



PENDING BILLS PRACTICES AND FINANCIAL PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN KISII COUNTY, KENYA

Kelvin Mitenti Mose & Dr. Julias Miroga, PhD

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Kelvin Mitenti Mose,¹ & Dr. Julias Miroga, PhD²

¹ MBA (Finance) Student, Jomo Kenyatta University of Agriculture and Technology, Kenya

² Lecturer, Jomo Kenyatta University of Agriculture and Technology, Kenya

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ABSTRACT

This study investigated the relationship between pending bills practices and financial performance of SME's in Kisii County, focusing on key variables such as payment terms, payment methods, billing cycles, and account status. The research is anchored in Agency Theory, which examines the principal-agent relationship between the county government and SMEs, and the Resource-Based View (RBV), which highlights financial resources as critical assets for business sustainability. The study adopted a mixed-methods approach, integrating quantitative surveys and qualitative interviews to provide a comprehensive analysis of the issue. The target population consists of SMEs that have provided goods and services to the county government. A purposive sampling technique is used to select 50 SMEs and 10 key informants, including county officials and financial experts. Structured questionnaires are used to collect quantitative data on financial performance indicators such as cash flow, liquidity, and profitability, while in-depth interviews explore the underlying causes and implications of delayed payments. Data analysis is conducted using regression analysis to determine correlations between payment delays and financial performance, while qualitative data is subjected to thematic analysis to identify recurring patterns and insights. Preliminary findings indicate that inefficient payment processes, bureaucratic bottlenecks, and inconsistent billing cycles significantly disrupt SME cash flow, reduce liquidity, and undermine profitability. The study further highlights the role of government financial policies, budgeting constraints, and technological inefficiencies in exacerbating payment delays. Based on the findings, the study recommends the adoption of digital payment solutions, streamlined billing cycles, and enhanced financial governance to mitigate the adverse effects of payment delays. Implementing structured payment frameworks, e-invoicing systems, and policy interventions can improve the efficiency of SME payments and enhance business sustainability. The study contributes to the existing literature on public procurement and SME financial management by offering practical insights into policy reforms and best practices that can support SME growth in county government procurement.

Key Words: Payment Planning, Bill Categorization, Budget Rationalization, Payment Due diligence

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INTRODUCTION

Small and Medium Enterprises (SMEs) are widely recognized as essential drivers of economic growth, innovation, and employment across the world. Despite their significance, many SMEs face financial instability due to delayed payments from clients, particularly governments. The issue of pending bills practices where businesses provide goods or services but experience prolonged delays in receiving payments has been a growing concern for SMEs, limiting their ability to sustain operations, expand, and remain competitive. This study explores the impact of delayed payments on the financial performance of SMEs in Kisii County, Kenya, focusing on key aspects such as cash flow, profitability, and business continuity.

Across the world, SMEs are recognized as the backbone of most economies. According to the World Bank (2023), SMEs contribute approximately 90% of businesses and over 50% of employment worldwide. In developed economies such as the United States and the European Union, SMEs account for significant economic output, with government support in financing, market access, and regulatory ease. However, one of the persistent challenges they face is payment delays, particularly from large clients, including government entities.

In East Africa, SMEs are critical to economic development, contributing significantly to GDP and employment. In Kenya, SMEs account for over 80% of businesses and employ more than 14.9 million people (Kenya National Bureau of Statistics, 2022). Despite their importance, Kenyan SMEs struggle with late payments, particularly from government contracts. The issue of pending bills practices has been widely reported, with government agencies and county governments accumulating significant debts to suppliers.

Kisii County has a vibrant SME sector, with businesses engaged in retail, manufacturing, agribusiness, construction, and professional services. Many of these SMEs rely on contracts from the county government for their sustainability. However, delayed payments have led

to significant financial challenges, including; cash flow problems where businesses struggle to meet daily operational costs such as rent, salaries, and supplier payments. Another impact of delayed payment has been reduced profitability where SMEs incur additional costs due to expensive borrowing to sustain operations while awaiting payments, and finally business closures and job losses in which Some SMEs are forced to close down due to financial constraints, resulting into unemployment.

This study specifically targets SMEs in Kisii County that have provided goods or services to the county government and have experienced delays in receiving payments. The study focused on SMEs across different sectors, which included retail and wholesale Businesses that is small traders who supply goods to government offices and institutions, construction firms which include Contractors engaged in county infrastructure projects, agribusiness suppliers which are farmers and food processors supplying fresh produce and foodstuffs and professional services which include small accounting, legal, and consulting firms offering services to the county government. By focusing on these SMEs, the study seeks to understand how pending bills practices impact financial performance and what measures can be taken to mitigate these challenges.

Statement of the Problem

Small and Medium Enterprises (SMEs) are vital contributors to Kenya's economy, accounting for approximately 80% of all businesses and employing about 14.9 million people (Kenya National Bureau of Statistics [KNBS], 2022). Despite their critical role, SMEs are increasingly facing severe financial challenges due to delayed payments, particularly from county governments. Nationally, SMEs are owed over KES 30 billion in pending bills (Controller of Budget, 2023), with Kisii County being significantly affected. Prolonged delays in settling these bills disrupt SMEs' cash flow, compromise liquidity, and erode profitability, threatening their long-term financial sustainability. In Kisii County,

SMEs that supply goods and services to the county government are often forced to rely on short-term, high-interest loans to maintain operations, increasing their financial vulnerability. According to the Central Bank of Kenya (2023), loan defaults among SMEs have risen sharply, with the non-performing loan (NPL) ratio reaching 14.8% — a clear indicator of deteriorating financial health linked to cash flow disruptions. Furthermore, SMEs experiencing payment delays report a 25% decline in profitability and a 30% increase in operational costs (KNBS, 2022). The cumulative effect of delayed payments has broader implications: business closures, job losses, reduced investor confidence, and economic stagnation at the county level. Despite national efforts to fast-track the clearance of pending bills practices, bureaucratic inefficiencies, inadequate budget allocations, and weak enforcement mechanisms persist. If left unaddressed, delayed payments will continue to undermine the financial performance of SMEs, limiting their ability to drive sustainable economic growth. This study therefore seeks to examine the impact of pending bills practices on the financial performance of SMEs in Kisii County, with a focus on cash flow stability, liquidity, profitability, and long-term sustainability.

