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EFFECT OF WORKING CAPITAL MANAGEMENT ON THE FINANCIAL PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN NAIROBI COUNTY, KENYA

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Abstract: The purpose of this study was to examine effect of working capital management on the financial performance of Small and Medium Enterprises in Nairobi County, Kenya. This study looked at the effect of management of all the components of working capital management namely; cash management, accounts payable management, accounts receivable management and inventory management on profitability of Small and Medium Enterprises. The study adopted a descriptive research design. The study population comprised of SMEs in Nairobi County which fall within the Top 100 SMEs in Kenya. A sample size of 28 SMEs which represented 30% of the target population was selected through stratified random sampling in a heterogeneous population. The data collected was analyzed through correlation and regression methods using SPSS version 22. The findings revealed that that cash management, inventory management, accounts payable management and accounts receivable management are all significant determinants of financial performance of SMEs in Nairobi County and demonstrated knowledge of working capital management in the Top 100 SMEs in Nairobi County which contributed to the outstanding outcome in the level of financial performance. The findings also indicated that the most important variable in the model was accounts payable management ($\beta = 0.457$). This was followed by cash management ($\beta = 0.235$), accounts receivable management ($\beta = 0.182$) and inventory management ($\beta = 0.179$) in that order. The study, therefore, recommends that Small and Medium Enterprises need to have a cash balance policy, inventory management policy, accounts payable management policy and accounts receivable policy because the policies impact positively on the overall financial performance.

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

Introduction

Muhammad and Syed (2011) assert that working capital management is considered to be a very important element to analyze the organizations' performance while conducting day to day operations, by which balance can be maintained between liquidity and profitability. It is a difficult task for mangers to make sure that the business function running in well-organized and advantageous manner. There are chances of inequality of current assets and current liability during this procedure Firm's growth and profitability will be affected if this occurs and firm manger wouldn't be able to manage it efficiently. Chowdhary and Amin (2007), Deloof (2003) cited in Muhammad and Syed (2012) stated that working capital management refers to all management decisions and actions that ordinarily influence the effectiveness and size of the working capital, and that it is aimed at maintaining an optimal balance of each of the working capital component (cash, receivables, inventory and payables). Short-term assets and liabilities are thus, important components of total assets and needs to be carefully analyzed.

Ovia (2001) cited in Haruna (2016) stated that, available empirical studies have shown that, the small and medium scale enterprises generate at least 65% of the United States of America Gross Domestic Product, that the SMEs constitute the major breakthrough in several emerging sectors, most breakthroughs in (IT) in the U.S.A were propelled by SMEs. For instance Microsoft Disk Operating System that enabled about 80% of the world PCS to operate was developed in 1980 by Bill Gates and Paul Allen when their company was a small scale enterprise. Das and Dey (2005) also stated that, in India, Information Technology (IT) industry exported about 6 billion software's and related services in year 2000 that, empirical evidences shows that SMEs contribute 40% of India's gross domestic product. In Ghana, Abor and Quartey (2010) stated that empirical evidences have shown that SMEs provides 80% of the manufacturing employment and contributes 70% of Ghana's GDP and accounts for 90% of business in Ghana.

Researches by other scholars have also produced results indicating the effect which working capital management has on the financial performances of SMEs with regard to profit, turnover, return on equity, firm size and return on assets. For instance, Hayajneh and Yassine (2011) investigated the relationship between working capital management efficiency and profitability through applying on 53 Jordian manufacturing firms listed on the Aman Stock Exchange (AEM) from 2000 to 2006. The study found positive association between size of sales and growth of sales and profitability. Lotfinia, Mousavi and Jari (2012), Sampling of Tehran Stock Exchange (TSE) 80 firms from 2005- 2009 with available annual data and tested their hypothesis with the use of stepwise regression analysis. The research results indicated that there is positive relationship between working capital management and firm size.

Statement of the Problem

Emery, Finnerty and Stowe, (2004) averred that an ideal business needs sufficient resources to keep it going and ensure that such resources are utilized to the maximum to enhance its profitability. However, some managers use wrong methods for working capital decisions as such the working capital mix are not effectively managed and this results in either under/over capitalization or worst still liquidation of their organization (Haruna, 2016). Related to this, earlier studies including those of Huctchison et al., (2009), Kamalavalli (2009) and Azam and Haider (2010) produced mixed results of positive and negative regarding the effects which working capital management has on the performance on SMEs.

In Nairobi County, Kenya, most of the studies carried out revealed that working capital has affected the SMEs negatively. This is evidenced in the studies of Maureen (2015), Peter (2013), James (2015), Cate (2011) and

Nduati (2014) who revealed that, all components of working capital affect profitability at varying level of significance, and that cost of capital exceeds return on investment and SMEs perform below expectation. According to Thompson et al. (2012), many factors may explain an organization's performance and thus competitiveness. Some of these factors could be attributed to the high mortality rates of SMEs in the region, with most of them not surviving beyond the third year after taking off all due to problems related to finance especially working capital. There is therefore the need for SMEs to properly manage their resources especially working capital so as to enhance their performance and growth.

