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WORKING CAPITAL MANAGEMENT PRACTICES AND FINANCIAL PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN GARISSACOUNTY, KENYA

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ABSTRACT

Small and medium-sized enterprises (SMEs) are pivotal to economic growth and development but often face persistent financial hurdles that threaten their sustainability. In Garissa County, Kenya, many SMEs encounter financial difficulties stemming from inefficient working capital management practices. This study examined how cash management impacts SME financial performance in the county, using descriptive and inferential statistics on data from 278 SMEs. Results revealed that inventory and accounts receivable management significantly enhance SME financial performance. Effective inventory management, characterized by systematic stock monitoring and control measures, as well as efficient accounts receivable practices, including streamlined credit policies and proactive debt collection, were associated with improved financial outcomes. In contrast, accounts payable management was found to negatively influence financial performance, highlighting the adverse effects of delays or inefficiencies in fulfilling payment obligations. Although cash flow management demonstrated a positive relationship with financial performance, its statistical insignificance underscored the need for enhanced liquidity management strategies. The study concluded that efficient working capital management practices are essential for bolstering the financial health of SMEs in Garissa County. It recommended that SME managers focus on optimizing inventory control, implementing robust debt recovery mechanisms, and refining cash flow management strategies. Additionally, policymakers were encouraged to promote financial literacy initiatives for SME owners and advocate for best practices in working capital management. These insights offer actionable strategies to address financial challenges and support sustainable growth for SMEs, benefiting entrepreneurs, researchers, and policymakers alike.

Key Words: *Cash Management Techniques, Accounts Receivable Management, Inventory Management, Accounts Payable Management*

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INTRODUCTION

Over the past decade, urban planners and policymakers have increasingly recognized the importance of small businesses in fostering economic progress and creating employment opportunities. SMEs account for 99% of all businesses, highlighting their significance in economic structures. For instance, SMEs are regarded as the backbone of the British economy, as noted by the European Commission (2015) and supported by Padachi (2016). Recognizing their value, governments and development organizations worldwide have prioritized supporting SMEs to encourage private sector growth and sustainability. However, as Kargar (2018) emphasized, sustaining daily operations and cash flow is a persistent challenge for SMEs. Adequate liquid capital is essential for these enterprises to meet financial obligations, such as paying creditors, wages, and suppliers, and ensuring smooth operational continuity.

The efficiency of SMEs is a driving force behind economic growth, as seen in the UK, where increased output from SMEs has a significant positive impact on the broader economy. Similarly, in Singapore, SMEs serve as the backbone of the economy, contributing 47% to GDP and accounting for 62% of all employment opportunities (Lazaridis & Tryfonidis, 2016). However, even profitable SMEs face risks of failure if they lack adequate cash flow to meet their debt obligations. This underscores the importance of considering additional current assets alongside financial outlays when making investment decisions, such as acquiring machinery or infrastructure (Deloof, 2018). In Africa, SMEs are instrumental in driving sustainable development, particularly in the informal sector (Harper, 2015). They dominate the continent’s industry, representing over 90% of businesses and contributing 50% of employment and GDP (Lamberson, 2014).

The idea of working capital management methods pertains to how businesses handle their short-term cash to attain profitable and satisfactory levels of liquidity contribution to the bottom line (Ajanthan, 2019). Jengren, Li, and Hanwen (2020) define working capital management as the ability to maximize return on assets while reducing payments for obligations via the effective and efficient management of current liabilities and assets. Therefore, effectively managing a company's working capital improves its liquidity and market health, which in turn increases shareholder value. An organization's methods for managing its working capital include its practices for handling its net current assets (Guthmann & Dougall, 2015). A daily operating budget of this amount is required to keep a business afloat. According to Emery and Finnerty (2014), "current" means a period of one year or shorter. Managing working capital entails holding on to it in a manner that maintains sufficient liquidity, profitability, and shareholder value. Managing working capital entails monitoring assets and liabilities with a time horizon of less than a year. Gross working capital and net working capital are two basic concepts in working capital management (Panday, 2014).

Performance is a broad term that refers to how effectively an organization achieves its stated goals and objectives, encompassing both measurable and non-quantifiable aspects (Lunardi, 2014). Financial performance is typically assessed through data derived from financial reports and statements generated at the end of a fiscal year, distinguishing it from non-financial performance indicators (Glen, 2013). Organizations often establish well-defined goals and objectives at the start of each fiscal year, with the expectation of achieving them within a specific timeframe. As Muritala (2018) explains, the actual outcomes are compared to these anticipated goals at the end of the period to evaluate whether there has been an improvement or underperformance.

SMEs are defined flexibly, with Kenya classifying small firms as those with fewer than 50 employees or annual sales below 50 million shillings (Harahap, 2016; Kenya SME Authority, 2015). SMEs in Garissa County face significant challenges, including inadequate training, limited skills, insufficient technological adoption, poor cash management, restricted access to affordable credit, and a lack of innovation in producing standardized goods (Harahap, 2016; Mugure & Wanjohi, 2020). Addressing these barriers is vital for enhancing their productivity and fostering economic growth.

Based on the study conducted by Noor (2021) one of the main problems that SMEs in Garissa County have experienced has been low profitability. According to Garissa County Trade Annual Report 2021, Garissa County has 1009 registered SMEs in professional services, farming, wholesalers and retailers. Professional services include doctors, lawyers, and services provided in hotels. Other small and medium sized firms could integrate the services of public transportation into their processes. While a majority of small and medium enterprise have their units in urban areas, most farming activities occur in rural areas that are often remote. SMEs act in all industries and are located throughout Garissa County, including the urban and rural areas. This comprised of both skilled and unskilledemployees and male and female employees and civil servants of all ages (County Government of Garissa Annual Reports and Accounts 2020).

Statement of Problem

SMEs are globally recognized as the backbone of the economy, playing a vital role in socio-economic development (MSE Authority, 2021). Notwithstanding the significance of SMEs in Garissa County, a number of obstacles have stood in the way of development, such as a lack of proper company records, inadequate technological proficiency, and a lack of financial literacy. The SMEs in Garissa reported a net Between 2007 and 2013, there was an average monthly profit of Kshs. 50,000, with an average rise of 12.5% in Net Profit Margin. However, from 2014 to 2021, net profit fell to less than Kshs. 24,500 per month, which caused the net profit margin to drop by more than 8.9%. The average firm survival rate is 17 percent due to a fall in net profit of over 50 percent (Garissa County Trade Report, 2021).