Research Objectives

- To determine the effect of Payment Planning on Financial Performance of SMEs in Kisii County.
- To assess the effect Bill Categorization on Financial Performance of SMEs in Kisii County
- To evaluate the effect of Budget Rationalization on Financial Performance of SMEs in Kisii County.
- To analyze the effect of Payment Due diligence on Financial Performance of SMEs in Kisii County.

LITERATURE REVIEW

Theoretical Framework

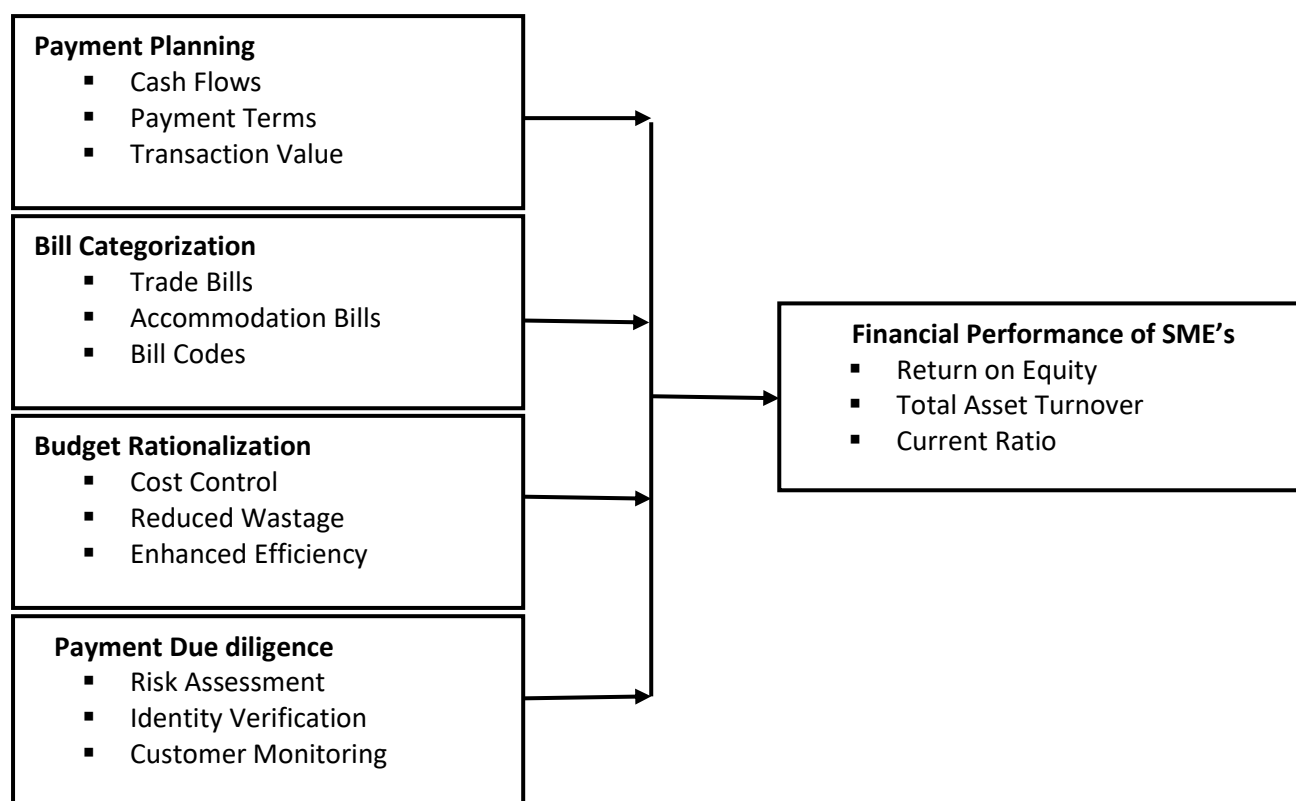
Agency Theory

The Agency Theory (Jensen & Meckling, 1976) examines the relationship between principals (the county government) and agents (SMEs). It suggests that inefficiencies arise when the interests of these parties are misaligned or when there is inadequate oversight. In the context of this study, county governments, as principals, often delay payments to SMEs due to bureaucratic inefficiencies, cash flow constraints, or lack of enforcement mechanisms. This delay imposes financial strain on SMEs, leading to cash flow shortages, reduced profitability, and potential business closures. By applying Agency Theory, this study highlights how governance structures and accountability mechanisms affect the timely settlement of payments to SMEs.

Resource-Based View (RBV) Theory

The Resource-Based View (RBV) Theory (Barney, 1991) emphasizes that a firm's competitive advantage depends on its ability to access and manage key resources. For SMEs, financial capital is a crucial resource that supports operations, growth, and sustainability. Delayed payments disrupt cash flow, limiting SMEs' ability to meet operational costs, invest in innovation, and expand their businesses. This study applies RBV to demonstrate how financial instability caused by payment delays weakens SME resilience and reduces their long-term viability. By integrating these two theories, the study provides a comprehensive framework for analyzing the effects of delayed payments on SMEs in Kisii County, linking governance inefficiencies to resource constraints and financial instability.

