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    RESEARCH METHODOLOGY
    RESULTS & DISCUSSION
    FINDINGS
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RELATIONSHIP BETWEEN EFFICIENT CASH MANAGEMENT AND PROFITABILITY OF SMALL SIZED ENTERPRISES IN KISUMU COUNTY, KENYA

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ABSTRACT

Efficient cash management is seen as the process of planning and controlling cash flows of a firm and very imperative to small sized enterprises profitabilty.In Kenya small sized enterprises are contributors to economic development by providing employment opportunities and reducing poverty levels. Despite their significance to economic development, small sized enterprises(SSEs) rate of startup is 40% but 60% of them collapse within the first two years of their operations causing retrenchment of human resources, high level of loan defaulters, and inadequate services delivery to the community. This research paper examines the relationship between cash capital management and profitability of small sized enterprises in Kisumu, County, Kenya for 2009 to 2014. The objectives was to determine the effects of management of cash on profitability. The targets population was 10,000 of small sized enterprises and a sample size of 370 small sized enterprises were established by using Krejcie and Morgan's table. Data was analyzed using descriptive statistics, Pearson's correlation coefficient and stepwise regression analysis. The correlation analysis performed indicated that there was relatively low degree of positive correlation between efficient cash management and profitability of small sized enterprises. The study recommends that proper financial management education and training should be initiated by government of Kenya.

KEYWORDS

Working capital management practice, Average collection period, Inventory turnover, efficient cash management and small sized enterprises

1. INTRODUCTION

Working capital has several meanings in business and economic development finance. In accounting and financial statement analysis, working capital refers to the firm's short-term or current assets and current liabilities. Net working capital represents the excess of current assets over current liabilities and is an indicator of the firm's ability to meet its short term financial obligations (Brealey & Myers, 2002). Effective working capital management consists of applying the methods which remove the risk and lack of ability in paying short term commitments in one side and prevent over investment in these assets in the other side by planning and controlling current assets and liabilities Lazaridis & Tryfonidis (2006).

Working Capital Management is the administration of current assets and current liabilities. It deals with the management of current assets and current liabilities, directly affects the liquidity and profitability of the company (Deloof, 2003; Eljelly, 2004; Raheman and Nasri, 2007; Appuhami, 2008; Christopher and Kamalavalli, 2009; Dash and Ravipati, 2009). Current liquidity crisis has highlighted the significance of working capital management. Management of working capital has profitability and liquidity implications and proposes a familiar front for profitability and liquidity of the company. To reach optimal working capital management firm manager should control the tradeoff between profitability maximization and liquidity accurately (Raheman &Mohamed, 2007). An optimal working capital management is expected to contribute positively to the creation of firm value (Howorth & Weshead, 2003; Deloof, 2003; Afza &Nazir, 2007).

There must be a balance between current assets and current liabilities so as to eliminate the risk of inability to meet short term obligations on one hand and avoid excessive investment in these assets on the other hand (Eljelly, 2004). Many surveys have indicated that managers spend considerable time on day-to-day problems that involve working capital decisions. One reason for this is that current assets are short-lived investments that are continually being converted into other asset types (Samilgul &Demirgunes, 2006). With regard to current liabilities, the firm is responsible for paying these obligations on a timely basis. Liquidity for the ongoing firm is not reliant on the liquidation value of its assets, but rather on the operating cash flows generated by those assets (Soenen, 1993; Kimeli, 2012). Taken together, decisions on the level of different working capital components become frequent, repetitive, and time consuming.

The Working Capital Management of a firm affects its profitability. The ultimate objective of any firm is to maximize the profit. But, preserving liquidity of the firm is an important objective too. The problem is that increasing profits at the cost of liquidity can bring serious problems to the firm (Shin and Soenen, 1998). Therefore, there must be a trade- off between these two objectives of the firms. One objective should not be at cost of the other because both have their importance. If we do not care about profit, we cannot survive for a longer period. On the other hand, if we do not care about liquidity, we may face the problem of insolvency or bankruptcy. For these reasons working capital management should be given proper consideration and will ultimately affect the profitability of

