EFFECT OF FINANCIAL MANAGEMENT PRACTICES ON PERFORMANCE OF SELECTED SMALL AND MEDIUM ENTERPRISES IN LIMURU TOWN, KENYA

BY

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THIS DISSERTATION IS SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF A MASTER OF BUSINESS ADMINISTRATION (FINANCE), FROM ST. PAUL'S UNIVERSITY

AUGUST 2018

DECLARATION

This dissertation is my original work and has not been submitted to any institution of learning for academic credit. I agree that this dissertation may be available for reference and photocopying, at St. Paul's University discretion.

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I confirm that the work in this dissertation was done by the student under my supervision.

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ACKNOWLEDGEMENT

This dissertation was made possible due to the eminent support of various individuals, including my colleagues in our MBA Finance class, that we shared a lot of insight, experience, knowledge and information through our class discussions.

I would highly appreciate the invaluable support from my supervisor, Dr. Job Omagwa, who constantly guided, inspired, corrected and motivated me throughout my dissertation.

Above all, l give thanks to the Almighty God for his grace and mercy, life, great health, peace, joy, wisdom, knowledge and insight, that l was blessed in the course of my dissertation.

ABSTRACT

The study sought to determine the effect of financial management practices on performance of selected Small and Medium Enterprises (SMEs) in Limuru Town, Kenya. SME performance is affected by financial constraints, financial illiteracy, working capital management, ownership structure, regulatory framework and macroeconomic factors. In Kenya, empirical evidence on effect of financial management practices and performance of SMEs is limited especially in the context of cosmopolitan towns like Limuru in Kenya. The study explored various objectives; first, the effect of firms financing on performance of SMEs in Limuru Town, Kenya. Second, the effect of working capital management on performance of SMEs in Limuru Town, Kenya. Third, the effect of ownership structure on performance of SMEs in Limuru Town, Kenya. The study employed descriptive research design. The target population was 388 registered SMEs in the retail business in Limuru Town. Purposive sampling technique was used to sample 39 respondents. Data was collected using questionnaires. Data was analyzed through descriptive statistic (means and standard deviation), correlation analysis and multiple regression analysis. The study found that firms financing and ownership structure have a fairly strong positive correlation with performance, while cash management does not have a positive correlation with performance. With a P value of 0.000, which is less than the significant level of 0.05. The model was found to be a good fit. Consequently, financial management practices were found to be good measures of performance the SMEs studied. The study concluded that SMEs need to outsource more avenues of financing and improve on innovations and research, networks and partnerships with all stakeholders especially financial institutions.

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DEFINATION OF TERMS

Asymmetric Information: Refers to information imbalance, or wrong information due to moral hazards and adverse selections (Stulz, 1990).

Collateral: Refers to something of value that can help to secure loan or credit such as assets, share certificates, title deeds and motor vehicle logbook (Duncan and Ang, 2014).

Financial Statements: Refers to financial documents such as profits and loss accounts, balance sheet, bank statements, invoices, vouchers etc (Calice, Chando, and Sekioua, 2012).

Financial Institutions: Refers to institutions that offer financial services such as deposits, savings, loans etc, such as commercial banks, microfinance institutions Sacco etc (Hyz, 2011).

Ownership Structure: Refers to how SMEs are structured, fully owned or co-owned, family or mixed (Nieto, 2016).

SMEs: Small and medium size enterprise (Hyz, 2011).

Performance: Refers to productivity of SMEs in net profits, net worth and operating costs (Eyiah and Cook, 2003).

Working Capital Management: Refers to inventory, debtors and cash management (Raheman, 2010).

ABBREVIATIONS AND ACRONYMS

APEC	Asia-Pacific Economic Cooperation
ERP	Economic Recovery Program
GDP	Gross Domestic Product
MFI	Microfinance Institution
OECD	Organization for Economic Cooperation and Development
SME	Small and Medium-sized Enterprise
WCM	Working Capital Management
CCC	Cash Conversion Cycle

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Olawale and Garwe (2010) urged that small and medium-sized enterprises (SMEs) are the life blood of economies and a driving force to social transformations and development. SMEs have contributed greatly to the Gross Domestic Product (GDP) of Kenyan economy. Abor and Biekpe (2007) states that SMEs has created employment, entrepreneurship, innovations, reduced poverty and improved income and wealth creation to their owners and employees. SMEs bring efficiency and effectiveness of resources in the market. According to Mafasiya, Hirobumi, and Tanaka (2010), Akorsu and Agyapong, (2012) Agwu, (2014) Atieno, (2001) Mbogo, (2011), Claessens and Tzioumis, (2006),SMEs performance and viability is important to their owners, governments, lenders, suppliers, customers, employees, entrepreneurs, industries and researchers, as they promote social-economic empowerment and development.

Abor and Quartey, (2010) defined SMEs by the number of employees, size, sales volume and assets tangibility. SMEs which employ less than 5 workers are classified as micro enterprises, 5-49 workers as small scale enterprises, 50-99 workers as medium enterprises and 100 and above workers as large enterprises. Berry, Rodriguez and Sandee, (2010) argued that economies value SMEs for their dynamic, flexibility and adaptability to growth, investments, technology, market and information, and better weathering crisis in political, economical and social circumstances than large firms.

Mafasiya et al. (2010) and Agiomirgianakis et al. (2006) highlights that SMEs performance is characterized by growth, sales turnover, profitability, market share, competitiveness, size, capitalization, managerial efficiency and export orientation. Globalization has brought strong competition to SMEs in terms of trade, finances and skills. Ongori and Migiro (2010) points that SMEs need to be innovative in financing, technology, strategies, research, costs, processes, marketing, products and services. SMEs owners/managers need experience and knowledge of business and its environs to operate optimally. They require knowledge in financial management,

financial and marketing information, entrepreneurship and administration, to successfully operate in a diverse business environment. Carpenter and Petersen, (2002), CBR, (1998), Aryeetey (1998), Bauchet and Morduch, (2013) argued that SMEs need networks and partnership with financial institutions, various investors, their competitors, suppliers, customers and other industrial players. They need strategic planning in financing and operations. They need realization and acquaintance of opportunities. SMEs need to recognize their strengths and weakness, opportunities and threats.

Abor and Quartey, (2010) argued that in Ghana SMEs employ 85% of the economy and contribute 70% to the GDP. In UK, 95% are SMEs, and they employ 65% of the economy and contribute 25% of GDP. In South Africa, 91% of businesses are SMEs, employ 61% of the economy and contribute 52-57% to the GDP. According to the Organization for Economic Cooperation and Development (OECD), SMEs comprise of 95% of businesses and employ 60-70% of the workforce. In Asia-Pacific Economic Cooperation (APEC), SMEs make up 90% of the economy, and employ 32-84% of the workforce. Kotey (2005) urged that in Australia SMEs employ 96% of the economy. SMEs can be created with minimal capital, registration and managerial skill. Beck (2007), Desouza and Awazu (2006) states that all SMEs start small, and through tireless efforts, struggles, and victories, they get to medium and large.

Mungaray et al. (2007) states that SMEs performance fail due to poor financial and ownership structures, that is, they lack adequate finances, poor financial management skills, poor entrepreneurship, poor structures and systems, they lack equipment and technologies, poor negotiations skills with financial lenders, suppliers and customers. SMEs face competition from larger and more financial incorporated organizations. SMEs lack coaching and mentorship, initiative and focus that hinder effective performance. Desouza and Awazu, (2006) argued that SMEs lack research and innovations on how to best anchor their business initiatives and remain competitive. They also lack proper marketing strategies and technical know-how, networks, financial information, opportunities and partnership. Regulatory issues, business environments such as crimes, taxes, political and macroeconomics instabilities also constrain SMEs performance. Limited access to international markets and negative perception by financial institutions towards them also hinders their growth and performance. Schwarze, (2008), Duncan

and Ang, (2014), Ardjouman and Asma, (2015), Agiomirgianakis, Voulgaris, and Papadogonas (2006), Bowen, Morara, and Mureithi, (2009) also highlights that SMEs lack adequate collateral, creditworthiness and their small size and age limit their financial access with financial institutions. Higher financing costs and fear of loss of control have impacted lower use of debt, thus low growth and performance. SMEs access to affordable and adequate finances is paramount to their performance.

1.1.1 Firms Financing

Abdulsaleh and Worthington, (2013) states that firms financing are avenues that supply funds to SMEs, such as, internal sources; owner's saving, retain earnings, family and friends, external sources; trade credit, overdraft, leasing, donors, commercial banks, micro finances and government grants such as uwezo and youth funds. SMEs need finances to acquire new technologies, research and development, to improve their competitiveness and performance. Nene, (2014) also argued that SMEs also need finances to network and partnership, to acquire technical, financial and entrepreneurship skills, to innovate in costs, products/services and processes, marketing and growth. Through networking, SMEs access finances, markets, competent skills and advice, training and investment opportunities. Access to sufficient and adequate capital is paramount, but difficult for SMEs. SME financing is considered by many lenders as risky, costly and low returns on investment.

Buchenau, (2004) argued that access to capital is determined by SMEs creditworthiness, size, age, assets tangibility, credited financial statements and certificate of incorporation. SMEs need to be legally incorporated, structured appropriately with a business plan to source and negotiate for external funds, that is, if internal funds are insufficient. Muthoni, (2013), Abdulsaleh and Worthington, (2013) also highlight that the ownership type, geographical location, industry sector, strategic partnership, networks and influence, profitability and SMEs growth prospect do determine their financial viability. Size is characterized as number of workers, sales turnover, assets tangibility and industry of enterprise. Mature and profitable firms have low bankruptcy risks and higher retain earnings, thus easier access to bank loans than start-up SME.

Tang, Wang, and Zhang, (2007) argued that the pecking order theory states that the cheapest and less risky funds are most preferred. Internal funds are preferred over external funds, equity over

debt and short-term debt over long-term debt. Hyz, (2011) points that equity is preferred over debt for start-up and young SMEs that is family and friends, leasing, angel financiers and trade credit, as SMEs lack collateral during their inception. SMEs that invest in tangible assets have higher collateral. Newman, Gunessee, and Hilton, (2012) argued that most SMEs fail due to lack of support from financial institutions. In developing nations, there are weak financial systems that financial institutions shy to lend to SMEs, as they are unable to manage risks and transactional costs associated with SMEs. Financial institutions are great facilitators of SMEs external funds, but SMEs shy away from bank loans.

Berggren and Silver, (2001), Calice, Chando, and Sekioua, (2012) points that SMEs restricted access to bank loan is due to information asymmetry characterized by moral hazards and adverse selections. Banks have stringent measures on lending, and their costs of fund are prohibitive to SMEs. SMEs also lack creditworthiness, credit information, collateral, guarantors and they have high defaults rates. Some SMEs are not legally incorporated. Low profits and growth, high costs of operations and macroeconomic fluctuations such as inflation, interest rates and exchange rates, business regulations and the lack of favorable regulatory frameworks also hinder their financial access. Peterhoff et al. (2014),and Votano, Parham, and Hall, (2004) argued that poor financial management skills hinder SMEs to raise banks finance. SMEs should have an appropriate business model and a proper risk management system to mitigate failure and attract more banking finance. Most fund managers, local banks, and financial institutions are lacking skills, knowledge and information in dealing with SME, who operate in more niche sectors such as jua kali and agriculture. Banks are not using the right technology to reduce transaction costs. Banks should set up SMEs departments to specifically attend to SMEs.

