EFFECT OF FINANCIAL MANAGEMENT PRACTICES ON PERFORMANCE OF MICRO AND SMALL ENTERPRISES IN BUNGOMA TOWN

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ABSTRACT

Micro and Small Enterprises account for 75 per cent of the total employment and 30 per cent of the Kenya’s Gross Domestic Product. However two thirds of micro and small enterprises fail within the first few months of operation. This study sought to assess how selected financial management practices affect performance of MSEs in Bungoma Town, Kenya. Correlational research design was adopted and the target population for the study was 712 small scale traders in Bungoma Town from which a sample of 256 respondents were selected using the simple random sampling technique. Data was collected using questionnaire and was analyzed both descriptively and inferential using SPSS 26. Descriptive statistics such as mean and standard deviation were used to summarize responses. The correlation coefficient (r), coefficient of determination (R²) and analysis of variance (ANOVA) were calculated. The analysis showed that all the financial management practices had a statistically significant effect on performance of MSEs. The study established that liquidity management practices had greatest positive effect on performance of small and medium enterprises while asset management practices had least positive effect on the performance. Working capital management and financial reporting practices had also positive effect on the performance. The study concluded that adoption of financial management practices such as working capital management, liquidity management, asset management and financial reporting would result to improvement in medium and small enterprises in Bungoma Town. The study recommended that both county and National governments to start offering basic business and financial management skills as this would enable the MSEs to adopt various financial management practices. For further studies, Investigation on the impact of entrepreneurial characteristics on the financial management practices of MSEs is recommended.

Key Words: Working Capital Management, Liquidity Management, Asset Management, Financial Reporting

INTRODUCTION
In the modern economy, Micro and Small Enterprises (MSEs) in the industrialization process have gained much prominence in developing countries. Their prominence came into the limelight in the late 1970s and early 1980s due to the economic recession originating from the UK which led to the closure of big manufacturing firms and a decline of industrial growth in many developing countries (Prasad, Rogoff & Kose, 2015). Governments of such countries adopted a new policy approach towards the Small Scale Industries which were viewed as giving a suitable option in contrast to the enormous scope businesses which were so reliant on remote trade (Ankomah, 2012). From that point forward little scope ventures have kept on developing and the idea has since changed from little scope businesses to little scope enterprises to include businesses undertaking activities in other sectors of the economy.

In Kenya, MSEs accounted for estimated 30 per cent of the country’s GDP (GoK, 2008). Therefore they act as the springboard for a country’s sustainable economic development. Promotion of MSE development encourages the development of indigenous entrepreneurship, enhance regional economic balance through industrial dispersal and generally promote effective utilization of local resources that are considered critical in engineering economic development (Osotimehin, Jegede, Akinlabi & Olajide, 2012).

In Kenya, three out of five enterprises fail within the first few months of operation (Kenya National Bureaus Statistics, 2007). This has a negative impact to the economies affected. Osotimehin (2012) has shown a high correlation between the degree of poverty, hunger, unemployment, and economic well-being of the citizens of countries and the degree of vibrancy of the respective countries micro and small scale enterprises.

Studies on the causes of the challenges to the survival of MSEs have revealed various reasons behind the high mortality rate and suppressed growth in MSEs. In Malaysia statistics show that not many MSEs graduated into becoming large corporations despite the increasing number of MSEs established each year. Some of the challenges identified in the MSE sector include: leverage on financial structure, tough competition, inadequate margin, low collection in account receivables, incapacity to go for technological advancements, high employee turnover, credit risks and interest rate risks (Rufai, 2013).

Financial management practices are the standard operating procedures developed by an entity to assist in executing accounting, financial reporting, budgeting and other financial activities (Wolmorans, 2015). They are the activities performed by the accountant and financial officers in budgeting and asset management and control. The most frequently used financial management practices in the MSEs entail profit retention, fixed asset control, capital structure management, liquidity management, cash budgets, fixed assets management, working capital management, financial reporting services and the application of information systems (Marembo, 2013).

The success of most SMEs is attributed to sound financial practices and management of financial resources alongside creative marketing skills and good start-up idea. The presence of adequate initial start-up financing and good accounting system although vital to the development of effective financial management practices, they are only the starting points in the process of having a sound financial system (Marembo, 2013). The implementation of an effective financial practices system enables the business owners to control and maintain budgetary and future financial forecasting capability.
In most SMEs, financial practices include: maintaining good financial records which are used for planning, keeping track of credit history and ensuring business bills are paid on time, developing a good system to collect funds owed to the business, and computing and filing the annual tax returns (Kipsang, 2014). Having these practices carried out in the most effective way will ensure that the business stays in business for a long time. Success of Small and medium business and their survival is a concern globally with much of the SMEs failure being associated with financial problems such as poor management of funds (Githinji, 2016).

Statement of the Problem
Since their invention, MSEs continue to play a key role in economic development globally through contribution to the GDP, employment creation, utilization of local resources and ensuring balance in regional development. They act as spring boards for economic development. Ideally, business enterprises are expected to grow in size by transitioning from one stage to the next; from micro enterprises with less than ten employees to large enterprises employing more than 250 people.

However, 33% to 41% of new SMEs globally fail within the first five years of their business operation due to lack of finances (Thaimuta, 2014). The mortality rate of SMEs in Africa remains very high; it is within their first three years of operation in Kenya (RoK, 2007). The failures of SMEs have been attributed to financial management practices such as Waweru and Ngugi (2014) in Nairobi County, Kilonzo and Ouma (2015) also in Nairobi County and Erambo, Sangoro and Aketch (2016) in Busia County. This indicates that only few SMEs in the county are able to create employment opportunities and reduce poverty level as at now it stands at 57.0% (KNBS, 2015)

The role of financial accounting in SMEs is to develop a set of high quality, understandable and usable financial information about SMEs financial positions. The resulting financial statements are likely to be useful for preparing tax returns or determining distributable income only after adjustments to reflect local laws. Proper financial management also plays an essential role in helping SMEs gain access to capital which is essential for business growth (IFIRS, 2012). A good MSE financial management system should ensure the following qualitative characteristics are met: understandability, relevance, materiality, reliability, and substance over form, prudence, completeness, comparability, timeliness and a balance between benefit and cost. This study therefore was designed to establish how the financial management practices by MSEs affect their performance, business expansion and growth.