the firm. In Kenya, small scale enterprises are acknowledged as vital and significant contributors to economic development through their critical role in providing job opportunities, reducing poverty levels, nurturing the culture of entrepreneurship and are a vital link in the economy through their supply chain and intermediary role in trade (Atieno 2006;2009).
According to the Economic Survey of 2006, small scale enterprises contributed over 50% of new jobs created in the year 2005 and over 20% to the GDP of the country. In recognition of this indispensable role, the government has instituted enterprise support programmes including the introduction of Women and Youth Enterprise Funds in the years 2006 and 2007 respectively to fuel the development of these enterprises. Many micro finance institutions have joined the forces in providing them with microcredit hence, causing their access to microcredit increase from 7.5% in 2006 to 17.9% in 2009 (FSD Kenya, 2009.)

2. LITERATURE REVIEW

2.1 CONCEPT OF CASH MANAGEMENT

According to Pandey (2006) ,cash management is very important for every organization that means to pay current obligations on business, the payment obligations include operating and financial expenses that are short term but maturing long term debt. Liquidity ratios are used for liquidity management in every organization in the form of current ratio, quick ratio and Acid test ratio that greatly effect on profitability of organization. So business has enough liquid assets (Cash, Bank) to meet the payment schedule by comparing the cash and near-cash with the payment obligations. Liquidity ratios work with cash and near-cash assets (together called "current" assets) of a business on one side, and the immediate payment obligations (current liabilities) on the other side. The near-cash assets mainly include receivables from customers and inventories of finished goods and raw materials. The payment obligations include dues to suppliers, operating and financial expenses that must be paid shortly and maturing installments under long-term debt.

2.2 EMPIRICAL LITERATURE REVIEW

Kemeli (2010) observed in his study that the health of the economy as a whole has a strong relationship with the nature of small enterprise sector and given their importance to a nation's economic growth. An understanding of the problems negatively affecting small businesses in Kenya is a vital first step in managing and avoiding the massive failure of these small businesses (ILO, 2010).The 2009 national survey of small and micro-enterprises (SMEs) found that about 26% of the total households in the country are engaged in some form of SME activity (CBS KREP and ICEG, 2009). The sector is therefore an important source of livelihood for a majority of the country's population.
A study carried out by Jagongo and Makori (2013) on working capital and firm's profitability of manufacturing and construction firms' listed Nairobi Securities Exchange, Kenya for the period 2003 to 2012 Ordinary least square regression(OLS) models and Pearson's correlation were used to establish the relationship between working capital management and firm's profitability. The study found a negative relationship between profitability and number of days accounts receivable and cash conversion cycle but positive relationship profitability and number of days of inventory and number of days payable .The financial leverage, sales growth ,current ratios and firm size have significant effects on profitability. Based on the findings, the study recommends to management to take long to pay their accounts payable. The study may not have considered the effects on prolonged payments on liquidity of the firms with low level of capital base.
Nyabwanga, Ojerah, Lumumba, Odondo &Otieno (2012) assessed the effects of working capital management practices on financial performance of Small Sized Enterprises (SSEs) in Kisii South District. A sample of 113 SSEs comprising 72 trading and 41 manufacturing enterprises was used .Pearson's correlation coefficients and multiple regression analysis techniques were used to analyze the data. Consequently, the findings of the study were that, working capital marketing practices were low amongst SSEs as majority had not adopted formal working capital management routines and their financial performance was low compared to listed large companies in the same region
The further examination of these studies revealed that there is still little empirical evidence on Working capital management components and its influence on profitability of SSEs in Kenya in general and Kisumu County in Particular, and the results from past studies are mixed across countries, therefore this study will provide an elaborate attempt to fill this knowledge gap and determine the relationship between efficient cash management and profitability of small sized enterprises in Kenya

3. RESEARCH METHODOLOGY

This study used a cross sectional survey research design. A survey is suitable when a study intends to describe events or opinions without manipulating variables (Oso and Onen, 2009). The variables under investigation in this study was efficient cash management, target population was 10,000 with sample size of 370 small sized enterprises in Kisumu County ,Kenya ,arrived by applying the table Krejcie and Morgan(1970). The study used questionnaire methods to collect primary data from the respondents.

