FINANCIAL MANAGEMENT PRACTICES AND TURNOVER GROWTH OF MICRO AND SMALL ENTERPRISES: A CASE OF UWEZO FUND IN KWALE COUNTY, KENYA

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ABSTRACT

Empirical attestation, economic evidences and industrialization practices have established the immense contributions of Micro and Small Enterprises (MSEs) in developed nations and the continuous acceleration of economic growth among developing countries. The government of Kenya had been increasing funding of small enterprises through escalation of Uwezo fund as was evidenced from annual budgetary allocations by the national treasury. Out of the Ksh.5.161 billion of Uwezo Fund that had been disbursed since the year 2013, nationally, ksh.91.6 million of the disbursement was channelled to Kwale County. Despite the disbursement, the turnover growth of MSEs in Kwale County had only been a mere 5 per cent. This is far much less than the expected turnover growth of 15 per cent given the huge investments by the fund. This study examined the effect of financial management practices on turnover growth of micro and small enterprises in Kwale County, Kenya. Specifically the study draws on financing decisions, investment decisions, working capital management decisions, profit distribution decisions and how they influence turnover growth of such MSEs. A descriptive survey method of research was employed in conducting the study. The study population were the 911 registered MSEs that have received a financing facility from Uwezo Fund in Kwale County. Stratified random sampling was applied to choose the sample size which translated to 270 MSEs managers. Structured questionnaire was used to gather data from the respondents. The data obtained was analysed for ANOVA, regression analysis, and descriptive statistics. SPSS computer software was utilised in data coding and analysis. The results indicate that financing decisions had a moderate significant positive correlation with turnover growth of MSEs. Investment decisions had a fairly strong and significant positive correlation with turnover growth. Working capital management had a strong positive correlation with turnover growth of MSEs in Kwale County while profit distribution had a week positive correlation with turnover growth of MSEs in Kwale County.

Key Words: financial management practices, turnover growth, micro and small enterprises, Uwezo Fund, Kwale County, Kenya

INTRODUCTION

Studies have established the huge contributions of MSEs in established nations in hastening of economic growth (Omolumo, 2002; OCED, 2004; Ogechukwu, 2008). Corresponding to the information available on the census.gov website, micro enterprises compose ninety five per cent of the twenty eight million of US corporations tracked by survey. MSEs are said to enhance value to the economy of a nation by creating jobs, increasing income, strengthening buying power, lowering costs and enhancing business convenience (E-elgar, 2016). The relationship between prudent investment decision making capability of a firm's managers and its advantage in
analyzing a target investment's resultant true financial Turnover growth is vital, managers are perceived to have more information than other investors regarding an investment, thus managers are vital in making prudent investment decision analysis that shall lead to better Turnover growth of a company in both financial and non-financial parameters (Akintoye & Olowolaju, 2008).

Working Capital deals with the firm’s short term financing that is current assets and current liabilities, therefore it is a measure of a firm’s liquidity. The goal of effective working capital management is to ensure that a company has adequate ready access to the funds necessary for day-to-day operating expenses, while at the same time making sure that the company’s assets are invested in the most productive way (Norton, Parkinson and Drake, 2011). The mounting interest in many nations in MSEs, and particularly high-growth MSEs (a certain group of businesses distributed among numerous industries, which are also mentioned to as “gazelles”), stems from these businesses being perceived as one of the primary engines of economic advance and as the main basis of new jobs (Henrekson and Johansson, 2010; OECD/DG Enterprise and Industry, 2009). Nonetheless, these companies involvement difficulties with admittance to finance during dissimilar stages of development, a hindrance that is especially serious in firms (OECD, 2014).

