

Full length Research paper

Effect of financial management practices on the growth of selected small and medium enterprises in Eldoret town

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The study sought to establish the effect of financial management practices on the growth of enterprises in Eldoret town. The following objectives were used; to determine the effect of financial budgeting on the growth of small and medium enterprises in Eldoret town, and to investigate the effect of working capital management on the growth of small and medium enterprises in Eldoret town. The study was guided by the pecking order theory and trade-off theory. The study applied explanatory research design. Data was collected through open and close ended questionnaire which was then analyzed by multiple line regression statistics. The study used census of 1139 SMEs. The study found that the financial budget management practices enabled the business operators to effectively plan, borrow efficiently and control the businesses expenditures. Additionally, most business enterprises that adopted proper working capital management practices ended up with sufficient cash flows to effectively meet their daily needs. The study recommended that formulation of policies and regulatory framework should be used to enhance growth of SMEs.

Key words: financial management practices, working capital management, financial budgeting, growth of small and medium business in Eldoret.

INTRODUCTION

Background to the Study

Financial management practices play a vital role in the growth of SMEs. The determination of profit margins and investment appraisals increase the business's performance (Butt, Rehman, & Hunjra, 2010). Financial management practices provide insightful information that firm owners or managers use investment decisions, compute accurate tax information and make decisions (Jindrichovska, 2013). Banks and micro financial institutions rely on financial information generated by the businesses to determine their creditworthiness. The government uses information gathered from business concerning financial management to formulate tax and economic policies for SMEs and computation of the country's GDP. Financial management being a critical component plays a very important and pivotal role on overall business growth (Nthenge & Ringera, 2017). Financial management practices normally are measured

using different capital structures (Yogendarajah, Kengatharan, & Suganya, 2017). Financial management is the cornerstone in the sustainability and profitability of the business include cash flow control and capital investment with proper record management on these areas. However, ineffective financial management has been singled out as one of the key causes of the myriad underlying problems that bedevil small and medium enterprises(SME) (Jindrichovska, 2013). Most of the practitioners who commence a business enterprise fail to undertake important financial matters that are very critical in the business. This is because they lack the requisite knowledge about recording financial transactions in addition to compilation, proper analysis and interpretation of financial statements. In some instances, SMEs tend to lean extensively towards other fields of business like human resource management, sales, purchases and inventory at the expense of managing finances. Such enterprises are susceptible to the dangers of failure business owing to lack of application of well-grounded

financial management practices (Abimbola & Kolawole, 2017).

Studies conducted in different countries have established a nexus between business failure and lack of application of competent financial management practices. Those SMEs that do not embrace proper financial management practices miss out on the myriad benefits associated with it.

Such business enterprises end up losing credit facilities that are offered by banks on the basis of financial reports.

Sound decision making is compromised because the business lacks a robust financial management background and they also miss the business support services offered by Government agencies and NGOs to properly managed businesses.

The SMEs subsectors constitutes nearly 80% of the employment job opportunities and generates almost 20% of the country's Gross Domestic Product.

Their dismal subsector performance implies that potential contribution to employment is hampered, equity household income is unattainable and Kenya's blueprint Vision 2030 development strategy seeking to transition Kenya into a middle-income country remains a pipe dream.

This unfortunate scenario where SMEs continue to register dismal performance is what has prompted the researcher to investigate the effect of implementation of enterprise financial management practices on the SME growth in Eldoret town, Uasin Gishu County.

Statement of the Problem

A 2016 survey by Kenya National Bureau of Statistics attributed the demise of SMEs to increased operating costs and faulty business decisions.

It also revealed in that study that tracked SME enterprises over a 5 year period, that almost 400,000 micro, small and medium enterprises (MSMEs) did not see their second birthday while 2.2 million MSMEs closed shop during the years under review (Kenya national bureau of statistics, 2016).

The collapse of SMEs is a national problem that numerous researchers have attempted to investigate with a view to understand and identify solutions.

Despite efforts to mitigate this unfortunate trend, the problem of collapsing SMEs in their infancy or during their lifetime still persists.

This calls for an urgent rethink on available strategy interventions and formulation of robust policies that stimulates and promote the graduation of small to medium size enterprises and eventually into large firms. This research provides an opportunity to review available financial management practices and open a front that will enhance navigate the business enterprise.

Objectives of the Study

The general objective of this study was to find out the effect of financial management practices on the growth of selected small and medium enterprises in Eldoret town, Uasin Gishu County.

Specific Objectives

The specific objectives of this research included the following:

- i) To determine the effect of financial budgeting on the growth of small and medium enterprises in Eldoret town.
- ii) To investigate the effect of working capital management on the growth of small and medium enterprises in Eldoret town.

LITERATURE REVIEW

Theoretical Review

Theoretical review attempts at explaining behavioural tendencies of persons in their making of certain financial decisions that concern the running of their enterprises. The study identified two theories to be of importance in explaining the concept of financial management in the business organization and how to measure liquidity. These include the trade-off theory and the pecking order theory in the measurement of liquidity. The trade-off theory and pecking order theory explains the behaviour of individuals that ultimately determines the capital structure decisions of the organization.