Study Objective
The general objective of the study was to establish the effects of financial management on performance of MSEs in Bungoma Town. The specific objectives were;

- To establish the effects of working capital management practices on performance of MSEs in Bungoma Town.
- To determine the effects of liquidity management practices on performance of MSEs in Bungoma Town.
- To assess the effects of fixed asset management practices on performance of MSEs in Bungoma Town.
- To determine the effects of financial reporting practices on performance of MSEs in Bungoma Town.

The research was guided by the following null hypotheses:-

- $H_0$: Working capital management practices have no effect on the performance of MSEs in Bungoma Town.
• H0₁: Liquidity management practices have no effect on the performance of MSEs in Bungoma Town
• H0₂: Fixed asset management practices have no effect on the performance of MSEs in Bungoma Town
• H0₃: Financial reporting practices have no effect on the performance of MSEs in Bungoma Town

LITERATURE REVIEW

Resource Based View Theory
Resource based firm theory states that unique organizational resources of both tangible and intangible nature are the real source of competitive advantage (Gottschalk 2007). An organization’s performance is shaped by the unique combination of resources it has access to. These resources include physical assets and also competencies. Wade and Hulland (2004) define six attributes of firm resources. Resource attributes which ex ante limit competition are value, rarity, appropriability, imitability, sustainability and mobility ex post limit competition. Wade and Hulland (2004) suggest that while some resources generate competitive advantages, others help sustain them. Resources, which generate competitive advantages, can be thought of as ex ante limitations to competition, whereas resources that sustain competitive advantages can be identified as ex post limitations to competition.

The application of resource based theory on the effect of financial practices like working capital, asset management, liquidity management and financial reporting are aimed to improve the performance of MSEs and firms to gain competitive advantage as well as sustain. Financial resources such as capital are a major source of competitive advantage in a firm because it enhances growth and investment (Vicente-Lorente, 2011). Therefore the success in performance of any firm, big or small can be attributed. They include working capital, liquidity asset and financial reporting management.

Residual Equity Theory
In the residual equity theory, changes in asset valuation, income and in retained earnings and changes in interest of other equity holders are all reflected in the residual equity of the common stockholders (Staubus, 2009). The specific equities include the claims of creditors and the equities of preferred stockholders. The balance sheet equation becomes as follows: Assets minus specific equities are equal to Residual equity. The equity of common stockholders in the balance sheet should be presented separately from the equities of preferred stockholders and other specific equity holders (Kirschenheiter, Mathur & Thomas, 2004).

According to Hendrickson (1982) the residual equity point of view is a concept somewhere between the proprietary theory and the entity theory. The objective of the residual equity approach is to provide better financial reporting as a consequence of good financial management practices. In a going concern situation, the current value of common stock is dependent primarily upon the expectation of future dividends. Future financial status is dependent upon expectations of total receipts less specific contractual obligations, payments to specific equity holders and requirements for reinvestment (Kabiru & Rufai, 2014).

Since financial statements are not generally prepared on the basis of possible liquidation, the information provided regarding the residual equity should be useful in predicting possible future financial status to common stockholders (Parsons, 2003). In the balance sheet format this is stated as follows: Assets minus liabilities are equal to residual equity. The assets are assumed to be owned by the proprietor and the liabilities are the proprietors obligations. Revenues are increases in proprietorship and expenses are
decreases. Thus the net income accrues directly to the owners, that is the net value of the business to the owners. It is a wealth concept (Nyongesa, 2011).

**Pecking order theory**

Besides, Myers (1984) pecking order theory which states that firms have a preferred hierarchy for financing decisions. The highest preference is to use internal financing which includes retained profits before resorting to any form of external funds. Myers (1984) argues that internal funds incur no flotation costs and require no additional disclosure of proprietary financial information that could lead to more severe market discipline and a possible loss of competitive advantage. If a firm must use external funds, the preference is to use the following order of financing sources: debt, convertible securities, preferred stock, and common stock (Vicente-Lorente, 2011).

However, Myers(1984) theory does not sufficiently stand to explain the behaviour of financing SMEs in developing countries due to the unique circumstances. Pecking order theory to date remains essential part of corporate finance. It is considered as one of the most influential theories. In 1958 Modigliani and Miller (1958) presented their theory of investment and held that capital structure decision has no impact on a firms value, it becomes irrelevant how it is financed given that under perfect market conditions exist and in absence of bankruptcy, tax and other associated costs. After their initial research many modern theories such as Trade-off theory and Pecking order theory came into being (Jibran, Wajid, Waheed & Muhammad, 2012).

The main difference was that the assumptions were more realistic, so they could be easily tested. According to Lemmon and Zender (2010), static trade off model firms determine their optimal debt levels, by comparing cost and benefits of debt financing. This point is where marginal present value of interest tax shield is equal to the marginal present value of the costs of financial distress. But on the other hand pecking order theory suggests that the manner in which firms cover their financing deficits does not depend on the current levels of debt and that the firms always prefer internal funds to external funds and debt to equity (Vanacker and Manigart, 2010).

Bram, Charles, Frank, Cadsby, Murray, and Maksimovic, Vojislav. (2008) analyzed the prescient influence of balance strength in test markets where firms with venture openings have an enlightening bit of leeway over potential financial specialists and are allowed to buy a cash consuming sign. Balance predominance regularly neglects to anticipate well when a Pareto-prevalent successive balance is additionally benefit capable. Rather, harmony determination gives off an impression of being identified with the potential income of an increasingly significant firm that can flag its sort effectively by abandoning from the consecutive balance.

One of the aspects of pecking order theory implies that when it comes to profitable firms, they would always prefer internal financing rather than taking up new debts or equity. Even though, debt is considered cheaper than equity within certain proportions. Myers (1984) suggests that it is because the value of firm and wealth of shareholders associated with firm is disturbed by asymmetry of information. This argument is supported by Famma and Fench (2000) who found that profitable firms were less levered as compared to non-profitable firms. Murray Frank and Goyal (2003) held that large firms tend to accumulate debts in order to support and keep up with the payments of dividends while small firms tend to behave in opposite behavior.
Empirical Review

Afrifa (2015) inquired about the capital planning and working capital acts of little firms. Their paper introduced the aftereffects of a starter concentrate on the working capital and money related administration practices of an example of little firms situated in the north of England. In general, the results of the survey indicated that a relatively high proportion of small firms in the sample claimed to use quantitative capital budgeting and working capital techniques and to review various aspects of their companies working capital. In addition, the firms which claimed to use the more sophisticated discounted cash flow capital budgeting techniques, or which had been active in terms of reducing stock levels or the debtor’s credit period, on average tended to be more active in respect of working capital management practices.