Tiwari, Mohnen, Palm, and van der Loeff, (2007) highlighted that during economic turmoil and inflations, lenders raise their lending rates to cover their costs and risks. SMEs that are young and very small do not have a good relationship with banks as they have short business track records, low credit worth and poor influence (Nyabwanga, 2011). Banks prefer investing in government bonds and bills rather than lending to risky SMEs. Banks have cumbersome procedures, collateral and viable bankable project requirements, high costs of funds and restrictive covenant. SMEs should seek loans from Microfinance Institutions (MFI), which have

favorable lending rates, and their repayment methods are relative to small firms. Abdulsaleh and Worthington, (2013) argued that governments should create supportive SMEs enabling environments. Banks need to be innovations in their procedures and costing of loans, so as to be competitive and increase the demand for loans.

Buchenau, (2004) and Cusmano, (2015) points that it is vital to widen financing options available to SMEs, to enable them in investment, growth, competition, research, innovation and employ skilled and talented staffs. Other financing options include security markets, trade credit, overdrafts, leasing, government youth and uwezo funds, donors, angel financiers, chamas and crowd-funding. Fafchamps, Biggs, Conning, and Srivastava, (1994) argued that SMEs can increase performance through innovative financing and cost cutting, having financial management skills, innovative processes/products/services and strategic partnership with banks, suppliers and customers (Nyabwanga, 2011). They should venture into new markets, seeking financial, technical and business information to know when, how and where to source for finances, costs, risks, requirements and repayment modes. SMEs also needs networks, optimize opportunities and strengths, and lower threats and weakness.

1.1.2 Ownership Structure

Ownership structures are characteristics and frameworks that define owner's personalities, such as, age, gender, pro-activeness, risk takers, opportunistic, visionary, dynamic, adaptable, education and experience levels (Gebreeyesus, 2009). Nieto, (2016) argued that SMEs owners/managers personality is a determinant for SMEs performance. Most SMEs are owned by families, sole proprietor or partnership. SMEs ownership structure determines access to finance, management, growth and performance of SMEs. SMEs owners/mangers require financial management skills, to plan, direct, coordinate, organize and control finances, budgeting, sourcing and negotiate for funds, account and keep records, and maintain proper financial statements. Abdulsaleh and Worthington, (2013) stipulate that SMEs owners/managers keep a daily accounts ledger, prepare an accounts receivable and payable, debtor management, inventory management and perform a break-even analysis. Record-keeping is vital to SMEs performance.

Tubey, (2012) argued that SMEs owners/managers age, gender, education levels and experience in the corporate world determines their success and performance of SMEs. SMEs need

managerial skills to efficient and effective operate in hiring, productions, procurement and marketing. Financial institutions categorize the characteristics of SMEs owners/managers as they seek for loans. Their creditworthiness, ability to negotiate and validate their financial needs and ability to pay determine their eligibility, loan capacity and repayments methods. Hence adequate finances determine the success of SMEs. SMEs need networks and partnership with financial institutions for credibility purposes (Abdulsaleh and Worthington, 2013). SMEs need to prove their business profitable, growth and market oriented to attract financial investors. They need to be visionary, innovative, strategic and adaptive to changing economical, social and political environments. SMEs owners/mangers need to be mentored, coached and trained on successful business practices, they need formal education and experience in technical, financial, business and technological skills, to improve their competence, efficiency and effectiveness in SMEs performance (Nyabwanga, 2011).

1.1.3 Working Capital Management

SMEs performance depends on optimal working capital management (WCM). WCM relate to inventory, debtors and cash management (Nyabwanga, 2011). Working capital is the funds available for day-to-day SMEs operation (Raheman, 2010). WCM regulate SMEs liquidity and profitability. SMEs must balance current liabilities with current assets. A mismatch between current assets and current liabilities affects SMEs growth, liquidity and profitability (Zariyawati, 2009).Current assets and current liabilities mismatch may temporary increase SMEs profitability, but at a risk of SMEs insolvency. Too much focus on liquidity will be at the expense of profitability. SMEs are in a dilemma of achieving desired tradeoff between liquidity and profitability in order to maximize their value. Excessive levels of current assets may have a negative effect on SMEs profitability, whereas a low level of current assets may lead to a lower level of liquidity and stock outs, thus affecting smooth operations (Abdulsaleh and Worthington, 2013).

Optimal WCM is achieved when SMEs manage tradeoff between profitability and liquidity, receivables, inventory, and payables. SMEs increases profitability by reducing number of day's accounts receivable and reducing inventories. A shorter Cash Conversion Cycle (CCC) and net trade cycle is related to better performance of SMEs (Nyabwanga, 2011).Managing SMEs working capital is crucial in ensuring that sufficient resources are available for continues

operations and avoid costly interruptions. This relates to SMEs receipt and disbursement of cash. SMEs efficient WCM will enable quick reaction to unanticipated macroeconomic changes, such as interest rates, exchange rates and inflation.

If SMEs do not optimize profits, SMEs cannot survive for long. If SMEs do not optimize liquidity, they may face insolvency problems, thus optimal WCM must be emphasized to optimize higher SMEs performance (Raheman, 2010). Large inventory and a generous trade credit may lead to higher sales. Larger inventory lowers the risk of a stock-out. Trade credit stimulates sales as it allows buyers to assess products/services quality before paying, and is an inexpensive and flexible source of financing for SMEs (Nyabwanga, 2011). On the other hand, late payment of invoices can be costly for SMEs if discount is offered on early payment.

More aggressive WCM policies are associated with higher returns and higher risks, while conservative WCM policies are associated with lower risks and lower returns. Optimal WCM is important to SMEs performance (Hussain, 1985). SMEs react to economic changes by changing their working capital requirements and level of current assets and liabilities. WCM has various valuables such as accounts receivable period, inventory turnover period, accounts payable period and cash conversion cycle (CCC) on SMEs performance. A popular measure of WCM is the CCC that is the period between the purchases of raw materials and the sales of finished goods (Raheman, 2007). A longer CCC might increase profitability as it increase sales. SMEs profitability might decrease with CCC, if the costs of higher investment in working capital rise faster than the benefits of retaining more inventories and extending more trade credit to clients.

1.1.4 Performance

Performance is related to outcomes of success and good results, and relate to SMEs profitability, sales, costs efficiency, competitiveness, growth in market share, customer base and branches (Lecerf, 2012). Eyiah and Cook, (2003), Haugh and Obeng, (2009) argued that performance also relate to investor confidence, innovation in products/processes/services, access to finance, SMEs strategic positioning and technological advancement. The question is does SMEs age, size, debt leverage, capitalization, export orientation and managerial efficiency determines their performance? SMEs acquaintance to adequate and affordable finances purely relate to creditworthy, collateral, influence, networks, partnership, business and financial skills and

information to source and negotiate for funds, and size, age and managerial efficiency come in handy. Gebreeyesus, (2009), Ross, Westerfield, and Jaffe, (2003) highlights the ability of SMEs to innovate in research, costing, financing, management, products/services/processes, portrays superiority and competitiveness in the market (Szabo, 2011). SMEs competitiveness requires adequate and affordable finances, financial management skills, financial information, pro-activeness to new opportunities, research for ingenious cost cutting, efficient and effective business operations, sound business and investment environment, technological advancement and products/services/processes quality.

Tang, Wang, and Zhang (2007) argued that SMEs finances that are affordable, adequate and less risky, so as to optimize their operations in processes, investments, research and development, marketing and diversifications. Gadenne and Sharma (2009), Mafasiya et al. (2010) also argued that SMEs need to be profitable, grow in inventories, market and sales, grow in branches, employees, assets and networks. They need to reduce their costs of operation to be profitable. Growing market liberalization, market and information efficiency and financial innovations has characterized business performance and efficiency. Macroeconomic factors such as inflation, interest rates and exchange rates also affect SMEs performance, as when they are high, there is a high costs in accessing finance thus products/services pricing goes high reducing customer's buying power hence low sales.

Tiwari, Mohnen, Palm, and van der Loeff (2007) states that barriers to performance of SMEs are lack of innovation and research, financial management skills and financial constrains. SMEs need financial management skills and financial information, to source affordable and adequate finances and quantify break-even analysis. Adequate finance to invest in inventories, structures and systems, employees, marketing, innovate and research what other firms locally and international are doing differently to maximize profitability, growth and performance. Buchenau (2004) argued that SMEs need to research and innovations on efficient and effective business practices, technological advancements and expertise to harness more returns at lower risks and costs. Innovations take time, are costly, energy constraining, risky and may fail. Innovations are successful when the product/service/process is applicable, desirable, efficient and effective, and supply is not able to meet demand, and returns outweigh costs and risks. SMEs need adequate

finances, financial management skills, financial information, sound business environments and proper regulatory framework to perform effectively in the market.

Aubert (2005) argued that SMEs need proper financial statements, documentations, accountability, correct information and bankable projects to secure adequate finances from financial institutions. SMEs also need mentorship and coaching from business gurus and networks and partnership from like-minded investors. SMEs need business, marketing and financial information from Customers, financiers, experts, investors, employees, competitors and suppliers. They need to optimize opportunities and strength, and mitigating threats and weakness to surpass growth, profits and sales. SMEs need discipline, focus and initiative. They need proper business strategies, differentiate between revenue and profits, and hire passionate, motivate and committed staffs. Governments need to harmonize monetary and fiscal policies to improve SMEs performance.

1.1.5 SMEs in Limuru Town, Kenya

SMEs in Limuru Town, Kiambu County, Kenya, are enterprises in the industries of technology, agriculture, education, health, hospitality, security, transportation, construction, manufacturing, and retail. They employ between one and ten employees. They facilitate entrepreneurship, income and wealth creation and reduce poverty. Mungaray, Ramírez-Urquidy, Texis, Ledezma, and Ramírez (2007) argued that SMEs make efficient use of resources than large enterprise. They create skills, harness innovation, utilize ideal funds and talents, and create wealth. SMEs rely on a personalized, tailor-made service. Esselaar, Stork, Ndiwalana, and Deen-Swarray, (2006) highlights that SMEs provide quality products/services, fair prices and customized customer service. SMEs differ from large enterprises in planning, directing, controlling, organizing and coordinating resources, management structure, culture, research and innovations, networking and partnership, and marketing.

Hyz (2011), Carpenter and Petersen (2002) states that governments has adopted various policies to improve SMEs performance, sustainability and competitiveness. Tenai, Bitok, Cheruiyot, and Maru (2009), Peterhoff, Romeo and Calvey (2014) argued that governments should promote sustainable business development services, through advice, security, export counseling, legal assistance on exports, tax incentives, technical assistance, financial assistance through programs

such as Uwezo and youth funds. Balling, Bernet, Gnan, Franck, and Huyghebaert (2009) argued that governments should protect domestic SMEs from foreign saturation of goods, train SMEs in financial management, marketing, investment information, networks and partnership with other sectors. Governments should host workshops and seminars, to achieve SMEs desired economic outcomes. Esselaar et al., (2006) and Abor (2004) points that governments should also provide adequate social infrastructures such as quality, affordable and available health care, education, security, housing, sanitations, energy and water, to facilitate start-up, proper operations and successful performance for SMEs. SMEs promote rural development and at the same time facilitate rural-urban migrations, as SMEs in urban centers seem to be doing well with high clientele, suppliers, lenders and exposed to more technological, commercial and entrepreneurial advancements. The study researched on registered SMEs in the retail sector, operating for more than five years in Limuru Town, Kiambu County, Kenya.