These behavioural tendencies affect the capital structure of the business since they determine the sources of finance and how the finances are invested in the business. In a nutshell, both trade-off and the pecking order theories explain the dynamics of financing decisions and the daily aspects of maintaining the working capital during the life span of the business enterprise.

The Trade-Off Theory

The Modigliani and Miller (1963) trade-off theory underscores the impact of tax, agency costs and costs associated with financial constraints and how it ultimately determines the organization's capital formation. It assumes that managers of organizations maintain an optimum debt to equity ratio as a strategy to mitigate the cost of ongoing imperfections in the market, shedding off taxes associated with debt financing and the associated agency costs as well as the financial implications of costs associated with sustaining high levels of debt.

The trade-off liquidity theory assumes that firms seek to attain equilibrium on liquidity to enable it to maintain a perfect balance between the benefit and the cost associated With holding cash (Berzkalne & Elvira Zelgalve, 2012).

In a nutshell, the tax benefits that might accrue to the firm by using debt are traded off with other auxiliary costs accompanying capital distress and agency costs so as to retain an optimum debt level in the capital structure of the firm (Cekrezi, 2013). The trade-off theory holds that the organization is expected to leverage positively in relation to its size. The larger the size of the business organization, the lower the chances of the firm undergoing bankruptcy and profitability of the organization, then greater will be the profits margins that needed to be protected against taxation in order to the reduce the costs associated with financial management.

Empirical Literature Review

This section conceptualizes and analyses various previous studies and research works done both locally and internationally underpinning the growth performance of SMEs. This was undertaken while evaluating the effect of financial management practices on the growth of SME's. This section details a systematic review of the effect of financial budgeting and management of working capital on the growth of SME's.

Financial Budgeting and Growth of SMEs

The budgets derived from financial planning determine the output for the firm (Abdul, 2016). The external and internal factors surrounding the business provide managers with the basis to develop a budget, which runs in concert with financial forecasting and planning. Many small businesses require some external sources of financing for their ever growing operations. Financial planning and budgeting assists small business owners to obtain external financing from investors or banks. Small businesses often lack a strong financial history, therefore investors or banks rely on their financial planning and budgeting to determine the credit rating of such businesses.

Financial budgeting besides playing a crucial role in raising start-up capital, also serves as a means to ensure that there is efficiency in the daily management of the operations of the business enterprise.

Locally, Addo (2017) in a study conducted in 2017 in Nairobi, sought to establish how financial management operations financially affected the conduct of top 100 performing SMEs in Kenya. Using cash budgeting as its parameter of financial management practices, this survey collected primary and secondary data using questionnaires and later analyzed using Cronbach's alpha.

The study established that cash budget management significantly positively impacted the organizations' financial performance. The study further observed that cash budgeting enabled planning, credit acquisition and the efficient utilization of organizations resources (Addo, 2017).

Working Capital Management and Growth of SMEs

Working capital represents the short-term assets or the firm's currents assets. Management working capital therefore is the firm's daily operations carried out to ensure the firm maintains adequate financial resources that result in uninterrupted flow of its business operations. Working capital is measured as the net short term liquid assets of the firm i.e. current assets (inventories, accounts receivable, cash and short term credit) less its current liabilities (accounts payable and any short term debt) (Chan, 2014).

The essence of management of working capital is to steer the business firm in a manner to navigate through challenging pitfalls such as inconsistent supply chain processes and overstocking. Every organization tries as much as it can to ensure that capital is not held up by stocks that are non-productive, there is prompt repayment for account sales receivables and if possible delay cash payments for accounts purchases payable.

RESEARCH METHODOLOGY

This is the summary of the parameters within which the research is carried out (Kothari & Garg, 2015). It guides a researcher to know what to do in the whole research process.

The study adopted explanatory research design while carrying out the research where during the research, the variables are observed in their existing state while adopting ex-post-facto approach. This research design befits this study in that it helps us find an in-depth analysis of the problem that was not studied before. The explanatory research helps us in enhancing more efficient understanding of the problem. The population of SMEs in Eldoret town is dominated by hotels and bars 500(44%), followed by agricultural producers 107(9.4%) and medical services providers 102(9%). The town is least in mobile service operators 3(0.26%), bakeries, quarries and state corporations at 10(0.88%) and textile firms at 5(0.44%). The sample size was determined using the Krejcie & Morgan table (1970). For adequate collection of data and information, this study obtained a sampling frame by which SMEs are classified as per the type of business they undertake in Eldoret town. For example hotel operators, manufacturers, medical service providers, hardware operators, dairy operators, public service transport providers just to mention but a few.

Stratified random sampling method was employed in picking the sample.

