Working Capital Management and Financial Performance of Small and Medium Enterprises in Garissa County, Kenya

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ABSTRACT

Small and medium-sized enterprises (SMEs) in the County of Garissa have had a dwindling net profit between 2007 until 2013. Success has been marked by several hurdles that include improper business records, substandard technical competence, illiteracy in matters of finance, and mismanagement of working capital. As a result, the overarching purpose of the study was to investigate the influence of working capital management on the financial performance of SMEs in the Kenyan county of Garissa. The study was motivated by the following specific goals: To assess the impact of inventory management techniques on the financial performance of SMEs, to assess the impact of cash management practices on the financial performance of SMEs, to assess the impact of debtor management practices on the financial performance of SMEs, and to assess the impact of accounts payable management practice. According to the county administration of Garissa, 243 SMEs were targeted. A sample of 149 SMEs were selected using simple random sampling. According to the county administration of Garissa, 243 SMEs were targeted. Simple random sampling was used to draw a total of 149 SMEs. Secondary data was evaluated using quantitative methods. Tables were used to present the data. According to the study's regression results, accounts receivable management had a minimal influence on return on assets. Inventory management has a major detrimental impact on SMEs' financial performance. Cash management has a beneficial and considerable impact on the performance of SMEs. The study concluded that managers could increase return on an asset through shortening inventory turnover and increasing accounts payable days.

Key Words: *Working Capital Management, Financial Performance, Small and Medium Enterprises in Garissa County*

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1.0 Introduction

The importance of small and medium enterprises (SME) in commercial growth is becoming more widely acknowledged (Makoni, 2019). In many nations, SMEs play a significant economic role. The contribution of the SME sector to achieving economic growth has been recognized by urban planners over the last 10 years. Many governments and development agencies have focused on supporting SMEs as a way to promote greater private sector involvement (Khan, Deng, & Khan, 2016). SMEs averaging 23 million created approximately 75 million employment opportunities in the 25-country enlarged EU and account for 99 percent of the total companies. SMEs are the cornerstone of the British economy (European Commission, 2015), for example, in Britain (Padachi, 2016). In other industrialized countries like the US, Canada, Britain, Australia, and many others, have long recognized the significance,

as reported, of effective administration of monetary growth for the stability and survival of SMEs (Deloof, 2014).

According to the British Enterprise and Regulatory Reforms (BERR) (2015), the UK economy includes 99% SMEs with a workforce of 14.23 million and a workforce of around 30 million people. British SMEs account for Sterling 1.48 billion (British Pounds) in UK sales and GDP. Although limited resources are available, little assistance is given and the profitability of SMEs (with at least one employee) outperforms large UK companies. Big businesses in the UK with more than 250 employees account for 52% of jobs, only 50.8% of UK income. This will lead to an increased output having a great effect on the entire economy because the economy of the UK is dominated by SMEs. Similarly, SMEs are at the core of Singapore economy, totaling to 47 percent of GDP and 62 percent of potential jobs (Lazaridis & Tryfonidis, 2016). The advancement of SMEs, particularly those in informal employment, is demonstrated by the fact that it aligns with Africa's capital as a viable route towards sustainable development (Harper, 2015). SMEs, which account for more than 90% of African industry and create more than half of all African jobs and GDP, are the most important source of employment in both developed and developing countries. (Lamberson, 2014). SMEs accounted for around 90% of Ghana's total business units and 60% of the country's employment (Kesseven, 2016). They have also been described as productive and prolific creators of jobs, large corporate seeds, and domestic economic fuel.

Accordingly, the primary source of employment, economic development and creativity, the promotion of quality of goods and services, competitiveness, and economic stability is entrepreneurship (Harper, 2015). Nonetheless, several examples of business failures in society, negative attitudes towards business, and stereotypes about what makes a company successful are stacked against such a decision, the common view is that all you need to succeed is' money' (Kaburi, *et al.,* 2013), but considering there other significant contributors to the success of SMEs. SME successful performance in Kenya has resulted in job creation at low investment levels per worker, conducting more local economic activity, primarily using local resources, promoting local technology production and usage, and providing low-cost skills training to society (ILO, 2014). The owners of these SMEs, on the other hand, had tried to devise strategies to keep their businesses afloat in the face of harsh economic conditions such as rising inflation and high borrowing costs. The identification of the best approaches for working capital management was especially important for SMEs' financial performance. Chittenden *et al.,* (2012) estimate that companies with restricted exposure to long-term capital markets for equity, business loans, and bank loans are lower in likelihood for the financing of their cash, accounts receivables, and inventory investments, as specified. The failure rate among the SMEs sector was, however, very high compared to other sectors.

