

**EFFECT OF CASH MANAGEMENT PRACTICES ON FINANCIAL
PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN KISII
COUNTY, KENYA**

CELISTINE BONARERI MOSE

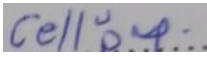
**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF THE
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DECLARATION AND APPROVAL

Declaration

This project is my original work and has not been presented for a degree in any other University or for any other award.

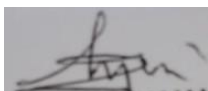
Signature...  Date.....05/07/2025.....

CELISTINE BONARERI MOSE

MBA/2013/56868

Approval

I confirm that the work reported in this project was carried out by the candidate under my supervision.

Signature.....  Date.....08/07/2025.....

DR. DR. KENNEDY OKEMWA NYARIKI

SCHOOL OF BUSINESS AND ECONOMICS

MOUNT KENYA UNIVERSITY



Mount Kenya University

DEDICATION

This project is dedicated to my husband, Joseph Onyancha and children, Stacy Kemunto and Staford Omogambi for their love and patience throughout the study.



ACKNOWLEDGEMENTS

With great appreciation, I thank my supervisor Dr. Kennedy Okemwa Nyariki, whose guidance, patience, and valuable suggestions have greatly shaped this project. His support has been a key part of this academic journey. My appreciation also goes to Mount Kenya University for offering a solid foundation and the resources that enabled this work to be possible. I also want to thank my family and friends for their constant support and patience, especially during the difficult stages of this study. Their support gave me the strength to keep

going. To everyone who played a role in this achievement, I truly appreciate your contributions.



ABSTRACT

This study sought to examine the effect of cash management practices on the financial performance of Small and Medium Enterprises (SMEs) in Kisii County, Kenya. The specific objectives were to: assess the effect of the cash conversion cycle, evaluate the influence of accounts receivable management, and determine the effect of accounts payable management on the financial performance of SMEs. The study was motivated by the persistent financial challenges facing SMEs in Kenya, particularly liquidity issues, poor debt recovery, and limited cash flow forecasting, which contribute significantly to high failure rates among these enterprises. The study adopted a descriptive research design and employed a quantitative approach to investigate relationships between variables. A structured questionnaire, organized

around the three core variables and financial performance indicators, was used to collect data from a stratified random sample of 316 SMEs. Of these, 274 completed questionnaires were returned, giving an excellent response rate of 86.7%. The data were analyzed using SPSS Version 28, applying both descriptive statistics (means and standard deviations) and inferential statistics through multiple linear regression. To ensure validity, the research instrument underwent expert review and pilot testing involving 5% of the sample. Content validity was confirmed by aligning the instrument with both theory and practice in SME finance. Reliability was tested using Cronbach’s Alpha, with all variables exceeding the 0.70 threshold: cash conversion cycle (0.812), accounts receivable (0.795), accounts payable (0.784), and financial performance (0.828). These results confirmed that the questionnaire had high internal consistency and was suitable for statistical analysis. Findings from the study revealed that all three cash management practices had a positive and statistically significant effect on financial performance. The regression model explained 45% of the variance in financial performance ($R^2 = 0.450$). Among the variables, the cash conversion cycle ($B = 0.321$) had the strongest influence, indicating that SMEs that shorten the duration between inventory purchases and customer payments tend to enjoy better liquidity and profitability. Accounts receivable management ($B = 0.278$) also contributed significantly, suggesting that enterprises that enforce structured credit terms and follow-up procedures achieve better cash flow stability. Accounts payable management ($B = 0.246$) had a positive effect as well, indicating that SMEs which align supplier payments with incoming cash and prioritize strategic relationships with vendors maintain stronger operational continuity. The study concludes that efficient cash management is critical for improving the financial health of SMEs. It recommends that SME owners adopt formal cash planning tools, enforce consistent receivables collection systems, and build payment plans that reflect realistic inflow projections. Policymakers are encouraged to promote financial literacy and develop supportive infrastructure to help SMEs institutionalize best practices in internal cash management. For future research, a longitudinal approach is recommended to assess the longterm impact of cash management practices on business growth. Further studies should also consider incorporating external financial factors such as taxation, market competition, and credit access to provide a more holistic view of SME financial performance dynamics.

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LIST OF ABBREVIATIONS AND ACRONYMS

AP:	Accounts Payable
CCC:	Cash Conversion Cycle
ERP:	Enterprise Resource Planning
EU:	European Union
GDP:	Gross Domestic Product
KNBS:	Kenya National Bureau of Statistics
NPM:	Net Profit Margin
ROA:	Return on Assets
ROI:	Return on Investment
SE:	Standard Error
SD:	Standard Deviation
SMEs:	Small and Medium-sized Enterprises
SPSS:	Statistical Package for the Social Sciences
UK:	United Kingdom

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Globally, Small and Medium Enterprises (SMEs) are represented by over 90% of the total enterprises and form 50% and more of employment around the world (World Bank, 2022). SMEs have become central to economic growth, invention, income creation, and poverty reduction. Although they are contributing to the advancement of the level of society and economy both in the developing and developed countries, a significant number of SMEs are confronting critical financial problems especially on cash management issues. Lack of cash flow and cash liquidity have been identified as major causes of business failure, particularly in developing economies characterized by limited access to external financing (OECD, 2021).

SMEs are 99.8% of companies in Europe and provide nearly 66% of the Union's employment. According to the EU legislative body (European Commission, 2023) maintaining strong financial performance is in a large part dependent upon effective internal financial processes, which also includes cash management. This means managing the company's liquidity, collecting receivables on time and paying suppliers on favourable terms. Mismanagement of any of these elements is typically fatal, even for otherwise successful companies. With the digital economy rapidly changing the way money changes hands across the world, SMEs are being called upon to employ technology-based, structured cash management systems that will keep them competitive and financially sustainable.

SMEs contribute greatly to GDP and employment in sub-Saharan Africa, but encounter serious issues of access to financial management. The fact of the matter is that as many as 70% of small to medium-sized enterprises are hampered by fluctuating cash flows and lackluster credit control methodologies (African Development Bank, 2021). Poor access to financial education and weak internal financial management have been identified as underlying causes of poor cash management. Effective accounts payable management, receivables collection, and cash flow planning are crucial in this situation to guarantee seamless company operations and increase profitability. The sector's SMEs also tend to be susceptible to market fluctuation, expensive operations and late payment from customers, adding to the pressure on their financial position.

SME employment accounts for 50% of the workforce in Kenya and is responsible for 33.8 % of GDP (KNBS, 2023). But while being economically importance, the former has its profit and loss deficit still attached. Over 400, 000 SMEs fail after three years of operating, one of the reasons being poor cash management (Kenya National Bureau of Statistics, 2022). This is especially worrisome as SMEs largely depend on internal financial controls, rather than external financing, to continue operating. We find that a majority of such businesses struggle with effective management of their cash conversion cycles, as well as accounts receivables/payable, leading to cash crunches and eventually the death of the business.

This study was grounded in theories that explore how cash management strategies influence the overall performance of a business. The methods and techniques used to regulate and maximize an organization's cash inflows and outflows are known as cash management (Zietlow, 2020). This study focused on key elements of cash management practices, including the cash conversion cycle, accounts receivable, and accounts payable. The cash conversion cycle reflects the duration required to recover cash invested in inventory. The shorter the CCC, the more efficient cash is used and the better the financial condition. Accounts receivable are the amount of money which a business owes and is reflected in how effective the firm's credit management policy is. Receiving customer payments in a timely manner provides for a steady stream of cash to meet daily billing operations. Accounts payable, on the other hand, is the amount the business owes its suppliers. A business can optimize its cash management by postponing the timing of cash outlays without straining supplier relations.

The selection of these three indicators of cash management was based on their strong impact on a firm's liquidity and operational efficiency. Maintaining adequate liquidity for a business is largely dependent on the timing and coordination of cash inflows and outflows. This allows the firm to meet its short-term financial obligations, invest confidently in growth opportunities, and support sustainable long-term development and stability. Prior research has demonstrated how working capital management affects SMEs' performance, such as Richo and Onyiego (2023) who concluded that a sound cash cycle, a proper credit policy, and the use of payables as a financing tool play a vital role on the performance of SMEs. Hence, a comprehension of the interactions between these factors in the context of Kenyan SMEs is vital to enhance business sustainability.

The economy of Kisii County is significantly influenced by small and medium-sized businesses. They include retail trade, hospitality, transport and agro-processing. Yet anecdotal

and early indications would suggest that many SMEs in the region are facing issues around working capital or volatility in their financial performance. Deployed within a background of fairly 'good' liquidity, these firms continue to face collection issues, stockouts on account of a lack of cash and are unable to meet their payables on time. The County Government of Kisii (2024), adds that lack of financial literacy, lack of formal accounting systems, and reliance on informal credit arrangements add to the challenges.

This study's main goal was to investigate how cash management affects SMEs' financial performance in Kisii County. The research concentrated on examining the functions of the cash conversion cycle, accounts payable, and accounts receivable in order to offer distinct empirical insights into how internal cash management practices support the sustainability and profitability of these businesses. The results from this study are to inform the development of actionable policy recommendations for entrepreneurs, policy makers, and financial advisors working in comparable regional settings.

1.2 Statement of the Problem

SMEs are globally recognized as key drivers of economic growth, employment creation, and innovation. However, their sustainability remains fragile due to poor financial management, particularly in the area of cash management. Zietlow (2020) noted that weak control over receivables, payables, and cash flow timing frequently leads to liquidity problems and business failure. In Sub-Saharan Africa, SMEs face even greater challenges due to limited financial literacy and constrained access to credit, with Hamza et al. (2020) observing that ineffective cash management practices significantly hinder profitability. Although studies by Afrifa and Tingbani (2021) affirm that efficient cash management enhances financial performance, most of this research has not explored the combined effects of key cash management dimensions across different operating environments.

In Kenya, SMEs contribute significantly to GDP and employment, yet a large proportion struggle to survive beyond their third year due to poor financial practices (KNBS, 2022). While studies by Odhiambo (2021) and Richo and Onyiego (2023) have examined aspects of cash management in Nairobi and Mombasa, their findings may not fully apply to rural and semi-urban contexts. In Kisii County, SMEs commonly face delayed customer payments, lack of budgeting systems, and difficulty settling supplier debts, according to county-level reports (County Government of Kisii, 2024). Although these challenges are widely experienced, there is limited empirical research on how the interaction between the cash conversion cycle,

accounts payable, and accounts receivable influences the financial performance of local SMEs. This study aimed to bridge that gap by looking into how these cash management techniques affect the financial outcomes of SMEs in Kisii County. The findings are to inform data-driven interventions for SME owners, financial institutions, and policymakers aiming to improve business resilience and long-term success in regional economies.

1.3 Purpose of the Study

The purpose of this study was to investigate how various cash management practices influence the financial performance of small and medium-sized enterprises (SMEs) operating in Kisii County, Kenya.

1.4 Objectives of the Study

The following objectives guided the study:

- i. To examine the effect of the cash conversion cycle on the financial performance of small and medium enterprises in Kisii County, Kenya.
- ii. To assess the influence of accounts receivable management on the financial performance of small and medium enterprises in Kisii County, Kenya.
- iii. To evaluate the effect of accounts payable management on the financial performance of small and medium enterprises in Kisii County, Kenya.

1.5 Research Questions

These were the research questions that the study aimed to address:

- i. How does the cash conversion cycle affect the financial performance of small and medium enterprises in Kisii County, Kenya?
- ii. To what extent does accounts receivable management influence the financial performance of small and medium enterprises in Kisii County, Kenya?
- iii. What is the effect of accounts payable management on the financial performance of small and medium enterprises in Kisii County, Kenya?

1.6 Significance of the Study

This study is important because it offers a thorough understanding of the ways in which particular cash management techniques affect the financial performance of SMEs in Kisii County. Insights drawn from the findings are beneficial to various stakeholders, including SME owners striving to enhance financial efficiency, financial advisors guiding business operations,

policymakers developing supportive frameworks for enterprise growth, and scholars interested in advancing research in the field of managing finances.

For SME owners and managers, this study provides a clearer understanding of how effective management of the cash conversion cycle, accounts receivable, and accounts payable can directly impact their businesses' profitability, liquidity position, and long-term financial sustainability. The results will help them highlight the most influential areas of cash management to enable more effective financial planning, avoid cash flow bottlenecks, and increase the performance of businesses.

This research is of interest to financial advisors, educators, and support agencies as it delivers actual evidence of the cash flow difficulties experienced by SMEs operating in regional economies. The findings are invaluable in the design of customized financial literacy programs and advisory services intended to enhance internal financial controls and enterprise soundness.

Policymakers and county level economic developers will use the findings to make policy and enterprise development inputs. Knowledge on cash management challenges facing SMEs would assist in the development of interventions that improve access to financial training, advocate for harmonization of accounting principles and foster the long-term survival, expansion, and competitiveness of SMEs operating in Kisii County.

This research also contributes to the academia in the sense that for scholars and researchers, it will supplement the already existing literature with reference to the financial management practices among the SME sector in Kenya. It is a credible source of reference to the further studies that are interested in the understanding relation of management of available cash and business performance more so in the rural and semi urban areas.

1.7 Scope of the Study

The study's main goal is to investigate how cash management practices affect the financial performance of SMEs in Kenya's Kisii County. It specifically looks at how the CCC, accounts receivable, and accounts payable relate to one another and how that might affect the profitability, liquidity, and financial stability of local SMEs.

The population of interest were the owners/managers of registered SMEs in business sectors of economy in Kisii County. Information was collated from a cross-section of SMEs, which currently exist and have an elementary level of accounting record. The study only focused

within Kisii County, and therefore the findings will be more of use in that setting while serving useful lessons to the other counties with akin economic bases.

To ascertain how cash management and financial performance are related, the analysis employed both descriptive and inferential statistics. It did not however, examine other financing or operational factors such as credit control, taxation or market competition as its main focus was internal cash management systems. The study relied on the information of the most recent accounting period to reflect current SME trends, and findings were interpreted based on the period in which the research was conducted.

1.8 Limitations of the Study

One of the study's drawbacks was its geographical coverage which only focuses on limited SMEs in Kisii County, Kenya. Therefore, the results could, possibly, not be completely generalizable to SMEs in other regions with other economic backgrounds or financial cultures. However, a detailed contextual analysis was presented to increase the relevance of the results to similar counties.

A further limitation was the use of self-reported financial information, which was potentially affected by recall, misreporting or social desirability bias. To reduce these risks, the research adopted questionnaires which are structured, and identifiable to respondents' aspect of the study's data and referred to secondary data where possible to compare findings with the research.

Limitations of time and resources reduced the number of samples and depth of data that could be analyzed. To address this, the study employed an optimized sampling approach, and validated data collection tools, for efficiency and precision with the limited time frame.

Moreover, the availability of the financial records was not guaranteed, because some SMEs were unwilling to disclose financial information. In order to minimize this limitation, the study assured data integrity, explained the goals of the survey and that assured confidentiality respondents that needed to be interviewed.

Finally, the study was limited to cash management on CCC, accounts receivable and accounts payable only and did not attempt to explore other financial ratios like credit access, tax policy or operational costs, which may also influence financial performance. These restrictions were noted and suggestions for further exploring the latter were made.

1.9 Delimitations of the Study

This research specifically examined the impact of selected cash management practices namely; the cash conversion cycle, accounts receivable, and accounts payable on the financial performance of SMEs operating in Kisii County. It intentionally excluded other financial elements such as budgeting, taxation, and investment decisions, which fall outside the scope of this study.

The registered SMEs within Kisii County (excluding the rest of Kenya) were the focus of the study. This geographic scope offered a focus on local conditions, being able to understand how companies in an area internally manage cash to perform better without expanding our influence to national or among counties comparisons.

The analysis also focused on the internal functioning of the SME's (i.e. access to credit, inflation and market contestability) and not external factors. It also did not assess industryspecific variations or offer comparisons between industries.

Finally, data was collected from SME owners and managers through a structured questionnaire based on the study's aims. It did not require longitudinal research designs, experimental interventions or real-time audits of finance. It made it possible to investigate cash management techniques in a focused and effective manner during the designated research period.

1.10 Assumptions of the Study

- i. The cash conversion cycle, representing the period required to transform inventory purchases into cash generated from sales, was assumed to be one of the most significant indicators of SMEs' cash flow efficiency in this study, as shorter cycles reduce capital lock-up and are linked to improved financial performance.
- ii. The management of accounts receivable, including setting credit terms, monitoring payment timelines, and following up on overdue invoices, was assumed to directly influence an SME's cash inflows. Efficient receivables management is presumed to enhance liquidity, reduce the risk of bad debts, and positively impact profitability.
- iii. The study assumed that accounts payable management practices, such as negotiating favorable payment terms and scheduling payments strategically, play a key role in cash outflow control. It was presumed that SMEs that manage their payables effectively will maintain better liquidity positions, thereby supporting operational continuity and stronger financial outcomes.

