EFFECT OF CASH MANAGEMENT PRACTICES ON FINANCIAL PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN KENYA. A CASE STUDY OF MOMBASA COUNTY

Richo, M. W., & Onyiego, G.

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EFFECT OF CASH MANAGEMENT PRACTICES ON FINANCIAL PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN KENYA. A CASE STUDY OF MOMBASA COUNTY

[1] **Richo, M. W., &** [2] **Onyiego, G.**

[1] MBA Student, Jomo Kenyatta University of Agriculture and Technology, Kenya
[2] Lecturer, Jomo Kenyatta University of Agriculture and Technology, Kenya

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ABSTRACT

This study examined the effect of cash management practices on the financial performance of small and medium enterprises in Kenya. *The study was anchored on four theories: The Rational Choice Theory, Modern portfolio theory, the cash flow theory and the cash management theory. A survey research design was adopted in the study. The researcher used census to select 98 respondents from all the registered hardware operating in Mombasa County. The researcher personally called the accountants and read for them the questionnaires and recorded the data. The data was tabulated, and then analyzed using descriptive and inferential statistics with the help of Statistical package for the Social Sciences (SPSS) version 26 software. Quantitative data was analyzed using descriptive statistics which included frequencies, percentages, mean and standard deviation. Inferential statistics included correlations and regression analysis using the model Y = B0 + B1X1+ B2X2+B3X3 + B4X4 + e to test the effect of the independent on the dependent variable. The results of the study were presented using tables. The study found that there is a significantly positive effect of bank reconciliation on the financial performance of SMEs in Kenya. The study also established that there is a significantly positive effect of credit management on the financial performance of SMEs in Kenya. The study found that cash planning had a positively significant effect on the financial performance of SMEs in Kenya. The study also established that cash flow had a significantly positive effect on that financial performance of SMEs in Kenya. The study concluded that cash management practices had a significantly positive effect on the financial performance of SMEs in Kenya. The study recommended that cash management practices such as bank reconciliation, credit management, cash planning and cash flow should be adopted by SMEs in Kenya in order to enhance their financial performance*

Key Words: *Bank Reconciliation, Credit Management, Cash Planning, Cash Flow Management*

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INTRODUCTION

Globally, small and medium sized enterprises (SMEs) make up around 99% of the world's businesses and they employ 50-60% of the world's population (Kotios, Makridis, Fatouros & Kyriazis, 2022). In Europe, SMEs account for up to 99.8% of all its firms. It also accounts for 66% of its employment. The global economy therefore, depends on SMEs as its backbone. However, they face major challenges worldwide especially with the transformational power of the digital economy. The digital economy has pushed businesses to become more personalized from the customers' point of view. The customers demand for faster transactions and transparency. Any quest to improve the number and stability of SMEs in the economy would have a direct effect on improving the livelihoods of millions of people. With a majority of businesses in the world operating as SMEs implies that there is stiff competition for the businesses to remain profitable. Cash management practices therefore, need to be critically analyzed in order to realize better financial performance.

There is no particular definition of a small business due to the fact that businesses are classified into small-scale or large-scale categories based on qualitative judgments. In the United States of America (USA), Britain and Canada the definition of a business is based on the annual turnover and the employees who work in a particular organization. Enterprises employing between 50-150 employees on full-time basis are considered as medium enterprises while those employing 5-50 employees are called small and less than 5 are referred to as micro enterprises. SMEs are also categorized differently according to the countries in which they are operated. According to the EU, definition of an SME is a business with fewer than 250 employees and a turnover of less than €50 million (Hall, 2019).

The history of SMEs in Kenya begins in the 1960s and 1970s. Investment institutions were formed by the government in order to address industrial development objectives such as the Industrial and Commercial Development Corporation. The relevance of SMEs in Kenya will achieve greater magnitude as the country moves towards improving its industrial development. According to the report from the Kenya national bureau of statistics, there exist about 17 million registered SMEs in Kenya, where 98 percent constitute 25% of the country's Gross Domestic Product and provides employment to 50 per cent of the country's workforce (KNBS, 2020).