SIGNIFICANT OF THE STUDY

This research will give important information to the managers/owner managers, of enterprises, government and non-government and policy formulators in the sector of entrepreneurship development

STATEMENT OF THE PROBLEM

An optimal working capital management components (efficient cash management is expected to contribute positively to the creation of firm's value especially small sized enterprises. In Kenya small sized enterprises are contributors to economic development by providing employment opportunities and reducing poverty levels. Despite their significance to economic development, increase to finance, improved ICT, Mentoring and business incubation programs, SSEs exhibit 40% level of startups and 60% of them collapse within the first two years of their operations causing retrenchment of human resources, high level of loan defaulters, and inadequate services delivery to the society. In this study efficient cash management practice used instead of cash conversation cycle,

RESEARCH OBJECTIVES

The objective of the study was to determine the effect of management of cash on profitability of Small scale enterprises in Kisumu County, Kenya

RESEARCH HYPOTHESIS

There is no significant relationship between efficient cash management and profitability of Small scale sized enterprises in Kisumu County, Kenya

4. RESULTS & DISCUSSION

The data analysis on relationship between working capital management components and profitability of small sized enterprises was guided by the following objective; to determine the effect of management of cash on profitability of Small scale enterprises,

4.1 DESCRIPTIVE ANALYSIS

The descriptive statistics shows the mean and standard deviation of the variables. This was established by investigating whether the businesses ever conduct cash budget, determine the target cash balance, experience cash shortage, cash surplus or use computer in cash management.

TABLE 4.1: BUSINESS CONDUCTING THE CASH MANAGEMENT MEASURES

	Conduct activity				
Cash management activity	**1**	**2**	**3**	**4**	**5**
Preparing cash budget	61 (19.5%)	30 (9.6%)	36 (11.5%)	47 (15.0%)	140 (44.6%)
Determining the target cash balance	50 (16.0%)	19 (6.1%)	51 (16.2%)	94 (29.9%)	100 (31.8%)
Experience cash shortage	45 (14.3%)	46 (14.6%)	102 (32.5%)	93 (29.6%)	28 (8.9%)
Experience cash surplus	83 (26.5%)	69 (22.0%)	85 (27.1%)	56 (17.8%)	21 (6.7%)
Using computers in cash management	121 (38.5%)	63 (20.1%)	47 (15.0%)	40 (12.7%)	43(13.7%)

1-never, 2-rarely, 3-sometimes, 4-often, 5-always

Most of the businesses, (44.6%) always prepare cash budget whereas 31.8% of the businesses always determine the target cash balance. 32.5% of the businesses sometimes experience cash shortage, 27.1% sometimes experience cash surplus while 38.5% never use computers in cash management. (Table 4.13) .It implies that only 32.5% are able establish their cash flows status in Kisumu County hence do not have the opportunity to accomplish their business operations.

4.2 CORRELATION ANALYSIS

The study sought to find whether there was significant relationship between preparing of cash budget and after tax returns on assets in Table 4.14; The correlation analysis performed indicated that there was relatively low degree of positive correlation ($r = 0.191)$ conduct efficient cash management using cash budget preparation as its proxy This was statistically significant at $0.01(p < 0.01)$ leading to rejection of the null hypothesis hence the study conclude that there is significant influence of cash budget preparation on profitability of small sized.

TABLE 4.2: CORRELATION MATRIX FOR THE BUSINESS PROFITABILITY WITH EFFICIENCY CASH MANAGEMENT

Items		After tax return on total assets
Does your business conduct' preparing cash budget'	Pearson Correlation	.191**
	Sig. (2-tailed)	.001
Determine the target cash balance	Pearson Correlation	.219**
	Sig. (2-tailed)	.000
Experience cash surplus	Pearson Correlation	.268**
	Sig. (2-tailed)	.000
Using computers in cash management	Pearson Correlation	.362**
	Sig. (2-tailed)	.000
Where does your business often invest temporary cash surplus/	Pearson Correlation	-.266**
	Sig. (2-tailed)	.000
How involved is the owners/manager in interpreting cash management deficiency by using cash budget	Pearson Correlation	.205**
	Sig. (2-tailed)	.000
Extent to which your business is involved in working capital management practices	Pearson Correlation	.244**
	Sig. (2-tailed)	.000
	N	302

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

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

Source: Survey data 2015, SPSS output

REGRESSION ANALYSIS

Using a stepwise linear regression analysis in this study, a model by Harrell F.E (2001) was used to establish the relationship between efficient cash management and profitability of Small scale sized enterprises.

