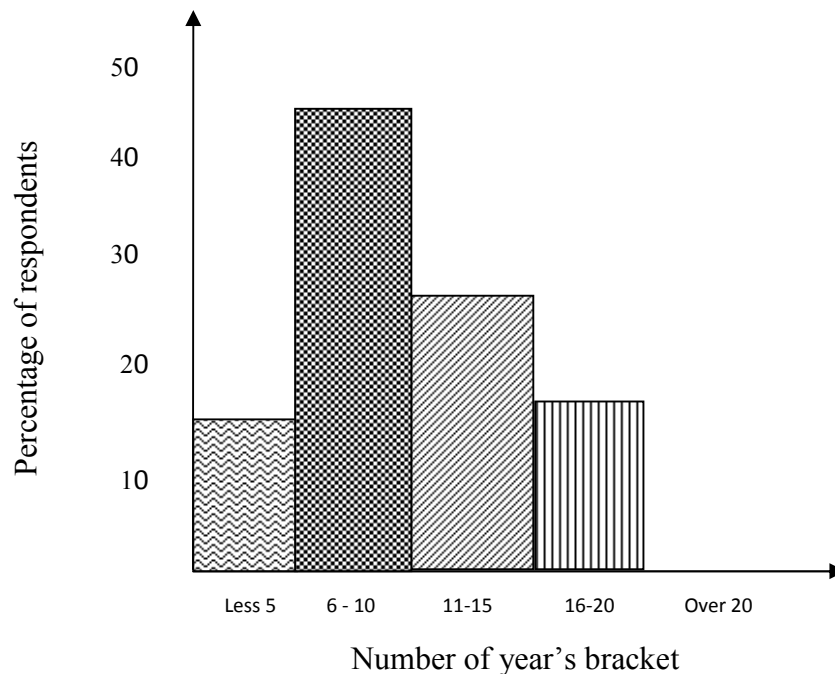


Fig. No. 4.2. Number of years the SMEs has been in business

Source: Survey data 2015

4.3.3: Level of education of respondents

The level of education of respondents is shown in (Fig. No. 4.3). The majority of the respondents, 45.45% had secondary level of education, while 27.27%, 13.64%, 9.1% and 4.54% had diploma, others, graduate and postgraduate level of education respectively. This implies that the respondents had capacity to read, understand and answer the questions in the questionnaire correctly.

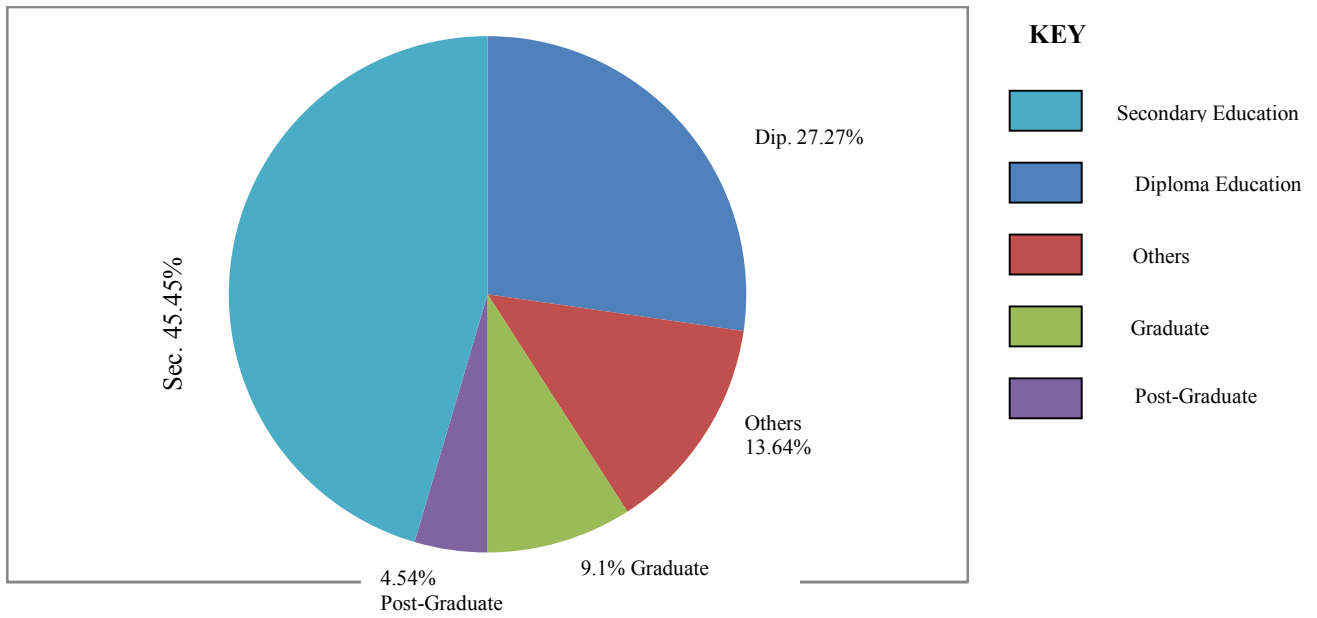


Fig. No.4.3. Level of education of respondents

Source: Survey data 2015

4.4.1: Cash Management Practices and SMEs Financial Performance.

The first objective of this study was to assess the influence of cash management practices on financial performance of SMEs in Machakos Sub-County, Kenya. The results are shown in tables below:

Table No. 4.2: Frequency of occurrence of Cash Management Practices

Cash Management Practices	Scores					Σfi	$\Sigma fiwi$	$\frac{\Sigma fiwi}{\Sigma fi}$
	1	2	3	4	5			
Preparation of cash Budget	5	8	4	3	2	22	55	2.50
	22.73%	36.36%	18.19%	13.63%	9.09%	100%		
Determination of Target cash balances	8	7	4	2	1	22	47	2.14
	36.36%	31.82%	18.19%	9.09%	4.54%	100%		
Occurrence of cash Shortages	2	11	8	1	0	22	52	2.36
	9.09%	50.00%	36.36%	4.55%	0.00%	100%		
Occurrence of cash Surpluses	2	4	3	5	8	22	79	3.59
	9.09%	18.18%	13.64%	22.73%	36.36%	100%		

The analysis is based on the scores scales:

- 1 - Strongly disagree
- 2 - Disagree
- 3 - Undecided
- 4 - Agree
- 5 - Strongly agree

Sources: Survey data 2015

Table No. 4.3: Investment of temporary cash surplus

Cash surplus Investment	Bank Deposit	Financial Market	Business Expansion	No. cash surpluses	Nowhere	Total
Frequency	10	1	6	3	2	22
	45.45%	4.55%	27.27%	13.64%	9.09%	100%

Source: Survey data 2015

The study on Cash Management Practices focused on the frequency of cash budgeting, target cash balance determination, occurrence of cash surpluses, cash shortages and investment of cash surpluses.