In a study carried out in Garissa County Ahmed & Mwangi, (2022) found that cash management practices were beneficial to the financial performance of SMEs. They also impacted positively on the financial performance of the SMEs. According to the study, return on assets could be increased by increasing the payable days and also by shortening inventory turnover.

Cash management practices involve controlling cash inflows and outflows. It aims at keeping the organization with sufficient liquid and using excess cash in a profitable manner. Cash shortage will inevitably impact negatively on the operations of the business, while excess cash will also remain idle without contributing anything significant, in terms of returns, towards the profitability of the organization. Maintaining a sound cash position for the business, therefore, a major function of the Finance Manager.

Bank reconciliation is the process of matching the balances in an entity's accounting records for a cash account to the corresponding information on a bank statement. The goal of this process is to ascertain the differences between the two and to book changes to the accounting records as appropriate. The information on the bank statement is the bank's record of all transactions impacting the entity's bank account during the past month. Many businesses do not keep or update primary accounting documents even as a matter of routine. Documents such as bank tellers, cheque books and bank statements in many businesses are either not kept or filed in a disorderly manner making periodic reconciliation difficult (Ngure & Ali, 2020).

Credit management is the process of granting credit, setting the terms it's granted on, recovering this credit when it is due and ensuring compliance with company credit policy, among other credit related functions. The inability for some small-scale enterprises to pay outstanding facilities as at when due could be as a result of result of mismanagement of funds, lack of proper books of account being kept or even the frequent method of transacting business based on Cash payment (Erhabor & Ofiafoh, 2020). Cash planning is a technique to plan and control the use of cash. A projected cash flow statement prepared based on expected cash receipts and payments, is the anticipation of the financial condition of the firm. Cash planning may be prepared on the daily, weekly, monthly or quarterly basis. There is need to look into determining what is the optimal cash that can be held at any given time (Grabner, Isabella, Moers & Frank, 2020). Cash flow management refers to the process of tracking how much money is coming into and out of the business. It helps to predict how much money will be available in the business in the future (Zhou, Tong, & Ren, 2022)

This study examined the effect of cash management practices on the performance of small and medium enterprises in Kenya. The background of the study gives the global, regional and local context of the study. It also highlights the key concepts of the study which include financial management practices and small and medium enterprises.

Statement of the Problem

The main objective of SMEs is to make profit. This can only be achieved when cash management practices are utilized effectively. However, the efficient use of cash management practices is questionable particularly in Mombasa County. It is therefore necessary that cash management practices which include cash reconciliation, credit management, cash planning and cash flow management be investigated in order to establish their influence on the financial performance of SMEs in Mombasa County.

The financial performance of SMEs has been low over the years. The low performance has been blamed on the effective utilization of management practices (Mwende, Muturi & Njeru 2019; Oteyo 2018; Erhabor & Ofiafoh 2020; Grabner, Isabella, Moers & Frank 2020; Ngure & Ali 2020; Sharma, & Ward, 2020; Vanhuyse, Bailey., & Tranter, 2021; Wanjuki, Githui & Omurwa, 2021). It is because of this problem that the researcher had to investigate if it is true that lack of proper implementation of cash management practices is the cause of poor performance of SMEs in Mombasa County. This study is therefore research that leads to the timely intervention in the financial performance of SMEs in Kenya. If not implemented, then low financial performance will still be witnessed.

The aim of this study was to investigate the effect of cash management practices on financial performance of SMEs in Kenya. It also examined the influence cash reconciliation, credit management, cash planning and cash flow management on the financial performance of SMEs in Kenya.

Objectives of the Study

The main objective of the study was to examine the effect of cash management practices on the financial performance of small and medium enterprises in Kenya. The specific objectives of the study were:

- To determine the effect of bank reconciliation on the performance of small and medium enterprises in Kenya.
- To examine the effect of credit management on the performance of small and medium enterprises in Kenya.
- To evaluate the effect of cash planning on the performance of small and medium enterprises in Kenya.
- To establish the effect of cash flow management on the performance of small and medium enterprises in Kenya.

