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# CASH MANAGEMENT PRACTICES AND FINANCIAL PERFORMANCE OF SMALL AND MEDIUM SIZED ENTERPRISES IN NAIROBI CITY COUNTY, KENYA

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**ABSTRACT**

*The significance of SMEs in economic development cannot be overlooked. Hence, the study examined the effect of cash management practices on financial performance of SMEs in Nairobi. The study focused on 19,672 SMEs in CBD. The sample size was 392.The pilot study was conducted on SMEs from Westlands and Langata sub-Counties. The results established that cash budgeting, cash control and cash forecasting are positively related to financial performance. Hence, SMEs should consider promoting budgeting in their operations. SMEs can make informed decisions about managing their finances, such as when to make payments or invest in new equipment. In addition, it iwa recommended that SMEs has to emphasize cash control. Further, it was recommended that SMEs should ensure there is cash flow forecasting. SMEs can anticipate and plan for potential shortfalls or surpluses, which can help them make more informed financial decisions and avoid financial difficulties. To increase financial performance, SMEs should make cash flow forecasting a regular part of their financial planning and management.*

***Key Words:*** *Cash Management, Cash Budgeting, Cash Control, Cash Forecasting*

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## INTRODUCTION

The significance of SMEs in economic growth cannot be ignored. SMEs are the World's largest employers and greatest wealth creators (Mbogo, Jimmy & Olando, 2021). The SMEs spurs the development of enterprises, including the assembling, administrations and horticultural areas, and ICT administrations, with regards to yield, esteem expansion, work and products (Pandey, 2019).The performance of these enterprises is of extraordinary concern to governments, the overall population and different partners because of their basic job in advancing and speeding up public development and supporting social-financial change (Onyango, 2018).

Cash management practices is collecting and managing cash in an organization (Oteyo, 2018; Pandey, 2019). Onyango (2018) revealed that cash forecasting, cash conversion cycle and cash control positively relate to the financial performance of an SME. Furthermore, Folajinmi and Peter (2020) uncovered that financial administration practices, for example, yearly spending plan process affects performance. Kamau and Mungai (2020) showed that cash budgeting positively influences the performance of an SME. Gitau's (2018) discoveries uncovered that more than 50 % of the financial performance of grocery store chains in Nairobi's focal business region is made sense of with cash control rehearses. Muhunyo (2018) showed that cash control significantly affects financial performance.

Cash flow forecasting can be founded on whether sales expanded, diminished, or remained the same. Cash flow forecasting gauges the flow of cash all through business over a particular period. Kinyanjui, Kiragu and Riro (2017) note that cash flow forecasting gets a gauge or conjecture of an organization's future monetary position. A precise cash flow estimate assists organizations with foreseeing future cash positions, try not to disable cash deficiencies and making returns on any money overflows they might have in the absolute most productive way (Folajinmi and Peter, 2020). Consequently, cash forecasting in the review is operationalized by utilizing the future sales income, future installments/expenses and future receivables.

Some studies, Kibor and Kimani (2019), Turgut, Cheruiyot and Sang (2022), Aminia, Setionob, Pangaribuanc, and Princesd (2021), Mbogo, Jimmy and Olando (2021), Lukumay and Wako (2018) operationalized performance using net profits, ROA, ROE, ROI, sales turnover, return on assets. The financial measures of performance are the ultimate goal for the existence of any business (Wadesango, Tinarwo, Sitcha & Machingambi, 2019).The financial performance estimation turns into the premise of methodology foundation and accomplishment in the future since it brings an organization's vision and vital objective to all association individuals.

The number of SMEs are 71681 (Nairobi County report, 2022). SMEs in Nairobi City County and the entire country have been facing sustainability challenges. Moreover, SMEs within Nairobi City County are expected to be more informed on cash management practices because of the level of competition and cost of doing a business in the County. In addition, SMEs in Nairobi County are expected to serve more customers due to the population in the city and thus are regarded as more informative on cash management practices. Thus, conducting the study in the County was expected to give comprehensive information that can be relied upon for policy formulation and generalization.

### Statement of the Problem

The financial performance of most of the SMEs in Kenya has not been optimal. The KNBS (2021) report indicates that sales turnover of SMEs has been dropping regularly. Most SMEs lack a competitive advantage compared to large enterprises. The justification for conducting the study in Nairobi City County is that most SMEs are based in the County. Moreover, SMEs within Nairobi City County are expected to be more informed on cash management practices because of the level of competition and cost of doing business in the County.