From the previous studies, it was noticed that most of the researches were conducted using the variables which were tested severally indirectly against profitability at different times and results were inferred to the general performance of SMEs. A point in case here are the research conducted by Deloof (2003) effects of WCM on profitability, effects of WCM on Sale, effects of WCM on ROA, Azam and Haider(2011) effects of inventory turnover days on ROA and ROE. This study was therefore designed to address this scholarly gap. In contrast with the previous studies that have mainly determined the effect of working capital management based on financial performance measures such as liquidity, growth in sales, return on assets and return on equity, this study looked at the effect of management of all the components of working capital management namely; cash management, accounts payable management, accounts receivable management and inventory management on profitability. In addition to that that Peter (2013) opined further researcher should be conducted for the same study in other counties so as to compare the findings of the study with those of other counties and that future researchers should do a follow up study in the same area so as to monitor and evaluate for improvements in the management of working capital management practices.

Research Objectives

i. To establish the effect of Cash Management on the financial performance of Small and Medium Enterprises in Nairobi County.
ii. To determine the effect of Inventory Management towards the financial performance of Small and Medium Enterprises in Nairobi County.
iii. To determine the effect of Accounts Payable Management on the financial performance of Small and Medium Enterprises in Nairobi County.
iv. To establish the effect that Accounts Receivable Management has on the financial performance of Small and Medium Enterprises in Nairobi County.

Literature Review

Theoretical Framework

The study was anchored on the Risk Tradeoff theory, Fisher Separation Theorem and the Pecking Order Theory. Working capital management involves the risk-return trade-off: which means not taking additional risk unless compensated with additional returns Nwidobie (2012). Adamu, Onwe and Caroline (2008) averred that, all the decisions of the financial manager are assumed to be geared towards the maximization of shareholders wealth, and working capital decisions are no exception. Accordingly, they stated, risk return tradeoff characterizes each of the working capital decision and that, there are two types of risks inherent in working capital management (WCM), namely: liquidity risk and risk of opportunity loss. Liquidity risk is non-availability of cash to pay a liability that fall due. It may happen only on certain days. Even so they averred, it can cause a loss of reputation and also make the work condition unfavorable for getting the best terms on transaction with the trade creditors.

On the other hand, Erik (2012) argues that the idea of the Fisher separation theorem is 'given perfect and complete capital markets, the production decision (investment) is seen as governed solely by an objective market criterion (maximizing wealth), with no regard to the individuals subjective preferences that enter into the consumption decision'. What this means, is that companies should avoid confusion between an investment and financing the investment. Fisher's separation theory has to do with working capital because companies should separate how; much they will invest in working capital versus how they will finance working capital Rehn (2012).

The Pecking Order Theory on the other hand, takes into consideration the information asymmetry which indicates that managers know more about the firm's value than potential investors Padachi (2006). The information asymmetry affects the choice between internal and external financing. Based on this concept, the Pecking Order Theory suggests that firms tend to rely on internal source of funds to be financed, and prefer issuing debt to equity if external financing is required Kessevin (2006). According to Nakamura et al., (2007), that order is based on the consideration that "resources generated internally do not have transaction costs and on the fact that issuing new bonds tend to sign a positive information about the company, while issuing new stocks tend, on the contrary, to sign a negative information". The information asymmetry decreases the price of new bonds to be issued and, consequently, increases the transaction costs in the capital markets derived from lack of cash (Myers and Majluf, 1984). From this point of view, companies do not pursue a specific objective for the debt level and they use external funds only when internal funds are not enough (Graham and Harvey, 2001).