The research hypotheses for this study were:

- There is no significant effect of bank reconciliation on the performance of small and medium enterprises in Kenya.
- There is no significant effect of credit management on the performance of small and medium enterprises in Kenya.
- There is no significant effect of cash planning on the performance of small and medium enterprises in Kenya.
- There is no significant effect of cash flow management on the performance of small and medium enterprises in Kenya.

LITERATURE REVIEW

Theoretical Framework

The Rational Choice Theory

According to Mekuri-Ndimele, & Hart-Akinsola, (2022), rational choice theory is based on the fact that human beings project an ideal, fulfilling or satisfying future in their minds. They then come up with realistic choices which are meant to lead them to their desired goal which is the most fulfilling outcome. The desired outcome is meant to benefit them the most, given other competing outcomes. The choice thy make therefore is supposed to be in line with their desired outcome. However, when making these choices, they are often influenced by their belief systems and environmental conditions among other factors.

This theory is relevant for this study because when an organization has poor cash reconciliation practices, and then there will be increased cash losses. On the other side, when SMEs consider adapting the theory of rational choice into their business models, it can help predict and explain future consumer spending decisions and thus lead to increased profits.

Modern Portfolio Theory

According to Liu, (2022), Modern portfolio theory states that an investment's risk and return characteristics should be evaluated by how the investment affects the overall portfolio's risk and return. It argues that an investor can construct a portfolio of multiple assets that will maximize returns for a given level of risk. Likewise, given a desired level of expected return, an investor can construct a portfolio with the lowest possible risk. Although investors re risk takers, but they are averse to risks. They prefer to venture into businesses whose risks are lower when compared to other alternatives. This is meant to shield them from incurring losses. Based on statistical measures such as variance and correlation, an individual investment's return is less important than how the investment behaves in the context of the entire portfolio. This study examines the effect of credit management on financial performance.

Cash Flow Theory of capital structure

The cash flow theory states that the value of stock is the present value of the future net cash flows. It also affirms that a positive net cash-flow represents a cash payment by the firm to the stockholders, while a negative net cash-flow represents a cash payment by the stockholders to the firm. According to Zhou, Tong, & Ren, (2022), it is believed that when cash flow volatility rises such as in the case of bankruptcy, it leads to financial discomfort. At this point, the investor is supposed to weigh between debt and debt cost advantages. Less debts are to be utilized as a tradeoff that would lead to an increase in profitability. Dividends are a substitute for debt in mitigating agency costs of free cash flow. This theory is relevant in this study because it examines the cash flow of an organization.

Cash Management Theory

According to Lartey, Jaladi, & Afriyie, (2022), cash management theory is based on the fact that cash has a cyclical nature due to liquidity. It is therefore important that during investment activities, borrowing on both short term and long-term basis should be used so that peaks in cash flow due to cash idling can be avoided. In order to have optimal cash balance, there must be made both financial and investment decisions. Theory of cash management is relevant for this study because it underscores the need for cash planning when making investment decisions.