They were stratified based on the business type. Simple random sampling technique was used to pick a sample in every stratum. A simple random sample provides all the sampling units within the specified sample size an equal chance of being selected (Bacon-Shone, 2015). Therefore simple random sampling was

Table : Sample Size

Types of businesses	Target population	Sample size
Dairy firms & operators	50	44
Pharmaceutical firms	30	28
supermarkets & mini supermarkets	57	52
Bakeries	10	10
Hotels and bars	500	217
Medical service providers	102	80
Flower firms	12	10
Financial service providers	93	76
Quarries	10	10
Petrol stations	72	59
Mobile service providers	3	3
Public service transport operators	32	28
State corporations	10	10
Maize milling companies	15	14
Textile operating firms	5	5
Insurance companies	20	19
Manufacturing companies	11	10
Agricultural producers	107	86
Total	1139	761

Source: Trade and Industrialization Department, Uasin Gishu County, 2018

chosen because this process of selection from a population provides every sample in a given size an equal opportunity of being selected. Simple random sample technique ensured that managers/owners were given the same opportunity to be included in the study. Simple random sample using lottery method was employed by the researcher.

The lottery method involved assigning each member of the population a number, after which numbers were selected at random. After establishing the required number of managers, an equivalent number of small paper was written (Y) for Yes and the remaining papers (N) for No. All the managers/owners in each strata were allowed to pick one paper at random. Those who picked Y papers were selected to take part in the study while those that pick N papers did not participate in the study. **761** managers were selected for inclusion in the study.

This research utilized both primary and secondary data. Primary data was collected from the various individuals using self-administered questionnaires which

were both structured and un-structured. Records obtained from SMEs, publications and information sourced from the internet provided a rich source of secondary data for this study. The self-administered questionnaires incorporated all the five variables while remaining cognizant of the research objectives. The open and close-ended study questionnaires were used as the instrument of data collection. Questionnaires were preferred since they allowed for qualitative assessment and capture the opinions of the respondents as well as quantitative data.

RESULTS AND DISCUSSION OF FINDINGS

Response rate

This section briefly discusses the proportion of research instruments that were appropriately filled and returned by the respondents for analysis.

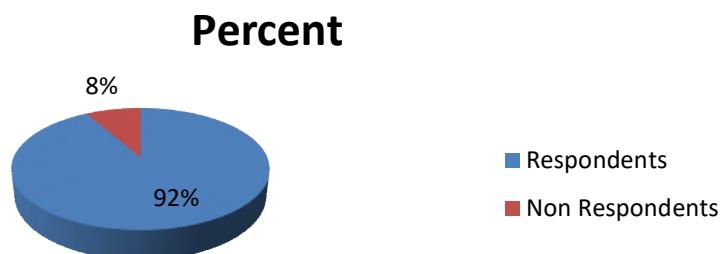


Figure:1 Response Rate
Source: Research Data, 2019

In undertaking survey research, a response rate equal to or greater than 80% is considered ideal (Fincham, 2008). Mugenda and Mugenda (2012) asserts that a response return rate of 50% is sufficient for analysis and a response of 60% is generally good but when the response rate is 70% that is deemed to be very good. In a study to examine practices of financial management in small and medium sized businesses conducted in Ampara District in Sri Lanka, a total of 70 questionnaires was administered out of which 60 were returned fully filled and formed the basis of analysis in the study representing a response rate of 85.71% which was considered ideal for the study (Abdul, 2016).

Therefore, as shown in figure 4.1, in this study, 698 questionnaires were returned out of the 761 questionnaires administered to the SMEs giving a 91.7% response rate which is considered ideal and reliable for the study.

In order to determine how these sample items correlate with each other, individual items in the questionnaire were computed and compared to the other items in the instrument using Cronbach's Coefficient Alpha (Cooper & Schindler, 2014). All the items computed a 0.7 Cronbach's Coefficient which is above the minimum required threshold.

Research Findings and results presentation

This study sought to evaluate how financial management

practices influence the growth of selected small and medium enterprises in Eldoret town. Growth was conceptualized in the study as the dependent variable. The four parameters used to determine the growth of the enterprise included the number of employees in the business, the age of the business, the annual turnover and the total capital investment; the findings obtained are shown below.

Evaluating the age of the SME business

The respondents provided information regarding the duration the business enterprise has operated. The age of the business enterprise in operation was an indicator of the experience borne by the business operators regarding financial management practices and by extension the growth aspect of the enterprise. This aspect bears close similarity to a study conducted to assess the impact of management financial administration strategies on growth of SME enterprises in Nairobi.

This study sampled 41 SMEs and found that majority (48%) had been operated for over 5 years, 32% had operated for 3 to 5 years and 20% for between 1 to 3 years, an indicator that majority of these SMEs having been in operation for more than five years possessed vast experience on financial management practices (Kilonzo & Ouma, 2015).

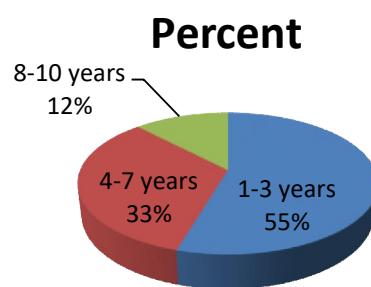


Figure :2 Age of the business

Figure :2 showed that majority (55%) respondents confirmed that their business had operated for 1-3 years, 33.2% between 4-7 years and 12.2% have operated for 8-10 years. The mean is 1.56 and the standard deviation is 0.695 indicating that majority of the SMEs have been in operation for more than 3 years and managed to stay afloat to at least gain an experience on financial management practices which has further enhanced their sales records. These findings are showing consistence with those of the study conducted to investigate the determinants of SME growth in the Cape Coast

Metropolis, Ghana. This study which analyzed 121 SMEs observed that that SMEs experience sales increases from 2 years to 10 years of existence. Sales, it further concluded peaked between 6 and 10 years of SMEs operation after which sales begin to fall after the 10 year period (Yeboah, 2015). This also implies that there is an element of profitability in the business enterprises that progresses with age thus enables their sustainability over the years.