1.11 Operational Definition of Key Terms

Cash Management: The process of planning, controlling, and monitoring cash receipts and disbursements in order to keep sufficient working capital to sustain operations, meet short-term obligations, and see that the company remains solvent.

Cash Conversion Cycle (CCC): An indicator of how long it will take to turn purchases of inventory into sales income.

Accounts Receivable: The amount which customers owe a business for products or services that were provided on credit. In this study it shows how well SMEs manage credit policies and collect debts in order to increase cash inflow.

Accounts Payable: The amount that a business owes a creditor or supplier for goods or services received. It shows how effectively SMEs handle outgoing payments to maintain financial stability and maximize cash reserves.

Financial Performance: Measuring the financial health and performance of an enterprise is usually done by assessing indicators such as profitability, liquidity and return on investment. This study will measure this by using self-reported profit trends and related financial indicators reported by SME owners.

SMEs (Small and Medium Enterprises): Enterprises in Kenya with between 10 and 99 employees and an annual turnover of between Kshs.500 000 and Kshs.800 000, according to the KNBS (2023) classification.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This section focused on the review of the literature used to support this study. It specifically presents the theoretical and empirical literature, the study's conceptual framework, and a summary of the literature review.

2.1 Empirical Literature

Empirical literature on this study was concentrated in three main sections, related to the study objectives as outlined in section one of the project.

2.1.1 Cash Conversion Cycle (CCC) and Financial Performance

A key metric for assessing a company's operational effectiveness is the cash conversion cycle, which calculates the amount of time needed to turn assets like inventory and other inputs into actual cash through sales. It tracks how quickly a business can recover its invested capital. Studies conducted worldwide consistently highlight how the cash conversion cycle significantly affects businesses' financial results, particularly SMEs, where efficient management of cash flow is vital for survival and growth. Zhou, Tong, and Ren (2022) conducted an empirical study involving over 600 SMEs in China and found that prolonged CCCs tend to negatively affect firm profitability. Specifically, their analysis revealed that an

additional day in the CCC led to a 0.34% reduction in ROA. This was attributed to increased operational costs and reduced liquidity due to cash being tied up in non-productive assets such as excessive inventory or delayed receivables. The study recommended strategic inventory control and automation in receivables management to streamline the CCC and boost performance.

Similarly, Kotios et al. (2022), studying SMEs in several EU nations, confirmed that companies with automated cash flow systems and integrated inventory management significantly reduced their CCC and recorded higher net profit margins. Their findings highlighted the uptake of enterprise resource planning (ERP) systems and predictive analytics in the CCC optimization process. These systems allowed SMEs to manage receivables and payables more proactively, reducing their reliance on short-term borrowing and thus improving financial resilience.

From a regional perspective, Mandipa and Sibindi (2022) examined South African retail SMEs and found that managing the CCC was central to sustaining liquidity. They highlighted that shortening the cash conversion cycle improved net working capital and allowed firms to reinvest in operations without depending heavily on external financing. Their study found that the most significant impact on CCC was the time taken to convert inventories and to collect claims, while the payable deferral period had limited impact due to prevailing supplier terms.

In East Africa, Sooriyakumaran et al. (2022) explored how CCC efficiency influenced SME growth and profitability across Uganda, Kenya, and Tanzania. They concluded that efficient CCC practices helped firms reduce stock obsolescence, minimize working capital costs, and meet short-term obligations, leading to more stable profit margins and better long-term performance.

Locally, the study by Richo and Onyiego (2023) examined the contribution of the CCC in shaping financial performance of SMEs in Mombasa. Their study used panel regression to analyze the connection between CCC components and profitability, and found that companies with shorter CCCs had a 14% increase in profit margins. These SMEs managed to convert inventory to sales quickly, reduce their receivables lag, and negotiate better credit terms with suppliers, thereby maintaining steady cash flows.

In Kisii County, Ongaki (2023) examined small retail enterprises in Kisii Town and established that businesses with shorter cash conversion cycles, achieved through better inventory turnover and faster receivables collection, demonstrated stronger equity returns, and a marked

improvement in overall profitability. The study highlighted the importance of integrating stock control and credit policies to optimize cash flow efficiency. Ahmed and Mwangi (2022), studying SMEs in Garissa County, further supported this view by highlighting that CCC optimization enabled firms to reduce idle capital, improve reinvestment capabilities, and enhance customer satisfaction through faster turnaround times.

2.1.2 Accounts Receivable Management and Financial Performance

In order to guarantee a steady flow of cash and lower the risk of default, which in turn impacts the company's profitability, effective accounts receivable management is essential. Globally, Smith and Nguyen (2021) investigated a sample of 372 SME in Vietnam, Indonesia, and Thailand and found significant effect the average collection period has on profitability. Their study found that firms which maintained shorter receivable periods (below 30 days) had higher ROA and ROI figures compared to those with longer collection cycles. They noted that early payment discounts and automated reminders improved customer payment behavior and minimized delinquent accounts.

In a related study, Lartey, Jaladi, and Afriyie (2022) assessed how digital receivables systems impacted financial outcomes for SMEs in Malaysia and Singapore. Their results demonstrated that the use of cloud-based receivables tracking, customer credit scoring, and dynamic invoicing significantly improved collection efficiency. The firms studied experienced an average increase of 8% in annual profits attributed to better management of receivables and reduced need for short-term borrowing.

Regionally, Bashir (2021) analyzed the role of receivables management in the financial health of 160 Nigerian SMEs and found that businesses that adhered to strict credit policies and monitored accounts receivable turnover recorded 20% higher ROE compared to their counterparts. The study attributed these results to disciplined receivables management, which helped maintain stable liquidity and enabled timely investment in operations. Similarly, Attom (2020), in a study of Ghanaian SMEs, found that ineffective debt collection was one of the primary causes of liquidity crises. Firms that implemented follow-up mechanisms, creditworthiness assessments, and invoice tracking systems reduced bad debts and improved cash conversion rates.

In Kenya, Odhiambo (2021) investigated the influence of receivables on SME profitability in Nairobi County. He found a statistically significant but weak correlation ($r = 0.271$) between

receivable efficiency and net profit margin. His findings indicated that while many SMEs practiced debt collection, the absence of formal credit policies and inconsistent tracking limited the effectiveness of these practices. Nyanchama and Nyamweya (2022) found that women-owned SMEs in Kisii Municipality that implemented structured receivables practices, such as early payment discounts, strict debtor limits, and regular collection reminders, achieved improved liquidity and sustained revenue growth. Their study highlighted that receivable efficiency directly enhanced profitability and reduced cash flow volatility.

Ahmed and Mwangi (2022) studied SMEs in Garissa County and concluded that the establishment of a dedicated receivables desk and implementation of performance-based incentives for prompt collection enhanced recovery rates. They observed that firms using mobile money tracking for receivables experienced less revenue leakage and maintained steadier cash reserves for growth and reinvestment.

2.1.3 Accounts Payable Management and Financial Performance

A key component of working capital, accounts payable (AP) enables businesses to handle their immediate commitments without sacrificing cash flow. Globally, Grabner, Moers, and Frank (2020) conducted a study across German and Dutch SMEs and found that proactive accounts payable management, including the negotiation of extended payment terms, helped maintain positive cash flows and improved liquidity positions. Their findings showed that firms which staggered payment cycles aligned to receivable inflows minimized the need for emergency borrowing and improved ROA by 5%.

Liu (2022) explored accounts payable policies in SMEs across Asia and found that enterprises that developed supplier segmentation strategies categorizing vendors based on flexibility, cost, and delivery reliability achieved better payment planning. The study emphasized the benefits of maintaining trust with key suppliers while deferring non-critical payments strategically, leading to better budget alignment and operational stability.

Williams and Dolan (2020), focusing on SMEs in Nigeria, found that businesses using integrated payable tracking systems reported fewer late payment penalties and maintained strong supplier relationships. Their analysis indicated that automating accounts payable improved cash forecasting accuracy and enabled more efficient budgeting, contributing to sustained profitability.

Regionally, Burhanuddin et al. (2020) assessed the contribution of AP in SME liquidity management in Tanzania and South Africa. Their research demonstrated that businesses with formal creditor policies and timely payment systems were more likely to access supplier credit and discounts. The study found that adherence to supplier terms minimized disruption risks and improved net margins.

In Kenya, Richo and Onyiego (2023) evaluated hardware and electronics SMEs in Mombasa and revealed that effective AP systems helped reduce operational costs and improved profitability. Their study showed that businesses maintaining accurate payable ledgers and prioritizing supplier payments based on credit terms experienced higher inventory turnover and better financial stability. Ogwoka and Atambo (2021) observed that micro enterprises in Kisii County that negotiated flexible payment terms with suppliers and scheduled disbursements using simple accounting systems experienced more predictable cash flows and improved operational continuity. Their findings reinforced the role of structured payables planning in enhancing financial performance.

Ahmed and Mwangi (2022) reported that in Garissa County, SMEs that proactively negotiated extended payment terms with suppliers achieved higher working capital efficiency. They also noted that businesses that segmented payments into weekly or biweekly tranches aligned more effectively with receivables inflows and reduced cash reserve volatility.

2.1.5 Financial Performance

Financial performance is a multidimensional construct which involves profit generation, liquidity maintenance, and value creation for future. Globally, Gao & Zhao, (2020) studied 400 SMEs across 10 countries and showed that firms who employ formalized cash management systems performed better than their counterparts in terms of financial performance proxies like ROE, ROI and NPM. They pointed out that cash budgeting, variance analysis, and costs control to the laying point were necessary to achieve profit and continuity.

Sharma, Jadi & Ward (2020) compared UK and South African SMEs and found that strong internal financial controls and transparent reporting were highly related with good financial performance. Their research revealed that businesses that held four reviews of their financial statements a year and that used financial dashboards increased their profit margins and raised investor confidence.

In the African context, a study by Vanhuysse et al. (2021) highlighted that steady and predictable cash flow plays an important role in ensuring effective everyday activities for agricultural SMEs. Their research further revealed that enterprises which practiced proper revenue planning and maintained structured agreements with suppliers experienced a 15% boost in return on equity. Moreover, these businesses showed greater agility in adjusting to changes brought about by seasonal shifts in the market.

Wanjuki et al, (2021) in Nairobi, locally, found that healthcare SMEs that adopted good bookkeeping with monitoring of cash flow as well as regular reconciliation reported high profit levels. They reported that their research revealed that cash flow management explained more than one third of the variability in net profit. Odhiambo (2021) supported this by contending that Nairobi SMEs that have organized financial policies face reduced experiences of liquidity crunch and enhanced client retention.

Ogwoka and Atambo (2021) established that micro enterprises in Kisii County which adopted basic financial management tools such as periodic cash flow statements, payment tracking, and cash reserve planning reported improved financial performance, greater resilience against cash flow shocks, and more consistent reinvestment capacity. Their findings emphasized that even in informal sectors, structured cash handling practices significantly enhanced profitability and sustainability.

2.2 Theoretical Framework

This research was based on three theories; namely the Cash Conversion Cycle Theory, the Free Cash Flow Theory and the Liquidity Preference Theory. These theories are extensively used in financial management studies and are reinforced by evidence in international, regional, and local studies.

2.2.1 Theory of the Cash Conversion Cycle (CCC)

Formulated by Gitman (1974), this theory recognizes that the less time the firm spends on its cycle, the more efficient it can be expected to be in generating cash from its operations. According to this theory, firms should try to reduce the time between paying for inventory with cash and collecting cash from sales to customers.

Zhou et. al (2022) report that Chinese SMEs with shorter CCCs do enhance profitability because they can quickly turnover receivables and inventory. Similarly, Kotios et al. (2022)

established that when European SMEs utilize ERP applications to manage their CCC, that resulted in improved profitability and cash flows.

Mandipa and Sibindi (2022) found a negative and significantly strong correlation between CCC and financial performance in retail SMEs of South Africa. Sooriyakumaran et al. (2022) reported that efficient CCC processes of East African SMEs lead to lower working capital requirements and better ROA.

Ongaki (2023) in Kisii County found that Small and Medium Enterprises (SME's) firms that had efficient inventory and receivable turnover, had better liquidity and profitability. This establishes that the CCC theory is relevant in local SME and particularly in enhancing operational efficiency.

2.2.2 Free Cash Flow Theory

In accordance with this theory developed by Jensen (1986), when surplus cash is not properly utilized, it may result in poor investment choices that ultimately reduce the overall value of the company. This theory assumes the role of good financial management is to make everything possible so that its free cash is reinvested or returned to the shareholders.

Gao and Zhao (2020) also show that SMEs in Asia that utilized free cash flow for reinvestment in productive assets exhibited superior financial performance in contrast to those who had cash that was misallocated or idle. Whereas, Sharma, Jadi and Ward (2020) in the UK identified that disciplined management of free cash enhanced profitability and depressed financial mismanagement.

Vanhuyse et al. (2021) in Africa, found that small agribusinesses with organized free cash flow in plan were more capital efficient. Williams and Dolan (2020) added that the longer the time an excess cash was invested in such activities, the better was the SME's solvency in Nigeria.

Similar findings were reported by Ogwoka and Atambo (2021) in Kisii County, that SMEs that prudently deployed free cash to replenish stocks and undertake minor capital improvement recorded better profit margins and business survival. This aligns with the relevance of the free cash flow theory in explaining financial behavior at the local enterprise level.

2.2.3 Theory of the Liquidity Preference

Referred to as the Liquidity Preference Theory by Keynes (1936), firms and individuals have a preference for holding cash to satisfy transactional, precautionary and speculative needs. This

philosophy emphasizes cash management to minimize uncertainty and risk in organization and operation.

Smith and Nguyen (2021) internationally found that South-east Asian SMEs held cash mainly as a precaution in the face of volatile credit markets. Their research suggested that firms that had adequate cushion of liquid assets were more resilient to supply chain shocks.

Attom (2020) discovered that Ghanaian SMEs held surplus cash to cushion against fluctuation in receivables and costs of the supply chain. Bashir (2021) working in Nigeria found that firms with stronger liquidity planning were subject to fewer cash shortages and exhibited a better level of profitability.

Nyanchama and Nyamweya (2022) established that women-owned SMEs in Kisii Municipality, that had emergency and precautionary cash reserves, experienced greater operational continuity and projected good going concern. This confirms that the theory is applicable to SMEs in a regional context.

2.3 Conceptual Framework

This study's conceptual framework outlines the connection between essential cash management practices (independent variables) and the financial performance (dependent variable) of small and medium enterprises in Kisii County, Kenya.

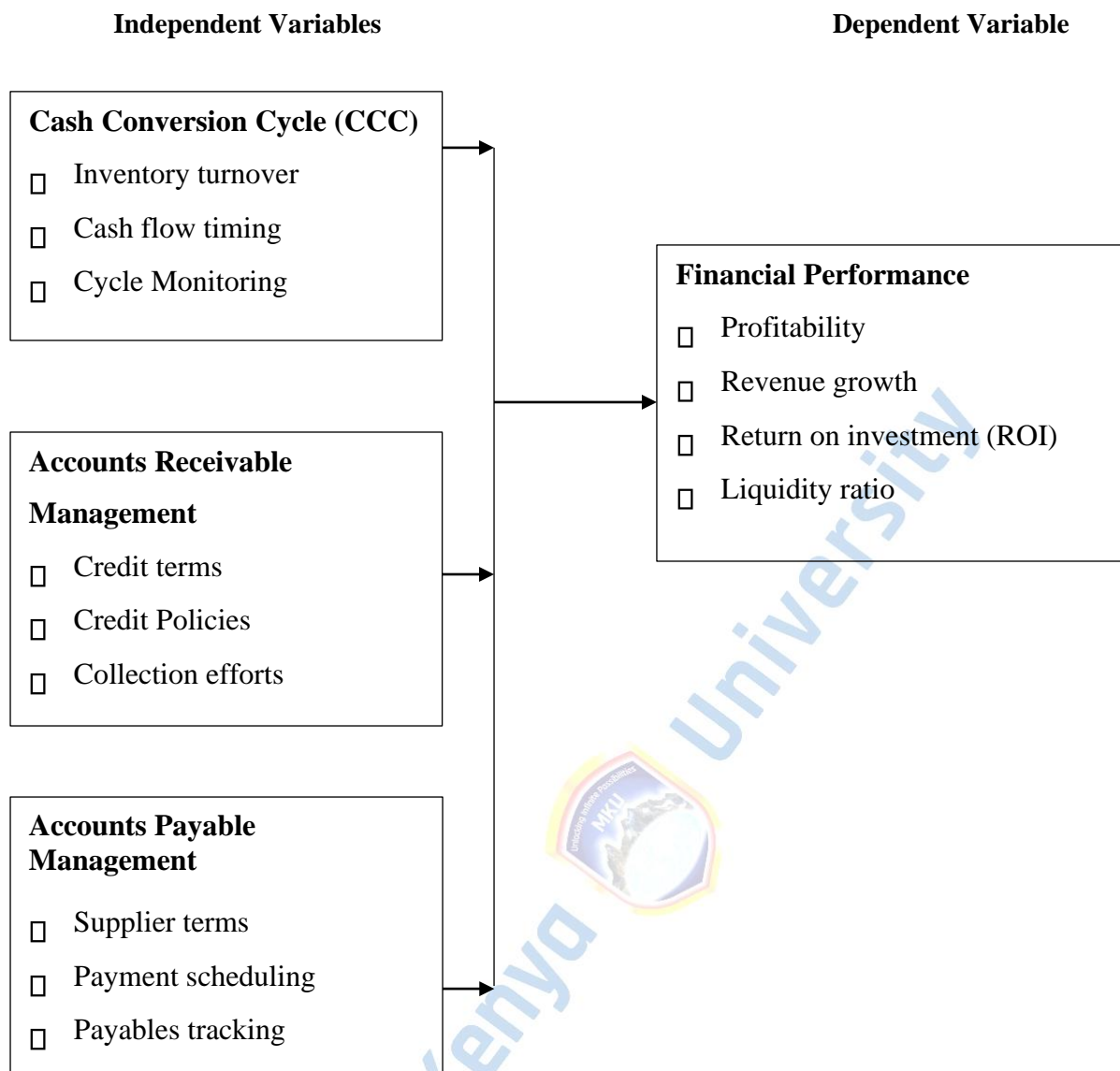


Figure 1: Conceptual Framework
Source: Researcher (2025)

Figure 1's model offers a framework for comprehending how independent variables impact the dependent variable of SMEs in Kisii County, Kenya. These processes operate in three main dimensions: the CCC, the management of accounts receivables and the management of accounts payable, each of which has a direct influence on profitability, revenue growth, liquidity and ROI.