Based on the reviewed studies, a knowledge gap exists. For instance, Onyango (2018) revealed that cash forecasting, cash conversion cycle and cash control are positively related to financial performance. Likewise, Turgut, Cheruiyot and Sang (2022) indicated that cash flow forecasting, such as future expenses, sales, payments and receivables, positively affects financial sustainability. Therefore, it was evidenced that the preceding scholars had only illustrated the theoretical and thus, the knowledge gap was ascertained by conducting the current study, thus supporting SMEs to be more competitive.

### Research Objectives

The general objective of this study was to establish the effect of cash management practices on financial performance of SMEs in Nairobi County. The specific objectives were;

- To find out the effects of cash budgeting on financial performance of SMEs in Nairobi County.
- To find out the effects of cash control on financial performance of SMEs in Nairobi County.
- To establish the effect of cash forecasting on financial performance of SMEs in Nairobi County.

The study was guided by the following research hypotheses

- **$H_{01}$**: Cash budgeting has no significant effect on financial performance of SMEs in Nairobi County
- **$H_{02}$**: Cash control has no significant effect on financial performance of SMEs in Nairobi County
- **$H_{03}$**: Cash forecasting has no significant effect on financial performance of SMEs in Nairobi County

## LITERATURE REVIEW

### Theoretical Review

### Risk Based Budgeting Theory

The proponents of the theory were Sébastien Maillard, Thierry Roncalli and Jérôme Teïletche in 2010. The theory reports that risk that may affect the budget implementation need to be examined before executing the budget (Maillard, Roncalli & Teïletche, 2010). The budgeting process can consider the current needs, financial commitment and long-term vision (Haugh, Iyengar & Song, 2015). Budget factors have vital importance because they determine the priorities in functional budgets. Arranging and projections done in spending plan processes influence planning objectives and goals (Lee, 2011). Absence of abilities represses the utilization of spending plan (Phenya, 2011). The sustainability and performance of the organizations can be improved by ensuring all the risks that can affect the operations are examined earlier and preventive measures are put in place (Rudin, Mor& Farley, 2020).

However, the theory has been criticized by some scholars. Risks are expected outcomes that may interfere with the business's operations, but the theory does not specify the amount or percentage that needs to be set aside to cover up the risks in case they occur (Uysal, 2021).The expected returns can be achieved when the budgets are fully absorbed as planned without diverting other resources to the unfortunates that strike the organization. Planning and projections done in budget processes affect budgeting goals and objectives. The financial can be enhanced by ensuring all the risk that has the potential to affect the operations is examined earlier and preventive measures are put in place. The poor consideration of the budget risks can cause the SMEs to collapse. Including the expected risks in the budget can give the SME morale in operations. Hence, the theory informed variable cash budgeting in the current study.

### Cash Conversion Cycle Theory

Lawrence Gitman made the first case for the theory in 1974. The theory is that if the currency conversion cycle is more confined, corporate organizations only require a small number of assets to operate (Nobanee, Abdullatif & AlHajjar, 2011). Conversely, if the conversion period for money is longer, it suggests high deal development, which means higher profits and worked on financial performance. Additionally, Mohamad and Saad (2010) report that the cash conversion cycle theory doesn't definitively present the period the organization takes to procure the natural substances and the cash inflows because of the offer of the merchandise. Besides, the cash conversion cycle is difficult to contrast from one industry with another (Ukaegbu, 2014).

To keep the cash conversion cycle temporarily, the organization needs to sell the stock and afterward gather the cash as quickly as could be expected, which at times is unreasonable. Notwithstanding, the theory is applicable to illuminate variable cash control in the ongoing review. The significance of the theory to the review is that it demonstrates that cash control incorporates guaranteeing sufficient cash for business tasks. Cash Control is a vital piece of business as it is expected for legitimate cash the board works on, observing and recording cash stream and dissecting cash balance. Therefore, the theory upholded variable cash control in the review.

