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**WORKING CAPITAL MANAGEMENT PRACTICES AND GROWTH OF  
SMALL AND MEDIUM-SIZED ENTERPRISES IN NYERI COUNTY,  
KENYA**

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**Abstract**

Small and Medium Enterprises largely contribute to an economic agenda by expanding employment, fostering growth and providing crucial services from global, regional to the local stages. In Kenya, Small and Medium Enterprises have continued to face a mountain of challenges and struggle to achieve significant growth despite their importance to the Kenyan Economy. Imprudent working capital decisions have been highlighted in literature as some of the principal causes of their stagnation and decline in growth. Nevertheless, there is scarce empirical evidence on whether working capital management activities significantly affect growth of these institutions. The general objective of the study was to determine the effect of working capital management practices on Growth of Small and Medium Enterprises in Nyeri County, Kenya. The specific objectives were to establish the effect of cash management practices, debtors management practices, creditors management practices and inventory management practices on growth of Small and Medium Enterprises in Nyeri County, Kenya. The study was anchored on: Trade-Off Theory of Liquidity, the Cash Conversion Cycle Theory and the Economic Order Quantity model. The target population comprised of a total of 841 SMEs operating in Nyeri County, Kenya. Proportionate stratified random sampling was used to select a sample of 89 SMEs. Questionnaires were used as the suitable data collection tool. Statistical software was used to undertake descriptive analysis, multiple regression and correlation coefficient. The study found that cash management practices had positive and statistically significant effect on the growth of SMEs ( $p= 0.000$ ); debtors management practices had a positive and statistically significant effect on the growth of SMEs ( $p=0.000$ ). Additionally, creditors management practices had a positive but statistically insignificant effect on the growth of SMEs ( $p=0.196$ ) whereas inventory management practices had a positive but statistically insignificant effect on the growth of SMEs ( $p= 0.263$ ). From correlation analysis, the study found a positive relationship between cash management practices and growth ( $r = 0.790$ ,  $p = 0.000$ ) at 5% level of significance. Debtors management practices had a positive relationship with growth ( $r = 0.771$ ,  $p = 0.000$ ); creditors management practices had a positive relationship with growth of SMEs ( $r = 0.267$ ,  $p = 0.019$ ) whereas inventory management practices had a positive relationship with growth ( $r = 0.551$ ,  $p = 0.000$ ) at level of significance. The study recommends that SMEs in Nyeri County should formulate cash management policy to guide the effective maintenance of liquidity at optimal levels and ensure proper implementation of cash budgeting and planning framework. SMEs should also review the credit policy to ensure effective credit administration decisions. In

addition, there should be a clear policy that spells out effective account payables management practices that ensures optimal credit purchases as well as stipulate creditors' settlement criteria. Moreover, management of SMEs in Nyeri County should formulate inventory management policy which focuses on ensuring that optimal stock levels are maintained to avoid overstocking and understocking of certain products.

**Keywords:** Working capital management practices, growth, cash management practices, debtors management practices, creditors management practices and inventory management practices.

### **I. Introduction and Background**

Small and Medium Enterprises (SMEs) serve a pivotal role in supporting the economy of a Country to host the growing population. A World Bank Report on SMEs (2015) observes that approximately 60% of the employment in developing economies is premised upon the small and medium entities. In addition, approximately 40 percent of national income in these countries is attributable to SMEs. Kenya Private Sector Alliance (2017) reports that SMEs face several challenges as they struggle to register favorable growth a few years after inception. Growth plays a significant role to long-term survival of a firm. In addition, it builds the capacity of a business to acquire new assets, attract new business lines and enhance the sources of funds for new investments. Lastly, growth also helps in driving business performance and profit (Bekaert & Hodrick, 2017; Nasse, 2019). Bowen, Morara and Mureithi (2009), found that most SMEs in Kenya have a sluggish growth rate and sixty percent of all SMEs will fail in their first year of existence. KNBS (Kenya National Bureau of Statistics) (2016) indicate that approximately 500,000 SMEs in Kenya close doors every year. Further the KNBS report observed that approximately 2.2 million SMEs collapsed between the year 2012 and 2016.

According to Bravo-Biosca, Criscuolo, and Menon (2016), growth encompasses an expansion of an enterprises activities or engagements as reflected by an extension of their sales, income and assets levels. Growth is one of the key objectives of small businesses as they work towards becoming large entities and expanding the shareholders' wealth. Business growth revolves around the business lifecycle, trends within the industry and the owners' desire for equity value creation. Storey (2016) contends that growth involves the process by which enterprises expand specific lines of achievement as established in their goals of profit and shareholder wealth maximization. Business growth can be achieved either by improving its revenue through an increase in sales, the bottom line and the profitability of operations; this can be achieved through a reduction in the amount of costs. The indicators of business growth include assets growth, sales growth and profit or income expansion (Koryak *et al.*, 2015). Imprudent working capital decisions have been highlighted in literature as among the principal causes of SMEs stagnation and decline in growth Agyei-Mensah(2010). Tauringana, V & Afrifa, G (2013) highlight that most SMEs have not established a formal working capital management system and make arbitrary decisions regarding their working capital levels. Bhalla (2010) assert that absence of a prudent working capital management system hurts the cash flow, affects the returns, risk management and growth. According to Singh (2018) firms that implement a prudential working capital management process have the potential to register growth in their sales, earnings, and assets growth.

Abor (2017) defines working capital management practices as the control of current assets and liabilities, which include cash, inventories, accounts payables and receivables management, in a manner that optimizes the benefits accruing to the firm. Disney, Maltz, Wang and Warburton (2016) observe that cash management encompasses collecting, handling, and using it in a business. Cash management involves an objective valuation and control of market liquidity, cash flow, and investments. Dobie (2015) describes inventory management as the control of activities pertaining to stock including ordering, shipment, storage and decisions on the quantities and frequency with which merchandise will be replenished. Dobie (2015) describes inventory management as the control of activities pertaining to stock including ordering, shipment, storage and decisions on the quantities and frequency with which merchandise will be replenished. Aiguo (2016) argues that debtors management involves establishment of an effective credit collection procedures for firms' dues which includes managing accounts receivables and deciding whether one will sell on credit. Creditors management or account payables management represents a business processes, policies, procedures, relating to administration of its trade credit purchases (Muller, 2019).