SMEs had been primarily defined to allow flexibility in terms of employment, turnover, and assets. The thresholds applied in each of the specified criteria, however, differ greatly between countries. A micro-enterprise has under 50 workers or reports sales of under 50 million shillings in Kenya. A medium-sized business employs more people than these cut-offs but has employees under 500 in number. SMEs face many challenges and may affect growth and productivity and reduce their capacity to contribute effectively to future growth. Single owners' limited training and experience are among the numerous challenges facing micro and medium businesses in the County of Garissa, inefficiency in skills and education, technological change, lack of good market information, poor management practices on working capital, deficient access to credit infrastructure at low costs and inadequate creative techniques that are good to allow them to manufacture standard products (Mugure & Wanjohi 2012).

Lack of quality products has been identified in the County of Garissa as one of the most significant issues facing SMEs (Noor, 2013). The performance and development of SMEs in Garissa County and women-owned enterprises operating in Garissa, as well as the ability to use finances effectively to support advancements and initiatives that will allow companies to sustain a competitive advantage. Garissa's county SMEs include trained personnel services, agriculture, wholesale and retail enterprises. Trained personal services comprise lawyers, doctors, and services in hospitality. Other SMEs may entail services in public transport. More than 78 percent of SMEs are based in cities, and farming is predominantly done in rural areas. SMEs work in all areas in the County of Garissa and all industries, including old women, young men, skilled and unskilled, are all active in SMEs. The majority of the county's SMEs are managed by members of the family or inherited firms that are usually 2 to 3 members of the close family or close acquaintances are in charge. In Garissa County, there are around 243 registered SMEs. SMEs in the County of Garissa have a turnover on average Kshs. 200,000 Per month between 2007 to 2013, but these have experienced a decline from Kshs. 200,000 to below Kshs 100,000 per month during the years 2014 to 2018 (Noor, 2019). This accounts for more than 50% decline for less than five years. Garissa's SMEs will be targeted, as they face several hurdles ranging from limited access to monetary capital that would be utilized for growth to limited hours of operations due to insecurity in the region.

1.1 Statement of Problem

The backbone of any country's economy is majorly supported by SMEs. Due to its significant impact on both social and economic development, the micro and medium-sized business precinct is well recognized across the globe. The Garissa SMEs recorded a decline in net income for the period 2016-2020 with declining growth of ROA of 12.5% in 2016 to below 8.3% in 2020 (County Government of Garissa, 2020). The ROA decline is more than 30 percent resulting in a 17 percent average business survival rate (County of Garissa Trade Report, 2021). Given the importance of micro and medium businesses in the County of Garissa, studies in the arid and semi-arid regions such as the County of Garissa are Scanty. Lumumba, Nyabwanga, Odondo, and Otieno (2016) All working capital components were found to have a considerable impact on SMEs' success. The study collected primary data and diagnostic tests were not done. The study presents a methodological on the need to collect secondary data relating to the study variables. The context was on SMEs in the manufacturing sector and therefore findings could not be generalized to SMEs in other sectors. The present study filled the gaps by concentrating on wholesale stores, food, and beverages, hardware, manufacturing, and transport sectors. The contextual gaps also were filled by now concentrating the focus on SMEs in Kenya.

1.2 Objective of the Study

1.2.1 General Objective

To determine the effect of working capital management on the financial performance of SMEs in Garissa County, Kenya.

1.2.2 Specific Objectives

i. To find out the effect of the account receivable management on financial performance on SMEs in Garissa County.

ii. To establish the effect of inventory management on the financial performance of SMEs in Garissa County.

iii. To find out the effect of account payable management on the financial performance of SMEs in Garissa County.

iv. To establish the effect of cash management on the financial performance of SMEs in Garissa County.