### Action and Reaction Theory

The theory has been developed by Paul Mokrzecki in 2006. The theory indicates that predictions of the future is based on what happens in the past. The observation guarantees a relevant action that everything is built up (adjusted) from something which has been there before and that nothing is a new creation (Birnholtzm& Hadar, 2014). Past events are critical in forecasting future events. The decisions in an organization for an anticipated action in the future are based on the existing information or the past (De Montbrial, 2013). Making future decisions without regard for the past cannot achieve the expected results. The past data is a powerful tool that enables leaders to understand the company's past better and to help shape its future.

The theory's weaknesses is that, in some cases, the future cannot only be determined by past experiences/ happening (Mathiesen, 2012). In some instances, some happening cannot be predicted, such as pandemics that may influence the operations of a business. The theory did not examine the role of government interventions in the business by regulating the industry on the financing options. Another weakness of the theory, according to Herbane (2010), is that some past information may contain errors and this implies those errors will be carried forward in the future.

The relevance of the theory is that cash foresting to the SMEs in Nairobi City County can be based on previous information or experience. The foresting such as estimating future sales and expenses, can influence the determination of the funding source, which can be grounded on the information available. Past events are critical in forecasting future events. The past data is a powerful tool enabling SME owners to understand the past better and help shape its future. Making the future decision without regard for the past can result in not achieving the expected results. Hence, the theory was regarded relevant to inform variable cash forecasting.

### Balanced Scorecard Model

The BSM hypothesis evaluates performance according to four points of view, i.e., monetary, clients, inner cycles and learning and development (Kaplan, 2010). The model indicates that the performance of an organization is important not only to be determined through financial indicators but also through non-financial measures. The use of both measures of performance gives the actual performance being experienced in an institution (Hansen and Schaltegger, 2016). The model applies to the ongoing study. SMEs can utilize the BSC to analyze the degree of their performance. The performance needs not only to be determined through financial but also through non-financial means. The use of both measures of performance gives an organization the ideal and actual level of performance. The adoption of BSC can improve the development in the performance of SMEs and accordingly become more competitive. The competitiveness will make the SMEs expand their operations beyond one region. Hence, the model was considered appropriate to inform the study.

## Empirical Review

Lukumay and Wako (2018) analyzed the effect of bookkeeping to SMEs in the Ilala region. The review's particular goals were: to lay out bookkeeping rehearses embraced by SMEs, investigate whether the monetary performance was because of SMEs was because of utilizing the best bookkeeping rehearses, and decide the connection between bookkeeping rehearses and the monetary performance of SMEs. Utilizing organized surveys, the review utilized a clear exploration plan with the essential information gathered from 291 SMEs in Ilala Municipality. Proportionate irregular defined testing was utilized. The review found monetary announcing, monetary examining and board bookkeeping are decidedly and essentially connected with monetary performance.

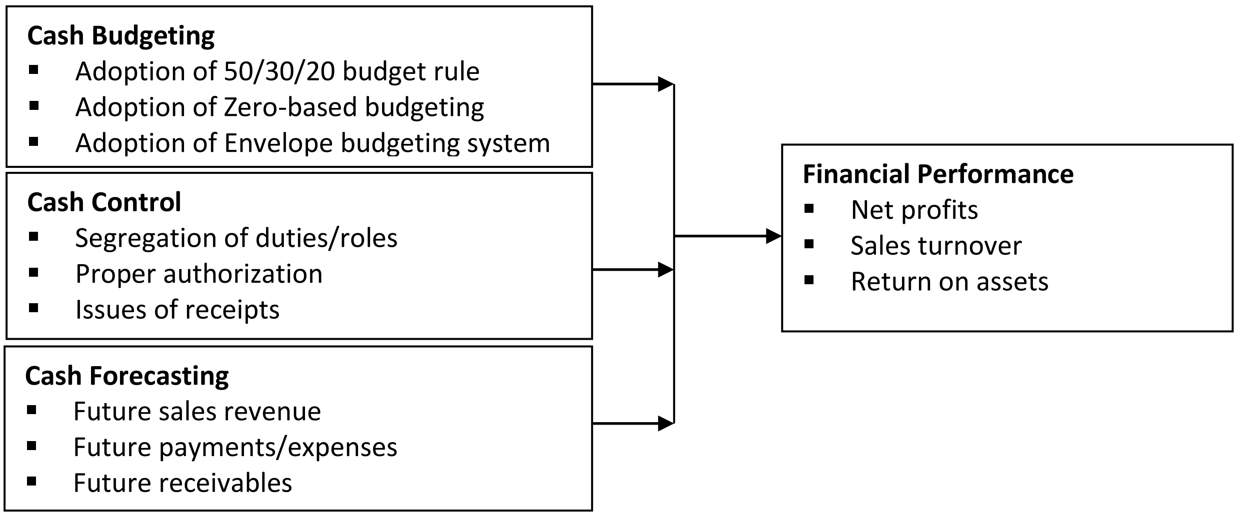
Kamau and Mungai (2020) demonstrated that cash budgeting influence profitability. The examination instruments for information collection considered applicable to the review were questionnaires. The review suggested that SME chiefs guarantee that satisfactory cash is saved to take care of unexpected negative cash streams, which was barely the situation. The current research focused on cash budgeting, cash control and cash forecasting; thus, the conceptual gap is depicted. Kibor and Kimani (2019) noted that cash budgeting includes an envelope budgeting system and digital budgeting.