## **II. Research Problem**

Small and Medium Enterprises in Kenya and world over have continued to face a mountain of challenges and struggle to register growth. Over 60 percent of SMEs register a decline or total collapse, shortly upon inception Kenya Private Sector Alliance (2017). Bowen, Morara and Mureithi (2009), posit that most Kenyan SMEs have a sluggish growth rate. Kenya National Bureau of Statistics (2016) further highlighted that approximately 500,000 SMEs in Kenya close doors every year. For the period between 2012 and 2016, the report by KNBS observes that approximately 2.2 million SMEs totally collapsed in Kenya. The County Government of Nyeri Budget Review (2017) report highlights that more than thirty percent of SMEs applied for stoppage of the renewal of their Single Business Permits. The Kenya National Chamber of Commerce and Industry, Nyeri County (2017) also reports a sluggish growth and high failure rate among SMEs in the county. Imprudent working capital decisions have been highlighted in literature as among the principal causes of SMEs stagnation and decline in growth Agyei-Mensah (2010). A key observation is made in Tauringana, V & Afrifa, G (2013) that proper working capital management system lack in most SMEs to guide working capital decisions.

Empirical evidence on working capital management practices and growth of SMEs exists among them; Nyabwanga and Ojera (2012) assessed inventory management practices and the growth of businesses with a focus on SMEs in Kenya. Findings indicate a positive correlation between growth in assets and profit and inventory management framework. Wekesa (2018) assessed the effect of debtors' management practices on growth of SMEs in Kenya. The research results indicated that credit administration practices, creditworthiness practices, credit approval practices, and collection policy activities practices had a positive impact on the growth of small businesses. Wanguu and Kipkirui (2015) examined the effect of accounts payables on profit growth at cement manufacturing companies in Kenya. The results established that accounts payables management significantly influences profit growth for manufacturing business concerns. Pedro and Pedro (2017) studied the working capital management and SME growth focusing on the impact of cash, inventory and receivables management on growth. The study

found that cash management, debtors management and inventory management positively contribute to profit growth and value of the firm. Motlíček and Martinovičová (2014) studied working capital management and business growth focusing on receivables and inventory management as working capital management variables. Results established presence of a strong and positive link between the management of inventory and sales growth.

While theories present a case for adoption of working capital management as a key to enhance growth, empirical literature existing provides gaps to support or challenge the relationship between working capital management practices and growth of SMEs. The contextual gaps emerge on the time factor, considering that the business environment may have changed since when the studies were carried out. Conceptual gaps arise as the studies considered a narrow framework biased upon one aspect of working capital management such as cash management, debtors management, inventory management, payables management independently thus leaving out other important aspects. This study considers comprehensive assessment of working capital management variables. Empirical gaps are established in that existing studies mainly focused on sales dimension of growth leaving out other facets of enterprise growth such as assets and profit growth. Notably, very few well known studies have tried to link working capital management practices and growth of SMEs in Nyeri County, despite the poor growth of SMEs in the region. Hence, this formed a good basis to conduct this study to address the gaps highlighted above.

### **III. Objectives of the Study**

The specific objectives of the study were:

- i) To assess the effect of cash management practices on growth of Small and Medium Enterprises in Nyeri County, Kenya.
- ii) To establish the effect of debtor's management practices on growth of Small and Medium Enterprises in Nyeri County, Kenya.
- iii) To determine the effect of creditors management practices on growth of Small and Medium Enterprises in Nyeri County, Kenya.
- iv) To establish the effect of inventory management practices on growth of Small and Medium Enterprises in Nyeri County, Kenya.

**\*Null hypotheses were formulated and tested at a significance level of 0.05.**

### **IV. Significance of the Study**

The management of the SMEs will acquire more knowledge and skills on how to manage the business to enhance the growth. They will also acquire specific knowledge to effectively apply the working capital management practices in the SMEs. The management practices include the inventory, cash, debtors and creditors administration. The potential investors who would like to venture in SMEs will gain knowledge on making decisions if to invest or not to invest. They will be in a better position to make business judgment on whether the business is doing well or not.

The national government and county government will formulate policies that can drive growth of SMEs which has a huge bearing on the highest proportion of citizens. Academicians and researchers will also gain a lot from the study. The study will set a benchmark to researchers where they can base their future studies. The researchers will be able to identify gaps and ways

on how to fill the gaps. The academicians will learn more on theories and methodology applied in the study and be in a position to critique. The study will also add more knowledge on working capital management practices and impact to growth of SMEs. The results of the study will contribute to finance theory by establishing the effect of working capital management practices on growth of Small and Medium Enterprises in Nyeri County, Kenya.

## **V. Review of Literature**

### **a. Theoretical Review**

The study was anchored on the Cash Conversion Cycle, the Theory Trade-Off Theory of Liquidity and the Economic Order Quantity model. Gitman, Forrester and Forrester Jr (1976) introduced the concept of Cash Conversion Cycle (CCC) into working capital management in a firm. Richards and Laughlin (1980) later developed the Cash Conversion Cycle Theory in order to determine the effectiveness of working capital management in enhancing the operational efficiency and growth of a firm. The CCC theory establishes that a firm with good WCM is able to cultivate financial health and growth. The theory considers both the short cash conversion cycle and long cash conversion cycle in a firm so as to effectively determine the efficiency of the working capital management system in ensuring that investment opportunities are optimized without compromising the liquidity and solvency status of the firm Bhattacharya (2014). Jordam (2003) contends that the CCC is the period between the purchase of an item by a firm to the period the item is sold and cash proceeds received. The CCC is composed of inventory, receivables, cash and payables. As presented by Wang (2019), the formula for calculating the CCC is given as;  $\text{Day Sales Outstanding} + \text{Days Sales of Inventory} - \text{Days Payables Outstanding}$ . Farooq, Maqbool, Waris and Mahmood (2016) highlight that the shorter the CCC, the better the potential of a firm to register growth. The theory is important in the exploration of the effect of working capital management practices and other elements; cash, debtors, creditors and inventory management practices on growth of SMEs.

Trade off Theory of Liquidity was put forward by Campbell and Kelly (1994) on the premise that companies try to achieve an ideal (optimal) level of liquidity in balancing the costs and advantages of holding liquid cash in the firm. On costs, holding cash yields very low returns as the risk involved is also very low. Thus, the main cost associated with holding cash represents the opportunity cost of not taking advantage of available investment opportunities which could yield high returns for the firm Qureshi, Sheikh, & Khan (2015). Ismail (2016) highlighted some advantages of holding cash which may include control of transaction costs incurred in raising funds when needed. Other reasons include the ease with which the firms meet their responsibilities as they fall due which better still, improves their credit rating by suppliers thus likely to influence growth of the firm. Ghasemi and AbRazak (2016) opine that holding cash can foster growth as the firm can use cash to fund their investments in case financing options are not unavailable or costly. The trade-off theory of liquidity was useful in assessment of how SMEs balanced the merits (benefits) of holding cash with demerits (costs) of holding cash to achieve optimal growth. Specifically, the theory supported the assessment of cash management and the resultant impact on growth of SMEs.