MSEs in Developing Countries

Fiscal development in budding markets undertakes within each government environment and particularly is moulded by the structure of established diversity and conforming substitutability involving official and unofficial institutions (Batjargal et al., 2013). Over time with the expansion of a market economy fragile formal institutions should develop stronger and correspondingly the use of unofficial institutions is likely to adjust (Galaskiewicz, 2007; Sabatini, 2008). Majority of MSEs in developing nations prefer the status quo (Gomez and Knorringa, 2008). Government’s strategy towards MSEs is one significant factor to be well-thought-out when looking at the confronts MSEs have for growth (Gatt, 2012). Irrespective of the significance related with these businesses and various policies ingenuities introduced by African regimes during the past decade to hasten growth and endurance of MSEs in the African expanse, the Turnover growth and progress has been unsatisfactory (Atsede, et al, 2008).

Uwezo Fund

The Uwezo Fund Is a leading plan of action geared to vision 2030, envisioned at empowering womenfolk, youth, individuals with disabilities access funds to promote business and firms at a public point, thereby furthering economic progress with regard to accomplishment of the identical and the millennium Development Goals No. (Annihilation of life-threatening poverty and famine) and (support gender parity and give power to women. The fund was started by the Government of Kenya in the year 2014 (www.uwezo.go.ke). It is a support programme initiated by the state in line with its vision 2030 to assist the youth; women and people with disabilities have access to financial support to run their businesses. The Kshs 6 billion started by the government not long ago is the latest government attempt to uplift women and youth beyond
enterprise (KNBS, 2013). The endowment is planned that the youth would not pay interest but a slight services fee of 3 percent (Njuru, 2014).

Business execution, good business management savings philosophy, investment openings and financial forecasting impact could only be apprehended through improved business culture and capability after training amongst the youth. The prevailing youth and women’s monies operate a Shs. 4.8 billion and Shs. 2.5 billion respectively; the obsolete Kazi Kwa Vijana had Shs. 5.2 billion, the inauguration of Uwezo Fund focuses the youth and women who desire to venture into businesses. Nevertheless a quick look at the previous raises questions about the idea behind Uwezo Fund and how dissimilar it was from the aforementioned ones that were marred by mismanagement and liabilities. There was necessity to change the thoughts among public employees for the objective of the fund to be accomplished for the government to acquire 30 percent of its prerequisites from the youth and women maintained businesses. There must be some distinctive regard for such endeavours (Omanjalu & Fondo, 2014).

Notwithstanding the Uwezo fund being interest open some youths are choosing up to pay a 1 percent interest rate that comes with SACCO advances arguing that the course was shorter and that SACCOs offered relentless guidance and control on their ideas on their ideas and schemes (Komu, 2015). More so KNBS (2016) narrates that 80.6 percent of the childhood use family or personal funds as start-up principal while 4.2 per cent of small business owners get loans from household or friends. The study on small and micro enterprises(MSEs) further directed that banks support only 5.6 per cent of MSEs while venture groups or chamas account for 1.4 per cent of the financing, co-operative societies credit for 0.4 per cent of start-up financing, whereas the government capital accounts for a paltry 0.1 percent.

**STATEMENT OF THE PROBLEM**

Kenyan government has over recent years increased funding of small businesses through Uwezo fund as can be demonstrated from annual fiscal allocations by the national treasury. Further than the Ksh.5.161 billion of Uwezo Fund that has been expended since 2013 nationally, ksh.91.6 million of the pay-out was channelled to Kwale County which characterizes about 1.8 percent of the fund (Uwezo Fund Status Report, 2016). Accounts from the ministry of Trade and Cooperative Development, Kwale County(2016), illustrate that only a mere 5 percent of Uwezo Fund payees have experienced Turnover growth when likened to the global growth forecast for the MSEs of between 10 and 15 percent (World Bank,2017) . KNBS (2016) account indicates that the government support of MSEs accounts for a low 0.1 percent (KNBS, 2016). Although the MSEs subsector composes close to 80% of employment, it only interjects to about 20% of the GDP. This infers that the MSEs have been performing dismally in spite of its potential influence to Employment, earnings and parity in Kenya (Vision 2030). Hitherto, a number of studies such as Katana (2012) examined financial management practices and shipping industry performance. Addo. (2017) studied the effect of financial management practices on financial performance of top 100 MSEs in Kenya. Waweru and Ngugi(2014) researched on the
influence of financial management practices on performance of MSEs in Kenya. None of these studies has focused on the profit distribution variable. More so, no such study has ever been carried out in Kwale County. Based on this revelation, the present study sought to fill the existing research gap by finding out the effect of financial management practices on turnover growth of MSEs in Kwale County.