Assessment of the number of Employees in SME business.

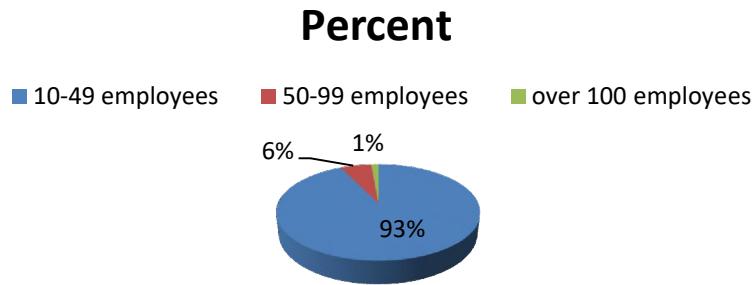


Figure :3 Number of Employees

The researcher sought to identify how many people were employed in the business enterprise. This was used to determine the size of the enterprise and also as a pointer to the growth aspect of the business.

According to figure 3, the results of this study shows that majority, 646(92.6%) stated that the business employed between 10-49 employees, 41(5.9%) stated 50-99 employees and 10(1.4%) stated over 100 employees.

The mean is 1.08 and the standard deviation is 0.320 which shows that most businesses had employed 10-49 employees. These results corroborate the findings of a

recent study by Yeboah (2015) that indicates that the SME sector in Ghana is characterized by small enterprises growing faster in sales than the micro enterprises and also small enterprises enjoy sales stability.

Evaluating the annual turnover of SME business enterprise

The section sought to evaluate the annual turnover of the business enterprise as a parameter to determine the size of the business and also to assess its growth pattern.

Table :1 Annual turnover over 3 year period

	Frequency	Percent
Annual turnover of between Kshs 500,000 - Kshs 5M annually	547	78.3
Annual turnover of between Kshs 5,000,000 - Kshs 800M annually	131	18.8
Annual turnover of over Kshs 800M annually	20	2.9
Total	698	100.0

The results of this study found the majority 547(78.3%) stated their business returned an annual turnover of between Kshs. 500,000 –Kshs. 5M annually, 131(18.8%) between Kshs. 5,000,000-Kshs 800M and 20(2.9%) stated they recorded over 800M over a 3 year period.

This therefore implies that the respondent SMEs are stable, growing enterprises whose owners or operators have mastered the art of tracking the enterprise growth pattern over the years. This further confirms that as earlier showed in the previous data, most of these

businesses having managed to survive and grow past the 3 year period, they have also managed to maintain an annual sales turnover of over Kshs. 500,000.00 consistent with a steady growth pattern. The world over, annual turnover has not only been used by experts to determine the size of the business enterprise but also as a measure of the business performance.

Banik (2018) concurred that enterprise growth in the small scale businesses can be established by maintaining proper accounting records, which acts as a

basis for safeguarding and controlling the properties of the business. This analysis shares similarity with the study that was done in Nairobi seeking to establish how financial management practices influenced growth of SMEs. It was observed by Kilonzo and Ouma (2015) that the average sales as an indicator of growth of SMEs in Nairobi increased over a three year period from the commencement of business.

They further found that with the increase in the average sales, the number of employees also rose during the three year period of the study between 2011 and 2013. Yeboah (2015) while conducting a study to assess the determinants of SME growth in Ghana observed that

small enterprises not only grow faster in sales than the micro enterprises but also enjoy sales stability.

Assessment of total capital investment in the SME business enterprise

This section sought to find out the total capital investment of the business enterprise as a measure to determine the size of the enterprise, majority, 584(83.6%) stated total assets size remains up to Kshs. 1M, 94(13.4%) stated total assets size of Kshs 1M-5M while 14(2.0%) stated the total assets size between Kshs 5M-10M and 7(1.0%) stated that total assets size between Kshs 10M-50M.

Table:2 Total capital investment

Value of Assets	Frequency	Percent
Total assets size (stock, plant & machinery) remains less than 1M	584	83.6
Total assets size (stock, plant & machinery) of Ksh 1M-5M	94	13.4
Total assets size (stock, plant & machinery) of Kshs 5M- 10M	14	2.0
Total assets size (stock, plant & machinery) between 10M-50M	6	1.0
Total	698	100.0

This data implies that the majority, over 90% of the respondents are SME business enterprises with strong capital base compared to their sizes signifying an element of growth in terms of assets.