The Economic Order Quantity Model (EOQ) was first associated with Harris (1913) who provided an effective framework to establish the optimal quantity to order. The EOQ model provides answers on several questions around inventory; how much and when to order. It further gives insights into the total cost, the average inventory level and the maximum inventory levels (Kumar 2016). According to Andriolo, Battini, Grubbström, Persona and Sgarbossa (2014), the EOQ model can be presented as follows;

$$TC = TO + TH = \frac{DK}{Q} + \frac{HQ}{2}$$

Where  $D$  is the annual demand,  $k$  is the ordering cost,  $H$  is the holding cost, and  $Q$  is the quantity to be ordered.

As per the contention of Rao and Mangal (2018), the EOQ model makes a fundamental assumption that the demand of commodities remains constant over time. The model further hypothesizes that within a given ordering range, the per-unit holding cost and ordering cost are independent of the quantity being ordered. Thus, proponents of EOQ argue that inventory management has a bearing on growth of the firm as the firm has just the stock that it requires. This model is relevant to this study in that, management should focus on maintaining optimal inventory in a manner that minimizes costs and maximizes the benefits.

### **b. Empirical Review**

Abor (2017) defines working capital management practices as the control of current assets and liabilities, which including inventories, accounts payables and receivables, in a manner that optimizes the benefits accruing to the firm. Working capital represents investment in short-term assets which include cash, marketable securities, accounts receivable and inventories. Ultimately, net working capital would represent the difference between current assets and liabilities. As such, working capital management implicates the administration and control of levels of two key components; short-term assets and liabilities. Muller (2019) observed that these particulars need to be matched and coordinated to minimize the costs, control risks and maximize the benefits. Therefore, there are four key elements that represent the working capital management; debtors, creditors, cash and stock management. Siraj, Mubeen and Sarwat (2019) conducted a study on working capital management and firm performance evidence from non-financial firms in Pakistan. The finding of the study revealed that working Capital management has a significant impact on firms' financial performance on profitability and growth. The study further revealed that debtors' management influences both profitability and growth significantly. Creditors' management had significant effect on firms' profitability while inventory management does influence the firm growth.

Njuguna (2018) studied WCM and growth of construction and allied sector firms listed at NSE, Kenya. The study found that cash conversion cycle as an indicator of cash management demonstrated low correlation with growth. Ndagijimana and Okech (2014) studied the indicators of the working capital management practices in SMEs located in Nairobi. Results showed that management of cash conversion period has a positive impact on growth. Pedro and Pedro (2017) explored working capital management and SME growth in Spain. Results showed

that accounts receivable management, cash management and inventory management positively contribute to profit growth and value of the firm. Hassan, Ali, Abubakar and Ibrahim Naala (2018) studied working capital management and growth of Malaysian SMEs. The results demonstrated that cash management positively enhanced SMEs' growth. Masocha and Dzomonda (2016) analyzed the mediation goal of prudent working capital management on indicators of growth among SMEs in Polokwane in South Africa. The finding of the study established that cash management, receivables management, inventory management are important determinants of SMEs' growth. Nzitunga (2019), conducted a study on the impact of working capital management practices on profitability in state owned enterprises in Namibia. The result of the study revealed that profitability is positively influenced by cash management, debtor management, creditor management, and stock management.

Wekesa (2018) assessed the effect of debtors management practices on growth of small and medium sized entities in Kenya. The study results relatively indicated that credit administration practices, credit approval practices, collection policy activities practices and credit worthiness practices all had significant influence on the growth of small businesses. Njuguna (2018) studied WCM and growth of construction and allied sector firms listed at NSE, Kenya. Regression analysis results showed that an average collection period as an indicator of debtors' management had a low correlation with growth. Ndagijimana and Okech (2014) studied the impact of working capital management practices in small and medium enterprises in Nairobi, Kenya. Results established a positive relationship in business growth and the management of receivables. Hassan, Ali, Abubakar and Ibrahim Naala (2018) studied working capital management and growth of Malaysian SMEs. Results established a significant association between debtors' management and SMEs' growth. The Masocha and Dzomonda (2016) empirical analysis assessed the role of prudent working capital management on the SMEs' growth prospects. The study established that debtors' management along with cash and inventory management had statistical significance in determining the growth of SMEs in South Africa. Motlíček and Martinovičová (2014) explored the role of working capital management and business growth on medium sized firms producing machinery and equipment. The findings revealed a strong and positive correlation between debtors' management and enterprise sales' growth.

Musah, Gakpetor and Pomaa (2018) assessed working capital management element of financial management and its effect on the growth and profitability of SMEs located in Ghana. The outcome of the study showed that accounts payables management has a positive impact on growth and profitability. Hassan, Ali, Abubakar and Ibrahim Naala (2018) study assessed working capital management and SMEs' growth from the Malaysian context. The finding of the study revealed that accounts payables management positively influenced the growth status of SMEs. Ndagijimana and Okech (2014) studied the impact of working capital management activities in SMEs located in Nairobi. Findings indicated a positive relationship between growth and the accounts payables. Wanguu and Kipkirui (2015) examined working capital management and profit growth at cement manufacturing companies in Kenya. The results established that accounts payables management significantly influences profit growth for manufacturing business concerns. Omanga and Oluoch (2019) conducted a study on effect of working capital management on tax efficiency of non-financial listed firms at Nairobi Securities Exchange. The

study found a weak positive and significant effect of cash management, inventory management and firm size on tax efficiency of non-financial firms at Nairobi Securities Exchange. The study further revealed a negative but significant effect of accounts payable and accounts receivable management on tax efficiency of non-financial firms at NSE.