Conceptual Framework

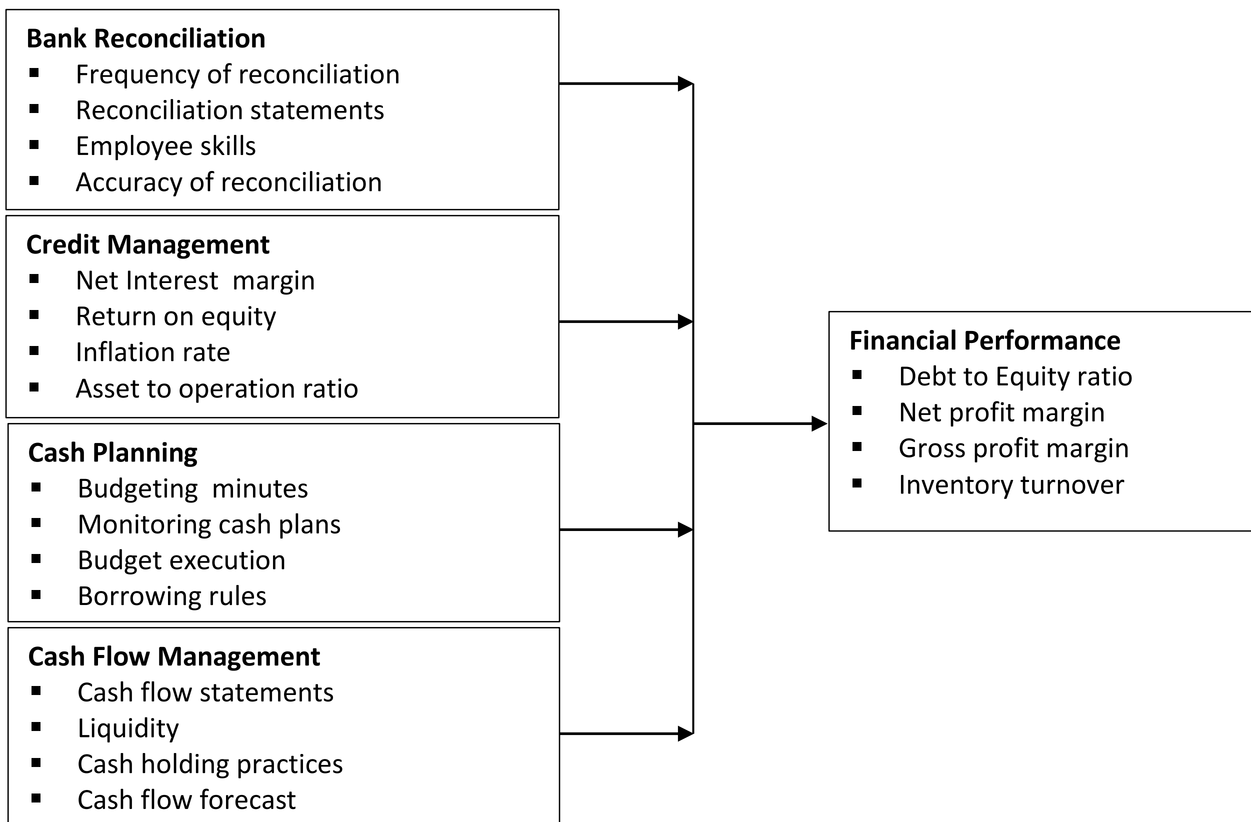

Figure 1: Conceptual Framework

Review of Variables

Bank reconciliation covers accounting concepts such as management accounting, cost accounting, tax management, auditing and public accounting (Odo, 2018). Credit management has been found to be one of the variables that influence financial performance according to Gitau (2021). Cash planning is the process of forecasting future events, and how activities should be handled based on predetermined goals set by an organization. Budgetary planning and control influence financial performance of organizations (Nair, Abdulfattah & Salwa 2020). Cash flow management is created by a firm's operation that is available to compensate its financial commitments to those that have provided its funding. These include its equity shareholders and its lenders. Cash flow is the finances accessible to administrators ahead of the flexible capital venture or investment conclusion. It corresponds to cash that a firm is capable to make after laying out funds mandatory to preserve or enlarge its asset base Bashir, (2021).

Empirical Framework

Ngure & Ali (2020) studied the effect of internal controls on financial performance in insurance industry in Kenya. The study established that there is a positive link between detective internal controls and financial performance. Both external and internal audits are important in ensuring that organizations meet their financial performance targets. They also established that reconciliations of business transactions are important practices to assist an organization meet financial performance targets.