Aminia, Setionob, Pangaribuanc and Princesd (2021) directed a review to look at the effect of money control on the monetary execution of SME ventures in Indonesia. The review's particular goals were to look at the impact of money balance control, cash spending plan readiness, cash inflow management and money surge oversight on monetary execution. The exploration found that money control essentially affects the monetary presentation of SMEs. Every one of the proportions of money control (cash balance control, cash spending plan readiness, cash inflow management and money surge oversight) is emphatically connected with monetary execution. The review did the investigation utilizing a 4-point scale, while the ongoing utilized a 5-scale survey, hence a gap.

Gitau (2018) uncovered that budgeting is a key determinant influencing the performance of the SMEs. What's more, a review done by Akande and Oluwaseun (2020) displayed there is a huge connection between planning practices and MSEs' monetary presentation. Nonetheless, the review was finished in Nigeria, and this manner relevant gap. Furthermore, Oteyo (2018) showed that money planning decidedly affects monetary execution. The review zeroed in on SMEs in Nakuru County, subsequently a gap. Wadesango et al. (2019) revealed that most cash control practices, such as segregation of duties and issues of receipts, significantly affect the profitability. The exploration noted that the significance of controlling the spending of the finances is that it makes an institution to plan for any of the emergencies and also other expenses. The controlling makes the owners to be limited to misuse the organizations finances and this spurs its sustainability. The current research focused on cash budgeting, cash control and cash forecasting; thus, the conceptual gap is depicted.

Turgut, Cheruiyot and Sang (2022) indicated that Cash Flow Forecasting, such as future expenses, sales, payments and receivables, positively affects financial sustainability.The current research will focus on cash budgeting, control, and forecasting; thus, the conceptual gap is depicted. Furthermore, Wanjuki, Githui and Omurwa (2021) stated that cash flow forecasting is insignificantly related with financial performance. Njeru and Tirimba (2021) found that cash forecasting and control significantly impact financial performance. Onyango (2018) analyzed the impacts of cash management practices on performance. The review embraced the cross-sectional exploration plan. An all-out populace of 100 respondents was considered for the review; notwithstanding, 80 incorporated the sample size. The review results uncovered that money determination, cash transformation cycle and money control are decidedly connected with return on resources that deliberate the monetary presentation.

## Conceptual Framework




**Independent Variables** **Dependent Variable**

**Figure 1: Conceptual Framework**
**Source: Researcher (2023)**

## METHODOLOGY

The descriptive research design was adopted in this study. Based on the Nairobi City County Licensing Department (2022), there were 7638 small and 12034 medium enterprises. The rationale for conducting the study in the County was because it is the most developed with numerous SMEs. The respondents included the business managers/owners. The justification for choosing the business managers/owners was because they were the key people involved in the management issues within the enterprises. Respondents' answers/opinions used a five-point type Likert scale to collect data. The researcher picked 39 SMEs from Westlands and Langata sub-Counties for the pilot study. Data was first reviewed to ensure it does not contain errors. Descriptive and inferential statistics were used. Tables and graphs were used to present the data. Multiple regression model was used in the study. The presentation of the model is depicted below;

$Y=\beta_0+ \beta_1X_1+\beta_2X_2 + \beta_3X_3+\varepsilon$

Where;

Y= Financial Performance
$X_1$= Cash budgeting
X2= Cash control
X3= Cash forecasting
$\beta_{1\ldots3}$=Coefficient of the variables
$\varepsilon$ =Error term

## FINDINGS

### Descriptive statistics

Descriptive statistics summarizes a dataset.

