

Cash Management Techniques Adopted By Small And Medium Level Enterprises In Eldoret Town, Kenya

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ABSTRACT

The purpose of this paper was to examine the cash management techniques adopted by small and medium level enterprises in Eldoret town. The study was carried out in 17 selected SMEs all capturing 108 personnel distributed among the said SMEs equitably. The researcher sampled 52 respondents through simple random sampling and stratified sampling to help arrive at better results and minimize research cost. Data from primary sources were then analyzed using both descriptive and inferential statistical techniques. The study concluded that cash management is a working capital management component that contributes to a great extend on survival or failure of SMEs in Kenya. Among the cash management techniques commonly used are speeding cash collection and delayed payment of creditors and they did not have a direct significance with SME performance. However optimum cash held significantly, and positively influenced SMEs performance, SMEs used cheques, cash receipt, and petty cash to control cash movement and finally non financial measures of performance did not have a significant relationship with SME performance.

Key Words: Cash Management, Techniques, Small and Medium Entreprises

1 INTRODUCTION

It is worth noting that any enterprise having a profit objective or not needs money to acquire resources to operate. The resources are limited by ownership and supply and therefore command a price. Money for investment is also a resource and is only available because it has been withheld from consumption, thus need for its proper management (Mwongo, 2010). This brings us to the concept of cash management techniques that has since emerged as a key concept pre occupying the international community. It comprises the actual measures undertaken by a company in order to achieve the goals of cash management, i.e. in order to “maximize liquidity and control cash flows, and maximize the value of funds while minimizing the costs of funds” (Caviezel,2007). The techniques of cash management and the degree of sophistication in business processes will vary from entity to entity and will be influenced by an entity size, geographical location and the nature of its operations. This can be exhibited by the fact that small and medium level enterprises with diverse branches located in different regions within a given country or in different countries normally will try to adopt the cash pooling technique in managing its cash since it takes into consideration cross currency variations thus eliminating currency risk exposure. The adoption of sound cash management techniques will assist an entity in improving its performance. This can be attributed to increase in sales volume normally through speeding collection on sales made on credit thus eliminating possibility of bad debt, increase in employee’s turnover due to availability of finances to meet their wage requirements from increased cash inflow generated from short term investments, controlling payments normally geared towards ensuring that limited amount of cash exit the business, cash shortage financing from credit institutions among others, and finally increase in asset levels due to readily available cash for acquisition generated from short term investment, credit sales collections thus all impacting positively on production output of an enterprise. Small and medium level enterprises have become important contributor to the Kenyan economy. The sector contributes to the national objective of creating employment opportunities, employing up to 75% Kenya's workforce, training entrepreneurs, generating income, providing a source of livelihood for the majority of low-income households in the country, accounting for 18.4% of the country's GDP (Republic of Kenya, 2011). Majority of entrepreneurs in this sector do not possess the requisite financial techniques desired to manage their enterprise cash appropriately (Republic of Kenya, 2011).

2 METHODOLOGY

The researcher adopted the survey research design which presents oriented methodology used to investigate population by selecting samples to analyze and discover occurrences purposely to help provide numeric description of some part of the population and to explain events as they are, as they were or as they will be since it considers issues such as economy of design, rapid data collection and ability to understand from a part of it. The total number of registered SMEs within Eldoret town as per the year 2009 from the register of small businesses is approximated to be 17,000, obtained from the SMEs database at Eldoret municipal council, However the population targeted for the research will consist of individual managers, and financial officers of the respective selected 17 SMEs. This is based on number of years of operation of the said enterprises ranging from 3 to 7 years, operation of the enterprise within the central business district, number of employees of the said firms ranging from 15 to 50 and the asset base approximates to be 400,000 to 1,000,000 ksh where appropriate, all ranging from motor vehicle spare-parts dealers outlets, beauty salons, carpentry business, computers repair outlets, dry cleaners firms, estate agents business, car hire agencies, hardware business, hotels, night clubs, pharmacies, bars, nursing homes, book shops /stores, bakeries, boutiques, security firms and commercial colleges business all capturing 108 personnel's based on the fact that the listed SMEs for the bulk around 87% of the entire SMEs 100% population.