Conceptual Framework



Independent Variables

Figure 1: Conceptual Framework

Payment Planning and Financial Performance of SME's

A number of research studies demonstrates that the processes of payment planning, investment, and innovation that propel economic growth all depend on businesses being trusted especially the SME's businesses (Arendt, 2010). According to Jones & Washington (2021) the requirement for public institutions to be Payment planning extends beyond the business world. However, it is also essential to the operation of several governance processes and closely related to state legitimacy.

According to Abidin et al., (2018), political actions and mutual reliance on Payment planning determine attitudes and economic results. It serves as an example of how Payment planning is necessary for government to operate effectively and how the level of Payment planning may be impacted by its actions. Therefore, it is critical that the public cooperate in providing feedback so that

Dependent Variable

local authorities can function more effectively and foster community confidence, which is a measure of the legitimacy of the administration.

Bill Categorization and Financial Performance of SME's

Proper categorization of expenses can help SME's track critical financial indicators, such as profit margins, return on investment and cost per products or service which directly influence their financial performance. According to Williams (2018), there is need to emphasize how financial indicators related to cost categories help SME's evaluate different business lines and make informed adjustments to improve financial outcomes.

Categorization of bills, according to Dharma (2015) and Ernst et al. (2019), is linked to financial performance in improving SME's bottom line, and consequently lowers service deliverables misappropriation among the small business outfits.

Bill categorization is widely promoted by non-governmental groups, trade policy experts, and international organizations as a way of advancing good governance and as a practical means of enhancing public service delivery (Bauhr & Carlitz, 2019).

Budget Rationalization and Financial Performance of SME's

According to Boutillier *et al.*, (2017) budget rationalization is a cooperation between a number of budget organizations with differing degrees of cooperation or function sharing to accomplish a shared goal. While rationalization can entail the integration or consolidation of particular resources or functions, often by the establishment of an intermediary entity, it is not the same as organizational amalgamation. However, Kekez, Howlett and Ramesh (2018) define budget rationalization as a collective and unique mode of management by which bills payment policies are formulated and implemented to ensure services are delivered through interaction between SME's and other financial stakeholders.

Budget rationalization can significantly enhance payment of pending bills by leveraging the strengths and resources of multiple stakeholders to achieve common goals. According to Ndirangu (2018) budget rationalization improves pending bills payment, efficiency, quality, accountability, stakeholder engagement, and relationship-building, all of which have a positive performance. Consequently, the market served by the SME's become more responsive, efficient, and long-lasting services to improve their bottom line.

Payment Due Diligence and Financial Performance of SME's

In order to guarantee the performance of SME's, payment of pending bills by owed to them should be a priority and treated as a crucial aspect of effective management (Akinlade *et al.*, 2022). According to Schoeman (2012), those nominated to leadership positions are considered effective when they are able to accomplish organizational goals. According to Ciulla (2014), leadership is a moral

bond between individuals based on public trust, accountability, commitment, and a common understanding of the public good rather than an individual or a position.

Financial performance of SME's is enhanced by ethical leadership (Dorasamy, 2010). According to an Ethics Research-Centre report (2017), Payment due diligence remains a global challenge which needs to be confronted with effective policies. Due diligence refer to the rules that have been used to verify the genuine of the payment vouchers (Adebayo (2014). Researchers also contend that the main problems affecting the financial performance of SME's, include non-payment of pending bills (Krasikova, Green, & LeBreton, 2013). In many jurisdictions, unethical management of SME's puts the welfare of those SME's populace at risk.

Financial Performance of SME's in Kisii County

The ideology on whether large companies make more returns than the smaller ones has been a subject of research and discussion by many scholars for many decades. There have been many theories and empirical reviews from various disciplines such as economics, finance, and strategic management, which have been carried out for demystifying the relationship (Okonda, Ojera & Ochieng, 2016). However, other researchers established a positive relationship between firm size and firm performance, while others found out that there was no relationship. This mixed finding forms the basis of this study. As the firms move through the stages of birth to growth or even to maturity, they get expertise on ways to negotiate debt capital and thus their asset structure. Therefore, the firm takes advantage of interest tax to shield benefits to raise debt to the level of maximizing returns.

Customers expect goods and services to be dependable, whether it is in healthcare, or business where reliable and timely diagnosis and consistent follow-up care, or in performance, where it means SME's perform better. Reliability can be measured by tracking the consistency of performance number of service failures or errors, and how quickly issues

are resolved. Reliable service delivery enhances customer confidence and loyalty, while frequent service failures can lead to dissatisfaction and a loss of public trust (Adeyeye & Adeyeye, 2019).

Empirical Review

The efficiency of payment methods plays a critical role in determining how quickly businesses receive payments. SMEs rely on various payment modes, including bank transfers, mobile money, checks, and e-invoicing. However, inefficient and outdated payment systems can cause unnecessary delays, affecting business operations. The International Monetary Fund (IMF, 2022) notes that manual payment processing and bureaucratic approval procedures in public sector payments contribute to delayed disbursements, creating financial instability of SMEs.

Digital payment systems have been identified as a solution to mitigate delays and enhance efficiency. Studies suggest that the adoption of mobile money and automated bank transfers significantly reduces transaction times and improves cash flow predictability. Chakrabarty, Banerjee, and Singh (2021) found that SMEs utilizing digital payment methods experienced a 30 percent improvement in cash flow stability compared to those relying on manual transactions. Despite these advantages, many county governments in Kenya still rely on bureaucratic and paper-based payment systems, leading to inefficiencies. Research by Muthoni and Odhiambo (2023) found that government suppliers often experience delays of up to 90 days due to the slow verification and approval process associated with manual payments.