Research findings suggest that working capital management techniques generally have a positive to moderate influence on the financial performance of SMEs, though results vary. For instance, Wanyoike, Onyuma, and Kung'u (2021) discovered that inventory and creditors management had no significant effect on the operational performance of Kenyan supermarkets, highlighting variability in outcomes. Similarly, studies like Owuor, Agusioma, and Wafula (2021) on public universities revealed conceptual and contextual limitations in defining working capital management and financial performance, which differ from those faced by SMEs.

Many empirical studies, like those by Aggarwal and Zhao (2020) and Gupta and Gordon (2021), have been conducted in developed economies in light of the relative importance of profit maximization to SMEs. This suggests that Kenya, a developing economy, cannot benefit from the study findings of these studies, informing the need for such a study in Kenya.

Objective of the Study

This study determined the impact of working capital management strategies on financial performance of SMEs in Garrissa County, Kenya. The study's specific objectives were:

- To establish the impact of cash management techniques on the financial performance of SMEs in Garissa County, Kenya
- To determine the effect of accounts receivable management techniques on the financial performance of SMEs in Garissa County, Kenya

- To ascertain the influence of inventory management on the financial standing of SMEs in Garissa County, Kenya
- To establish the impact of accounts payable management techniques on the financial standing of SMEs in Garissa County, Kenya.

The following research hypotheses guided the study

- Cash management techniques do not have a significant impact on the financial performance of SMEs in Garissa County, Kenya.
- Accounts receivable management techniques do not significantly affect the financial performance of SMEs in Garissa County, Kenya.
- Inventory management techniques do not significantly influence the financial standing of SMEs in Garissa County, Kenya
- Accounts payable management techniques do not have a significant impact on the financial standing of SMEs in Garissa County, Kenya.

LITERATURE REVIEW

Theoretical Review

Financing Advantage Theory

Schwartz (1974) presented the case for financial benefit. It enables managers to formulate an effective plan for managing receivables. According to the hypothesis, modern lenders have an edge over traditional borrowers since they assess the creditworthiness of customers, monitor loan repayments, and enforce repayment in case of default (Gul, Khan & Khan, 2017). This profit indicates that they possess several cost advantages in providing loans to their clients compared to financial institutions. These benefits include leveraging existing assets, acquiring expertise, and effectively managing the buyer (Joana, Vitorino & Moreira, 2011).

The theory delineates a range of methodologies that may be used to manage and regulate receivables (Williamson, 2013). The research aims to ascertain the approaches used by different small and medium-sized enterprises in managing their accounts receivable and assess their corresponding financial ramifications. The present research establishes the relevance of the theory of financial benefits as it substantiates the need of implementing measures to guarantee the proper management of receivables. Therefore, the present research will use the financial advantage theory because of its relevance in managing account receivables. However, the theory primarily focused on financial institutions and does not address the current methods of managing accounts receivable, particularly in small and medium-sized firms.

Cash Conversion Cycle Theory

Laughlin and Richards (1980) introduced the concept of the currency conversion cycle, which evolved into the cash cycle theory to evaluate the efficiency of a company's working capital management systems. If the hypothesis is correct, then a company's value, liquidity, and profitability may all rise thanks to well-managed operational capital, which allows for faster currency conversion. According to Gitman (2009), a cash budget involves forecasting the incoming and outgoing cash flows in a market and outlining how the money will be spent to support company operations. The cash conversion cycle (CCC) represents the period during which cash is tied up in inventories and receivables, reflecting a firm's financial obligation management over time.

When it comes to the other hand, a longer cash conversation cycle makes the business less profitable and less valuable. Corey et al. (2013) said that many small and medium-sized businesses have included CCC as an important financial statistic in their financial statements, which supports these numbers. This is because creditors may not pay as quickly as they should when cash collection systems aren't working well. This makes it harder for the company to reach its short-term and long-term

financial goals, which over time lowers the business's value.
Since it details the time it takes to go from acquiring raw materials to receiving payment for finished goods, the CCC hypothesis is seen to be the most reliable indication of working capital (Padachi, 2006). The smooth running of the company depends on the regular management of its short-term assets and obligations. More specifically, failure to adequately manage liquidity may lead to insolvency for firms whose long-term expectations rise (Jose & Lancaster, 1996). Both current assets and liabilities are covered under this idea. Because most businesses are so focused on keeping or increasing their profit margins, they are forced to keep an eye on certain elements that affect earnings from different angles. This metric implies that businesses shouldn't ignore returns and dangers because of the effects they may have on company structures. A thorough examination of the effects of CCC on SMEs is necessary since CCC is a crucial indicator for efficient liquidity management. Implementing working capital Management strategies may boost the financial performance of SMEs, according to this hypothesis.

Transaction Cost Theory

Ferris proposed the transaction cost idea in 1981. According to the hypothesis, effective management of payables has the potential to decrease the expenses associated with bill payments. This simply implies that an organization has the ability to collect and consolidate its invoices, allowing for monthly or quarterly payments instead of the need to handle daily errands and interact with several individuals, which ultimately leads to increased costs for the business. Hence, it is important for the organization to differentiate between the production schedule and the duration for making payments (Williamson, 2013). In addition, the company may ensure the continuity of product flow by strategically managing huge inventories via credit agreements. This might potentially lead to an escalation in the expenses associated with storing and managing the inventory. Nevertheless, the hypothesis does not when connecting accounts payable to financial success, it is important to take into consideration factors such as the kind, size, and method of company activity (Deloof, 2003).

Hence, the transaction cost theory would facilitate the examination of a strategy that should be implemented by different organizations to regulate and manage their inventories and payables, and assess their impact on the financial performance of the organization (Deloof, 2003). The SME management should develop a strategic plan aimed at reducing expenses and maximizing earnings. This approach is on effectively managing and controlling the amount of money spent on debts and obligations in order to optimize the anticipated income, which ultimately leads to financial gain. A company or investor may find itself resolving outstanding debts promptly, which might result in a decrease in the amount of cash available for commercial operations. This would ultimately impact and diminish the amount of sales (Deloof, 2003). The theory is chosen for this research because it helps to elucidate the link between cash payable and management, as well as how this relationship might impact or decrease profitability.

Stakeholder Theory

Freeman introduced the concept of stakeholder theory in 1984. This theory posits that organizations possess distinct inventories and individuals or groups with a vested interest in the company's success, known as stakeholders (Preston & Donaldson, 1995). Put simply, this thesis asserts that organizations, via their owners, shareholders, or equity investors, have obligations towards these individuals. This function is assumed by the perspective that the welfare of a corporation should be considered by other influential stakeholders. Stakeholders occupy various roles inside the organization, as implied by their name. These entities include the government or state, lenders, customers, workers, and suppliers.