On the frequency of preparation of cash budget, the findings are as indicated in Table No. 4.2 which indicated that, on the average SMEs' owners/Managers prepared cash budget; weighted average = 2.50. The majority of respondents (13 respondents representing 59.09% of all respondents) rarely prepared cash budgets (score 1 and 2) on the scale. Only 5, SMEs, representing 22.72% of all SMEs often prepared cash budgets (Score 4 and 5) on the scale. This finding indicates that SMEs in Machakos Sub-county did not embrace cash budgeting as a tool to plan and control cash flows of the businesses, contradictory views were expressed by Kwame (2007) who established that over 56.23% of the SMEs studied prepared cash budgets on daily basis and used them to plan for shortage and surplus of cash.

On the frequency of determination of target cash balances, the results of the study is as indicated in Table No. 4.2, indicating that on average 3 SMEs, representing 13.63% of the SMEs indicated that they often determined their cash balances; (scores 4 and 5) on the scale as compared to 68.18% who indicated that they hardly determined their target cash balance (score 1 and 2) on the scale. These results imply that on average, majority of the SMEs rarely determined the appropriate amount of cash to hold in hand. These findings is in agreement with the pronouncements by Nyabwanga (2012) and Morara (2009) who established that small firms rarely pay attention to setting up a cash policy, but simply consider cash balance in hand as a result of differences in cash inflows and outflows without any guidelines. However, this finding differs with the findings by Waweru (2003), which established that most businesses studied had set minimum cash balance level which guided them against running out of cash.

On how regularly SMEs experienced cash surpluses as compared to cash shortages Table No. 4.2 indicated that on average SMEs experienced cash surpluses regularly and experienced cash shortages irregularly as indicated by their weighted averages of 3.59 and 2.36 respectively. The majority of the SMEs; (13 representing 59.09% of all the SMEs) regularly experienced cash surpluses compared to only 1, representing 4.55% of all SMEs that experienced cash shortages

regularly (score 4 and 5) on the scale. This finding supports the assertion by Scarborough and Zimmerer (2003) that established that small firms reserve cash and maintain relatively high current ratios to ensure that they do not run out of cash, therefore, the conclusion that the management of cash surpluses rather than cash shortages is a problem for SMEs.

Table No. 4.3, indicates that 45.45% of all the SMEs studied, experienced cash surpluses reported that they deposited it in bank accounts for earning interest, while 9.09% reported that they had it lying idle in the business office safe locker. This implies that up to 54.54% of the SMEs did not invest temporary Cash surpluses for meaningful interest earnings. Also only 1, SMEs, representing 4.55% of all SMEs invested their cash surpluses in financial markets. This finding is in agreement with Morara (2009) which established that majority of the small firms do not invest their cash surpluses in marketable securities. It also supports Kwame (2007) decree that most of the small businesses have problems on how to invest temporarily cash surpluses for profitable purposes.

4.4.2: Receivables Management Practices and SMEs Financial Performance

The second objective of this study was to determine the influence of receivables management practices on financial performance of SMEs in Machakos Sub-County, Kenya. The results are as shown in the table below:

Table No.4.4: Frequency of occurrence of Receivables Management Practices

Receivables Management Practices	Scores					Σfi	$\Sigma fiwi$	$\frac{\Sigma fiwi}{\Sigma fi}$
	1	2	3	4	5			
Sales on credit	1	2	11	5	3	22	73	3.31
	4.55%	9.09%	50%	22.72%	36.36%	100%		
Credit guidelines	4	9	5	3	1	22	44	2.00
For customers	18.18%	40.90%	22.73%	13.64%	4.55%	100%		
Review of levels of	2	3	15	1	1	22	62	2.81
Receivables	9.09%	13.63%	68.81%	4.55%	4.55%	100%		
Review of levels of	2	3	15	1	1	22	62	2.81
Bad debts	9.09%	13.63%	68.81%	4.55%	4.55%	100%		

The analysis is based on the scores scales:

- 1 - Strongly disagree
- 2 - Disagree
- 3 - Undecided
- 4 - Agree
- 5 - Strongly agree

Source: Survey data 2015

On receivable management practices, respondents were asked whether they make credit sales, they put down credit guidelines for their customers and frequency of review of the levels of receivables and bad debts.

On the analysis of response on how frequently SMEs owners/managers sold their products on credit Table No. 4.4 indicates that only 8 SMEs representing 36.36% of all SMEs often sold their products on credit was averagely practiced by SMEs in Machakos sub- county. This is

contrary to the findings by Kwame (2007) which showed that small businesses always sold their products on credit. The low use of credit sales can be attributed to the lack of sound policies since majority (14 SMEs representing 63.63% of the SMEs) seem not to set credit guidelines for their credit customers. As established by Laziridis and Dimitrios (2005) pursuing reduced receivables account, causes diminished financial performance for firms; hence suggestion by Juan and Martines (2002) for firms to keep an eye on the debtors' repayment period with a view to make it minimal.

On the frequency of review of the levels of receivables and bad debts, Table No.4.4 shows that a substantial number of respondents (15 SMEs which represents 68.18% of all SMEs) reviewed their levels of receivable and bad debts regularly. This finding is at variance with Kwame's (2007) finding that most small scale businesses review their levels of receivables and bad debts irregularly.

4.4.3: Inventory Management Practices and SMEs Financial Performance.

The third objective of this study was to analyze the extent to which inventory management practices influence financial performance of SMEs in Machakos Sub-County, Kenya.