In their study to establish the effect of credit management on firm performance among deposit banks in Nigeria, Ayunku & Uzochukwu (2020) found credit management impacts significantly on the banks' financial performance. Akoto, Nkrumah & Korankye (2020) assessed how credit risk

exposure among listed banks on the Ghana stock exchange affects Returns on Equity. Credit risk was found to negatively and significantly influence ROE. They therefore suggested that banks must strengthen their credit risk management framework to help combat the credit risk exposures they face. Erhabor & Ofiafoh (2020) carried out a study on credit risk and the performance of deposit money in banks in Nigeria. The results of the empirical analysis revealed that Credit risk does not have any significant effect on the performance of deposit money banks in Nigeria. Sundus, Musaed, Khuloud & Shamali (2020) studied the effect of risk factors on the financial performance of insurance companies listed at Kuwait stock exchange. Results obtained from the study showed that the financial performance of Kuwait insurance companies are mostly affected by operational risk and credit risk while liquidity risk does not have any statistically significant effect on their financial performance.

Grabner, Isabella, Moers & Frank (2020) investigated the determinants and consequences of budget reallocations or corrective actions to the budget made during the year. Using proprietary data of a large consumer goods manufacturer, they analyzed the extent to which allocation decisions regarding the initial budget drive subsequent reallocations affects market performance. The results of the study indicated that initial planning had the desired effects on market-place performance. However, budget cuts were negatively associated with a product's change in market share. The results demonstrated that efficient investment planning ex ante is essential to achieve an improvement in market-place performance, highlighting the value of budgeting.

Sharma, Jadi, & Ward, (2020) investigated the determinants of financial performance of UK insurance companies based on their financial strength ratings. Findings showed that profitability, liquidity, size and organizational form are the significant determinants that affect financial performance of insurance companies in the UK. Burhanuddin, Rasmi Nasrulhak & Yani (2020) researched on the effect of funding policy and working capital on financial performance. They found that funding and working capital policies have a positive and significant impact on financial performance in micro, small and medium enterprises in Donggala Regency.

Wanjuki, Githui, & Omurwa, (2021), in a study on cash management and performance of hospitals in Nairobi found that cash management practices enhanced financial performance. Vanhuyse, Bailey, & Tranter, (2021), conducted a study on farm businesses in England. They found that cash management practices had a positive effect on financial performance. Omwono, (2021), found that there was a significant correlation between cash management and financial performance in a study conducted at Mumias sugar company in Kenya. According to Ochi, Idiege, & Bassey, (2021), cash management practices when effectively implemented led to better financial performance in manufacturing firms in Nigeria.

METHODOLOGY

A survey research design was adopted in the study. The descriptive survey research design was appropriate for this study because it enabled the researcher to describe, explain and portray characteristics of an event or population as it exists. This study targeted all the 98 hardware. Since the target population was small, the study used census. Therefore, the sample population comprised of all the 98 hardware. Primary data was used and data was collected through questionnaires. The researcher administered identical questionnaires on the targeted respondents. Self-administered method was used because the potential anonymity of the respondent can lead to more truthful or valid responses. It is also inexpensive and allows the respondent to complete the questionnaire at a convenient time.

The data was tabulated, and then analyzed using descriptive and inferential statistics with the help of Statistical Package of Social Sciences (SPSS) version 26 software. Descriptive statistics involved the use

of weighted averages and percentages. Inferential statistics was used to establish the causal relationship between the dependent and independent variables. This was achieved through the use of the regression model shown below. Quantitative data was analyzed using descriptive statistics which included frequencies, percentages, mean and standard deviation and inferential statistics which included correlations and regression analysis using the following model:

$Y = B_0 + B_1X_1 + B_2X_2 + B_3X_3 + B_4X_4 + e$ to test the effect of the independent on the dependent variable.

Where:

Y = Financial performance of SMEs

X_1 = Bank reconciliation

X_2 = Credit management

X_3 = Cash planning

X_4 = Cash management

e = error term

The results of the study were presented using tables and figures.

FINDINGS AND DICSUSSIONS

Descriptive analysis

The descriptive analysis of the findings was presented using tables. They were based on the variables of the study as shown below:

Bank reconciliation parameters effect on financial performance

The respondents were asked questions on their assessment of bank and cash reconciliation on financial performance of SMEs. The findings were shown in table 1 below.