GENERAL OBJECTIVE

The study contemplated at establishing the effect of financial management practices on Turnover growth of Micro and Small Enterprises in Kwale County, Kenya.

SPECIFIC OBJECTIVES

1. To examine the effect of access to finance on turnover growth of MSEs in Kwale County;
2. To establish the effect of investment decisions on turnover growth of MSEs in Kwale County;
3. To evaluate the effect of cash flow management decisions on turnover growth of MSEs in Kwale County; and
4. To analyze the effect of profit distribution decisions on turnover growth of MSEs in Kwale County.

THEORETICAL REVIEW

The Pecking Order Theory

The pecking order theory as hypothesized by (Myers and Majluf, 1984) purports that businesses habitually have a preference in domestic finance to outside finance and single out debt to equity as soon as domestic finance is in short supply. This is to by-pass hostile effect of lopsided data that venture capitalist tend to have faith in that businesses issue equity when stock charges are high-priced and therefore stock charges would tumble after stock issue is declared. Pecking Order Theory further explained that the asymmetric information between firm insiders and outsiders and the supposition that costs and benefits of outside financing in terms of trade-off theory are less significant when contrasted to the costs related to the (inside financing) issuance of new securities. In this study, the theory was used to describe the financing behaviour of MSEs.

More so Shyam-Sunder and Myers (1999) hold up this observation, whereas Frank and Goyal (2003) denote that the concept better pronounces the conduct of big businesses but not small businesses. Nonetheless, supplementary findings submit that businesses with admission to investment-grade liability may be unenthusiastic to dispense security (Chirinko and Singha, 2000; Chikolwa, 2009). Also money-making businesses in fact have a lesser debt ratio (Brennan et al 2002). The theory is contextualized to illustrate financing preference by the MSEs managers.
Bird-in-Hand Theory

Pioneers of this concept were Gordon (1959) and Lintner (1962). It portends that Business owners or investors have a great preference of dividends obtained from stock as compared to gains from capital. However this theory was later criticized by Miller and Modigliani (1961) who argues that dividends have minimal or no effect on stock prices. More so, business owners and investors can vend apart of their stock if they decided to do so and get some cash. In the existing study, the concept was used to explain how profits are distributed by the MSEs Owners.

Transaction Cost Theory

This theory was advanced by John R. Commons (1931). The transaction cost theory suggests that there are certain costs that people normally incur without knowing that they are a cost to them. These costs must be incurred whenever a transaction takes place. These costs are known as transaction costs (Williamson, 1975). This theory gives reasons as to why some businesses would prefer to have some products and services produced by other third parties and not the business just to avoid incurring such extra costs. Accounts payable (part of working capital) customs can be explicated by transaction cost concept in that the deficiency in discounts from the contractors is a detriment to the debtor.

EMPIRICAL REVIEW

Access to finance and Turnover growth of SMEs

Pratima and Zulficar (2015) conducted a study which sought to identify, analyze, and compare strategies used by SMEs in a ‘conducive’ and a ‘constrained’ environment. They used an inductive qualitative research to contrast the role played by the Maldives and Mauritius governments in SME development. By using semi-structured interviews, they conducted a stakeholder analysis to identify variations and consensus in the data obtained from multiple sources. Their study found out that the Mauritian government supports SMEs better than the Maldivian Government. However, it was found that SMEs in both countries use similar strategies, such as bootstrapping, because they did not trust Government initiatives. The current study will survey Kenya government funding through Uwezo fund and evaluate how financing decisions affect Turnover growth.