Conceptual Framework

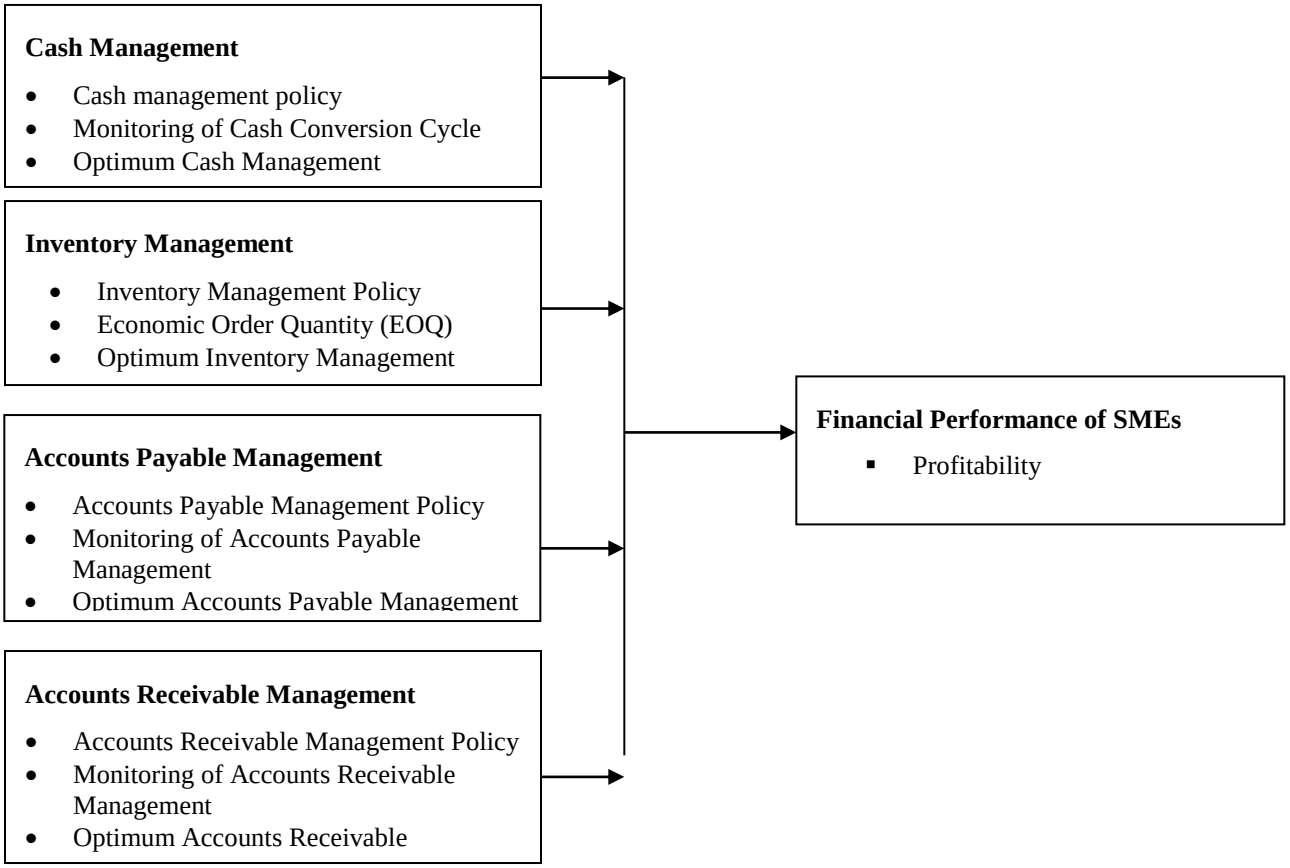

Figure 1: Conceptual Framework

Empirical Review

In a study on retail firms by Moss and Stine (1993) ''Cash conversion cycle and firm size: Managerial finance, cited in Haruna (2016) in their study 'Relationship of cash conversion cycle with firm Size'' showed that the firm size has a significant negative relationship with CCC i.e. larger the size of the firm shorter the CCC and vice versa. They also found a significant positive relation between length of the CCC and current and quick ratios. A significant negative relationship between the profitability and length of CCC was found in empirical studies conducted to examine the liquidity profitability tradeoff (Lazaridis and Tryfondis 2006; Uyar 2009; Sen and Oruc, 2009). Lazaridis and Tryfonidis (2006) investigated the ''Relationship of Corporate Profitability and Working Capital Management'' for firms listed at Athens Stock Exchange. They reported that there is statistically significant relationship between profitability measured by gross operating profit and the Cash Conversion Cycle. Furthermore, Managers can create profit by correctly handling the individual components of working capital to an optimal level. Raheman, Afza, Qayyum and Bodla (2010) observed that the cash conversion cycle and net trade cycle offer easy and useful way of checking working capital management efficiency. For value creation of shareholders, firms must try to keep these numbers of days to minimum level. Samiloglo and Demirgunes (2008) conducted a study to examine the ''Relationship between Working Capital Management and Profitability''. Applying multiple regression analyses over a sample of manufacturing firms listed in Istanbul stock exchange for the period of 1998-2007, they found that the accounts receivable cycle, the inventory conversion period have negative impact on profitability, which means the shorter cycle of these variables cause increase in profitability.

Azam and Haider (2011) investigated the'' impact of Working Capital management on firms' performance'' for non- financial institutes listed in Karachi Stock Exchange (KSE-30) Index''. Panel data was analyzed by applying Canonical correlation for the time period of 2001 to 2010. It was found that inventory turnover in days has negative relationship with Return on Assets and Return on Equity which means that companies performance can be increased by reducing inventory in days. Christopher and Kamalavalli (2011) investigated the ''Influence of the Management of Working Capital on the profitability of Indian Corporate Hospitals'' by taking a sample of 14 out of the fifty one listed corporate hospitals in India using panel data analysis for the period 1996-97 to 2005-06. The results of their analysis depicted that Inventory Turnover ratio, Debtors Turnover ratio and Working Capital Turnover were positively related with the Return on Investment, a variable used for the measurement of a firm's profitability.

Azam and Haider (2011) investigated the ''Impact of Working Capital Management on firms' performance'' for non- financial institutes listed in Karachi Stock Exchange (KSE-30) Index. Panel data have been analyzed by applying Canonical correlation for the time period of 2001 to 2010. APP is found to be significant positive association with ROA and ROE indicating that if time period of supplier's payment is increased then overall firm's performance also improves. CCC and NTC shows significant negative relation ROA and ROE showing that firms' performance can be increased with short size of both of them. Another attempt to explore the ''Relationship between the variables of Working Capital Management and Profitability'' was made by Haitham and Maryam (2005) in their study. Their analysis was based on a sample containing 2123 Japanese non-financial firms listed in the Tokyo Stock Exchange for the period from 1990 to 2004. The authors, after analyzing the results, suggested that Japanese firms should focus on shortening their Receivable Collection Period, Inventory Conversion Period and Cash Conversion Cycle to enhance profitability. Lengthening the Payable Deferral Period could also add to profitability, they argued. However, they deemed the over lengthening of the Payable Deferral Period to be equally risky as it could harm the firm's credibility and credit reputation in the long run. James (2015) investigated ''effective working capital management'' using Standard working capital ratios to measure the effectiveness of working capital in the selected firms. The firms selected show signs of overtrading and illiquidity, concerns was on