The cash conversion cycle describes the period a business needs to recover cash after spending on inventory and related inputs, ending when payment is received from customer sales. Accounts receivable management focuses on how credit is extended to customers and how efficiently collections are made. Accounts payable management involves the strategies SMEs

use to handle their obligations to suppliers while preserving cash flow. Together, these variables are expected to influence the financial performance of SMEs, determined by metrics like revenue growth, profitability, liquidity, and return on investment.

2.4 Recap of Literature Review

Reviewed studies consistently show how small and medium enterprises handle their cash plays an important role in shaping their financial outcomes. For example, Zhou et al. (2022) found that Chinese SMEs with well-managed cash conversion cycles and receivables experienced increased profitability and stronger liquidity. Their findings confirm that efficient handling of inventory, receivables, and payables helps firms minimize idle cash, avoid unnecessary borrowing, and improve financial outcomes, an insight relevant across both developed and developing economies.

Despite such findings, a theoretical gap persists in existing literature. Most studies, including Zhou et al. (2022), focused primarily on working capital management principles and overlooked the broader financial theories that explain SME cash behavior under uncertainty or surplus conditions. The Free Cash Flow Theory and Liquidity Preference Theory, for example, have not been adequately applied to understand how SMEs allocate excess cash or build liquidity buffers. This study addresses the gap by integrating these underutilized theories to enrich the analysis of SME financial performance in Kisii County.

A methodological gap is also evident, as many prior studies used descriptive or correlational designs without applying robust inferential tools. For example, Mandipa and Sibindi (2022) conducted a regional study in South Africa using basic correlation analysis but did not apply regression techniques to determine the strength of relationships or control for confounding variables. This research seeks to address this by employing both descriptive and inferential statistical methods, together with regression analysis, to provide more accurate and generalizable results.

In terms of contextual gaps, many studies have focused on large or formal businesses with structured systems, often overlooking the unique challenges faced by micro and informal SMEs. Nyanchama and Nyamweya (2022), for instance, studied women-owned SMEs in Kisii but focused largely on credit access, without delving into the specific impact of cash management practices. This study aims to fill that contextual void by focusing directly on how

everyday cash decisions, such as receivables follow-up or payables scheduling, affect financial outcomes of SMEs in this setting.

Lastly, a clear geographical gap exists, as Kisii County remains underrepresented in national research on SME financial practices. While counties like Nairobi, Mombasa, and Garissa have received more academic attention, Kisii's dynamic SME sector is seldom explored. Ongaki (2023) is among the few who studied working capital elements in Kisii Town, but his research emphasized inventory turnover alone. To address these gaps, this study aimed to broaden that scope by investigating how all three key cash management practices jointly influence financial performance in Kisii County, contributing context-specific evidence to inform local business policy and practice.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter outlines the methodology used to examine how cash management practices affect the financial performance of SMEs operating in Kisii County.

3.1 Research Methodology

To assess how cash management practices impact the financial performance of SMEs within Kisii County, a quantitative research approach was employed. Since the quantitative approach makes it possible to gather and statistically analyze numerical data, it was suitable for the study,

thus aiding in the detection of patterns, associations, and quantifiable results among the variables under study (Osoro et al.2024). By relying on structured data derived from standardized questionnaires, this approach helped to increase objectivity, consistency, and the reliability of the results. A descriptive research approach was also used in the study, which was appropriate for large samples and provided a comprehensive overview of current financial and operational practices among SMEs.

3.2 Research Design

To ascertain the extent to which cash management practices impact the financial performance of SMEs in Kisii County, this study was based on a quantitative research design, which enabled objective measurement of correlations between variables, statistical analysis, and systematic data collection (Creswell and Creswell, 2021). The study also used a descriptive survey design since it is appropriate for the goals of the investigation, can be used to examine a large population, and offers a thorough summary of contemporary business practices without modifying the study setting (Osoro et al. (2024). This design facilitated the identification of trends and associations between cash management practices and financial outcomes such as profitability, sales growth, and return on investment.

3.3 Location of the Study

The location of this study was in Kisii County which is located in the southwestern part of Kenya. This area is recognized for its dense population and active entrepreneurial environment, particularly among SMEs. It comprises several urban and semi-urban centers, with Kisii Town acting as the center of administration and commerce. The availability of accessible infrastructure, the economic importance and the prevalence of financial problems among SMEs made the region an ideal location to assess the influence of cash management practices on financial performance. There has also been little previous research in this field, which emphasizes the necessity of filling this knowledge gap and offering context-specific insights.

3.4 Target Population

This is entire group of people or things about which the study seeks to make inferences. This study's target population was all SMEs in operation in Kisii County and the targeted respondents were their owners and managers. The target population consisted of all the 1,500 registered small and medium enterprises operating within Kisii County. This figure was based on official records from the Kisii County Government Revenue Office as cited by Osoro et al. (2024). These businesses range across a number of different industries, such as retail and

wholesale, hospitality, service providers, light manufacturing and agribusiness, and comprise an essential part of the county's economic base.

Table 1: Target Population

Category	Number of SMEs	Percentage (%)
Retail and Wholesale	480	32
Hospitality	300	20
Service Providers	270	18
Light Manufacturing	180	12
Agribusiness	270	18
Total	1,500	100

Source: Kisii County Government Revenue Office, as cited in Osoro et al. (2024)

3.5 Sampling Procedures and Techniques

A stratified random sampling technique was applied to guarantee fair and proportional representation across different groups of SMEs facilitating businesses across different industry sectors (retail, hospitality, services, manufacturing and agribusiness) in Kisii County. Stratified sampling was suitable as it increases the precision of estimates by dividing the population into homogenic subgroups (strata) and randomly selects respondents from each of stratum (Creswell & Creswell, 2021). To determine the sample size, Yamane's (1967) formula was used with a 5 % margin of error and a 95 % confidence level. Using this approach allowed for every SME of the population being provided a known and equal chance of entering the sample, which improved the study's effectiveness and generalizability.

3.6 Sample Population

Sample population is the subgroup of target population selected to participate in the study.

Yamane's formula was applied to calculate the appropriate sample size for this study:

$$n = \frac{N}{1 + N(e^2)}$$

Where: n = Required sample size , N = Population size (1,500 SMEs), and e^2 = Margin of error (5% or 0.05)

Application: $n = \frac{1500}{1+1500(0.05^2)}$

$$n = \frac{1500}{4.75} , n = 316$$

Therefore, a sample size of 316 SMEs was used for this study.

The sample size was divided among the five SME sectors according to their respective population proportions using a proportional allocation method, as this technique enhances representativeness and ensures that each subgroup contributes accurately to the overall findings (Kothari & Garg, 2019).

$$\text{Sample size for each sector} = \frac{\text{Sector Population}}{\text{Total Population}} \times \text{Total Sample Size}(n)$$

Table 2: Sample Size

Category	Number of SMEs	Sample Size	Percentage (%)
Retail and Wholesale	480	101	32
Hospitality	300	63	20
Service Providers	270	57	18
Light Manufacturing	180	38	12
Agribusiness	270	57	18
Total	1,500	316	100

Source: Researcher (2025)

3.7 Construction of Research Instruments

As its primary research tool, the study employed a structured questionnaire with five sections that address respondent demographics, the cash conversion cycle, accounts payable, accounts receivable, and financial performance. The items were measured using close-ended questions with a 5-point Likert scale in order to facilitate easy quantification. A pilot study was done before the main data collection to improve the accuracy and efficiency of the research instrument.

3.8 Testing for Validity and Reliability

3.8.1 Pilot Testing

Pilot testing strengthens the quality of the instrument by uncovering design flaws early in the research process (Ali et al., 2022). Before conducting the main survey, the study carried out a pilot test involving approximately 16 SMEs, which is 5% of the total sample. These participants were drawn from outside the main study population to avoid bias. The pilot exercise helped identify unclear or ambiguous items and test the overall structure and flow of the questionnaire.

Based on the pilot results, necessary revisions were made to improve the tool's clarity and usability.

3.8.2 Validity Test

To evaluate the instrument's validity, the research employed content validation. The questionnaire was reviewed by academic experts and professionals in SME financial management to determine whether each item was relevant and effectively addressed the study objectives. Prior to data collection, the questionnaire was improved based on the review's recommendations. Content validity ensures the instrument aligns with both theoretical constructs and real-world applications (Muriithi & Muturi, 2021).

3.8.3 Reliability Test

Cronbach's Alpha (α) coefficient, a frequently employed method for evaluating the internal consistency of a measure, was used to examine instrument reliability. An 0.70 or higher Cronbach's Alpha score was deemed acceptable, indicating that the set of items consistently measures the intended construct. This analysis was performed using data from the pilot study. Where reliability falls below the threshold, specific items were reviewed and adjusted to improve consistency. Reliability testing helps ensure that the instrument yields dependable results over repeated applications (Chege et al., 2020).

Table 3: Reliability Statistics

Variable	Number of Items (Questions)	Cronbach's Alpha
Cash Conversion Cycle	5	0.812
Accounts Receivable Management	5	0.795
Accounts Payable Management	5	0.784
Financial Performance	5	0.828

Source: Researcher (2025)

According to Table 3's reliability test results, all of the study's constructs achieved Cronbach's Alpha values above the suggested cutoff of 0.70. This implies that each variable was measured using questionnaire items that showed acceptable internal consistency and were accurately reflecting their corresponding constructs. Generally, a Cronbach's Alpha value greater than 0.7 indicates that the scale's items are consistently measuring the same underlying concept. These

results validate the reliability of the data gathered for additional statistical analysis and support the validity of the instrument. Wairimu and Mutinda (2021) state that obtaining a Cronbach's Alpha value of 0.7 or greater indicates strong internal reliability and bolsters the validity of findings obtained from such instruments in financial research pertaining to SMEs

3.9 Data Collection Methods and Procedures

Information was gathered through face-to-face administration of structured questionnaires and interviews. The primary method involved delivering the questionnaires directly to SME owners or finance managers within Kisii County. This approach allowed the researcher to offer clear guidance on how to complete the questionnaire and clarify any questions the respondents may have on the spot. In addition to the questionnaires, brief oral interviews were conducted with selected respondents to obtain further insights and clarify responses where necessary. This mixed approach was intended to enhance the quality and depth of data collected, as personal engagement encourages more accurate and thoughtful responses. Every participant received information about the study's goal and a guarantee of confidentiality. Before any data was collected, informed consent was sought, and participation was entirely voluntary. The researcher personally conducted the data collection process, with support from trained assistants to ensure consistency and efficiency all through the exercise.

3.10 Proposed Data Analysis Techniques and Procedures

Once data collection was complete, each questionnaire was reviewed carefully to ensure all responses were complete and consistent. Verified data was then coded and systematically entered into SPSS Version 28 for further analysis. Descriptive and inferential statistics techniques were both be used in this study. A descriptive analysis presented the frequencies, percentages, means and standard deviations of demographic characteristics and response patterns regarding cash management practices as well as financial performance.

For inferential analysis, a multiple linear regression model was employed to examine the connection between the independent variables (cash conversion cycle, accounts receivable, and accounts payable) and the dependent variable (financial performance). The regression model used was structured as follows: $Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \epsilon$

Where;

β_0 = Constant

$\beta_1 \beta_2 \beta_3 \beta_4 =$ Regression Coefficients

Y = Financial performance,

X_1 = Cash conversion cycle,

X_2 = Accounts receivable,

X_3 = Accounts payable and

ε = Error term.

Before interpreting the model results, several diagnostic tests were conducted to validate regression assumptions. This involved conducting the Shapiro-Wilk test to assess data normality and using the Variance Inflation Factor (VIF) to detect any multicollinearity among the variables.

The regression model was used to examine the connection between financial performance and the cash management variables. Each predictor's statistical significance was assessed using p-values (≤ 0.05), and the degree to which the independent variables account for variances in SMEs' financial performance was assessed using the R-squared (R^2) value.

3.11 Ethical Considerations

To protect participants' rights and privacy, this study adhered to strict ethical guidelines. The Mount Kenya University Institutional Scientific and Ethics Review Committee (MKUISERC), the National Commission for Science, Technology, and Innovation (NACOSTI), and appropriate authorities in the county provided their ethical approval prior to data collection. Before beginning the study, participants were fully informed about its goals and asked to provide written informed consent. Respondents were not penalized for withdrawing at any time; participation was entirely voluntary. Every response was kept private and used only for scholarly research. The final report does not contain any identifying information.



CHAPTER 4

RESEARCH FINDINGS, ANALYSIS AND PRESENTATION

4.0 Introduction

This chapter serves as a critical analysis, exposition, and presentation of data derived from 274 Small and Medium Enterprises (SMEs) in Kisii County, Kenya, out of an initial 316 questionnaires distributed, resulting in an 86.7% response rate. The findings are structured according to the research objectives, which encompass the influence of the cash conversion cycle, accounts receivables management, and accounts payable management on financial performance. Descriptive statistics and inferential statistics are employed to derive logical conclusions and substantiate empirical evidence.

4.1 Research Presentation, Interpretation, and Discussions

4.1.1 Response Rate

Out of the 316 distributed questionnaires, 274 were correctly filled and returned, translating to a response rate of 86.7%. For survey research, a response rate of 86.7 percent is regarded as excellent. A response rate of 70% or higher is regarded as excellent for reducing nonresponse bias and guaranteeing representativeness, according to Mutua and Njeru's (2021) analysis of

survey data collection techniques in Kenyan SMEs. They emphasized that high return rates enhance the reliability of quantitative analyses, particularly in small business studies where follow-up interaction is crucial.