Table 1: Cash and bank reconciliation parameters effect on financial performance

Bank reconciliation	Mean	Std. Dev.
Frequent bank and cash reconciliations have a positive effect on financial performance of SMEs.	4.07	.583
Accuracy of reconciliation statements has a positive effect on financial performance of SMEs.	2.93	1.112
Cash management skills of employees have a positive effect on financial performance of SMEs.	2.93	1.081
Bank reconciliation statements have a positive effect on financial performance of SMEs.	2.63	.890

From the table above, the respondents agreed that frequent bank and cash reconciliations have a positive effect on the financial performance of SMEs at a mean of 4.07 and standard deviation of 0.583. Accuracy of reconciliation statements has a positive effect on financial performance of SMEs at a mean of 2.93 and standard deviation of 1.112. Cash management skills of employees have a positive effect on financial performance of SMEs at a mean of 2.93 and standard deviation of 1.018. Bank reconciliation statements have a positive effect on financial performance of SMEs at a mean of 2.63 and standard deviation of 0.890. The standard deviations for accuracy of reconciliation and cash management skills of employees are above 1. This shows that there is more spread regarding the respondent's views. However, the other standard deviations are below 1. This shows that there was less spread for the data around the mean.

Credit management parameters effect on financial performance

In order to establish the assessment of credit management on financial performance of SMEs, respondents were asked questions whose findings are shown in table 2 below.

Table 2: Credit management parameters effect on financial performance

Credit management	Mean	Std Dev
Net interest margin has a positive effect on financial performance of SMEs.	2.97	.999
Return on equity after tax has a positive effect on financial performance of SMEs.	2.90	1.094
Inflation rate has a positive effect on financial performance of SMEs.	3.53	.898
Total asset and operation ratio has a positive effect on financial performance of SMEs.	2.57	.935

According to the respondents, net interest margin has a positive effect on financial performance of SMEs at a mean of 2.97 and standard deviation of 0.999. The return on equity after tax has a positive effect on financial performance of SMEs at a mean of 2.90 and standard deviation of 1.094. Inflation rate has a positive effect on financial performance of SMEs at a mean of 3.53 and standard deviation of 0.898. Total asset and operation ratio has a positive effect on financial performance of SMEs at a mean of 2.57 and standard deviation of 0.935. The standard deviations for return on equity after tax is above 1. This shows that there is more spread regarding the respondent's views. However, the other standard deviations are below 1. This shows that there is less spread for the data around the mean

Cash planning parameters effect on financial performance

Respondents were asked questions on the assessment of cash planning on financial performance of SMEs. The results are shown in table 3 below.

Table 3: Cash planning parameters effect on financial performance of SMEs

Cash planning	Mean	Std Dev
A realistic budget has a positive effect on financial performance of SMEs.	2.97	1.033
Strictly observing budget execution rules leads to better financial performance of SMEs.	3.63	.809
Monitoring cash plans has a positive effect on financial performance of SMEs	3.47	.900
Clear borrowing rules have a positive effect on financial performance of SMEs,	3.17	.950

The respondents were of the view that a realistic budget has a positive effect on financial performance of SMEs at a mean of 2.97 and standard deviation of 1.033. Strictly observing budget execution rules leads to better financial performance of SMEs at a mean of 3.63 and standard deviation of 0.809. Monitoring cash plans has a positive effect on financial performance of SMEs at a mean of 3.47 and standard deviation of 0.900. Clear borrowing rules have a positive effect on financial performance of SMEs at a mean of 3.17 and standard deviation of 0.950. The standard deviations for realistic budget having a positive effect on financial performance of SMEs is above 1. This shows that there is more spread regarding the respondent's views. However, the other standard deviations are below 1. This shows that there is less spread for the data around the mean.

Cash flow parameters effect on financial performance

Responses on the assessment of cash flow management on financial performance of SMEs are shown in table 4 below.