The Bill categorization refers to the frequency at which SMEs receive payments for their goods and services. It may be structured on a monthly, quarterly, or annual basis, with longer Bill categorizations placing greater financial strain on businesses. McGuinness, Hogan, and Powell (2022) argue that extended Bill categorizations force SMEs to operate with long periods of limited cash inflow, increasing their reliance on credit financing and negatively impacting their financial sustainability.

The European Commission (2023) further emphasizes that SMEs with shorter Bill categorizations are more likely to maintain liquidity and sustain operations compared to those subjected to quarterly or annual payment structures.

A study conducted by Kimani and Omondi (2023) on government procurement payments in Kenya found that SMEs operating under a quarterly Bill categorization reported a 37 percent increase in operational financing challenges compared to those with a monthly Bill categorization. The unpredictability of revenue inflows forces many SMEs to take high-interest loans to bridge financial gaps, leading to increased debt burdens. The World Bank (2023) also notes that late government disbursements force SMEs into cycles of borrowing, which ultimately reduces their profitability and financial stability.

An SME's account status, including tax compliance, outstanding debts, and creditworthiness, significantly affects the speed at which it receives payments. Government entities often prioritize payments to businesses that have met all regulatory and financial requirements, delaying payments to those with compliance issues. According to KPMG (2022), tax compliance is a major determinant in public procurement payments, with non-compliant firms experiencing prolonged payment delays.

Empirical evidence suggests that SMEs with incomplete tax records or outstanding balances face significant hurdles in securing timely payments. A study by Waweru and Githinji (2023) found that SMEs with unresolved tax compliance issues experienced payment delays exceeding four months, whereas fully compliant businesses received payments in a timely manner. Poor financial documentation and outstanding debts often place SMEs at a disadvantage when seeking prompt payments from government entities.

The impact of account status on SME financial performance is measured through compliance with

tax regulations, creditworthiness, and outstanding balances. SMEs with well-managed financial records and tax compliance benefit from faster payments, while non-compliant businesses face delays that affect their cash flow and overall financial stability.

Budget rationalization, particularly in pending bills practices, have improved payment efficiency by automating approvals and reducing bureaucratic inefficiencies. Hassan and Ali (2022) conducted a case study on the implementation of the Integrated Financial Management Information System (IFMIS) in Kenya's public sector. The study found that counties using IFMIS reduced payment processing times by 35% compared to those relying on manual payment processing. In addition according to, UNCTAD (2021), global trends in financial performance highlighted that countries that had fully digitized government procurement systems experienced fewer payment delays and improved SME cash flow stability.

However, while financial management technologies improve efficiency, research indicates persistent challenges in implementation. Wainaina et al. (2023) found that frequent IFMIS system failures and cyber threats negatively affected SME suppliers in Kenya, with 30% of businesses experiencing payment disruptions due to system downtimes. Furthermore, while existing studies document the benefits of technology in payment processes, there is a lack of research on the long-term sustainability of these systems, particularly in low-resource government institutions where technological adoption is inconsistent.

Research consistently shows that payment delays significantly affect SME financial performance by restricting cash flow, increasing financial distress, and reducing overall profitability. Nguyen et al. (2022) conducted a quantitative study on SMEs in Vietnam, using survey data from 500 firms to examine the impact of delayed payments on financial stability. The study found that 67% of SMEs experienced payment delays exceeding 90 days, leading to reduced working capital and increased reliance on short-term loans. Similarly,

KIPPRA (2023) analyzed government procurement payments in Kenya and found that county governments took an average of 120 days to settle invoices, negatively impacting SME sustainability. The study applied a mixed-method approach, combining financial reports with interviews from SME owners, revealing that 45% of businesses faced operational disruptions due to delayed government payments.

Other studies confirm that extended payment delays contribute to financial strain, forcing SMEs to divert resources from expansion and innovation to debt servicing. A study by Muriithi and Waweru (2021) in Kenya's public procurement sector found that firms that experienced frequent delays had a 30% lower growth rate than those with predictable payment schedules. However, existing research often focuses on payment delays in broad economic settings without addressing sector-specific variations in SME vulnerability. Additionally, most studies emphasize cash flow constraints without exploring how SMEs strategically adapt to these delays through alternative financing mechanisms.

METHODOLOGY

This study adopted a mixed-methods research design, combining quantitative surveys and qualitative interviews. The target population for this study comprised of SMEs in Kisii County which provides goods or services to the county government. A purposive sampling technique was used to select 50 SMEs and 10 key informants.

Primary data was collected through the use of questionnaires. Both structured and semi-structured questionnaires were used to collect numerical data on financial performance indicators, including cash flow, liquidity, and profitability. The questionnaire contained closed-ended and Likert-scale questions to facilitate statistical analysis. In addition for qualitative data-depth interviews will be conducted with SME owners, county officials, and financial experts to explore the causes and implications of delayed payments. An interview

guide will be used to ensure consistency while allowing respondents to elaborate on their experiences.

The study employed both quantitative and qualitative data analysis methods. Quantitative data employed descriptive statistics which involved calculation of means, standard deviation, and frequency distributions to summarize the data characteristics. Regression analysis on the other hand was conducted to identify correlations between government payment delays and SME financial performance. The analysis was conducted using Statistical Package for Social Sciences software (SPSS) version 28.

Qualitative data analysis on the other hand involved, thematic analysis which was to categorize and interpret qualitative responses. Patterns and recurring themes related to payment delays and SMEs financial challenges were identified. Nvivo software was used to facilitate coding and theme extraction.

