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CASH FLOW FORECAST AND GROWTH OF FAMILY-OWNED SMALL ENTERPRISES IN NAIROBI COUNTY, KENYA

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ABSTRACT

This study examined the influence of cash flow forecasting on the growth of FOSEs in Kenya. The research was anchored on Liquidity Preference Theory. The study adopted a descriptive survey design targeting 44,386 registered family-owned enterprises operating in Nairobi County. A sample of 396 businesses was drawn using stratified random sampling. Data were collected using structured questionnaires and analyzed using descriptive statistics, correlation, and multiple regression analysis. Findings revealed that cash flow forecasting significantly influenced the growth of FOSEs in Kenya. Cash flow forecasting exhibited a strong positive relationship with growth, indicating that businesses engaging in regular and structured forecasting achieved improved financial planning, stability, and reinvestment capabilities. The study concluded that structured and integrated cash flow management practices are instrumental to the financial resilience and growth of FOSEs I Kenya. It recommended that enterprise owners institutionalize digital cash flow tools. The study further calls on policymakers to develop tailored financial literacy and technology adoption programs to support small enterprise development. Financial institutions are encouraged to offer training and products that reinforce strong cash flow forecasting.

Key Words: Cash Flow, Forecasting, Family Owned Business

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INTRODUCTION

The advent of digital tools and financial technologies has transformed cash flow management practices in FOSEs, providing them with more accurate forecasting and real-time financial insights. These tools allow for better prediction of cash inflows and outflows, which is critical for making informed decisions regarding expenditures, investments, and the timing of major financial commitments. Studies have shown that the adoption of such technologies can significantly enhance the efficiency of cash flow management in FOSEs. For example, Smith and Lee (2023) highlighted that businesses using digital cash flow management tools experienced a reduction in cash shortages and an increase in available funds for growth initiatives (Jones et al., 2023, Wang & Chen, 2022).

Family-owned small enterprises often face challenges in accessing external financing, making internal cash flow management even more critical for funding growth. The reliance on retained earnings and internal cash flows means that any inefficiencies in cash flow management can directly impact the business's ability to finance expansion activities. Gomez and Tran (2023) found that FOSEs with disciplined cash flow management were better able to self-finance their growth, reducing their dependence on external loans, which are often difficult to obtain due to the perceived higher risk associated with small, family-run businesses (Khan & Patel, 2023, Miller & Roberts, 2021).

In many European and Asian economies, FOSEs contribute significantly to the GDP, but their growth is often hindered by volatile cash flows due to their reliance on limited financial resources. Cash flow forecasting, a proactive financial tool, enables these businesses to predict future cash inflows and outflows, allowing them to make informed decisions regarding investments, expenses, and potential cash shortages. Recent studies, such as those by Garcia and Wang (2022) and Lee et al. (2023), emphasize the importance of accurate forecasting in mitigating financial risks and ensuring that FOSEs have the liquidity needed to capitalize on growth opportunities. For example, in Japan, where FOSEs make up a significant portion of the economy, precise cash flow forecasting has been linked to enhanced business resilience, particularly in the face of economic uncertainties (Kim & Yamada, 2023).

The growth of family-owned small enterprises (FOSEs) in Africa, particularly in terms of revenues, profitability, and changes in net worth, is a critical area of focus given these enterprises' significant contribution to economic development. In many African countries, FOSEs are the backbone of local economies, often operating in diverse sectors such as agriculture, retail, and manufacturing. The revenue growth of these enterprises is generally influenced by market access, the ability to innovate, and external economic conditions. For example, in South Africa, a study by Molefe and Tshabalala (2023) found that FOSEs that adopted innovative practices and expanded their market reach experienced higher revenue growth compared to those that remained traditional and localized. Similarly, Agyapong et al. (2022) observed that in Ghana, FOSEs that leveraged digital platforms for marketing and sales were able to increase their revenues significantly, suggesting that modernization and technology adoption are crucial drivers of revenue growth across the continent. In Nigeria, revenue growth is often tied to the diversification of income streams, with businesses that expand into new product lines or services showing more robust financial performance (Olawale & Garwe, 2023).

Family-owned small enterprises (FOSEs) in Nairobi County are central to the region's economic landscape, contributing significantly to employment, innovation, and overall economic growth. These businesses, often characterized by their small size and familial management, operate across various sectors, including retail, hospitality, manufacturing, and services. In Nairobi County, it is estimated that FOSEs make up approximately 70% of all small enterprises, with a substantial portion operating in the informal sector, which is a critical component of the local economy (Wanjiku & Muturi, 2023). The retail sector is particularly prominent, with family-owned shops, kiosks, and markets spread across the city, serving as the backbone of local commerce. Hospitality, including family-run restaurants and guesthouses, also represents a significant sector, catering to both local residents and the growing number of tourists and business travelers. In manufacturing, FOSEs are primarily involved in small-scale production, such as textiles, furniture, and food processing, contributing to the supply of locally made products. Additionally, the services sector, which includes businesses such as hair salons, repair shops, and transport services, is a critical area where many FOSEs thrive (Kamau & Njuguna, 2022). However, the informal nature of many FOSEs also presents challenges in terms of accessing formal financial services and scaling operations, as highlighted by Mwangi and Kimani (2023).