Table 4: Cash flow management parameters effect on financial performance

Cash flow management	Mean	Std Dev
Maintaining cash flow statements leads to better financial performance of SMEs.	2.90	.481
Liquidity has a positive effect on financial performance of SMEs.	2.97	.414
Cash holding practices have a positive effect on financial performance of SMEs.	2.67	.606
Cash flow forecast has a positive effect on financial performance of SMEs.	2.77	.568

The respondents felt that maintaining cash flow statements leads to better financial performance of SMEs at a mean of 2.90 and standard deviation of 0.481. Liquidity has a positive effect on financial performance of SMEs at a mean of 2.97 and standard deviation of 0.414. Cash holding practices have a positive effect on financial performance of SMEs at a mean of 2.67 and standard deviation of 0.606. Cash flow forecast has a positive effect on financial performance of SMEs at a mean of 2.77 and standard deviation of 0.568. These results show that the respondents views are clustered around a mean of 3 which is at the center of Likert scale. It shows that they are mostly undecided.

Cash management practices parameters effect on financial performance

The dependent variable was to measure financial performance of their firms. The responses gathered are displayed in table 5 below.

Table 5: Cash management practices parameters effect on financial performance

Financial performance	Mean	Std Dev
Effective implementation of cash management practices has led to improved gross profit margin	2.83	.986
Effective implementation of cash management practices has led to improved net profit margin	3.30	.952
Effective implementation of cash management practices has led to improved debt to ratio equity	3.67	.802
Effective implementation of cash management practices has led to improved inventory turnover	2.97	.999

According to the respondents, effective implementation of cash management practices has led to improved gross profit margin at a mean of 2.83 and standard deviation of 0.986. Effective implementation of cash management practices has led to improved net profit margin at a mean of 3.30 and standard deviation of 0.952. Effective implementation of cash management practices has led to improved debt to ratio equity at a mean of 3.67 and standard deviation of 0.802. Effective implementation of cash management practices has led to improved inventory turnover at a mean of 2.97 and standard deviation of 0.999. The results show that the 33333337respondents' views are clustered around a mean of 3 which is at the center of Likert scale. It shows that they are mostly undecided.

Regression Analysis

The study sought to determine if there exist a relationship between an intervention and an outcome and in this light identify its strength. Inferential analysis enables testing of observed patterns in data to establish whether they are due to chance or intervention effects.

Table 6 showed the regression analysis of the study aimed at depicting the relationship between the independent variables pooled together and the dependent variable.

Table 6: Regression analysis

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.731a	.534	.467	.21568

a. Predictors: (Constant), Cash and bank reconciliation, credit management, cash planning and cash flow

From table 6, R=0.731 as the model correlation coefficient. This shows that collectively the model improved as more variables were incorporated. It also determined the financial performance of SMEs in Kenya since it is the highest zero order value in the table. The R Square value (r=0.534) indicates that the model could account for 53.4% of the variations in determining financial performance of SMEs in Kenya.

Regression model

Table 7: Regression model

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.264	.455		.861	.002
Cash and bank reconciliation	.298	.194	.242	1.514	.000
Credit management	.431	.169	.511	3.314	.000
Cash planning	.276	.143	.307	2.437	.000
Cash flow management	.219	.132	.246	1.428	.022

Source: Researcher

On the above table, the unstandardized beta coefficients from which the regression was deduced is shown below.

$Y = 0.264 + 0.298X_1 + 0.431X_2 + 0.276X_3 + 0.219X_4 + \varepsilon$

The model indicates that credit management had the greatest statistically significant influence on the financial performance of SMEs in Kenya (β=0.431, p<0.001) which means that for every unit increase in credit management, a 0.431 unit increase on financial performance was observed if all other variables were held constant. The study established that there is a significantly positive effect of credit management on the financial performance of SMEs in Kenya. These findings are coherent with Ayunku & Uzochukwu (2020) who that found credit management impacts significantly on the banks' financial performance.

It was followed by cash and bank reconciliation which had a statistically significant effect on the financial performance of SMEs in Kenya of (β=0.298, p<0.001) meaning that for every unit increase in cash and bank reconciliation, a 0.298 unit increase in financial performance was realized, all other variables being held constant. The study found that there is a significantly positive effect of cash and bank reconciliation on the financial performance of SMEs in Kenya. This is in agreement with Ngure & Ali (2020) who established that reconciliations of business transactions are important practices to assist an organization meet financial performance targets.