Findings are presented in tables, graphs, and charts for quantitative data, while qualitative insights were summarized in thematic narratives. This approach ensures a holistic understanding of the research problem. The study adopted the following regression model to test on the relationship between the independent variables (payment planning, bill categorization, budget rationalization and payment due diligence) and the dependent variable (financial performance of SMEs).

The regression model yielded took the following form;

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where Y= Financial performance of SMEs

$\beta_0, \beta_1, \beta_2, \beta_3,$ and β_4 are coefficients

X_1 = Payment Planning

X_2 = Bill Categorization

X_3 = Budget Rationalization

X_4 = Payment due Diligence

FINDINGS AND DISCUSSION

Response Rate

A total of 60 questionnaires were distributed to SME owners and managers, and 10 interviews were conducted with key informants (county officials, accountants, and procurement officers). A total of 54 responses were deemed usable, representing a 90% response rate. A response rate of 90% is statistically acceptable for social research and ensures representativeness of the findings.

Descriptive Statistics Results

Payment Planning and Financial Performance of SMEs

The first specific objective of the study was to determine the influence of Payment planning on financial performance of SMEs in Kisii County, Kenya. The respondents were requested to indicate their level of agreement on various statements related to payment planning and financial performance of SMEs in Kisii County, Kenya. The results were as shown Table 1.

From the results, the respondents agreed that they offer flexible payment terms to all our clients in the market ($M= 3.981, SD= 0.626$). In addition, the respondents agreed that their SMEs are impacted by low cash flows due to pending bills ($M=3.970, SD=0.725$). Further, the respondents agreed that their employees feel adequately engaged to in their respective job areas ($M=3.868, SD=0.815$).

From the results, the respondents agreed that their services are greatly impacted on by insufficient cash flows ($M=3.854, SD= 0.728$). In addition, the respondents agreed that their SME business is indebted by so many debtors who prefer credit ($M=3.828, SD=0.831$). Further, the respondents agreed that high valued transactions in their businesses are mainly from County governments ($M=3.771, SD=0.642$).

Table 1: Payment Planning and Financial Performance of SMEs

Statement	Mean	Std. Deviation
Business is facing cash flow challenges due to delayed payment	3.981	0.626
We offer flexible payment terms to all our clients in the market	3.970	0.725
Our payments are often of high transaction values	3.868	0.815
Our services are greatly impacted on by insufficient cash flows	3.854	0.728
Our SME business is indebted by so many debtors who prefer credit	3.828	0.831
High valued transactions in our business are mainly from County governments	3.771	0.642
Aggregate	3.864	0.728

Bill Categorization and Financial Performance of SMEs

The second specific objective of the study was to establish the influence of bill categorization on the financial performance of SMEs in Kisii County, Kenya. The respondents were requested to indicate their level of agreement on various statements related to governance transparency and service delivery in Kisii County, Kenya. The results were as shown Table 2.

From the results, the respondents agreed that they have open trade bills in our categories of bill (M=3.952, SD=0.654). In addition, the respondents agreed that their account bills are not well covered with transactions (M=3.945, SD=0.768). Further, the

respondents agreed that most of their pending bills are assigned special bill codes before pending bills (M=3.888, SD=0.752).

From the results, the respondents agreed that their SME outlet works with most trade bills in categorization of bills at (M=3.873, SD=0.630). In addition, the respondents agreed that they have properly well-coordinated account bills for their businesses (M=3.795, SD=0.605). Further, the respondents agreed that their SME businesses operates bill codes for the pending bills due for payment (M=3.751, SD=0.832).

Table 2: Bill Categorization and Financial Performance of SMEs

Statement	Mean	Std. Deviation
We have open trade bills in our categories of bill	3.952	0.654
Our account bills are not well covered with transactions	3.945	0.768
Most of our pending bills are assigned special bill codes	3.888	0.752
Our SME outlet works with most trade bills in categorization of bills	3.873	0.630
We have properly well-coordinated account bills for our business	3.795	0.605
Our SME's operates bill codes for the pending bills due for payment	3.751	0.832
Aggregate	3.867	0.707

Budget Rationalization and Financial Performance of SME's

The third specific objective of the study was to assess the influence of stakeholder collaboration on service delivery in Kisii County, Kenya. The respondents were requested to indicate their level of agreement on various statements related to stakeholder collaboration and service delivery in

Kisii County, Kenya. The results were as shown Table 3.

From the results, the respondents agreed that their SMEs has budget rationalization with cost control (M=3.972, SD=0.724). In addition, the respondents agreed all their SME businesses offer satisfactory quality goods to the clients (M=3.949, SD=0.859). Further, the respondents further agreed that their

SME business employs strategies on reducing wastage through cost control (M=3.854, SD=0.575).

From the results, the respondents agreed that their SME business is having enhanced efficiency in budget rationalization (M=3.845, SD=0.618). In

addition, the respondents agreed that their business works with creditors to ensure cost control in their operations (M=3.809, SD=0.701). Further, the respondents agreed that they all their processes of operations have enhanced efficiency in budget rationalization (M=3.778, SD=0.592).

Table 3: Budget Rationalization and Financial Performance of SME's

	Mean	Std. Deviation
Our SMEs has budget rationalization with cost control	3.972	0.724
All our business offer satisfactory quality goods to the clients	3.949	0.859
Our business employs strategies on reducing wastage through cost control	3.854	0.575
Our business is having enhanced efficiency in budget rationalization	3.845	0.618
Our business works with creditors to ensure cost control	3.809	0.701
All our processes of operations have enhanced efficiency in budget rationalization	3.778	0.592
Aggregate	3.868	0.678

Payment due Diligence and Financial Performance of SME's

The fourth specific objective of the study was to establish the influence of Payment due Diligence on Financial performance of SME's in Kisii County, Kenya. The respondents were requested to indicate their level of agreement on various statements related to reporting systems and service delivery in Kisii County, Kenya. The results were as shown Table 4.