In another study, Ferati and Ejupi (2012) sought to find out how companies make decisions on capital structure, and its effect on profitability. They did a cross sectional study of Macedonian companies on factor profitability by analyzing financial reports provided by 150 respected firms. They used the Ordinary Least Squares (OLS) method to estimate a function relating to return of equity (ROE) by indexing long and short-run debts, and the total equity of the owner. Their study found out that debt affects returns, with larger debts leading to less profit. The findings are in conformity with the conclusions of Memon, Bhutto, and Abbas (2012) who recommended that
firms should check their capital structure to dept absorption ratio to understand if they are doing well or not.

In a separate but related study, Kira (2013) evaluated factors influencing debt financing by SMEs. He conducted the analysis based on a survey of 164 firms in Tanzania. Employing a quantitative research design, he tested various hypotheses and theories about debt financing. The data obtained was subjected to multiple regression and correlation analysis to compare it with factual indicator data. The study’s empirical findings provided that access to debts is influenced by education of the firm management and experiences of the industry, in addition to common factors such as the firm location, age, and size. Lack of security to enable firms in Tanzania access credit facilities was cited as the greatest impediment to their growth according to the study.

Further, a study by Moro and Fink (2010) investigated the benefit of relationship lending to SMEs. The research was based on a panel of 535 economically successful entrepreneurial SMEs operating in North East Italy. They used a survey to collect information from bank managers of local community banks, and two national banks. A regression analysis showed that competence is positively related to credit gained, but negatively related to interest rates. However, the study found out that this relation mainly affects low trusted SMEs and not the highly trusted ones.

These findings support the point that MSEs are susceptible to credit crises in the course of economic recessions or financial catastrophes than bigger businesses. Facts obtained from the European Central Bank (ECB) as well as the European Commission assessments from 2009 unearthed that the global depression that took over a decade ago had huge negative effects on the prosperity of the small businesses (ECB, 2009, 2010). This also made it difficult for the businesses to access funds from money lenders.

**Investment Decisions and Turnover growth of SMEs**

According to Bolarinwa et al. (2014), who conducted a research on the impact of abandonment of capital investments on the survival of small and medium enterprises (SMEs) in Nigeria. They employed mixed methodological framework to question the degree to which abandonment of capital investments affects the performance of SMEs in five districts in Lagos. The study adopted survey inferential design. The findings of the study showed that the performance of SMEs is characterised by numerous problems including: lack of proper and effective capital budgeting mechanism, failure to access loan, lack of funds, strict banking policies, unethical business practices, lack of stable business policy, among others. This has strengthened our understanding that abandonment of capital investments is a critical factor in explaining SMEs survival in Nigeria. in capital marketing costs of all conceivable avenues should be jointly itemized beneath every conceivable circumstance. The Current study focuses on the whole financial management aspect among MSEs in Kwale County, Kenya.
It is on this precept that Jim and Joachim (2016) conducted a study to assess how commercial inclination and the use of management accounting practices (MAPs) in determination of plans shapes the lucrativeness of small and medium sized enterprises (MSEs). Outcomes showed that commercial inclination and MAPs have a constructive clout on lucrativeness in non-developing MSEs, but the joint effect of MAPs and commercial inclination has no further effect. Nevertheless, for developing MSEs, great practice of MAPs in resolution making is an essential for commercial inclination to sway profitability. Whereas the study focused on Management Accounting Practices (MAP), the current study will focus of financial management practices.

Alleyne et al. (2010) conducted a study to determine factors influencing investment decision of potential investors. They hypothesized that planned behaviour and risk propensity influenced investments intentions using the Ajzen (1991), dimension of the theory of planned behaviour proposes that attitudes, subjective norms, and perceived behaviour control can influence decisions about investing. Based on this, they used a self administered questionnaire to survey a sample of undergraduate business students in an institution. The quantitative research found out that risk propensity and planned behaviour predicted intent of investment. While this study focused on individual investor behaviour, the current study focuses on government funded beneficiaries.