1.2 Statement of the Problem

The SMEs sector remains an integral part of the Kenyan economy, contributing to employment, GDP, entrepreneurship, income and wealth creation (Kinyua, 2014). Hence, SMEs performance in Limuru Town seems to be challenged by several externalities such as financial structures, financial constraints, financial illiteracy, ownership structures, working capital management, macroeconomic factors and regulatory framework, which hinder them to capitalize on financial and investments opportunities, competitiveness, growth and profitability (Nene, 2014). Akorsu and Agyapong (2012) identified "alternative model for rising funds, by focusing on why lenders were cynical in advancing credit to SMEs". SMEs in Limuru Town are financially constrained to invest and grow their business into competitive ventures, that is in products/services and/or processes. The study found that inappropriate risk management and information asymmetry limits their financial access, and thus limits their competitiveness and performance. However, there remains limited empirical literature to link financial management practices and performance of SMEs in Limuru town, Kenya.

Abor (2004) examined how firm age and size affects the choice of financing, and the positive relationship between debt and firm age. The study found that larger organizations are more likely to receive debt financing, and SMEs are sidelined in acquiring bank financing, thus affecting their performance. Kinyua (2014) sought to establish challenges facing SMEs performance in Nakuru Town. The study found that "finance, management skills, macro-environment factors

and infrastructure have been viewed as a critical element for the performance of SMEs in Nakuru Town".

The Calice, Chando, and Sekioua (2012) study challenges on SMEs performance, and found obstacles constraining banks further engagement with SMEs, including SME-related factors, macroeconomic factors, business regulation, legal and contractual environment, the lack of a more proactive government attitude towards the segment, and some bank-specific factors. The study recommended SMEs to outsource further financial instruments such as leasing, trade credit, angle financiers and retain earnings. Ngugi and Bwisa (2013),County and Tubey (2013) highlights that SMEs in Eldoret Kenya, experience performance constrains due to lack of finance for expansion and growth, lack of financial management skills to utilize finances effectively, that is planning, budgeting, directing and controlling. There is competition for finances, skills and trade from other business that hinder SMEs performance. SMEs lack creditworthiness and collateral, financial information and negotiations to borrow money from financial institutions. CBR (1998) indicated hindrances affecting SMEs performance, and highlighted that financial information by SMEs and financial institutions, determined SMEs performance. Okeyo (2014)and Hashi (2001) found challenges limiting SMEs performance and emphasized that sound business environment, business development services such as investments consultancy services, research and development, technology advancement, access to international markets, weak institutional capacity, and inability to repay loans need to be put in focus to improve SMEs performance.

Nene (2014) and Statistics (2013) determined factors affecting SMEs performance in Nairobi County and established that high costs of bank loans, information asymmetry, complex and time-consuming procedures in sourcing for bank loans need to be restructured to improve SMEs performance. Hadjimanolis (1999), Chiliya & Roberts-Lombard (2012), Mwangi, Makau, and Kosimbei, (2014) studied challenges affecting SMEs performance, and found that banks are not elastic in the situation when SMEs experience liquidity challenges and requires longer periods to settle debt. SMEs have high operational costs, financial illiteracy, low profitability and low growth. SMEs performance fail due to lack of commitment, discipline and focus, lack of research and development, poor networks, partnership and information, inadequate funds, poor communication, unrealistic projections of costs demand and/or revenues, and lack of internal

controls. Macro-economic issues such as inflation, exchange rates and interest rates may also affect performance of SMEs. However, despite these challenges, the effect of SMEs performance were not fully exhausted. Hence, the study sought to determine the effect of financial management practices on performance of SMEs in Limuru Town, Kenya.

1.3 Objectives of the Study

The study was informed by main and specific objectives captured here under:

1.3.1 Main Objective

To determine the effect of Selected Financial Management Practices on performance of small medium enterprises (SMEs) in Limuru town, Kenya.

1.3.2 Specific Objectives

The study sought to achieve the following specific objectives:

i. To determine the effect of Firms Financing on performance of SMEs in Limuru Town, Kenya.
ii. To assess the effect of Ownership Structure on performance of SMEs in Limuru Town, Kenya.
iii. To establish the effect of Working Capital Management on performance of SMEs in Limuru Town, Kenya.

1.4 Research Questions

The study sought to answer the following research questions:

i. What is the effect of Firms Financing on performance of SMEs in Limuru Town, Kenya?
ii. What is the effect of Ownership Structure on performance of SMEs in Limuru Town, Kenya?
iii. What is the effect of Working Capital Management on performance of SMEs in Limuru Town, Kenya?

1.5 Scope of the Study

The study consists of 388 registered SMEs (Limuru Municipality, Kenya) in the Retail sector in Limuru Town, and their performance between 2011 and 2015. The study targeted 39 SMEs, that is 10% of the population, and 78 respondents that is SMEs owners and managers, and firms that have been operating for at least five years. The study sought to determine the effect of selected

financial management practices (firms financing, ownership structure and working capital management) on performance of selected SMES Limuru town.

1.6 Limitations

The study encountered various challenges such as some respondents were too busy to fill the questionnaires. Accessibility of some respondents was a challenge. Some respondents working as employees lacked vital information relating to SMEs performance. The researcher insisted the importance of his data collections both to the SMEs and the researcher, and with much convincing, the SMEs respondents complied.

1.7 Significance of the study

The study will be significant to SMEs owners/managers, who will acquire strategies in financing, management, marketing and innovations, to improve SMEs performance, profitability and growth. The Government will formulating policies and frameworks that favor SMEs creations, performance and growth, affordable finances, lower trade barriers, easier registration, licensing and tax incentives. Prospecting entrepreneurs will be enlighten on capitalization, opportunities, constrains and requirements for better SMEs performance, growth and profitability. The study will provide a reference material for future researchers and scholars who would want to venture into this area of study. The researcher will also benefit from the study, as the research is a partial fulfillment in a requirement to attaining a master's degree.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter provides theoretical and empirical review literature on effect of financial management practices on performance of SMEs. These theories and empirical review inform the research study in relations to other previous studies. The theories, in relation to the objectives of the study, add to the body of knowledge on performance of SMEs. The conceptual framework developed, interlinks the independent variables to the dependent variable.

2.2 Theoretical Review

The section reviews theories that anchor the study in terms of variables.

2.2.1 Capital Structure Irrelevant Theory

The theory signifies that capital structure as irrelevant to a firm's value. Modigliani and Miller (1958) states that a firm's market value is determined by its profitability and not its choice of capital structure. The theory describe financing decisions, capital structure, dividend policy, cash management, risk management policy, cross shareholdings and diversification are all irrelevant for the shareholders and value of the company, and that profitability is the only factor that matters. The study assumes that there are no taxes, no transaction costs and no bankruptcy costs. The theory assumes that the market is perfect, and all investors have all the necessary information in the market, that will optimize their returns, and taxation has no effect on debts.

But in the real world, there are taxes, transaction costs and bankruptcy costs, differences in borrowing costs, information asymmetries and effects of debt on earnings. Frank and Goyal (2003) argued that the theory clarify that SMEs performance will not be affected by capital structure and financial decisions, but SMEs performance in Limuru Town is been affected by financial structure, that is, debt is preferred to equity, as interest on debt is tax deductible. Financially, SMEs are constrained, and lack enough finances for their operations, development and growth. SMEs need adequate and affordable finance to employ advance technologies and equipment, source improved processes/products/services, and harness optimal business and marketing strategies. SMEs need an optimal capital structure on a mixture of debt and equity to

maximize liquidity in the short-term and profitability in the long-run. In the world of taxes, debt has an advantage, as interest on debt is tax deductible, hence lower liabilities.

2.2.2 Trade-off Theory

Modigliani and Miller (1958) argue that optimal capital structure needs to be reached by outsourcing all possible alternatives in capital structure. The theory recognizes the tax benefit from interest payments which is tax deductible. Frank and Goyal (2003),Frank and Goyal (2008) points that SMEs should analysis various financial instruments costs-benefits outcome. Interior financial solutions are optimized to balance marginal costs with marginal benefits. Leverage has a positive relation with profitability and trade-off theory concur that profitable firms should borrow more, but profitable firms prefer retained earnings over debt. Profitable firms enjoys interest tax shield, hence bankruptcy costs are low. There is a positive relation between debt and assets tangibility. SMEs through trade-off theory can maximize performance by analyzing investments through costs-benefits criteria.

2.2.3 Pecking Order Theory

Myers (1984) argued that SMEs prefers retain earnings, internal to external financing, debt to equity and short-term debt to long-term debt. Due to information asymmetry and the costs of information, retained earnings are preferred than debt and debt is preferred than equity. SMEs prefer finances that do not interfere with their ownership. SMEs owners/managers know the performance, profitability and growth prospects of their firms. External lenders expect SMEs to explain their investment plans and expose internal information and operations. Mazzarol (2014) argued that SMEs size, profitability and growth prospects are related to leverage as proposed by pecking-order theory. Newman et al. (2012) argued that, under pecking-order theory leverage is negatively related to profitability and positively related to size and assets tangibility of SMEs. SMEs prefer finances that do not require assets as collateral, such as their savings, families and friends, leasing, trade credit and bank overdrafts.

Frank and Goyal (2008) highlights that in trade-off theory, taxes and bankruptcy costs determines SMEs choice of debt, in pecking order theory, adverse selection determines SMEs choice of debt. Mergers and acquisitions are more common reasons for exit than are bankruptcies and liquidations. Frank and Goyal (2003) argued that the pecking order theory determines the

priority structure of debt. Sources of finance with the lowest information costs should be applied first, as SMEs consider other expensive alternative. SMEs would retain ownership, information discretion and control, as they prefer internal to external finance, debt to equity.

2.2.4 Asymmetric Information Theory

The theory is characterized by information difference between buyers and sellers of finance, due to moral hazards and adverse selections. Stulz (1990), Hallagan (1978)and Leland & Pyle (2016) states that SMEs owners/managers know more about the prospects of their firms than financial lenders, productivity is correlated with intelligence. Lenders would benefit by knowing the true characters of borrowers. Without information acquaintance, markets may perform dismally. For quality projects to be financed, credible information must be provided by SMEs. SMEs may use debt to portray confidence against bankruptcy. "They may raise debt since raising equity appears as selling lemons" (Akerlof, 1970). Risk-averse SMEs needs to finance their firms with debt and equity to maximize returns and minimize costs and risks.

SMEs should selectively apply information asymmetry on investments that favor them and capitalize on the returns, but present correct information when sourcing finances from financial institutions. SMEs should give correct information to financial institutions when sourcing for funds. Improper financial information, that is, poor financial statements, inappropriate budgets, poor business plans and lack of proper loan repayment procedures, derail SMEs creditworthiness with financial institutions, thus SMEs are not advanced financial credit, which limits SMEs performance on liquidity and growth.