2.0 Literature Review

2.1 Theoretical Review

2.1.1 Financing Advantage Theory

Schwartz (1974) set forth the argument on financial advantage. Financial advantage leads managers to develop an efficient strategy for receivables management. This theory suggests that today's supplier continues to benefit from conventional borrowers by assessing consumer credit worth, tracking reimbursements, and encouraging credit reimbursement in case of non-payment (Gul, 2017). The benefits have many cost advantages in lending to their customers over financial institutions, including the extraction of money from existing assets, knowledge gathering, and buyer management (Joana, Vitorino & Moreira, 2011). The theory outlines various practices that can be used in the control of receivables (Williamson, 2013). The study helps to determine the strategies used by various SMEs to deal with their receivables and to determine their financial impact. The current study finds the theory of financial advantages. Hence, the financial advantage theory was embraced by the current study due to its applicability in account receivables management.

2.1.2 Cash Conversion Cycle Theory

Laughlin and Richards (1980) put forth the concept of a cycle of cash conversions. The concept of the cash cycle was converted into the theory of a cash exchange process that may be utilized to calculate the operating capital management efficiency of the business. The theory states that a rapid conversion of cash translates to proficient operating revenue management which increases liquidity, profitability, and the value of the business. However, the "cash conversion process" refers to the time when real money is held in various accounts, such as receivables and inventory. This implies that the CCC is bothered by the time company’s funds are locked up. Conversely, the opposite is true that a cycle of long cahs conversion diminishes the value of the firm and reducers profitability. In support of these facts argued that it is prudent to note CCC has been highlighted as a key financial metric by many SMEs in its financial statement (Corey *et al.*,2013). That's as a result if the collection of cash mechanisms are ineffective, the borrower will not pay as quickly as possible, causing a lag in the company's development. At the end of it all, it reduces the company's genuine value. The theory of CCC is seen as the superlative indicator for venture capital because it provides a specific time between expenditures when purchasing various resources and receiving sales because of compensation for the manufactured products (Padachi, 2006). Particularly, firms with increasing long-term expectations may fail and remain bankrupt without proper management of their liquidity (Jose & Lancaster, 1996). This theory handles both current liabilities and current assets. Since a majority of the firms primarily focus on how to sustain and promote their profitability levels, they are forced to observe some of the factors that affect profits from different perspectives. This measure implies that firms should not overlook these factors due to the implications of returns and risks on corporate organizations. The fact CCC is a key indicator of efficient liquidity management should be thoroughly explored to establish its effects on SMEs units. This theory promotes the utilization of cash management in guaranteeing that SMEs' financial performance is improved.

2.1.3 Transaction Cost Theory

Postulated by Ferris in the year 1981, the theory states that good management of payables can be able to reduce the transaction costs of paying bills. What this essentially means is that an organization can accumulate the bills and make monthly or quarterly payments for all of them

as opposed to having to run errands every day engaging different people hence increasing the cost for the organization. Therefore, the company should distinguish between the production plan and the payment period (Williamson, 2013). What is more, is that the organization can be able to maintain product flow by making arrangements for large inventories through credit. This might increase the cost of storage and warehousing of the inventory. However, the theory does not consider the type, size, and mode of business operation when linking account payable to financial performance. The transaction cost theory, therefore, enables the research to develop a plan for regulating and managing the inventories and payables of different companies and their impact on the organization's financial performance (Deloof, 2003). This theory is based on the management and regulation of expenditure on payables so that to maximize the expected revenue which then translates to profit. A firm or an investor can end up settling payables in time and end up reducing the cash available for running the business. This would eventually affect and reduce the sales levels (Deloof, 2003). This is why the theory is adopted for the current study because it supports clarifying the cash payable relationship with management including and how the same would affect or reduce profits.