This was followed by cash planning of which there was a statistically significant influence of (β=0.276, p<0.001) on the financial performance of SMEs in Kenya. It shows that for every unit increase in cash planning, a 0.276 unit increase in financial performance was indicated all other variables being held constant. The study found that cash planning had a positively significant effect on the financial performance of SMEs in Kenya. This is in agreement with a study carried out by Grabner, Isabella, Moers & Frank (2020) who investigated the determinants and consequences of budget reallocations or corrective actions to the budget made during the year. The results of the study indicated that cash planning had the desired effects on market-place performance.

Finally, the statistically significant influence of cash flow management was (β=0.219, p<0.022) on the financial performance of SMEs in Kenya. This showed that for every unit increase in cash flow management, there was an increase of 1.019 unit increase in the financial performance, all other variables being held constant. The study established that cash flow had a significantly positive effect on that financial performance of SMEs in Kenya. The findings are in agreement with Wanjuki, Githui, & Omurwa, (2021), who carried out a study on cash management and performance of hospitals in Nairobi. They found that cash flow enhanced financial performance.

CONCLUSION AND RECOMMEDATION

The first objective of the study was to determine the effect of bank reconciliation on the performance of small and medium enterprises in Kenya. The study found that there is a significantly positive effect of bank reconciliation on the financial performance of SMEs in Kenya. This is in agreement with Ngure & Ali (2020) who established that reconciliations of business transactions are important practices to assist an organization meet financial performance targets.

The second objective was to examine the effect of credit management on the performance of small and medium enterprises in Kenya. The study established that there is a significantly positive effect of credit management on the financial performance of SMEs in Kenya. These findings are coherent with Ayunku & Uzochukwu (2020) who that found credit management impacts significantly on the banks' financial performance.

The third objective was to evaluate the effect of cash planning on the performance of small and medium enterprises in Kenya. The study found that cash planning had a positively significant effect on the financial performance of SMEs in Kenya. This is in agreement with a study carried out by Grabner, Isabella, Moers & Frank (2020) who investigated the determinants and consequences of budget reallocations or corrective actions to the budget made during the year. The results of the study indicated that cash planning had the desired effects on market-place performance.

The fourth objective was to establish the effect of cash flow management on the performance of small and medium enterprises in Kenya. The study established that cash flow had a significantly positive effect on that financial performance of SMEs in Kenya. The findings are in agreement with Wanjuki, Githui, & Omurwa, (2021), who carried out a study on cash management and performance of hospitals in Nairobi. They found that cash flow enhanced financial performance.

The study concluded that cash management practices have a significantly positive effect on the financial performance of SMEs in Kenya. This is in agreement with Vanhuyse, Bailey, & Tranter, (2021), conducted a study on farm businesses in England. They also found that cash management practices had a positive effect on financial performance. Omwono, G. A. (2021), found that there was a significant correlation between cash management and financial performance in a study conducted at Mumias sugar company in Kenya. According to Ochi, Idiege, & Bassey, (2021), cash management practices when effectively implemented led to better financial performance in manufacturing firms in Nigeria.

The study recommended that cash management practices such as cash bank reconciliation, credit management, cash planning and cash flow should be adopted by SMEs in Kenya in order to enhance their financial performance.

The study also recommended that SMEs in Kenya should improve their credit management by increasing net interest margin.

Another recommendation from the findings of the study is that focus on cash planning in order to improve financial performance by preparing realistic budgets whose execution they strictly observe and monitor regularly. They should also have clear borrowing rules.

The study finally recommended that SMEs in Kenya need to improve their cash flow management in order to optimize financial performance by making cash flow forecasts, ensuring that there is liquidity, having cash holding practices and maintain good cash flow statements.

Suggestion for further research

Since the study was mainly focused on cash management practices among SMEs and their financial performance, further study should be carried out focusing on such factors as the size of SMEs, working capital and government policies and financial performance.

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