However, this definition is limited to a certain area in which the organization's success relies on its capacity to thrive. Stakeholders consist of various persons who have an impact on the accomplishment of the company's or individual's aims.

The consensus that arises from the assumption that income accounting is the predominant measure of return on equity only considers the shareholder's return (Meek & Gray, 2015). The most influential factor produced by stakeholders, known as added value, is worth mentioning. This added value is accessible to the same stakeholders. This value often arises from the prosperity created via the effective application of the company's resources prior to the real distribution being made among creditors, shareholders, the state, and workers. Belkaoui (2002) states that stakeholders' view of an organization involves evaluating the development of small and medium-sized enterprises (SMEs) in terms of profit margins and return on assets by considering the usage of added value as a percentage of total wealth created.

Empirical Review

To understand the significance of CCC with regard to making money, Mohammed (2019) undertake a study to descend the business organizations and compare them to determine the effects of this element. In this case, there was a constant monitoring of the data dynamics to determine the effect of this independent variable to the ability of the sample companies to make money. For the period of 2008 to 2012, the number of cases were taken into consideration for every single year. The research was therefore meticulously scrutinized at all the levels in this study that used cross sectional study design. It was also distinctly observable that the relationship between the variables was negative due to the lower scores.

Wongthatsanekorn (2019) analyzed how the business related to cash management can affect the profitability of the private hospitals working under the Thailand Stock Exchange. The data used in the study included both first difference and fixed effects analysis using healthcare firms for 2002 to 2008. A negative correlation with payment delay evidence was found on the asset turnover ratio. Also, the results brought out an inverted U relation between the cash conversion cycle and asset turnover. This creates a conceptual knowledge gap in the current literature about working capital management among SMEs in Kenya as opposed to the concept of profitability in private health care sector in Thailand.

In 2021, Owuor, Agusioma, and Wafula looked into how well Kenya's Chartered Public Universities did financially and how they handled accounts receivable. To look at the data, descriptive and inferential study methods were used. All 31 of Kenya's recognized public universities were the focus of the study, which was done using the census survey method. The yearly reports of the relevant organizations were used to get the secondary panel statistics for the years 2017–2019. SPSS Version 25 was used to look at both descriptive and inferential statistics. The study found that the ways accounts receivable were managed had a big effect on the money-making of Kenya's public universities that were founded. This effect was indirect but significant. In contrast to the last study, which was more about private universities, this one will focus on small and medium-sized businesses (SMEs).

Siele and Tibbs (2019) investigated the financial performance of Kericho Water and Sanitation Company Limited (KEWASCO), based in Kericho, Kenya, focusing on the company's accounts receivable management practices. The study analyzed metrics such as the average collection period and the rate of change in accounts receivable. The target group consisted of employees in the business department of KEWASCO in the Kericho and Bureti regions. Data collection involved a census approach, using surveys analyzed through regression and correlation techniques. The findings revealed that effective management of accounts receivable had a significant positive impact on financial performance, as measured by return on equity (ROE). However, this study focused specifically on a water and sanitation company, which differs from the current research's focus on SMEs in Garissa County.

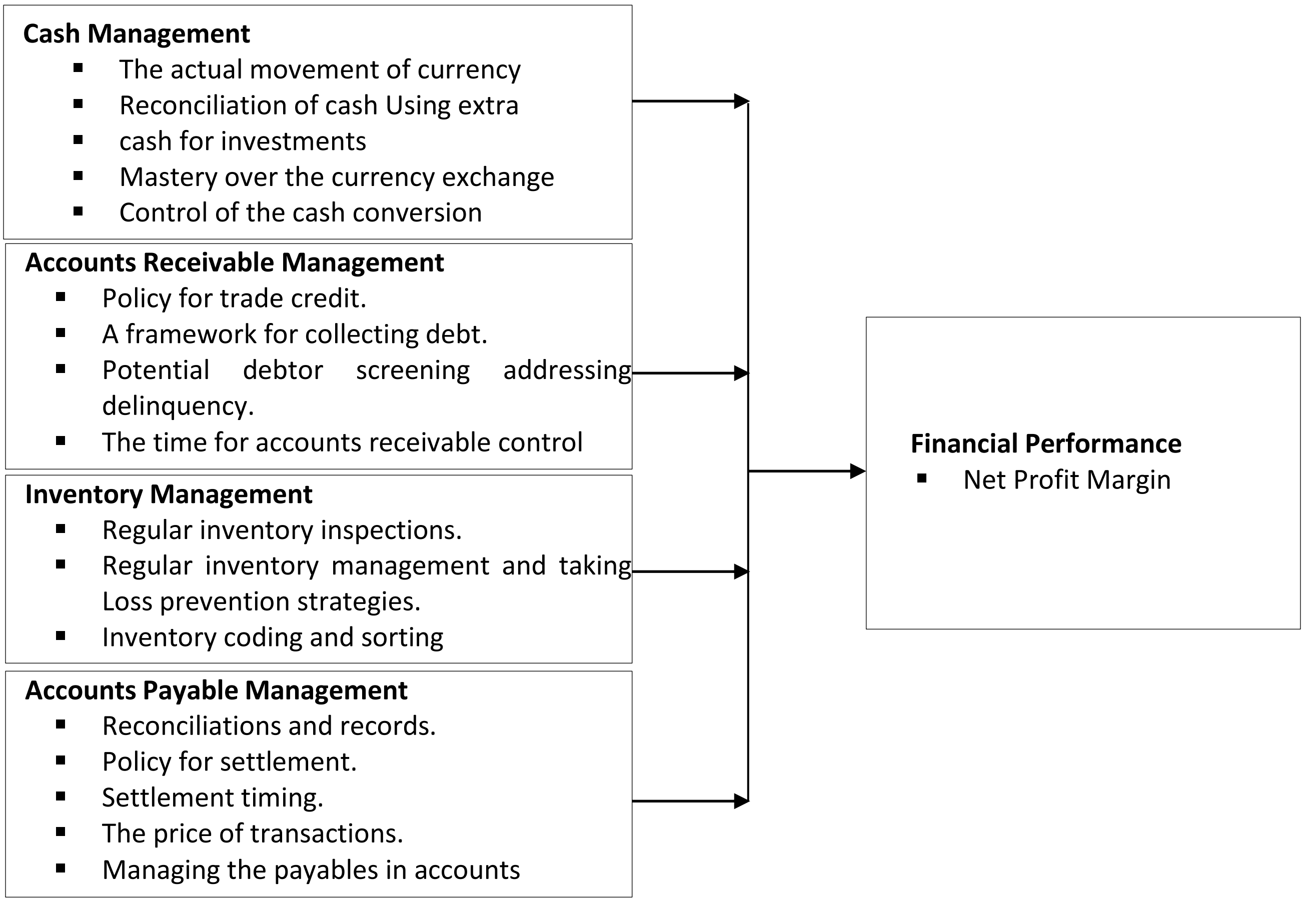
Torky (2020) has also reviewed the effects of I&O practices in the FSMC and identified that there exists a positive relationship between an improved I&O practice and financial performance. This suggests that accurate stock control improves the income, while the mismanagement of stocks has a negative impact on profitability. However, unlike the above studies, this study focuses on Saudi Arabian manufacturing companies, making some aspects of the study contextually relevant, although broadly, the concentration on the financial performance of SMEs as an index of manufacturing firm performance is not novel to the current research.