2.2.5 Cash Conversion Cycle

Gitman (1974) concluded that cash conversion cycle (CCC) is the period between when inventories are purchased and when they are sold. SMEs should recover cash from sales first, before the pay their suppliers. SMEs should honor their creditors when obligations falls due. The longer the duration SMEs take to pay suppliers, the better the SMEs are liquidated for other financial matters. That is, considering the fact that SMEs has realized sales returns. SMEs should shorten the duration they sell their goods, and lengthen their payment to creditors. CCC is a better measure of WCM, as a shorter CCC prudence liquidity. Liquidity management is crucial in balancing current liabilities with current assets. It is a measure of SMEs efficiency. SMEs

performance is optimized when SMEs liquidity is at its highest. Cash holding is a crucial decision SMEs need to employ before they engage liabilities. The element of how much to hold is impacted by SMEs size, net working capital, sales turnover, liquidity and leverage (Das, 2015).

2.3 Empirical Review

The study reviews various studies. Mafasiya et al. (2010) found that SMEs contribute to employment creation, poverty alleviation, GDP, innovations, income and wealth creation, increased exports, economic growth and development. Inadequate research and innovations in SMEs causes poor performance. In Ghana, SMEs had not been fully incorporated in the economy before inception of the Economic Recovery Program (ERP). SMEs have been found to improving efficiency and effectiveness of resources, markets and industries, and facilitating long-term economic growth in poor countries.

Abor and Biekpe (2007) document that SMEs performance is optimized when financial management practices are well incorporated. SMEs need to be well liquidated to manage working capital. To minimize inventory short fall that would have costly interruptions. SMEs profitability need to be harnessed in the long term, with liquidity at the short term. A proper balance between profitability and liquidity need to be emphasized. By having adequate and affordable finances, proper financial and investment decisions to optimize returns. SMEs need to increase their returns at harmonized costs and risks. SMEs cash conversion cycle improve performance when inventories bought are sold in the shortest time, and suppliers are paid when sales returns are realized (Christopher, 2010).

The Cusmano, (2015) document that financial institutions decision to lend to start-up and young SMEs is characterized by sales turnover, growth prospects, creditworthiness, assets tangibility, default rates and profitability. SMEs lacked audited financial statements that portray credible financial information that can facilitate them to get bank credit. The reliance on internal financing by SMEs hinders growth and development. The inception of foreign banks should improve efficiency and know-how in the financial sectors. Banks should improve convenience, efficiency and effectiveness of banking procedures, transparency on their internal ratings, give reasons for alterations of rates and issue financial advice (Tiwari et al., 2007). SMEs should

understand financial institutions leading procedures, provide proper financial statements, present credible business plans, provide collaterals and guarantees, accurate and complete information, and improve performance through profitability, growth prospects, assets tangibility, financial management skills, research and innovations, networks and partnership, business strategies, structures and systems.

Balling et al. (2009) conclude that SMEs are financially constrained due to lack of financial management skills, financial information, higher interest rate, low creditworthiness, low collateral and information asymmetry. Being innovative constitutes higher loan demand for SMEs, and existing debt restrict further borrowing. SMEs innovativeness relies on the quantity of external funds, as most young SMEs do not have adequate resources to finance operations and investments. Schäfer, Werwatz, and Zimmermann (2004) found that banks need to invest in innovative information technologies to embrace electronic banking such as mobile money, agency banking and internet banking. So as to improve efficiency and effectiveness on banking, that is, minimizes the transaction costs for SMEs and maximizes returns on banks. Online SME businesses are more profitable, convenient and generate more revenues than convectional SMEs. SMEs can research online for banking products, interest rates comparison and choose lenders that best fit their interests. SMEs prefers e-banking for conveniences, efficiency and effectiveness, round the clock services and access to their accounts remotely.

The Agiomirgianakis et al., (2006) study found that financial constraints may contribute SMEs motivation to join larger groups. Group borrowing such as crowd-funding and mutual guarantee schemes assist SMEs to acquire considerable lending ratings, where financial institutions lend to a group instead of an individual. Groups are better collateralized and creditworthy, screened, monitored and insure each other's liability. Group membership alleviates financial constraints faced by individual SME, and improves their growth, performance and profitability, survival rates, facilitates innovations, networks and partnership and access to international markets.
Akorsu and Agyapong (2012) document that leverage is attributed with SMEs age, size and assets tangibility, profitability and growth prospects. Larger firms are more creditworthy than SMEs. Competitiveness in the financial sector has improved efficiency and effectiveness in the costs of credit, banking procedures and adequate financing. Financial constrains affect SMEs

more than large firms, as large firms are more profitable, thus more retained earnings (Tiwari et al., 2007). Bank loans, overdrafts, leasing and trade credits improve performance of SMEs and their investments. Government should promote rates disclosure, formulate favorable regulatory policies and provide tax incentives to SMEs. Macroeconomic fluctuations such as interest rates, exchange rates and inflations, also affect SMEs financial fragility.

Abdulsaleh and Worthington (2013) conclude that financial institutions have developed measures to mitigate SMEs lending challenges, such as, loan restrictive covenants, requirements for collateral, credit guarantees, crowd-funding or peer-to-peer lending, asset-based lending, which includes, purchase-order finance, warehouse receipts and leasing. Working capital and term loans are secured by assets such as inventory, machinery, trade accounts receivable, equipment and real estate. Riyadh, Akter, and Islam (2009) found that the advantage of asset-based finance is that SMEs can access finances quicker and flexible terms than unsecured finances, regardless of their balance sheet position and future cash flow projections. Banks adopt a mix of lending techniques to evaluate the SMEs creditworthiness and low default risks. Financial statement lending and relationship lending are often used jointly.

Tiwari et al. (2007) also found that financial institutions perceive SMEs as risky ventures, with information asymmetries, and require adequate collateral to minimize their risks. Fafchamps et al. (1994) found that asymmetric information affects SMEs more than larger firms. A long-term lending relationship between banks and SMEs reduces informational asymmetries for banks and improving creditworthiness of SMEs and identifying with their personal behavior. Abor & Biekpe (2007) found that lending to SMEs in Ghana conveyed high moral hazard, as SMEs did not use finances for the right purpose. There were poor records keeping and accounting practices, adverse selection in issuing correct information on their locations, ability to pay, their assets, capital, liabilities and character leading. Ghana financial institutions charge a higher premium on loans due to unforeseeable risks and costs.

Mafasiya et al. (2010) document a negative relationship between profitability and bank lending. Banks prefer highly profitable firms hence such firms prefer retained earnings than debts. They may decline lucrative projects that apply for loans. Abor and Biekpe (2007),Tang et al. (2007) found that SMEs in Ghana sort growth, profitability and a market expansion strategy, focusing

on innovation and research, networks and partnership, costs efficiency, quality products/services/processes and after-sales services. Low performers relied on cost innovations as their marketing strategy. Size, age and assets tangibility affects the financing choice of SMEs. The results showed that debt financing increases with the age of the organization. It is anticipated that with time, SMEs creditworthy improves, debt levels increase and ownership ratio declined. Christopher (2010) found that trade credit, leasing and overdraft are some sources of external finance for most Nigerian In developing countries. SMEs are turning to Microfinance Institutions (MFIs) for financial assistance. SMEs financing boost entrepreneurship, economic growth, research and innovations, business capitalization, employment creation, poverty alleviation, income and wealth creation.

(Gebreeyesus, 2009) found that SMEs ownership structure is highly optimized when education with experience, networks and partnership, research and innovation is integrated. SMEs have proper financial management skills to prepare financial statements and record them properly (Tiwari et al., 2007). SMEs have financial and marketing information to repackage and re-strategies competitively in the market. SMEs managed their finances and personnel competently.

2.4 Conceptual Framework

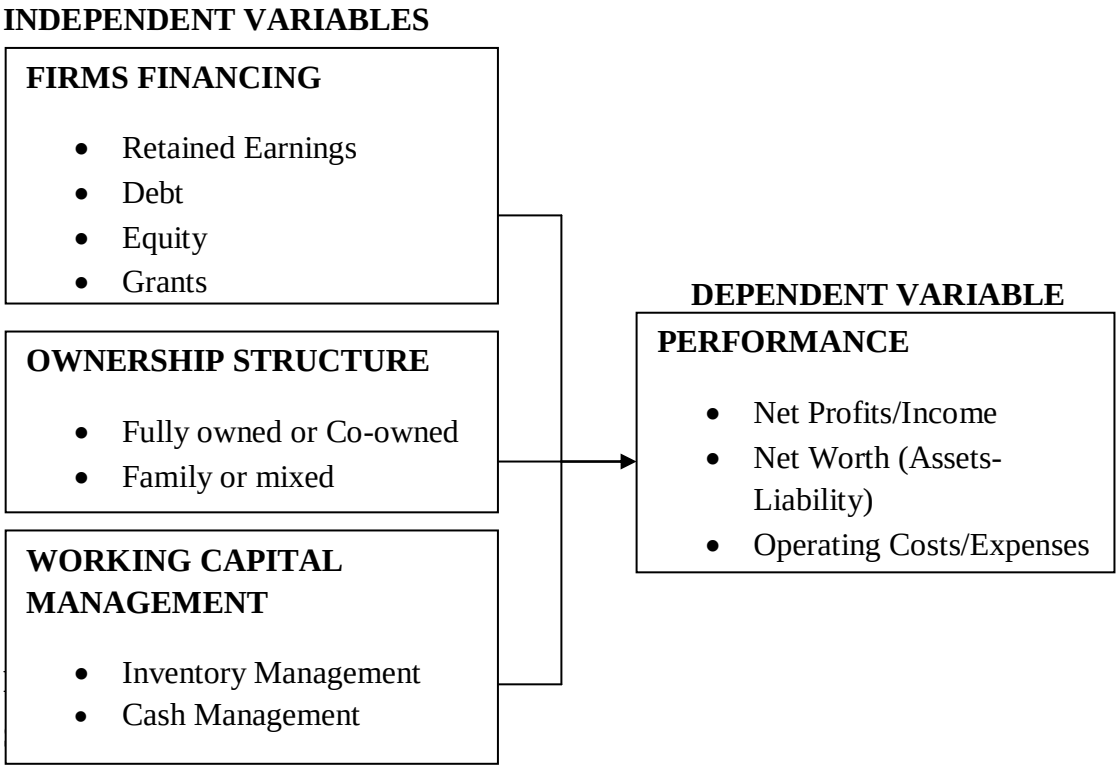


Figure *2*.1: Conceptual Framework

Source: Researcher, 2016

On firms financing, SMEs has various options, including retained earnings, debt, equity and grants which SMEs should source for funds to improve on their liquidity and growth. On ownership structure, SMEs should advocate fully owned or co-owned, family or mixed when restructuring a comprehensive SMEs, to optimize superior performance. SMEs with variety of education with experience should steer maximum returns on net worth and net profits, at the same time harmonise on costs and risks.

Working capital management emphasise on inventory and cash management. SMEs should adopt proper policies on management of cash and inventory, as they are the main operational threshold for performance of SMEs to profitability. Harmonization of firms financing, ownership structure and working capital management improve performance of SMEs in net profits, net worth and reduced costs.

2.5 Summary of Literature Review

SMEs performance is determined by financial soundness, financial management, ownership structure and working capital management. Government and financial institutions need supportive frameworks to facilitate SMEs start-up, growth and improved performance. SMEs need to outsource other avenues of financing and technical support to improve their performance. SMEs need proper documentation of their financial statements, budgeting, accounting and bankable projects to improve their financing with financial institutions. Most SMEs funds are from their owner's funds, families, friends and retained profit.