Table 4: Response Rate

Response	Frequency	Percentage %
Returned	274	86.7
Un-returned	42	13.3
Total	316	100

Source: Researcher (2025)

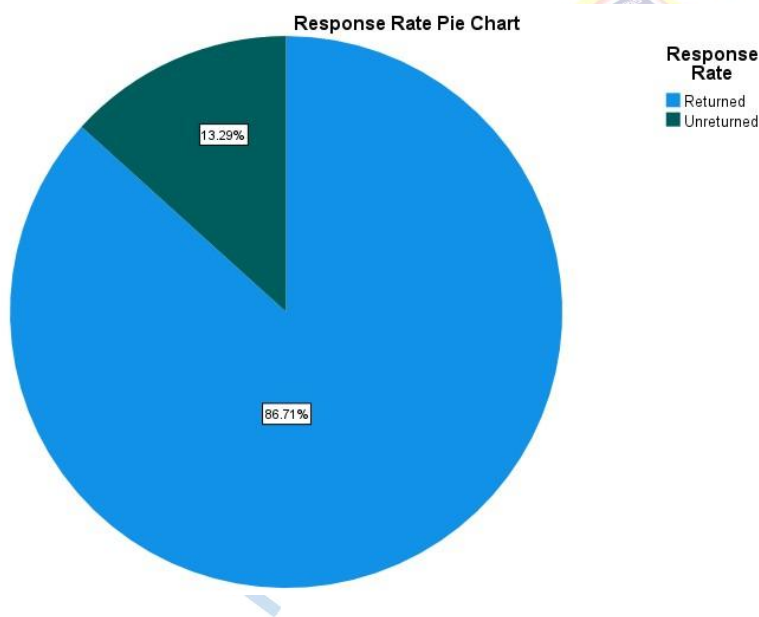


Figure 2: Response Rate Pie Chart

4.1.2 Demographic Information

Understanding the demographic characteristics of respondents provides valuable insights into the context in which cash management practices are applied. The key demographic variables included gender, age, education level, business role, years of operation, sector of business, financial training, presence of a finance professional, and number of employees

4.1.2.1 Gender Distribution

Table 5: Gender Distribution

Gender	Frequency	Percentage %
Male	154	56.2
Female	120	43.8
Total	274	100

Source: Researcher (2025)

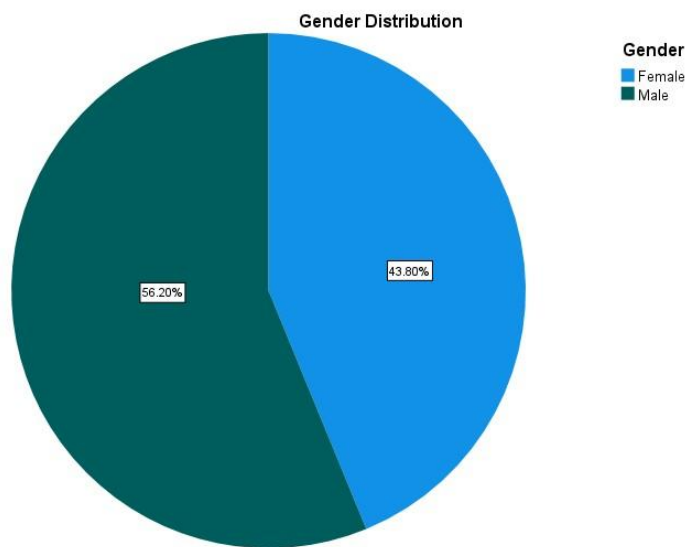


Figure 3: Gender Distribution Pie Chart

Out of the 274 respondents, 154 (56.2%) were male and 120 (43.8%) were female. The data shows that although male participants dominate, there is substantial female representation, reflecting increasing gender inclusivity in entrepreneurial spaces within Kisii County.

4.1.2.2 Age Distribution

Table 6: Age Distribution

Age Category	Frequency	Percentage
Below 25	48	17.5
25-34	111	40.5
35-44	78	28.5
45 and above	37	13.5
Total	274	100

Source: Researcher (2025)

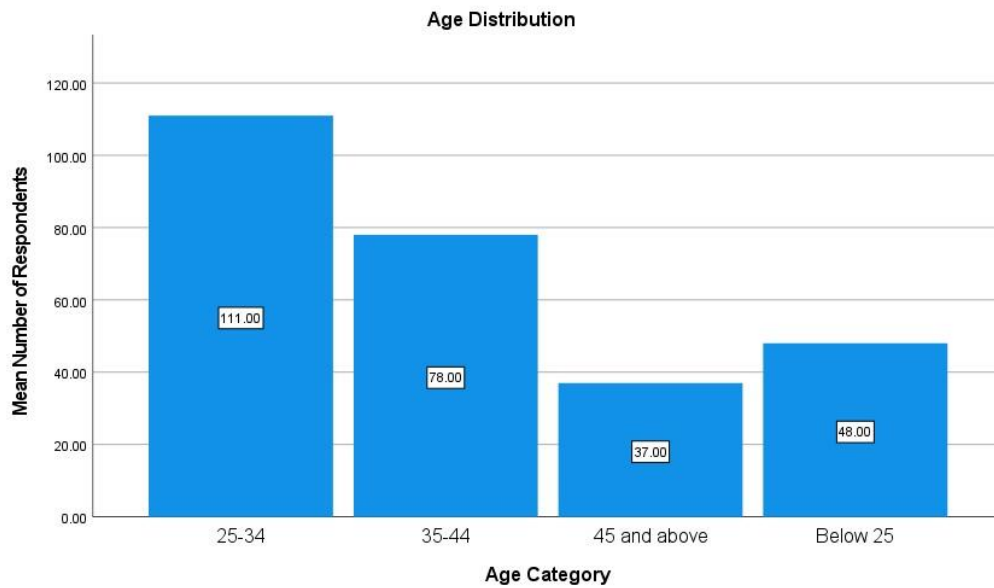


Figure 4: Age Distribution Bar Chart

A majority of respondents, 111 (40.5%), were aged 25–34 years, followed by 78 (28.5%) aged 35–44 years. The younger generation, including those below 25 years (17.5%), constitutes a significant portion of the business landscape, indicating a vibrant and energetic entrepreneurial class. Only 37 (13.5%) were aged 45 years and above, which shows that business ownership is more concentrated among the youth and middle-aged population.

4.1.2.3 Education Level

Table 7: Education Level

Level	Frequency	Percentage %
Primary	30	10.7
Secondary	73	26.6
College/University	136	49.6
Postgraduate	35	13.1
Total	274	100

Source: Researcher (2025)

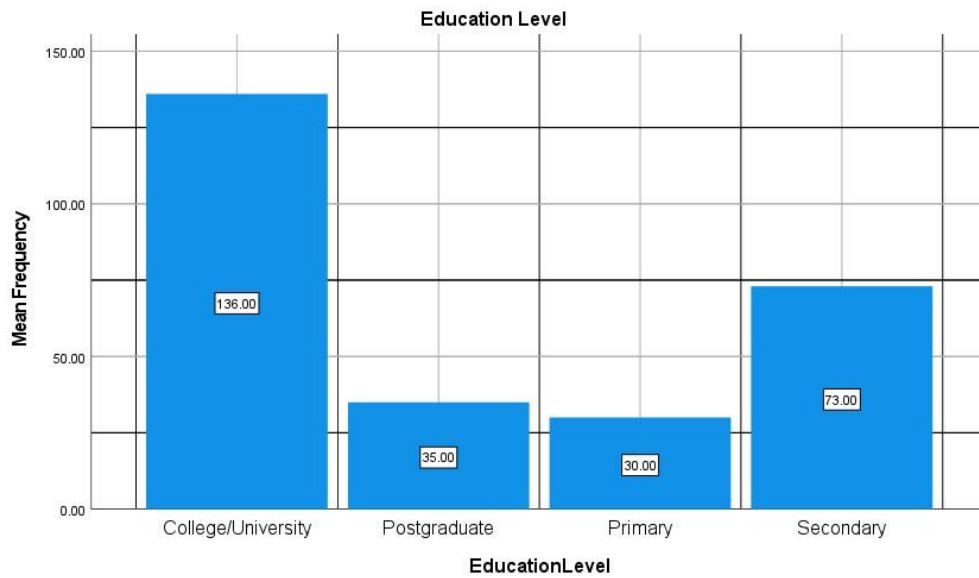


Figure 5: Educational Level Bar Chart

The largest group had attained College/University education (49.6%), followed by Secondary education (26.6%), Postgraduate (13.1%), and Primary education (10.7%). This educational composition implies that most SME operators have post-secondary training, equipping them with the knowledge necessary for managing business finances.

4.1.2.4 Role in Business

Table 8: Role in Business

Role	Frequency	Percentage %
Owner	175	63.9
Manager	99	36.1
Total	274	100

Source: Researcher (2025)

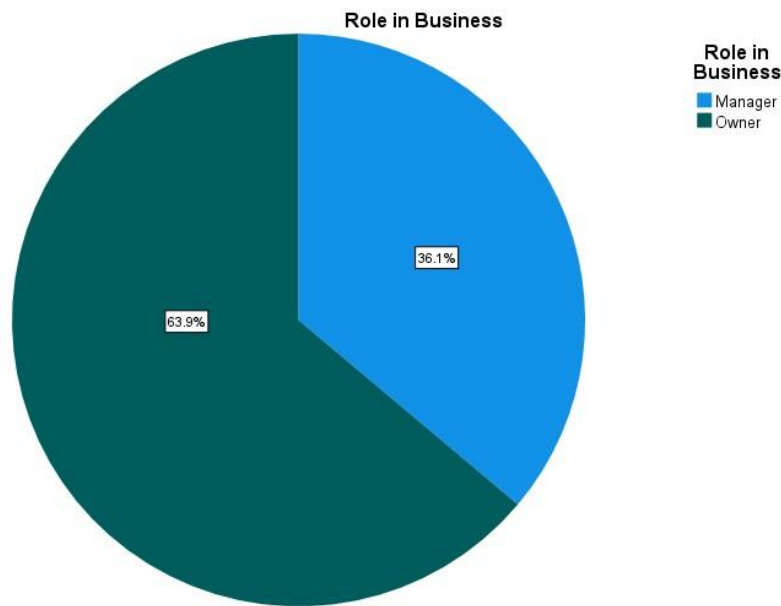


Figure 6: Role in Business Pie Chart

Most respondents, 175 (63.9%), identified as business owners while 99 (36.1%) were managers. This distribution ensures that perspectives from both ownership and day-to-day operational management are captured, providing a comprehensive understanding of cash management practices.

4.1.2.5 Years of Business Operation

Table 9: Years of Business Operation

Duration	Frequency	Percentage %
Less than 1 year	35	12.7
1-3 years	86	31.4
4-6 years	104	38.0
Over 6 years	49	17.9
Total	274	100

Source: Researcher (2025)

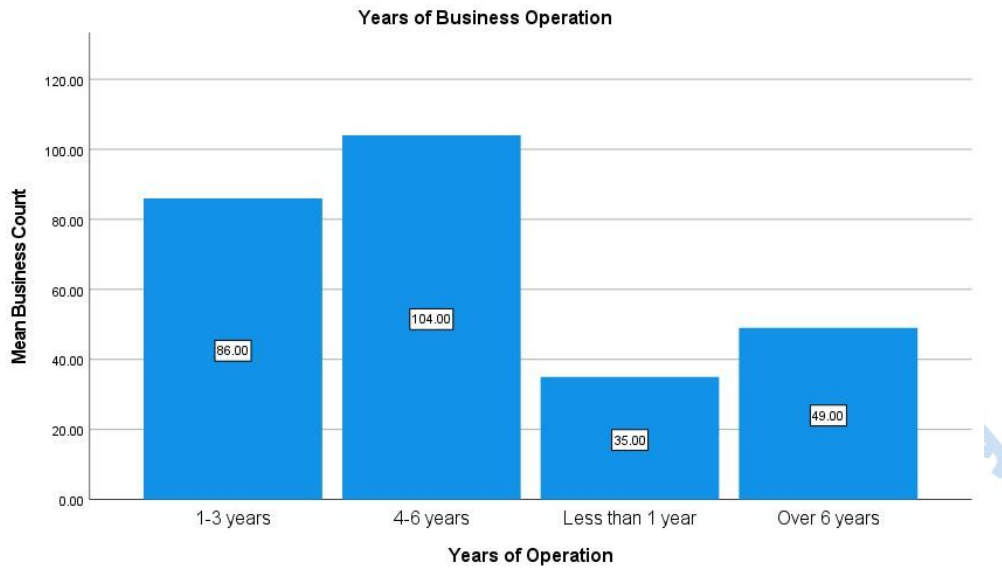


Figure 7: Years of Business Operation Bar Chart

The data reveals that 104 SMEs (38%) had operated for 4–6 years, 86 (31.4%) for 1–3 years, 49 (17.9%) for over 6 years, and 35 (12.7%) for less than one year. These figures suggest that the majority of businesses were in the growth or maturity stages, enabling them to offer practical insights into long-term cash management strategies.

4.1.2.6 Business Sector Distribution

Table 10: Business Sector Distribution

Sector	Frequency	Percentage %
Retail & Wholesale	88	32.1
Hospitality	55	20.1
Service	49	17.9
Manufacturing	33	12.0
Agribusiness	49	17.9
Total	274	100

Source: Researcher (2025)

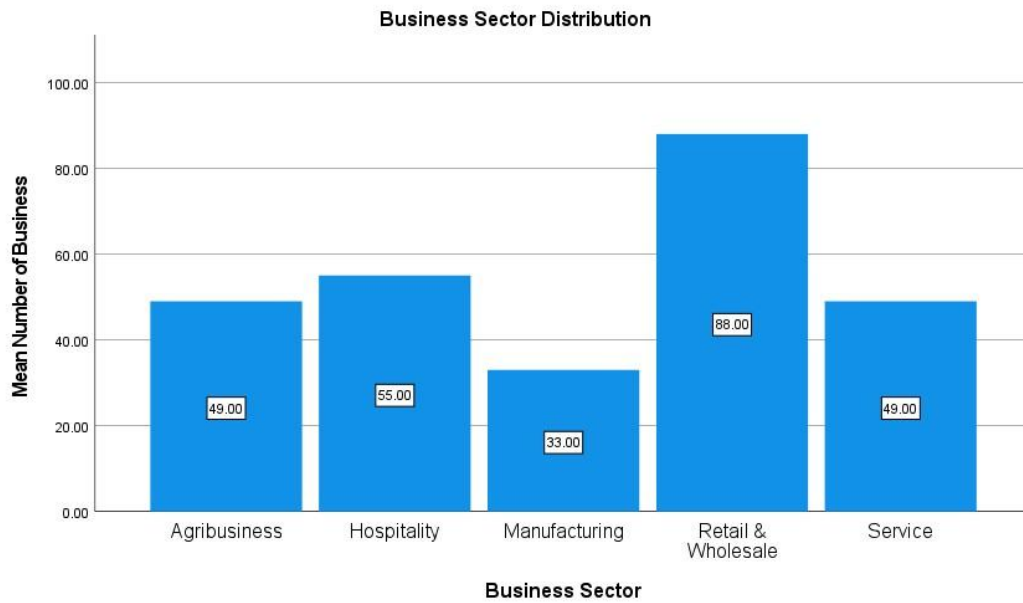


Figure 8: Business Sector Distribution Bar Chart

The largest sector represented was retail and wholesale (32.1%), followed by hospitality (20.1%), service providers (17.9%), agribusiness (17.9%), and light manufacturing (12%). This wide coverage reflects the sectoral diversity of SMEs in Kisii County, making the findings applicable across various types of enterprises.

4.1.2.7 Financial Management Training

Table 11: Financial Management Training

Training Status	Frequency	Percentage %
Yes	143	52.2
No	131	47.8
Total	274	100

Source: Researcher (2025)

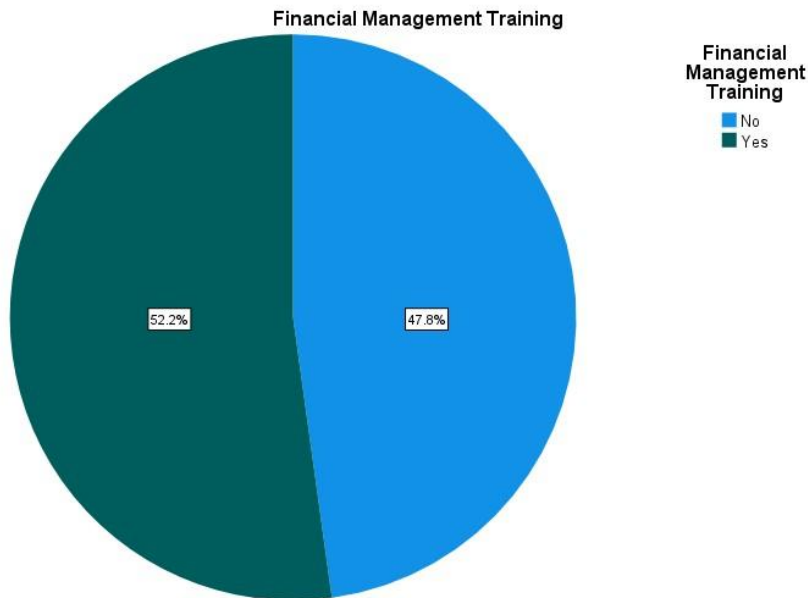


Figure 9: Financial Management Training Pie Chart

More than half (52.2%) of the respondents had received some form of financial management training, while 47.8% had not. This indicates a moderately informed business environment, though it also highlights the need for wider access to financial literacy programs to improve cash handling among SMEs.

