

**EFFECT OF WORKING CAPITAL MANAGEMENT ON FINANCIAL
PERFORMANCE OF MICRO AND SMALL ENTERPRISES IN TETU
SUB-COUNTY, NYERI COUNTY**

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Business Administration (Finance Option) of Dedan Kimathi University of
Technology**

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DECLARATION

This thesis is my original work and has not been presented for an award of a degree in any other University.

Signature: 

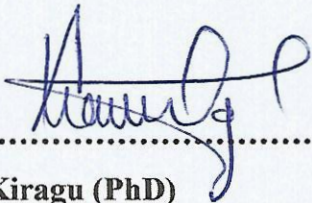
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APPROVAL

This thesis has been submitted for examination with our approval as University supervisors.

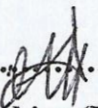
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ABSTRACT

Micro and Small Enterprises (MSEs) contributes over 50% of new jobs every year and over 20% to the GDP of the country(Economic survey of 2006), and proper working capital management is essential for business survival since a business inability to identify relevant working capital management (WCM) practices can be its source of inability to perform. The main objective of this study is to determine the effect of working capital management on financial performance of micro and small enterprises in Tetu sub-county and will be guided by the following specific objectives: to assess the effect of inventory management on the financial performance of micro and small enterprises in Tetu sub-county; to determine the effect of debtors management on the financial performance of MSEs in Tetu sub-county; to establish the effect of creditors management on the financial performance in MSEs in Tetu sub-county and also to determine the influence of cash management on financial performance in MSEs in Tetu sub-county. The researcher used survey research design and the target population was 348 MSEs operating in Tetu sub-county. The study used stratified random sampling method by dividing the population into ten sub-population or strata and a sample of 106 MSEs selected using simple random sampling was used. A self-administered, questionnaire was used to collect data from the target respondents. The study achieved a response rate of 77.4% since 82 responses were received out the probable 106 respondents. Data analysis was conducted using statistical package for social sciences (SPSS) to generate descriptive and inferential statistics. Frequencies and percentages were generated from the data and presented using frequency distributions Tables while multiple linear regression analysis was done to establish relationship of each parameter of the independent variables in the study. Pearson correlation coefficient analysis was also done to establish the relationship between the independent and the dependent variables. The results indicated that most of the traders operating micro and small enterprises gets goods on credit from suppliers but are reluctant to offer credit facilities to the final consumer as a strategy of minimizing risk of unrecoverable debts. These trader keep track of inventories, do record cash transactions and keep financial records even though recording of all cash transactions and maintaining all financial transactions was a challenge to quite a number of respondents. The study findings revealed that cash management has a positive effect on micro and small enterprises performance and the effect is significant. Inventory management and debtor management were found to have positive effect on micro and small enterprises performance though the effect is insignificant at 5% significance level. The study recommends that micro and small enterprises should put more emphasis on cash management strategies in order improve their financial performance. The study further recommends that all micro and small enterprises be preparing cash budget because as tool it was found to have a major effect of performance of micro and small enterprises. Future research could focus on a comparative study to determine whether the factors that affect Tetu sub-County micro and small enterprises performance also apply in other Counties in Kenya.