Loans taken by SMEs are for liquidity, growth and development. SMEs capital structure depends on their age, size, profitability and leveraging. SMEs prefer internal funds to external funds, short-term debt to long-term debt, and debt to equity. SMEs need to mitigate the challenges of financial structure, financial constrains, financial management, ownership structure and working capital management to improve their performance. Bank loans, overdrafts, leasing and trade credits improve performance of SMEs. Macroeconomic fluctuations such as interest rates, exchange rates and inflations, affect SMEs performance. SMEs should understand financial institutions leading procedures, provide proper financial statements, present credible business plans, provide collaterals and guarantees, accurate and complete information. SMEs should embrace research and innovations, networks and partnership with financial institutions, business strategies, structures and systems to improve performance. High costs of bank loans, information asymmetry, complex and time-consuming procedures in sourcing for bank loans need to be restructured to improve SMEs performance. Banks are not elastic in the situation when SMEs experience liquidity challenges and requires longer periods to settle debt. There are also high costs of SMEs operations, financial illiteracy, low profitability and low growth.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

The chapter introduces the research design adapted to collect data. The target population comprise of selected SMEs in Limuru Town. Sampling design was 10% of the target population. Purposive sampling technique was used to determine the required SMEs respondents. Structural close-ended questionnaires were used to collect primary data. Data was analyzed to detail the relationship between financial management practices on performance.

3.1Research Design

Kothari (2004) indicates that a research design is the framework within which research is conducted and constitutes the structures for the collection, measurement and analysis of data, in an economical and relevance to the research purpose. This study employed descriptive research, descriptive analysis (mean and standard deviation), correlation and multiple regression analysis, to describe the effect of financial and ownership structure on SMEs performance in Limuru Town. Kombo and Tromp (2006) describe descriptive research as description of the state of affairs as they exist, and reporting on facts finding and formulation of core principles of knowledge and solution to significant problems. Kothari (2004) states that the design must be adequate, reliable, unbiased, economical and well defined on what to measure and obtaining complete and accurate information. The design is rigid and not flexible, and must focus on formulating the objective of the study, conceptualize the criteria of data collection, selecting the sample, collecting the data, editing, coding, tabulating and analyzing the data, then reporting the findings.

3.2 Target Population

Kothari (2004) contends that a target population is a complete group of items possessing a common trait or traits, about which knowledge is sought. The study target population comprises of 388 SMEs (Limuru Municipality, Kenya) in the retail sector in Limuru Towns, with their owners and managers being the target respondents.

3.3 Sampling Design and Technique

Kothari (2004) indicates that sampling refers to the technique of selecting items from the target population, which must truly, fairly and unbiased, representing the whole target population. According to Mugenda and Mugenda (2003), 10%-30% of the target population can formulate an adequate sample size. The study adapted purposive sampling technique to select 39 SMEs out of 388 SMEs in Limuru Town (Limuru Municipality, Kenya). The sample size was 78 respondents (2 from each SME that is owner and manager).Purposive sampling is purposely targeting a particular group of people which the researcher believes to be reliable for the study Kombo and Tromp (2006).

Table 3.1 Sampling Table

Target population	**Sample size 10%**	**2 Respondents per SME**
388 SMEs	39 SMEs	78 Respondents

Source: Research Data, 2016

3.4 Data Collection Method

Kombo and Tromp (2006) describe data collection as gathering information to serve or prove some facts. Data is collected to further a researcher's understanding of a puzzling issue. Kothari (2004) states that data collection methods are two types, primary and secondary. The primary data are those collected afresh and original in character. The secondary data is data already collected and processed. The researcher used primary data to collect fresh and original data from 78 respondents in 39 SMEs in Limuru Town. He used structured questionnaires that are closed ended to collect his data, which he will use drop and pick method. Questionnaires are forms with written questions to gather data over a large sample, with or without predetermined answers. They were dropped to the respondents for them to fill, which were collected after the respondents have filled (Kombo and Tromp 2006). Questionnaires are appropriate where the study area is large, and fresh data from the ground is required to minimize bias on the researcher and the respondents, and secondary data is not sufficient.

3.4.1 Validity

Mugenda and Mugenda (2003) describe validity as the accuracy and meaningfulness of inferences, based on research results. Validity determines how accurate the data collected from

the study represents the variables of the study. Validity is greatly determined by the presence or absence of systematic error (non-random error) in data. Kothari (2004) concludes that the questionnaires need to be pre-tested to four SMEs respondents, which were administered, to pre-determine its validity in capturing all required data relating to the objectives of the study, and the positive reception of the respondents in understanding and responding to the questionnaire. The response from the four SMEs respondents were credible, and thus the questionnaires were a yard stick that yield reliable data of similar results from multiple trials.

3.4.2 Reliability

Mugenda and Mugenda (2003) describes reliability as yielding consistent results or data, by measuring research instruments in repeated trials. Reliability in research is influenced by random error. Random error is the deviation from a true measurement such as inaccurate coding and biased. A decrease in random error will increase reliability. A test-retest method was administered, that is administering the same instrument twice to the same group of subjects, to determine the reliability of the research instrument. Cronbach Alpha was used to test for reliability of the questionnaires. A coefficient of 0.07 or more clarifies a high degree of reliability on the questionnaires (Mugenda and Mugenda 2003).Kothari (2004) states that the questionnaire should be tested for reliability, relevance, accuracy, simplicity and clarity of capturing the information that will be constructed and analyzed to form a logical part of a well thought out tabulation plan. The questionnaires were tested repeatedly to four respondents, thus portraying consistent results.

3.5 Data Analysis Method

Kombo and Tromp (2006) describes data analysis as examining data collected and identify meaningful patterns. That is, uncovering underlying structures, extracting vital variables, detecting anomalies and testing the underlying assumptions. Kothari (2004) points that data after collection has to be analyzed, edited, coded, classified and tabulated, to search for patterns of relationship that exist between firms financing, ownership structure and working capital management on performance of SMEs. Descriptive statistics (means and standard deviation), correlation analysis and multiple regression analysis will be used to analyze the data. The regression model is captured below:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e$$

Where:

Y = Performance

β_o = Constant

B_1-B_3 = Beta coefficients

X_1= Working Capital Management

X_2= Firms Financing

X_3 = Ownership Structure

e= Error Term

Data was presented in tables, with the aid of frequencies and percentage.

3.6 Ethical Considerations

Ethics is portrayal of professionalism, confidentiality, responsible, openness, integrity and honesty (Kombo and Tromp 2006). The researcher portrayed confidentiality, integrity, anonymity and professionalism with respondent's data and their information was not used against them, or for any other purposes other than for this research. The researcher acquired consent from all respondents and ensured their participation is voluntary. The researcher referenced his citation and gives credit to respective authors and articles, and promises not to replicate someone's work. The researcher shared his findings as solutions to the problems characterizing performance of SMEs. After finishing his research, the researcher promised to appreciate all the respondents in his research, for their assistance.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRETATIONS

4.1 Introduction

This chapter presents data analysis, presentation and interpretation. Data was analyzed through descriptive analysis (means and standard deviation) and multiple regression analysis, to test the nature and strength of relationship between the effect of firms financing, ownership structure and working capital management on the performance of SMEs. Data is presented through tables, and the key findings are discussed, compared and contrasted with empirical literature, to show significance effect of independent variables on performance of SMEs. The study used primary data obtained from SMEs through questionnaires that were administered through drop and pick.

4.2 Response Rate

Eighty questionnaires were issued through drop and pick method, but only seventy five questionnaires were filled and returned. Out of the seventy five SMEs respondents, 50.67% were SMEs owners while others were SMEs managers. The findings signified that most SMEs are operated by their owners instead of hiring managers. Most SMEs respondents are between1-2 years of working experience at 44%, where 36% were between 3-5 years of experience. Only 10.67% and 9.33% SMEs represent 5-10 years and over 10 years of experience respectively. 61.33% of SMEs were females, and the others were males. Most SMEs have been operating between 5-9 years at 61.33%. Some SMEs have 10-15 years of existence at 29.33%, where only a few SMEs have been existence between 16-20 years and above at only 1.33% and 8% respectively.

Most SMEs preferred savings at 82.67%, than bank loans and family and friends at 16% and 1.33% respectively. SMEs lacked creditworthiness, collateral and ability to pay and shy away from bank loans. SMEs experienced more financial constrains at 61.33% than managerial skills at 17.33%, competition at 6.67%, lack of information at 6.67%, lack of networks at 5.33% and lack of research at 6.67%. Affordable and adequate finance were paramount for successful SMEs performance. SMEs must improvise strategies and tactics on how to pre-empt these challenges and sustain superior performance. Most SMEs preferred internal finance to external finance. That is probably due to the issues of bank's procedures, cost of loans, lack of information on financial

outsourcing and their fears, as well as lack of bankable projects and low ability to pay and secure the loans. SMEs feared bank debts due to unforeseeable income depletion. SMEs lacked financial information and financial literacy. SMEs also lacked networks and partnership with financial institutions, low negotiation skills, low collateral and creditworthiness, and poor financial management skills. SMEs preferred savings, leasing, trade credit, bank overdraft, family and friends financing than banks loans. They feared commitment to repay as they have high default rate and are not certain on their future income prospects.

4.3 Descriptive Analysis

Descriptive analysis data was presented in various tables.

Table 4.1: Descriptive Statistics

	Mean	Std. Deviation	N
Firms financing impact their net profits.	3.55	1.427	75
SMEs need to properly manage their inventories	4.44	.740	75
SMEs require finances that are affordable, adequate and less risky	4.51	.665	75
SMEs that are fully owned perform better	4.28	.966	75

Source: Research Data, 2016

Results in Table 4.1 above indicates that SMEs agreed at 3.55 that firms financing impact their performance. Most SMEs preferred internal finance to external finance, short-term loans to long-term loans, debt to equity and trade credit, leasing, bank overdraft to bank loans. SMEs feared bank loans due to their unforeseeable unstable income. Some SMEs lack collateral, creditworthiness, negotiations skills, financial information and financial management skills to adequately source and utilize finances. They also failed to make and keep proper records of financial statements, and thus banks shy away from granting them credit.

SMEs strongly agreed at 4.44 that they need to manage their inventories effectively to harness superior performance. Adequate inventories must be in stock to transact effectively and efficiently. SMEs must avoid running out of stock, as not to affect effective operations and customer confidence, and at the same time avoid over stoking, so as not to tie down finances that could have been utilized in other profitable ventures. SMEs also strongly agreed at 4.51 that they need affordable, adequate and less risky finances. SMEs prefer internal finance to external finance, short-term debt to long-term debt, debt to equity. SMEs would appreciate finances that don't require too much collateral, and the means of repayment are at arm's length. SMEs require loans from financial institutions that are less costly, less procedural requirements and considerations when one is stranded to pay. SMEs need affordable and adequate finances to develop and grow their business in innovative products/services/processes and research, human resources, inventories, technological advancement and marketing.