2.1.4 Stakeholder Theory

This theory indicates that businesses have different stocks and stakeholders. (Preston & Donaldson, 1995). In other words, this theory claims that corporations, in the terms of shareholders, owners, or equity investors, have responsibilities to these members. This role is taken over by the view that the well-being of a company should be taken into account by various noteworthy players. As the name suggests, stakeholders have numerous stakeholder positions in the firm. Such entities comprise the government or state, moneylenders, consumers, workers, and suppliers. The description is however restricted to a certain category where the firm depends on its viability. Stakeholders are individuals or groups of individuals who have an impact on the company's attainment of its objectives, or who are influenced in some way by the company's varied operations, and these groups include public interest groups (Freeman & Reed, 1983). Meek (1988) contended that the agreement resulting first from the assumption that income budgeting is the primary indicator of profitability ratio only accounts for capital returns. It is worth noting, notwithstanding, that added value is the most important determinant generated by stakeholders, and it is accessible to the very same interested parties. The value usually emerges from the wealth generated by the adequate utilization of the company's supplies before the variable allocation is made between investors, the state, shareholders, and employees. As stated by Belkaoui (2002), the opinion of stakeholders of an organization includes utilizing added value like a proportion of aggregate profits generated to assess the development of the SME in profit margins and the return on assets. This theory supports improved financial performance as a way to increase equity for stakeholders. The variable supported by this theory is financial performance measured through net profit margin.

2.2 Empirical Review

This part gives the analytical relationship amongst the study variables. The reviewed literature relates to financial performance and management of working capital.

2.2.1 Accounts Receivable and Financial Performance

Dan (2020) studied the influence of account receivable management on the performance of Nigeria's publicly traded companies industrial companies. The regression coefficient was the account receivable term, whereas the proxy for corporate performance was ROA. The study findings demonstrated a significant relationship between account receivable duration and ROA of Nigeria's listed industrial companies. The notion of accounts receivable management was studied, and it was a correlation to the financial performance of Nigerian manufacturing

enterprises. By concentrating on accounts receivable administration of SMEs in Garissa County, Kenya, the conceptual gap was bridged. Mutiso and Mwangi (2019) in a descriptive approach was used to conduct the research, which included both quantitative and qualitative data. Primary data were collected via self-administered surveys from SMEs in Ruiru and Thika towns. Credit standard, credit terms, and profitability were shown to have a weak positive connection, whereas credit selection and profitability had a weak negative link. Receivables monitoring and activities collection had a positive association with profitability. The research context was on the profitability of SMEs and focused on primary data. This study concentrated on the SME's performance aspects through the utilization of secondary data.

Munene and Tibbs (2018) investigated accounts receivable management and financial performance in Embu County. Secondary information was gathered from the departments of finance and accounting. Using inferential statistical methods and descriptive statistics, the data were examined and displayed in tables. ROE was observed to significantly relate with normal assortment duration and current ratio, suggesting that if the time for debtor payments is extended, Embu Water, Sanitation Company Ltd's general performance will positively improve. The focus was on the water utility company. The current study focused on SMEs. Mori (2018) used a credit risk management perspective to profitability level. The analysis, which used Tanzanian SMEs, was motivated by asymmetric knowledge and the trade-off principle of liquidity. As far as analysis approaches go, descriptive and regression methods were used. The findings indicated that majority (54%) of SMEs sell on credit. Despite their best attempts to in managing debtors, the default rate stood at 26%. The findings also revealed that SMEs incur relatively increased costs when handling debtors, a factor that negatively impacts their success. Finance, administration, and moral hazard are among the expenses incurred. It contributes to asymmetrical information and liquidity theory trade-offs by showing how ex-post asymmetric information can hamper the relationship between SMEs and debtors, which is contrary to contractual provisions. It is based not on the interests of sellers, but debtors themselves. Bad debts placed a strain on a SMEs' cash flow, restricting its growth. When it came to handling debtors, education was seen as important.

Kilonzo, Memba, and Njeru (2017noted that Kenya's government venture capital-funded businesses were included in the target population. Because of the limited number of companies, the research used a census method. The study looked at both theoretical and practical accounts receivable management literature. There were descriptive and inferential analyses conducted. The findings suggest that account receivable management and financial performance of ventures supported by the government have a positive relationship (0.038). Accounts receivable is responsible for 25.7 percent of the volatility in the balance sheet. financial performance of enterprises financed by government venture funding in Kenya, while other factors account for 74.3 percent. The methodological gap was discovered because the study gathered both primary and secondary data from venture capital firms. The current study filled in the gaps by using secondary data from SMEs' financial results. In Mogadishu, Somalia, Aman, and Ayuma (2017) examined the relationship between financial success and account receivable management using regression and descriptive research design. Profitability metrics, such as ROC invested and RTA, were utilized as indicators of financial success as the dependent variable. It was discovered that the businesses' receivables had the most substantial, beneficial influence on financial performance. The research was conducted in Mogadishu and focused on remittance companies. The contextual gap on the need to focus on SMEs in Garissa County, Kenya, was clear.