4.1.2.8 Finance Professional Employment

Table 12: Finance Professional Employment

Employment Status	Frequency	Percentage %
Yes	107	39.1
No	167	60.9
Total	274	100

Source: Researcher (2025)

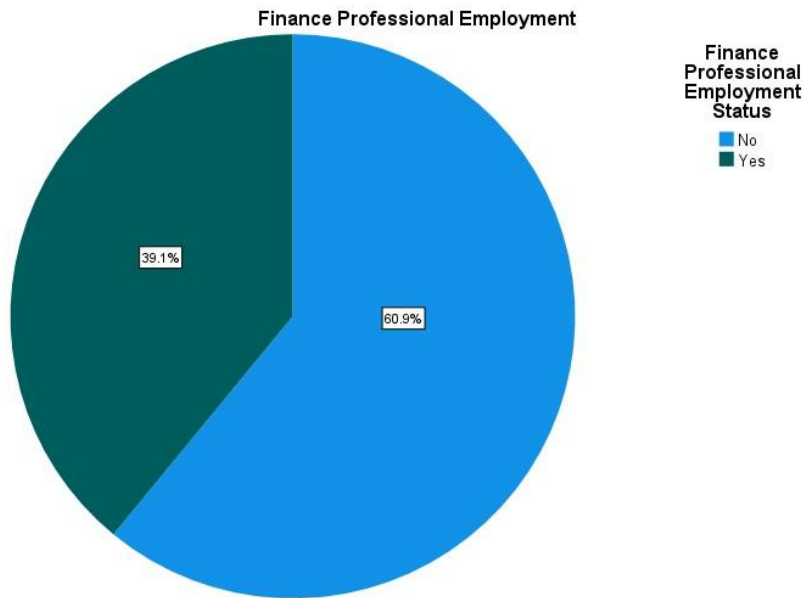


Figure 10: Finance Professional Employment Pie Chart

Only 107 respondents (39.1%) reported having a finance professional within their businesses, while 167 (60.9%) did not. This disparity raises concern about the technical oversight in financial planning and management within the majority of SMEs.

4.1.2.9 Number of Employees

Table 13: Number of Employees

Employee Range	Frequency	Percentage %
1-10	171	62.4
11-20	60	21.9
21-50	35	12.8
More than 50	8	2.9
Total	274	100

Source: Researcher (2025)

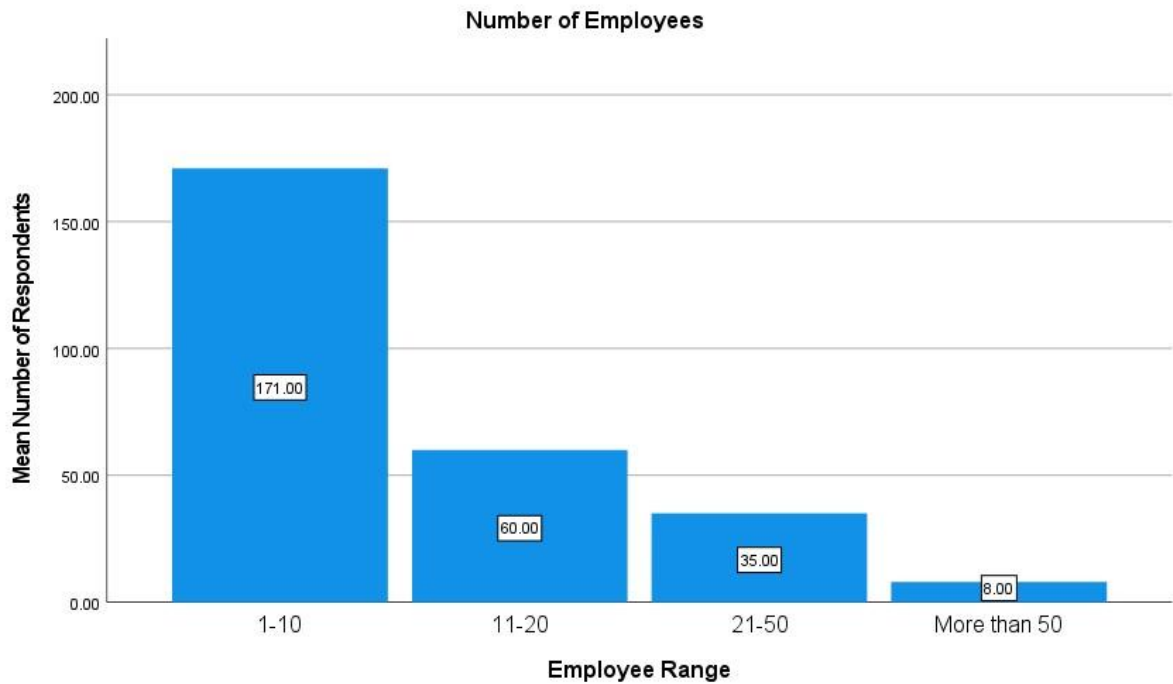


Figure 11: Number of Employees Bar Chart

In terms of workforce, 171 SMEs (62.4%) had 1–10 employees, 60 (21.9%) had 11–20 employees, 35 (12.8%) employed 21–50 staff, and only 8 (2.9%) had more than 50 employees. This confirms that most businesses surveyed fall within the micro and small-scale category, which typically face more significant challenges in managing liquidity and cash flows.

4.2 Descriptive Results

This section provides a summary of descriptive statistics derived from the study variables. The responses were measured using a five-point Likert scale ranging from 1 (Strongly Disagree) to 5 (Strongly Agree). Descriptive statistics serve as the foundation for understanding patterns within the data, offering an essential overview before applying inferential statistical techniques.

4.2.1 Influence of Cash Conversion Cycle on Financial Performance

This section presents descriptive findings on how SMEs in Kisii County implement various practices related to the cash conversion cycle (CCC). The CCC is a vital component of cash management, reflecting the period it takes for a business to convert its investments in inventory and other resources into cash flows from sales.

Table 14: Descriptive Statistics for Cash Conversion Cycle (CCC)

Statement	N	Min	Max	Mean	Standard Deviation
We track how long it takes to turn inventory into sales.	274	1	5	3.89	0.76
Our business actively manages the timing of cash inflows and outflows.	274	1	5	4.03	0.72
We review the cash conversion cycle on a regular basis.	274	1	5	3.75	0.82
We maintain stock levels that support both sales and cash availability.	274	1	5	4.11	0.69
We aim to shorten the time between purchases and collections from customers.	274	1	5	3.96	0.74

Source: Researcher (2025)

Table 14 provides valuable insights on how SMEs in Kisii County manage their cash conversion cycles. Question " We track how long it takes to turn inventory into sales " had a moderate agreement among SMEs, with mean 3.89 (SD = 0.76). This would indicate that there is a clear inclination towards monitoring inventory turnover in order to optimize operational efficiency and to control liquidity, although it is not the case for all the companies all the time. This is consistent with the findings of Omondi and Kioko (2021) who argued that regular inventory cycle monitoring minimizes overstocking and improves cash flow. This view was further confirmed by Ngugi and Wekesa (2023) with the clarification that regular monitoring leads to better forecasting and speeds up cash recovery.

The statement —Our business actively manages the timing of cash inflows and outflows| also had a higher mean 4.03 (SD = 0.72) suggesting strong consensus among SMEs. This is consistent with the idea that most lawyers time their receivables and payables to keep cash flow at reasonable levels and with few surprises. These practices are aligned with the findings of Achieng and Mutua (2022) which indicated that SMEs that utilized formal cash flow management tools had lower incidences of default and better relationships with suppliers. This is consistent with the results of Kamau and Githinji (2021) who explained that matching between inflows and outflows of funds led to the stability of the ministry of transport operations as well as efficient service delivery.

On the practice of considering the cash conversion cycle on a regular basis, the average score was 3.75 (SD = 0.82), indicating a moderate scale of adherence. This means that formal and routine CCC reviews are not yet the norm for all SMEs, but it is increasingly being acknowledged as one. This observation concurs with that of Barasa and Ndegwa (2020) who argue that periodic reviews of the CCC promote internal financial controls and responsiveness. Otieno and Nyambane (2022) also noted that, reviews of this nature help SMEs to acclimate against seasonal changes in cash flows, promoting long-term financial sustainability.

The highest agreement scores appeared in the statement —We maintain stock levels that support both sales and cash availability, with a mean of 4.11 (SD = 0.69). This highlights the established attitude of SMEs towards achieving an optimum balance between carrying sufficient stock to cater to their sales requirement and minimizing the risk of slow-moving inventory, which would consume the funds. This result is in concurrence with the work of Mwanzia and Kibet (2023) which revealed that aligning inventory policy to cash plans enabled the firms to satisfy demand and maintain the liquidity. Also, Chege and Ndung'u (2020) similarly observed that the combination of inventory controls with financial planning increased ROI and reduced operational expenses.

Lastly, value to —We aim to shorten the time between purchases and collections from customers generated a mean value of 3.96 (SD = 0.74), indicating that many firms desire that its cash cycle be sped up. This is consistent with an approach of maximizing working capital through prompt conversion of receivables into cash. Wambua and Cheruiyot (2021) validated that compression of time lag between procurement and payment collection increased liquidity of firms drastically. This point was reechoed by Muriithi and Nduta (2022), who discovered that shorter collection duration strengthens the ability of SMEs to meet obligations without having to borrow. Taken together, these results indicate that SMEs are proactive in enhancing financial efficiency via managing their cash conversion cycles.

4.2.2 Influence of Accounts Receivable Management on Financial Performance

Accounts receivable management plays a critical role in the financial health of small and medium enterprises (SMEs), as it directly affects cash flow, liquidity, and overall business sustainability. This section presents the descriptive analysis of how SMEs in Kisii County manage their accounts receivable, focusing on practices such as credit issuance, credit policy formulation, customer vetting, debt follow-up, and policy adjustments.

Table 15: Descriptive Statistics for Accounts Receivable Management

Statement	N	Min	Max	Mean	Standard Deviation
Our business offers credit facilities to selected customers.	274	1	5	3.67	0.81
We have a written credit policy that guides customer credit decisions.	274	1	5	3.52	0.84
Customer credit limits are based on their payment history and creditworthiness.	274	1	5	3.79	0.76
We follow up consistently on outstanding debts.	274	1	5	4.08	0.71
We revise our credit policies when necessary to reflect current cash flow needs.	274	1	5	3.61	0.78

Source: Researcher (2025)

The findings in Table 15 provide an overview of the way that SMEs in Kisii County deal with the management of accounts receivable, which is an important component of the cash flow policy. A statement on —Our business offers credit facilities to selected customers‖ had the mean score of 3.67 (SD =0.81), suggesting that most SMEs are mildly supportive of providing credit to some customers. This is a way businesses can increase sales, develop relationships with clients over the long-term and meet payment needs of customers. Yet it also brings financial risks that haven't been handled well. These results corroborate with Koskei and Mwanja (2022) findings which found that selective credit extension using a clear assessment criterion enhances customer retention and hence overall sales performance. Mwangi and Simiyu (2021) also highlighted that upon the strict repayment monitoring credit facilities reinforce customer loyalty to SMEs.

Regarding formal credit policy, the average score of the statement —We have a written credit policy that guides customer credit decisions‖ was mean 3.52 (SD = 0.84), indicating moderate level of agreement. This indicates that while some SMEs have set credit policies, many still operate on informal or ad hoc basis in decision making. These businesses may also be at risk

of inconsistent credit decisions and worsening of bad debt exposure due to the lack of documented policies. This interpretation is consistent with Wekesa and Chebet (2020) who argue that the presence of credit policies in writing enhances transparency and enables companies to make fair, standardized lending decisions. Kamunge and Mureithi (2023) also discovered that SMEs with written credit policies had lower incidences of overdue accounts and better collection performance.

More inspiring perhaps is the mean value of the result for the sentence —Customer credit limits are based on their payment history and creditworthiness‖ which was mean 3.79 (SD = 0.76). This relatively high value reveals that a large number of SMEs use a risk-based approach with respect to the amount of credit extended. This is indicative of responsible, data-centric receivables management, focused on mitigating non-payment risk. Otieno and Makori (2022) stressed the advantages of this strategy, pointing out that SMEs that predict credit limits on the basis of the past payment conduct of customers and their credibility can conserve liquidity and reduce the degree of capital lock-up. In line with this, Njeru and Kipkoech (2021) found that risk-adjusted credit decisions enhance the predictability of cash flow and decrease the probability of default.

The most agreement was on the item —We follow up regularly on overdue payments‖ with mean score of 4.08 (SD=0.71). The fact that so many agree inevitably means that most owners flee and chase their receivables. These regular follow-ups encourage good payment behavior among customers and enhance collections efficiency and overall cash flow. Muturi and Kirui (2020) found that firms with organized follow up systems have shorter accounts receivables durations and less bad debt write-offs. Similarly, Abuga and Mutua (2022) found that firms that aggressively chased their overdue accounts experienced more accurately forecasted cash and were less susceptible to liquidity crises.

Finally, the statement —We revise our credit policies when necessary to reflect current cash flow needs‖ had a mean average score of 3.61 (SD = 0.78), signifying moderate agreement with the statement. It shows that there are some SME suppliers who frequently change their credit terms under pressures of cash from an internal source, or due to changes in market, but others are relatively stable. Credit terms should be flexible, particularly for smaller businesses that experience ups and downs in revenue. It is in line with Okeyo and Lutomia (2023), who argues that SMEs which frequently review their credit strategies could sustain operations in times of changes in the input market. Similarly, Gathoni and Muiruri (2021) further added that prompt

reviews of credit policies increased active flexibility and retained customer confidence in times of economic crises.

The findings highlight the fact that SMEs in Kisii County are heavily involved in the management of their receivables and in a relatively organized manner and with some level of commitment. The uniform deployment of risk-based credit appraisal and rigorous follow-up efforts are particularly remarkable. These actions indicate a strong basis for operating to provide liquidity and secure the sustainability of finance for firms.

4.2.3 Influence of Accounts Payable Management on Financial Performance

Accounts payable management involves the control of a firm's obligations to its suppliers. Timely payments and strategic planning of payables are crucial in preserving business relationships and maintaining stable cash flows.

Table 16: Descriptive Statistics for Accounts Payable Management

Statement	N	Min	Max	Mean	Standard Deviation
We negotiate extended payment terms with suppliers to match our cash flow.	274	1	5	3.88	0.79
We plan supplier payments based on expected cash inflows.	274	1	5	3.97	0.74
We keep track of all outstanding bills and due dates.	274	1	5	4.13	0.70
Early payment discounts are utilized when available.	274	1	5	3.73	0.83
Our business prioritizes supplier payments to maintain good relationships.	274	1	5	4.06	0.71

Source: Researcher (2025)

The results from Table 16 highlight how SMEs in Kisii County strategically manage their accounts payable processes to support cash flow stability and operational efficiency. The statement —We negotiate extended payment terms with suppliers to match our cash flow received a mean score of 3.88 (SD = 0.79), reflecting a widespread practice among SMEs to align payment obligations with incoming cash. This helps minimize liquidity stress and provides a cushion against revenue fluctuations. This finding supports the observations of Kibe

and Mwangi (2022), who noted that flexible payment terms improve financial agility among SMEs. Similarly, Otieno and Baraza (2021) emphasized that negotiating payment schedules fosters trust with suppliers and allows for better financial forecasting.

Closely related is the statement —We plan supplier payments based on expected cash inflows, which attained a slightly higher mean of 3.97 (SD = 0.74). This demonstrates that most SMEs proactively align their disbursements with projected income, thereby minimizing the risk of overdrafts or delayed payments. Such planning enhances cash discipline and ensures that operational costs are met without disrupting supplier relations. Gikonyo and Wambugu (2023) found similar patterns, stating that SMEs that time their payables according to receivables maintain more stable working capital cycles. In support, Makokha and Achieng (2021) reported that payment planning leads to greater consistency in supplier confidence and reduced dependence on external borrowing.

The strongest level of agreement appeared in the statement —We keep track of all outstanding bills and due dates, which posted the highest mean score at 4.13 (SD = 0.70). This indicates that SMEs place strong emphasis on maintaining accurate and timely records of liabilities. Such meticulous tracking prevents the risk of late payment penalties, protects business reputation, and ensures readiness during audits. Wekesa and Muli (2022) observed that firms with updated payable records demonstrate smoother audit compliance and fewer financial disruptions. In parallel, Kimani and Cheron (2020) concluded that consistent monitoring of due dates enhances transparency and reduces disputes with vendors.

On the utilization of early payment incentives, the statement —Early payment discounts are utilized when available, recorded a moderate mean of 3.73 (SD = 0.83). This implies that while many SMEs are aware of such opportunities, only a portion take full advantage—often limited by cash flow constraints. Nonetheless, tapping into these discounts can significantly lower procurement costs and foster better supplier relationships. Mworira and Karanja (2023) pointed out that structured use of early payment incentives improves profit margins over time. Additionally, Ndungu and Korir (2021) confirmed that consistent exploitation of supplier discounts strengthens financial performance and vendor loyalty.