SMEs strongly agreed at 4.28 that SMEs need financial and marketing information to improve net profits. SMEs need financial information on available, adequate, affordable and less risky finances. They need to know how to negotiate for funds with lenders. SMEs need market information to know how, when and where to sell the products/services. Information makes a difference between success and failure. SMEs agreed that SMEs need innovation, research, networks and partnership to increase net profit. SMEs need networks and partnership with financial institutions, suppliers, investors, competitors, employees, customers and other industrial players to nurture information, expertise and financial resources to fast track them forward and boost performance in finance, market and growth. SMEs need to research and innovate in efficient and effective best business practices to harness superior performance. SMEs cannot operate in a vacuum. SMEs need vital market and financial information to perform optimally.

SMEs strongly agree at 3.55 while others are neutral that profitability of a business increases its chances of getting loan. Financial institutions check the viability of growth and profitability of SMEs to certain their loan repayment platforms. SMEs that are more profitable have higher chances of bank loans. SMEs strongly agree that banks require a lot of information and growth prospects to facilitate SME loans. Banks require assurance of their funds payback and thus scrutinize SMEs growth prospects, financial and operational information, to certain that the loaning process is viable and profitable, and that SMEs will payback.

Table 4.2: Ownership Structure

	Mean	Std. Deviation	N
SMEs ownership structure determines their net profits	3.33	1.131	75
SMEs need to manage their debtors well.	4.53	.723	75
SMEs prefer internal to external financing.	4.29	.564	75
SMEs that are co-owned with various partners perform better	2.71	1.228	75

Source: Research Data, 2016

Results in Table 4.2 above indicates that SMEs agreed at 3.33 that ownership structure affect their performance. SMEs preferred co-owned to sole-owned, education and experience, networks and partnerships with all industrial stakeholders, to improve their performance. SMEs owners/managers preferred integrated education and experience that strive better performance than those with only one element. Younger entrepreneurs are more aggressive in harnessing superior performance for their businesses. SMEs strongly agreed at 4.53 that they need to manage their debtors well to effect optimal performance. SMEs need to extend credit to their customers so as to increase sales and maintain customer satisfaction. At the same time, regulating debtors to ensure they pay when they are supposed to for business to thrive and avoid financial shortfall and loss making. Businesses and industries cannot survive without credit, and the only successful way is to effectively manage debtors. SMEs also agree that education and experience to increase their net worth. Skilled and experienced entrepreneurs have greater chances of growing their businesses than those with only one element. SMEs need to be all rounded in social-economic platform to steer successful performance and beat competition. SMEs need skills and experience to source for external funds, negotiate for them and utilize them optimally.

SMEs strongly agree that the age of the business affects it consideration for bank loan. Banks believe that young and starting SMEs are venerable and risky to payback, plus they lack experience, collateral and creditworthiness. Banks prefer established SMEs that they have worked with before or that have ability to pay, profitable, growing prospects and have collateral.

SMEs strongly agree that the level of assets determines bank loan consideration. Banks prefer tangible assets that can secure SMEs loans, since assets are better liquidated and can return the financial value of the loan. Banks prefer to loan SMEs that have assets, than those that don't.

SMEs strongly agree at 4.53 that SMEs need business strategic planning to be competitive and increase profits. SMEs require business strategies and tactics in planning, organizing, coordinating, directing and controlling of finances, inventories, human resources, products/services/processes, markets, customers, and other infrastructures to harness superior competition and performance. The difference between success and failure is proper strategies, structure, systems and tactics. SMEs need to improve their strategies to beat competition.

Table 4.3: Firms Financing

	Mean	Std. Deviation	N
SMEs sources of finance determine their net worth	3.80	1.174	75
SMEs need adequate liquidity to transact their operations effectively.	4.32	1.002	75
SMEs need bank loans to grow their business.	2.36	1.411	75
SMEs require proper organizational structure	4.05	1.114	75

Source: Research Data, 2016

Results in Table 4.3 above indicates that SMEs agreed at 4.32 that they need adequate liquidity to transact their operations effectively. SMEs need profits in the long-run, but in the short-term they must operate, and adequate liquidity is paramount for smooth day to day operations. SMEs disagreed at 2.36 that they need bank loans to grow their businesses. SMEs lacked bankable projects, collateral, creditworthiness, ability to pay and financial management and negotiation skills to source for bank loans. They also lacked networks and partnership with financial institutions and other industrial players that can mentor and coach them on necessity of bank financing. Some SMEs also shy away from bank loans due to hectic banks procedures and costly loans. Most SMEs preferred their own savings, family and friends, trade credits, leasing and bank overdrafts. SMEs strongly agreed that they need credit worthiness, collateral and ability to

pay to acquire bank loans. Banks require bankable projects, SMEs assurance and ability to pay so as to extend financial credit to SMEs. SMEs need to be properly registered and incorporated to legally negotiate for bank loans.

SMEs agreed that they need bankable projects to secure bank loans. SMEs need financial management skills to prepare business plans and budgetary proposals so as to convince banks to loan them finances, and show prospects of generating income from their business plans and how they will pay back the principle with interest at a stipulated time. SMEs also agreed that they preferred short-term loans to long-term loans. SMEs agreed as others are neutral that banks' lending policies are discriminative. Banks discriminate some SMEs due to their size, age, assets tangibility and financial illiteracy.

SMEs strongly agreed at 4.32 that adequate finances improve SMEs competitiveness. SMEs require adequate finances to anchor their marketing strategies and tactics, to increase sales, market share and customer base. SMEs need strong competition in the market to sustain and acquire market value. SMEs agreed that financial statements preparation and keeping is vital in securing bank loans. Banks need assurance that SMEs are profitable and have growth prospects to finance the loans. SMEs strongly agree that the size of the business affects its consideration for bank loan. Banks prefer SMEs that are large in assets, human capital and performance, as they show prospects of paying back the loan or high chances of loan recovery. Large SMEs have great future financial potentials as compared to small SMEs.

SMEs strongly agreed that SMEs require technological advancement to boost performance. Technological advancement in processes/products/services that are unique, cheap, quality, acceptable and applicable in the social-economic platform, beat competition and boost their business performance. SMEs agreed that they need internationalization of their markets to improve their net profits. SMEs need to diversify their markets internationally to increase sales, knowledge and experience. SMEs will have greater sales once they venture abroad and such for markets that are not nurtured. SMEs agreed that they need skilled workforce to reduce operational costs in processes/production/services. SMEs need skilled staffs in financing, business negotiations, research, accounting, administration and marketing to perform optimally.

Table 4.4: Performance of SMEs

	Mean	Std. Deviation	N
SMEs ownership structure impact operating costs.	3.75	.718	75
SMEs need to balance liquidity with profitability	4.07	.905	75
SMEs require creditworthiness, collateral and ability to pay to acquire bank loan.	3.68	1.243	75
SMEs need separate legal entity from its owners	3.37	1.136	75

Source: Research Data, 2016

Results in Table 4.4 above indicates that SMEs agreed at 4.07 that they need to balance liquidity with profitability. SMEs preferred liquidity to effectively and efficiently run operations. SMEs need adequate current assets to counter current liabilities for business to thrive in the short-term, and profitability can be realized in the long-term. A proper balance between liquidity and profitability must be realized to optimize superior SMEs performance. SMEs agreed that they need to balance current liabilities with current assets. SMEs need to operate within their means and avoid bad debts. They must only engage with liabilities that are fruitful to the business and ones that yield great returns. SMEs must always ensure that current assets are greater than current liabilities for liquidity purposes, and to keep effective and efficient operations.

SMEs agreed at 3.75 that SMEs ownership structure impact operating costs. SMEs are fully owned or co-owned, males or females, young or old entrepreneurs, experienced and/or educated, and hence SMEs believe that the ownership structure doesn't affect operating costs. SMEs strongly agree that SMEs financing determine operating costs. SMEs sources of finance depend on their costs. SMEs preferred finances that are affordable and less risky, so as not to interfere with their net profits. They preferred micro-finances to commercial banks, internal financing to external financing, their savings and their families and friends, trade credits, leasing and bank overdrafts. SMEs disagree that SMEs require government support to improve their net profits. SMEs believe they are adequate and competent to handle their own matters rather than have government intervene in their businesses.

SMEs agreed at 3.68 that SMEs need sound business environment to increase their net worth. That is, stable economy, political, social and market environment that their businesses are safe and they can emanate profits and growth. SMEs also need infrastructures such as housing, energy, roads, ports, rail and airports that they can advance their businesses locally and internationally. They also need stable macroeconomic factors, as well as business development services such as entrepreneurship workshops, conferences and seminars, training, coaching and mentorship.

4.4 Regression Analysis

The Model Summary table present correlation between independent and dependent variable.

Table 4.5: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.568	.323	.294	.950
Dependent Variable: Performance				
Predictors: (Constant), Firms Financing, Ownership Structure, Working Capital Management				

Source: Research Data, 2016

Results in Table 4.5 above indicates that, the simple correlation (R) shows a fairly strong positive correlation between firms financing, ownership structure and working capital management on performance of SMEs. The R square (R^2) shows that 32.3% of SMEs performance changes are explained by firms financing, ownership structure and working capital management.

Table 4.6: ANOVA Table

The ANOVA Table present multiple regression analysis between the independent and dependent variable.

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	30.567	3	10.189	11.286	.000[b]
	Residual	64.100	71	.903		
	Total	94.667	74			
a. Dependent Variable: Performance						
b. Predictors: (Constant), Firms Financing, Ownership Structure, Working Capital Management						

Source: Research Data, 2016 Significant Level= 0.05

Results in Table 4.6 above indicate the overall goodness of fit in terms of the extent to which financial management practices collectively explain the performance of SMEs studied. The P value is 0.000, which is less than the significant level of 0.05. Hence, the model overall is a good fit. Consequently, financial management practices are a good measure of performance of SMEs studied.

Table 4.7: Coefficients Table

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.595	1.211		.491	.625
	Working Capital Management	-.004	.161	-.003	-.025	.980
	Firms Financing	.792	.237	.395	3.343	.001
	Ownership Structure	-.237	.104	-.258	-2.281	.026
a. Dependent Variable: Performance						

Source: Research Data, 2016 **Significant Level= 0.05**

The following regression function is extracted from Table 4.7.

$$\mathbf{Y= 0.595 - 0.004X_1 + 0.792X_2-0.237X_3}$$

Where: Y = SMEs performance, β_0 is constant, X_1 =Working Capital Management, X_2 = Firms Financing, X_3 = Ownership Structure. The beta coefficients indicate the change in performance attributed to a unit change in the predictor variables all other factors held constant. Hence, a unit change in Working Capital Management causes a -0.004 change in SMEs performance, while all other factors held constant. A unit change in Firms Financing causes a 0.792 change in SMEs performance, while all other factors held constant, and a unit change in Ownership Structure causes a -0.237 change in SMEs performance, when all other factors are held constant.

Hypotheses were tested at a significance level of 0.05. In view of the results presented in the coefficients table above, working capital management was found to be insignificant in affecting performance since a P-value of 0.980 means the variable does not have a significant effect on performance of SMEs. With a P value of 0.001, firms financing has a significant effect on performance of SMEs. Considering a P value of 0.026, ownership structure has a significant

effect on performance of SMEs. Hence, to a great extent, financial management practices have a significant effect on performance of SMEs in Limuru town, Kenya.