The importance of working capital management has been discussed by García-Teruel and Martínez-Solano (2007). The objective of the research was to provide empirical evidence on the effects of working. Their findings demonstrate that managers can create value by reducing their inventories and the number of days for which their accounts are outstanding. Moreover, shortening the cash conversion cycle also improves the firms profitability.

The fundamental part in the board of working capital lies in keeping up liquidity in everyday tasks is to guarantee smooth running of the business and that it meets its commitments (Deloof, 2003). Liquidity the board, which alludes to the executives of current
resources and liabilities, assumes a significant job in the effective administration of a business and makes sure about future development. The liquidity position of a business is about the degree where it can arrange cash.

Liquidity the executives is important for all organizations, little, medium or enormous. By the by, this isn’t an easy assignment since directors must guarantee that the firm is running in a proficient and productive way and by and large there are high prospects of bungle of current resources and current liabilities during this procedure. In the event that this occurs and company’s director neglected to oversee it appropriately, at that point it will influence associations development and gainfulness which will additionally prompt money related misery lastly firms can fail (Owolabi and Obida, 2012).

Tangible assets are physical resources which can be seen and evaluated (Wilk & Fensterseifer, 2003). These include plant, equipment, land, stocks, financial (debtors, creditors, cash in hand and at bank). Asset management in business involves the systematic integration of advanced and sustainable management techniques into a management paradigm or way of thinking, with primary focus on the long-term life cycle of the asset and its sustained performance, rather than on short-term, day-to-day aspects of the asset.

Managing physical assets involves details of any physical asset owned by the company and how it can provide benefits to every asset in order to provide benefits for the company in the return (Hastings, 2010). If the company has the physical assets in large numbers, it would be difficult for the asset management team to find out one by one from each asset. One way for company to track physical assets cannot be done as for counting with the fingers, the company must apply and invest to provide a software that is present the asset management, asset inventory, asset utilization and so forth (Ang, 2014).

Despite the role played by MSEs in the economy and the efforts of governments in enhancing industry efficiency, progress of MSEs globally is still limited due to financial challenges (Ohachosim, 2012). Studies done show that, it can be logically correct to conclude that the financial challenges of MSEs today, have taken the dimension of inaccessibility of funds (Aremu & Adeyemi, 2011). Obstacles of MSEs access to funds have not been surmounted because of MSEs inability to generate and use quality accounting information (Richard, McMahon & Holmes, 1991). In the face of poor accounting or non-existence accounting information, good funds management is inhibited.

A financial management system is completed with relevant summary of financial accounts and statements indicating the current position of a business. Similarly improved accounting information systems enhance the quality of financial reporting. Garengo., Biazzo and Bititci (2005) opines that improved accounting systems due to uprising in computerizing accounting systems following innovations in manufacturing affordable computers in recent times has elevated the standard of financial reporting in small businesses in North America. Consequent upon the installation and use of an accounting information system, satisfactory aggregation of the business activities is achieved in forms of records. This has enhanced financial reporting (Ikem, Chidi & Titus, 2013).

GEM (2004) defined Performance as the act of performing; of doing something successfully; using knowledge as distinguished from merely possessing it. However, Performance seems to be conceptualized, operationalized and measured in different Ways thus making cross comparison difficult. The study holds that the performance of
micro and small enterprises could be determined by its financial management practices. Four key focus areas of financial management in MSEs include working capital management, liquidity management, asset management and financial reporting (Jindrichovska, 2013)

On the other hand performance of an MSE can be measured by averaging several performance variables: the market share, rate of asset growth, growth in investment and the profitability of the organization rated on a five point scale (Ferri, Hernández-Orallo & Modroiu, 2009).

**METHODOLOGY**

The study adopted a correlational research design. The study population for this study was the MSEs in the trading business in Bungoma Town. Recent statistics from Bungoma County Licensing Office (2016) indicated that in 2016 the county licensed 712 trading businesses in Bungoma Town. The study relied on primary data obtained from MSEs owners. Secondary data was data collected by others and found by the comparative researcher in ethnographies, census and histories. Data was first summarized using descriptive statistics which included as frequency counts, percentages, mean mode and standard deviation.

**FINDINGS**

**Working Capital**

The study set out to determine how often working capital management is practiced by MSEs in Bungoma Town. Working Capital was defined along four dimensions namely keeping track of stock, credit limit specifications, cash conversion cycle and optima of working capital.

<table>
<thead>
<tr>
<th>Working Capital Management</th>
<th>5</th>
<th>4</th>
<th>3</th>
<th>2</th>
<th>1</th>
<th>μ</th>
<th>S.E</th>
</tr>
</thead>
<tbody>
<tr>
<td>i) We ensure that we keep track of the stocks held at any given time</td>
<td>41</td>
<td>155</td>
<td>35</td>
<td>19</td>
<td>6</td>
<td>3.8</td>
<td>0.1</td>
</tr>
<tr>
<td>(16%)</td>
<td>(60.5%)</td>
<td>(13.6%)</td>
<td>(7.4%)</td>
<td>(2.5%)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ii) We have a clearly specified limit on the on the credit limit</td>
<td>32</td>
<td>164</td>
<td>35</td>
<td>22</td>
<td>3</td>
<td>3.8</td>
<td>0.1</td>
</tr>
<tr>
<td>(12.3%)</td>
<td>(64.2%)</td>
<td>(13.6%)</td>
<td>(8.6%)</td>
<td>(1.2%)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>iii) We ensure that we shorten the cash conversion cycle by ensuring quick resale of our goods</td>
<td>13</td>
<td>38</td>
<td>161</td>
<td>35</td>
<td>9</td>
<td>3.0</td>
<td>0.1</td>
</tr>
<tr>
<td>(4.9%)</td>
<td>(14.8%)</td>
<td>(63%)</td>
<td>(13.6%)</td>
<td>(3.7%)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>iv) We maintain an optimal working capital to enable a smooth running of our business</td>
<td>3</td>
<td>13</td>
<td>66</td>
<td>104</td>
<td>70</td>
<td>2.2</td>
<td>0.1</td>
</tr>
<tr>
<td>(1.2%)</td>
<td>(4.9%)</td>
<td>(25.9%)</td>
<td>(40.7%)</td>
<td>(27.4%)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Summaries**