### Descriptive Statistics of Cash Budgeting

Table 1 presented the results.

**Table 1: Descriptive Statistics of Cash Budgeting**

| Statements | Strongly disagree | Disagree | Neutral | Agree | Strongly agree | Mean | Standard deviation |
|---|---|---|---|---|---|---|---|
| The business has adhered to employment of the 50/30/20 budget rule | 23.10% | 55.70% | 6.00% | 10.90% | 4.30% | 2.18 | 1.04 |
| The business is committed to zero-based budgeting | 41.30% | 32.30% | 3.60% | 15.20% | 7.60% | 2.15 | 1.31 |
| The business is keen on ensuring there is a summary of the cash outflows over time | 33.20% | 51.60% | 7.90% | 4.60% | 2.70% | 1.92 | 0.91 |
| There is an envelope budgeting system within the business | 11.10% | 60.90% | 4.10% | 18.80% | 5.20% | 2.46 | 1.08 |
| The business regularly outlines the expected cash inflows | 39.50% | 48.00% | 2.20% | 7.70% | 2.60% | 2.11 | 1.24 |
| The business keeps the cash budgeting to ensure a balance between liquidity & profitability. | 30.70% | 52.40% | 4.70% | 7.60% | 4.60% | 2.03 | 1.04 |
| **Average** | | | | | | **2.14** | **1.10** |

Table 1 showed that 78.80% (23.10%+55.70%) of the respondents disagreed that businesses have adhered to the employment of the 50/30/20 budget rule, while 15.20% (10.90%+4.30%) agreed and 6.00% remained neutral. 73.60% disagreed that the businesses are more committed to zero-based budgeting, while 22.80% agreed with the survey question and 3.60%.84.80% disagreed that the businesses are keen on ensuring there is a summary of the cash outflows over time, while 7.30% agreed with the survey question and 7.90%. The study found that 87.50% disagreed the businesses regularly outline the expected cash inflows while 10.30% agreed. 83.10% of the disagreed that the businesses keep the cash budgeting to ensure a balance between liquidity and profitability while 12.20% agreed. In summary, most disagreed with the questions/statements.

## Descriptive Statistics of Cash Control

Table 2 presents the results.

**Table 2: Descriptive Statistics of Cash Control**

| Statements | Strongly disagree | Disagree | Neutral | Agree | Strongly agree | Mean | Standard deviation |
|---|---|---|---|---|---|---|---|
| There is segregation of duties and responsibilities in business | 24.70% | 58.40% | 4.90% | 6.80% | 5.20% | 2.09 | 1.01 |
| The business emphasizes the proper authorization before any transaction | 42.00% | 47.30% | 1.60% | 6.90% | 2.20% | 2.08 | 1.16 |
| The business issues receipts on the products or services sold | 19.80% | 61.10% | 5.00% | 9.20% | 4.90% | 2.18 | 1.01 |
| The business keeps cash controlling receipts to erroneous payments | 28.50% | 44.60% | 4.30% | 8.70% | 13.90% | 2.35 | 1.35 |
| The cash control in the business is supervised by qualified personnel. | 40.80% | 36.10% | 6.80% | 12.50 % | 3.80% | 2.02 | 1.15 |
| No transaction in the business is permitted without issuing the receipts | 15.20% | 67.20% | 8.20% | 4.00% | 5.40% | 2.27 | 1.01 |
| **Average** | | | | | | **2.17** | **1.11** |


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Table 2 indicates that 83.10% (24.70%+58.40%) disagreed there is a segregation of duties and responsibilities in the businesses, while 12% (6.80%+5.20%) agreed. 89.30% disagreed that businesses emphasize proper authorization before any transaction while 9.10% agreed. The study found that 76.90% disagreed that cash control in businesses is supervised by qualified personnel, while 16.30% agreed with the survey question. In addition, the study found that 82.40% disagreed that no transaction in the businesses is permitted without issuing the receipts, while 9.40% agreed. Involving a standard deviation of 1.11, the survey questions with cash control had an average mean score of 2.17. This indicated that the majority did not agree with the survey questions.