On inventory management practices, the respondents, were asked how frequently they prepared inventory budgets, reviewed their inventory levels and the basis on which they determined their inventory levels and their frequency of inventory replacement. The results are as shown in the tables below:

Table No. 4.5: Frequency on Inventory Management Practices

Inventory Management Practices	Scores					Σfi	$\Sigma fiwi$	$\frac{\Sigma fiwi}{\Sigma fi}$
	1	2	3	4	5			
Preparation of Inventory budgets	2	2	5	8	6	22	81	3.68
Review of Inventory levels	1	2	4	9	6	22	83	3.77
	9.09%	4.55%	22.73%	36.36%	27.27%	100%		
	4.55%	9.09%	18.18%	40.91%	27.27%	100%		

The analysis is based on the scores scales:

- 1 - Strongly disagree
- 2 - Disagree
- 3 - Undecided
- 4 - Agree
- 5 - Strongly agree

Source: Survey data 2015

Table No.4.6: Basis of Determining Inventory levels

Parameter	No. of items	Percentage
Based on theories of inventory management	1	4.55%
Based on Historical data	2	9.09%
Based on owner's / Manager experience	16	72.73%
Never determines inventory levels	3	13.63%
Total	22	100%

Source: Survey data 2015

Table No.4.7: Frequency of Inventory Replacement Orders

Frequency	Yearly	Monthly	After 2 wks	Weekly	Daily	Σfi	$\Sigma fiwi$	$\frac{\Sigma fiwi}{\Sigma fi}$
	1	2	3	4	5			
No. of Item	0	3	10	6	3	22	75	3.14
	0%	13.64%	45.45%	27.27%	13.64%	100%		

Source: Survey data 2015

Table No. 4.5 indicates that majority of the SMEs, (14 SMEs representing 63.63% and 15 SMEs representing 68.18% of all the SMEs) often prepared inventory budgets and reviewed inventory levels respectively, (Score 4 and 5 on the scale). These findings imply that preparation of inventory levels are regularly carried out by SMEs owners/managers, and are in agreement with Kwame (2007), that enhancing the management of inventory enables the business to avoid tying up excess capital in idle stock at the expense of profitable ventures.

Though the SMEs of Machakos sub- county regularly prepared inventory budgets and reviewed their inventory levels regularly, Table No.4.6 shows that the ability to apply the theories of inventory management to determine inventory levels is very limited with a substantial number of SMEs (16 respondents representing 72.73% of all SMEs) indicated that they determined their inventory levels on the basis of owner's/Manager's experience. A study by Kwame (2007) established similar results which showed that up to 90% of owner's/ Manager's experience counted a lot in the management of working capital. The findings that majority of SMEs determined their inventory levels on the basis of owner's/Manager's experience, could be the basis for the findings in Table No.4.7; that 19 SMEs representing 86.36%, regularly replenished their inventories (Score 3, 4 and 5 on the scale), an indication that majority of the SMEs in Machakos sub-county do not stock optimal quantities of inventory and do not determine appropriate re-order levels or points.

4.5: Efficiency of Working Capital Management Practice

Table No. 4.8: Mean and Standard Deviations for Indexed EWCM Variables

Variables	Number of Items	Mean	Standard Deviation	Minimum	Maximum
Efficient Cash Management Practice	22	14.7491	3.4872	7	20
Efficient Receivable Management Practice	22	15.3381	3.3204	7	20
Efficient Inventory Management Practice	22	22.523	5.4414	10	32

Source: Survey data 2015

On the efficiency of working capital Management Practices Table No.4.8 indicates that efficiency in cash management rated the lowest on average with a mean index of 14.7491 with responses deviating from this mean by a standard margin of 3.4872.

This was followed by receivable management practices with the mean of 15.3381, with a standard deviation of 3.3204, and inventory management practices with the mean of 22.523 and standard deviation of 5.4414 in that order. This ordering could be interpreted to mean that SMEs in Machakos Sub- County were more efficient in the management of inventory. Conversely they were less efficient in the management of their cash. On average, the efficiency levels were low, thus indicating that majority of the SMEs have not embraced capital management practices in their business operations. These results collaborate with assertions by Nyabwanga (2012), Kwame (2007) and peel and Wilson (1996) that small firms are not good in the management of their working capital.

4.8: Financial Performance of the SMEs

On the financial performance of the SMEs, respondents were asked to rate their perceived extent of growth in their businesses' sales, total assets, net income and market share. The results are shown in the tables below:

Table No.4.9: Respondents' perception on the extent of growth of financial performance Indicators

Financial Performance Indicators	Scores					Σfi	$\Sigma fiwi$	$\frac{\Sigma fiwi}{\Sigma fi}$
	1	2	3	4	5			
Growth in total sales	2	7	9	3	1	22	60	2.72
	9.09%	31.82%	40.91%	13.64%	4.45%	100%		
Growth in total Assets	3	6	8	3	2	22	61	2.77
	13.64%	27.27%	36.36%	13.64%	9.09%	100%		
Growth in net income	2	6	10	4	1	22	46	2.09
	9.09%	13.63%	68.81%	4.55%	4.55%	100%		
Growth in market share	1	6	9	4	2	22	66	3.00
	4.55%	22.27%	40.91%	18.18%	9.09%	100%		

The analysis is based on the scores scales:

- 1 - Strongly disagree
- 2 - Disagree
- 3 - Undecided
- 4 - Agree
- 5 - Strongly agree

Source: Survey data 2015

Table No.4.10: Descriptive statistics for Financial Performance

Variables	No. of Items	Mean	Standard Deviation	Minimum	Maximum
Financial Performance	22	9.323	1.75386	5	12

Source: Survey data 2015

Table No. 4.9, indicates that on the average the extent of growth of sales, total assets, net income and market share was moderate and had weighted average of 2.72,2.77,2.09 and 3.00 respectively. However as indicated in Table No.4.9 a greater number of SMEs had a growth rate that could be considered low (score 1 and 2 on the scale) as compared to the number of SMEs whose growth rate could be considered high (score 4 and 5 on the scale).

The various ratings of the extent of growth of each financial performance indicator were summed up to obtain a single financial performance index which ranged from 3 lowest, to 16 highest. The higher the points a business scored, the higher its financial performance was.