From the results, the respondents agreed that their employees constantly work with stakeholders on risk assessment (M=3.891, SD=0.819). In addition, the respondents agreed that they have a conducive work environment for identity verification of pending bills (M=3.876, SD=0.548). Further, the respondents agreed that their SME's are often

subjected to customer monitoring by County finance department before payment (M=3.850, SD=0.677).

From the results, the respondents also agreed that County management rarely conducts risk assessment on their invoices presented for payment (M=3.793, SD=0.768). In addition, the respondents agreed that identity verification of the pending bills invoices risks business sustainability (M=3.775, SD=0.639). Further, the respondents were engaged and agreed that Customer monitoring on their pending bills payment, only works best records management by our team (M=3.753, SD=0.712).

Table 4: Payment due Diligence and Financial Performance of SME's

Statement	Mean	Std. Deviation
Our employees Constantly work with stakeholders on risk assessment	3.891	0.819
We have a conducive work environment for identity verification	3.876	0.548
Our SME's are often subjected to customer monitoring by County finance department before payment	3.850	0.677
County management rarely conducts risk assessment on our invoices	3.793	0.768
Identity verification of our pending bills invoices risks business sustainability	3.775	0.639
Customer monitoring on our pending bills payment, only works best with records management by our team	3.753	0.712
Aggregate	3.823	0.694

Financial Performance of SME's

On a five point Likert scale the respondents were also requested to indicate their level of agreement on various statements related to Financial Performance of SME's in Kisii County, Kenya. The results were as shown Table 5 below.

From the results, the respondents agreed that their SME business has not broken even since they were established (M=3.892, SD=0.702). In addition, the respondents agreed that many SME startups in Kisii county were facing financial challenges (M=3.875, SD=0.718). Further, the respondents agreed that

their SME business has negligible results in terms of Return on Equity (M=3.867, SD=0.686).

From the results, the respondents further agreed that delayed payment from County government has affected their total asset turn-over values (M=3.788, SD=0.795). In addition, the respondents agreed that their firm's current ratio in the business was affected by delayed payments (M=3.776, SD=0.702). Finally, the respondents agreed that payment strategies offered by the county Government on their pending bills affected their business operations (M=3.766, SD=0.522).

Table 5: Financial Performance of SME's in Kisii County

	Mean	Std. Deviation
Our SME business has not broken even since its establishment.	3.892	0.702
Many SME startups in this county are facing financial challenges	3.875	0.718
Our business has negligible results in terms of Return on Equity	3.867	0.686
Delayed payment from County government has affected out total asset turn over values	3.788	0.795
Our current Ratio in the business is affected by delayed payments	3.776	0.702
The payment strategies of our pending bills offered by the county has affected our business operations.	3.766	0.522
Aggregate	3.827	0.688

Inferential Statistics Results

Inferential statistics such as correlation analysis and regression analysis were used to assess the relationships between the independent variables (payment planning, bill categorization, budget rationalization and payment due diligence) and the dependent variable (financial performance of SME's in Kisii County).

Correlation Analysis

This research adopted Pearson correlation analysis determine the relationship between pending bill practices and financial performance of SME's in Kisii County. The results were as displayed in table 6 that follows.

Table 6: Correlation Coefficients

		SME Performance	Payment Planning	Bill Categorization	Budget Rationalization	Payment Diligence
SME Performance	Pearson	1				
	Correlation					
	Sig. (2-tailed)					
Payment Planning	N	180				
	Pearson	.853**	1			
	Correlation					
Bill Categorization	Sig. (2-tailed)	.001				
	N	180	180			
	Pearson	.873**	.437	1		
Budget Rationalization	Correlation					
	Sig. (2-tailed)	.000	.020			
	N	180	180	180		
Payment Diligence	Pearson	.846**	.232	.281	1	
	Correlation					
	Sig. (2-tailed)	.003	.045	.067		
	N	180	180	180	180	
	Pearson	.849**	.229	.425	.150	1
	Correlation					
	Sig. (2-tailed)	.002	.065	.022	.067	
	N	180	180	180	180	180

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

From the results, there was a very strong relationship between Payment Planning and Financial performance of SME's in Kisii County, Kenya ($r = 0.853$, p value $=0.001$). The relationship was significant since the p value 0.001 was less than 0.05 (significant level). The findings are in line with the findings of Brayo and Kinyondo (2020) who indicated that there is a very strong relationship between making payment plans and strong return on investment in manufacturing firms Ghana.

Moreover, there was a very strong relationship between bill categorization and financial performance of SME's in Kisii County, Kenya ($r = 0.873$, p value $=0.000$). The relationship was significant since the p value 0.000 was less than 0.05 (significant level). The findings are in tandem with the findings of Kiambati (2020) who affirmed that there is a very strong relationship between governance transparency and service delivery.

Additionally, there was a very strong relationship between budget rationalization and financial performance of SME's in Kisii County, Kenya with (r

$= 0.846$, p value $=0.003$). The relationship was significant since the p value 0.003 was less than 0.05 (significant level). The findings echoes the results found by Tahili *et al* (2021) who postulated that there is a very strong relationship between separating bills and financial success in organizations.

The results further revealed that there was a very strong relationship between payment diligence and financial performance of SME's in Kisii County, Kenya where ($r = 0.849$, p value $=0.002$). The relationship was significant since the p value 0.002 was less than 0.05 (significant level). The findings are in line with the findings of Akinlade *et al* (2022) who confirmed that there is a very strong relationship between executing due diligence in making payments and financial performance of organizations. Consequently there was an overall strong relationship between pending bills practices and financial performance of SME's in Kisii County, Kenya.