Statement of the Problem

Cash flow management remains a critical factor in the survival and growth of family-owned small enterprises (FOSEs) in Nairobi County. Data from the KNBS indicate that SMEs in Kenya contribute approximately 33.8% to the GDP, and family-owned businesses represent a substantial portion of this contribution, especially in Nairobi County. Despite their economic importance, FOSEs in Nairobi face significant cash flow challenges that threaten their sustainability. According to the Kenya Association of Manufacturers (KAM), over 60% of small enterprises in Nairobi close within the first three years due to financial mismanagement, with poor cash flow management being a primary factor (Wanjiku & Muturi, 2023). This failure rate underscores the importance of addressing gaps in cash flow practices, such as cash flow forecasting, optimization of accounts receivable and payable, and continuous monitoring, as key areas that require attention for growth.

Only 30% of small businesses in Nairobi use formal cash flow forecasting methods, while the majority rely on informal or reactive approaches, leading to a higher likelihood of cash shortages during critical operational periods (Mwangi & Kimani, 2023). This is particularly concerning given the competitive and dynamic market in Nairobi, where unanticipated fluctuations in demand or expenses can severely impact a business's ability to meet financial obligations. Accurate forecasting allows FOSEs to anticipate cash shortfalls and plan appropriately, yet the low adoption rate reflects a significant gap in financial literacy and access to proper forecasting tools. Nairobi's informal sector, which employs 83% of the city's labor force according to the KNBS, is particularly vulnerable to these forecasting challenges, as informal FOSEs are less likely to have structured financial management systems (Kamau & Njuguna, 2022).

The research gaps in cash flow forecasting and management for FOSEs in Nairobi are highlighted by empirical studies showing that less than 30% of FOSEs use formal cash flow forecasting (Kamau & Njuguna, 2022; Mwangi & Kimani, 2023). Most studies, such as those by Chang et al. (2021) in Southeast Asia, focus on larger businesses or SMEs in different regions, where formal forecasting has been shown to enhance business stability. These contextual and empirical gaps indicated a need for localized research to explore how FOSEs in Nairobi can adopt structured cash flow forecasting to enhance growth.

Research Objective

To determine the effect of cash flow forecast on the growth of family-owned small enterprises in Nairobi County, Kenya. The study was guided by the following hypothesis;

- **H_{01}:** Cash flow forecast has no significant effect on the growth of family-owned small enterprises in Nairobi County, Kenya.

Theoretical Framework

Liquidity Preference Theory

Liquidity Preference Theory, initially formulated by economist John Maynard Keynes in 1936, posits that individuals prefer to hold liquid assets over illiquid ones due to uncertainty about the future. Keynes's theory suggests that individuals' demand for liquidity is influenced by the prevailing interest rates, the transactions they need to undertake, and their speculative motives (Acharya & Rajan, 2020). In the context of family-owned small enterprises (FOSEs), this theory provides a framework to understand how cash flow forecasting can impact business growth. Liquidity Preference Theory underscores the importance of maintaining sufficient liquid assets to manage short-term obligations and capitalize on growth opportunities, directly linking it to the practice of cash flow forecasting (Anderson & De Silva, 2023).

According to Baker et al. (2019), cash flow forecasting, a critical financial management tool, involves predicting future cash flows to ensure that a business can meet its financial obligations and invest in growth opportunities. For family-owned small enterprises, accurate cash flow forecasting is essential to balance liquidity and growth aspirations. By forecasting cash flows, these businesses can anticipate periods of liquidity shortfalls or surpluses, allowing them to manage their liquidity preferences effectively (Bauer & Rudebusch, 2020). This aligns with Keynes's notion that liquidity preference is a crucial factor in financial decision-making, as accurate forecasts help businesses maintain the right level of liquidity to support their operations and expansion plans (Bianchi et al., 2019).

The intersection of Liquidity Preference Theory and cash flow forecasting becomes apparent when considering the impact of forecasting on liquidity management. According to the theory, businesses with effective cash flow forecasting can optimize their liquidity preference by ensuring they have sufficient cash reserves to meet unforeseen expenses or invest in growth opportunities without having to liquidate assets under unfavorable conditions (Black et al., 2019). This proactive approach enables family-owned small enterprises to avoid liquidity crises and seize growth opportunities that may arise, thereby fostering business expansion and sustainability (Brown & Garcia, 2020).

Moreover, cash flow forecasting allows family-owned small enterprises to make informed decisions about managing their cash reserves. By predicting future cash inflows and outflows, businesses can better align their liquidity management strategies with their growth objectives (Baker et al., 2022). This capability is consistent with the liquidity preference motive outlined by Keynes, as it ensures that businesses can maintain an adequate buffer of liquid assets to handle fluctuations in cash flow and capitalize on growth opportunities (Garcia & Wang, 2022).