Table No.4.10 shows the descriptive statistics for financial performance of SMEs. The result shows that financial performance from value 5 lowest to value 12 maximum. These results also show an average of financial performance of 9.3236, with the scores deviating from the mean score by 1.75386. This average score is less than 10; hence the performance of SMEs in Machakos sub- County was on a low average, similar results were established by Nyabwanga (2012) and Bowen (2009) who established that over 50.9% of the SMEs studied reported a failing financial performance.

4.9: The Relationship between Working Capital Management Practices and Financial Performance

Table No.4.11 Regression coefficients and collinearity statistics (N= 22)

Model	Unstandardized Coefficients		Standard coefficients	t	Sig	Collinearity Statistics	
	β	Std Error	beta			Tolerance	VIF
1 (constant)	2.9744	0.499		4.7672	0.000		
Efficient of cash Management	0.0976	0.027	0.211	2.916	0.000	0.446	1.437
Efficiency of Receivable Management	0.0614	0.031	0.126	1.588	0.000	0.437	1.466
Efficiency of Inventory Management	0.1200	0.018	0.404	5.128	0.000	0.525	1.219

(a) Predictors (constant); efficient cash management, efficient receivables management, efficient inventory management.

(b) Dependent variable: financial performance.

Source: Survey data 2015

Table No. 4.12: Model summary (N=22)

R	R2	Adjusted R2	Std Error of estimate	Change statistics				
				R2 Change	F change	df1	df2	sig of change
0.637	0.507	0.499	1.0893	0.507	48.989	2	85	0.000

- a) Predictor (constant): Efficient cash management, efficient receivables management, efficient inventory management.
- b) Dependant variable: Financial performance.

Source: Survey 2015

On the relationship between working capital management and financial performance, Pearson's correlation coefficients and multiple regression analysis techniques were used to address this objective. Before the correlation and regression procedures were carried out, the basic assumptions of multiple regression analysis were verified and they were satisfactorily met as follows; the concern for multicollinearity was tested by observing the variance inflation factors (VIF's) subject to the rule of thumb that the number should be less than 10 (Thomas, 2008). All the VIFs entries as shown in Table No.4.11 were adequately low hence the possibility of multicollinearity did not exist. The normality of the dependent variable was checked by the use of normal probability plots (Histogram and normal P-P. Plot) which both indicated that the residuals were normally distributed. The test for the linearity assumption was done by the use of scatter plots and none of the plots demonstrated a non linear pattern. Constant variance (homoscedasticity) assumption was checked by virtual examination of a plot of the standardized residuals (the errors) by the regression standardized predicted value. The residuals were randomly scattered around O (the horizontal line) providing a relatively even distributing and hence no violations of homoscedasticity were detected.

4.10: Pearson's Correlation Coefficient Results

Table No.4.13: Correlation Results (N=22)

Parameter	Variables	F.P	ECM	ERM	EIM
Spearman's Rho	F.P	correlation coefficient sig (2 tailed)	1.000		
	ECM	correlation coefficient sig (2 tailed)	0.4896* 0.000	1.000	
	ERM	correlation coefficient sig (2 tailed)	0.4936* 0.000	0.4288 0.000	1.000
	EIM	correlation coefficient sig (2 tailed)	0.5936* 0.000	0.4176 0.000	0.5032 0.000

*Correlation is significant at the 0.01 level (2 tailed)

Source: Survey data 2015

The person's correlation results as indicated in Table No.4.13, shows that there was a strong positive relationship between SMEs financial performance and efficient cash management (R= 0.4896, F.P< 0.01). Also a strong positive relationship was established between financial performance and efficient Receivables management (R= 0.4936, F.P< 0.01).On the other hand, a very strong positive relationship was established between Financial Performance and Efficient Inventory Management (R=0.5936,FP<0.01).Generally many researchers have indicated that businesses' financial performance is correlated positively to the working capital management practices (Pasdachi, 2006, Kotut 2003, Sushma and Bhush 2007) and are therefore supported by this study.

4.11: Multiple Regression Analysis

The multiple regression analysis was used to deduce a model that could be used to explain the influence of working capital management practices on financial performance of SMEs. Table No. 4.11 indicates the contribution of each variable in explaining financial performance as shown by standardized beta values which assess the contribution of each variable towards the prediction of the dependant variable.

Efficiency in Inventory management had the highest influence on financial performance with a unit change in the ECM, holding ERM constant, resulting to a 40.4% increase in financial performance, while Efficiency in Receivables management had the least influence with a unit change in ERM, holding ECM and EIM constant, resulting to a 12.60% increase in financial performance. The overall equation as suggested in the conceptual framework can be represented as under:-

$$F.P = 2.9744 + 0.0976 \text{ ECM} + 0.06136 \text{ ERM} + 0.1200 \text{ EIM}$$

This implies that even without the three variables under study, financial performance is expected to be 2.9744.

Table No.4.12, summarizes the regression model $R^2 = 0.507$ shows 50.7% of the variability of financial performance could be attributed to changes in Efficiency of Cash Management, Efficiency of Receivables Management and Efficiency in Inventory Management practices. Comparing the value of R^2 and adjusted R^2 gives a difference of 0.008 which is too small. This indicates that validity of the model is very good since its shrinkage is less than the 0.5 threshold suggested by Field (2005).

Table No. 4.12, indicates the F- statistics which indicates that the set of independent variables were as a whole contributing to the variance in the dependant variable and that there was statistically significant relationship between Financial Performance and the set of predictor variables (ECM,ERM and EIM) as shown by its F-statistic (FP =48.989, FP < 0.04).

These findings indicate that there is a relatively high support for the existence of a positive significant relationship between financial performance and working capital management practices. Generally many researchers have established a positive relationship between efficiency in Working Capital Management Practices and business performance, (Kotut, 2003, Padach, 2006; Lizaridish and Dimitrius, 2005, Kwame 2007, Peel and Wilson 1996). Moreover, based on the findings of this study the central role of working capital management to the success of SMEs has been demonstrated by the empirical data from SMEs in Machakos sub- county Kenya. The data analysis indicated that those businesses whose owners / managers were more efficient in managing working capital elements had a higher financial performance; hence emphasizing the pronouncement that efficient working capital management is an indispensable component for the success of SMEs. These findings also reinforce the establishment by Nabwanga (2012) and Deloof (2003), which showed that the way working capital is managed has a significant influence on the overall performance of a business.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1: Introduction

This chapter gives summary of the results obtained from this study, draws conclusion from the findings and recommendations for further study, policy and practice.