Regression Analysis

Multiple regression analysis was used to assess the relationship between pending bills practices and financial performance of SME's in Kisii County,

Kenya. The results were as displayed in table 7 that follows, below.

Table 7: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.889 ^a	.790	.791	.10381

a. Predictors: (Constant), payment planning, bill categorization, budget rationalization and payment due diligence

The model summary was used to explain the variation in the financial performance of SME's that could be explained by the pending bills practices. The r-squared for the relationship between the independent variables and the dependent variable was 0.790. This implied that 79% of the variation in the dependent variable (financial performance of

SME's in Kisii County, Kenya) could be explained by independent variables (payment planning, bill categorization, budget rationalization and payment due diligence). However the remaining 21% were caused by other factors which are not within the scope of this study.

Table 8: Analysis of Variance

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	111.057	4	27.764	247.67	.002 ^b
Residual	19.625	175	.1121		
Total	130.682	179			

a. Dependent Variable: Financial Performance of SME's in Kisii County, Kenya

b. Predictors: (Constant), public trust, governance transparency, stakeholder collaboration and reporting systems

The ANOVA was used to determine whether the model was a good fit for the data. F calculated was 247.67 while the F critical was 2.423. The p value was 0.002. Since the F-calculated was greater than the F-critical and the p value 0.002 was less than 0.05, the model was considered as a good fit for the

data. Therefore, the model can be used to predict the influence of payment planning, bill categorization, budget rationalization and payment due diligence on financial performance of SME's in Kisii County, Kenya.

Table 9: Regression Coefficients

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	0.253	0.096		3.688	0.000
Payment Planning	0.378	0.099	0.379	3.818	0.001
Bill Categorization	0.385	0.099	0.384	3.889	0.000
Budget Rationalization	0.363	0.091	0.364	3.989	0.002
Payment Diligence	0.324	0.085	0.323	3.812	0.003

The regression model was as follows:

$$Y = 0.253 + 0.378X_1 + 0.385X_2 + 0.363X_3 + 0.324X_4 + \epsilon$$

The results from the multiple regression analysis show that pending bill practices, as represented by the variables payment planning, bill categorization, budget rationalization and payment due diligence

are all having a positive and statistically significant effect on financial performance of SME's in Kisii County, Kenya. Each variable has a p-value below 0.05, an indication of a significant contribution to the model.

From the regression results, the first variable payment planning when dealing with pending bills was found to significantly influence financial performance of SME's. A unit increase in payment planning results to a corresponding 0.378 unit increase in financial performance of SME's, holding other variables constant. This finding aligns with Onyango and Wanyama (2019), who found that planning for pending debts in organizations improves compliance, cooperation, financial performance of large manufacturing firms in Kenya. Payment planning enhances prompt and timely clearing of pending bills by organizations.

The second variable Bill categorization had the highest standardized beta coefficient $\beta = 0.364$; $p=0.001$), suggesting it is the most influential predictor in the model. The more open and accountable and organized bill categorization and management is the more the financial performance of SME's. This echoes findings by Mwangi (2020), who noted that County governments practicing fiscal and administrative governance transparency and discipline experienced lower debts owed to small business startups supplying the counties with goods and services.

The third variable Budget rationalization was also a strong predictor of financial performance of SME's in Kisii County, Kenya. This had a standardized beta coefficient ($\beta = 0.363$, $p = 0.001$) A one-unit improvement in budget rationalization leads to a 0.363 increase in financial performance. This supports Mutua and Karanja (2021), who found that inter-agency coordination and proper budgeting before tendering in devolved governments in Kenya led to faster growth of small businesses during the first phase of rolling out devolution.

Effective execution of due diligence on all invoices presented for payment by suppliers was also found to significantly contribute to financial performance of SME's in Kisii County with ($\beta = 0.324$, $p = 0.001$). These results are concurrence with Kiplagat (2018), who demonstrated that regular keenness and hawk eyed financial practices reduced wastage of funds in counties through payment of ghost suppliers leading genuine payments which increases the growth SME's businesses, finally ensuring their financial performance.

Empirical evidence from this study and existing literature consistently indicates that strengthening pending bills practices significantly improves financial performance of SME's leading to growth into large organizations outfits. The strong positive relationships suggest that counties that foster payment planning, bill categorization, budget rationalization and payment due diligence are better positioned to clear all their pending bills thereby encouraging SME's that do business with them to thrive through better financial performance and growth.

CONCLUSION AND RECOMMENDATIONS

The study findings revealed that payment planning had a positive and significant effect on financial performance of SME's operating in Kisii County, Kenya. From the results, the respondents agreed that proper payment plans ensured clearing of pending bills owed to SME's. In addition, the respondents agreed that it's the county governments who provided payment with high transaction values. In addition, the respondents also agreed that their businesses were highly indebted by most clients especially the County government which preferred procuring goods and services using credit terms. Moreover from the study results, the respondents agreed that they offered flexible payment terms to their debtors who owed them money in terms of pending bills. Finally, the respondents agreed that they their small businesses faced numerous cash flow challenges resulting from pending bills owed to them thus, stifling their growth and expansion.

Results from the study found out that categorization of bills had a positive and significant effect on financial performance of SME's in Kisii County, Kenya. From the study results, the respondents agreed that they operated trade bills as one of the categories of bills owed to them by the county government. In addition, the respondents agreed that their accounts were not flowing or covered by transactions emanating from the pending bills owed to them as expected; affecting their business operations. Further, the respondents agreed that by coding their debts in form of pending bills they were able to track all the bills owed them. From the results, the respondents agreed that involving a well-coordinated account system supported them in pursuing their pending bills with the relevant stakeholders in charge of debts in the county government of Kisii. In addition, the respondents agreed that by working with trade bills in their businesses they were able to ensure pursuit of debts, except those from the county government of Kisii which took too long to settle, derailing their financial performance.