Motlíček and Martinovičová (2014) examined working capital management and business growth. Results established a positive and statistically significant link between inventory management and enterprise sales' growth. Hassan, Ali, Abubakar and Ibrahim Naala (2018) investigated working capital management and growth of Malaysian SMEs. Results established a positive relationship of inventory management on SMEs' growth. Chalotra (2013) studied stock management and growth of small firms in India. The findings indicated existence of a strong and a positive association link between inventory management and firm's growth. The Masocha and Dzomonda (2016) study focused on the collective role of prudent working capital management on the SMEs' growth probability in Polokwane Municipality of South Africa. The study showed that inventory management along with receivables management and cash management are statistically significant determinants of SMEs' growth. Nyabwanga and Ojera (2012) studied inventory management practices and the growth of businesses with a focus on SMEs in Kenya. Findings showed presence of a positive relationship between business growth and inventory management framework. Nassè (2019) examined internal equity and customer relationship management in developing countries. The results confirmed that companies in which internal equity degree is high, the sales growth is increasing due to satisfaction and repurchases. Al-Mawshakil, Ahmad, Nordin (2019) examined the effects of efficient working capital management and working capital policies on firm performance from Malaysian manufacturing firms. The finding of the study revealed that the manufacturing firms in Malaysia can increase their economic value added by adopting efficient working capital management which is to reduce their cash conversion cycle.

## **VI. Research Methodology**

This study adopted an explanatory research design which was considered effective in establishing the impact of working capital management practices on growth of SMEs in Nyeri County, Kenya. An explanatory research design provided by Bulmberg, Cooper, and Schindler (2011) would help explain the relationships that exist between the variables of interest by answering the what, why, how often, and when of a phenomenon. According to Mugenda and Mugenda (2012), research design aids a researcher to conduct a study effectively and ensure the current problem is completely solved in good time. The study had a target population of 841 SMEs distributed in the 8 sub counties in Nyeri County, Kenya as per the National Chamber of Commerce and Industry, Nyeri County (2018). The study adopted the Trek (2015) formula to identify a statistically representative sample from the overall population. Using the formula, the sample size of 89 SMEs was selected.

A semi-structured questionnaire comprising of both open ended and close ended questions was used in collecting primary data. Mugenda and Mugenda (2012) contend that a questionnaire is advantageous in data collection in that it is cost effective and easy to administer. Questionnaires are appropriate when one intends to collect massive amount of data in a fairly short duration



Orodho & Kombo (2002). Data collected was fed into statistical software in order to carry out the analysis. Descriptive statistics was used to describe the target population. Pearson correlation analysis was used to test the relationship between independent and dependent variables. Linear multiple regression analysis was used to depict the model where growth of SMEs was expressed as a function of cash management practices, inventory management practices, accounts receivables management practices and accounts payable management practices as shown

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon$$

Where:

Y - Growth of SMEs,  $\beta_0$  - Intercept,  $X_1$  - Cash Management Practices,  $X_2$  - Debtors Management Practices,  $X_3$  - Creditors Management Practices,  $X_4$  - Inventory Management Practices,  $\beta_1$ - $\beta_4$  = Regression Coefficients while  $\epsilon$  - error term.

## **VII. Results and Findings**

### **a) Working Capital Management Practices and Growth**

The study intended to establish the relationship between working capital management practices and growth of SMEs in Nyeri County, Kenya. The study established a high percentage 92.2% of the respondents indicating that working capital management practices influence growth of SMEs while 7.8% indicated there is no relationship between working capital management practices and growth of SMEs. This is an indication that working capital management practices has a strong relationship with growth of SMEs in Nyeri County, Kenya. The finding of the study assert earlier study by Masocha and Dzomonda (2016) who found that working capital management practices are important determinants of SMEs' growth.

### **b) Cash Management Practices**

The study sought to establish the effect of cash management practices on growth of SMEs in Nyeri County, Kenya. The respondents were required to rank various cash management practices statements on a scale of 1 to 5 where 1 represented no extent while 5 represented very great extent. The results were as shown in Table 4.1

**Table 4.1: Cash Management Practices**

NE~No Extent, SE~Small Extent, ME~Moderate Extent, GE~Great Extent, VGE~very great extent, SD~Standard Deviation

Statement	NE	SE	ME	GE	VGE	Mean	SD
The SME has a strictly implemented cash budgeting and planning framework for all departments/ units.	7.8%	35.1%	53.2%	3.9%	0.0%	2.53	.70
The SME physically controls movements in cash to avoid loss or misuse.	10.4%	10.4%	9.1%	40.3%	29.9%	3.69	1.29
The SME carries out regular reconciliation of transactions involving cash.	10.4%	10.4%	9.1%	19.5%	50.6%	3.90	1.40
The SME has a prudent policy to guide investment of surplus cash.	0.0%	46.8%	14.3%	28.6%	10.4%	3.03	1.09
The SMEs liquidity control policy is effective in maintaining optimal levels of liquidity while taking advantage of investment options.	10.4%	40.3%	29.9%	9.1%	10.4%	2.69	1.12

**Source: Research Data (2020)**

From the descriptive statistics results in Table 4.1, slightly above half of the respondents 53.2% indicated that SMEs has strictly implemented cash budgeting and planning framework for all departments/ units to a moderate extent while 35.1% indicated that cash budgeting and planning framework is implemented to a small extent (Mean=2.53, SD=0.70). A high percentage 70.2% indicated that to a great extent SMEs physically controls movements in cash is to avoid loss or misuse (Mean=3.69, SD=1.29). 70.1% indicated that SMEs carries out regular reconciliation of transactions involving cash to a great extent (Mean=3.90, SD=1.40). Slightly below half of the respondents 46.8% indicated that SMEs has a prudent policy to guide investment of surplus cash to a small extent (Mean=3.03, SD=1.09). 40.3% of the respondents indicated that SMEs liquidity control policy is effective in maintaining optimal levels of liquidity while taking advantage of investment options to a small extent, 29.9% indicates that SMEs liquidity control policy is effective in maintaining optimal levels of liquidity to moderate extent (Mean=2.69, SD=1.12).

The study’s finding concurs with Disney, Maltz, Wang, and Warburton (2016) who observed that cash management encompasses collecting, handling, and using it in a business. Among the activities of prudent cash management as outlined in literature include cash budgeting and planning, physical control of cash movements, cash reconciliation, and investment of cash surplus and control of the cash conversion cycle Abor (2017). These activities were reviewed in the study where SMEs were found to focus more on physical control of cash even though an

absence of policy to guide investment of surplus cash and effective maintenance of optimal levels of liquidity. This implies that SMEs should formulate policies geared towards administration of surplus policy as well as policy that ensure effective maintenance of optimal cash and cash equivalent.