To help arrive at better results the researcher intends to reduce his targeted population from 108 personnel to 52 all equally distributed among the selected SMEs, this is to be done in accordance with a statistical calculation for arriving at the approximate sample size developed by Nasiurma (2000) as computed as below.

$$n = \frac{N C v^2}{C v^2 + (N-1)e^2} = \frac{108(0.5)^2}{(0.5)^2 + (108-1)0.05^2}$$

$$n = 52$$

n = sample size N = population Cv = coefficient of variation (take 0.5)

e = Tolerance at desired level of confidence (take 0.05 at 95% confidence interval)

Stratified and simple random techniques were used. Questionnaire was the main tool used for data collection. Data analysis was quantitative where descriptive statistics was utilized.

3 FINDINGS

3.1 Cash Management Techniques

More than three quarters of the SMEs were utilizing speeding cash collection 44(84.6%) and controlling payments 46(88.5%) as the cash management techniques. Still 15(28.8%) were employing cash flow synchronization, cash pooling at 17(32.7%), economical financing of cash shortages at 4(7.7%), efficient short term investing of cash surplus at 3(5.8%) and 11(21.2%) cash flow forecasting techniques as depicted in Figure 1.

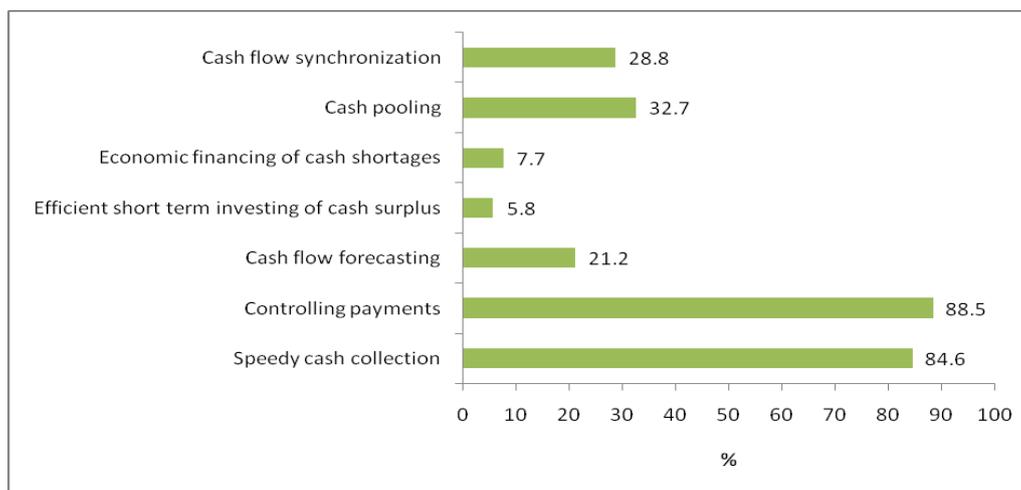


Figure 1: Cash management techniques

Source: Researcher, (2012)

3.2 Methods of Measuring Performance

Among the financial measures of business performance 43(82.7%) were using return on investment while 16(30.8%) were using residual income. Among the non-financial measures, 50 (96.2%) were using customer satisfaction measure as indicated in Figure 2.