Finally, the statement —Our business prioritizes supplier payments to maintain good relationships, received a high mean score of 4.06 (SD = 0.71), suggesting that SMEs are highly conscious of nurturing supplier trust and credibility. Honoring payment timelines enhances the

firm's reputation, opens doors for future negotiations, and supports uninterrupted supply chains. Kariuki and Ogolla (2020) observed that prompt payments reduce delays and increase access to supplier credit. Similarly, Wanjiru and Njenga (2022) found that SMEs maintaining strong supplier rapport were better positioned to negotiate flexible terms and preserve brand integrity.

Overall, the findings reflect a structured and proactive approach to accounts payable management among SMEs in Kisii County suggesting a well-established awareness of payables strategies.

4.2.4 Financial Performance

Financial performance was assessed through five indicators to determine how SMEs perceive their overall success in terms of profitability, liquidity, investment returns, and the outcomes of financial decision-making.

Table 17: Descriptive Statistics for Financial Performance

Statement	N	Min	Max	Mean	Standard Deviation
We have experienced growth in revenue.	274	1	5	3.89	0.78
Our profits have been increasing steadily.	274	1	5	3.81	0.82
The business maintains enough cash to meet its obligations.	274	1	5	3.94	0.76
We have seen a good return on money invested in the business.	274	1	5	3.74	0.83
Our financial decisions have improved the business's overall performance.	274	1	5	4.02	0.75

Source: Researcher (2025)

The data presented in Table 14 shows the opinions and encounters of SMEs in Kisii County pertaining to their financial performance across substantial indicators, including revenue, profit, liquidity, return on investment, and financial decision-making. The statement " We have experienced growth in revenue " achieved a mean score of 3.89 (SD = 0.78), suggesting that several SMEs have detected positive transformations in their revenue streams over time. This aligns with Mwangangi and Nyaboke (2022), who found that the growth of revenue among SMEs is typically linked to the reinvestment in essential business operations and strategic price modifications. Similarly, Lumumba and Kariuki (2021) observed that marketing effectiveness

and judicious credit practices are often key factors enhancing sales and improving top-line performance among thriving enterprises.

Similarly, the statement "Our profits have been increasing steadily" produced a mean score of 3.81 (SD = 0.82), indicating that there is a discernible trend of rising profitability even though profit growth may not be constant across all companies. This lends credence to the idea that SMEs are increasing operational effectiveness and cost control. Businesses that closely match their budgets with operational priorities have a higher chance of maintaining profit increases, according to Otieno and Mutiso (2023). Additionally, Gichuki and Maina (2021) highlighted that companies that base their financial decisions on real cash flows tend to see a more consistent upward trend in profits over time.

The rating for the statement "The business maintains enough cash to meet its obligations" was mean 3.94 (SD = 0.76), indicating a general consensus that small and medium-sized enterprises (SMEs) possess adequate liquidity to meet their regular commitments. Having ample cash reserves is crucial to prevent operational disruptions and to capitalize on emerging opportunities. This finding concurs with the research of Kirwa and Njogu (2020), who discovered that businesses with robust cash reserves demonstrate greater agility and reduced reliance on debt financing. Moreover, Muriuki and Wanjala (2022) noted that businesses that implement strategic liquidity planning are better equipped to adapt to unforeseen market changes.

With a mean score of 3.74 (SD = 0.83) when asked about returns, the statement "We have seen a good return on money invested in the business" showed moderate but general satisfaction with returns on capital. Despite the fact that a large number of SMEs are seeing positive returns, the outcomes may vary based on the market, industry, and investment size. According to Kamunya and Nduta (2023), the ROI of SMEs is directly related to the quality of funding allocation and the particular risks associated with various industries. Abdi and Wekesa (2021) provide additional support for this, demonstrating that data-driven investment choices considerably raised the possibility of profitable outcomes in SME settings.

The strongest consensus was seen in the statement —Our financial decisions have improved the business's overall performance, which recorded the highest mean score of 4.02 (SD = 0.75). This points to strong confidence among SMEs in the value of their financial strategies and suggests that decisions are being made with insight and purpose. Ndege and Chelimo

(2020) observed that entrepreneurs with higher financial literacy levels tend to allocate resources more efficiently, directly contributing to improved outcomes. Akinyi and Mwaura (2022) also linked structured financial planning with long-term improvements in profitability, growth, and business resilience.

Overall, the results reflect a positive outlook on financial performance among SMEs in Kisii County suggesting a mature financial management culture within enterprises.

4.3 Diagnostic Tests

Diagnostic tests were run to determine whether the data was appropriate before regression analysis was done. The normalcy test and the multicollinearity check were the two main diagnostic procedures used to make sure the multiple regression assumptions were satisfied.

4.3.1 Normality Test

The Shapiro-Wilk test was employed to investigate the alignment of the distribution of responses for each study variable with a normal curve. A p-value greater than 0.05 signifies that the variable does not display a substantial deviation from normal distribution, which is a fundamental criterion for parametric statistical testing.

Table 18: Shapiro-Wilk Test of Normality

Variables	Statistic	df	Sig
Cash Conversion Cycle	0.984	274	0.087
Accounts Receivable Management	0.978	274	0.066
Accounts Payable Management	0.981	274	0.073
Financial Management	0.985	274	0.091

Source: Researcher (2025)

All variables have p-values above 0.05, which suggests that the data is normally distributed.

This demonstrates that the multiple linear regression's normality assumptions are satisfied.

4.3.2 Multicollinearity Check

An analysis was conducted using the Variance Inflation Factor (VIF) test to determine whether the independent variables were highly correlated with each other. Multicollinearity is absent when the tolerance value is greater than 0.2 and the VIF value is less than 5.

Table 19: Multicollinearity Test Statistics

Variables	Tolerance	VIF
Cash Conversion Cycle	0.761	1.314
Accounts Receivable Management	0.734	1.362
Accounts Payable Management	0.745	1.342

Source: Researcher (2025)

All tolerance values are greater than 0.7, and all VIF values are significantly below the threshold of 5. This suggests that there is no need to worry about multicollinearity and that the independent variables are sufficiently distinct to produce reliable regression parameters.

4.4 Inferential Results

4.4.1 Regression Analysis

The combined effect of all the three independent variables on SMEs' financial performance was estimated using multiple linear regression analysis. The output is given in model summary, ANOVA, and regression coefficients

4.4.1.1 Model Summary

The model summary gives a statistical overview of the degree to which the dependent variable, financial performance, is predicted by the independent variables, cash conversion cycle, accounts receivable, and accounts payable management. Table 9 below displays the model's primary metrics.

Table 20: Model Summary

Model	R	R-Squared	Adjusted R-Squared	Std. Error of the Estimate
1	0.671 ^a	0.450	0.444	0.621

a. Predictors: (Constant), Cash Conversion Cycle, Accounts Receivable Management, Accounts Payable Management

The chosen working capital management variables and financial performance have a strong positive correlation, as indicated by the model's R value of 0.671. This implies that there is a positive correlation between financial performance and improvements in the management of the cash conversion cycle, accounts receivable, and accounts payable. About 45% of the variance in financial performance can be explained by the model, according to the R-Square value of 0.450. When working with real-world financial data that may be impacted by numerous external factors, this suggests a moderate level of explanatory power, which is deemed appropriate in social science and business research. Additionally, it is confirmed that the model is still robust and does not overfit the data by the adjusted R-Square value of 0.444, which takes into account the number of predictors in the model. How far the observed values typically deviate from the regression line is indicated by the standard error of the estimate (0.621).

4.4.1.2 Summary of ANOVA results

The Analysis of Variance (ANOVA) assesses the collective significance of the regression model.

Table 21: ANOVA Results

	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	85.374	3	28.458	73.819	0.000 ^a
	Residual	104.899	270	0.389		
	Total	190.273	273			

a. Predictors: (Constant), Cash Conversion Cycle, Accounts Receivable Management,

Accounts Payable Management

b. Dependent Variable: Financial Performance

The analysis conducted through ANOVA reveals that the proposed regression model, featuring the three independent variables, is a vital and reliable construct in the prediction of financial performance ($F = 73.819$, $p < 0.001$). The significance level substantiates the model's robustness, distinguishing it from the influence of random occurrences, thus rendering it indispensable for future inferences and insights.

4.4.1.3 Regression coefficients

This section presents the regression coefficients derived from the multiple linear regression analysis, which aimed to determine the influence of selected cash management practices on the financial performance of SMEs in Kisii County

Table 22: Regression coefficients

Variables	Unstandardized Coefficients(B)	Std. Error	Standardized Coefficients(Beta)	t	Sig.
(Constant)	1.148	0.271		4.235	0.000
Cash Conversion Cycle	0.321	0.065	0.325	4.799	0.000
Accounts Receivable Management	0.278	0.068	0.284	4.088	0.000
Accounts Payable Management	0.246	0.062	0.265	3.968	0.000

a. Predictors: (Constant), Cash Conversion Cycle, Accounts Receivable Management, Accounts Payable Management

b. Dependent Variable: Financial Performance

Table 22 demonstrates an equation with a constant (intercept) and three explanatory variables in the regression model. The constant term was 1.148 with the standard error of 0.271, and the p-value (Sig. = 0.000). This coefficient is the estimated financial health of an SME when all the predictors are set to zero.

The cash conversion cycle had the highest impact on financial performance of the three predictors. The unstandardized coefficient (B) was 0.321 with a standard error of 0.065, the standardized beta (β) was 0.325 and the t-value was 4.799, which means that there is a significant positive relationship between both variables ($p < 0.001$). This means that for each unit decrease in cash conversion cycle such as the time it takes to convert inventory and receivables into cash, financial performance is expected to increase by 0.321 units, holding all other factors equal. The relatively high beta coefficients also indicate that of the three cash management practices analyzed, the cash conversion cycle is the most significant variable in predicting SME financial performance. These results are consistent with theoretical predictions, which states that firms that can effectively manage operating cycle are likely to enrich their liquidity, mitigate working capital constraints and ultimately profit more.

Accounts receivable management also had a significant positive relationship with financial performance with an unstandardized coefficient of 0.278, a standard error of 0.068, a standardized beta value of 0.284, and a t-statistic of 4.088 ($p < 0.001$). Thus, better control of credit customers (by establishing credit policies, evaluating creditworthiness of customers and intensifying the follow-ups for recovery of outstanding amount) lead to improvement of the net operating income. The standard beta coefficient also asserts that accounts receivable policy issues remarkably influence profit and cash flow stability. This is in line with previous literature, that argued that proper credit management reduces bad debts and improves prompt inflow of cash, which is very vital for local SMEs that lack financial base.

The third independent variable, management of accounts payable, was also statistically significant with an unstandardized coefficient of 0.246, standard error 0.062, standardized beta 0.265, and t-value= 3.968 ($p < 0.001$). This suggests that structured and disciplined management of vendor payments such as negotiating more favorable terms in payments, tracking payment terms with their due dates, and prioritizing which payables to address first contributes to financial performance. It has a slightly smaller beta as compared to the other two predictors, but it is still significant. One implication from these findings is that SMEs that actively control outflows and have positive relationships with suppliers are more likely to have the ability to maintain liquidity and operations.

The following equation can be used to summarize the resulting regression model from

$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon$, which incorporates the constant and the three statistically significant predictors.

$$Y = 1.148 + 0.321X_1 + 0.278X_2 + 0.246X_3 + \epsilon$$

Where;

Y = Financial Performance

X₁ = Cash Conversion Cycle

X₂ = Accounts Receivable Management

X₃ = Accounts Payable Management

ε = error term

The constant term, 1.148, represents the baseline level of financial performance when all the independent variables are held at zero. Although this situation may not occur in practical settings, it provides a statistical starting point for interpreting the overall model.

Each of the three independent variables included in the model was found to have a positive and statistically significant effect on financial performance. The coefficient for the cash conversion cycle is 0.321, suggesting that a one-unit improvement in the management of the CCC such as by reducing the time taken to convert stock into cash leads to an estimated increase of 0.321 units in financial performance, assuming all other factors remain constant. This makes the CCC the most influential predictor in the model, highlighting its importance in ensuring consistent cash flows and reducing financial strain within SMEs.

The accounts receivable management variable has a coefficient of 0.278, indicating that enhancing credit management practices such as customer vetting, setting appropriate credit limits, and consistent follow-ups on overdue accounts results in a 0.278-unit increase in financial performance. This finding points to the relevance of structured and proactive receivables strategies in maintaining liquidity and minimizing default-related losses.

Accounts payable management also contributes positively, with a coefficient of 0.246. This implies that businesses that align their payment schedules with anticipated income, maintain accurate payment records, and build strong relationships with suppliers can expect a 0.246-unit improvement in financial outcomes. Although its effect is slightly smaller compared to the other two predictors, it remains a crucial component of effective cash flow control.

Overall, the model suggests that SMEs that implement well-structured practices in managing their cash conversion cycles, receivables, and payables are more likely to experience better financial performance. Each of the three predictors contributes meaningfully to the overall outcome, with the cash conversion cycle having the greatest influence. The positive coefficients across all variables affirm that strengthening internal financial processes is essential for enhancing profitability, ensuring liquidity, and promoting sustainable business growth.

4.5 Discussion of individual objective results

4.5.1 Influence of Cash Conversion Cycle

The cash conversion cycle (CCC) measures the duration it takes for an enterprise to convert its investments in inventory and other inputs into cash through sales. Effective CCC management is essential for maintaining healthy cash flows and minimizing liquidity constraints. In this study, SMEs in Kisii County demonstrated active involvement in practices that enhance CCC efficiency.

The most highly rated statement, —We maintain stock levels that support both sales and cash availability, had a mean score of 4.11 (SD = 0.69), reflecting a strong consensus that optimal inventory levels are critical for balancing sales potential and liquidity. This indicates that SMEs are cautious not to tie up excessive capital in stock, a finding supported by Mwanzia and Kibet (2023), who noted that well-aligned stock levels with cash flow needs help improve both liquidity and operational performance. The statement —Our business actively manages the timing of cash inflows and outflows followed closely with a mean of 4.03 (SD = 0.72), suggesting that many businesses time their payments and receipts to avoid cash shortfalls. This aligns with Kamau and Githinji (2021), who emphasized the importance of aligning inflows with outflows to maintain operational stability and reduce reliance on short-term credit.

Another notable result was —We aim to shorten the time between purchases and collections from customers, with a mean of 3.96 (SD = 0.74), indicating a conscious effort by SMEs to minimize the cash cycle. This strategy enhances liquidity by ensuring faster recovery of capital. Wambua and Cheruiyot (2021) found similar results, noting that reduced receivables turnaround time significantly boosts working capital. The statement —We track how long it takes to turn inventory into sales recorded a mean of 3.89 (SD = 0.76), showing a moderately strong monitoring culture around inventory turnover. This finding resonates with Omondi and Kioko (2021), who indicated that regular tracking of inventory movement minimizes

overstocking and improves liquidity. The practice of reviewing the CCC regularly had the lowest mean among the five statements ($M = 3.75$, $SD = 0.82$), suggesting that while awareness exists, routine formal reviews are not yet widespread. Nonetheless, Barasa and Ndegwa (2020) posited that regular CCC assessments improve forecasting and response to seasonal cash flow changes.

With a statistically significant unstandardized coefficient of $B = 0.321$ ($p < 0.001$) and a standardized beta of $\beta = 0.325$, the CCC demonstrated the strongest predictive power on financial performance, according to the regression results. This indicates that, when all other factors are held constant, a one-unit improvement in CCC management practices corresponds to a 0.321 increase in the financial performance score. This is consistent with research by Kamau and Githinji (2021), which found that efficient CCC management increases liquidity, lessens dependency on outside financing, and boosts profitability. It follows that SMEs that keep an eye on their stock turnover, control the timing of their inflows and outflows, and reduce the sales-to-cash cycle see better financial results.

4.5.2 Influence of Accounts Receivable Management

Accounts receivable management involves credit control policies, customer vetting, debt collection, and adjustments in credit terms. The results from Kisii County SMEs show moderate to strong adoption of sound receivables practices.

The statement with the highest mean, —We follow up consistently on outstanding debts, scored 4.08 ($SD = 0.71$), underscoring the importance SMEs place on diligent debt recovery efforts. This practice supports healthy cash flows and minimizes bad debt. Muturi and Kirui (2020) observed that rigorous follow-ups lead to improved receivables turnover and fewer write-offs. The next highest, —Customer credit limits are based on their payment history and creditworthiness, recorded a mean of 3.79 ($SD = 0.76$), indicating widespread use of riskbased credit extension. This practice reflects financial prudence, reducing the likelihood of defaults. Otieno and Makori (2022) similarly reported that predictive credit scoring enhances liquidity and reduces capital lock-up.