Moreover, a study by Azzouz (2015) identified stern budget setting and assessment mechanisms as other factors influencing investment decisions. The aim of the paper was to highlight the impact of the firm size on the budgetary evaluation and its performance according to the firm size. Data were collected using a questionnaire sent to the Moroccan firms. The research identified three principal styles of budgetary evaluation: strict budgetary evaluation; moderate budgetary evaluation and lower budgetary evaluation. The firm’s performance was significantly and positively correlated with the budgetary evaluation in large enterprises. The current study focuses on MSEs.

In another study, Akintoye and Olowolaju (2008) evaluated the impact of macroeconomic policy on aggregate investment in Nigeria. The Granger Two-Step method of co integration and error correction estimation were adopted in the study. The study ascertained a significant positive impact of monetary policy on investment growth in Nigeria; the investment effect of trade policy is positive but insignificant while that of fiscal policy is absolutely negative and significant. On their part, found out that management analysis and decisions regarding an investment influence the firm’s overall financial turnover growth. While the study focused on economic policy, the current study focuses on financial management practices among MSEs in Kwale County.

**Cash Flow Management and Turnover growth of SMEs**

A study by Beveld (2012) examined the connection between profitability and accounts receivables throughout contemporary international crisis era. Using a sample of 37 large firms in the Netherlands, the study compared their working capital policies during financial crisis and
during non crisis period. The results of the study indicated that firms do not have to change their policies about working capital during crisis periods if they need to enhance profit. The study concentrated on large firms while the current study focuses on micro and small enterprises.

Supporting evidence is found by Mathuva (2009) who investigated the influence of working capital management aspects on corporate profitability. The study sampled 30 firms listed in Nairobi Stock Exchange (NSE), and conducted both fixed effects regression and pooled OLS models. The study found out that the time taken to collect cash from customers is inversely related to profitability of a firm. While the study focused on listed firms the current study looks MSEs in the context of working capital management.

Czarnitzki and Hottenrott (2011) analyzed the relation between working capital management and profitability of small and medium-sized enterprises in Germany by controlling for unobservable heterogeneity and possible endogeneity. The researchers examined a non-linear relation between these two variables and have shown that there is a non-monotonic (concave) relationship between working capital level and firm profitability, which indicates that SMEs have an optimal working capital level that maximizes their profitability.

**Profit Distribution and Growth of SMEs**

As Setiawan (2009) examined the significance of the information content in dividend announcements. The sample of the research consisted of dividend announcements during 2006 - 2008 periods. The result of the research showed that the market reacts positively to the dividend increase announcements. Dividend announcements in Indonesia contain significant information for the investors. They also noted that businesses that have a high growth prospect have investment value in the form of fixed assets which tip to amplified sales triggers which also increase profitability. Dividend policy is determined by profitability, a fact that is supported by various research studies. The current study focuses on profit distribution by micro and small firms.

For instance, Afza and Mirza (2010) investigated the impact of firm specific characteristics on corporate dividend behaviour in Pakistan, an emerging economy. By analyzing three years data of 100 sampled companies using the OLS regression, they found out that ownership, sensitivity about cash flow, size, and profitability are related positively to cash dividend. The current study looks at all forms of profit distribution among small firms in Kwale County. In another study, Imran (2011) empirically investigated factors which determine decisions about dividend payout in Pakistan’s engineering sector. He analyzed quantitative secondary data from 36 sampled firms listed on Karachi Stock Exchange using panel data techniques. The study found out that dividend policy is influenced by profitability, cash flow, sales growth, share earnings and previous dividend per share.
More so Adesola and Okwong (2009) reviewed the dividend rules of Nigerian cited businesses by utilizing the paradigm of Lintner (1956). The outcomes showed that dividend policies and rules of these businesses were exceedingly impelled by their present earnings and preceding year dividends. Whereas business magnitude and progress potential has no substantial bearing on dividend conduct of these businesses. Furthermore Shin, Kwon and Kim (2010) explored on the associations linking research and development costs and dividend smooth out of the Korean MSEs. The outcomes revealed that on the foundation of imminent development prospects and productivity, the inventive MSEs have been proficient to sustain steady dividend policy as paralleled to non-innovative ones. It can coherently be observed that the majority of investigators have concentrated on registered and big businesses in their dividend policy analyses. Rather, the dividend policy appears feasible in big businesses while less realistic on small and micro enterprises.