5.2: Summary of Findings

This study aimed at establishing the influence of working capital management practices on financial performance of SMEs in Machakos sub-county, Kenya. The study design was cross-sectional survey, centered on working capital management practices, and it used structured questionnaire and interview methods to collect primary data.

The population was 159 SMEs operating and registered by the year 2009 within Machakos Sub-County, with the county registrar of Businesses, Ministry of industrialization and enterprise development. The respondents who are the owners / managers of the SMEs were selected randomly. The questionnaire was distributed to 32 respondents and 22 returned, yielding a 68.75% response rate. Majority of the respondents (45.45%) were in the 36-45 year age bracket, (31.82%) were in the 46-55 year age bracket, and (22.73%) were in the over 55 year age bracket. Age bracket 18-25 and 26-35 had no response, an indication that many youths in Machakos sub-county do not own or manage SMEs. Majority of the respondents (45.45%) had secondary education, while (27.27%) had diploma education, (9.1%) graduate, (4.54%),(postgraduate and (13.64%) others. This indicates that there is need for professional training in management for the owners / managers of SMEs, in order to improve performance of SMEs in general.

5.3: Conclusion

The study established that majority of the SMEs in Machakos Sub-County were not good in managing their working capital since they seemed not to have embraced and implemented efficient working capital management practices in their business operations. This was revealed by their low weighted averages or means of efficiency levels in cash, receivables and inventory management practices and their limited application of theories of working capital management. Owners /managers experience was found more important than these theories such as economic order quantity and cash conversation cycle. On this premise this study concludes that working capital management might be the cause of small and medium enterprises failure in Machakos Sub-County, this collaborates to a greater extend with previous studies which indicated that careless working capital management practices is a major cause of SMEs failure (Berryman, 1993).

Peel and Wilson (1994) assert that if working capital management practices in SMEs could be significantly improved then few firms would fail and economic welfare would be increased substantially. In the right of this and assertions by other previous studies the current researcher would like to suggest to owners/managers of SMEs in Machakos Sub-County that careful management of working capital is vital for the survival of their firms. Poor management of working capital means funds are tied up in idle assets , therefore , reducing liquidity to invest in productive resources such as plant and machinery that influence the general performance of their business,. In order to improve on working capital management practices of SMEs in Machakos Sub- County, Kenya, the following recommendations are made:

5.4: Recommendations

5.4.1: Cash Management

Based on the establishment of the fact that majority of SMEs in Machakos Sub-County experienced surplus cash regularly the researcher suggests that surplus cash should be invested in overnight call account which yields high interest returns. This would help SMEs avoid keeping large cash balances in non-interest yielding bank current accounts

and in the safe locker. This study also established that majority of SMEs never invested their surplus cash in financial market. This researcher suggests that SMEs should use internet to automatically route their surplus cash to interest earning investments in the financial market, for example a web-enabled treasury functions bring a number of benefits to investors, it allows increased control over cash positions and creates a portal for managing portfolios and trading in short-term financial instruments like overnight call accounts, treasury bills, and others available in the financial market.

To help raise standards of financial performance reporting in SMEs, this researcher recommends that owners/managers should make good use of available computerized packages, for example, computer spreadsheets are essential to all forms of business organizations as they allow owners/managers to prepare a lot of financial reports including preparation of cash budgets and in determination of target cash balances. This study established a fact that majority of the SMEs never prepared cash budgets regularly yet cash budgets is one of the important tools in planning and controlling cash flows in a business. The researcher of this study suggests that managers of SMEs in Machakos Sub-County should embrace use of cash budgets as a tool of planning and controlling of cash flows in their businesses. Hence the availability of computer spread sheet would help SMEs owners/managers in preparing several cash budgets based on their possible future situations like:

- i. Optimistic budget which assumes that the firm achieves forecasted growth
- ii. Pessimistic budget which assumes forecasted growth and
- iii. Target budget which assumes forecasted growth is achieve

5.4.2: Inventory Management

Based on the establishment that efficient inventory management practices had the greatest influence on financial performance as indicated by its largest mean and standard statistics, this researcher suggests that SMEs should pay more attention to the management of inventory since it has a larger influence on financial performance of SMEs. This study, therefore suggests that SMEs should ensure that stocks are sufficient to meet customer demands at all times while at the same time avoiding holding unnecessary surplus stocks that may increase stock holding costs. The SMEs should also

seek knowledge in the use of stock optimization techniques such as economic order quantity so as to be able to determine right quantities of stock to hold at any given time.

To fully realize the benefits of the above suggestions the SMEs should establish credit control department or section with a full-time responsible officer. This credit control department or section should have the following credit control procedures:

- The terms of trade, notably the period of credit to be granted and any discounts to be allowed for early settlements.
- On customer -to-customer basis, i.e. it is necessary to assess the credit worthiness and to establish limits in terms of amount and time. Much consideration should be given to assessing a customer's credit worthiness, especially for a new customer.
- Review existing customers from time to time, especially if they request that their credit limit should be raised.

Also the credit departments or sections for the SMEs should have credit collection policies to ensure that amounts owing are collected as quickly as possible. Some of the steps to be included in the policy include:

- Developing customer relationships. For example it is always useful for the SMEs to cultivate good relationship with the key staff responsible for paying sales of their customers. By doing so, the chance of prompt settlement may be increased.
- Publicizing credit terms. The credit terms of the SMEs should be made clear in all relevant correspondence for example order acknowledgement, invoices and statements. In early negotiations with prospective customer, credit terms should be discussed openly and an agreement reached.
- Issuing invoices promptly. An efficient collection policy requires an efficient accounting system. All the invoices or bills should be sent out promptly to customers. Reminders of late payments must also be followed up with phone calls promptly.