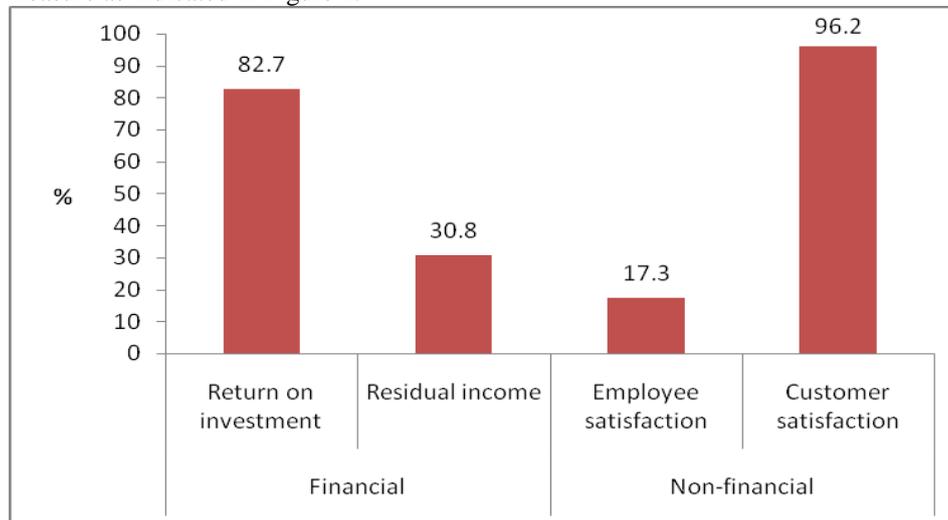


Figure 2: Methods of measuring performance

Source: Researcher, (2012)

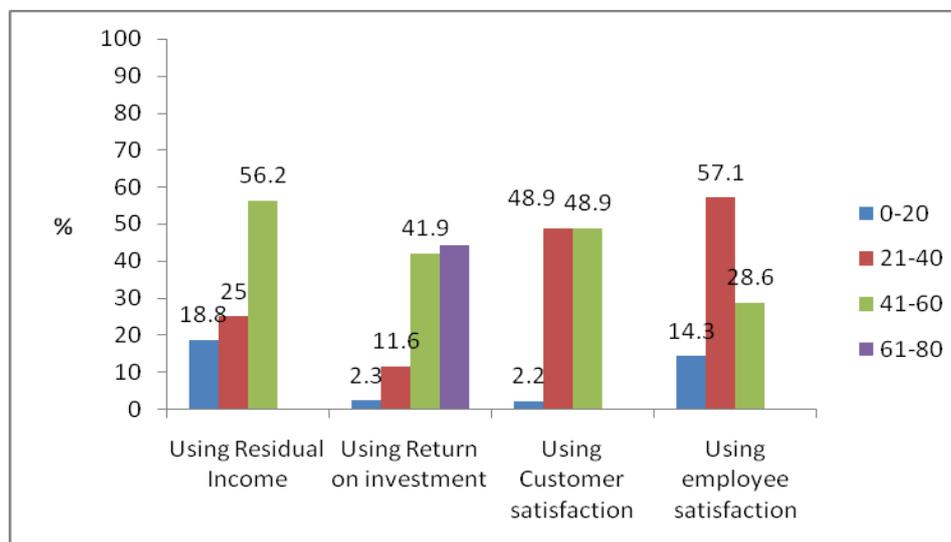


Figure 3: Approximate percentage return

Source: Researcher, (2012)

Regarding approximate percentage return on firm investment, for those using residual income (n=16), 9(56.2%) reported between 40-60% return. Among those using return on investment (ROI), (n=43), 19(44.2%) reported between 60-80% percentage return.

Among those using using customer satisfaction to gauge performance (n = 45), 22(48.9%) reported between 40-60% return while among those using employee satisfaction (n=7) 4(57.1%) reported percentage return of between 20-40% as shown in Figure 4.