**c) Debtors Management Practices**

The study sought to establish the effect of debtor’s management practices on growth of Small and Medium Enterprises in Nyeri County, Kenya. The study used key components of debtors’ management practices. The respondents were required to rank various debtors’ management practices statements on a scale of 1 to 5 where 1 represented no extent while 5 represented very great extent. The results were as shown in Table 4.2

**Table 4.2: Debtors Management Practices**

NE~No Extent, SE~Small Extent, ME~Moderate Extent, GE~Great Extent, VGE~very great extent, SD~Standard Deviation

Statement	NE	SE	ME	GE	VGE	Mean	SD
The firm has a well spelt out trade credit policy to guide the credit administration decisions made.	10.4%	10.4%	28.6%	29.9%	20.8%	3.40	1.23
The SME has an effective debt collection framework that ensures efficient and effective collections of dues from debtors.	0.0%	39.0%	31.2%	9.1%	20.8%	3.12	1.15
The SME has a well implemented system for screening potential debtors to guide advancement of credit.	0.0%	10.4%	58.4%	20.8%	10.4%	3.31	.80
The SME keeps proper debtors record to ease monitoring and give information regarding credit worthiness of borrowers.	10.4%	10.4%	9.1%	39.0%	31.2%	3.70	1.30
The SME implements a strict debt control system to ensure debts are repaid promptly.	0.0%	20.8%	36.4%	19.5%	23.4%	3.45	1.07

**Source: Research Data, (2020)**

From the descriptive statistics results in Table 4.2, about half of the respondents (50.7%) indicated that the firm has a well spelt out trade credit policy to guide the credit administration decisions made to a great extent while 28.6% and 10.4% rated the presence of trade credit policy to guide the credit administration decisions made to a moderate and small extent respectively (Mean=3.40, SD=1.23). About a third 39.0% and 31.2% indicated that SMEs has an effective debt collection framework that ensures efficient and effective collections of dues from debtors to a small and moderate extent respectively (Mean=3.12, SD=1.15). Slightly above half 58.4%

indicated that SMEs has a well implemented system for screening potential debtors to guide advancement of credit to a moderate extent while 31.2% indicated to a great extent (Mean=3.31, SD=0.80). a high percentage 70.2% indicated that SMEs keeps proper debtors record to ease monitoring and give information regarding credit worthiness of borrowers (Mean=3.70, SD=1.30). About third 36.4% of the respondents indicated that SMEs implements a strict debt control system to ensure debts are repaid promptly to a moderate extent while 42.9% indicates that SMEs implements a strict debt control system to ensure debts are repaid promptly to a great extent (Mean=3.45, SD=1.07).

According to Abor (2017), the key areas that viable debtors' management guideline addresses include trade credit policy, debt collection framework, screening of potential debtors, dealing with delinquency and controlling the accounts receivables period. Ai-guo (2016) eluded that accounts receivables management involves establishment of an effective credit collection procedures for a firm's dues that includes managing debtors and deciding whether one will sell on credit. SMEs in Nyeri County were found to have a well spelt out trade credit policy to guide the credit administration decisions and maintain proper debtors' record to ease monitoring the credit worthiness of borrowers. However, they lack effective debt collection framework that ensures efficient and effective collections of dues from debtors. Wekesa (2018) assessed the effect of debtors' management on growth of small and medium sized entities in Kenya. The study results relatively indicated that credit administration practices, credit approval practices, collection policy activities practices and credit worthiness practices, all had significant influence on the growth of small businesses.

#### **d) Creditors Management Practices**

The study sought to determine the effect of creditors management practices on growth of Small and Medium Enterprises in Nyeri County, Kenya. The respondents were required to rank various creditors management practices statements on a scale of 1 to 5 where 1 represented no extent while 5 represented very great extent. The results were as shown in Table 4.3

**Table 4.3: Creditors Management Practices**

NE~No Extent, SE~Small Extent, ME~Moderate Extent, GE~Great Extent, VGE~very great extent, SD~Standard Deviation

Statement	NE	SE	ME	GE	VGE	Mean	SD
The SME keeps good records for all credit advances given by suppliers of the firm.	0.0%	10.4%	3.9%	9.1%	76.6%	4.52	.98
The SME managers regularly reconcile the creditors account to ensure credit advances are kept on track and planned for.	0.0%	10.4%	3.9%	19.5%	66.2%	4.42	.98
The business has a well spelt out creditors' settlement policy that optimizes the benefits accruing to the firm.	0.0%	0.0%	29.9%	29.9%	40.3%	4.10	.84
The business entity is effective in planning for settlements to ensure debts are paid on time.	10.4%	10.4%	9.1%	49.4%	20.8%	3.60	1.23
The SME recognizes the impact of transaction costs and makes proper planning to ensure the costs are effectively minimized.	0.0%	51.9%	20.8%	20.8%	6.5%	2.82	.98

**Source: Research Data, (2020)**

From the descriptive statistics results in Table 4.3, a high percentage 85.7% of the respondents indicated that SMEs keeps good records for all credit advances given by suppliers of the firm to a great extent (Mean=4.52, SD=0.98). Similarly, 85.7% also indicated that SMEs managers regularly reconcile the creditors account to ensure credit advances are kept on track and planned for to a great extent (Mean=4.42, SD=0.98). 70.7% indicated that the business has a well spelt out creditors' settlement policy that optimizes the benefits accruing to the firm to a great extent (Mean=4.10, SD=0.84). Further, 70.2% indicated that the business entity is effective in planning for settlements to ensure debts are paid on time to a great extent (Mean=3.60, SD=1.23). 51.9% of the respondents indicated that SMEs recognize the impact of transaction costs and make proper planning to ensure the costs are effectively minimized to a small extent (Mean=2.82, SD=0.98).

Muller (2019) stated that creditors management or account payables management represents business processes, policies and procedures relating to administration of its trade credit purchases. The study considered the processes and found out that SME keeps good records for all credit advances given by suppliers of the firm and regularly reconcile the creditors account to ensure credit advances are kept on track and planned for. However, they do not recognize the impact of transaction costs which can inform proper planning to ensure that costs are effectively minimized.

**e) Inventory Management Practices**

The study sought to establish the effect of inventory management practices on growth of Small and Medium Enterprises in Nyeri County, Kenya. The respondents were required to rank various inventory management practices statements on a scale of 1 to 5 where 1 represented no extent while 5 represented very great extent. The results are captured in Table 4.4 below.