In their 2020 study, Rodrigo, Rathnayake, and Pathirawasam looked at how inventory management strategies affected the bottom lines of Sri Lankan manufacturing businesses that were listed. The inquiry that was conducted used a quantitative research design. From 2014 to 2018, secondary data was gathered by reviewing the publicly available annual reports of Sri Lankan industrial businesses listed on the Colombo Stock Exchange. A total of 29 manufacturing businesses made up the sample, which was selected using the judgmental sampling approach. Return on assets and inventory conversion duration were shown to be strongly inversely related, according to the study's findings. That is why, as a general rule, better financial performance results from faster inventory turnover, and vice versa. Still, Sri Lankan manufacturing businesses' financial success is uncorrelated with inventory turnover, according to the data. Because it focused on Sri Lankan manufacturing enterprises, the study's backdrop differed from the present trend toward analyzing SMEs' financial performance.

In 2019, Mutai and Kimani looked into how techniques for managing accounts payable affected the cash flow of state technical training schools in Kenya's Rift Valley region. Due to the small amount of interviewees, a census poll was used for the study. There were 38 respondents from the available population; 19 were directors and 19 were accountants. The surveys were filled out by the people themselves. The pilot test was given to public technical schools in the Nyanza area with five questions. The study found that the way state Technical Training Institutions in the Rift Valley Region handled accounts payable had a big effect on their ability to pay their bills. That being said, the earlier study was done in state organizations, which left a gap in the background. This study, which is mostly about small and medium-sized businesses (SMEs), tries to fill that gap.

Sharma (2019) explored the ways of managing account payables in particular ventures in the consumable goods industry in India. In this study, population of all FMCG firms in India were included in the population of this study. Case study considered five individuals working in the FMCG organizations. Information for financial variables was obtained from a sample that included data of the above five companies belonging to the FMCG sector for 10 years. The study employed judgment sampling as a part of nonprobability sampling Universal techniques A probability sampling technique. Analyzed secondary data. The source of financial statement data of the aforementioned FMCG firms was the firms' websites to attain the information for fiscal years from 1st April 2007 to 31st March, 2017. When comparing this ratio with finance theories and norms, the analysis identified that Britannia actually enjoyed a rather high monetary value for its accounts payable turnover ratio. Also, it had the highest value among all the firms under analysis in the study conducted. The study focused on enterprises in the consumable products market in Kenya and thus identified a contextual void. This work focused on the evaluation of the financial performance of Small and Medium Enterprises (SMEs) in Garissa County – Kenya.

Conceptual Framework



Independent Variables **Dependent Variables**

Figure 1: Conceptual Framework

Source: Researcher (2024)

METHODOLOGY

This study adopted a positivist research philosophy, emphasizing objectivity, empirical observation, and measurable outcomes. This study adopted an informative, non-scientific methodology suited for identifying variables affecting a company's value fluctuations without influencing financial decisions (Kerlinger & Lee, 2000). The research employed a stratified random sampling design, with Yamane's finite population formula to determine the sample size (Otabor, 2016). Thus, the sample size for the study was 278.

A structured questionnaire, designed to align with the study's objectives, was used as the primary data collection tool to gather standardized information on demographics, working capital management practices, and financial performance. Structured questions minimized ambiguity by providing clear response options, enabling participants to give precise and relevant answers.

Before being entered into SPSS version 26, the gathered data was examined to ensure its accuracy and completeness. Using this statistical package, the researcher examined frequency distributions, association and dispersion measures (range and standard deviation), and descriptive statistics that estimate central tendency (mean). To ascertain the level of correlation between the independent and dependent variables, inferential statistics will be produced. Additionally, a 5% significance level criterion was used to evaluate the study's hypotheses' applicability (Deloof, 2003).

The research utilized a cross-sectional linear regression model, as outlined in the model below, which is deemed suitable for cross-sectional data:

$$Y = \beta 0 + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + \epsilon$$

Where: Y – Financial performance

β0: Intercept

X1: Cash management practices

X2: Accounts Receivables Management

X3: Inventory Management

X4: Accounts Payables Management

The factors are β1–β4, and the error term is ε.

FINDINGS AND DISCUSSION

The study achieved an 80% response rate, with 223 of 278 participants completing the questionnaires, surpassing the 70% threshold for excellence (Mugenda & Mugenda, 2003). This high rate, attributed to effective tools and follow-up, ensures robust, representative data, reducing non-response bias and strengthening the analysis of Cash Management's impact on financial performance in Garissa County SMEs.

Descriptive Statistics

Cash Management Techniques

The study examined the impact of Cash Management techniques on performance. Table 1 showed the respondents' perception:

Table 1: Descriptive Statistics for Cash Management

Statement	Mean	Standard Deviation
The SME has a strictly implemented cash budgeting and planning framework for all departments/ units.	3.91	0.87
The SME physically controls movements in cash to avoid loss or misuse.	4.11	0.81
The SME carries out regular reconciliation of transactions involving cash.	4.00	0.78
The SME has a prudent policy to guide investment of surplus Cash	3.99	0.82
The SMEs liquidity control policy is effective in maintaining optimal levels of liquidity while taking advantage of Investment Options	4.14	0.76
Average	**4.03**	**0.808**

Source: Research Data (2024)

Descriptive statistics in Table 1 revealed strong agreement on the effectiveness of cash management practices among SMEs, with an overall mean score of 4.03 (SD = 0.808), reflecting consistent adoption. Key practices include cash budgeting and planning (mean = 3.91, SD = 0.87), indicating moderate agreement on its utilization, though some SMEs face challenges in full adoption. Physical control of cash movements (mean = 4.11, SD = 0.81) emerged as a top priority, ensuring security and minimizing risks. Regular cash reconciliation (mean = 4.00, SD = 0.78) is widely implemented, underscoring its role in accurate financial management. Additionally, prudent investment policies for surplus cash (mean = 3.99, SD = 0.82) highlight SMEs' focus on optimizing returns, albeit with some variability due to differences in investment knowledge and opportunities.