2.2.2 Inventory Management and Financial Performance

Althaqafi (2020) investigated the correlation between inventory control and a company's financial performance. The data collecting and analysis methodologies utilized in the study were diverse. The study found that inventory management significantly affects a manufacturing company's performance. The study was done in Saudi Arabia and that policies and practices may not be applicable in Kenya. The contextual and location gap was filled by researching SME's performance. Torky (2020) investigated the reasons for slowing down the inventory control process. According to the data, inventory management has a significant correlation with a company's profitability, suggesting that effective inventory management ensures better profitability, whereas poor inventory management corresponds with poor financial performance. A case study was employed in the investigation, revealing a methodological deficit. The causal research design was used to fill the gap.

Mwaura (2017) assessed the financial impact of inventory turnover in Kenyan medium and big retail supermarkets. The descriptive research approach utilized in this study was cross-sectional. Sales, product expenses, Current liabilities, and current assets, total assets and long-term liabilities, earnings-before-tax and interest, balance in inventory closure, and yearly total profit were among the data to be gathered. Turnover in inventory and monetary performance of big and medium Kenyan supermarkets are highly favorable-and statistically significant, as was indicated by correlational research. Supermarkets were the context of this study and sources of data were collected from the primary sources. Maduba and Ogbonaya (2016) observed that Inventory, cash, payable, and debtor's management were the main variables in this study. It was also established that there was an inverse correlation between a company's average collection period and the selected firm's profitability. The study found that performance was inversely related to WCM. The research examined companies of the Gulf Cooperative Council, while this study concentrated primarily on SMEs in the County of Garissa, Kenya.

Wongthatsanekorn (2015) analyzed the consequences of the cash conversion cycle, Account payable deferral, and days taken to convert inventory into sales in companies listed in the Thailand Securities Exchange. The objective was to determine the effect of WCM on performance. The survey used both systematic and longitudinal data analysis. The outcomes indicated that account payable was inversely related to total assets turnover. However, this assumption was only viable under controlled variables such as company size sales growth annual gross domestic product debt level. The study showed that CCC time, days to convert inventory into sales, days taken to collect from debtor had an insignificant correlation with the total assets turnover. Inventory management was operationalized through the use of an inventory conversion period while the current study used days of inventory outstanding as the measure of inventory management.

2.2.3 Account Payable Management and Financial Performance

Altawalbeh (2020) studied the impact of creditors' management on industrial company performance listed in ASE in Jordan. The needed data were manually obtained using annual reports that were made publicly available on the internet. The study hypotheses were tested using panel data technique and eight multiple regressions. Kumaraswamy (2016) assessed the results of the typical reimbursement period and the financial output of many Nigerian companies. The study targeted manufacturing companies in Nigeria where a regression method was used to deduce the outcome. Data was sourced from a wide variety of available financial statements concerning the firms. It was noted that the company's typical payment period is predisposed by both profits per share and capital employed returns. As a result, good management of the average payment period boosted manufacturing businesses' financial

production. According to the report, professionals or managers should employ a policy that ensures appropriate account payable administration to minimize stock-outs owing to non-payment of suppliers. Wongthatsanekorn (2015) demonstrated that payable deferment periods were inversely correlated to asset turnover. The study suggested that the listed company can raise the level of profits earned by a firm by reducing its payable deferral period. The Study was based in Thailand and focused on profitability levels. Saba (2015) identified scope and gap; the study investigated the profit rates of the companies listed in Nigeria. This study focus was on the SMEs' financial performance.

2.2.4 Cash Management and Financial Performance

Bari, Muturi, and Samantar (2019) study assessed the impact of Puntland's food and beverage retailers' cash translation sequence on financial performance. The research study relied mainly on descriptive surveys to attain its objectives. The survey found that merchants had a poor liquidity ratio in their companies, as well as inconsistent cash flow from different shops. The majority of merchants had low liquidity ratios stemming from their inability to pay their responsibilities on time owing to fluctuations in the area's food and beverage industry patterns. It was also clear that the problem was caused by poor management practices, such as merchants' failure to maintain track of their operations and apply the knowledge they had gathered in the planning and administration of their financial transactions. The study employed a qualitative analytical technique, resulting in a methodological gap. The current research focused on both qualitative and quantitative analytic approaches.