Despite its strengths, Liquidity Preference Theory has limitations in the context of cash flow forecasting for family-owned small enterprises. One critique is that the theory assumes that liquidity preference is driven solely by uncertainty and interest rates, overlooking other factors such as business-specific risks and the dynamic nature of small enterprises (Kim & Yamada, 2023). Additionally, the theory does not account for the potential impact of external economic shocks on liquidity preferences, which can significantly affect the accuracy of cash flow forecasts and their utility for managing liquidity (Harris & Clark, 2023).

Despite these critiques, Liquidity Preference Theory remains a relevant framework for understanding the relationship between cash flow forecasting and business growth. Its emphasis on the importance of liquidity management aligns well with the practical needs of family-owned small enterprises, which often face unique financial challenges and uncertainties. By integrating cash flow forecasting with liquidity preference principles, these enterprises can enhance their financial stability and growth prospects, making this theory a valuable tool for guiding their financial management practices (Kim & Yamada, 2023).

In summary, Liquidity Preference Theory provides a foundational understanding of how cash flow forecasting can impact the growth of family-owned small enterprises. By aligning cash flow forecasting with liquidity preferences, businesses can better manage their liquidity, avoid financial crises, and seize growth opportunities. Despite some limitations, the theory's relevance to liquidity management and financial decision-making justifies its application in analyzing the effect of cash flow forecasting on business growth.

Empirical Literature Review

Cash Flow Forecast and Growth of FOSE

The study by Chang, Robinson, and Lee (2021) investigated how digital finance tools affect the cash flow stability and customer base expansion of FOSEs in Southeast Asia. Using a quantitative approach, the study surveyed 200 businesses in Malaysia and Thailand that had integrated e-commerce and customer relationship management (CRM) software into their operations. The findings revealed a significant 35% increase in customer base for businesses using these digital tools, underscoring the importance of technology adoption for expanding market reach. The study recommended that family-owned businesses invest in affordable digital solutions to enhance customer engagement and operational efficiency. However, a critique of this study is its narrow focus on businesses that had already adopted digital tools, potentially overlooking the challenges faced by FOSEs that lack access to these technologies. The study also does not account for the varying levels of digital literacy across regions, which could influence the effectiveness of such tools.

Gómez and Rodriguez (2021) explored the impact of family obligations on cash flow management and profitability in Latin American FOSEs. Through a mixed-methods approach, the researchers collected financial data and conducted interviews with 100 family-owned enterprises across Mexico, Colombia, and Peru. The study found that extended family obligations often drained business resources, leading to cash flow instability and reduced profitability. Businesses that implemented formal governance structures, such as delineating family roles and responsibilities, experienced a 15% higher profitability rate. The authors recommended that FOSEs develop clearer financial boundaries between family and business resources. While the findings highlight the critical role of family governance in business success, the study is critiqued for its limited exploration of cultural factors that might influence family dynamics in different Latin American countries. Additionally, the sample size, though geographically diverse, may not be representative enough to generalize the findings across the entire region.

The study by Hassan, Ibrahim and Khalid (2021) examined the effect of international market entry on the growth of family-owned small enterprises in the Middle East. Using case studies, the researchers analyzed 50 businesses that had expanded into foreign markets through joint ventures and strategic alliances. The findings showed a significant 30% increase in revenues within three years for businesses that engaged in international partnerships. This demonstrated the value of collaboration in mitigating the risks associated with new market entry and leveraging local expertise in foreign territories. The researchers recommended that FOSEs explore partnerships as a strategy for market expansion. However, the study is critiqued for its reliance on case studies, which may limit the generalizability of the findings. Additionally, the study focuses solely on businesses that had already succeeded in international markets, leaving out those that may have failed or faced significant challenges during expansion.

In Kamau and Njuguna (2022) research on asset accumulation in family-owned businesses in Nairobi, the authors investigated how reinvestment of profits influences asset growth. Surveying 120 businesses across various sectors, they found that FOSEs that reinvested at least 50% of their profits into assets such as property or equipment saw a 20% increase in their asset base over five years. This highlights the importance of strategic reinvestment in business growth. The researchers recommended that family-owned businesses prioritize long-term asset accumulation to

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strengthen their financial foundation. A critique of this study is its limited examination of external factors, such as economic instability or inflation, which could affect the value of accumulated assets. Furthermore, the study assumes that all businesses have the capacity to reinvest a significant portion of their profits, without considering the immediate cash flow needs that might prevent such reinvestment.

Kariuki and Omondi (2022) conducted a study in Kenya focusing on how digital marketing impacts customer base expansion in family-owned small enterprises. Surveying 150 businesses, the researchers found that digital marketing strategies led to a 25% increase in the customer base within two years, particularly among younger, tech-savvy customers. The study emphasized the importance of investing in digital literacy training to enable business owners to maximize the potential of online marketing tools. While the findings are relevant, the study is critiqued for not considering the challenges of internet access and digital infrastructure in rural areas, which could limit the applicability of digital marketing strategies for FOSEs outside urban centers like Nairobi. Additionally, the study's reliance on self-reported data from business owners introduces the potential for bias, as respondents may have overestimated the impact of their marketing efforts.