5.4.3: Receivables Management

On receivables management practices, this study established the fact that a few of all SMEs under the study sold their products on credit. The low use of credit sales was attributed to the lack of sound credit policies, since 63.63% of all SMEs studied had not set credit guidelines for their customers. Based on this fact this researcher suggests that SMEs in Machakos Sub-County should establish credit control department or section with a full-time responsible officer as already suggested above under inventory management. Also on receivables management this study suggests that owners /managers of the SMEs should consider contracting out specialist finance firms, that offer factoring service arrangements under which, a factoring firm provide funds by advancing say 70% of the invoice value immediately and the remainder being settled when the clients' customer settles the debt.

But in Kenya factoring finance services is not well developed and if it is available, then it is only in few major towns. The SMEs owners/ managers would make good use of such facility to help them improve on the collection of their outstanding debts.

The government of Kenya should encourage the setting up of factoring firms to help reduce the bad portfolios of the SMEs having difficulties in managing debts. Also on late payments of debts the government should put in place a legislation to give suppliers a statutory right to interest on overdue accounts. This would be in line with the UK, in which the government has intervened to help deal with the problem of late payment to SMEs and the law now permits them to charge interest on overdue accounts (At rill 2006).

Both county and national governments should formulate a policy for SMEs that would outline priorities and strategies for improving the performance and competitiveness of existing and creating new ones. The policy for the SMEs should address aspects like:

- Providing enabling legal and regulatory framework.
- Improve access to physical infrastructure and work place.
- Strengthening entrepreneurial culture
- Improving SMEs access to finance
- Building the capacity of SMEs stakeholders

- Promoting county industrialization
- Addressing cross-cultural issues like environment, ethics, gender, HIV/AIDS etc

5.4.4: Training and Education

Based on the establishment of the fact that majority of the owners/managers of SMEs in Machakos Sub-County had secondary level of education and financial performance of SMEs had a low average due to inefficient of working capital management practices, this study suggests that the small and medium enterprises sector needs effective and dynamic management skills in order to be successful. Hence, the owners/managers of SME in Machakos Sub- County should avail themselves for training at colleges or universities to equip themselves with financial management skills and other studies on business management. Also the national government, county governments and other bodies like Kenya industrial estates should organize some tailor made trainings for the owners/managers of SME to polish their knowledge and skills on financial management and other business management topics. This will help improve their trading activities since poor managerial skills have commonly been associated with SMEs failure. On reflecting on this study it can be said that the aim and objectives have been achieved. Hence the study has tried to investigate into the influence of working capital management practices on financial performance of the sample SMEs in Machakos Sub-County, and came out with some convincing findings to identify some factors which could be contributed to the efficient usage of working capital.

As stated earlier in part of this study, this is basically a cross-sectional survey study limited only to SMEs in Machakos Sub-County; therefore this researcher suggests that future research to be carried out using large samples, not only in Machakos Sub County but in all other counties in Kenya.

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APPENDIX 1
INTRODUCTION LETTER

SCHOOL OF BUSINESS AND ECONOMICS
SOUTH EASTERN KENYA UNIVERSITY
P.O BOX 17609
KITUI

4th November, 2014

Dear Respondent,

RE: INTRODUCTION LETTER

I am a post graduate student in the above named University. As part of the fulfillment of the requirement for the Degree of Masters in Business Administration; I am taking a Research on the “Influence of Working Capital Management Practices on Financial Performance of Small and Medium Enterprises” in Machakos Sub County, Kenya.

Your firm falls within the population of study, I kindly request you to assist me collect data by filling the attached questionnaire. The information collected is purely for academic work, and will be treated with strict confidence. A copy of this research paper will be made available to you upon request.

Your assistance in facilitating this study will be highly appreciated.

Thank you.

THOMAS N. ONDIEKI
MBA DEGREE STUDENT

APPENDIX 2

TIME FRAME FOR THE STUDY

ACTIVITY	SCHEDULE
Defense of proposal	November 2014
Data collection	December 2014
Data analysis	December 2014
Report writing	December 2014
Report presentation	January 2015

APPENDIX 3

SAMPLE QUESTIONNAIRE

INSTRUCTIONS

Do not write your name in this questionnaire.

The information you give will be used for this study only and will be treated with the confidentiality it deserves.

Section A

Respond by ticking within the box as appropriate.

1. Your role in this firm:

<input type="checkbox"/>	Owner	
<input type="checkbox"/>	Manager	

2. You age group (optional)

<input type="checkbox"/>	18-25 years	
<input type="checkbox"/>	26-35 years	
<input type="checkbox"/>	36-45 Years	
<input type="checkbox"/>	46 – 55 Years	
<input type="checkbox"/>	Over 55 Years	

3. Your level of Education

<input type="checkbox"/>	Secondary	
<input type="checkbox"/>	College/Diploma/Certificate	
<input type="checkbox"/>	Graduate	
<input type="checkbox"/>	Postgraduate	

4. How long this firm has been in business

<input type="checkbox"/>	Less than 5 Years	
<input type="checkbox"/>	6-10 Years	
<input type="checkbox"/>	11-15 Years	
<input type="checkbox"/>	16-20 Years	
<input type="checkbox"/>	Over 20 Years	

SECTION B

Listed below are the areas to be considered for this study of the Influence of Working Capital Management Practices on the financial performance of SMEs in Machakos Sub-county. Tick the number on scale 1-5 where

1. Strongly Disagree
2. Disagree
3. Undecided
4. Agree
5. Strongly Agree

To what extend do you agree or disagree with the following Working Capital Management Practices that influence your firm's Financial Performance.

CASH MANAGEMENT PRACTICES

Cash management practices score scale responses	1	2	3	4	5
(i) Firm's management prepares cash budget and strictly follow it:					
(ii) The firm often determines target cash balances					
(iii) The firm often experiences cash shortages:					
(iv) The firm often experiences cash surplus					
(v) The firm often invests surplus cash in profitable investments:					
(a) Bank Deposit					
(b) Financial market					
(c) Business expansion					
(d) No cash surpluses					
(e) No where					

RECEIVABLES MANAGEMENT

Receivable practices score scale responses	1	2	3	4	5
(i) The firm often sales on credit					
(ii) The firm has set up standard credit guidelines for customers					
(iii) The firm often reviews the levels of receivables					
(iv) The firm often reviews the levels of bad debts					

INVENTORY MANAGEMENT PRACTISES

Inventory Management practices score scale responses	1	2	3	4	5
(i) The firm often prepares inventory budgets					
(ii) The firm often prepares inventory budgets					
(iii) The firm often determines its inventory levels on the basis of:					
(a) Scientific Management					
(b) Historical					
(c) Owners or managers experience					
(d) Never determines inventory levels					
(iv) The firm frequently does make inventory replacement on the basis of:					
(a) Yearly					
(b) Monthly					
(c) After two weeks					
(d) Weekly					
(e) Daily					

FINANCIAL PERFORMANCE INDICATORS

Financial performance indicators score scale responses	1	2	3	4	5
(i) The firm's sales are growing					
(ii) The firm's market share is growing :					
(iii) The firm's net income is growing :					
(iv) The firm's total assets are growing					

Thank you for your cooperation.