<table>
<thead>
<tr>
<th>Mean</th>
<th>S.E Mean</th>
<th>Std. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.73</td>
<td>0.11</td>
<td>0.96</td>
</tr>
</tbody>
</table>

Note: µ=Mean, S.E=Standard error, 5- Very often, 4 – Often 3 – Sometimes 2- Rare, 1- Very rare

The results in Table 1 revealed that 60.5% of the respondents indicated that they often ensure that they keep track of the stocks held at any given time with further 16% of the respondents rated it as very often. However, 9.9% of the respondents stated they rarely ensure that they rarely keep track of the stocks held at any given time. The overall mean of 4(often) show that they often ensure that they keep track of the stocks held at any given time.
Similarly, 64.2% of the MSEs often had a clearly specified limit on the on the credit limit while further 12.3% do that very often. Nonetheless, 9.8% of the respondents stated that they rarely have a clearly specified limit on the on the credit limit. The overall mean of 4 (often) with standard error of 0.1. However, 63% of the MSEs stated that sometimes they ensure that they shorten that cash conversion cycle by ensuring quick resale of their goods while 14.8% of the MSEs indicated that they often ensure that they shorten that cash conversion cycle by ensuring quick resale of their goods, furthermore 17.3% of the MSEs rarely do that.

The overall mean was 3 (Sometimes) with a standard mean error of 0.1. Furthermore, 40.7% of the MSEs and 27.4% of the MSEs indicated that rarely and very rarely respectively that they maintain an optimal working capital to enable a smooth running of their business. However, 6.1% of the MSEs they often maintain an optimal working capital to enable a smooth running of their business. With a mean of 2(rarely) maintain an optimal working capital to enable a smooth running of their.

**Liquidity Management Practices**

The study set out to determine how often liquidity management was practiced by MSEs in Bungoma Town. Liquidity was defined along four dimensions namely business cash flow, analysis of cash outflows, analysis of liquidity position and comparison of cash near with cash payment obligations.

### Table 2: Response on liquidity management practices

<table>
<thead>
<tr>
<th>Liquidity Management Practices</th>
<th>5</th>
<th>4</th>
<th>3</th>
<th>2</th>
<th>1</th>
<th>Mean</th>
<th>S.E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Our business conducts regular analysis of business cash flows</td>
<td>158</td>
<td>44</td>
<td>32</td>
<td>16</td>
<td>6</td>
<td>4.3</td>
<td>0.1</td>
</tr>
<tr>
<td>(61.7)</td>
<td>(17.3)</td>
<td>(12.3)</td>
<td>(6.2)</td>
<td>(2.5)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The business ensures regular analysis of cash outflows</td>
<td>136</td>
<td>63</td>
<td>28</td>
<td>19</td>
<td>9</td>
<td>4.2</td>
<td>0.1</td>
</tr>
<tr>
<td>(53.1)</td>
<td>(24.7)</td>
<td>(11.1)</td>
<td>(7.4)</td>
<td>(3.7)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>We do a regular analysis of the liquidity position of a business</td>
<td>51</td>
<td>145</td>
<td>35</td>
<td>19</td>
<td>6</td>
<td>3.8</td>
<td>0.1</td>
</tr>
<tr>
<td>(19.8)</td>
<td>(56.8)</td>
<td>(13.6)</td>
<td>(7.4)</td>
<td>(2.5)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>We compare the near cash in with the cash payment obligations before making payment decisions.</td>
<td>19</td>
<td>38</td>
<td>135</td>
<td>51</td>
<td>13</td>
<td>3.0</td>
<td>0.1</td>
</tr>
<tr>
<td>(7.4)</td>
<td>(14.8)</td>
<td>(53.1)</td>
<td>(19.8)</td>
<td>(4.9)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Summaries**

<table>
<thead>
<tr>
<th>Summaries</th>
<th>Mean</th>
<th>S.E</th>
<th>Mean</th>
<th>Std. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>5- Very often, 4 – Often, 3 – Moderate 2- poor, 1- Very poor, µ=mean, S.E=standard Error</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.9</td>
<td>0.1</td>
<td>.77639</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The results in Table 2 revealed that 61.7% of the MSEs very often conducted regular analysis of business cash flows. While further 17.3% of the MSEs often conducted regular analysis of business cash flows with 8.7% of the MSEs poorly conducted regular analysis of business cash flows. With a mean of 4 (Often) and a standard error of 0.1. With regular analysis of cash outflows, 53.1% of the MSEs very often ensure regular analysis of cash outflows while a further 24.7% of the MSE often ensured regular analysis of cash outflows. Only 11.1% of the MSEs poorly ensured regular analysis of cash outflows. With a mean of 4 (often) and standard error of 0.1 ensured regular analysis of cash outflows. With regular analysis of liquidity position of a business while 19.8% stated they do that very often.

Regular analysis of the liquidity position of a business is done often. Of the total MSEs in this study, 53.1% indicated they sometimes compare the near cash in with the cash payment obligations before making payment decisions. Also, 19.8% of the MSEs indicated they rarely compare the near cash in with
the cash payment obligations before making payment decisions and 22.2% of the MSEs often compare the near cash in with the cash payment obligations before making payment decisions. With a mean of 3 (Sometimes) and standard error of 0.1, it's evident that MSEs compare the near cash in with the cash payment obligations before making payment decisions. With a mean of 3 (Sometimes) and standard error of 0.1, it's evident that MSEs compare the near cash in with the cash payment obligations before making payment decisions.

The mean of liquidity management practices was 4 (often) indicating it had effect on the performance of MSEs with the standard mean of 0.1. The standard deviation was 0.78. The distribution was negative skewed indicating it was very near to zero which clarified that the liquidity management practices was asymmetrical. The study revealed that 59.3% of the MSEs strongly agreed that the liquidity management practices have been able to grow their business with minority of 8(9.9%) of them either strongly disagree or disagree.

Asset Management Practices
The study set out to determine how asset management is practiced by MSEs in Bungoma Town. Asset Management was defined along five dimensions namely up to date asset register, calculation of the depreciation of assets, provision for depreciation of assets, procedure for disposing assets and system for maintenance of assets before disposing. The results were shown in Table 3.