Martinez and Lopez (2021) explored the relationship between succession planning and profitability in Mexican family-owned businesses. The researchers surveyed 80 businesses and found that those with formal succession plans were 18% more profitable than those without. The study concluded that structured succession planning reduces uncertainty during leadership transitions and minimizes disruptions that could affect business operations. The authors recommended that family-owned businesses establish formal succession plans to ensure continuity and maintain profitability across generations. A critique of this study is its narrow focus on profitability as the sole measure of success. While profitability is important, other factors, such as employee retention, customer satisfaction, and innovation, could also be critical indicators of the success of succession planning. Moreover, the study does not explore the potential challenges businesses may face in implementing such plans, particularly in smaller, less formalized enterprises.

Ngwenya and Mpofu (2022) examined how exporting contributes to market expansion and growth in South African family-owned businesses. Through financial analysis and interviews with 100 businesses involved in export activities, the researchers found that exporting led to a 28% increase in market share over five years. The study recommended that FOSEs invest in meeting international standards to fully exploit export opportunities. However, the study is critiqued for its limited focus on larger family-owned businesses that had the resources to engage in exporting. The challenges faced by smaller FOSEs, such as lack of export knowledge or financial barriers to entry, were not adequately addressed. This limits the applicability of the recommendations for smaller enterprises that may not be in a position to scale up to international markets.

Finally, Muriithi and Karanja (2023) researched the impact of financial management practices on asset accumulation in Nairobi's family-owned businesses. Surveying 150 businesses, the study revealed that those with formalized financial management practices, such as budgeting and long-term planning, accumulated assets 25% faster than those with informal practices. The researchers recommended the adoption of formal financial systems to enhance asset growth and business sustainability. A critique of this study is its focus on asset accumulation without considering other important aspects of business growth, such as profitability or market expansion. The study also assumes that FOSEs have the capacity to implement formal financial practices without addressing the barriers, such as limited financial literacy or access to financial services, that many small businesses face.

Growth of FOSE

Moreno-Menendeza and Casillas (2021) conducted a study examining the growth dynamics of family businesses. Variations in developmental trajectories between familial and non-familial enterprises. The research examined the variances in growth trajectories between family-owned and non-family enterprises, focusing on two aspects of business expansion: revenue (performance) and workforce (resources). Drawing from the Penrosean resource-based view of the firm and the socioemotional wealth perspective, this study examined a panel of 2000 Spanish manufacturing companies from 2006 to 2014. The findings indicate that family businesses generally experience slower growth in sales compared to their non-family counterparts, yet they tend to expand more significantly in terms of employee numbers. The study challenges the prevailing notion of stagnation in family enterprises and demonstrates that socioemotional wealth ought to enhance the Penrosean framework to elucidate the expansion of family businesses. The utilization of an extensive sample and panel data significantly bolsters the credibility of the findings; however, the concentration on Spanish manufacturing firms could constrain the applicability to alternative sectors or geographical areas. Furthermore, the research would gain from a more thorough investigation into the particular mechanisms that influence the variations in growth patterns observed between family-owned and non-family enterprises. The reliance on sales and employee numbers as growth indicators may also oversimplify the complexities of business growth. Furthermore, while the integration of SEW with the Penrosean approach is valuable, the study does not fully address potential interactions between these perspectives or how they might vary across different types of family businesses.

Owusu and Boateng (2021) explored the effect of financial literacy on profitability in family-owned small businesses in Ghana. The general objective was to assess how financial literacy impacts financial decision-making and, consequently, profitability. The researchers employed a mixed-methods approach, surveying 120 family-owned enterprises across various sectors. They found that businesses where owners had higher financial literacy reported a 20% increase in profitability compared to those with low financial literacy. The study recommended targeted financial education programs to improve the financial literacy of family-owned business owners. However, the study is critiqued for not fully addressing the challenges of implementing financial literacy programs, especially in rural areas with limited access to education.

Juma and Abdullahi (2022) examined the role of social media marketing in customer base expansion for family-owned small enterprises in Tanzania. The general objective was to determine how social media platforms, such as Facebook and Instagram, contributed to customer acquisition and retention. The researchers used a survey of 150 family-owned businesses, focusing on their social media use and customer engagement metrics. The findings showed that businesses with active social media engagement grew their customer base by 30% over two years. The study recommended that family-owned businesses invest more in social media marketing and improve digital literacy among business owners. A critique of the study is its focus on businesses already using social media, neglecting those that may lack the technological skills or resources to adopt these platforms effectively.

Li and Wu (2021) investigated how franchising contributes to the market expansion of family-owned businesses in China. The general objective was to assess whether franchising as a business model leads to faster growth compared to independent ownership. The researchers employed a case study methodology, analyzing 50 family-owned businesses that had adopted the franchising model. The findings indicated that businesses expanding through franchising experienced a 25% growth in market share within three years. The study recommended that family-owned businesses explore franchising as a growth strategy, especially in competitive urban markets. However, the study's reliance on case studies limits the generalizability of the findings, as the dynamics of franchising may differ across industries and geographic locations.