profit maximization without taken cognizance of payment of creditors. The firms exhibit low debt recovery over credit payment. It is recommended that for SMEs to survive within Nigeria economy they must design a standard credit policy and ensure good financial report and control system. They must give adequate cognizance to the management of their working capital to ensure continuity, growth and solvency. Lazaridis and Tryfonidis (2006) conducted a cross sectional study by using a sample of 131 firms listed on the Athens Stock Exchange for the period of 2001 - 2004 and found statistically significant relationship between profitability, measured through gross operating profit, and the cash conversion cycle and its components (accounts receivables, accounts payables, and inventory). Adediran, Bosun-Fakunle and Imuzeze (2012) investigated the ''Impact of Working Capital Management on Profitability of SMEs in Nigeria''. The data for the study were from 30 SMEs covering the single period of 2009 and collected from secondary sources (financial statement) and was analyzed using the multiple regression analysis. Results which are robust to the presence of endogeneity demonstrate that managers can create value by reducing their firm's number of day's accounts receivable and also that shortening cash conversion cycle improves profitability.

Research Methodology

The study used descriptive cross-sectional survey research design. The target population of the study consist the owners and the financial managers of the sampled small and medium enterprises (SMEs) for manufacturing, supplies/retail, services, hospitality and ICT/energy operating within 94 SMEs from Nairobi County in the Top 100 SMEs. A sample size of 30% was achieved according to Mugenda (2009). For the purpose of this study, a stratified random sampling was used. The data collection tools and instruments used was a questionnaire. Descriptive statistics such as percentages, correlation analysis and regression analysis was used to achieve the objectives of the study. The model for these tools was therefore represented by;

$$Y= \beta_0 + \beta_1X_1+ \beta_2X_2+ \beta_3X_3 + \beta_4X_4 + e$$

Where; Y = Financial Performance, β_0 = Intercept, which is the value of Y when X values are zero, X_1 = Cash Management (CM), X_2 = Inventory Management (IM) , X_3 = Account receivable Management (ARM) , X_4 = Accounts payable Management (APM), e = Error variable for regression and β_1, β_2, β_3, and β_4 are coefficients for CM, IM, ARM and APM respectively.

Research Findings

A total of 56 questionnaires were distributed among the respondents. 44 questionnaires were returned by the respondents indicating a response rate of 73%. According to Mugenda and Mugenda (2003) and also Kothari (2004) a response rate of above 50% is adequate for a descriptive study.

Descriptive Analysis of Responses

Cash Management

Respondent's views were sought in relation to Nairobi County SMEs cash management**.** A 5 point Likert scale was used to rate responses of this variable and it ranged from; 1 = strongly disagree to 5 = strongly agree. The closer the mean score on each score was to 5, the more the agreement concerning the statement. A score around 2.5 would indicate uncertainty while scores significantly below 2.5 would suggest disagreement regarding the statement posed. The percentages, means and standard deviation were computed and the findings presented in Table 1.

Table 1 : Cash Management Descriptive Statistics

Statements	SA (%)	A (%)	N (%)	D (%)	SD (%)	Mean	Std. Dev
My firm has a Cash Balance Policy	48.8	41.5	7.3	0.0	2.4	4.34	0.825
Cash Balance Policy impacts positively on the overall performance of a firm	46.3	36.6	12.2	2.4	2.4	4.22	0.936
The firm always monitors Cash Conversion Cycle	51.2	39.0	7.3	0.0	2.4	4.37	0.829
Optimality in Cash Management is being achieved in my firm	48.8	34.1	9.8	2.4	4.9	4.20	1.054
Cash Management optimality has a positive impact on a firm's performance	46.3	41.5	9.8	0.0	2.4	4.29	0.844
Aggregate Scores						**4.283**	**0.898**

The findings in Table 1 suggest that majority of the SMEs in Nairobi County have a cash balance policy (Mean = 4.34) because the cash balance policy impacts positively on the overall performance of SMEs (Mean = 4.22). The findings also suggest that most of the SMEs always monitor Cash Conversion Cycle (Mean = 4.37). Further, according to the findings, most of the respondents agreed that optimality in cash management is being achieved in their firms (Mean = 4.20). Also, most SMEs agreed that Cash Management optimality has a positive impact on a firm's performance (Mean = 4.29). The aggregate score of all items in this objective was significantly higher than the mid-point 2.5 implying that there was certainty among the respondents regarding the cash management affects the financial performance of SMEs in Naorobi County. The same levels of agreements imply that the respondents were fully convinced that optimality in cash management has a positive impact on the financial performance of SMEs. The results therefore, reflects the views and empirical findings of researchers like, Peel and Wilson (1996) Shin and Soenen (1998) both cited in Lakshan (2009) and Haruna (2016) who argued that Smaller firms should adopt formal working capital management (cash inclusive) routines in order to reduce the probability of business closure, as well as to enhance business performance and that the managing director plays a major role in formulating formal or informal policy and whose finding Shin and Soenen (1998) showed that reducing the cash conversion cycle to a reasonable extent increases firms' profitability.