Onyando (2018) set out to evaluate cash management and its effects on monetary performance among SMEs in Nakuru. The independent variables were cash preparation, bank, and cash reconciliation activities, cash status, and management of credit. The study's dependent variable was financial efficiency, which was measured using net profit margin. A cross-sectional analysis of SMEs based in the County of Nakuru was considered. According to the study, the number of SMEs perform prompt reconciliation, regular bank as well as cash consolidations, and the application of an internal audit. Assets' return was the dependent variable of the study and it was used as the proxy of the company's net profit. The explanatory variables were CCC, days taken to collect from debtors, Inventory (INV), and, days taken to pay creditors (APP). The results indicated that growth APP had a strong correlation with Net Profit margin. Conversely, the researcher established that debtors' collection and inventory have a negative relationship with profitability. The study focused on financial performance in the Pakistan financial market. SMEs operating in the County of Garissa were targeted and financial performance was measured through ROA in the current study.

Nyabwanga et al. (2016) found out cash management has been poorly practiced in SMEs. This was mainly since a majority of them had not accepted the management of working capital as a routine. Also, they found out that their financial performances were declining as was indicated by the net profit margin. The study did not present the correlation amongst variables. The current study presented variables in a model and correlation amongst variables was determined. Maduga and Ogbomnaya (2018) WCM's impact on company monetary performance was investigated in the Gulf Cooperation Council. The variables under scrutiny in the study comprised cash, inventory, receivables, and creditor's management. According to the findings, cash management had significant relationship performance. The reviewed study concentrated on the Gulf Cooperative Council Firms' financial performance whereas, this study focuses primarily on the County of Garissa, SMEs' financial results.

Wongthatsanekorn (2015) studied the cash conversion cycle, receivable management, creditors management, and inventory management on levels of cooperating profitability level focusing on Private hospitals in Thailand. After the analysis, the study demonstrated the inverse relation

between account payable and asset turnover. Furthermore, the study inventory management, cash conversion cycle, and debtors collection had a negative significant relationship with total assets turnover ratio. There was an inverse relationship between account receivable management on the total asset turnover ratio. The study revealed those periods of payable deferral had an inverted relationship to asset turnover. The study proposed that a listed firm can raise the output of a corporation by decreasing the account payable period. This study presented a conceptual knowledge gap in that the current study will concentrate on WCM of SMEs in, Kenya while the reviewed study concentrated on levels of profit of listed Thailand's stock exchange private hospitals.

2.3 Conceptual Framework

The conceptual framework depicts the research variables' potential interrelationships. According to the framework, WCM components. Figure 2.1 shows that DOS was being used as a proxy for account receivable management, DIO was used as a proxy for inventory management, DPO was being used as a proxy for accounts receivables executive leadership, and CCC was used as a proxy for cash management.