3.3 Optimal Cash (Kshs) Organization Maintains/Holds.

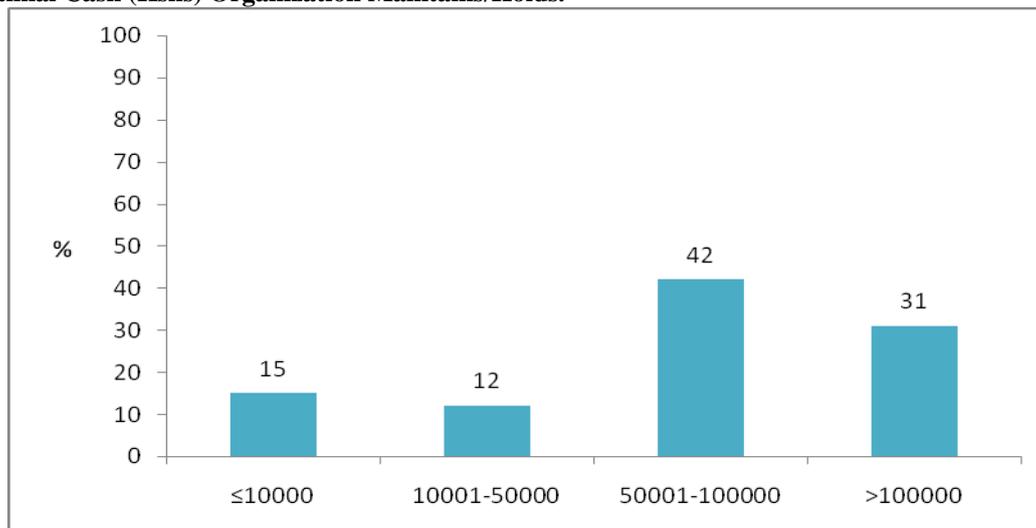


Figure 4: Optimal cash (Kshs) Organization maintains/holds

Source: Researcher, (2012)

More than a third of the respondents 22(42.3%) reported that the optimal amount of cash maintained by the SMEs was between Kshs 51,000 and 100, 000, 8(15.3%) reported that the optimal amount of cash held was less than 10, 000, 6(11.5%) reported that the optimal amount of cash held was between 10001 and 50,000 and finally 16 (30.8%) reported above Kshs 200, 000 as in Figure 5.

3.4 Model Determining the Optimal Amount of Cash to Hold

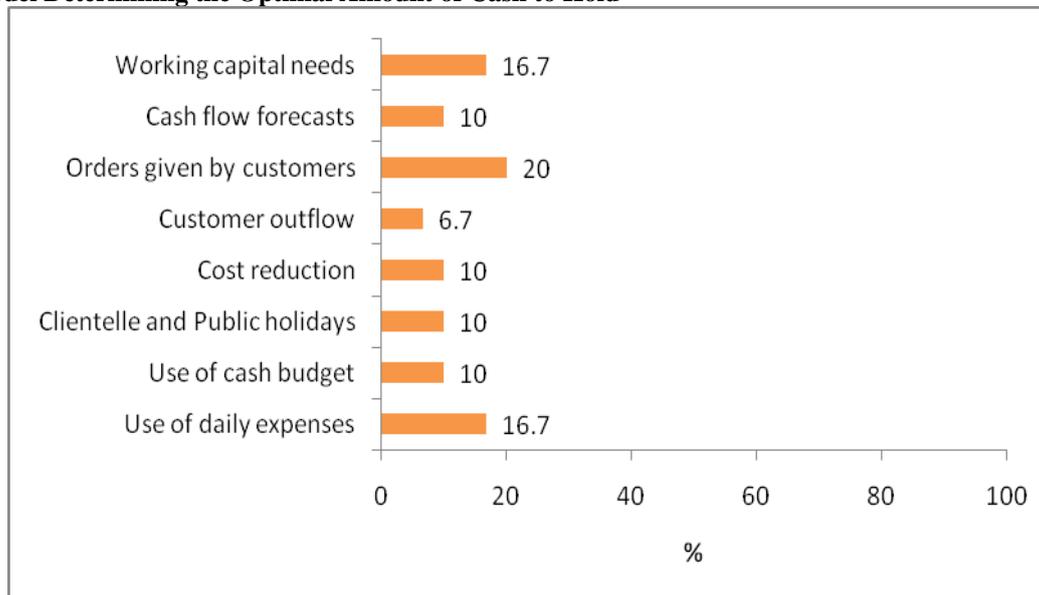


Figure 5: model determining the optimal amount of cash to hold

With regard to determination of the optimal amount of cash held by an SME there was no respondent who gave the desired model/method used at arriving at the optimal amount rather the respondents gave reasons for holding the optimal amount which included for working capital needs 8(16.7%), to meet orders given by customers 10(20%) and for use in daily expenses 8(16.7%) among others as depicted in Figure 6.