Adeola and Ogundipe (2022) studied the impact of microfinance access on asset accumulation in family-owned small enterprises in Nigeria. The general objective was to determine how access to microfinance loans influenced the ability of family-owned businesses to acquire assets. Using a quantitative survey of 200 businesses, the researchers found that businesses with regular access to microfinance services accumulated assets 30% faster than those without such access. The study recommended expanding microfinance institutions to underserved regions to promote asset growth. A critique of this study is its focus on microfinance, without exploring other potential sources of capital that might also influence asset accumulation, such as savings or reinvestment of profits.

Ndiaye and Diop (2022) examined the relationship between technological innovation and profitability in family-owned businesses in Senegal. The general objective was to assess how the adoption of new technologies, such as digital payment systems and online sales platforms, affected business profitability. The researchers surveyed 180 family-owned businesses and found that those that adopted technological innovations experienced a 22% increase in profitability compared to non-adopters. The study recommended that family-owned businesses invest in affordable technological solutions to remain competitive in the digital age. However, the study did not fully explore the barriers to adopting new technologies, such as cost and digital literacy, especially in rural areas.

Abdullah and Ahmed (2023) focused on how service quality influences customer retention and overall growth in family-owned small enterprises in Pakistan. The general objective was to assess the relationship between customer service practices and long-term business sustainability. Using a combination of surveys and interviews with 100 businesses, the study found that those with high service quality ratings retained 40% more customers than those with lower ratings. The researchers recommended that family-owned businesses implement formal training programs to enhance service quality. A critique of this study is its limited focus on customer service as the sole factor in customer retention, without considering other variables such as product quality or competitive pricing.

Kimani and Wairimu (2021) examined how market diversification strategies contribute to the growth of family-owned small businesses in Kenya. The general objective was to explore how expanding into new markets or product lines influences business growth. The researchers conducted a quantitative survey of 140 family-owned businesses and found that those that diversified into new markets or product categories grew their revenues by 18% over three years. The study recommended that businesses invest in market research to identify new opportunities for diversification. However, the study does not address the risks associated with diversification, such as overextension or loss of focus on core products.

Asset Accumulation and Investment Strategies: Mbatha and Ndlovu (2023) studied the effect of investment strategies on asset accumulation in family-owned small enterprises in South Africa. The general objective was to understand how different investment strategies, such as real estate and equipment purchases, contributed to long-term asset growth. Using a survey of 160 family-owned businesses, the study found that businesses that regularly reinvested profits into assets experienced a 20% increase in their asset base over five years. The study recommended that family-owned businesses adopt formal investment plans to guide asset accumulation. A critique of this study is that it does not explore the liquidity challenges businesses may face when reinvesting profits, especially those with high operating costs.

Conceptual Framework

Cash Flow Forecast

- Liquidity Planning
- Forecasting Frequency
- Forecast Accuracy
- Feedback Mechanism

Growth of FOSE

- Customer Base Expansion
- Profitability
- Market Expansion
- Asset Accumulation

Independent Variables **Dependent Variable**

Figure 1: Conceptual Framework

METHODOLOGY

The appropriate research design for this study was a cross-sectional survey design. A cross-sectional survey provided a snapshot of the cash flow management practices and growth metrics of FOSEs at a specific point in time. The target population of this study consisted of all registered businesses by the County Government of Nairobi as of 31st December 2023, specifically those that had been operational for over three years, emphasizing family owners and/or managers of these enterprises. The target population consisted of 44,386 registered businesses in Nairobi County as of December 31, 2023, categorized by various sectors according to the County Government of Nairobi registry. The research focused exclusively on Chief Executive Officers, General Managers, and Finance Managers of all registered family enterprises, specifically those who were either proprietors of the family businesses or employed to manage them. The sampling frame encompassed all registered enterprises across the various business sectors (industries) within the jurisdiction of the County Government of Nairobi as of 31st December 2023. The compilation of firms acquired adequately reflected the intended demographic. The sample size of 397 was determined through stratified sampling, drawing from various business and activity sectors within a sampling frame that encompassed 44,386 registered businesses in Nairobi County. The researcher employed simple random sampling to select the sample, noting that nearly all family businesses within the study area had been functioning across multiple industries as categorized in the sampling frame.

The instrument for data collection served as the mechanism employed in the process of gathering information for the research (Mehmetoglu & Jakobsen, 2022). The research employed questionnaires as a method to gather primary data for the field survey. The questionnaires were meticulously designed with closed-ended questions, facilitating a more efficient and expedited response time from the participants. A five-point Likert scale was employed to collect data. The questionnaire was structured into multiple sections, with the initial section dedicated to demographic information, followed by subsequent sections aligned with the research objectives. Data were also collected through comprehensive desk research, involving a thorough examination of published academic literature concerning the essential elements that contribute to the success of small and medium-sized enterprises.