The practice of offering credit facilities to selected customers had a mean of 3.67 ($SD = 0.81$), suggesting that SMEs recognize the potential sales advantages of credit while exercising caution in issuing it. Koskei and Mwanja (2022) reported that targeted credit extension, when managed well, improves customer retention and business growth. —Revising credit policies

when necessary^{||} had a moderate mean of 3.61 (SD = 0.78), reflecting that SMEs adapt their credit strategies based on cash flow changes. This flexibility aligns with Okeyo and Lutomia (2023), who found that policy responsiveness to market conditions enhances SME resilience. The lowest mean, —We have a written credit policy,^{||} scored 3.52 (SD = 0.84), indicating that formal credit documentation is not consistently applied. Wekesa and Chebet (2020) noted that written credit policies promote transparency and consistency in lending decisions.

The importance of accounts receivable management was further supported by regression analysis, which showed that $\beta = 0.284$ and $B = 0.278$ ($t = 4.088$, $p < 0.001$). This suggests that businesses that establish appropriate credit control procedures, evaluate creditworthiness, and put follow-up plans into place see quantifiable gains in their bottom line. These results are consistent with those of Otieno and Makori (2022), who maintained that systematic debt management and customer-level credit profiling enhance businesses' capacity to predict cash inflows and lower default rates.

4.5.3 Influence of Accounts Payable Management

Accounts payable (AP) practices relate to how businesses manage their obligations to suppliers, balancing the timing of payments with cash availability. The findings show that SMEs in Kisii County employ disciplined and strategic AP management.

The highest-rated item was —We keep track of all outstanding bills and due dates^{||} with a mean of 4.13 (SD = 0.70), highlighting strong internal controls over liabilities. Accurate tracking helps avoid penalties, maintain financial credibility, and support audit compliance. Wekesa and Muli (2022) found that firms with effective tracking systems faced fewer operational interruptions and disputes. The item —Our business prioritizes supplier payments to maintain good relationships^{||} followed closely ($M = 4.06$, $SD = 0.71$), indicating the importance placed on maintaining supplier trust. Timely payments strengthen partnerships and ensure uninterrupted supplies. Kariuki and Ogolla (2020) confirmed that timely payables improve supplier relations and access to credit.

The statement —We plan supplier payments based on expected cash inflows^{||} had a mean of 3.97 (SD = 0.74), demonstrating that SMEs attempt to synchronize outflows with revenues. Gikonyo and Wambugu (2023) found that payment planning stabilizes working capital cycles and reduces borrowing needs. —We negotiate extended payment terms with suppliers^{||} scored

3.88 (SD = 0.79), revealing that SMEs actively seek favorable terms to improve cash positioning. Kibe and Mwangi (2022) asserted that flexible payment agreements enable businesses to buffer against income variability. Lastly, —Early payment discounts are utilized when available recorded a mean of 3.73 (SD = 0.83), indicating that although recognized, this practice may be limited by cash flow constraints. Mworira and Karanja (2023) observed that SMEs that leverage discounts reduce procurement costs and improve profit margins..

Financial performance was also found to be significantly impacted by accounts payable management in regression analysis, with $\beta = 0.265$ and $B = 0.246$ ($t = 3.968$, $p < 0.001$). This indicates that better financial results result from better vendor obligations management, including tracking, scheduling, and negotiation. These findings are in line with those of Kariuki and Ogolla (2020), who noted that SMEs that follow strict AP procedures have improved supplier relationships, fewer supply interruptions, and easier access to credit. Thus, the results of this objective verify that strategic outflow management plays a major role in the sustainability and profitability of SMEs, particularly with regard to payment scheduling and supplier engagement.



Mount Kenya University

CHAPTER 5

SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

5.0 Introduction

This chapter presents a cohesive reflection of the study's key findings, the conclusions derived from those findings, and the practical recommendations based on the influence of the cash management practices on financial performance among small and medium enterprises (SMEs) in Kisii County, Kenya.

5.1 Summary of Research Findings

5.1.1 Cash Conversion Cycle

According to the study, SMEs in Kisii County have adopted a number of cash management strategies, including controlling their cash conversion cycles. The cash conversion cycle, a measure of the time it takes to turn investments in inventory and receivables into cash through sales, was investigated using descriptive statistics and regression analysis. The management of CCC components received mixed but generally positive feedback from survey participants, according to the results. The practice of maintaining inventory levels that support both sales and cash availability received the most agreement with a mean of 4.11 (SD=0.69). This indicates that many prosperous SMEs are aware of the necessity of managing their inventory in relation to liquidity in order to avoid stocking out. The management of cash inflows and outflows, which had a mean value of 4.03 (SD=0.72), was closely tied to this. This suggests that most businesses have another reason for coordinating when funds are received and disbursed, to reduce likelihood of cash shortages and disruptions they cause.

Additionally, there were significant efforts to reduce the amount of time between purchasing and receiving payments from clients (mean = 3.96, SD = 0.74) which indicates that SMEs are increasingly realizing the value of reducing cash flow to boost liquidity and reduce external borrowing. The participants also reported a mean of 3.89 (SD = 0.76) for the number of days it takes to convert inventory to sales, which indicates a moderate level of consistency. This could indicate a growing trend in tracking the rate of inventory turnover to increase operational efficiency. On the other hand, as indicated by the mean score of 3.75 (SD = 0.82), routine monitoring of the cash conversion cycle appeared to be less commonly practiced. Although it's not standard procedure, it appears that some SMEs have begun to institutionalize recurring reviews to reframe strategies per cash flow patterns.

Apart from descriptive statistics, the regression analysis confirmed the importance of the CCC in explaining corporate financial performance. The unstandardized label B for CCC was 0.321 (SE = 0.065), whereas the standardized label beta (β) was 0.325. The t value attached to this relationship was 4.799; the p- value on this relationship is less than 0.001, hence effective CCC management and financial performance are positively related and this relationship is statistically significant at 0.01 significance level. This implies that the reduction by one -unit value in the cash conversion cycle, accelerating the inventory and receivables turnovers into cash, described the extent of phenomenal construction of the SMEs financial performance by the 0.312 units, holding constant the other factors. The study's more comprehensive analysis revealed that CCC was the most effective predictor of financial correlations among all the cash management practices examined.

These findings align with established financial theories and empirical evidence. Prior studies have emphasized the role of CCC in enhancing liquidity and profitability, especially for resource-constrained firms. The positive association observed here supports the theory that managing the operating cycle efficiently enables firms to reduce working capital pressures, maintain smooth operations, and increase their capacity to reinvest.

5.1.2 Accounts Receivable Management

The management of accounts receivable emerged as a critical component in shaping the financial performance of SMEs in Kisii County. Through the descriptive analysis, it was evident that many enterprises in the region have adopted structured credit control practices that support both sales growth and liquidity preservation. The statement —Our business offers credit facilities to selected customers recorded a mean of 3.67 (SD=0.81), indicating a moderate level of agreement among respondents. This implies that while credit sales are a common strategy to attract and retain customers, many SMEs remain cautious and extend such facilities only to trusted clients. This selective credit practice helps balance between revenue generation and risk exposure, aligning with literature that well-assessed credit extension boosts customer loyalty and long-term profitability, and that credit issuance, when backed by consistent repayment monitoring, reinforces client relationships and enhances business credibility.

Although credit sales occur frequently, it seems that there aren't many explicit policies governing credit-related choices. While some businesses have formal procedures in place, many rely on informal or ad hoc decisions, as indicated by the responses on businesses having a written credit policy that guides customer credit decisions (mean=3.52, SD = 0.84). In the absence of uniform policies, disparities in the granting of credit could occur, thereby putting companies at greater risk of nonpayment. With a mean score of 3.79 (SD=0.76), the statement on applying credit limits based on customer payment history and creditworthiness indicates that many SMEs appear to evaluate creditworthiness prior to approving credit limits. In order to reduce the risk of defaults and preserve sound cash flows, businesses are becoming more conscious of the significance of analyzing historical payment patterns.

Regarding debt recovery, the greatest degree of agreement was observed. With a mean score of 4.08 (SD = 0.71), the statement "We follow up on outstanding debts consistently" had the highest score. This demonstrates that follow-up is a common practice among SMEs, which probably helps them improve their cash resource management and payment rates. By being diligent in their pursuit of receivables, businesses can maintain operational efficiency and prevent cash shortages. A noteworthy practice that also surfaced was flexibility in modifying credit policies. A mean of 3.61 (SD = 0.78) was obtained for the statement on revising credit policies in response to our cash flow conditions, suggesting that some companies modify their credit terms in response to present market conditions or their financial status. They can stay resilient and financially responsive in changing environments thanks to their flexibility.

Further supporting these observations, the regression analysis showed a statistically significant positive relationship between accounts receivable management and financial performance. The unstandardized regression coefficient was 0.278, with a standard error of 0.068. The standardized beta coefficient stood at 0.284, and the t-value was 4.088, with a pvalue less than 0.001. This implies that improving receivables-related practices such as evaluating customer creditworthiness, strengthening debt collection efforts, and revising credit terms has a measurable impact on financial outcomes. In practical terms, a one-unit improvement in receivables control is associated with a 0.278-unit increase in financial performance, assuming other factors remain constant. These results highlight the strategic importance of effective receivables management in boosting profitability, maintaining liquidity, and enhancing overall business stability.

5.1.3 Accounts Payable Management

Managing accounts payable is a critical element in ensuring financial discipline and smooth operations for small and medium enterprises (SMEs) in Kisii County. These payables represent the short-term financial obligations that businesses owe their suppliers, and managing them effectively allows firms to maintain trust with vendors, avoid supply chain disruptions, and protect their cash flow. The analysis shows that SMEs in the region have embraced several payment strategies aimed at aligning outgoing cash with their operational needs.

One of the common practices involves negotiating longer payment periods that correspond with expected cash inflows. Negotiating extended payment terms with suppliers to match cash flow recorded a mean score of 3.88 (SD= 0.79), indicating that many businesses actively engage in discussions with suppliers to stagger payments. This helps ease short-term financial pressure and reduces dependence on expensive short-term borrowing, ultimately supporting business sustainability. Similarly, planning supplier payments based on expected cash inflows received a slightly higher mean of 3.97 (SD = 0.74) suggesting that most businesses consider incoming revenue when organizing payment schedules, thereby improving financial planning and minimizing the risk of overextending their cash reserves. By coordinating outflows with inflows, these businesses maintain better control over their liquidity and reduce unnecessary strain on working capital.

An even stronger consensus was observed around the importance of keeping proper records of outstanding payables with a mean score in this section 4.13 (SD = 0.70), coming from the statement on keeping track of all outstanding bills and due dates. This reflects a strong culture of accountability among SMEs, where staying updated on financial commitments is prioritized to prevent missed deadlines and associated penalties. Accurate tracking of obligations also improves internal transparency and facilitates timely responses to supplier expectations. While there is awareness of the financial benefits linked to early payment, it appears that many SMEs face challenges in taking full advantage of these incentives. Early payment discounts being utilized when available had a mean of 3.73 (SD = 0.83), indicating moderate agreement. This points to an understanding of the value in such discounts, though some businesses may lack the financial flexibility to consistently act on them. Nonetheless, when applied, early settlement helps reduce costs and can contribute to long-term profitability.

Another significant finding emerged from the emphasis SMEs place on nurturing positive relationships with their suppliers. The statement on businesses prioritizing supplier payments

to maintain good relationships achieved a high mean score of 4.06 (SD = 0.71). This shows that businesses recognize the importance of fulfilling their financial commitments not only for operational continuity but also for building trust and unlocking better future terms. Maintaining good standing with suppliers can lead to advantages like extended credit, price negotiation, and uninterrupted supply chains.

Regression analysis confirmed the impact of accounts payable management on financial performance. The results revealed an unstandardized coefficient of 0.246, with a standard error of 0.062. The standardized beta coefficient was 0.265, with a t-value of 3.968 and a significance level below 0.001. These figures suggest a statistically significant and positive contribution of accounts payable practices to financial performance. In practical terms, every unit improvement in payables management such as aligning payment schedules with income, keeping detailed records, and strengthening supplier relations contributes to a 0.246 unit rise in financial performance, assuming other conditions remain constant.

In conclusion, SMEs in Kisii County appear to be adopting sound practices in managing accounts payable, which in turn supports their financial stability. Their efforts to match payments with cash flow, maintain detailed records, and honor supplier commitments reflect a growing maturity in financial operations. However, there is still room to enhance these practices, particularly in maximizing early payment discounts and formalizing negotiation processes to further strengthen financial outcomes and operational resilience.

5.1.4 Financial Management

The study sought to establish the financial performance of SMEs in Kisii County, based on five key indicators, namely; revenue growth, profitability, liquidity, return on investment (in terms sales income) and the efficiency of financial management decision making. The responses offered a look at how these firms see their financial development and the effectiveness of their financial strategy.

The statement —We have experienced growth in revenue was responded to with a mean of 3.89 (SD=0.78), thereby indicating that a majority of the SMEs reported a positive trend in income over time. This is evidence that the enterprises had potential to generate higher revenues and it have led to higher endowments, could be due to better marketing, customer retention strategies such as saving or through reduction in transaction costs. Profitability was also

examined, and the item —Our profits have increased steadily recorded a mean of 3.81 (SD =0.82). This finding represents a small but statistically significant increase in income.

Although profits vary by industry, it seems SMEs are doing a better job of managing costs and using their resources, resulting in better financial performances.

The financial health factor liquidity (the firm's ability to meet its short-term obligations) was measured using the item —The firm maintains sufficient cash to meet its obligations, which reported a mean of 3.94 with a standard deviation of 0.76. This score implies to us that most businesses are in a position to manage their near-term expenses, an important characteristic in times of economic uncertainty. On investment returns, —We have realised a good return on money invested in the business (mean = 3.74, SD = 0.83). That indicates that the average respondent, with respect to rewards from his business ownership, is satisfied. But the divergence in answers suggests that investment returns might vary based on how effectively businesses manage risks and allocate resources.

The most agreement in this section was found with the item —Our financial decisions have enhanced the performance of the business overall, with mean of 4.02 (SD=0.75). This shows that SME owners and managers have a high level of confidence in the financial decisions they have made/and will make. But definitely, decisions don't happen at the spur of a moment, but through careful budgeting, proper planning and continuous monitoring, which are all too important to help you grow and adapt in business.

Collectively, these findings describe a scene of SMEs in Kisii County that is gradually becoming financially mature. The patterns in revenue, profit, liquidity, investment return, and strategic financial choice over time indicate that many firms are following a steady track of financial discipline leading towards financial soundness and long-term solvency.

An Analysis of Variance (ANOVA) test was used to better understand the combined impact of all the cash management practices that were examined. With a p-value less than 0.001 and an F-value of 73.819, the analysis yielded a statistically significant result. This demonstrates that the cash conversion cycle, accounts payable management, and accounts receivable management components of the model are accurate indicators of financial performance. The result's importance implies that the incorporation of structured cash management techniques is the consequence of intentional actions that improve financial results rather than being a

coincidence. These procedures should therefore be regarded as crucial to long-term financial planning since they provide a strong foundation for enhancing SME performance.

5.2 Conclusions

Effective cash management techniques have a major impact on the financial performance of small and medium-sized businesses in Kisii County, according to the study's findings. A positive and statistically significant impact on financial performance was observed for each of the three cash management components that were studied: the cash conversion cycle, accounts receivable management, and accounts payable management. The operational foundation of SMEs' ability to improve liquidity, lower financial risk, and foster strategic growth is made up of these practices taken together. SMEs are better able to maximize liquidity and operational efficiency when they actively monitor and manage the time it takes to turn inventory and receivables into cash, according to the cash conversion cycle (CCC) analysis. Among the three variables, the CCC's predictive strength was the highest, highlighting its crucial function in financial planning. From procurement to revenue collection, companies that optimize the conversion process tend to minimize cash flow gaps, steer clear of short-term borrowing, and maintain more seamless business operations.

Accounts receivable management also emerged as a critical area in maintaining business solvency and profitability. SMEs that consistently follow up on outstanding debts, apply riskbased credit extension, and adapt their credit policies based on customer behavior and internal cash needs are more likely to experience steady income inflows and fewer losses from defaults. This approach not only improves financial predictability but also supports long-term customer relationships rooted in mutual trust and accountability. Similarly, the findings from accounts payable management indicate that businesses that plan supplier payments in alignment with expected cash inflows and maintain accurate records of liabilities enjoy greater control over their cash outflows. Strategic negotiation of payment terms and prioritization of key supplier relationships were also shown to contribute positively to financial stability. These practices reduce the chances of cash shortfalls and build goodwill with suppliers, which is essential for continuity, especially in volatile market conditions.