4.5 Summary of Key Findings and Discussion

Mafasiya et al. (2010) document a negative relationship between profitability and bank lending. Banks prefer highly profitable firms hence such firms prefer retained earnings than debts. The study established that firms financing and ownership structure has a strong positive significant effect on the performance of SMEs, while working capital management doesn't. The Calice, Chando, and Sekioua (2012) study challenges on SMEs performance, and found obstacles constraining banks further engagement with SMEs, including SME-related factors, macroeconomic factors, business regulation, legal and contractual environment, the lack of a more proactive government attitude towards the segment, and some bank-specific factors. The study found that SMEs are financial constrained, and they lack collateral, creditworthiness, ability to pay and bankable project to secure bank loans. SMEs preferred finances that are adequate, affordable and less risky (Balling et al. 2009). SMEs preferred internal finances to external finances, short-term debt to long-term debt, debt to equity.

Akorsu and Agyapong (2012) identified "alternative model for rising funds, by focusing on why lenders were cynical in advancing credit to SMEs". The study found that SMEs agreed that they should source for alternative instruments of finance such as financial markets, crowd-funding and mutual guarantee schemes that would fund them at lower costs and risk. SMEs preferred retained earnings, their own savings, families and friends, trade credit, leasing and bank overdrafts over bank loans. Christopher (2010) found that trade credit, leasing and overdraft are some sources of external finance for most Nigerian SMEs. About 35% of SMEs in Singapore meet their funding through venture capital. In developing countries, SMEs are turning to Microfinance Institutions (MFIs) for financial assistance. The study found that SMEs financing boost entrepreneurship, economic growth, research and innovations, business capitalization, employment creation, poverty alleviation, income and wealth creation. SMEs shy away from bank loans due to lack of collateral, creditworthiness and low ability to pay. Tiwari et al. (2007) study found that financial institutions perceive SMEs as risky ventures, with information asymmetries, and require adequate collateral to minimize their risks. The study found that

leverage is attributed with SMEs age, size and assets tangibility, profitability and growth prospects. SMEs avoid bank loans due to hectic bank procedures and requirements

Kinyua (2014) sought to establish challenges facing SMEs performance in Nakuru Town, and found that "finance, management skills, macro-environment factors and infrastructure have been viewed as a critical element for the performance of SMEs in Nakuru Town". The study found that SMEs also lack financial management skills to prepare business plans, budgets and proper financial statements, to credit their competence to manage loans. SMEs agreed that macroeconomic fluctuations such as interest rates, exchange rates and inflations, also affect their financial fragility. SMEs agreed that they are financially constrained due to lack of financial management skills, financial information, higher interest rate, low creditworthiness, low collateral and information asymmetry. Being innovative constitutes higher loan demand for SMEs, and existing debt restrict further borrowing. SMEs innovativeness relies on the quantity of external funds, as most young SMEs do not have adequate resources to finance operations and investments. SMEs agreed that they lack marketing information to outsource adequate and affordable finances. SMEs also strongly agree that they fail in negotiating for cheaper loans and also in situations that they encounter difficulties in payments.

Hadjimanolis (1999), Chiliya & Roberts-Lombard (2012), Mwangi, Makau, and Kosimbei, (2014) studied challenges affecting SMEs performance, and found that banks are not elastic in the situation when SMEs experience liquidity challenges and requires longer periods to settle debt. The study found that SMEs agreed that banks cost of loans should be subsidized for SMEs to source loans from financial institutions. Schäfer, Werwatz, and Zimmermann (2004) found that banks need to invest in innovative information technologies to embrace electronic banking such as mobile money, agency banking and internet banking. So as to improve efficiency and effectiveness on banking, that is, minimizes the transaction costs for SMEs and maximizes returns on banks. The study found that SMEs agreed that banks should improve convenience, efficiency and effectiveness of banking procedures, transparency on their internal ratings, give reasons for alterations of rates and issue financial advice. SMEs agreed that they should understand financial institutions leading procedures, provide proper financial statements and present credible business plans. SMEs should also provide collaterals and guarantees, accurate and complete information, and improve performance through profitability, growth prospects and

assets tangibility. SMEs should improvise on financial management skills, research and innovations, networks and partnership with all stakeholders, improvise on business strategies, structures and systems to harness superior performance.

Nene (2014) and Statistics (2013) determined factors affecting SMEs performance in Nairobi County and established that high costs of bank loans, information asymmetry, complex and time-consuming procedures in sourcing for bank loans need to be restructured to improve SMEs performance. The study found that SMEs agreed that adequate finances are paramount to growth and development of their businesses. The Cusmano, (2015) document that financial institutions decision to lend to start-up and young SMEs is characterized by sales turnover, growth prospects, creditworthiness, assets tangibility, default rates and profitability. The study found that SMEs agreed that audited financial statements would portray credible financial information that can facilitate them to get bank credit. The reliance on internal financing by SMEs hinders growth and development. They need to research and innovate on best business practices, network and partnership with like-minded business partners such as financial institutions, suppliers and customers. Mafasiya et al. (2010) found that inadequate research and innovations in SMEs causes poor performance. Abor and Biekpe (2007), Tang et al. (2007) found that SMEs in Ghana sort growth, profitability and a market expansion strategy, focusing on innovation and research, networks and partnership, costs efficiency, quality products/services/processes and after-sales services. The study found that SMEs strongly agreed that they need skilled workforce and proper management skills to harness optimal performance.

The Agiomirgianakis et al., (2006) study found that financial constraints may contribute SMEs motivation to join larger groups. Group borrowing such as crowd-funding and mutual guarantee schemes assist SMEs to acquire considerable lending ratings, where financial institutions lend to a group instead of an individual. Groups are better collateralized and creditworthy, screened, monitored and insure each other's liability. Group membership alleviates financial constraints faced by individual SME, and improves their growth, performance and profitability, survival rates, facilitates innovations, networks and partnership and access to international markets. Size, age and assets tangibility affects the financing choice of SMEs. Abdulsaleh and Worthington (2013) conclude that financial institutions have developed measures to mitigate SMEs lending challenges, such as, loan restrictive covenants, requirements for collateral, credit guarantees,

crowd-funding or peer-to-peer lending, asset-based lending, which includes, purchase-order finance, warehouse receipts and leasing. Working capital and term loans are secured by assets such as inventory, machinery, trade accounts receivable, equipment and real estate.

Okeyo (2014)and Hashi (2001) found challenges limiting SMEs performance and emphasized that sound business environment, business development services such as investments consultancy services, research and development, technology advancement, access to international markets, weak institutional capacity, and inability to repay loans need to be put in focus to improve SMEs performance. The study found that SMEs agreed that they need research and development, networks and partnership with financial institutions to outsource adequate finances and invest promptly.

Ngugi and Bwisa (2013),County and Tubey (2013) highlights that SMEs in Eldoret Kenya, experience performance constrains due to lack of finance for expansion and growth, lack of financial management skills to utilize finances effectively, that is planning, budgeting, directing and controlling. There is competition for finances, skills and trade from other business that hinder SMEs performance. The study found that SMEs lack creditworthiness and collateral, financial information and negotiations to borrow money from financial institutions. CBR (1998) indicated hindrances affecting SMEs performance, and highlighted that financial information by SMEs and financial institutions, determined SMEs performance.

Abor (2004) examined how firm age and size affects their choice of financing, and the positive relationship between debt and firm age. The study found that larger organizations are more likely to receive debt financing, and SMEs are sidelined in acquiring bank financing, thus affecting their performance. SMEs disagreed that ownership structure impact their performance. SMEs believe that males or females, age, fully owned or co-owned, young or old entrepreneur do not affect SMEs performance. SMEs agreed that their performance is impacted by SMEs financial literacy, financial and marketing information and adequate, affordable and less risky finances, innovation and research, networks and partnership. SMEs agreed that working capital management does impact their performance. Christopher (2010) found that proper management of debtors, inventories and cash emphasized to steer superior performance. SMEs cannot operate

without offering credit facilities, but at the same time need to emphasize proper management of the same to grow in profits and net worth. SMEs agreed that operating costs need to be reduced to harness higher profits. SMEs agreed that they need to balance liquidity with profitability to steer effective and efficient operations. Liquidity is paramount for day to day operations, but at the long run significant profits must be realized. SMEs agreed that they need to balance current liabilities with current assets so as operate smoothly and perform optimally.

CHAPTER FIVE

SUMMARY CONCLUSION AND RECOMMENDATION

5.1Introduction

This chapter provides a summary of the objectives of the study, the methodology used in data collection, analysis, presentation and interpretation. The study concludes on what SMEs owners/managers and other stakeholders need to emphasize to boost their performance. The study recommends various platforms that need to be mitigated to harness superior SMEs performance. An area of further research is also highlighted to SMEs owners/managers, regulators, academicians and researchers.

5.2 Summary

The study investigated the effect of financial management practices and their influence on performance of SMEs in Limuru Town. The study explored various objectives; firstly, the effect of firms financing on performance of SMEs in Limuru Town. Secondly, the effect of working capital management on performance of SMEs in Limuru Town. Thirdly, the effect of ownership structure on performance of SMEs in Limuru Town. The study employed descriptive research design. The target population was 388 retail businesses in Limuru Town. Purposive sampling technique was adapted in gathering the sample size. Data was collected through structured, close-ended questionnaires. Data was analyzed through descriptive statistic (means and standard deviation) and multiple regression analysis. Data was presented through tables, and the key findings were discussed, compared and contrasted with empirical literature, to show significance effect of independent variables on performance of SMEs. The findings were that firms financing and ownership structure have a fairly strong positive correlation on the performance of SMEs, while working capital management does not have a positive correlation.

SMEs contribute to employment creation, poverty alleviation, entrepreneurship, GDP, innovations, income and wealth creation, increased exports, economic growth and development. Inadequate research and innovations in SMEs causes poor performance. SME performance is also affected by financial constrains, financial illiteracy, lack of financial and marketing information, poor financial management skills, poor working capital management, ownership structure, rigid regulatory frameworks and macroeconomic factors. Which constrain SMEs

performance to grow in net profits and net worth and lower costs. SMEs sources of finance are owner's savings, families and friends, trade credits, leasing, bank overdrafts, youth funds, Sacco, women funds, chamas, micro-finance and commercial banks. SMEs performance is determined by access to affordable, adequate and less risky finances. SMEs need financial management skills, financial information, research and innovation, network and partnership with all stakeholders to enable them outsource finances, expertise, innovative investments and market.

Most SMEs funds are from their owner's funds, families, friends and retained profit. SMEs prefers internal to external financing, debt to equity and short-term debt to long-term debt. Due to information asymmetry and the costs of information, retained earnings are preferred than debt and debt is preferred than equity. SMEs prefer finances that do not interfere with their ownership. SMEs shy away from bank loans due to cumbersome banking procedures, lack of viable bankable projects, lack of collateral, creditworthiness and ability to pay, and high interest rates on bank loans. SMEs also agree that ownership structure affect their performance as experience plus education of owners and managers impacted superior performance. Working capital management also determined SMEs performance, as proper management of debtors, inventories and liquidity impact increased performance. Poor management and accounting practices are hampering the ability of SMEs to raise funds.