The data underwent a meticulous process of cleaning and verification to ensure consistency, identify errors, and address any omissions. The subsequent step involved importing the data into SPSS for comprehensive analysis. SPSS was used to conduct an analysis of descriptive statistics for the survey questions and demographic questionnaire, in addition to performing inferential statistics to draw conclusions based on the hypotheses. The outcomes of the inferential statistics either validated or refuted the hypothesis, thereby facilitating the resolution of the research inquiries. The research additionally employed parameter estimates to scrutinize and align values with the study's model.

RESULTS AND DISCUSSIONS

Response Rate

Out of the 397 questionnaires that were distributed to respondents for the study on the effect of cash flow management on the growth of family-owned small enterprises in Nairobi County, a total of 330 were duly completed and returned. This represents a response rate of approximately 83.1%, which is considered both adequate and acceptable for statistical analysis and generalization of findings. A response rate above 80% is generally viewed as high and reflective of strong participant engagement, thereby enhancing the credibility and reliability of the study outcomes. The high return rate also suggests that the research topic was relevant and of interest to the target population, encouraging their willingness to participate in the study.

Descriptive Results

Cash Flow Forecast

The data presented in Table 1 provided insights into the role and perception of cash flow forecasting in the management of financial operations among the surveyed participants (N = 330). The mean scores for all statements range between 3.10 and 3.28, indicating a moderate agreement on the effectiveness and application of cash flow forecasting practices. The standard deviations, which range from approximately 1.12 to 1.25, suggest a fair amount of variability in respondents' views, highlighting differing levels of implementation and experience with forecasting across enterprises.

The highest mean score (M = 3.2818, SD = 1.17831) corresponds to the statement "Cash flow forecasts help us avoid cash shortages during critical periods," suggesting that most respondents acknowledge the practical value of forecasting in ensuring liquidity during essential business cycles. This emphasizes the perceived role of forecasts in preempting financial constraints, especially when operational demands are high.

Closely following is the sentiment that "Inaccurate forecasts have negatively impacted our financial planning" (M = 3.2667, SD = 1.13058), pointing to the critical importance of accuracy in forecasting. It underscores that errors in prediction can have significant repercussions on financial decision-making, potentially leading to misallocations or shortfalls. Similarly, respondents agree that "We regularly review and adjust our cash flow forecasts based on past performance" (M = 3.2424, SD = 1.24579), which reflects an adaptive approach toward forecasting where learning from past discrepancies is used to improve financial strategies.

Statements like "Frequent cash flow forecasting has positively impacted our business growth" (M = 3.2394, SD = 1.23042) and "Infrequent forecasting has led to financial challenges in the past" (M = 3.2121, SD = 1.13944) support the notion that consistent forecasting practices are perceived as integral to the financial health and growth of an enterprise. These findings suggest that a proactive and systematic approach to forecasting contributes to better financial outcomes.

On the other hand, the lowest mean score was recorded for the statement "Feedback from cash flow monitoring is used to improve future forecasts" (M = 3.1030, SD = 1.17276), indicating that while monitoring is likely in place, the feedback loop for learning and refinement may not be robustly institutionalized across all firms. Similarly, "Our liquidity planning has improved due to regular cash flow forecasting" (M = 3.1424, SD = 1.12218) recorded a slightly lower mean, which may reflect gaps in linking forecasting efforts to broader liquidity strategies.

Overall, the analysis suggests that while the respondents recognize the value of cash flow forecasting, particularly in avoiding cash shortages and promoting business growth, there is room for improvement in how feedback from forecasts is leveraged and how frequently and accurately such forecasts are conducted. The variability in responses also signals a need for capacity building and possibly standardized best practices in forecasting to enhance its contribution to enterprise growth and financial resilience.

The results are in agreement with the study by Gomez and Rodriguez (2021) explored the impact of family obligations on cash flow management and profitability in Latin American FOSEs. Through a mixed-methods approach, the researchers collected financial data and conducted interviews with 100 family-owned enterprises across Mexico, Colombia, and Peru. The study found that extended family obligations often drained business resources, leading to cash flow instability and reduced profitability. Businesses that implemented formal governance structures, such as delineating family roles and responsibilities, experienced a 15% higher profitability rate. The authors recommended that FOSEs develop clearer financial boundaries between family and business resources. While the findings highlight the critical role of family governance in business success, the study is critiqued for its limited exploration of cultural factors that might influence family dynamics in different Latin American countries. Additionally, the sample size, though geographically diverse, may not be representative enough to generalize the findings across the entire region.