**RESEARCH METHODOLOGY**

**Research Design**

This research study entailed descriptive survey design. This design provided a deep understanding of the events being studied and its instruments are helpful in getting first-hand experience as well as in-depth of the study (Kothari, 2004). More so this research design was preferred because it is concerned with conditions that exist, practices that prevail, beliefs and attitudes that are held, processes that are on-going and trends that are developing. Kothari also notes that this method has the ability to allow large amount of data to be collected quickly and at minimal cost.

**Empirical Model**

The relationship between financial management decisions and turnover growth were estimated using the following regression model:

\[ Y = \alpha + \beta_1 \text{Fin}_1 + \beta_2 \text{Inv}_2 + \beta_3 \text{WC}_3 + \beta_4 \text{Pd}_4 + \varepsilon \] ........................... (i)

Where: \( Y \) = turnover growth; \( \alpha, \beta_1, \beta_2, \beta_3, \beta_4 \) = Coefficients of the model; \( \text{Fin}_1 \) = Financing decisions by a firm; \( \text{Inv}_2 \) = Investment decisions by a firm; \( \text{WC}_3 \) = Working capital management decisions by firm; \( \text{Pd}_4 \) = Profit distribution decisions by firm; \( \varepsilon \) = Error term

**Target Population**

The study was carried out in Kwale County. The target population being the 911 registered MSEs that have received a financing facility from Uwezo Fund (Uwezo Fund, 2016).
Sampling Technique and Sample Size

The study utilized stratified random sampling to choose the sample size. The paper clustered the population into strata. Kothari (2004) advocates stratified random sampling for the reason that it is precise, straightforwardly accessible, divisible into appropriate strata and it increases superior evaluation; hence representation across strata. As depicted by Mugenda and Mugenda (2003) a simplified procedure for computing sample size of a population that is less than 10,000 is given.

\[ nf = \frac{n}{1+(n+N)} \]

Where: \( nf \) = the anticipated sample size when the population is less than 10,000; \( n \) = the anticipated sample when the population is less than 10,000; \( N \) = the estimate of the population size.

\[ nf = \frac{(384)}{1+(384+911)} = 270 \text{ groups} \]

As recommended by Fisher et al. (1983) the researcher used a 50 percent proportion of the target population applying the advocated formula: \( \frac{z^2pq}{d^2} \), thus taking the proportion as 0.5 the \( z \)-statistic would be 1.96 and the desired accuracy of 0.05 level, the sample size is:

\[ n = \frac{1.96^2 \times 0.5 \times 0.5}{0.05^2} = 384 \]

Data Collection Instruments

The researcher used research questionnaires to collect data from the 270 managers of MSEs who were the respondents in this study. The questionnaires contained structured questions based on the objectives. These instruments are preferred because of the ease in administering them and time saving (Mugenda & Mugenda, 2003). The first part of the questionnaire contained the demographic section about the respondents and the second part centred on key issues under investigation by the researcher i.e influence of finance decisions on turnover growth of MSEs, influence of investment decisions on turnover growth of MSEs, influence of working capital management decisions on turnover growth of MSEs and influence of profit distribution decisions on Turnover growth of MSEs.

Data Collection Procedure

The questionnaires were delivered physically by the researcher and in areas where he would not reach he employed a research assistant. The questionnaires were written in simple English language to make it easy for the respondents to understand the issues asked. However in cases where they needed any clarification on a matter that was not clear the researcher was handy to elaborate. It is a requirement to get endorsement from the necessary research authorities for one
to carry research. In this case the researcher was permitted by the University and NACOSTI which is a state department that coordinates research in Kenya. Other relevant permission was obtained from the County Government of Kwale.