Assessment of Growth patterns of the SME business enterprises

This study sought to establish the growth of the business enterprises based on the four parameters highlighted earlier and whether the business practitioners agreed or disagreed with the growth indicator statements; Most 332(47.6%) of the respondents agreed that their business

had recorded a steady growth in the size of the assets ($\mu=3.44$ and $std(x) = 0.888$), 232(33.3%) of the respondents affirmed that their business had recorded a rise in the number of employees ($\mu= 2.86$, $std(x) =0.895$), 430(56.6%) of the respondents confirmed their business had shown a positive rise in annual sales returns ($\mu= 3.53$, $std(x) =0.888$) while 422 (60.5%) of respondents agreed that their business enterprise consistently met their customer's needs($\mu = 3.81$, $std(x) = 0.831$). Finally 433 (62.1%) of the respondents confirmed that their business had registered growth in the profit margin($\mu= 3.54$, $std(x) =0.846$).

Table :3 Growth of the SME

Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Mean	StdDev
Agree that my business has seen a steady growth in the size of assets	F % 17 2.4%	82 11.8%	53 7.6%	332 47.6%	213 30.5%	3.44	0.888
My business has recorded a rise in the number of employees	F % 22 3.2%	246 35.3%	13 1.9%	232 33.3%	184 26.3%	2.86	0.895
My business has shown a positive rise in annual sales returns	F % 20 2.9%	70 10.1%	52 7.4%	430 56.6%	175 23.0%	3.53	0.888
My business enterprise has consistently met my customer's needs	F % 18 2.4%	137 18.0%	38 5.0%	422 60.5%	98 14.1%	3.81	0.831
My business has registered growth in the profit margin	F % 21 3.0%	64 9.2%	34 4.9%	433 62.1%	145 20.8%	3.54	0.846

The findings in table:3 shows unanimity in the respondents statements that they recorded growth in assets size, a rise in employees numbers, a positive rise in annual sales returns, consistence in meeting the customer's needs and that growth in the profit margin held true for a majority of them.

Evaluation of how SMEs sustain during market challenges

The study sought to know if the business enterprise was able to navigate and overcome the market challenges and continue its operations. According to figure:3, most 579(82.9%) of the respondents agreed that their business enterprises have sustained the challenges of the market and overcome the rigors of the market to maintain operations ($\mu = 1.13$, $std(x) = 0.334$) while 119(17.1%) are struggling to overcome the challenges presented by the business environment.

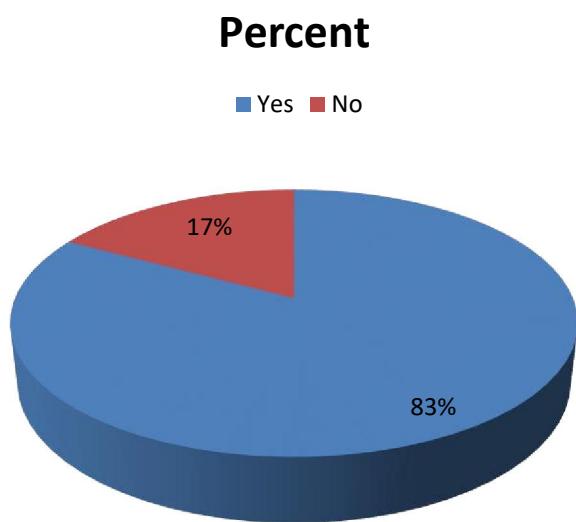


Figure :4 Market Challenges

This implies that the majority of the business enterprises have registered steady growth as to be able to navigate the market challenges and continue its operation as shown in figure:4.

Evaluating the level of Financial Budgeting in SMEs in Eldoret town

The study intended to understand the level of financial budgeting carried out by the SMEs in the business enterprises and how it affects the growth of the enterprise. Previous studies have shown that firms that are properly managed financially often operate efficiently (Butt, Rehman, & Hunjra, 2010). According to Abe et. al. (2015), the capacity of SMEs to obtain and properly manage finance heavily determines their ability to develop, grow, sustain and strengthen themselves in the

business environment. This implies that only SMEs that are able to maintain discipline in budgetary matters in the dynamic business environment are capable of sustained growth.

This study findings observed that 335(48.0%) with ($\mu = 3.23$, $std(x) = 1.041$) agreed that they regularly prepare a budget, 371(53.2%) ($\mu = 3.40$ and $std(x) = 0.883$) agreed that their business forecasts sales estimates, 404(57.9%) ($\mu = 3.71$ and $std(x) = 0.814$) observed that through proper budgetary operations, their business enterprise consistently delivers on customers' stock requirements, 472(67.6%) ($\mu = 3.82$ and $std(x) = 0.761$) agreed that expenditure estimates is key to resource allocation in their business while 322(46.1%) ($\mu = 3.37$ and $std(x) = 1.010$) agreed that maintaining strict budget lines ensures that their income is greater than expenditure.