$ROA = f(ERM, ARM,$ INV)

Model 1: ROA = $\alpha + \beta_1$ ERM $+\beta_2$Slog$+\beta_3$ARM $+\beta_4$DR $+\varepsilon$

Where ROA denotes return on assets, ERM denotes Efficient of cash management measured by cash conversation cycle, Slog denotes natural logarithm of sales (SSE size),ARM denotes Account Receivable Management DR denotes debt ratio (Leverage) and finally α denotes intercept, β denotes regression coefficients, and ε denotes the error term.

Relationship was therefore dependent on significant correlated items of cash management to business profitability particularly using computers in cash management, extent to which the business is involved in working capital management practices, where the business often invest temporary cash surplus and experience cash surplus. Using a stepwise linear regression, other items were knocked out and only the four items were left. From the model used, business profitability was significantly influenced by these four items used in the regression giving (R^2 = 0.134, 0.212, 0.244 and R^2 = 0.255).

Therefore using a standardized beta coefficient, the model is;

ROA = 1.333 + 0.210 use of computers in cash management (X_1) + 0.284 extent to which business is involved in working capital management practices (X_2)-0.174experience in cash surplus(X_3) +0.102 where does your business often invest temporary cash surplus experience cash shortage (X_4) + precision error(e)

Hence: Profit (Y) = 1.333 + 0.210 X_1 + 0.284 X_2 -0.174X_3 +0.102X_4.+ε

TABLE 4.3: MODEL SUMMARY OF EFFICIENCY OF CASH MANAGEMENT AND BUSINESS PROFITABILITY

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.366[a]	.134	.131	1.03725ε
2	.461[b]	.212	.207	.99108
3	.494[c]	.244	.237	.97229
4	.505[d]	.255	.245	.96688

a. Predictors: (Constant), using computers in cash management

b. Predictors: (Constant), using computers in cash management, extent to which your business is involved in working capital management practices

c. Predictors: (Constant), using computers in cash management, extent to which your business is involved in working capital management practices where does your business often invest temporary cash surplus/

d. Predictors: (Constant), using computers in cash management, extent to which your business is involved in working capital management practices, where does your business often invest temporary cash surplus/, experience cash surplus

The Study findings indicates that 'where does your business often invest temporary cash surplus r=0.505 is more significant, followed by involvement I working capital management practice r=0,494.It can be concluded that entrepreneurs that invest temporary cash surplus prudently experience high profitability.

5. FINDINGS OF THE STUDY

The findings of the study show that small sized enterprises in Kisumu County, do not embrace cash budgeting as tool for planning, controlling and evaluating the achievements of business goals especially sustainable cash flow managements. This could be attributed to low level of higher school education ,gender disparity in which small enterprises are owned by female gender, consequently fail to basic business skills and overall business networking in cash flow management. This study is in agreement to the study conducted in Kisii South District, Kenya on effects of working capital management practices on financial performance of small scale enterprises by Nyabwanga , Ojera , Lumumba, Odondo and Otieno (2011),but in their study they did not look at the cash flow management and its consequences in working capital management.

6. RECOMMENDATIONS &SUGGESTIONS

The lack of knowledge in financial management is the persistent problem facing owner managers of Small sized enterprises which was highlighted by many studies, is yet to be addressed by the County Governments and National Government of Kenya. On the other hand, owner managers must ensure that they utilize adequate receivables and inventory management tools like turnover ratios, Proper financial management education and training facility initiated by government and financing bodies may help them to address the problem of receivables and payables management.

They should also concentrate on reducing the high variability in account receivable, cash budgeting and inventory management so as to assure more profitability. Finally, from the research findings, it can be concluded that there would be positive change in the businesses after the application of working capital management practices. Therefore, there exist a relationship between working capital management practices and profitability of small sized enterprises.

7. SUGGESTION FOR FURTHER STUDY

Since this study had picked on the efficient of cash management, further research should focus on other variables .In furtherance future researches should concentrate on Relationship between working capital management, innovations among female gender owned SMEs in Kenya

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