APPENDIX 4

PROPOSED BUDGET FOR THE STUDY

ITEM	COST/ UNIT(KSH)	TOTAL AMOUNT (KSH)
1. Stationary:		
Writing Materials	3500	
Computer services	6000	9500
2. Secretarial Services		
Typing of the proposal	4000	
Typing of final report	10000	14000
3. Travelling Expenses:		
To present questionnaires	7000	
To collect questionnaires	7000	14000
4. Banding Expenses:		
Proposal	1500	
Final report 6 copies @Kshs. 1500	9000	10500
5. Miscellaneous Expenses	20000	20000
Grand Total		68000

APPENDIX 5**LIST OF SMEs IN MACHAKOS SUB COUNTY**

S.NO	NAME	BOX
1.	KITANGA ROADS/GENERAL	1059 MACHAKOS
2.	MARKETING CONSTRUCTIONS CO. LTD	1442 MACHAKOS
3.	LEISHA ENTERPRISES	1126 MACHAKOS
4.	KAMWELE FURNITURE	N/A
5.	SAMSON MATHEKA	1979 MACHAKOS
6.	PATRICK JOHN MBUYA	1979 MACHAKOS
7.	JOYCE N. MUEMA	925 MACHAKOS
8.	CREATIVE DEVELOPMENT INITIATIVES	15063 MACHAKOS
9.	MARC MOTORS	1236 MACHAKOS
10.	HOSEA MWAKA MULILI	617 MACHAKOS
11.	BONIFACE MUNGUTI MUTUA	275 MACHAKOS
12.	SIMUNDE SUPPLIES	275 MACHAKOS
13.	BENSTORES HARDWARE	925 MACHAKOS
14.	PAUL MUTISYA	83 MACHAKOS
15.	TITRUS CONSTRUCTION COMPANY LTD	762 MACHAKOS
16.	TAPROC CONTRACTORS LIMITED	580 MACHAKOS
17.	JUSTUS KALIA	N/A
18.	BONIFACE M. KALELI	231 MACHAKOS
19.	EKIMA ENGINNERING WORKS	702 MACHAKOS
20.	LABELLA ENTERPRISES	133 MACHAKOS
21.	GEORGE MUIA	35198 MACHAKOS
22.	JONES MUOLA NTHENGE	N/A MACHAKOS
23.	ANGELINA MUOTA MUTISO	622 MACHAKOS
25.	BENARD MUSAU MAKAU	86 MACHAKOS
26.	STEPHEN M. KANYELE	19 MACHAKOS
27.	NICLOLAS M. MUTINDA	48 MACHAKOS
28.	JOHN KITUKU	104 MACHAKOS

29.	MARGARET KATUNGE WAMBUA	150 MACHAKOS
30.	DANIEL M. PETER	554 MACHAKOS
13.	JULIUS MAILU	1211 MACHAKOS
32.	MUNYAO WATHOME	303 MACHAKOS
33.	ABBEDNEGO M. MAKAU	599 MACHAKOS
34.	PETER M. KIOKO	104 MACHAKOS
35.	REGINA MUMBUA MWANZA	637 MACHAKOS
36.	ANN MUTINDI	637 MACHAKOS
37.	PATRICK WAMBUA	1211 MACHAKOS
38.	VERONICA LITAI	239 MACHAKOS
39.	MARY N. PHILIP	849 MACHAKOS
40.	MUSYOKA MBITHI	71 MACHAKOS
41.	JACKSON WAMBUA MUTISYA	75 MACHAKOS
42.	ESTHER MUTHIKE KOMUYU	306 MACHAKOS
43.	MARIANE NTHIKE	397 MACHAKOS
44.	RUTH MWIKALI MUMO	275 MACHAKOS
45.	DOMINIC MUASYA NGOVU	1918
46.	JOSEPH MUSYOKA	385
47.	MULI MANI MAITHA	26
48.	JOHN NTHENGE KYENGO	144
49.	JOHN K. KITHUKU	104
50.	MARGARET KATUNGE WAMBUA	150
51.	JOHN MULI	1527 MACHAKOS
52.	JACKLINE MWIKALI MWANGANGI	525 MACHAKOS
53.	NJINET ENTERPRISES	136 MACHAKOS
54.	PATRICK KASAI (CHARCOAL)	1432 MACHAKOS
55.	JAPHAET MUSYOKA MUSAU	13 MACHAKOS
56.	HENRY MULI	110 MACHAKOS
57.	PENTOIL PETROLEUM LTD	1527 MACHAKOS
58.	BENEDETTA MWIKALI NZIOKA	1503 MACHAKOS