Table :4 Financial Budgeting

Statement		Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Mean	Std Dev
Prepare a budget regularly	F %	48 6.9%	157 22.5%	33 4.7%	335 48.0%	125 17.9%	3.23	1.04
Agree that the business forecasts sales estimates	F %	22 3.2%	95 13.6%	30 4.3%	371 53.2%	180 25.8%	3.40	0.88
The business enterprise consistently delivers on customers' stock requirements through proper budgeting.	F %	13 1.8%	38 5.5%	82 11.8%	404 57.9%	160 23.0%	3.71	0.81
Expenditure estimates is key to resource allocation in the business	F %	15 2.2%	44 6.3%	84 12.1%	472 67.6%	82 11.8%	3.82	0.76
Agreed that through strict budgetary discipline, their income is greater than expenditure	F %	14 2.1%	145 20.8%	79 11.3%	322 46.1%	138 19.7%	3.37	1.01

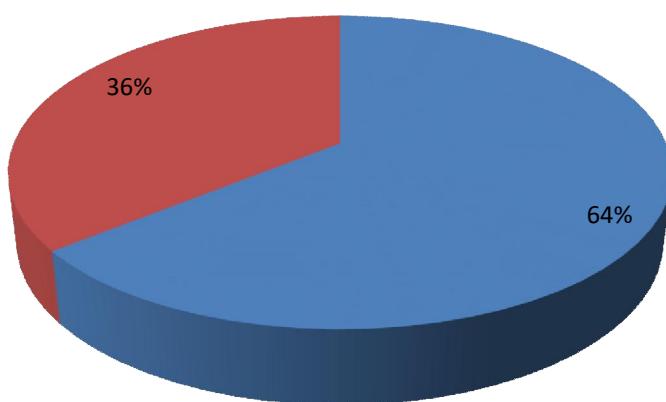
This implies that the respondents agree that they prepare a budget regularly, that the business forecasts sales estimates, that the business enterprise consistently delivers on customers' stock requirements, that expenditure estimates is key to resource allocation in my business and that our income is greater than our expenditure.

Evaluating role of Financial Budgeting in SME resource management

The study sought to find out if financial budgeting enhances resource management in the business, most 448(64.2%) ($\mu = 1.33$, $std(x) = 0.469$) stated yes and 250(35.8%) stated it did not.

Percent

■ Yes ■ No

**Figure :5 Financial Budgeting Enhance Resource Management**

This implies that financial budgeting enhances resource management in the business

Assessment of the level of Working Capital Management in SME enterprises

The study used cash conversion cycle to measure liquidity and to how working capital management practices affected the growth of the SME enterprise as shown in the close ended questionnaire. The questionnaire

was designed to seek a response from the owners or their representatives where they were requested to rate the extent which working capital management was being

practiced in their business. Table 5 captures the findings of the survey.

Table: 5 Working Capital Management

Statement		Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Mean	StdDev
My business keeps cash sales register on a daily basis	F %	80 11.4%	157 22.5%	27 3.8%	346 49.6%	8812.6%	3.45	1.073
My business observes strict credit policy during sales	F %	43 6.2%	99 14.2%	8 1.2%	372 53.3%	175 25.1%	3.96	0.827
Agree that my business purchases are promptly settled	F %	52 7.4%	119 17.0%	15 2.2%	413 59.1%	100 14.3%	3.78	0.845
Do you agree that your business pays employee salary on time?	F %	81 11.6%	219 31.4%	24 3.4%	311 44.5%	64 9.1%	3.49	0.892
Agree that my business maintains optimum stock levels to meet customers' needs	F %	27 3.9%	131 18.8%	13 1.8%	411 58.9%	116 16.6%	3.85	0.779

The results of a study conducted in Spain also show that older firms and companies with greater cash flow tend to have a longer cash conversion cycle. It was also observed in the study that firms that have many growth opportunities, higher leverage, fixed assets investment portfolio and a higher return on assets have a more aggressive working capital policy (Ban˜os-Caballero, Garcí a-Teruel, & Martí nez-Solano, 2010).

Akinwande (2010) averred that the way the firm manages its working capital impacts heavily on its cash flow, investment decisions and overall profit margins. These three factors are critical elements that determine the growth pattern or potential failure of a business enterprise. Therefore, efficient management of working capital favorably affects these decisive factors and contributed to the realization of business growth and success. His work was premised on the assumption that efficiency in working capital management is critical for the survival of a business enterprise. Having too much working capital is a pointer to inefficiency in the business, whereas too little cash at hand signifies a shaky survival of the business.

In another study to investigate the level of application of practices of financial management in 30 successful small and medium sized business enterprises in Western Cape, South Africa, Wolmarans (2015) inferred that efficient management offirms' working capital, profitability, asset and liability and strategic financial accounting are all related components of financial management practices that are all necessary for a successful business.

Most of the respondents in this study at 346 (49.6%) ($\mu = 3.45$, $std(x) = 1.073$) agreed that their business

keeps cash sales register on a daily basis, 372(53.3%) [$\mu = 3.96$, $std(x) = 0.827$] agreed that their business observes strict credit policy during sales, 413(59.1%) [$\mu = 3.78$, $std(x) = 0.845$] agreed that their business purchases are promptly settled. Another 311(44.5%) [$\mu = 3.49$, $std(x) = 0.892$] of the respondents agreed that their business pays employee salary on time while 411(58.9%) [$\mu = 3.85$, $std(x) = 0.779$] agreed that their business maintains correct stock levels to meet customers' needs. These SME enterprises, it was found, that keenly observed proper working capital management practices registered profitability and ultimately business growth over the years.