5.3 Conclusions

SMEs are the backbone of economies and are a key source of economic growth. SMEs financial structure depend on their growth, profitability and leveraging. SMEs preferred internal funds to external funds, short-term debt to long-term debt, and debt to equity. SMEs must possess technical, financial, managerial and business knowledge. SMEs need to mitigate the challenges of financial constrains, financial illiteracy, poor financial management skills, poor financial and marketing information, ownership structure and working capital management to improve their performance and competitiveness. Improving SMEs financing is crucial in fostering entrepreneurship, competition and growth. SMEs need affordable and adequate financing. SMEs agreed that they need to balance liquidity with profitability. SMEs agreed that ownership structure impact operating costs. SMEs need to integrate education with experience to harness superior performance. SME size, age and assets tangibility determines their financing accreditation with financial institutions. SMEs financing problem becomes more pronounced

within a liberalized financial system and a macroeconomic environment of fiscal and monetary constraints. Fiscal austerity lowers expansion opportunities for SMEs. Financial constraints and financial management skills remain the major problems for SMEs.

SMEs disagreed that they need bank loan to finance their business. SMEs have limited access to external funds and mostly rely on their own funds. It limits their development strategies, affecting their performance, growth, competitiveness in the market. The difficulties that SMEs encounter when accessing finances are rigid regulatory frameworks, lack of information on both the bank's and SME's side. SMEs also lack collateral, creditworthiness, negotiation skills, financial management skills and ability to pay. Banks often avoid providing financing to startups, innovative and very young SMEs that usually have high returns but with high risk. SMEs require strategies, structures and systems on how to be competitive, grow and perform well in the market. They must adopt technological advancement, research and innovation, and network with industrial partners to outperform the market.

SMEs must outsource external financing, information and expertise to grow, develop and improve performance. SMEs need financial management skills, collaterals, financial negotiation skills and creditworthiness to acquire bank loan. SMEs also need to mitigate and handle their challenges effectively to steer successful performance. SMEs agreed that adequate finance is paramount to superior performance. SMEs agreed that financial preparations and proper keeping is vital to secure bank loan and improve performance. SMEs also agreed that they need bankable projects and proper loan repayment procedures to secure bank loans. SMEs need strategic entrepreneurship to increase performance. SMEs also need market research and analysis on competitive business operations and acquire financial information on how to package their operations.

SMEs strongly agreed that ownership structure impact their performance. SMEs must incorporate experience with education to steer superior performance. Proper financial management skills must be harnessed. Financial statements must be prepared and proper records keeping. SMEs must research and innovate on the best business practices, and benchmark on competitive superior performance. SMEs must network and partnership with all stakeholders

including financial institutions and financial investors to incorporate adequate and affordable finance. SMEs should also network with business gurus, to package their investment and financial portfolios. SMEs need to grow in size, assets and sales turnover to remain competitive and creditworthy to secure bank loans.

SMEs agreed that proper working capital management influence superior performance. SMEs need to balance liquidity with profitability. CCC need to be optimized to facilitate liquidity. SMEs need to shorten their CCC. SMEs need to properly manage their cash, inventories and debtors. SMEs need to have adequate stocks to avoid costly interruptions due to stock out upon production.

5.4 Recommendations

The study makes specific recommendations to various potential beneficiaries of this research such as SMEs owners/managers, regulators, academicians and researchers. Firms financing, ownership structure and working capital management are still constraining SMEs performance. SMEs need to diversify their financing, ownership, strategies and structures to harness superior performance. SMEs need to heighten entrepreneurship, alleviate poverty, create employment, improve income and wealth distributions to their owners and employees, and grow the economy. SMEs should embrace more financing, financial literacy, financial information and financial management skills to effect optimal performance. Banks should simplify their procedures and lower their costs of lending, collateral requirement and have friendly mitigation mechanism when SMEs are stranded in loan repayment. SMEs should have a development plan for future strategic financial and investment innovation.

Governments should create a supportive SME enabling environment that is macroeconomic factors, infrastructures, business regulation, legal and contractual environment. Universities should enroll entrepreneurship programs to equip, empower and inspire SMEs. Academicians and researchers should research on favorable factors that can improve performance of SMEs, and measure to mitigate their challenges. SMEs should broaden their financing instruments range to financial markets, Sacco, crowd-funding and mutual guarantee schemes, to enable them innovate, grow, develop and research.

SMEs should improvise on financial management skills and financial information to structure their business to optimal performance. SMEs need affordable, adequate and less risky finances through networks and partnership with financial institutions. SMEs owners/managers should also prioritize on innovative processes/products/services and research on best business practices, advanced technologies and management information systems. SMEs need to integrate experience, education and research.

5.5 Suggestions for Further Research

There should be further research on effect of financial management practices on performance of SMEs. Ownership structure, environmental factors and government interventions should also be research to detail whether they have an impact on SMEs performance. SMEs proximity to a major Town or City should be research to detail whether they have advantage of financial accreditation from financial institutions. SMEs size, age, assets tangibility, growth prospects, profitability, experience and education and innovations should be researched to detail whether they determine SMEs eligibility for financial credit from financial institutions. In view of a low R_2 of 32.3%, a study needs to document other factors, comprising of 67.7%, different from the independents variables in this study, which explain SMEs performance. Further study should be done to determine whether working capital management does have an effect on SMEs performance.

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APPENDICES

APPENDIX I: QUESTIONNAIRE

Letter of Introduction

Date……..

Dear Sir/Madam,

RE: COLLECTION OF RESEARCH DATA

My name is Lincoln Rugui Githire, I am an MBA student at St. Paul's University. I am researching on **The Effect of Financial Management Practices on Performance of selected SMEs in Limuru Town**. I am gathering relevant data to assist me in my research. I am requesting your assistance as a respondent, to assist with relevant data in aid of my data collection.

I am kindly requesting your time to respond to the attached questionnaire, accurately and honestly to the best of your knowledge. Your responses in the questionnaire will be treated with confidentiality and professionalism, purposely for this research only. Your utmost good faith will be highly appreciated in finding solutions to problems in SMEs performance in Limuru Town Kiambu County.

Your efforts and contributions will be highly appreciated.

Regards,
Lincoln Rugui Githire
MBA/LMR/1672/15

QUESTIONNAIRE

SECTION A: GENERAL INFORMATION

1. What is your Position in the organization?

SMEs Owner [ ] Manager/Employee [ ]

2. What is your working experience?

1-2 years [ ] 3-5 years [ ] 5-10 years[ ] Over 10 years [ ]

3. Gender Male [ ] Female [ ]

4. How long have the business been operating?

5-9 years [ ]10-15 years [ ]16-20years [ ]Over 20 years [ ]

5. What are your sources of finance?

Savings [ ] Family & friends [ ] Commercial banks [ ] Microfinance [ ]

Chamas [ ] Uwezo fund [ ] Youth funds [ ] Donors [ ]

6. What are the challenges that affect successful business performance?

Financial constrains [ ] Managerial skills constrains [ ] Competition [ ] Lack of information [ ]

Lack of innovation [ ] Lack of networks [ ] Low market share [ ] Lack of research [ ]

7. Do business prefer internal finance or external finance?

Internal finance [ ] External finance [ ]

SECTION B: WORKING CAPITAL MANAGEMENT

8. Please tick in the box the extent to which you agree that Working Capital Management affect the performance of SMEs. (Tick once for each question)

Strongly Agree (5) Agree (4) Neutral (3) Disagree (2) Strongly Disagree (1)

	5	4	3	2	1
a) SMEs need to properly manage their inventories.					
b) SMEs need to manage their debtors well.					
c) SMEs need adequate liquidity to transact their operations effectively.					
d) SMEs need to balance liquidity with profitability.					
e) SMEs need to balance current liabilities with current assets.					

SECTION C: FIRMS FINANCING

9. Please tick in the box the extent to which you agree that Sources of Finance affect the performance of SMEs. (Tick once for each question)

Strongly Agree (5) Agree (4) Neutral (3) Disagree (2) Strongly Disagree (1)

	5	4	3	2	1
a) SMEs require finances that are affordable, adequate and less risky.					
b) SMEs prefer internal to external financing.					
c) SMEs need bank loans to grow their business.					
d) SMEs require creditworthiness, collateral and ability to pay to acquire bank loan.					
e) SMEs require bankable projects to secure loans.					
f) SMEs prefer short-term loans than long-term loans.					
g) Banks lending policies discriminate SMEs.					
h) SMEs prefer trade credit, leasing and overdraft than bank loans.					
i) SMEs prefer family and friends financing that bank loans.					
j) Adequate finances improve SMEs competitiveness.					
k) Financial statements preparation and keeping is vital in securing bank loans.					
l) SMEs prefer microfinance than banks.					
m) SMEs prefer chamas, uwezo and youth funds and donations than banks loans.					
n) The size of the business affects it consideration for bank loan.					
o) The age of the business affects it consideration for bank loan.					
p) The level of assets determines bank loan consideration.					
q) Profitability of a business increase it chances of getting loan.					
r) SMEs need budget preparation to improve their loan access.					
s) SMEs need partnership and networks to improve their financial sources.					
t) SMEs need to innovate and diversify their sources of funds.					
u) Banks require a lot of information and growth prospects to facilitate SME loans.					

SECTION D: OWNERSHIP STRUCTURE

10. Please tick in the box the extent to which you agree that ownership structure affect the performance of SMEs. (Tick once for each question)

Strongly Agree (5) Agree (4) Neutral (3) Disagree (2) Strongly Disagree (1)

	5	4	3	2	1
a) SMEs that are fully owned perform better.					
b) SMEs that are co-owned with various partners perform better.					
c) SMEs require proper organizational structure.					
d) SMEs need separate legal entity from its owners.					
e) SMEs need to be legally incorporated.					
f) SMEs require proper infrastructures (equipments, skills, premises)					
g) SMEs owners/managers need strategic partnership and networks.					
H) SMEs owner/manager's gender affects SMEs performance.					
i) SMEs owners/managers need business, industrial, market, customer and financial information.					
j) SMEs need investment advice and support from government, lenders and experts.					
k) SMEs owners/managers need to be innovators, visionary, focused and discipline.					
l) SMEs owners/managers require management skills.					
m) Education and business experience determines SMEs performance.					
n) SMEs need market research to perform successfully.					
o) SMEs owners/managers need to be innovative in costs, risks and returns.					
p) SMEs owner/manager's age affect the performance of the enterprise.					

SECTION E: PERFORMANCE

11. Please tick in the box the extent to which you agree

Strongly Agree (5) Agree (4) Neutral (3) Disagree (2) Strongly Disagree (1)

	5	4	3	2	1
a) SME financing impact their net profits.					
b) SMEs ownership structure determines their net profits.					
c) SMEs sources of finance determine their net worth.					
d) SMEs ownership structure impact operating costs.					
e) SMEs sources of finance determine operating costs.					
f) SMEs require government support to improve their net profits.					
g) SMEs need business strategic planning to be competitive and increase profits.					
h) SMEs need sound business environment to increase their net worth.					
i) SMEs need financial and marketing information to improve net profits.					
j) SMEs need innovation, research, networks and partnership to increase net profit.					
k) SMEs require technological advancement to boost performance.					
l) SMEs need internationalization of their market to improve their net profits.					
m) SMEs need skilled workforce to improve operating costs.					
n) SMEs need education and experience to increase their net worth.					

Performance	2011	2012	2013	2014	2015
Net Profit					
Net Worth (assets-liabilities)					
Operating Costs (ksh.)					

Thank you