Lastly, liquidity control policies, aimed at maintaining optimal cash levels while leveraging investment options, had the highest mean score of 4.14 and a standard deviation of 0.76. This suggests that respondents perceive these policies as highly effective, with minimal variability in their implementation. Such practices ensure that SMEs balance liquidity needs with opportunities for growth.

In conclusion, the analysis of means and standard deviations reveals that Cash Management techniques are widely recognized and effectively implemented by SMEs in Garissa County. The relatively high mean scores and low standard deviations across all metrics underscore the critical role of Cash Management in fostering financial stability and efficiency. These practices collectively ensure that SMEs maintain liquidity, safeguard resources, and optimize financial performance.

The findings reveal that cash management techniques are widely adopted and effectively implemented among SMEs in Garissa County, with a strong emphasis on liquidity control policies and securing cash movements. These results align with the observations of Gitman (2009), who emphasized the importance of liquidity control and cash budgeting for operational efficiency. The prioritization of practices such as physical control of cash movements and liquidity management reflects a deliberate effort by SMEs to safeguard resources, minimize financial risks, and optimize operational cash flows. Such practices are crucial in ensuring that businesses maintain financial stability while effectively navigating daily cash demands.

The study also highlights the critical role of regular cash reconciliation in fostering sound financial management. This finding corroborates prior research by Padachi (2006), which identified cash reconciliation as a vital aspect of the cash conversion cycle, ensuring accuracy and transparency in financial records. Furthermore, the consistent implementation of this practice across SMEs reflects a strong culture of financial discipline and compliance. However, while many SMEs demonstrate well-structured cash budgeting frameworks, there remain challenges in ensuring that all enterprises adopt comprehensive cash planning systems. This observation resonates with Laughlin and Richards' (1980) view that inconsistencies in cash planning can undermine the effectiveness of broader cash management strategies.

The practice of prudent investment of surplus cash further underscores the strategic focus of SMEs on optimizing returns while maintaining liquidity. This aligns with Schwartz's (1974) advocacy for leveraging surplus cash to enhance profitability and long-term growth. By channeling excess resources into productive investments, SMEs can ensure a steady growth trajectory and improve financial performance.

Accounts Receivable Management Techniques

Table 2 showed the results for Accounts Receivable Management Techniques

Table 2: Descriptive Statistics for Accounts Receivable Management Techniques

Statement	Mean	Std dev
The firm has a well spelt out trade credit policy to guide the credit administration decisions made.	4.00	0.81
The SME has an effective debt collection framework that ensures efficient and effective collections of dues from debtors.	3.90	0.86
The SME has a well implemented system for screening potential debtors to guide advancement of credit.	4.16	0.82
The SME keeps proper debtors record to ease monitoring and give information regarding credit worthiness of borrowers.	4.06	0.83
The SME implements a strict delinquency control system to ensure debts are repaid promptly.	3.95	0.85
Average	**4.014**	**0.834**

Source: Research Data (2024)

The study examined accounts receivable management practices among SMEs in Garissa County, focusing on trade credit policies, debt collection, and debtor screening. Respondents strongly endorsed their effectiveness, with an overall mean score of 4.014 (SD = 0.834). Trade credit policies were deemed critical (mean = 4.00, SD = 0.81), reflecting widespread implementation despite some challenges in formalization and enforcement. Debt collection frameworks scored a mean of 3.90 (SD = 0.86), indicating acknowledgment of their importance but variability in application. Debtor screening received the highest rating (mean = 4.16, SD = 0.82), highlighting the prioritization of creditworthiness assessments, with consistent adoption observed across most SMEs.

The maintenance of accurate debtor records received a high rating, with a mean score of 4.06 and a standard deviation of 0.83, emphasizing the significance SMEs place on monitoring credit risk and making informed credit decisions. Similarly, implementing a delinquency control system to enforce timely debt repayment scored a mean of 3.95 with a standard deviation of 0.85. Although respondents largely acknowledged the effectiveness of such systems, the variability indicates that some SMEs face difficulties in enforcing strict controls.

The analysis of means and standard deviations highlights the strong emphasis SMEs place on accounts receivable management techniques to optimize financial performance. Practices such as debtor screening, record maintenance, and trade credit policies are particularly effective in ensuring steady cash flows and minimizing credit risks. The consistent adoption of these techniques among SMEs underscores their critical role in sustaining operational and financial stability.

The study demonstrates that accounts receivable management techniques are a cornerstone of financial stability among SMEs in Garissa County. Practices such as trade credit policies, debtor screening, and delinquency control are widely adopted, reflecting the emphasis on optimizing cash inflows while minimizing credit risks. This aligns with Gul, Khan, and Rehman's (2018) assertion that well-defined credit policies help streamline credit administration, ensuring timely collections and fostering business sustainability. Such practices enable SMEs to maintain steady cash flows and reduce the financial strain associated with delayed payments or non-performing accounts.

The role of debtor screening in safeguarding financial performance is particularly noteworthy. The findings reveal that SMEs prioritize assessing the creditworthiness of potential debtors, a practice that is consistent with Joana, Vitorino, and Moreira's (2011) emphasis on evaluating customers to minimize credit risks. Effective screening ensures that only reliable clients are extended credit, reducing the likelihood of bad debts and fostering a more sustainable credit environment. Furthermore, the maintenance of proper debtor records supports this process, providing critical information for monitoring creditworthiness and enhancing decision-making in credit administration.

Delinquency control mechanisms, such as strict repayment policies, are also central to effective accounts receivable management. These findings echo the views of Deloof (2003), who emphasized that robust delinquency management frameworks significantly enhance the efficiency of credit recovery processes. By implementing structured systems to address overdue accounts, SMEs can mitigate losses and maintain a healthy financial position. Together, these practices underscore the importance of proactive accounts receivable management in ensuring operational continuity and safeguarding the financial health of SMEs.

Inventory Management Techniques

Table 3 showed the descriptive results for inventory management techniques.

Table 3: Descriptive Statistics on Inventory Management Techniques

Statement	Mean	Std. Deviation
The SME carries out periodic inspection of inventory to inform the stocking needs and verify that the goods are in good and safe state	4.13	0.844
The SME has a well laid out framework that ensure regular stock taking and control	3.94	0.911
The firm has established an effective inventory related loss prevention plans	4.06	0.8
The SME has adopted an effective coding and sorting practice for dealing with inventory to ease control of stock movement	4.13	0.78
Average	**4.065**	**0.834**

Source: Research Data (2024)

The study revealed strong agreement among SMEs in Garissa County on the importance of inventory management practices (mean = 4.065, SD = 0.834) in enhancing financial performance. Periodic inspections (mean = 4.13, SD = 0.844) and loss prevention plans (mean = 4.06, SD = 0.8) were prioritized for quality control and asset protection. Despite some variability, regular stock-taking (mean = 3.94, SD = 0.911) was also recognized as essential for effective operations.