<table>
<thead>
<tr>
<th>Table 3: Response on asset management practices</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset Management</td>
</tr>
<tr>
<td>We maintain an up to date asset register for all our assets</td>
</tr>
<tr>
<td>We calculate the depreciation of assets</td>
</tr>
<tr>
<td>Our finances allow for provision for depreciation of assets</td>
</tr>
<tr>
<td>The company has laid down procedure for disposing assets nearing the end of life</td>
</tr>
<tr>
<td>Our system for maintenance of assets ensures that assets are kept in the best condition until disposal</td>
</tr>
</tbody>
</table>

Summaries

<table>
<thead>
<tr>
<th>Mean</th>
<th>S.E Mean</th>
<th>Std. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.60</td>
<td>.10</td>
<td>.88</td>
</tr>
</tbody>
</table>

Note: µ=Mean, S.E=Standard error, 5- Strongly agree, 4 – Agree, 3 – Not sure 2- Disagree, 1- Strongly disagree

The Table 3 revealed that 54.3% of the MSEs agreed that they maintained an up to date asset register for all their assets and further 19.8% also strongly agree that they do that. However, 13.5% of the MSEs did not confirm that they maintained an up to date asset register for all their assets with 12.3% remaining undecided. With a mean of 4 (agree) and standard error of 0.01 that study established that they maintained an up to date asset register for all their assets. On calculation of the depreciation of assets, 53.1% of the MSEs, strongly disagree that they do that and further 18.5% of them agreed with only 13.5% of the MSE do calculate the depreciation of assets bring the overall mean to be 1(strongly Disagree) with standard error of 0.1.

On finances allow for provision for depreciation of assets, the study found out that only 19.7% of the MSEs do that while 51.9% strongly disagree and 14.8% disagreeing also lowering the mean to 1 with a standard error of 0.1 indicating that very few MSEs...
had finances allow for provision for depreciation of assets. The findings also noted that 55.6% MSEs strongly disagree that the company has laid down procedure for disposing assets nearing the end of life and further 18.5% disagree with the statement. Only 13.6% of the MSEs confirmed that the company has laid down procedure for disposing assets nearing the end of life with 12.3% remaining undecided. With a mean of 1 and standard error of 0.2, it is evident that most of the SMEs in Bungoma Town have laid down procedure for disposing assets nearing the end of life.

On system for maintenance of assets ensures that assets are kept in the best condition until disposal, 54.3% of the MSEs were undecided with it while 22.2% of the MSEs confirmed doing that. The difference was insignificant as 23.5% of the MSE did confirmed that their system for maintenance of assets ensures that assets are kept in the best condition until disposal making the mean to the findings indicated that Asset Management practices is moderately practiced by MSEs in Bungoma Town. The standard deviation was 0.88. The distribution was negative skewed indicating it was very near to zero which clarified that the Asset Management practices was asymmetrical around 2.6. The kurtosis was leptokurtosis which is relatively flat. It was noted that 76.5% of the MSEs stated that asset management practices highlighted above helped them in growing their business

The MSEs were also required to state if they are aware of the available mechanisms for managing business assets. Of the total sampled MSEs, 76.5% of them indicated they were not aware of the available mechanisms for managing business assets while 23.5% of the MSEs were aware of them. This indicated that most MSEs in Bungoma Town were not aware of the available mechanisms for managing business assets

Financial reporting Practices

The study set out to determine how often financial reporting was practiced by MSEs in Bungoma Town. Financial reported was defined along five dimensions namely reconciliation of books of account, preparation of financial statement, statement of business liabilities, cash flow statements and tax statements. The respondents were asked to indicate how often they practice financial reporting related statements. The results were shown in Table 4.

<table>
<thead>
<tr>
<th>Financial reporting practices</th>
<th>5</th>
<th>4</th>
<th>3</th>
<th>2</th>
<th>1</th>
<th>Mean</th>
<th>S.E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reconciliation of books of accounts</td>
<td>14</td>
<td>46</td>
<td>35</td>
<td>22</td>
<td>9</td>
<td>3.8</td>
<td>0.1</td>
</tr>
<tr>
<td></td>
<td>(17.3)</td>
<td>(56.8)</td>
<td>(13.6)</td>
<td>(8.6)</td>
<td>(3.7)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Preparation of financial statements</td>
<td>3</td>
<td>5</td>
<td>13</td>
<td>15</td>
<td>45</td>
<td>1.8</td>
<td>0.1</td>
</tr>
<tr>
<td></td>
<td>(3.7)</td>
<td>(6.2)</td>
<td>(16)</td>
<td>(18.5)</td>
<td>(55.6)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Preparing statement of business liabilities</td>
<td>14</td>
<td>47</td>
<td>12</td>
<td>6</td>
<td>2</td>
<td>3.8</td>
<td>0.1</td>
</tr>
<tr>
<td></td>
<td>(17.3)</td>
<td>(58)</td>
<td>(14.8)</td>
<td>(7.4)</td>
<td>(2.5)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Preparing cash flow statements</td>
<td>14</td>
<td>43</td>
<td>12</td>
<td>7</td>
<td>5</td>
<td>3.7</td>
<td>0.1</td>
</tr>
<tr>
<td></td>
<td>(17.3)</td>
<td>(53.1)</td>
<td>(14.8)</td>
<td>(8.6)</td>
<td>(6.2)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Preparation of tax statements</td>
<td>14</td>
<td>43</td>
<td>14</td>
<td>6</td>
<td>4</td>
<td>3.7</td>
<td>0.1</td>
</tr>
<tr>
<td></td>
<td>(17.3)</td>
<td>(53.1)</td>
<td>(17.3)</td>
<td>(7.4)</td>
<td>(4.9)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Summaries</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>Mean</strong></td>
<td><strong>S.E Mean</strong></td>
</tr>
<tr>
<td></td>
<td>Mean</td>
<td>S.E</td>
<td>Mean</td>
<td>S.E</td>
<td>Std. Dev.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>3.4321</td>
<td>.07230</td>
<td>.65074</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: $\mu$=Mean, S.E=Standard error, 5=Weekly, 4=Monthly, 3=Quarterly 2=Bi annually 1=annually
From Table 4, 56.8% of the MSEs did Reconciliation of books of accounts monthly with only 17.3% doing it weekly. However, 25.9% did it in a period between 3 months and 12 months. With a mean of 3.8, its evident majority of them did it monthly. Preparation of financial statements was done annually as indicated by 55.6% of the MSEs with only 10.9% of the MSE doing in a span of between a week and 4 weeks. The mean was 1.8 which indicated that Preparation of financial statements was mainly done by most MSEs between 6 and 12 months.