The study results also corroborated those conducted to evaluate the impact of financial management practices and the performance of small and medium business enterprises in western Uganda.

The study observed a positive significant relationship between working capital management practices and performance of the business (Turyahewwa, Sunday, & Ssekajugo, 2013).

Finding out cash flow management practices in SMEs business enterprises.

The study according to figure 4.5 sought to find out the extent of cash flow management practices in the business as a function of working capital management. Holding cash in the business serves two purposes: The firm saves on transaction costs incurred when trying to raise capital or to liquidate assets for it to make payments. Besides, the business can utilize available liquid assets to continue financing its activities and

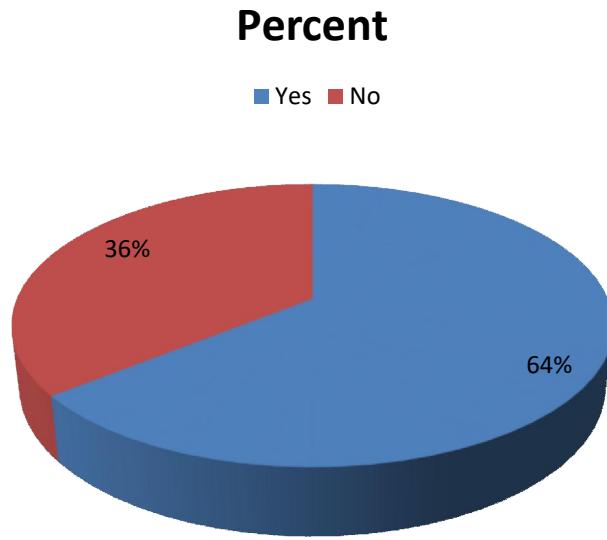


Figure :6 Cash flow management

pursue new investments if other funding sources are unavailable or prove to be very costly.

Businesses that observe good working capital management tend to have increased cash flows which reduce the need on external financing. Therefore, the savings on costs related to external financing are utilized for business expansion plans (Waweru & Ngugi, 2014). The effectiveness and efficiency in the cash inflow offers an opportunity to coordinate and manage the cash outflow. Proper coordination of cash inflow and outflow will result in sound and better control of the working capital. In a study seeking to analyze effectiveness working capital management contributes in SME firms in Lagos, Nigeria, observed that poor working capital flow of the small firms precludes them from the ability to effectively compete (Sunday, 2011).

Muneer (2017) studied how administration of financial practices impact the productivity of 300 sampled SMEs in Faisalabad, Pakistan. Research showed that most firms in the study understood procedures of cash budgeting, cash control and cash flows. However, it noted that 36 % of the firms faced cash crunch challenges to meet their expenditures as 64 % of firms recorded having surplus cash. The cash shortage posed a liquidity challenge to the businesses while those that faced a surplus suffered from so much capital faced a challenge in asset acquisition and slowing business. While investigating how financial management practices are implemented by new micro enterprises in South Africa, Fatoki (2010) observed mixed results in his findings where most micro-enterprises failed to engage in financial planning, control and analysis while others observed accounting information management through keeping of sales books and purchases books.

That study also observed that most micro-enterprises especially those operating retail businesses do offer credit. However, as shown in figure 4.6, compared to that study, the results of this study regarding credit policy contrast in that most 439(64.2%) agreed ($\mu = 1.31$, $std(x) = 0.462$) that they employed strict credit control policy while 259(37.1%) are so relaxed on the sales on credit. However SMEs in both studies agree that they maintain sales records in their business. This finding shows that majority of SMEs observed stricter cash flow management measures as a tool for effective working capital management in the business. This implication is that the SME respondents are able to retain more cash and plough back their profits for business growth, expansion and to maintain optimum stock levels to sustain the business.

Establishing the effect of financial management practices on the growth of SMEs

After having established the existence of Y variable (Growth of SMEs), X₁ variable (Financial budgeting), X₂ variable (Working capital management), now we are going to establish the effect of financial management practices on the growth of SMEs. Regression analysis was used by the researcher used to establish the effect of the four variables of financial management on the SMEs growth.

This study model was ideal because it predicts growth of SMEs. As seen in table :8 below, R denotes prediction of financial management practices on the growth of SMEs in Eldoret. In this case, $R = 0.656$. Since this is a high correlation, our model predicts growth of SMEs rather precisely. Therefore, according to table :8, the study

model adopted to analyze the effect of financial management practices on the growth of small and medium enterprises in Eldoret Town predicts the level of

fitness of up to 65.6%. It indicates the proportion of variance in growth of SME that can be explained by our four predictors.

Table :8 Multiple Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.656 ^a	.430	.426	.51380

a. Predictors: (Constant), Financial Budgeting, Working Capital

Because regression maximizes R square for our study, it will be somewhat lower for the entire population, a phenomenon known as shrinkage. The adjusted r-square estimates the

population R square for our model and thus gives a more realistic indication of its predictive power.