Lastly, adopting effective coding and sorting practices for inventory control received a high mean score of 4.13 and a standard deviation of 0.78. This indicates that most respondents view these practices as crucial for simplifying stock management and improving accuracy in inventory tracking.

In summary, the analysis underscores the strong emphasis SMEs in Garissa County place on inventory management practices. These practices, including regular inspections, loss prevention strategies, and effective inventory coding, are integral to maintaining operational efficiency and financial stability. The consistency in responses further highlights the importance of inventory management as a key component of overall business success.

The findings emphasize the critical role of inventory management techniques in enhancing financial performance among SMEs in Garissa County. Practices such as record-keeping, reconciliation, and creditor settlement policies are widely implemented, reflecting the importance of maintaining accurate and up-to-date inventory records. This aligns with the views of Rodrigo, Rathnayake, and Pathirawasam (2020), who highlighted that effective inventory tracking minimizes operational disruptions and ensures optimal stock levels. Accurate record-keeping enables SMEs to avoid stockouts or overstocking, thereby reducing unnecessary costs and maximizing operational efficiency.

Reconciliation of creditors' accounts further reinforces the effectiveness of inventory management practices. Regular reconciliation ensures that credit advances from suppliers are accurately monitored and planned for, reducing the risk of overdue payments. This finding is consistent with the assertions of Padachi (2006), who identified reconciliation as a critical component of efficient working capital management. Such practices foster stronger relationships with suppliers and ensure that businesses remain financially disciplined in managing their liabilities.

Additionally, the presence of well-defined creditor settlement policies and planning for transaction costs underscores the strategic approach SMEs take toward inventory management. These practices reflect Deloof's (2003) argument that minimizing transaction costs through effective planning enhances profitability and financial sustainability. By optimizing creditor settlements and reducing unnecessary financial outflows, SMEs can improve their liquidity position and ensure that resources are directed toward growth initiatives.

Accounts Payable

The study also sought to determine the Accounts payables in Garrissa, as shown in Table 4.

Table 4: Descriptive Statistics for Accounts Payables

Statement	Mean	Standard Deviation
The SME keeps good records for all credit advances given by Suppliers of the Firm	3.91	0.8
The SME owners regularly reconcile the creditors account to ensure credit advances are kept on track and planned for.	4.01	0.78
The business has a well spelt out creditors' settlement policy that optimizes the benefits accruing to the firm.	4.05	0.81
The business entity is effective in planning for settlements to ensure debts are paid on time	4.04	0.82
The SME recognizes the impact of transaction costs and makes proper planning to ensure the costs are effectively minimized.	4.04	0.84
Average	**4.01**	**0.81**

Source: Research Data (2024)

The findings reveal a strong consensus (mean = 4.01, SD = 0.81) on the effectiveness of accounts payable management practices among SMEs, indicating consistent implementation across surveyed businesses. Accurate record-keeping for supplier credit advances (mean = 3.91, SD = 0.8) was deemed important, though variability in tracking practices persists. Regular reconciliation of creditors' accounts scored a mean of 4.01 (SD = 0.78), emphasizing the significance of timely monitoring to mitigate overdue payment risks and maintain robust supplier relationships. A well-defined creditors' settlement policy, rated at a mean of 4.05 (SD = 0.81), underscores SMEs' focus on maximizing credit arrangement benefits while ensuring strategic and timely fulfillment of obligations.

Effective planning for settlements to ensure timely payment of debts received a mean score of 4.04 and a standard deviation of 0.82. This finding indicates that SMEs are focused on maintaining financial discipline and sustaining good relationships with creditors, even though there is some variability in how this practice is implemented across different enterprises.

Lastly, recognizing the impact of transaction costs and planning to minimize them was rated highly, with a mean score of 4.04 and a standard deviation of 0.84. This underscores the importance SMEs place on optimizing financial outflows and reducing unnecessary expenses associated with accounts payables.

In summary, the results indicate that SMEs in Garissa County adopt a variety of effective accounts payables management techniques, including maintaining accurate records, reconciling accounts, and planning creditor settlements. These practices contribute to maintaining financial stability, strengthening supplier relationships, and improving operational efficiency.

Financial Performance

The study also sought to determine the participant's perspectives of financial performance in their organization. The findings are as shown in Table 5:

Table 5: Descriptive Statistics on Financial Performance

Statement	Mean	Std. Dev
The SME has experienced growth in net profit margin over the past year.	4.13	0.792
Sales revenue has consistently increased over the past financial year.	4.02	0.808
The SME maintains a healthy balance between its assets and liabilities.	4.03	0.819
The business effectively controls costs, resulting in improved profitability.	4.01	0.811
There has been a positive cash flow from the operating activities of the SME.	4.13	0.809
Average	**4.06**	**0.808**

Source: Research Data (2024)

The results highlight strong financial performance among SMEs, marked by net profit growth (mean = 4.13) and sales revenue growth (mean = 4.02). Maintaining a balance between assets and liabilities (mean = 4.03, SD = 0.819) underscores SMEs' commitment to financial stability and solvency through effective resource management. Similarly, cost control measures aimed at enhancing profitability received a mean score of 4.01 (SD = 0.811), demonstrating SMEs' focus on reducing operational expenses to optimize financial outcomes—a critical aspect of sustainable growth.

Positive cash flow from operating activities was also highly rated (mean = 4.13, SD = 0.809), reflecting SMEs' ability to generate sufficient liquidity from core operations to maintain financial health. Collectively, these results show that SMEs in Garissa County excel in profitability, revenue growth, and cost efficiency, practices that are pivotal in sustaining operational efficiency and ensuring long-term business viability.

Autocorrelation

The Durbin-Watson test was applied to assess autocorrelation, yielding a statistic of 1.957. This value, being near 2, indicates no significant autocorrelation in the regression model's residuals, confirming their independence. This finding validates the model's reliability and ensures that error terms are not systematically correlated, supporting the robustness of the predictions.

Regression Results

The study conducted multiple linear regression model. Table 6 shows the model summary:

Table 6: Model Summary

Model Summary				
Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
1	.785a	0.616	0.609	0.23721

Source: Research Data (2024)

The R Square value of 0.616 indicates that 61.6% of the variance in financial performance is explained by the underlying variables, demonstrating their significant influence on SMEs in Garissa County. An Adjusted R Square of 0.609 confirms the model's robustness, with minimal overfitting and strong reliability. The standard error of 0.23721 reflects a close match between predicted and actual values, emphasizing the model's precision.