Preparing cash flow statements was done monthly as shown by 53.1% of the MSEs and the overall mean of 4 (Monthly) with standard error of 0.1 even though 17.3% of the MSEs indicated having done it weekly. However, 29.6% of the MSEs indicated it was done between 3 and 12 months. Preparation of tax statements was done monthly as shown by 53.1% of them with a mean of 4 (Monthly) and standard error of 0.1 even though 17.3% of the MSEs indicated having done it weekly. However, 29.6% of the MSEs indicated it was done between 3 and 12 months. When the MSEs were required to state if they have financial reporting, 80.2% of them confirmed that their business prepare financial reports. With an overall mean 3.4 and standard error of 0.07, the findings indicated that Financial Reporting is monthly practiced by MSEs in Bungoma Town. The standard deviation was 0.65.

**Performance of MSEs**
Business performance comprised of nine dimensions namely asset value, number of products, number of services, profitability, capital invested, branch network, market served, credit accessibility and Smooth business operation. The results are shown in Table 5.

### Table 5: Response on Business performance

<table>
<thead>
<tr>
<th>Business Performance</th>
<th>5</th>
<th>4</th>
<th>3</th>
<th>2</th>
<th>1</th>
<th>Mean</th>
<th>S.E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance in the value of assets</td>
<td>25</td>
<td>35</td>
<td>136</td>
<td>40</td>
<td>22</td>
<td>3.48</td>
<td>.48</td>
</tr>
<tr>
<td>Performance in the number of products</td>
<td>38</td>
<td>139</td>
<td>41</td>
<td>22</td>
<td>16</td>
<td>3.63</td>
<td>.12</td>
</tr>
<tr>
<td>Performance in the number of services</td>
<td>25</td>
<td>44</td>
<td>139</td>
<td>35</td>
<td>13</td>
<td>3.14</td>
<td>.11</td>
</tr>
<tr>
<td>Profitability</td>
<td>16</td>
<td>47</td>
<td>139</td>
<td>44</td>
<td>10</td>
<td>3.06</td>
<td>.10</td>
</tr>
<tr>
<td>Performance in the Capital invested</td>
<td>13</td>
<td>51</td>
<td>142</td>
<td>38</td>
<td>13</td>
<td>3.05</td>
<td>.10</td>
</tr>
<tr>
<td>Performance in terms of branch networks</td>
<td>10</td>
<td>22</td>
<td>28</td>
<td>54</td>
<td>142</td>
<td>1.84</td>
<td>.13</td>
</tr>
<tr>
<td>Performance in the markets served</td>
<td>16</td>
<td>51</td>
<td>139</td>
<td>32</td>
<td>19</td>
<td>3.05</td>
<td>.10</td>
</tr>
<tr>
<td>Ability to access to credit</td>
<td>10</td>
<td>25</td>
<td>41</td>
<td>126</td>
<td>54</td>
<td>2.26</td>
<td>.11</td>
</tr>
<tr>
<td>Smooth business operation</td>
<td>10</td>
<td>38</td>
<td>145</td>
<td>44</td>
<td>19</td>
<td>2.90</td>
<td>.10</td>
</tr>
</tbody>
</table>

**Summaries**

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>S.E Mean</th>
<th>Std. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Summaries</td>
<td>2.93</td>
<td>.09461</td>
<td>0.561423</td>
</tr>
</tbody>
</table>

**Note:** µ=Mean, S.E=Standard error, 5=Very Good 4=Good 3=Average 2=Poor 1=very poor
From Table 5, 53.1% of the MSEs indicated that Performance in the value of assets was average although 23.5% of them rated it as good. 23.4% rated it as poor although the mean was 3 (average) with standard error of 0.48. On the Performance in the number of products, 54.3% rated it as good and further 14.8% rated it as very good. However, 14.8% of the MSEs rated it as poor with an overall mean 4 (good) and standard error of 0.12.

On Performance in the number of services 54.3% of the MSEs rated it as average and 18.5% rated as poor and 37.2% rated it as good with a mean of 3 (average) and standard error of 0.11. On Profitability of MSEs, 54.3% of the MSEs rated it as average and 24.7% as good while 21.0% as poor with a mean of 3 (average) and standard error of 0.10. On Performance in the Capital invested, 55.6% of the MSEs rated it as average and 24.7% as good while 19.7% rated it as poor. With a mean of (average) and standard error of 0.10, it is evident that Performance in the Capital invested is average.

On Performance in terms of branch networks, 55.6% of the MSEs rated it as very poor with further 21% as poor while 12.3% rated it as good. With a mean of 2 (poor) and standard error of 0.13, it is evident the performance of MSEs in terms of Performance in terms of branch networks is poor. On the Performance in the markets served, 54.3% of the MSEs rated it as average while 26.0% of them good and 19.7% as poor. With a mean of 3 (average) and standard error of 0.10, it is evident that Performance in the markets served is average.

On the Ability to access to credit, 49.4% of the MSEs rated it as poor and further 21% as very poor with 16% as average. However, 13.6% of the MSEs rated it as good with mean of 2 (Poor) and standard error of 0.11. On Smooth business operation, 56.8% of the MSEs rated it as average with 24.7% rating as poor while 18.5% as good.