With regard to financial performance, the descriptive results suggest that most SMEs in Kisii County are experiencing moderate to strong performance across indicators such as revenue growth, profitability, liquidity, and return on investment. Furthermore, there is widespread confidence in the quality of financial decision-making, reflecting a maturing financial

management culture. This outlook is supported by the results of the ANOVA, which confirmed that the combined model of cash management practices provides a statistically significant explanation of financial performance variations among the surveyed firms.

In summary, the study concludes that robust internal cash management practices are not just financial housekeeping functions, but essential strategic tools for enhancing SME performance. Enterprises that invest in formalizing and refining their cash flow operations stand a better chance of surviving economic shocks, expanding sustainably, and maintaining a competitive edge in the dynamic business landscape of Kisii County.

As a whole, the study comes to the conclusion that sound internal cash management procedures are crucial strategic instruments for improving SME performance, not merely maintenance tasks. Formalizing and improving cash flow operations gives businesses a better chance of surviving economic downturns, growing sustainably, and preserving their competitive advantage in Kisii County's ever-changing business environment.

5.3 Recommendations for Practice

Based on the findings and conclusions drawn from this study, several practical recommendations are proposed to enhance the financial performance of SMEs in Kisii County through improved cash management practices. These recommendations target three key groups: government authorities, service users, and other supporting stakeholders. By acting on these insights, the broader ecosystem supporting SME development can foster more sustainable, resilient, and profitable enterprises.

5.3.1 The Authorities

National and county governments, through relevant agencies such as the Ministry of Trade, Micro and Small Enterprises Authority (MSEA), and financial regulators, should prioritize policies and programs that support effective cash management among SMEs. One critical step is to institutionalize training programs and capacity-building workshops that focus on financial literacy, working capital management, and practical bookkeeping skills. These initiatives should be made accessible at the grassroots level and tailored to the unique challenges SMEs face, particularly in rural and semi-urban environments.

In addition, policy frameworks should be reviewed to provide SMEs with incentives for adopting structured financial systems, such as tax relief for businesses that invest in accounting

tools or digital financial solutions. Government-backed loan schemes and grants should also consider cash management capacity as a criterion for funding eligibility to ensure sustainability and responsible use of resources. Finally, authorities should create platforms for dialogue between SMEs and financial institutions, allowing for improved access to credit and more favorable payment terms that match the cash flow cycles of smaller businesses.

5.3.2 Service Users/Beneficiaries

Small and medium enterprises must embrace cash management as a strategic function rather than a reactive task. Business owners should prioritize the adoption of formal systems for monitoring the cash conversion cycle, setting clear credit policies, and tracking accounts payable. Regular analysis of how long it takes to convert inventory and receivables into cash should become a routine part of operational reviews. This will allow businesses to identify delays and inefficiencies, improving both liquidity and profitability.

SMEs are also encouraged to develop written credit policies that are based on customer vetting and payment history. Establishing credit limits and regularly reviewing them based on cash flow needs will help reduce the risk of bad debts and enhance financial control. On the payables side, businesses should maintain up-to-date records of outstanding obligations and align supplier payments with projected income to avoid unnecessary strain on working capital. Additionally, leveraging early payment discounts and negotiating favorable terms with vendors should be approached deliberately as part of overall financial strategy. Above all, financial decisions should be guided by data rather than assumptions, and wherever possible, technology should be adopted to automate and streamline financial tracking and reporting.

5.3.3 Other Stakeholders

Development partners, financial institutions, business associations, and academic institutions all have a role to play in strengthening the financial performance of SMEs. Financial institutions should work towards designing more flexible credit products tailored to the cash flow patterns of SMEs. Rather than one-size-fits-all solutions, banks and microfinance institutions should adopt relationship-based models that reward businesses with sound financial discipline, including those that show consistent receivables management or timely payables behavior.

Business development service providers and trade associations can support SMEs by offering mentorship, peer learning, and shared digital tools that promote structured financial planning.

Moreover, academic and research institutions should expand training on SME finance within entrepreneurship programs, emphasizing practical applications of cash flow management in real business settings. They can also partner with SMEs to develop customized financial models that guide decision-making based on seasonal patterns, local supply chains, and industry-specific risks.

Collectively, the contributions of all stakeholders including regulators, service users, financiers, and educators can establish a supportive environment where SMEs not only survive but thrive. The reinforcement of sound cash management practices across all sectors will ultimately lead to more robust enterprises, increased employment, and a more dynamic local economy in Kisii County and beyond.

5.4 Recommendations for Further Research

While this study has provided valuable insights into the effect of cash management practices on the financial performance of SMEs in Kisii County, there are several areas where further investigation is warranted to deepen understanding and broaden applicability. Future research should aim to address the limitations of this study while exploring new dimensions that can enrich the discourse on SME financial sustainability.

First, given that the cash conversion cycle was found to have the strongest influence on financial performance, future studies could investigate its components in more detail such as inventory days, receivables days, and payables days to determine which specific elements drive performance the most. This would help SMEs fine-tune their internal operations based on the most impactful time segments within the cycle. Additionally, a longitudinal study tracking the changes in CCC practices over several years would provide deeper insights into how long-term adjustments in operational efficiency influence profitability and growth.

Second, while accounts receivable management showed a significant impact on financial outcomes, this study focused on SMEs as a whole. Subsequent research could segment SMEs by sector such as retail, manufacturing, or services to explore whether receivables practices and

challenges differ across industries. Such differentiation could offer more targeted policy and practice recommendations, especially in high-risk or credit-sensitive sectors.

Third, the role of accounts payable management was also positively associated with financial performance, although its beta coefficient was slightly lower than the other predictors. Further research could examine the dynamics between supplier relationships, payment negotiations, and business resilience particularly under economic pressure. Case studies exploring how SMEs restructure their payables during downturns or liquidity crises would offer valuable practical lessons.

Fourth, while this study relied on self-reported perceptions of financial performance, future research could incorporate actual financial records such as audited statements, bank transaction data, or tax filings to validate the strength of these perceptions. Combining qualitative and quantitative data would offer a more robust and objective evaluation of how cash management behaviors translate into financial success.

Lastly, since this study was limited to Kisii County, comparative research could be conducted across different counties or regions in Kenya to assess the generalizability of the findings. Regional disparities in infrastructure, market access, and financial literacy could influence how cash management practices are applied and their effectiveness. Cross-county or even national-level studies would enable benchmarking and help inform broader policy frameworks aimed at strengthening SME financial health across the country.

In conclusion, there is a clear need to expand the evidence base around SME financial practices, particularly in relation to cash flow management. By undertaking more nuanced, context-specific, and longitudinal research, future scholars and practitioners can help build a more resilient and financially empowered SME sector

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APPENDICES

APPENDIX I: RESEARCH INSTRUMENTS

INFORMED CONSENT FORM

INFORMED CONSENT FOR RESEARCH STUDY

Title of Study: Effect of Cash Management Practices on Financial Performance of Small and Medium Enterprises in Kisii County, Kenya.

Researcher:

Celistine Bonareri Mose Mount Kenya

University celistinebonareri@gmail.com , +254

710 376548

Purpose: This paper is intended to evaluate how cash management practices affect the financial performance of SMEs in Kisii county.

Voluntary Participation: You may choose whether or not to participate. You can always opt out with no repercussions.

Confidentiality: All information provided will be treated with strict confidentiality and used solely for academic purposes. No names or information that could identify the people involved will be included.

Risks and Benefits: There are no known risks. There is no upfront reward from a monetary perspective, but your feedback could contribute towards better SME finance practices.

Participant's Declaration:

Having read and understood the information provided above, I agree to freely take part in this study on a voluntary basis.

Participant's Name: Signature:

.....Date:

Researcher's Declaration:

I attest that I have fully explained the study's objectives and methods to the participant and that I have provided the best response possible to all of their inquiries.

Researcher's Name:

Signature:Date:

QUESTIONNAIRE

Title: Effect of Cash Management Practices on Financial Performance of Small and Medium Enterprises in Kisii County, Kenya

Dear Respondent,

For each of the questions, please answer honestly and put a [√] next to the most appropriate one. Your participation is greatly appreciated.

SECTION A: General Information

1. Gender:

Male Female

2. Age:
 Below 25 25–34 35–44 45 and above
3. Education Level:
 Primary Secondary College/University Postgraduate
 Other: _____
4. Role in Business:
 Owner Manager
5. Years of Business Operation:
 Less than 1 year 1–3 years 4–6 years Over 6 years
6. Sector of Business:
 Retail Hospitality Services Manufacturing Agribusiness
7. Do you have any training on financial management?
 Yes No
8. Do you have a finance professional in your business?
 Yes No
9. How many employees are there in your business currently?
 1–10 10–20 20–50 More than 50

SECTION B: Cash Conversion Cycle

Please indicate the extent to which you agree or disagree with each of the following statements (1 = Strongly Disagree, 2=Disagree, 3=Neutral, 4=Agree, 5 = Strongly Agree)

Statement	Response Mode				
	1	2	3	4	5
We monitor the time it takes to convert inventory into sales.					
The timing of cash inflows and outflows is actively managed by our business.					

	We review the cash conversion cycle on a regular basis.					
	We maintain stock levels that support both sales and cash availability.					
	We aim to shorten the time between purchases and collections from customers.					

SECTION C: Accounts Receivable Management

Please indicate the extent to which you agree or disagree with each of the following statements (1 = Strongly Disagree, 2=Disagree, 3=Neutral, 4=Agree, 5 = Strongly Agree)

Statement	Response Mode				
	1	2	3	4	5
Our business offers credit facilities to selected customers.					
We have a written credit policy that guides customer credit decisions.					
Customer credit limits are based on their payment history and creditworthiness.					
We follow up consistently on outstanding debts.					
We revise our credit policies when necessary to reflect current cash flow needs.					

SECTION D: Accounts Payable Management

Please indicate the extent to which you agree or disagree with each of the following statements (1 = Strongly Disagree, 2=Disagree, 3=Neutral, 4=Agree, 5 = Strongly Agree)

Statement	Response Mode				
	1	2	3	4	5
We negotiate extended payment terms with suppliers to match our cash flow.					
We plan supplier payments based on expected cash inflows.					

	We keep track of all outstanding bills and due dates.					
	Early payment discounts are utilized when available.					
	Our business prioritizes supplier payments to maintain good relationships.					

SECTION E: Financial Performance

Please indicate the extent to which you agree or disagree with each of the following statements (1 = Strongly Disagree, 2=Disagree, 3=Neutral, 4=Agree, 5 = Strongly Agree)

	Statement	Response Mode				
		1	2	3	4	5
	We have experienced growth in revenue.					
	Our profits have been increasing steadily.					
	The business maintains enough cash to meet its obligations.					
	We have seen a good return on money invested in the business.					
	Our financial decisions have improved the business's overall performance.					

APPENDIX II: ERC CERTIFICATE

Mount Kenya University



REF: MKU/ISERC/2670

Date: 04 April 2023

TO: CELISTINE BONARERI MOSE

REG: MBA/2013/56868

Dear Sir/Madam,

RE: EFFECT OF CASH MANAGEMENT PRACTICES ON FINANCIAL PERFORMANCE OF MICRO ENTERPRISES IN KISI' COUNTY, KENYA

This is to inform you that **Mount Kenya University** has reviewed and approved your above research proposal. Your application approval number is **1714**. The approval period is **04/04/2023 - 03/04/2024**.

This approval is subject to compliance with the following requirements;

- i. Only approved documents including informed consents, study instruments, MTA will be used
- ii. All changes including amendments, deviations and violations are submitted for review and approval by **Mount Kenya University**
- iii. Death and life-threatening problems and serious adverse events or unexpected adverse events whether related or unrelated to the study must be reported to **Mount Kenya University** within 72 hours of notification
- iv. Any changes, anticipated or otherwise that may increase the risks or affect the safety or welfare of study participants and others or affect the integrity of the research must be reported to **Mount Kenya University** within 72 hours
- v. Clearance for export of biological specimens must be obtained from relevant institutions
- vi. Submission of a request for renewal of approval at least 60 days prior to expiry of the approval period. Attach a comprehensive progress report to support the renewal
- vii. Submission of an executive summary report within 90 days upon completion of the study to **Mount Kenya University**

Prior to commencing your study, you will be expected to obtain a research license from National Commission for Science, Technology and Innovation (NACOSTI) <https://research-portal.nacosti.go.ke> and also obtain other clearances needed.

Yours sincerely,

The Chairman
Mount Kenya University
Ethics Review Committee
P. O. Box 342 - 0100, Thika

Dr. Peter G. Kirira
Chairman, Mount Kenya University ISERC

Main Campus, General Kago Road, P.O. Box 342-01000 Thika.
Tel: 020-2878 000, Cell: +254 709 153 000

APPENDIX III: LETTER OF INTRODUCTION

DIRECTORATE OF GRADUATE STUDIES

MBA/2013/56868

4th April, 2023

*National Commission for Science Technology & Innovation (NACOSTI)
Off Waiyaki Way, Upper Kabete,
P.O Box 30623- 00100
NAIROBI, KENYA*

Dear Sir/Madam,

RE: CELISTINE BONARERI MOSE - REGISTRATION NO. MBA/2013/56868

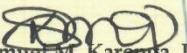
The purpose of this letter is to introduce the above named student who is pursuing **Master of Business Administration** in the department of **Accounting and Finance** in the school of **Business and Economics**

The title of the research is **"Effect of Cash Management Practices on Financial Performance of Micro Enterprises in Kisii County, Kenya."**

It has been cleared by the University's Ethics Review Committee (Certificate attached) and now has to proceed to the field to collect data between **April, 2023 and June, 2023.**






Any assistance accorded to the student will be highly appreciated.

Thank you.


Dr. Samuel M. Karenga, Ph.D
Director, Graduate Studies
Enc.

Mount Kenya University
P. O. Box 342-01000, THIKA
Office of the Director
Graduate Studies

APPENDIX IV: NACOSTI RESEARCH PERMIT

 REPUBLIC OF KENYA	 NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY & INNOVATION
Ref No: 271381	Date of Issue: 25/April/2023
RESEARCH LICENSE	
	
<p>This is to Certify that Ms.. Celistine Bonarerl Mose of Mount Kenya University, has been licensed to conduct research as per the provision of the Science, Technology and Innovation Act, 2013 (Rev.2014) in Kisii on the topic: EFFECT OF CASH MANAGEMENT PRACTICES ON FINANCIAL PERFORMANCE OF MICRO ENTERPRISES IN KISII COUNTY, KENYA for the period ending : 25/April/2024.</p>	
License No: NACOSTI/P/23/25383	
271381	
Applicant Identification Number	Director General NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY & INNOVATION
Verification QR Code	
	
<p>NOTE: This is a computer generated License. To verify the authenticity of this document, Scan the QR Code using QR scanner application.</p>	
See overleaf for conditions	

APPENDIX V: FIELD ENTRY AUTHORIZATION

KISII COUNTY GOVERNMENT

Telephone: +254-709727000
+254-730184000
Email: info@kisii.go.ke



Kisii Municipal Building
P.O. Box 4550 – 40200
Kisii, Kenya.

DEPARTMENT OF TRADE, TOURISM, INDUSTRY AND MARKETING

Date: 3rd May 2023

CELISTINE BONARERI MOSE
MOUNT KENYA UNIVERSITY

RESEARCH AUTHORIZATION

In response to your recent request, this office has no objection and permission is hereby granted to conduct research on the topic “**Effect of Cash Management Practices on Financial Performance of Small and Medium Enterprises in Kisii County, Kenya**” for the period ending 25th April, 2024.

Respectfully,
A rectangular stamp from the Kisii County Government, County Executive Committee, Trade, Tourism, Industry & Marketing. It contains the date '03 May 2023' in red, a signature, and the text 'P.O. Box 4550-40200, KISII.'
Sign: _____
P.O. Box 4550-40200, KISII.

Dr. Alfred Ndemo Ong'era

CEC

APPENDIX VI: SIMILARITY INDEX REPORT

EFFECT OF CASH MANAGEMENT PRACTICES ON FINANCIAL PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN KISII COUNTY, KENYA

119 Thomas Andreas Maurer. "Exploring the Financial Landscape in the Digital Age", CRC Press, 2024 <1%
Publication

120 "Proceedings of the 8th International Conference on Economic Management and Green Development", Springer Science and Business Media LLC, 2025 <1%
Publication

121 Adeyemi, Olayinka Oluwagbenga. "Financial Development and Economic Growth: The Moderating Effect of Political and Socio-Economic Environment", Kwara State University (Nigeria) <1%
Publication

122 Frank Nana Kweku Otoo. "Assessing the influence of financial management practices on organizational performance of small- and medium-scale enterprises", Vilakshan - XIMB Journal of Management, 2024 <1%
Publication

Exclude quotes Off

Exclude matches Off

Exclude bibliography Off

APPENDIX VII: STUDY AREA MAP



Source: softkenya.com

Mount Kenya