

**EFFECT OF FINANCIAL MANAGEMENT PRACTICES ON
FINANCIAL PERFORMANCE OF SMALL AND MEDIUM
ENTERPRISES IN KIAMBU TOWN, KENYA**

BY

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**ATHESIS SUBMITTED TO THE OFFICE OF POST GRADUATE
STUDIES IN PARTIAL FULFILMENT OF THE REQUIREMENT
FOR THE AWARD OF DEGREE OF MASTER OF BUSINESS
ADMINISTRATION OF PAN AFRICA CHRISTIAN UNIVERSITY**

SEPTEMBER, 2015

ABSTRACT

Financial management is an important element of the management of any business. It is a key part of the management function focusing on the management of a business' assets. In the long term, the type of assets owned by a business charts out the direction of the business during the life of these assets. In Kenya simple management mistakes lead to the collapse of SMEs due to their poor financial management. Lack of proper financial management is one of the issues that easily lead to the collapse of SMEs despite improved access to financing. This study was therefore, designed to establish the effect of financial management practices on financial performance of small and medium enterprises in Kiambu town in Kenya. Three variables namely Working Capital Management, Investment decisions and financing decisions [independent variables] were used to measure financial performance [dependent variable]. The study used descriptive research design utilizing qualitative data captured using a self-administered questionnaire. 100 randomly selected SMEs located in Kiambu town were used as the sample of the study. The analysis was done using frequencies, percentages, means, regressions analysis and ANOVA. Presentation was by use of pie charts, graphs and tables. The study showed that considered individually, there is a positive relationship between working capital management; investment decisions; financial decisions and financial performance. The study showed that the combined effect of financial management practices [working capital management, investment decision, financial decision] have a moderate positive relationship between financial management practices and financial performance and that considered collectively, financial management practices contributed to 18.3% variance in financial performance. The 81.7 % variance in financial performance would be attributed to other factors beyond the scope of the study. The study recommends that to enhance financial performance, the organizations [SMEs] should adopt credit policies to guide credit sales. The policies should create a balance between customer retention and adequate the cash flow. Secondly the study recommends that the government should ensure creation of favourable policy and economic environment through legislation that facilitate access to affordable sources of funding for SMEs and attract venture capitalist. Third, developing appropriate strategies and policies that enhance financial decisions will be critical for the SMEs in enhancing their financial performance. Fourth, a study that covers other parts of the country with unique business environments would be welcome. Further, broadening the study scope to cover other variables of financial management practices such as activity analysis would be welcome to offer more empirical evidence on the factors that affect financial performance of SMEs.

TABLE OF CONTENTS

DECLARATION	ii
DEDICATION	iii
ACKNOWLEDGEMENT	iv
ABSTRACT	v
TABLE OF CONTENTS.....	xi
LIST OF TABLES.....	ix
LIST OF FIGURES.....	x
OPERATIONAL DEFINITION OF TERMS	xi
LIST OF ABBREVIATIONS AND ACRONYMS.....	xii
CHAPTER ONE.....	1
INTRODUCTION	1
1.1 Background to the Study.....	1
1.2 Statement of the Problem.....	3
1.3 Purpose of the study.....	4
1.4 Objectives of the study.....	4
1.5 Research Questions	5
1.6 Significance of the Study	5
1.7 Scope of the Study	6
1.8 Limitations of the Study.....	6
1.9 Assumptions of the Study	7
CHAPTER TWO.....	8
LITERATURE REVIEW	8
2.0 Introduction.....	8
2.1 Financial Management.....	8

2.2 Theoretical Review and Theoretical Framework.....	10
2.2.1 Pecking order theory	10
2.2.2 Financial Theory of Investment	10
2.2.3 Just In Time Model	11
2.3 Financial Performance	11
2.4 Empirical Review.....	12
2.4.1 Effect of Working Capital Management on Financial Performance.....	12
2.4.2 Effect of Investment Decisions on Financial Performance	14
2.4.3 Effect of Financing Decisions on Financial Performance.....	15
2.5 Research Gap Analysis	16
2.6 Conceptual Framework.....	17
CHAPTER THREE.....	19
RESEARCH DESIGN AND METHODOLOGY	19
3.0 Introduction.....	19
3.1 Research Methodology	19
3.2 Research Design.....	19
3.3 Location of the Study	20
3.4 Target Population	21
3.5 Samples Technique and Sample Size.....	21
3.6 Research Instrument.....	21
3.7 Validity of the Research Instrument.....	22
3.8 Reliability of the Research Instrument.....	22
3.9 Data collection.....	22
3.10 Data Analysis	23
3.11 Logistical and Ethical Considerations	24

CHAPTER FOUR.....	25
FINDINGS AND DISCUSSIONS.....	25
4.0 Introduction	25
4.1 Reliability Tests.....	25
4.2 Demographic Characteristics	29
4.3 Effect of Working Capital Management on Financial Performance.....	33
4.4 Effect of Investment Decisions on Financial Performance	36
4.5 Effect of Financing Decisions on Financial Performance.....	39
4.6 Combined Effect of Financial Management Practices on Financial Performance..	41
4.7 Discussions.....	43
CHAPTER FIVE	47
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS	47
5.0 Introduction	47
5.1 Summary of findings.....	47
5.2 Conclusions	49
5.3 Recommendations	50
REFERENCES.....	52
APPENDICES.....	55
Appendix I: Questionnaire	55
Appendix II: Letter of Introduction.....	59