### Inferential Analysis

#### Table 6: Correlation Analysis results between Financial Management practices and Performance

<table>
<thead>
<tr>
<th></th>
<th>WCM</th>
<th>AMP</th>
<th>FR</th>
<th>LMP</th>
<th>BP</th>
</tr>
</thead>
<tbody>
<tr>
<td>WCM = Working Capital Management</td>
<td>Pearson Correlation</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>N</td>
<td>236</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AMP = Asset Management Practices</td>
<td>Pearson Correlation</td>
<td>.316**</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>N</td>
<td>236</td>
<td>236</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FR = Financial Reporting</td>
<td>Pearson Correlation</td>
<td>.330**</td>
<td>.391**</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>N</td>
<td>236</td>
<td>236</td>
<td>236</td>
<td></td>
</tr>
<tr>
<td>LMP = Liquidity management practices</td>
<td>Pearson Correlation</td>
<td>.548**</td>
<td>.409**</td>
<td>.301**</td>
<td>1</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>N</td>
<td>236</td>
<td>236</td>
<td>236</td>
<td>236</td>
</tr>
<tr>
<td>BP = Business performance</td>
<td>Pearson Correlation</td>
<td>.716**</td>
<td>.522**</td>
<td>.501**</td>
<td>.693**</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>N</td>
<td>236</td>
<td>236</td>
<td>236</td>
<td>236</td>
</tr>
</tbody>
</table>

**. Correlation is significant at the 0.01 level (2-tailed).
Correlation between working capital management and performance of MSEs

This implied that according to objective one of the study, it established working capital management has significant positive effect on performance of MSEs in Bungoma Town. Therefore the first hypothesis of the study which posit:

H0:

Liquidity management have no effect on the performance of MSEs in Bungoma Town

Correlation between Liquidity management practices and performance of MSEs

The results implied that according to objective two of the study, the findings established liquid management practices has significant positive effect on performance of MSEs in Bungoma Town. Hence, the second hypothesis of the study which posit: H0:

Liquidity management practices have significant effect on the performance of MSEs in Bungoma Town

Correlation between asset management practices and performance of MSEs

The results indicated that the relationship between asset management practices and performance of MSEs is a moderate, positive and significant with R = .522, p< .01 at 99.0% confidence level.

Correlation between financial reporting and performance of MSEs

It was evident that financial reporting has a moderate, financial reporting has significant positive effect on performance of MSEs in Bungoma Town. Hence, the fourth hypothesis of the study which posit: H0:

Financial reporting practices have no effect on the performance of MSEs in Bungoma Town

Linear Regression analysis of financial management practices on MSEs Performance

Pearson correlation analysis revealed that all the independent variables had significant positive effect out the effect of each independent variable on the performance of MSEs through R square which is the coefficient of determination. The results were as shown in table 7.

Table 7: Linear regression results for independent variables

<table>
<thead>
<tr>
<th>Financial Management Practices</th>
<th>ANOVA and Model Summary</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>R Square</td>
<td>Adjusted R Square</td>
</tr>
<tr>
<td>Working capital</td>
<td>.512</td>
<td>.506</td>
</tr>
<tr>
<td>Liquid Management</td>
<td>.481</td>
<td>.474</td>
</tr>
<tr>
<td>Asset management</td>
<td>.272</td>
<td>.263</td>
</tr>
<tr>
<td>Financial Reporting</td>
<td>.251</td>
<td>.242</td>
</tr>
</tbody>
</table>

Dependent Variable: Business performance

Regression results of working capital management practices on performance of MSEs

This is based on significance value which is less than 0.05 and R^2 value of 0.512 and adjusted to 0.506. This shows that working capital explained or accounts up to 51.2% of variation in the performance of MSEs in Bungoma Town. It further reveals a statistically significant relationship between predictor variable
Regression results of liquid management on performance of MSEs
This is based on significance value which is less than 0.05 and $R^2$ value of 0.481 and adjusted to 0.474. This indicated that liquid management significantly explains or accounts up to 48.1% of change in the performance of MSEs in Bungoma Town. The findings also revealed statistically significant relationship between predictor variable and the dependent variable with $F (1, 235) = 73.126, p<0.05$. This implied that liquid management has a significant effect of 48.1% variation on the performance of MSEs in Bungoma Town. Therefore, the second hypothesis was also rejected using linear regression analysis.

Regression results of asset management on performance of MSEs
This is based on significance value which is less than 0.05 and $R^2$ value of 0.272 and adjusted to 0.263. This shows that asset management accounts up to 27.2% of variation in the performance of MSEs in Bungoma Town. It further reveals a statistically significant relationship between predictor variable and the dependent variable with $F (1, 235) = 29.513, p<0.05$. This implied that there is a significant effect of asset management on the performance of MSEs in Bungoma Town. Therefore, the third hypothesis was also rejected using linear regression analysis.

Regression results of financial reporting on performance of MSEs
This is based on significance value which is less than 0.05 and $R^2$ value of 0.251 and adjusted to 0.242. This indicated that financial reporting significantly explains or accounts up to 25.1% of change in the performance of MSEs in Bungoma Town. The findings also revealed statistically significant relationship between predictor variable and the dependent variable with $F (1, 235) = 26.521, p<0.05$. This implied that financial reporting has a significant effect of 25.1% variation on the performance of MSEs in Bungoma Town.

Multiple Regression analysis of financial management practices on MSEs' performance
This analysis revealed the $R$ Square of financial management practices and the regression model through regression coefficients as shown in Table 8.

Table 8: Multiple Linear regression Analysis Results

<table>
<thead>
<tr>
<th>ANOVA and Model Summary</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>R</td>
<td>R Square</td>
<td>Adjusted R Square</td>
<td>F Statistics</td>
<td>Df</td>
</tr>
<tr>
<td></td>
<td>.847^a</td>
<td>.718</td>
<td>.703</td>
<td>48.313</td>
<td>4</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Regression coefficients</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>-.054</td>
<td>-.159</td>
<td>.874</td>
<td></td>
</tr>
<tr>
<td>WCM</td>
<td>.363</td>
<td>.411</td>
<td>5.504</td>
<td>.000</td>
</tr>
<tr>
<td>LMP</td>
<td>.369</td>
<td>.337</td>
<td>4.406</td>
<td>.000</td>
</tr>
<tr>
<td>FAMP</td>
<td>.173</td>
<td>.178</td>
<td>2.525</td>
<td>.014</td>
</tr>
<tr>
<td>FR</td>
<td>.255</td>
<td>.195</td>
<td>2.856</td>
<td>.006</td>
</tr>
</tbody>
</table>

The results showed that financial management practices had a statistically significant effect on the performance of MSEs in Bungoma Town. This is based on significance value which is less than 0.05 and $R^2$ value of 0.718 and adjusted to 0.703. This indicated that financial management practices (Working capital, asset management, liquid management practices, and financial reporting) significantly explains or accounts for 71.8% of the variation in the performance of MSEs in Bungoma Town.
up to 71.8% of change in the performance of MSEs in Bungoma Town leaving 28.2% to be accounted by other factors. The findings also revealed statistically significant relationship between financial management practices and the MSEs performance with F (4, 232) =48.313, p<0.05. This implies that financial management practices have a significant effect of 71.8% variation on the performance of MSEs in Bungoma Town.