**Table 4.4: Inventory Management Practices**

NE~No Extent, SE~Small Extent, ME~Moderate Extent, GE~Great Extent, VGE~very great extent, SD~Standard Deviation

Statement	NE	SE	ME	GE	VGE	Mean	SD
The SME carries out periodic inspection of inventory to inform the stocking needs and verify that the goods are in good and safe state.	0.0%	10.4%	20.8%	19.5%	49.4%	4.08	1.06
The SME has a well laid out framework that ensure regular stock taking and control.	0.0%	46.8%	41.6%	11.7%	0.0%	2.65	.68
The firm has established an effective inventory related loss prevention plans.	10.4%	13.0%	16.9%	10.4%	49.4%	3.75	1.44
The SME has adopted an effective coding and sorting practice for dealing with inventory to ease control of stock movement.	11.7%	6.5%	40.3%	29.9%	11.7%	3.81	1.35
The SME buy good that are fast moving to avoid keeping some items for prolonged period	10.4%	10.4%	9.1%	40.3%	29.9%	3.69	1.29

**Source: Research Data, (2020)**

From the descriptive statistics results in Table 4.4, 68.9% of the respondents indicated that SMEs carries out periodic inspection of inventory to inform the stocking needs and verify that the goods are in good and safe state to a great extent while 20.8% eluded that periodic inspection of inventory is undertaken to a moderate extent (Mean=4.08, SD=1.06). Slightly below half of the respondents 46.8% and 41.6% eluded that SMEs has well laid out framework that ensure regular stock taking and control to a small and moderate extent respectively (Mean=2.65, SD=0.68). Slightly above half of the respondents 59.8% eluded that firm has established an effective inventory related loss prevention plans (Mean=3.75, SD=1.44). 70.2% indicated that SMEs has adopted an effective coding and sorting practice for dealing with inventory to ease control of stock movement (Mean=3.81, SD=1.35). Similarly, 70.2% indicated that SMEs buy good that are fast moving to avoid keeping some items for prolonged period to a great extent (Mean=3.69, SD=1.29).

Dobie (2015) describes inventory management as the control of activities pertaining to stock including ordering, shipment, storage and decisions on the quantities and frequency with which merchandise will be replenished. He opined that appropriate stock management may be one of the most vital responsibilities of management. A viable inventory management system is premised on periodic inspection of inventory, regular stock taking and control, effective loss prevention plans, efficient coding and sorting of inventory and control of the inventory conversion period (Disney et al., 2016). The stock control activities evaluated by the study revealed that SMEs buy good that are fast moving to avoid keeping some items for prolonged period but they have not adopted an effective coding and sorting practice for dealing with inventory to ease control of stock movement. According to Roach (2018), handling merchandise requires objectives decisions especially on how much to order and how frequently orders should be made.

**f) Growth of Small and Medium Enterprises**

The study sought to establish how respondents would rate the growth of SMEs in relations to sales, net income and total assets.

**Table 4.5: Growth of SMEs**

Growth rate	V. Poor	Poor	Average	Good	Excellent	Mean	SD
On basis of sales	0.0%	2.6%	35.1%	50.6%	11.7%	3.71	.70
On basis of net income	0.0%	18.2%	45.5%	36.4%	0.0%	3.18	.72
On basis of total assets	3.9%	75.3%	13.0%	7.8%	0.0%	2.25	.65

**Source: Research Data, (2020)**

As shown in table 4:5, half of the respondents 50.6% rated the growth of SMEs on the basis of sales as good, 35.1% as average while 11.7% rated the growth of SMEs on the basis of sales as excellent (Mean=3.71, SD=0.70). Slightly below half 45.5% rated the growth of SMEs on the basis of net income as average, 36.4% as good while 18.2% rated the growth of SMEs on the basis of net income as poor (Mean=3.18, SD=0.72). A high percentage 75.3% % rated the growth of SMEs on the basis of total assets as poor while 13.0% and 7.8% rated the growth of SMEs on the basis of total assets as average and good respectively (Mean=2.25, SD=0.65).

According to Bekaert and Hodrick (2017), growth plays a significant role to long-term survival of a firm. In addition, it builds the capacity of a business to acquire new assets, attract new business lines and enhance the sources of funds for new investments. The study sought to evaluate growth on the basis of sales, net income and total assets. Storey (2016) indicate that sales growth is a critical element in a company’s financial growth. Sales growth represents the increase in revenue over a fixed period of time. Ideally, it represents the proportion by which the sales volume of a company's products grows on an annual basis. Banerjee (2015) noted that assets growth reflects an increase in the total assets levels of the firm. Small businesses will ideally have less assets which increase as the business continuous to grow and expand.

**g) Correlation Analysis**

Correlation technique analyzes the degree of relationship between two variables. The computation of a correlation coefficient yields a statistic that ranges from -1 to +1. Positive and negative values indicate the direction of the relationship while zero indicates no correlation at all Kothari &Garg, (2014). In this study Pearson’s product moment coefficient correlation (r) was used to measure the statistical relationship that exists between the independent and dependent variables. The findings of the analysis are as indicated in Table 4:6.

**Table 4:6: Correlations Matrix**

		Growth of SMEs	Cash management practices	Debtors Management practices	Creditors management practices	Inventory management practices
Growth of SMEs	Pearson Correlation	1	.790**	.771**	.267*	.551**
	Sig. (2-tailed)		.000	.000	.019	.000
	N	77	77	77	77	77
Cash management practices	Pearson Correlation	.790**	1	.564**	.046	.457**
	Sig. (2-tailed)	.000		.000	.691	.000
	N	77	77	77	77	77
Debtors Management practices	Pearson Correlation	.771**	.564**	1	.467**	.615**
	Sig. (2-tailed)	.000	.000		.000	.000
	N	77	77	77	77	77
Creditors management practices	Pearson Correlation	.267*	.046	.467**	1	.636**
	Sig. (2-tailed)	.019	.691	.000		.000
	N	77	77	77	77	77
Inventory management practices	Pearson Correlation	.551**	.457**	.615**	.636**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	77	77	77	77	77

\*\* . Correlation is significant at the 0.01 level (2-tailed).

\* . Correlation is significant at the 0.05 level (2-tailed).