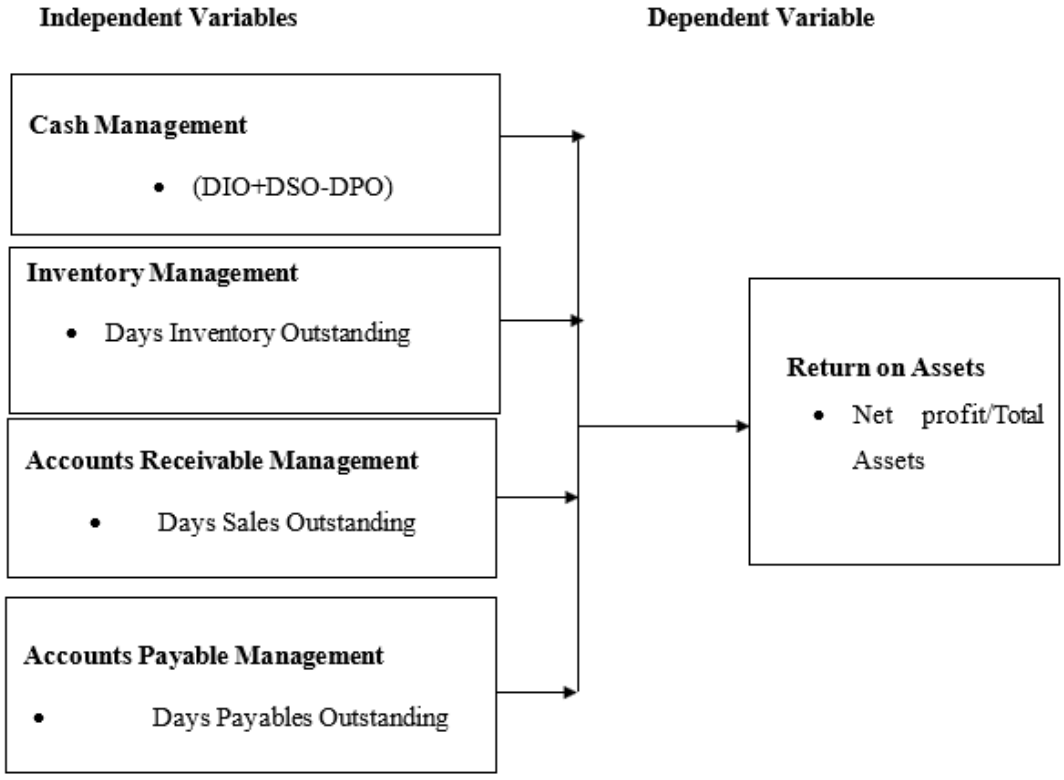

Figure 1: Conceptual Framework

3.0 Research Methodology

The research objectives were met using a causal research design. According to Kothari (2011), the majority of social researchers have utilized a causal design with multiple tests for hypotheses. This effect (nomothetic perspective) typically occurs when a shift in one situation triggers a subsequent difference to another phenomenon; in this case, it is used when a change in an independent variable affects the dependent variable. The study's target population was 243 registered SMEs in Garissa County (Garissa County Licensing Department, 2020).

To estimate the sample size, the study used Kothari's formula, which was developed by Kothari (2004). $n = \frac{Z^2.N.\sigma^2\hat{p}}{(N-1)e^2+Z^2\,\partial^2\hat{p}}$. Therefore 149 SMEs were used as a sample. The analysis used

secondary data. The data was been obtained utilizing secondary data collecting schedules from the financial records of 149 SMEs. The procedure of collecting data involved obtaining Kenyatta University's Letter from Graduate School and NACOSTI permit. The collection process revolved around the use of a collection guide for secondary data. After data were collected from the SMEs, they were verified, sorted and editing was done before it was used for analysis. After the data cleaning process (sorting and editing), it was then entered into SPSS to generate the descriptive and inferential statistics. Data were analyzed through the use of quantitative analysis. Descriptive statistics used for analysis were mean, frequencies, percentage, and standard deviation. The inferential analysis used correlation and regression coefficients.

4.0 Data Analysis Results

To evaluate the influence of an explanatory variable on the dependent variable, inferential analysis was performed. The model summary, analysis of variance, and regression coefficient are all presented in this section. The correlation of determination and the coefficient of correlation is included in the model summary. The relevance of the whole model is tested using an analysis of variance. The coefficient of regression table presents the coefficients of the independent variables, which reveal the type and direction of the change in the dependent variable.

Table 1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.929[a]	.863	.841	6.25775

a. Predictors: (Constant), Inventory Management, Accounts receivable Management, Accounts payable, Cash Management

Sources: Study Results (2022)

The results in table 1 present the coefficient of correlation (R) indicates that there is a very strong correlation between dependent and independent variables (The findings on the correlation of determination (adjusted R squared) indicates that 84.1% changes in return on assets were determined by inventory management, Accounts receivable management, Accounts payable and cash management

Table 2: ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	2461544.240	3	820514.747	20953.186	.000[b]
	Residual	4464.175	114	39.159		
	Total	2466008.415	117			

a. Dependent Variable: Financial Performance

Source: Survey Data (2020)

The ANOVA results in Table 2 indicate the overall model was significant (P<0.05) at a 95% confidence interval. The results present that one or more of the explanatory variables were significant in explaining the changes in the financial performance of SMEs. Therefore, the

management of account receivables, cash, inventory, and account payable can be used to explain the significant changes in the financial performance of SMEs.