Table 7: ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	19.687	4	4.922	87.472	.000b
	Residual	12.266	218	0.056		
	Total	31.954	222			

Source: Research Data (2024)

The ANOVA results (F = 87.472, p = 0.000) confirm the model's statistical significance, demonstrating its robustness in explaining financial performance among SMEs. With a regression Sum of Squares of 19.687 and a residual Sum of Squares of 12.266, the model shows strong predictive power, effectively linking working capital management practices to SME performance.

Table 8: Coefficient of Regression

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.229	0.198		6.2	0.000
	Cash Management	0.226	0.031	0.347	7.396	0.000
	Accounts Receivable Management	-0.649	0.175	-0.825	-3.7	0.000
	Inventory Management	1.279	0.214	1.349	5.966	0.000
	Accounts Payable Management	0.043	0.041	0.045	1.058	0.291
a Dependent Variable: Performance						

Source: Research Data (202S4)

The resultant equation is thus;

$$Y = 1.229 + 0.226X1 + 1.279X2 - 0.649X3 + 0.043X4$$

Y = Financial Performance
X1= Cash Management
X2 = Inventory Management
X3 = Accounts Receivable Management
X4 = Accounts Payable Management

The regression analysis showed that Inventory Management significantly enhances financial performance, with a coefficient of 1.279 and a t-value of 5.966, emphasizing the value of structured inventory practices. Accounts Receivable Management negatively impacts financial performance, as indicated by a coefficient of -0.649 and a t-value of -3.700, highlighting the need for effective debt collection and credit policies. Accounts Payable Management, with a positive but statistically insignificant coefficient of 0.043 and a t-value of 1.058, suggests a minimal influence on SME financial outcomes.

Overall, the results highlight that Inventory Management and Cash Management are the most critical factors positively influencing financial performance, while inefficiencies in Accounts Receivable Management pose significant challenges. These findings align with existing literature on working capital management, emphasizing the vital role of cash and inventory management in driving profitability. The study also reinforces the need for effective receivables practices to address the detrimental effects of delayed collections. In contrast, the limited impact of accounts payable management suggests its influence may vary based on specific SME dynamics. Collectively, these insights provide SME managers with actionable strategies to optimize their working capital practices and enhance financial outcomes.

Hypothesis Testing

Hypothesis test results are discussed in this section.

Cash Management and Financial Performance

The study found that cash management significantly impacts financial performance, with a coefficient of 0.226, t-value of 7.396, and p-value of 0.000, confirming the importance of practices like cash budgeting, liquidity control, and surplus investment in improving SME profitability in Garissa County. These practices enable SMEs to maintain optimal cash flow, meet their financial obligations promptly, and seize investment opportunities. As a result, these activities collectively drive improved financial outcomes for SMEs by reducing risks associated with liquidity shortfalls and operational disruptions.

The regression results reveal that Cash Management significantly and positively influences financial performance. This finding aligns with Mohammed (2019), who emphasized that efficient cash management practices, such as maintaining an optimal cash conversion cycle, contribute to profitability by ensuring that organizations have sufficient liquidity to meet obligations and invest in growth opportunities. Similarly, Gul et al. (2018) highlighted the importance of maintaining cash reserves for operational needs, further corroborating the notion that prudent cash management directly impacts financial outcomes. The positive effect observed in the current study reinforces the broader literature that views cash flow optimization as a cornerstone of financial success in SMEs.

The study confirmed that effective cash management significantly enhances financial performance ($\beta = 0.226$, $t = 7.396$, $p = 0.000$). Tools like cash budgeting, reconciliation, and liquidity control help SMEs to balance their funds and increase their revenues. The evidence further confirms the importance of Cash Management in maintaining a financially stable status.

Accounts Receivable Management and Financial Performance

The study found a significant positive impact of accounts receivable management on SME financial performance, with a coefficient of 1.279, t-value of 5.955, and p-value of 0.000. Effective practices such as trade credit policies, debt collection, and systematic debtor screening enhance cash flow and minimize bad debts. These strategies improve liquidity, reduce financial risks, and support operational efficiency. The findings emphasize the critical role of receivables management in driving SME profitability.

The regression analysis indicated a negative and significant relationship between Accounts Receivable Management and financial performance, which is supported by studies such as those by Owuor et al. (2021). Owuor et al. highlighted that inefficiencies in debt collection and poor credit policies often lead to cash flow challenges, which adversely affect an organization's ability to sustain operations and invest in growth. Similarly, Siele and Tibbs (2019) found that a lack of stringent delinquency control mechanisms in managing receivables could lead to increased bad debts, thereby hampering financial performance. The findings of the current study corroborate these observations, highlighting the importance of robust receivables management frameworks in ensuring financial stability. Poor receivables management hinders cash flow and increases bad debts, emphasizing the need for effective debt collection frameworks and credit policies to mitigate these adverse effects and improve financial outcomes.

Inventory Management and Financial Performance

Inventory management practices significantly enhance SME financial performance in Garissa County ($\beta = 1.279$, $t = 5.966$, $p < 0.05$). Thus, there is a need for good inventory management policies, including regular stock checks, loss prevention policies, and good coding and sorting of inventory control. So, when it comes to inventory management, proper ordering of stock to avoid losses and or running out of stock, be very beneficial to SMEs to operate efficiently and fulfill the needs of their customers. All these practices in managing inventories definitely have benefits of decreasing costs and enhancing the profitability and therefore, they are crucial to achieving sound financial objectives.

Inventory Management was shown to have the strongest positive influence on financial performance in the regression analysis. This result is consistent with the findings of Rodrigo et al. (2020), who demonstrated that efficient inventory control practices, including stock inspections and loss prevention mechanisms, significantly enhance the profitability of manufacturing firms. Additionally, Torky (2020) found that companies with well-implemented inventory management systems experience reduced operational costs and improved resource utilization, which directly contribute to better financial performance. The results from this study echo these findings, underscoring the critical role of maintaining optimal inventory levels and minimizing wastage in driving SME profitability.

The study found inventory management significantly enhances financial performance (β = 1.279, t = 5.966, p = 0.000), emphasizing practices like inspections, loss prevention, and coding systems. By minimizing operational inefficiencies and maintaining optimal stock levels, SMEs can enhance their financial outcomes. The evidence confirms the strategic importance of effective inventory management.