## Descriptive Statistics of Cash Forecasting

The results are as shown in Table 3.

**Table 3: Descriptive Statistics of Cash Forecasting**

| Statements | Strongly disagree | Disagree | Neutral | Agree | Strongly agree | Mean | Standard deviation |
|---|---|---|---|---|---|---|---|
| The business regularly estimates the future sales in advance | 14.20% | 64.30% | 7.90% | 11.70% | 1.90% | 2.34 | 2.36 |
| Cash flow forecast provides the business with information of whether the cash available is enough for operations | 32.90% | 51.40% | 1.60% | 11.40% | 2.70% | 2.00 | 1.02 |
| Cash flow forecasting determine its future sales | 35.60% | 44.80% | 5.70% | 7.60% | 6.30% | 2.04 | 1.13 |
| Cash flow forecasting determine the budget expenses | 31.00% | 45.40% | 3.80% | 15.20% | 4.60% | 2.07 | 1.16 |
| The business records the previous and expected receivables | 28.50% | 59.70% | 2.70% | 6.10% | 3.00% | 2.15 | 1.10 |
| The determination of the future sales is influenced by the previous sales | 37.00% | 35.10% | 7.10% | 12.80% | 8.20% | 2.20 | 1.28 |
| **Average** | | | | | | **2.13** | **1.34** |

The study found that 78.50% (14.20%+64.30%) of the respondents disagreed that the businesses regularly estimate future sales in advance while 13.60% (11.70%+1.90%) agreed. The study further found that 84.30% disagreed that cash flow forecast provides firms with information on whether the cash available is enough for operations while 14.10% agreed. The study also found that 72.10% disagreed that the determination of future sales is influenced by previous sales, while 21%agreed and 7.10% were neutral. Cash forecasting survey questions had a mean score of 2.13 and a standard deviation of 1.34. This suggested that the majority did not agree with the bulk of the statements. In summary, most disagreed with the questions/statements.

## Descriptive Statistics of Financial Performance

Table 4 presents the results.

**Table 4: Descriptive Statistics of Financial Performance**

| Statements | Strongly disagree | Disagree | Neutral | Agree | Strongly agree | Mean | Standard deviation |
|---|---|---|---|---|---|---|---|
| The sales turnover of the business has been improving over the years | 39.70% | 34.20% | 6.80% | 12.20 % | 7.10% | 2.13 | 1.26 |
| The annual average sales of the business have been increasing over years | 27.80% | 42.10% | 4.10% | 10.90 % | 15.10% | 2.35 | 1.45 |
| The net profits of the business have been above the average | 15.80% | 62.20% | 5.20% | 9.50% | 7.30% | 2.30 | 1.08 |
| The return on assets of the business has been increasing in the last three years. | 29.10% | 54.40% | 4.90% | 7.10% | 4.50% | 2.07 | 1.04 |
| The average sales of the business have been increasing over years | 20.40% | 60.00% | 2.20% | 8.50% | 8.90% | 2.18 | 1.08 |
| The business's sales turnover has surpassed the targets in the last three years. | 30.70% | 45.10% | 8.40% | 12.00 % | 3.80% | 2.13 | 1.10 |
| **Average** | | | | | | **2.19** | **1.17** |

Table 4 showed that 73.90% (39.70%+34.20%) disagreed that sales turnover of the businesses has been improving over the years, while 19.30% (12.20%+7.10%) agreed. Likewise, 80.40% disagreed the average sales of the business have been increasing. Furthermore, 75.80% disagreed that the business's sales turnover had surpassed the targets in the last three years, while 15.80% agreed and 8.40 % remained neutral. This implied that most disagreed that the business's sales turnover has surpassed the targets in the last three years. In summary, most disagreed with the questions/statements.

## Diagnostic Tests

It includes the normality tests, multicollinearity and heteroscedasticity to ensure the requirements for regression are met.

### Normality Tests

The results are summarized in Table 5.