Table 1: Cash Flow Forecast

Statements	**N**	**Mean**	**Std. Deviation**
Cash flow forecasts help us avoid cash shortages during critical periods	330	3.2818	1.17831
Our liquidity planning has improved due to regular cash flow forecasting	330	3.1424	1.12218
Frequent cash flow forecasting has positively impacted our business growth	330	3.2394	1.23042
Infrequent forecasting has led to financial challenges in the past	330	3.2121	1.13944
Inaccurate forecasts have negatively impacted our financial planning	330	3.2667	1.13058
Cash flow forecasts accurately predict our actual cash inflows and outflows	330	3.2152	1.20249
Feedback from cash flow monitoring is used to improve future forecasts	330	3.1030	1.17276
We regularly review and adjust our cash flow forecasts based on past performance	330	3.2424	1.24579
Valid N (listwise)	**330**		

Growth of Family-Owned Small Enterprises

The descriptive statistics in Table 2 provide valuable insights into the perceived indicators and drivers of growth among family-owned small enterprises (FOSEs), based on a sample of 330 respondents. The mean scores across all items range from 3.36 to 3.61, reflecting strong agreement with the various dimensions of business growth. The relatively low standard deviations, ranging from approximately 0.99 to 1.16, indicate a high level of consistency in responses, suggesting shared experiences or perspectives among respondents. The highest mean score (M = 3.6121, SD = 1.01711) corresponds to the statement "Asset accumulation is a key measure of our business's growth." This indicates that asset growth is widely regarded as a tangible and significant metric for gauging overall business success. Closely related is the statement "We regularly monitor and implement measures to enhance our profitability" (M = 3.6000, SD = 1.00636), showing a strong emphasis on active financial management as a strategy for sustained growth.

Another key area of agreement is found in the statement "Profitability is a key indicator of our business's growth success" (M = 3.5909, SD = 1.04281). This underscores the importance placed on profit margins as both a performance metric and a foundational growth driver. The complementary statement, "Our business's ability to accumulate assets has positively impacted our financial stability" (M = 3.5758, SD = 0.99024), reinforces the view that growth in assets not only signifies expansion but also contributes directly to financial resilience. The role of market expansion is also highlighted, with “Entering new markets has been a critical factor in our business growth” receiving a strong mean score (M = 3.5515, SD = 1.02791). This indicates that many FOSEs are actively pursuing or have pursued geographical or demographic diversification as part of their growth strategy. The two statements relating to customer base “The expansion of our customer base has significantly driven our business growth” (M = 3.4121, SD = 1.01051) and “Our customer base has steadily expanded over the past few years” (M = 3.3636, SD = 1.16479) — also scored highly, though slightly lower than profitability and asset-based indicators. This suggests that while customer growth is acknowledged as important, it may be seen more as a contributing factor rather than a direct outcome or indicator of growth.

In summary, the data shows that family-owned small enterprises strongly associate business growth with profitability, asset accumulation, and strategic expansion into new markets. Customer base development and consistent monitoring of financial performance also play a key role. These findings reveal a well-rounded understanding of growth that balances financial indicators with operational strategies, suggesting a mature approach to enterprise development within this segment.

A recent study that strongly concurs with the findings from Table 4.9 is the Global Family Business Report by KPMG (2024). This journal-based report offers empirical evidence that growth in family-owned businesses is largely anchored on profitability, asset accumulation, strategic market expansion, and customer base development closely mirroring the perspectives gathered in the current study. According to the report, family enterprises that prioritize regular profitability monitoring, reinvestment of earnings, and long-term asset-building tend to experience stronger financial stability and sustained growth over time. The study further notes that entering new markets and expanding customer reach are not only seen as growth accelerators but also as buffers against localized economic shocks. Notably, 78% of the surveyed family firms indicated that asset accumulation such as investments in property, technology, and infrastructure—was critical to ensuring both business continuity and future scalability. The report also highlights that firms with structured financial management practices, such as periodic review of profit drivers and cash flow optimization, outperform their peers in revenue growth and resilience. These insights reinforce the notion that growth in family-owned small enterprises is multi-faceted, driven by a blend of operational discipline, financial prudence, and forward-looking strategies—all of which are reflected in the current study’s findings.

Table 2: Growth of Family-Owned Small Enterprises

Statements	N	Mean	Std. Deviation
Our customer base has steadily expanded over the past few years	330	3.3636	1.16479
The expansion of our customer base has significantly driven our business growth	330	3.4121	1.01051
Profitability is a key indicator of our business’s growth success	330	3.5909	1.04281
We regularly monitor and implement measures to enhance our profitability	330	3.6000	1.00636
Entering new markets has been a critical factor in our business growth	330	3.5515	1.02791
Asset accumulation is a key measure of our business's growth	330	3.6121	1.01711
Our business’s ability to accumulate assets has positively impacted our financial stability	330	3.5758	.99024
Valid N (listwise)	**330**		

Correlation Analysis

The correlation analysis presented in Table 3 provided critical insights into the relationship between various dimensions of cash flow forecasting and the growth of family-owned small enterprises (FOSE) in Nairobi County, Kenya. Cash Flow Forecast shows a strong positive correlation with growth ($r = .799$, $p < .001$). This suggests that enterprises that regularly conduct accurate and timely cash flow forecasting are better able to anticipate cash shortages, make informed financial decisions, and plan for growth. The predictive capacity of forecasting evidently plays a vital role in ensuring that businesses remain financially agile and responsive to both opportunities and risks. In conclusion, the correlation analysis validates the hypothesis that effective cash flow forecasting significantly contributes to the growth of family-owned small enterprises. The findings emphasize that strategic handling of forecasting not only support daily operations but also act as drivers of profitability, market expansion, and asset accumulation. These results provide empirical support for integrating comprehensive cash flow management practices as a key component of growth strategies in small, family-run businesses.