Results showed that all the independent variables have significant positive predictive power as their significant value was less than 0.05. When working capital financial reporting are held a zero, the performance of MSEs in Bungoma Town will be insignificantly -0.054 with t=-0.159, p>0.874. If liquid management, asset management practices and financial reporting are controlled, a change in working capital by one percent will result to a significant change in MSEs performance by 0.363 with t= 5.504, P<0.05. If working capital management, asset management practices and financial reporting are controlled, a change in liquid management practices by one percent will result to a significant change in MSEs performance by 0.369 with t= 4.406, P<0.05.

If working liquid management, liquid management practices and financial reporting are controlled, a change in asset management practices by one percent will result to a significant change in MSEs performance by 0.173 with t= 2.525, P<0.05. Lastly, if working liquid management, asset management practices and liquid management practices are controlled, a change in financial reporting by one percent will result to a significant change in MSEs performance by 0.255 with t= 2.856, P<0.05. The multiple regression equation used to estimate the effect of financial management practices on performance of MSEs in Bungoma Town is stated as follows:

\[ \text{Performance}(y) = -0.054 + 363x_1 + 369x_2 + 173x_3 + 225x_4 \]

Where;

- \( x_1 \) Working capital management practices
- \( x_2 \) Liquidity management practices
- \( x_3 \) Fixed asset management practices
- \( x_4 \) Financial reporting practices

**Testing Null Hypotheses**

The null hypotheses were based on B Coefficient and P Values. If B coefficient is not equal to zero (B≠0) and P<0.05 then the hypothesis is rejected (Uriel, 2013).

- **H01**: Working capital management practices have no effect on the performance of MSEs in Bungoma Town
- **H11**: Working capital management practices have effect on the performance of MSEs in Bungoma Town

**Coefficient results:** (B = 0.363≠0; p=0.000< 0.05)

**Verdict:** The null hypothesis H01 was rejected.

**Results interpretation:** **H11**: Working capital management practices have significant effect on the performance of MSEs in Bungoma Town.

- **H02**: Liquidity management practices have no effect on the performance of MSEs in Bungoma Town
- **H12**: Liquidity management practices have effect on the performance of MSEs in Bungoma Town

**Coefficient results:** (B = 369≠0; p=0.000< 0.05)

**Verdict:** The null hypothesis H02 was rejected.

**Results interpretation:** **H12**: Liquidity management practices have significant effect on the performance of MSEs in Bungoma Town.

- **H03**: Fixed asset management practices have effect on the performance of MSEs in Bungoma Town
- **H13**: Fixed asset management practices have effect on the performance of MSEs in Bungoma Town

**Coefficient results:** (B = 0.173≠0; p=0.014< 0.05)

**Verdict:** The null hypothesis H03 was rejected.
Results interpretation: $H_{A3}$: Fixed asset management practices have significant effect on the performance of MSEs in Bungoma Town.

$H_{04}$: Financial reporting practices have no effect on the performance of MSEs in Bungoma Town.

$H_{A4}$: Financial reporting practices have effect on the performance of MSEs in Bungoma Town.

B Coefficient results: ($B = 0.255 \neq 0; \rho = 0.006 < 0.05$)

Verdict: The null hypothesis $H_{04}$ was rejected.

Results interpretation: $H_{A4}$: Financial reporting practices have significant effect on the performance of MSEs in Bungoma Town.

CONCLUSION AND RECOMMENDATIONS

Based on the findings of this study, the following conclusions were made based on the research questions. First, the overall conclusion is that financial management practices have significant effect on the performance of MSEs in Bungoma Town. Secondly, the study established that working capital has significant positive strong effect on the performance of MSEs with specific practices like keeping track of the stocks and specifying credit limit. Basing on the third objective of the study, the study was able to determine that liquidity management practices have significant strong positive effect on the performance of MSEs with specific practices like analysis of business cash flows, analysis of cash outflows and analysis of the liquidity position of a business.

Basing on objective three of the study, the study assessed that asset management practices had significant moderate effect on the performance of MSEs with practices such as up to date asset register and system for maintenance of assets ensures that assets are kept in the best condition until disposal. Lastly, the study determined that financial reporting practices like Reconciliation of books of accounts, preparing statement of business liabilities, Preparing cash flow statements and Preparation of tax statements had significant moderate effect on the performance of MSEs.

Based on the findings and conclusions of this study, the following recommendations were made. The overall recommendation is for MSEs which have not been using financial management practices to adopt them in their operations. This will enhance the business overall performance by more than 50%. Secondly, MSEs need to revisit the use of working management capital with special reference to shorten the cash conversion cycle by ensuring quick resale of our goods and maintain an optimal working capital to enable a smooth running of their business. This will ensure that MSE there is sufficient working capital for business operations and will increase the MSE value.

Thirdly, basing on liquidity management practices, the study recommended that MSEs compare the near cash in with the cash payment obligations before making payment decisions this will ensure that that the organization doesnt risk running into a cash deficit which in turn would lead business running into overdrafts which are more expensive source of finance . Fourthly, on assets management practices, business should calculate depreciation of assets as well as allow for provision for depreciation of assets this will ensure that depleted assets are replaced timely and at reasonable value, also enable MSEs save in taxation as depreciation value are tax allowable .the study further recommended that MSEs should have laid down procedure for disposing assets nearing the end of life this will help MSE continue running and avoid higher costs that may accrue due to high rate of breakages of assets and escalating costs of repair.

Lastly, on financial reporting, the study recommended that MSEs should enhance the preparation of financial statements as it will enable business to have realistic result of its performance.
Proper financial statement will give true and correct position of financial performance of the business.

Areas of Further Research
The scope of the study was based on effects of financial management practices on performance of micro and small enterprises: a case of Bungoma town. The following are areas of suggestions for further research to be taken up. Investigate the impact of entrepreneurial characteristics on the financial management practices of micro-enterprises and lastly financial performance is measured through market to book ratio. Thus, future research should aim to analyze whether the relationships found here are still met for accounting measures (ROA or ROE for example) in order to confirm the results.

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