Table 3: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	7.814	1.000		7.817	.100
	Inventory Management	.001	.033	.000	.020	.984
	Accounts receivable Management	-1.822	.602	-.402	-2.610	.010
	Accounts payable Management	1.020	.019	.413	54.092	.000
	Cash Management	1.979	.017	.700	119.311	.000

Source: Survey Data (2020)

The adopted model was; SMEs Performance= 7.814 - 1.822 Accounts receivable Management -1.020Accounts payable Management + 1.979 Cash Management. Because the P-value is larger than 0.05, the investigation supports the null hypothesis. This suggests that inventory management did not account for the statistical fluctuations in SMEs' financial performance. Inventory management was shown to be insignificantly connected to financial success (P=0.984> 0.05) non the study. The study contradicts the conclusions of Madugba and Ogbonnaya (2016), who found that inventory management had a considerable negative influence on ROA. According to Wongthatsanekorn (2015), inventory management has no major effect on ROA. According to the second hypothesis, accounts receivable management procedures had no obvious influence on SMEs' financial performance. The null hypothesis H02 is rejected since the P-value is less than 0.05 (P=0.010). This means that changes in accounts receivable management have a substantial impact on changes in SMEs' financial performance. A standardized beta value of -.402 indicates that positive modifications in accounts receivable management would have a considerable negative impact on the SME's financial performance.

It was assumed that the management of Accounts payable does not significantly affect SMEs' financial performance. The there is a significant relationship among financial administration and Accounts payable and therefore the study rejected **H_{03}** (Standardized Beta Coefficient= 0.413, P=0.000). This implies that the return on an asset will increase by 0.413 per cent if the days of payable outstanding increase by one day. A positive change in DPO results in a positive significant change in SMEs performance. The results were supported by Kumaraswamy (2016) that the average payment cycle significantly influences financial output such as earnings per share and returns from capital employed. This meant that successful control of the average payment period improved the financial output. Wongthatsanekorn's (2015) findings showed that the creditors' management was inversely related to total assets turnover. The study hypothesis H04 was evaluated, which stated that cash management procedures had no substantial influence on the financial performance. The results indicated that cash management significantly and positively affects the financial performance of SMEs, therefore we rejected the **H_{04}**. This implies that when the cash conversion cycle is increased by one day, the return on assets will increase by .700 percent. The findings were supported by Wongthatsanekorn

(2015) that cash management affects profit levels. Saba (2015) also confirmed the presence of a significant relationship between money administration and ROA.

5.0 Conclusions and Recommendations

5.1 Conclusions

Based on the results, a longer term of payable accounts has a positive effect on the ROA of a firm. Longer inventory management periods, on the other hand, have a negative impact on SMEs' ROA. The ROA of SMEs is unaffected by longer accounts receivable days. According to the findings, managers may boost ROA by reducing inventory turnover and boosting accounts payable days. Furthermore, they may boost ROA by negotiating better credit terms with their suppliers, allowing them to increase accounts payable days, which boosts ROA. Cash management (CCC) improved the financial performance of SMEs significantly. Inventory turnover days should be reduced to enhance profit, while accounts payable and receivable days should be reduced to minimize bad debts and improve liquidity. By boosting stock movement, businesses will be able to pay Accounts payable sooner and therefore improve their liquidity.

5.2 Recommendations

The study recommends SMEs owners/directors should develop a policy on credit collection detailing the policies and practices to be followed by the organization. This policy should allow a combination of multiple collection techniques to be used concurrently to ensure that the organization not only reduces losses from bad debt but also increases its cash flow by shortening the average collection period. To enhance their accounts receivables and remove bad debts while boosting sales and inventory turnover, SME owners should rigorously follow up on debts, assess consumers before providing debts, give incentives for early debt payments, and build a solid debt management strategy. SME owners and managers should try to reduce the time it takes to transform raw resources into completed items. Stock control is necessary to avoid overstocking or overproduction, both of which result in high holding costs. Furthermore, businesses should focus on generating demand and producing to meet that need. Anything less or more than this will result in underproduction or overproduction. SMEs may generally keep the standard payment interval longer than the average collection period to limit receivables payments for short-term needs, lowering finance expenses. The cash conversion cycle is determined by cash managers' ability to manage inventory.

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