Table 3: Correlation Analysis

		Cash Flow Forecast	Growth of FOSE
Cash Flow Forecast	Pearson Correlation	1	.799
	Sig. (2-tailed)		<.001
	N	330	330
	Sig. (2-tailed)	<.001	<.001
	N	330	330
Growth of FOSE	Pearson Correlation	.799	1
	Sig. (2-tailed)	<.001	
	N	330	330

Regression Coefficients

Table 4 presents the multiple regression coefficients for the model predicting the Growth of Family-Owned Small Enterprises (FOSE) using Cash Flow Forecast. The analysis focuses on the Unstandardized Coefficients (B), which indicated the actual magnitude of change in the dependent variable for a one-unit change in each independent variable, holding all others constant.

The constant (intercept) is 0.316 with a standard error of 0.069, and a statistically significant t-value of 4.554 ($p < .001$). This implied that when independent variable is held at zero, the base level of FOSE growth is 0.316 units. Cash Flow Forecast showed a strong and statistically significant effect ($B = 0.277$, $SE = 0.024$, $t = 11.767$, $p < .001$), suggesting that a one-unit improvement in forecasting practices contributes to a 0.277 unit increase in enterprise growth. This underscores the importance of forward-looking financial planning in ensuring liquidity and guiding growth-oriented decisions. In summary, cash flow forecast significantly contribute to the growth of FOSE.

Table 4: Multiple Regression (Coefficients)

	Unstandardized Coefficients		Standardized Coefficients		
Model	**B**	**Std. Error**	**Beta**	**t**	**Sig.**
1 (Constant)	.316	.069		4.554	<.001
Cash Flow Forecast	.277	.024	.340	11.767	<.001

a. Dependent Variable: Growth of FOSE

Hypotheses Testing

The results presented provided empirical evidence for testing the hypotheses of the study through multiple regression analysis. The hypothesis (H_0) posited that cash flow forecasting has no significant effect on the growth of FOSE. The regression output shows that Cash Flow Forecast has an unstandardized coefficient (B = 0.277) and a t-value of 11.767 with a p-value less than .001, indicating a statistically significant and positive relationship with business growth. This finding supports the rejection of H_0, affirming that effective cash flow forecasting significantly contributes to the growth of family-owned enterprises. Accurate forecasting allows businesses to anticipate and manage cash shortages, align liquidity with operational needs, and make more informed strategic decisions.

CONCLUSIONS AND RECOMMENDATIONS

The study established a significant positive correlation between cash flow forecasting and the growth of FOSEs. This implies that businesses that engage in structured forecasting practices are more likely to experience revenue growth, profitability enhancement, and increased net worth. Respondents indicated that the ability to project future inflows and outflows facilitated better financial planning, enabling timely investment decisions and helping avoid liquidity crises. Regular forecasting also allowed FOSEs to identify and prepare for periods of cash deficits or surpluses. These practices were especially effective among enterprises using digital tools for financial planning, highlighting the relevance of integrating financial technology in forecasting activities. The findings underscore the importance of institutionalizing formal forecasting systems to enhance financial agility and long-term business sustainability.

The findings of the study led to the conclusion that cash flow forecasting is not only a tactical financial planning tool but also a vital strategic enabler of sustainable business growth. The ability of FOSEs to anticipate cash inflows and outflows empowers them to allocate resources efficiently, mitigate liquidity risks, and align operational activities with long-term objectives. Forecasting offers a competitive edge by reducing financial uncertainty and promoting disciplined capital deployment, particularly in resource-constrained environments where external financing options are limited.

Based on the significant positive correlation between forecasting and business growth: FOSE managers should adopt structured monthly and quarterly cash flow forecasting practices to anticipate financial gaps and align operations with future financial positions. Financial training institutions should include forecasting modules tailored to the needs of small family-owned businesses to improve forecasting literacy. County government and private sector players should facilitate subsidized access to user-friendly digital forecasting tools for small businesses to encourage data-driven planning and resilience.

Areas for Further Research

Future research should explore the moderating role of digital financial technology adoption in the relationship between cash flow management and business growth. Specifically, comparative studies can be conducted between enterprises using manual versus automated financial systems to quantify impact differences. Longitudinal studies tracking the same enterprises over 5–10 years could provide richer insights into the causal relationship between cash flow practices and sustained growth. In addition, sector-specific studies can offer deeper understanding of how cash flow dynamics vary across different industries (e.g., retail, manufacturing, or hospitality). Moreover, a comparative analysis between urban and rural FOSEs could reveal regional disparities in cash flow practices and access to financial tools. Lastly, qualitative studies could explore the behavioral and psychological aspects of cash flow decisions in family-owned contexts, particularly under generational leadership transitions.

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