3.5 Cash Control Measures To Ensure Cash Management Is Successful.

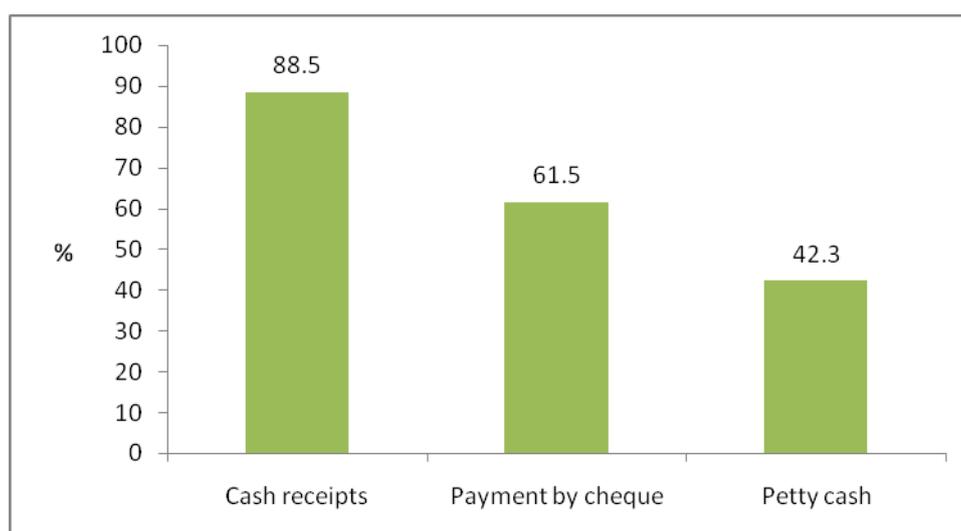


Figure 6: Cash control measures to ensure cash management is successful

Source: Researcher, (2012)

Among the internal control measures used by the SMEs, 46(88.5%) reported cash receipts, 32(61.5%) payment by cheque while 22(42.3%) maintenance of petty cash as in Figure 6.

Relationship Between Cash Management Technique And Performance Using (ROI) As A Gauge

Table 1: Relationship Between Cash Management Technique And Performance Using (ROI) As A Gauge

Technique	Performance		χ^2 -value	p-value
	≤40%	>40 %		
Speedy cash collection				
Yes	4(9.1)	40(90.9)	1.679	0.227*
No	2(25)	6(75)		
Controlling payment				
Yes	6(13)	40(87)	0.885	1.000*
No	0(0)	6(100)		

* (fisher's exact test.... takes into consideration values< 5)

Source: Researcher, (2012)

As indicated in table 1, there was no significant relationship between cash management technique and performance, the performance was categorized as above and below 40%. Those SMEs that implemented speedy cash collection and those that didn't had no significant difference in their performance ($x^2 = 1.679$, $P = 0.227$). Similarly, there was no significant relationship between controlling payment and SME performance

Relationship Between Cash Management Technique And Performance Using Customer Satisfaction As A Gauge

Table 2: Relationship Between Cash Management Technique And Performance Using Customer Satisfaction As A Gauge

Technique	Performance		χ^2 -value	p-value
	≤40%	>40		
Speedy cash collection				
Yes	2(4.5)	42(95.5)	0.378	1.000*
No	0(0)	8(100)		
Controlling payment				
Yes	2(4.3)	44(95.7)	0.271	1.000*
No	0(0)	6(100)		

Source: Researcher, (2012) * (fisher's exact test.... takes into consideration values< 5)

As indicated in table 2, there was no significant relationship between cash management technique and performance using customer satisfaction as a measure, the performance was categorized as above and below

40%. Those SMEs that implemented speedy cash collection and those that didn't had no significant difference in their performance ($\chi^2 = 0.378$, $P = 1.000$). Similarly, there was no significant relationship between controlling payment and SME performance

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