**Source: Research Data, (2020)**



The results in Table 4:6 indicate that cash management practices had a strong positive correlation on Growth of SMEs that was statistically significant at 5% level of significance ( $r = 0.790$ ,  $p = 0.000$ ). The positive relationship implies that Growth of SMEs was directly affected by cash management practices. Debtors management practices had a strong positive correlation on Growth of SMEs that was statistically significantly at 5% level of significance ( $r = 0.771$ ,  $p = 0.000$ ). A positive relationship is an indication that debtors' management practices directly affect growth of SMEs. Creditors management practices had a weak positive correlation on Growth of SMEs that was statistically significantly at 5% level of significance ( $r = 0.267$ ,  $p = 0.019$ ). A positive relationship implies that creditors' management practices in SMEs directly affect growth of SMEs. Inventory management practices had a moderate positive correlation on Growth of SMEs that was statistically significantly at 5% level of significance ( $r = 0.551$ ,  $p = 0.000$ ). A positive relationship indicates that inventory management practices in SMEs directly affect growth of SMEs.

The finding of the study support earlier study by Hassan, Ali, Abubakar and Ibrahim Naala (2018) who studied working capital management and growth of Malaysian SMEs. Results established a significant relationship between debtors' management and SMEs' growth. Njuguna (2018) studied WCM and growth of construction and allied sector firms listed at NSE, Kenya and found that cash management practices had a strong positive bearing on growth indicator. Nyabwanga and Ojera (2012) assessed inventory management practices and the growth of businesses with a focus on SMEs in Kenya. Findings showed a positive correlation between growth in assets and profit and inventory management framework.

***h) Multiple Linear Regression Analysis***

The study used multiple linear regression analysis to test whether there was interdependency between independent variables (cash management practices, debtors management practices, creditors management practices and inventory management practices) and dependent variable (Growth of SMEs in Nyeri County). The results of the regression output are interpreted according to the correlation coefficient (R values), coefficient of determination (R-square), the coefficient beta values and F ratio at the 95% level of significance. The output of the regression analysis is in Table 4.7 to 4.9

**Table 4.7: Model Summary**

<b>Model</b>	<b>R</b>	<b>R Square</b>	<b>Adjusted Square</b>	<b>R</b>	<b>Std. Error of the Estimate</b>
1	.883 <sup>a</sup>	.780	.767		.49358

**Source: Research Data, (2020)**

a. Predictors: (Constant), Inventory management practices, Cash management practices, Debtors' Management practices, Creditors' management practices

b. Dependent Variable: Growth of SMEs

The results indicate a simple correlation ( $R = 0.883$ ) which is strong and positive between working capital management practices (cash management practices, inventory management practices, accounts receivable management practices and account payable management

practices) and Growth of Small and Medium Enterprises in Nyeri County, Kenya. The R-square value represents co-efficient of determination which shows the proportion of variance in dependent variable that can be explained by the independent variable. The adjusted R-Squared (0.767) indicates that all the independent variables combined explain 76.7% of the variability in Growth of Small and Medium Enterprises studied.

**Table 4.8: ANOVA**

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	62.029	4	15.507	63.652	.000 <sup>b</sup>
Residual	17.541	72	.244		
Total	79.570	76			

**Source: Research Data, (2020)**

- a. Dependent Variable: Growth of SMEs
- b. Predictors: (Constant), Inventory management practices, Cash management practices, Debtors’ Management practices, Creditors’ management practices

The ANOVA showed an F statistic value of 63.652 at p-value of 0.000. With the p-value being 0.000, the model overall was a good fit. Hence, in overall, working capital management practices are a good measure of Growth of the SMEs studied.

**Table 4.9: Coefficients**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.323	.268		1.202	.233
Cash management practices	.491	.071	.522	6.868	.000
Debtors Management practices	.425	.075	.455	5.629	.000
Creditors management practices	.015	.076	.016	.196	.845
Inventory management practices	.027	.101	.023	.263	.794

**Source: Research Data, (2020)**

- a. Dependent Variable: Growth of SMEs

The regression model for the study is as summarized as

$$Y = 0.323 + 0.491X_1 + 0.425X_2 + 0.015 X_3 + 0.027X_4$$

Where  $Y$  = the dependent variable (Growth of SMEs),  $X_1$  = Cash management practices,  $X_2$  = Debtors management practices,  $X_3$  = Creditors management practices,  $X_4$  = Inventory management practices. 0.323  $Y$  intercept implies that if all other factors (cash management practices, inventory management practices, accounts receivable management practices and account payable management practices) were held constant the growth of SMEs in Nyeri County would be 0.323.

The results of the Beta coefficient give extent to which each predictor variable affects the results of Growth of SMEs when all other predictors are held constant. The results in Table 4.9 indicate that cash management practices had a positive effect on Growth of SMEs at  $\beta_1 = 0.491$ . The positive beta indicates that a unit change in Cash management practices leads to an increase in Growth of SMEs by 0.491 units all else held constant. At 5% significance level cash management practices had statistically significant effect on growth of SMEs in Nyeri County at P value 0.000. It is on this basis the null hypothesis that cash management practices do not significantly affect Growth of SMEs is rejected. Hence, cash management practices have a significant effect on growth of the SMEs studied. Ndagijimana and Okech (2014) studied the indicators of the working capital management practices in SMEs located in Nairobi. Results showed that management of cash conversion period has a positive impact on growth. In addition, the cash conversion cycle theory establishes that a firm with good WCM is able to cultivate financial health and growth. Hassan, Ali, Abubakar and Ibrahim Naala (2018) studied working capital management and growth of Malaysian SMEs. The implication is that SMEs should work at enhancing their cash management practices which would have a positive effect on growth indicators.

Debtors management practices had a positive effect on Growth of SMEs at  $\beta_2 = 0.425$ . The positive beta signposts that a unit change in current debtors' management practices leads to an increase in growth of SMEs by 0.425 units all other factors held constant. At 5% significance level debtors management practices had a statistically significant effect on growth of SMEs in Nyeri County at P value 0.000. Hence, the null hypothesis that debtors management practices do not significantly affect Growth of SMEs is rejected. Hence, debtors management practices have a significant effect on growth of the SMEs studied. Ndagijimana and Okech (2014) studied the impact of working capital management practices in small and medium enterprises in Nairobi. Specifically, the study analyzed the management of accounts receivables and payables, and the CCCs (cash conversion cycles) and how they affect growth of SMEs. Results established a positive relationship in business growth and the management of receivables.