Table :9 Multiple Regression Model Goodness of Fit Test Results

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	135.672	4	33.918	128.480	.000 ^a
	Residual	180.044	682	.264		
	Total	315.716	686			

a. Predictors: (Constant), Financial Budgeting, Working Capital Management

b. Dependent Variable: Growth

This table shows the model goodness of fit

Evaluating the effect of financial management practices on growth of SMEs.

Finally, according to table :9, for every 1 unit increase in each predictor variable, there is a unit change in the

growth of SMEs. Therefore, holding other financial management practices constant, 1 unit change in the financial budgeting corresponds to 0.395 significant growths of SMEs. 1 unit change in the working capital management practices corresponds to a 0.285 growth in the SMEs.

Table :10 Multiple Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	
		B	Std. Error	Beta	t
1	(Constant)	.565	.152		3.731
	Financial Budgeting	.438	.044	.395	9.843
	Working Capital Management	.321	.046	.285	7.047

a. Dependent Variable: Growth of SME Enterprises

$$\text{Growth of SME} = 0.565 + 0.438 X_1 + 0.321 X_2$$

The column "Sig." holds the significance levels for our predictors. As a rule of thumb, a b coefficient is statistically significant if its p-value is smaller than or equal to 0.05. Given the calculated p value of 0.000 is less than 0.05; the study dropped the null hypothesis and adopted the alternative. It means that financial management practices significantly affect the growth of SMEs in Eldoret town. Study done by Butt, Hunjra & Rehman (2010) in Rawalpindi, Pakistan concluded that all the five financial management variables strongly

positively significantly impacted the overall growth performance matrix of the organization and financial managers perceived them as crucial elements for business performance and growth.

Effect of financial budgeting on growth of SMEs

The study further tested hypothesis one, which is, financial budgeting has statistical significant effect on growth of small and medium enterprises in Eldoret town.

According to table 4.9 the sig. value for financial budgeting is 0.000 which is less than 0.05. Therefore, financial budgeting significantly affects growth of SMEs in Eldoret town. The findings as seen in the table show that when there is 1 unit change in financial budgeting, there is a positive change of 0.395 in the growth of SMEs in Eldoret town. These results concur with that of the study undertaken by Fatoki (2012) conducted in Buffalo Municipality, South Africa to investigate how daily application of practices of financial management played on growth of upcoming micro business enterprises. The findings of the study indicated that those micro business enterprises that failed to embrace financial planning, analysis and control in their businesses were highly susceptible to failure.

Effect of working capital management on growth of SMEs

The second hypothesis was tested. Table:9 shows a corresponding sig. value of .000 which is less than 0.05 meaning that working capital management has statistical significant effect on the growth of small and medium enterprises in Eldoret town. Further, it goes to show that 1 unit change in the working capital management practices corresponds to a 0.285 positive growth in the SMEs. These results corroborate that of a study conducted by Turyahewa et.al (2013) whose results clearly showed a positively significant relationship between management of structure of working capital and business progression of SME enterprises in Western Uganda.

The results are also similar with those of the study conducted in Sri Lanka that established that efficiently managing of firm's working capital significantly positively influenced on firm performance (Yogendarajah, Kengatharan, & Suganya, 2017). Muneer (2017) investigated how the business enterprise practices of financial management impacted on SMEs profitability in Faisalabad, Pakistan with moderating role of agency cost. It also observed that management of working capital significantly impacted the profitability of SME business. These results further concluded that efficiency in the working capital practices like cash management, receivables management and proper management of inventory results in improvement of business performance among SMEs.

CONCLUSIONS AND RECOMMENDATIONS

CONCLUSIONS

The conclusion observed from the study is that despite all the SMEs having put in place financial management practices to aid in their growth, varied adoption levels prevailed from one organization to the other due to their

different financial structures. Financial budgeting had above average level of absorption in the business with its implementation in most financial planning operations. Financial budgeting management showed a significantly positive influence on the organizations financial performance. Therefore, this research concludes that the financial budget control practices facilitate proper planning, responsive borrowing and efficient expenditures in the businesses leading to growth.

On the other hand, most business enterprises maintained proper working capital management practices that resulted in adequate cash flows to meet daily business requirements with receivables management system being fully automated. The study concludes that efficiency in the working capital management results in efficient maintenance of the organization's current assets and current liabilities that further results in business entity maintaining sufficient liquidity

RECOMMENDATIONS OF THE STUDY

From the study, raft of recommendations have hitherto been developed. First, the study established that financial budgeting and working capital management affects the growth of SMEs. Thus, it is recommended that SME owners as well as managers should seriously prioritize implementation of monetary budgeting, implement efficient working capital practices and observing robust and effective funding decisions when formulating the organization strategies. The SME business practitioners should also entrench proper book keeping practices in the business to enable them to not only enhance efficiency in resource management but also track the progress of the enterprise. Besides, the study recommends that the managements should critically analyze their businesses structures before implementing financial budgeting and working capital management practices. This in turn guarantees that the adopted practices suit that particular business as they different capital structures.

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