**Table 5: Normality Test**

| Variables | Kolmogorov–Smirnov test. Statistic | df | Sig. |
|---|---|---|---|
| Cash Budgeting | 0.088 | 368 | 0.104 |
| Cash Control | 0.081 | 368 | 0.090 |
| Cashflow Forecasting | 0.164 | 368 | 0.208 |
| Financial Performance | 0.093 | 368 | 0.894 |

According to the results presented in Table 5, it can be concluded that the data was normally distributed. This is due to the fact that all of the p values for each variable were found to be greater than 0.05.

### Multicollinearity Test

Table 6 presents the results.

**Table 6: Multicollinearity Test**

| Variables | VIF |
|---|---|
| Cash Budgeting | 1.086 |
| Cash Control | 1.124 |
| Cashflow Forecasting | 1.073 |

It is important to acknowledge and address the issue of multicollinearity in statistical analyses, and the results from Table 6 provide reassurance that this potential problem was not present in the current study. Specifically, all of the VIFs were found to be below the threshold value of 10.

### Heteroscedasticity

Table 7 presents the results.

**Table 7: Heteroscedasticity Test**

| Ho: Constant variance | | |
|---|---|---|
| chi2(1) | = | 4.59 |
| Prob > chi2 | = | 0.322 |

Based on the reported result, no statistically significant evidence of heteroscedasticity in the data (P value (0.322) >0.05). Therefore, the assumption of equal variances across the different groups or variables can be considered valid

### Correlation Analysis

Table 8 depicts the results.

**Table 8: Correlation Analysis**

| Variables | | Financial Performance | Cash Budgeting | Cash Control | Cashflow Forecasting |
|---|---|---|---|---|---|
| Financial Performance | Pearson Correlation | 1.000 | | | |
| | Sig. (2-tailed) | | | | |
| Cash Budgeting | Pearson Correlation | .542** | 1.000 | | |
| | Sig. (2-tailed) | 0.000 | | | |
| Cash Control | Pearson Correlation | .699** | .372** | 1.000 | |
| | Sig. (2-tailed) | 0.000 | 0.000 | | |
| Cashflow Forecasting | Pearson Correlation | .701** | .347** | .225** | 1.000 |
| | Sig. (2-tailed) | 0.000 | 0.002 | 0.000 | |

Table 8 showed a positive and significant association between cash budgeting, cash control, cash flow forecasting and financial performance(r=0.542, p=0.000; r=0.699, p=0.000; r=0701, p=0.000) respectively. The study's findings align with those of Kibor and Kimani (2019), who discovered a favorable and substantial relationship between cash budgeting and financial success. According to Mbogo, Jimmy, and Olando (2021), budgeting techniques have a good and considerable impact on financial success. Financial reporting, financial auditing, and management accounting, according to Lukumay and Wako (2018), are all strongly and favorably correlated with financial success. Muhunyo (2018) demonstrated that cash management affects financial performance in a favorable and substantial way. According to Onyango (2018), cash forecasting, the cash conversion cycle, and cash control have a favorable relationship with return on assets, a metric for measuring financial success.

### Regression Analysis

Table 9 presented the results.

**Table 9: Model Fitness**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .777a | 0.604 | 0.601 | 0.191339 |

a Predictors: Cash budgeting, cash control, cashflow forecasting

It was found that cash budgeting, cash control and cashflow forecasting could explain 60.4% of SMEs' financial performance variations in Nairobi County. The study results of ANOVA is depicted in Table 10.

**Table 10: ANOVA**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 20.361 | 3 | 6.787 | 185.38 | .000b |
| | Residual | 13.326 | 364 | 0.037 | | |
| | Total | 33.687 | 367 | | | |

a Predictors: Cash budgeting, cash control, cashflow forecasting

Since the p value for the findings is 0.000, the variables are significant (important) in predicting the financial performance of SMEs in Nairobi County.

**Table 11: Regressions of Coefficients**

| | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|
| | B | Std. Error | Beta | | |
| (Constant) | 0.279 | 0.092 | | 3.041 | 0.003 |
| Cash budgeting | 0.275 | 0.031 | 0.314 | 8.817 | 0.000 |
| Cash control | 0.479 | 0.032 | 0.547 | 15.158 | 0.007 |
| Cashflow forecasting | 0.116 | 0.025 | 0.156 | 4.595 | 0.000 |

The multiple regression model thus becomes;