Additionally, the study results indicate that Creditors management practices had a positive effect on Growth of SMEs at  $\beta_3 = 0.015$ . Hence, a unit change in current creditors' management practices led to an increase in Growth of SMEs by 0.015 units with all else held constant. At 5% significance level creditors management practices had insignificant effect on growth of SMEs in Nyeri County at P value 0.845. Therefore, the null hypothesis that creditors management practices do not significantly affect Growth of SMEs is supported. Hence, creditors' management practices do not significantly affect growth of the SMEs studied. Wanguu and Kipkirui (2015) examined working capital management and profit growth at cement

manufacturing companies in Kenya and found that accounts payables management significantly influences profit growth for manufacturing business concerns. Musah, Gakpetor and Pomaa (2018) assessed working capital management element of financial management and its effect on the growth and profitability of SMEs located in Ghana and found that Ghanaian SMEs paid close attention to management of working capital compared to other financial management activities. Ndagijimana and Okech (2014) studied the impact of working capital management activities in SMEs located in Nairobi and found a positive relationship between growth and the accounts payables.

Inventory management practices had a positive effect on Growth of SMEs at  $\beta_1 = 0.027$ . This indicates that, inventory management practices have a direct effect on Growth of SMEs. The positive beta indicates that the unit change in current inventory management practices increases Growth of SMEs by 0.027. At 5% significance level inventory management practices had a statistically insignificant effect on growth of SMEs in Nyeri County at P value 0.794. Hence, the null hypothesis that inventory management practices do not significantly affect Growth of SMEs is hereby supported. Hence, inventory management practices do not have a significant effect on growth of SMEs studied. Motlíček and Martinovičová (2014) examined working capital management and business growth. The study found a strong and positive relationship between inventory management and enterprise sales' growth. Hassan, Ali, Abubakar and Ibrahim Naala (2018) studied working capital management and growth of Malaysian SMEs. The study found a positive effect of inventory management on SMEs' growth. Chalotra (2013) studied stock management and growth of small enterprises in India and found a positive and statistically significant link between inventory management and firm's growth. Hence, the null hypothesis that inventory management practices do not significantly affect Growth of SMEs is hereby supported. Hence, inventory management practices do not have a significant effect on growth of SMEs studied. Motlíček and Martinovičová (2014) examined working capital management and business growth. The study found a strong and positive relationship between inventory management and enterprise sales' growth. Hassan, Ali, Abubakar and Ibrahim Naala (2018) studied working capital management and growth of Malaysian SMEs. The study found a positive effect of inventory management on SMEs' growth. Chalotra (2013) studied stock management and growth of small enterprises in India and found a positive and statistically significant link between inventory management and firm's growth.

### **VIII. Conclusion**

The study found that cash management practices was statistically significant in determining the growth of SMEs in Nyeri County, Kenya. The study concludes that cash management practices employed by the SMEs have a notable effect for they yield better management of cash resources which subsequently leads to growth of the SMEs. Correlation analysis further found a strong positive relationship between cash management practices and Growth of SMEs. Therefore, the study concludes that Growth of SMEs in Nyeri County, Kenya greatly depended on cash management practices. The study further found that debtors management practices was positively and significantly associated with growth of SMEs in Nyeri County, Kenya. Hence, the study concludes that the growth of SMEs is highly dependent on debtors' management practices. Correlation analysis further found a strong positive relationship between debtors management

practices and Growth of SMEs. Therefore, the study concludes that debtors management practices had an effect on Growth of SMEs in Nyeri County, Kenya.

The study found that creditors' management practices was insignificantly associated with growth of SMEs in Nyeri County, Kenya. Hence, the study concludes that the current management of creditors has no effect on growth of SMEs. Correlation analysis further found a weak positive relationship between creditors' management practices and Growth of SMEs. Therefore, the study concludes that Growth of SMEs is dependent on creditors' management practices to a small extent in Nyeri County, Kenya. The study findings indicate that inventory management practices were insignificantly associated with growth of SMEs in Nyeri County, Kenya. Hence, the study concludes that the way the SMEs are currently managing inventory has led to stagnation or no effect on growth of SMEs in Nyeri County, Kenya. This is an indication that for SMEs to grow there is need to train the entrepreneurs on various ways of inventory management with a view to optimize growth. Correlation analysis further found a moderate positive relationship between inventory management practices and Growth of SMEs. Therefore, the study conclude that inventory management practices was a factor that had an effect on growth of SMEs in Nyeri County, Kenya.

#### **IX. Recommendation and Policy Implications**

A number of recommendations can be made. The study findings indicate that increase in cash management practices have a significant effect on growth of SMEs. The study therefore recommends that SMEs in Nyeri County Government should formulate cash management policies to guide investment of surplus cash and liquidity control for effective maintenance of liquidity at optimal levels and ensure proper implementation of cash budgeting and planning framework. The study findings also indicate that debtors management practices have statistically significant effect on growth of SMEs. The study recommends that SMEs should review the credit policy that guide the credit administration decisions and ensure that effective systems are put in place for screening potential debtors to guide advancement of credit. Moreover, there should be an effective debt recovery mechanism to avoid bad debts or prolonged overdue debts which may affect liquidity position of the SMEs.

In view of the study findings indicate that creditors' management practices had an effect on growth of SMEs although the effect is statistically insignificant. The study therefore recommends that owners of SMEs in Nyeri County, Kenya should ensure that there is a clear policy that spelt out effective account payables management practices that ensures optimal credit purchases and well stipulated creditors' settlement criteria. Moreover, regular update and reconciliation of creditors should be done to enhance effective debt management. Additionally, the study found that inventory management practices had an effect on growth of SMEs although the effect is statistically insignificant. The study therefore recommends that management of SMEs in Nyeri County, Kenya should formulate inventory management policy which spell out the re-order level, stock taking procedure among other guideline that ensure safe custody and effective movement of stocks. The policy should also focus on ensuring that optimal stock levels are maintained to avoid overstocking and under stocking of certain products. Additionally, there should be well laid out framework that ensures regular stock taking takes place. The study

findings indicate that working capital management practices largely influence growth of SMEs significantly. However, inventory and creditors management practices of the SMEs in Nyeri County had insignificant effect. Based on the finding, the study recommends that future researchers should focus on factors hindering effective management of inventory and creditors by SMEs in Nyeri County. Consequently, the regulator should ensure that SMEs focus on effective working capital management practices with a view of enhancing growth and sustainability of their businesses.

### **X. Contribution to Knowledge**

The result of the study provides more knowledge to finance theory by establishing the model that can depict the association between working capital management practices and growth of SMEs in Nyeri County, Kenya. Moreover, the study documents new research gaps in the context of the SMEs studied. In addition, the study provides basis for future reference to the academician especially on areas pertaining the effect of cash management practices, debtors' management practices, creditors' management practices and inventory management practices on growth of SMEs in Nyeri County, Kenya.

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