The study findings revealed that budget rationalization had a positive and significant effect on financial performance of SME's in Kisii County, Kenya. From the study results, the respondents agreed that their businesses had rationalized their debt budgets with cost control strategies. In addition, the respondents agreed that all the goods or services they had offered to the county government of Kisii were of high quality.

Results from the study further revealed that, the respondents agreed that they efficiently rationalized their budgets with debts that were pending to support their operations, however this affected their financial performance. Lastly, the respondents agreed that their businesses worked with their debtors to control cost of doing business, as this leveraged their business sustainability.

The study findings revealed that payment due diligence have a positive and significant influence on financial performance of SME's in Kisii County, Kenya. From the results, the respondents agreed

that their employees work with stakeholders on risk assessment for their pending bills. In addition, the respondents agreed that they have a conducive work environment for identity verification. Further, the respondents agreed that their SME businesses are often subjected to customer monitoring by county finance departments for payment. From the results, the respondents also agreed that County management rarely conducts risks assistant on their invoices. Additionally, the respondents also agreed that identity verification of pending bills invoices risks their business sustainability. Finally, the respondents agreed that customer monitoring on their on their pending bills payment work best with records management by their team.

Payment Planning and execution of bending bills owed to SME's business is critical for their financial sustainability. The positive and significant relationship suggests that as County governments plan and eventually settles their pending bills supports the business growth and development SME's in Kisii County. Strengthening pending bills owed to Small businesses, helps to improve the overall efficiency, sustainability and financial performance.

Categorizing pending bills is the most influential strategic strategy in enhancing payment of pending bills owed to creditors. The significant relationship between bill categorization and financial performance of SME's indicates that when the county government ensures openness in its financial management, decision-making, and procurement processes, including settling their pending bills owed to SME's and other small businesses, the financial success of these business will be realized. This underscores the importance of clear communication and public access to information, as it not only promotes the growth in those businesses and their financial performance of SME's in Kisii County Kenya.

Budget control and rationalization, both within the county government and the SME's operating in Kisii County were determined as key important elements of debt management and control. The

findings from the study suggest that Rationalizing budgets of County governments helps them in prioritizing pending bills and settling them soonest the funds become available, especially bills owed to SME's. This suggests that settling all the pending bills owed to the SME's promotes their operations, thus improving their financial health.

Constant due diligence when making payment is crucial for improving service delivery outcomes ensuring the correct pending bills are settled first. The positive and significant relationship between due diligence in payment of pending bills suggests that timely quick response in paying pending bills owed to SME's by County government will contribute to financial performance those businesses. This reinforces the need for robust monitoring, evaluation and tracking all the pending bills and working out a strategy of settling them to support the growth and development of the SME's involved in supplies.

The county government should actively work on building and maintaining a record of pending bills owed to SME's. This can be achieved by developing a working payment planning strategy to settle their obligations. They should prioritize bill owed to small business as this will ensure ethical leadership, accountability, and support for the upcoming business ventures. This will eventually trigger a ripple effect of growing the SME', improving their bottom line and eventually ensuring their financial performance.

Kisii County should prioritize designing bill categorization and listing of all their pending bills with suppliers owning small businesses in the spirit of AGPO. This strategy should be entrenched in all county governance practices and policies, particularly in budgeting, procurement, and payment decision-making processes. The county should ensure that budgetary allocations and expenditures are prioritized and made publicly available and accessible to citizens, thereby promoting accountability and openness. Regularly updating citizens on the progress of ongoing projects and payment schedules, with names of

companies considered for payment whose payment have stalled for long.

To enhance financial performance of SME's in, Kisii County there should collaborative approach to budget rationalization by improving coordination between different departments and agencies within the county involved in ensuring payment of pending bills are settled. Establishing cross-departmental working groups or task forces in finance and procurement departments can help ensure that efforts are aligned and resources are used efficiently; to ensure SME's are given priority in settling their pending bills for goods and services supplied to the county government. Furthermore, the county should seek to strengthen partnerships with external stakeholders, including SME's, non-governmental organizations, and civil society groups to seek funds to support their fiscal budgets; as this will ensure timely payment.

The county government should develop and implement robust policies on payment due diligence in their fiscal operations systems to ensure that due diligence is done, before payment are made to prevent embezzlement of public funds. While doing this pending payment for the SME's owed by the county government should be given priority as this will ensure sustainability and continued business operations among those businesses. In addition timely settlement in the correct bank accounts belonging to the SME's will also ensure that the only the legitimate service providers are considered for payment processing.

Given the positive and significant influence of pending bills practices on financial performance of SME's in Kisii County, it is therefore recommended that Kisii County Government adopts an integrated approach to pending bills management, focusing on enhancing payment planning, bill categorization, budget rationalization and payment due diligence. By doing so, the county can improve its public service performance, increase citizen satisfaction, and contribute to the long-term sustainability of devolution

Suggestions for Further Research

This study was limited to the influence of pending bills practices on financial performance of SME's in Kisii County, Kenya hence the study findings cannot be generalized to financial performance in all other organization in Kenya. The study therefore suggests further studies on the influence of pending bills practices on financial performance in other organizations also working or supplying County governments with goods and services in Kenya.

Additionally, the study found out that the independent variables (payment planning, bill categorization, budget rationalization and payment due diligence) could only explain 79% of the effects on financial performance of SME's in Kisii County, Kenya. As a result this study thus suggests further research on the existing other factors constituting the remaining 21% affecting financial performance of SME's in Kisii County, Kenya.

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