Inventory Management

Respondent's views were also sought in relation to Nairobi County SMEs inventory management**.** A 5 point Likert scale was used to rate responses of this variable and it ranged from; 1 = strongly disagree to 5 = strongly agree. The closer the mean score on each score was to 5, the more the agreement concerning the statement. A score around 2.5 would indicate uncertainty while scores significantly below 2.5 would suggest disagreement regarding the statement posed. The percentages, means and standard deviation were computed and the findings presented in Table 2 .

Table 2 : Inventory Management Descriptive Statistics

Statements	SA (%)	A (%)	N (%)	D (%)	SD (%)	Mean	Std. Dev
My firm has an Inventory Management Policy	58.5	36.6	0.0	2.4	2.4	4.46	0.840
Inventory Management Policy impacts positively on the overall performance of a firm	53.7	41.5	2.4	0.0	2.4	4.44	0.776
The firm always use Economic Order Quantity model when ordering for goods	53.7	34.1	4.9	4.9	2.4	4.32	0.960
Optimality in Inventory Management is being achieved in my firm	41.5	36.6	12.2	2.4	7.3	4.02	1.151
Inventory Management optimality has a positive impact on a firm's performance	43.9	43.9	9.8	0.0	2.4	4.27	0.837
Aggregate Scores						**4.302**	**0.913**

The findings in Table 2 indicate that majority of the SMEs in Nairobi County have an inventory management policy (Mean = 4.46) and that inventory management policy impacts positively on the overall performance of SMEs (Mean = 4.44). It is also evident that most of the SMEs always use Economic Ordering Model when ordering for goods (Mean = 4.32). Also, according to the findings, most of the respondents agree that optimality in inventory management is being achieved in their firms (Mean = 4.02). Further, most SMEs agreed that inventory management optimality has a positive impact on a firm's performance (Mean = 4.27). The aggregate score of all items in this objective was significantly higher than the mid-point 2.5 implying that there was certainty among the respondents regarding the inventory management affects the financial performance of SMEs in Nairobi County. The same levels of agreements imply that the respondents were fully convinced that optimality in inventory management has a positive impact on the financial performance of SMEs. This is in agreement with Deloof (2003) who observed that inventory conversion period has a negative effect on a business's performance and also that the inventory holding period had material impact on profitability of firms and firms should set their optimal economic order quantities. Managers of firms should therefore keep their inventory to an optimum level since mismanagement of inventory will lead to tying up excess capital at the expense of profitable operations (Lazaridis and Dimitrios, (2005).

Accounts Payable Management

Respondent's views were also sought in relation to Nairobi County SMEs accounts payable management**.** A 5 point Likert scale was used to rate responses of this variable and it ranged from; 1 = strongly disagree to 5 = strongly agree. The closer the mean score on each score was to 5, the more the agreement concerning the statement. A score around 2.5 would indicate uncertainty while scores significantly below 2.5 would suggest disagreement regarding the statement posed. The percentages, means and standard deviation were computed and the findings presented in Table 3.

Table 3 : Accounts Payable Management Descriptive Statistics

Statements	SA (%)	A (%)	N (%)	D (%)	SD (%)	Mean	Std. Dev
My firm has an Accounts Payable Management Policy	53.7	41.5	2.4	0.0	2.4	4.44	0.776
Accounts Payable Management Policy impacts positively on the overall performance of a firm	43.9	46.3	4.9	2.4	2.4	4.27	0.867
My firm Periodically monitors Accounts Payable	36.6	58.5	0.0	0.0	4.9	4.22	0.881
Optimality in Accounts Payable Management is being achieved in my firm	29.3	58.5	4.9	2.4	4.9	4.05	0.947
Accounts Payable Management optimality has a positive impact on a firm's performance	41.5	46.3	7.3	2.4	2.4	4.22	0.881
Aggregate Scores						**4.239**	**0.870**

The findings in Table 3 suggest that majority of the SMEs in Nairobi County have an accounts payable policy (Mean = 4.44) since they believe that accounts payable policy impacts positively on the overall performance of SMEs (Mean = 4.27). Most of the respondents do periodically monitor accounts payable (Mean = 4.22). Also, according to the findings, most of the respondents agreed that optimality in accounts payable management is being achieved in their firms (Mean = 4.05). Further, most SMEs agreed that Accounts Payable Management optimality has a positive impact on a firm's performance (Mean = 4.22). The aggregate score of all items in this objective was significantly higher than the mid-point 2.5 implying that there was certainty among the respondents regarding the accounts payable management affects the financial performance of SMEs in Nairobi County. The same levels of agreements imply that the respondents were fully convinced that optimality in accounts payable management has a significant positive impact on the financial performance of SMEs. The study of Haruna (2016) on the "Effects of working capital management on the performance of small and medium enterprises in Nigeria" found out that policy, monitoring and achievement of optimum results with regard to accounts payable management impact positively on their performance.