59.	JOYCE WAMBUI	340 MACHAKOS
60.	KYALO SAMMY	145 MACHAKOS
61.	JOSEPHINE NTHAMBI MUTUAL	N/A
62.	AGNES KYALO	2235 MACHAKOS
63.	JOHN WAFULA WANASWA	561 MACHAKOS
64.	STEPHEN MUTUAL MAVINDU	2444 MACHAKOS
65.	RODAH WAMBUA	1309 MACHAKOS
66.	CHRISTOPHER MUSAU MULWA	2209 MACHAKOS
67.	GRACE KATOLO	2434 MACHAKOS
68.	RUTH MUTHOKA	2305 MACHAKOS
99.	FAITH CYCLE MART	1770 MACHAKOS
70.	VISITORS SHOP	226 MACHAKOS
71.	MARTIN MUTUKU	1685 MACHAKOS
72.	EBENEZER GOSPEL MUSIC CENTER	2023 MACHAKOS
73.	DEPA ENTERPRISES	648 MACHAKOS
74.	J.K. STORES	803 MACHAKOS
75.	LEONARD NDETI	206 MACHAKOS
76.	FRANCIS MUTALA MULE	420 MACHAKOS
77.	WYCLIFFEE NJOROGE	2289 MACHAKOS
78.	ROSE MUTUKU	30 MACHAKOS
79.	KITAA NGULI	2175 MACHAKOS
80.	DORCAS M. MUENDO	180 MACHAKOS
81.	CHARLES MUTINDA PATRICK	2453 MACHAKOS
82.	KINGSWAY CONSOLIDATED	730 MACHAKOS
83.	LAZARUS MUTUKU	1509 MACHAKOS
84.	AGAPE GENERAL STORE	145 MACHAKOS
85.	MAGIC FASHION ENTERPRISES	1360 MACHAKOS
66.	ELIJAH NGWILI MAUNDU	680 MACHAKOS
87.	MUMANZI ENTERPRISES LTD.	125 MACHAKOS
88.	KITEMA MUSEMBI	275 MACHAKOS

89.	FAYU STORES	80 MACHAKOS
90.	FRANCIS M. DAVID	818 MACHAKOS
91.	NANCY N. MASAFU	2421 MACHAKOS
92.	COLLINGS OCHEING NYAUKE	2319 MACHAKOS
93.	PATRICIA MUMBE JOSEPH	N/A
94.	JOHN KATIKU	76038 MACHAKOS
95.	AMAZON NEAT WEAR BOUTIQUE	818 MACHAKOS
96.	MACHAKOS CO OPERATIVE UNION (B)	83 MACHAKOS
97.	JOSEPH M. MWILU	2145 MACHAKOS
98.	NORMAN KABUGA MARANGA	131 MACHAKOS
99.	VIRGINIA MUTINDA MUTUNGA	727 MACHAKOS
110.	MAUREEN KAMBUA MUTETI	1386 MACHAKOS
101.	FRANCIS MWANIA MBALUKA	494 MACHAKOS
102.	MARGARET NDUNGE MULI	1213 MACHAKOS
103.	GRACE KITUKU	640 MACHAKOS
104.	BERNATA HOLDINGS	1064 MACHAKOS
105.	FRONT FACE CONSULTANTS	611 MACHAKOS
106.	SCOTT BOOK CENTRE	49 MACHAKOS
107.	PARADIGM COMMUNICATION	1878 MACHAKOS
108.	JOHN MUTUAL KATUKU	1135 MACHAKOS
109.	RESUMPTOR MBITHE MUNYA	1148 MACHAKOS
110.	PAULINE MBULWA	185 MACHAKOS
111.	PETERM. MAINGI	1789 MACHAKOS
112.	RESUMPTOR MBITHE MUNYA	1148 MACHAKOS
113.	SARAFINA PHOT STUDIO	1289 MACHAKOS
114.	CHAMKIM PRIDE AGENCIES	1375 MACHAKOS
115.	WIKWATYO PHAMACY	1522 MACHAKOS
116.	APPOLO BUTCHERY	136 MACHAKOS
117.	BARAKA PHAMACY	699 MACHAKOS
118.	JANE MUENI KIMEU	226 MACHAKOS

119.	EAST KENYA CONSTRUCTORS \$ H/W	1540 MACHAKOS
120.	STANBOOK EMPORIUM	234 MACHAKOS
121.	TITUS MUTUNE NDALAMIA	619 MACHAKOS
122.	JUMBOTEX TYPE CO.	460 MACHAKOS
123.	TYRE WORLD (K) LTD.	214 MACHAKOS
124.	BATA SHOES (K) LTD.	23 MACHAKOS
125.	GENERATIONS ELECTRONICS	936 MACHAKOS
126.	PETER. KIMATU (1)	46 MACHAKOS
127.	JOY ENTREPREISES	936 MACHAKOS
128.	MAGDALINE MUTINDA KIOKO	48 MACHAKOS
129.	BROADWAYS B. LTD.	1024 MACHAKOS
130.	MARGARET MUKUI MUSA	1918 MACHAKOS
131.	JOSEPH MUTUKUNDETO	22 MACHAKOS
132.	NASON NZAU MUUNDA	818 MACHAKOS
133.	KITUI KARIBU ENTERPRISES	253 MACHAKOS
134.	VINYA ENNTERPRISES	22 MACHAKOS
135.	COSY SODA DISTRIBUTER	1103 MACHAKOS
136.	CARTON MWANZIA	1847 MACHAKOS
137.	KALIMANI SUPPLIES	66 MACHAKOS
138.	PATRICK KASAI (RETAIL)	1432 MACHAKOS
139.	LINNET MUENI MUTISYA	1509 MACHAKOS
140.	SUSAN NZISA MUSYOKA	1 MACHAKOS
141.	CHRISTOPHER MUTUKY MULALYA	223 MACHAKOS
142.	LYDIA MUTHOKI (E)	1277 MACHAKOS
143.	PAULINE NTHAMBI MAKAU	876 MACHAKOS
144.	NELIUS MWONGELI JONES	1509 MACHAKOS
145.	JANE WAITHERA	1000 MACHAKOS
146.	JANIFFER WAMBUA	2151 MACHAKOS
147.	PHILISTER AUMA ORATO	839 MACHAKOS
148.	MUTHIKE J. MUTUAL	2027 MACHAKOS

149.	MILKAH MUTISYA	1487 MACHAKOS
150.	ELIZABETH MWEU	1511 MACHAKOS
151.	CONSOLATA AKUMU WERE	1089 MACHAKOS
152.	FRANCIS KYALO KYEVA	13 MACHAKOS
153.	RAPHAEL WAMBUA	359 MACHAKOS
154.	DOMINIC KIMANI	643 MACHAKOS
155.	GLADYS M. KIILU	960 MACHAKOS
156.	JUMA SHABAAN	1949 MACHAKOS
157.	JANE KIGUTA	794 MACHAKOS
158.	ANNE KOKI MUKUVA	1829 MACHAKOS

Source: County Government of Machakos Town