Accounts Payable Management and Financial Performance

Accounts payable management negatively impacts SME financial performance (β = -0.649, t = -3.694, p = 0.000). This finding emphasizes that poor accounts payable management, characterized by delayed settlements and inefficient payment scheduling, adversely affects financial performance by disrupting supplier relationships and increasing financial strain. Conversely, effective accounts payable management, which includes timely settlements, well-documented payment schedules, and transaction cost optimization, is crucial to mitigating these negative effects. Proper management of accounts payable ensures smooth business operations, strengthens supplier relationships, and sustains financial stability, thereby supporting better financial outcomes for SMEs.

The regression results for Accounts Payable Management indicated a positive but statistically insignificant relationship with financial performance. This aligns partially with Sharma (2019), who highlighted the benefits of strategic payables management but cautioned against excessive reliance on delayed payments. Similarly, Mutai and Kimani (2019) noted that while payables management aids liquidity, its impact on profitability depends on broader financial contexts.

The study found accounts payable management had no significant impact on financial performance (β = 0.043, t = 1.058, p = 0.291), highlighting its limited influence compared to other working capital components.

CONCLUSIONS AND RECOMMENDATIONS

The study concluded that effective Cash Management are indispensable for improving the financial performance of SMEs. Establishing and maintaining a structured framework for cash budgeting and liquidity control plays a critical role in ensuring financial stability and operational continuity. Regular reconciliation of transactions and prudent investment of surplus funds are essential practices that allow SMEs to sustain adequate liquidity levels while taking advantage of growth opportunities. SMEs with strong Cash Management frameworks can better withstand unforeseen financial shocks, minimize cash flow disruptions, and achieve consistent profitability. This demonstrates that Cash Management is a cornerstone of operational efficiency and financial growth for SMEs.

The study concluded that robust accounts receivable management practices are vital to the financial success of SMEs. Well-defined trade credit policies, efficient debt collection mechanisms, and regular debtor assessments enable SMEs to manage credit risk effectively and maintain steady cash inflows. Prompt collection of receivables reduces the risk of bad debts, enhances liquidity, and supports business operations by ensuring a reliable flow of working capital. Furthermore, maintaining accurate debtor records facilitates informed decision-making regarding credit issuance and repayment monitoring. SMEs that implement strong accounts receivable management frameworks are well-positioned to sustain financial health and achieve long-term growth.

The study concluded that effective inventory management practices, including regular inspections and loss prevention strategies, significantly enhance SMEs' financial performance by optimizing inventory and minimizing costs. Effective coding and sorting systems streamline inventory management, ensuring that businesses can meet customer demand while avoiding overstocking or stockouts. These practices contribute to improved operational efficiency and resource utilization, which ultimately lead to higher profitability. SMEs that prioritize robust inventory management processes are better equipped to adapt to market demands and sustain competitive advantage.

The study concluded that accounts payable management practices significantly influence the financial performance of SMEs, with poor management potentially hindering profitability. Delayed payment of obligations, ineffective documentation, and inefficient payment scheduling can strain supplier relationships, disrupt cash flow, and create financial instability. However, SMEs that establish clear policies for timely settlements and minimize transaction costs can mitigate these challenges. Proper planning and control over payables allow SMEs to maintain healthy supplier relationships, avoid unnecessary financial strain, and sustain smooth business operations. Balancing short-term liabilities with liquidity preservation is critical for SMEs to achieve financial resilience and operational success. By addressing inefficiencies in these areas, SMEs can enhance their financial stability, profitability, and operational sustainability, ensuring long-term success in a competitive business environment.

The study provided several recommendations for SMEs, focusing on enhancing financial performance through improved Cash Management.

The study emphasizes the importance of implementing robust Cash Management frameworks for SMEs. Businesses should adopt detailed and comprehensive cash budgeting systems to plan and monitor cash inflows and outflows effectively. This will ensure that sufficient liquidity is maintained to meet short-term financial obligations while allowing for investment in growth opportunities. Additionally, SMEs should perform regular reconciliation of cash transactions to identify and address discrepancies promptly. Policies should also be introduced to guide the prudent investment of surplus cash in low-risk ventures, ensuring additional income generation without compromising liquidity. Effective liquidity control mechanisms are vital to strike a balance between maintaining operational stability and taking advantage of potential investment opportunities.

The study highlights the need for SMEs to strengthen their accounts receivable management practices to enhance cash flow and minimize risks associated with bad debts. SMEs should establish clear trade credit policies that outline the terms and conditions for credit issuance, repayment schedules, and penalties for default. Efficient debt collection systems are critical to ensuring timely payments from customers, thereby avoiding cash flow disruptions. SMEs should also invest in screening potential debtors to assess their creditworthiness before extending credit. Accurate and up-to-date records of all debtors should be maintained to support informed decision-making and effective credit monitoring. These measures will enable SMEs to manage receivables efficiently, ensuring steady cash inflows and improved financial performance.

Effective inventory management is crucial for optimizing resource utilization and minimizing operational costs. SMEs should conduct regular inspections of inventory to evaluate stock levels, identify damaged or obsolete items, and ensure that inventory meets business requirements. Implementing loss prevention strategies, such as enhanced security measures and monitoring systems, can help minimize theft and wastage. Businesses should adopt efficient inventory coding and sorting practices to streamline stock management and reduce errors in tracking inventory movement. Furthermore, SMEs should establish comprehensive inventory control frameworks that define reorder levels, safety stock thresholds, and replenishment timelines. These practices will help SMEs align their inventory with market demand, reduce carrying costs, and avoid stockouts or overstocking, ultimately contributing to better financial outcomes.

To improve accounts payable management, SMEs need to develop clear policies for settling obligations in a timely and efficient manner. This includes implementing strategic payment schedules that allow businesses to meet their financial commitments while maintaining sufficient liquidity for other operational needs. Accurate documentation of all payables-related transactions is essential to ensure transparency, accountability, and compliance with financial reporting standards. SMEs should also take proactive steps to minimize transaction costs. By effectively managing their payables, SMEs can strengthen supplier relationships, maintain a stable supply chain, and reduce the financial strain associated with delayed payments or penalties.

Recommendations for Future Research

While this study offers valuable insights, further research is needed to expand and deepen understanding the underlying practices. Future studies should consider exploring these practices across diverse sectors and regions to uncover context-specific challenges and opportunities. Longitudinal research could provide a clearer picture of the long-term impacts of Cash Management on financial outcomes, while investigations into external moderating factors, such as technological advancements, market dynamics, and regulatory frameworks, would offer a more holistic view of the variables influencing SME performance.

Additionally, integrating qualitative approaches like case studies could illuminate the practical barriers SMEs face in implementing effective Cash Management and the innovative strategies they adopt to address these challenges. These recommendations aim to guide SMEs, policymakers, and researchers in refining Cash Management practices to enhance financial performance and promote sustainable growth.

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