Accounts Receivable Management

Respondent's views were also sought in relation to Nairobi County SMEs accounts receivable management**.** A 5 point Likert scale was used to rate responses of this variable and it ranged from; 1 = strongly disagree to 5 = strongly agree. The closer the mean score on each score was to 5, the more the agreement concerning the statement. A score around 2.5 would indicate uncertainty while scores significantly below 2.5 would suggest disagreement regarding the statement posed. The percentages, means and standard deviation were computed and the findings presented in Table 4.

Table 4: Accounts Receivable Management Descriptive Statistics

Statements	SA (%)	A (%)	N (%)	D (%)	SD (%)	Mean	Std. Dev
My firm has an Accounts Receivable Management Policy	61.0	29.3	7.3	0.0	2.4	4.46	0.840
Accounts Receivable Management Policy impacts positively on the overall performance of a firm	53.7	39.0	4.9	0.0	2.4	4.41	0.805
The firm Periodically monitor Accountss Receivable	51.2	36.6	4.9	2.4	4.9	4.27	1.025
Optimality in Accounts Receivable Management is being achieved in my firm	31.7	51.2	2.4	9.8	4.9	3.95	1.094
Accounts Receivable Management optimality has a positive impact on a firm's performance	58.5	31.7	4.9	0.0	4.9	4.39	0.972
Aggregate Scores						**4.298**	**0.947**

The findings in Table 4 indicated that majority of the SMEs in Nairobi County have an accounts receivable management policy (Mean = 4.46) and thus the accounts receivable management policy impacts positively on the overall performance of SMEs (Mean = 4.41). The findings also indicated that most of the SMEs do periodically monitor accounts receivable (Mean = 4.27). According to the findings, most of the respondents agreed that optimality in accounts receivable management is being achieved in their firms (Mean = 3.95). Also, most SMEs agreed that Accounts Receivable Management optimality has a positive impact on a firm's performance (Mean = 4.39). The aggregate score of all items in this objective was significantly higher than the mid-point 2.5 implying that there was certainty among the respondents regarding the accounts receivable management affects the financial performance of SMEs in Nairobi County. The same levels of agreements imply that the respondents were fully convinced that optimality in account receivable management has a positive impact on the financial performance of SMEs.

In Kenya, Mathuva (2009) studied the ''Impact of Working Capital Management on the Performance of firms''. He took almost 30 listed firms as a sample and all these companies were listed in Nairobi stock exchange and the data was taken from 1993 to 2008. There were certain findings of his research by analyzing the fixed effects regression models. Firstly, there is a negative relationship between the time when the cash is collected from the customers and the firm's productivity. This depicts, firms that are more profitable enjoys less time period for the collection of cash from the customers as compared to ones which are less profitable.

Financial Performance of SMEs

Finally, respondent's views were also sought in relation to Nairobi County SMEs financial performance**.** A 5 point Likert scale was used to rate responses of this variable and it ranged from; 1 = strongly disagree to 5 = strongly

agree. The closer the mean score on each score was to 5, the more the agreement concerning the statement. A score around 2.5 would indicate uncertainty while scores significantly below 2.5 would suggest disagreement regarding the statement posed. The percentages, means and standard deviation were computed and the findings presented in Table 5.

Table 5 : Financial Performance of SMEs Descriptive Statistics

Statements	SA (%)	A (%)	N (%)	D (%)	SD (%)	Mean	Std. Dev
Cash Management optimality has a positive impact on a firm's profitability	43.9	51.2	2.4	0.0	2.4	4.34	0.762
Inventory Management optimality has a positive impact on a firm's profitability	41.5	46.3	7.3	2.4	2.4	4.22	0.881
Accounts Payable Management optimality has a positive impact on a firm's profitability	39.0	48.8	4.9	4.9	2.4	4.17	0.919
Accounts Receivable Management optimality has a positive impact on a firm's profitability	53.7	39.0	4.9	0.0	2.4	4.41	0.805
Aggregate Scores						**4.383**	**0.849**

The findings in Table 5 indicated that majority of respondents agreed that the SMEs in Nairobi County cash management optimality has a significant positive impact on a firm's profitability (Mean = 4.34). The findings also suggest that most of the SMEs do recognize that optimality in inventory management has a significant positive impact on a firm's profitability (Mean = 4.22). Further, according to the findings, most of the respondents agreed that optimality in accounts payable management has a significant positive impact on a firm's profitability (Mean = 4.17). Also, most SMEs agreed that accounts receivable management optimality has a significant positive impact on a firm's profitability (Mean = 4.41). The aggregate score of all items in this objective was significantly higher than the mid-point 2.5 implying that there was certainty among the respondents regarding the optimality in all the components of working capital (cash management, inventory management, accounts payable management and accounts receivable management) affects the financial performance of SMEs in Nairobi County. The same levels of agreements imply that the respondents were fully convinced that optimality in all the components of working capital (cash management, inventory management, accounts payable management and accounts receivable management) have positive impact on the financial performance of SMEs.

Correlation Analysis

In this subsection a summary of the correlation analysis is presented. The data was transformed into composite mean of the variable scores to enable inferential analysis. The significance of the correlations was determined at $p \leq 0.05$. Pearson product moment correlation coefficient was used to indicate the relationships. The results are summarized in Table 6.