$Y = 0.279 + 0.275X_1 + 0.479X_2 + 0.116X_3$

Where: -

Y= Financial Performance

$X_1$= Cash budgeting

$X_2$= Cash control

$X_3$= Cash forecasting

Table 11 indicates that cash budgeting, cash control and cash forecasting are positively and significantly related to financial performance (β=.275, p=0.000; β=.479, p=0.007; β=.0.116, p=0.009) respectively. The positive results show that the performance of the SMEs increases when cash budgeting, cash control and cash forecasting increase or improve. Turgut, Cheruiyot and Sang (2022) indicated that cash flow forecasting, such as future expenses, sales, payments and receivables, positively affect financial sustainability. Onyango (2018) revealed that cash forecasting and cash control are positively related to ROA that measured the financial performance.

### Summary of Hypotheses Testing

The first hypothesis tested and the P value (0.000) was less than 0.05. The null hypothesis was therefore rejected. Hence, cash budgeting has a significant effect on financial performance of SMEs in Nairobi County

The second hypothesis tested was; The P value (0.007) was less than 0.05. Hence, cash control has a significant effect on financial performance of SMEs in Nairobi County

The last hypothesis tested and the P value (0.000) is less than 0.05. Hence, cash forecasting has a significant effect on financial performance of SMEs in Nairobi County

## CONCLUSIONS AND RECOMMENDATIONS

It is concluded that cash budgeting is a critical tool for businesses. By forecasting cash inflows and outflows, SMEs can identify potential cash shortages and take steps to address them, such as by obtaining additional financing or adjusting expenses. The main objective of cash budgeting is to ensure that a company has enough cash to meet its obligations, such as paying salaries, vendors, and other expenses, as well as investing in growth opportunities. Additionally, cash budgeting allows SMEs to prioritize spending and invest in growth opportunities that will generate positive returns. Overall, a well-managed cash budget helps SMEs to maintain financial stability and support long-term success.

In addition, it is concluded that cash control can help the company avoid financial difficulties, such as late payments or defaulting on loans, which can negatively affect the company's credit rating and overall financial performance. Additionally, effective cash control can help a company identify and take advantage of opportunities for growth and expansion, as well as improve its ability to respond to unexpected challenges or changes in the market.

Moreover, it is concluded that cash forecasting is important for the financial performance of SMEs because it allows them to anticipate and plan for future cash flow needs. This can help them avoid cash flow shortages and make sure they have enough money to meet their financial obligations, such as paying bills and employees. It also helps them to identify potential cash surpluses, which can then be invested in growth opportunities or used to pay down debt. Overall, cash forecasting helps SMEs to make better financial decisions and increase their chances of success.

It is recommended that SMEs have cash budgeting to increase their financial performance. By having a clear picture of their cash position, SMEs can make informed decisions about managing their finances, such as when to make payments or invest in new equipment. Additionally, cash budgeting can help SMEs identify areas where they can improve their operations, such as reducing costs or increasing revenue, to improve their overall financial performance. A budget provides a roadmap for a business's future spending and income, which helps it plan for growth and make an informed decision.

In addition, it is recommended that SMEs emphasize cash control. The cash control can include ensuring segregation of duties/roles, proper authorization and issues of receipts. Having control over cash flow allows SMEs to better predict and manage their financial performance by ensuring that they have enough cash on hand to meet their financial obligations and invest in growth opportunities. This can include implementing effective budgeting and forecasting, implementing strict financial controls and monitoring systems, and regularly reviewing financial statements to identify and address any potential cash flow issues.

Further, it is recommended that SMEs should ensure there is cash flow forecasting. Cashflow forecasting can include future sales revenue, payments/expenses and receivables. By regularly forecasting cash flow, SMEs can anticipate and plan for potential shortfalls or surpluses, which can help them make more informed financial decisions and avoid financial difficulties. Additionally, cash flow forecasting can help SMEs identify potential opportunities for growth and expansion. To increase financial performance, SMEs should make cash flow forecasting a regular part of their financial planning and management.

### Suggestions for Further Studies

The study suggests that a second study be done to look at variables other than cash management techniques that impact the financial success of SMEs. Research may examine how competence and collaboration affect financial success. All SMEs in the nation are affected by financial performance factors. The study's findings might have varied if it had been conducted in counties other than Nairobi City County. Therefore, research should be carried out in counties other than Nairobi City County and the outcomes should be compared.

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