Table 6: Summary of Correlations

		Cash Management	Inventory Management	Accounts Payable Management	Accounts Receivable Management	Financial Performance of SMEs
Cash Management	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	41				
Inventory Management	Pearson Correlation	.798**	1			
	Sig. (2-tailed)	.000				
	N	41	41			
Accounts Payable Management	Pearson Correlation	.781**	.924**	1		
	Sig. (2-tailed)	.000	.000			
	N	41	41	41		
Accounts Receivable Management	Pearson Correlation	.702**	.866**	.869**	1	
	Sig. (2-tailed)	.000	.000	.000		
	N	41	41	41	41	
Financial Performance of SMEs	Pearson Correlation	.862**	.946**	.964**	.899**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	41	41	41	41	41

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

The first correlation was done to establish whether cash management significantly affects the financial performance of SMEs in Nairobi County. The results in Table 6 shows that a very strong positive significant relationship ($r = 0.862$, $p \leq 0.05$) was established between cash management and financial performance. Thus, improved cash management leads to improvement in the financial performance. This answers the first research question: To what extend does Cash Management affect the financial performance of Small and Medium Enterprises in Nairobi County?. The findings are consistent with the findings of Cate (2011); Lakshan (2009) and Haruna (2016) who argued that better cash management can enhance business performance.

The second correlation was done to determine whether inventory management significantly affects the financial performance of SMEs in Nairobi County. The results in Table 6 shows that a very strong positive significant relationship ($r = 0.946$, $p \leq 0.05$) was established between inventory management and financial performance. Thus, improved inventory management leads to improvement in the financial performance. This answers the second research question: How does Inventory Management affect the financial performance of Small and Medium Enterprises in Nairobi County? The findings are consistent with the findings of James (2015) which argued that better inventory management practices has a positive effect on performance while longer inventory holding period has a negative effect on profitability of SMEs.

The study also sought to determine whether accounts payable management significantly affects the financial performance of SMEs in Nairobi County. The results in Table 6 shows that a very strong positive significant relationship ($r = 0.964$, $p \leq 0.05$) was established between accounts payable management and financial performance. Thus, improved accounts payable management leads to improvement in the financial performance. This answers the third research question: How does Accounts Payable Management affect the financial performance of Small and Medium Enterprises in Nairobi County?. The findings are consistent with Azam and Haider (2011) who argued that better accounts payable management practices was found to have a significant and positive association with ROA and ROE.

It was also important to establish whether accounts receivable management significantly affects the financial performance of SMEs in Nairobi County. The results in Table 6 shows that a very strong positive significant relationship ($r = 0.899$, $p \leq 0.05$) was established between accounts payable management and financial performance. Thus, improved accounts receivable management leads to improvement in the financial performance. This answers the fourth research question: What is effect of Accounts Receivable Management on the financial performance of Small and Medium Enterprises in Nairobi County?. The findings are consistent with the findings of Sushma and Bhupesh (2007) who affirmed that, putting in place a sound credit policy ensures proper debt collection procedures and is pivotal in improving efficiency in receivables management hence the performance of firms.

Regression Analysis

The study sought to test the hypotheses examining the significance of the influence that the independent variables have on the dependent variable. To accomplish this, the study undertook multiple regression analysis. Hypotheses were tested at $p<0.05$ level of significance. The findings from the analysis are presented and discussed hereafter.

Table 7: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.988	.975	.973	.10718

Predictors: (Constant), Accounts Receivable Management, Cash Management, Accounts Payable Management, Inventory Management

The model summary demonstrated an R-squared value of 0.975. This showed that all the independent variables (Cash Management, Inventory Management Accounts Payable Management and Accounts Receivable Management) taken together could account for up to 97.5% of variation in financial performance. This therefore indicates that the independent variables taken together greatly influence the level of financial performance of SMEs in Nairobi County. The remaining 2.5% of the variation in financial performance is accounted for by factors not considered in this model. The analysis of variance results are shown in Table 8.

Table 8: ANOVA Results

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	16.407	4	4.102	357.023	.000
	Residual	0.414	36	.011		
	Total	16.820	40			

Dependent Variable: Financial Performance of SMEs

Predictors: (Constant), Accounts Receivable Management, Cash Management, Accounts Payable Management, Inventory Management

From the ANOVA, an F-statistic of 357.023 was established with a significance level of 0.000 which was significant at p<.05 level of significance. This indicated that the independent variables (Cash Management, Inventory Management Accounts Payable Management and Accounts Receivable Management) have a combined significant effect on the level financial performance of SMEs in Nairobi County. Additionally, model coefficients table gave the following findings in table 9.

Table 9: Regression Coefficients

	Unstandardized Coefficients		**Standardized Coefficients**	**t**	**Sig.**
	B	**Std. Error**	**Beta**		
(Constant)	.094	.117		.800	.429
Cash Management	.236	.044	.235	5.309	.000
Inventory Management	.171	.073	.179	2.343	.025
Accounts Payable Management	.422	.069	.457	6.115	.000
Accounts Receivable Management	.153	.047	.182	3.243	.003

Dependent Variable: Financial Performance of SMEs

From the table, the model constant was 0.094 with a t-value of 0.800. The p-value for the constant was 0.429 which was greater than the level of significance. As such the researcher observed that the level of financial performance without the influence of the independent variables is statistically insignificant. This indicates that financial performance is dependent on other factors. On the other hand, the t-value for cash management was 5.309 with a p-value of 0.000.

The p-value was less than the level of significance hence statistically significant. Therefore, cash management has strong significant influence on the level of financial performance of SMEs in Nairobi County. As a result, it answers the first research question: To what extend does Cash Management affect the financial performance of Small and Medium Enterprises in Nairobi County? The study concluded that cash management has a significant influence on the financial performance on SMEs in Nairobi County. The findings are consistent with the Lazaridis and Tryfonidis (2006) who reported that there is statistically significant relationship between profitability measured by gross operating profit and the Cash Conversion Cycle.

The findings also indicated a t-value of 2.343 for inventory management with a p-value of 0.025 which was less

than the level of significance hence statistically significant. Therefore the study observed that inventory management has strong significant influence on the level of financial performance on SMEs in Nairobi County. As such, it answers the second research question: How does Inventory Management affect the financial performance of Small and Medium Enterprises in Nairobi County? The study concluded that inventory management has no significant influence on the financial performance on SMEs in Nairobi County. The findings are consistent with Lazaridis and Dimitrios, (2005) who argued that managers of firms should keep their inventory to an optimum level since mismanagement of inventory will lead to tying up excess capital at the expense of profitable operations.

Further, accounts payable management had a t-value of 6.115 and a p-value of 0.000. The p-value was significant at $p<.05$ level of significance. The study therefore observed that accounts payable management significantly influences the level of financial performance on SMEs in Nairobi County. Therefore, it answers the third research question: How does Accounts Payable Management affect the financial performance of Small and Medium Enterprises in Nairobi County? The study concluded that accounts payable management has a significant influence on the financial performance on SMEs in Nairobi County. The findings are consistent with the findings of a study by Haruna (2016) which found that policy, monitoring and achievement of optimum results with regard to accounts payable management impact positively on their performance.

In addition, accounts receivable management had a t-value of 3.243 and a p-value of 0.003 which was less than the level of significance. The study therefore observed that accounts receivable management significantly influence financial performance on SMEs in Nairobi County. Therefore, it answers the fourth research question: What is effect of Accounts Receivable Management on the financial performance of Small and Medium Enterprises in Nairobi County? The study concluded that accounts receivable management is a statistically insignificant determinant of financial performance on SMEs in Nairobi County. The findings are consistent with the findings of Juan and Martinez (2002) who emphasized that firms can create value by managing their accounts receivable through reduced number of days of accounts receivable.

The results in Table 9 indicate that the most important variable in the model was accounts payable management ($\beta = 0.457$). This was followed by cash management ($\beta = 0.235$), accounts receivable management ($\beta = 0.182$) and inventory management ($\beta = 0.179$) in that order. The beta values for these variables respectively indicate that the dependent variable, that is, financial performance of SMEs in the county would change by a corresponding number of standard deviations when the respective independent variables change by one standard deviation.

Conclusions

Based on the study findings a summary conclusion was made in line with the study objectives. Firstly, the study concluded that optimality in cash management has a positive impact on the financial performance of SMEs and a very strong positive significant relationship was established between cash management and financial performance. Secondly, the study concluded that optimality in inventory management has a positive impact on the financial performance of SMEs and a very strong positive significant relationship was established between inventory management and financial performance. Thirdly, the study concluded that optimality in accounts payable management has a significant positive impact on the financial performance of SMEs and a very strong positive significant was established between accounts payable management and financial performance.

It was also established to be the most influential determinant in the regression model. Finally, the study concluded that optimality in account receivable management has a positive impact on the financial performance of SMEs. Correlation analysis indicated that a very strong positive significant was established between accounts receivable management and financial performance. Respondents demonstrated knowledge of working capital management in the Top 100 SMEs in Nairobi County which contributed to the outstanding outcome in the level of financial performance. Therefore it was concluded that for Nairobi County to enhance financial performance in their SMEs,

improvement in working capital management should be encouraged**.**

Recommendations

The following recommendations are drawn in regard to the study findings. Firstly, Small and Medium Enterprises need to have a cash balance policy because the policy impacts positively on the overall financial performance. It was established that SMEs should monitor Cash Conversion Cycle and optimality in cash management is should be achieved in order to have a positive impact and improve on a firm's financial performance. Secondly, Small and Medium Enterprises need to have an inventory management policy because the policy impacts positively on the overall financial performance. It was revealed that it is advisable for a firm to always have Economic Ordering model. Optimality in inventory management is should be achieved in order to have a positive impact and improve on a firm's financial performance.

Further, Small and Medium Enterprises need to have an accounts payable management policy because the policy impacts positively on the overall financial performance. It is also advisable for a firm to always monitor accounts payable. Optimality in accounts payable management is should be achieved in order to have a positive impact and improve on a firm's financial performance. Finally, Small and Medium Enterprises need to have an accounts receivable management policy because the policy impacts positively on the overall financial performance. It is also advisable for a firm to always monitor accounts receivable. Optimality in accounts receivable management is should be achieved in order to have a positive impact and improve on a firm's financial performance.

Conflict of Interest

No potential conflict of interest was indicated by the publishers

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