Data Analysis and Presentation

After a fruitful data collection exercise the next stage was to get meaningful insight from the results Mugenda & Mugenda (2003). The process entailed coding the raw data into the computer programme and then run simultaneously using SPSS Version 23. Descriptive statistics was used to analyze the quantitative data obtained. This involved tallying up responses, computing percentages of variations in response as well as describing and interpreting the data in line with the study objectives through the use of SPSS. Quantitative data was exhibited throughout the use bar charts, pie charts, tables, percentages and frequency counts. A regression model was applied to determine the significance of the variables. In addition Correlation analysis was done to determine the strength of relationship between the variables, correlation analyses is the statistical tool that can be used to determine the level of association of two variables. Correlation analysis helped to detect any chance of multi-co linearity among the study variable. Correlation value of zero means that there is no relationship between the dependent and the independent variables. On the other hand, a correlation of ±1.0 means there is a perfect positive or negative relationship. The values were interpreted between 0 (no relationship) and 1.0 (perfect relationship).

RESEARCH RESULTS

The study’s main objective was to determine effect of financial management practices on Turnover growth of Micro and Small Enterprises in Kwale County, Kenya with the specific attention on the effect of the financing decisions on turnover growth, effect of investment decisions on turnover growth, effect of working capital management decisions on turnover growth and effect of profit distribution decisions on turnover growth.

Pearson's correlation between financial management practices and turnover growth of MSEs in Kwale County showed that financing decisions had a moderate significant positive correlation with turnover growth of MSEs. The positive correlation implies that optimum financing decisions by MSEs managers leads to higher sales turnover growth. Investment decisions had a fairly strong and significant positive correlation with turnover growth. The results imply that when the MSEs managers made optimum investment decisions it led to improved turnover growth. Working capital management had a strong positive correlation with turnover growth of MSEs in Kwale County. The correlation being significant at 1 per cent implies that when efficient working capital management tools were employed it resulted to a better turnover growth. Moreover, profit distribution had a week positive correlation which was insignificant at 1 per cent. This reveals that profit distribution decisions had little influence on turnover growth of MSEs in Kwale County.
Further the correlation coefficient (R) between independent variables (financial management decisions) and turnover growth value implicated a strong positive relationship between turnover growth and financial management practices among MSEs in Kwale County. Furthermore it was demonstrated that only about half of the variation was explained by the model concerning turnover growth as shown by R Square. Therefore, the rest of the variation on turnover growth of MSEs in Kwale County is explained by other factors not included in the model.

**CORRELATION ANALYSIS**

Pearson correlation was used to measure the degree of association between variables under consideration i.e. financial management decisions and turnover growth of MSEs. The correlation matrix below on table 4.8 indicates the results.

**Table 1: Summary of Correlation analysis**

<table>
<thead>
<tr>
<th></th>
<th>FDs</th>
<th>IDs</th>
<th>WCM</th>
<th>PDs</th>
<th>STG</th>
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<tr>
<td>FDs</td>
<td>Pearson Correlation</td>
<td>.073</td>
<td>.000</td>
<td>.000</td>
<td>.306</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IDs</td>
<td>Pearson Correlation</td>
<td>.073</td>
<td>1</td>
<td>.731**</td>
<td>.574**</td>
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<tr>
<td>Sig. (2-tailed)</td>
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<td></td>
<td>.013</td>
<td></td>
<td></td>
</tr>
<tr>
<td>WCM</td>
<td>Pearson Correlation</td>
<td>.174</td>
<td>.731**</td>
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<td>.129</td>
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<tr>
<td>Sig. (2-tailed)</td>
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<td></td>
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<tr>
<td>PDs</td>
<td>Pearson Correlation</td>
<td>.080</td>
<td>.574**</td>
<td>.129</td>
<td>1</td>
</tr>
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<td>Sig. (2-tailed)</td>
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<td></td>
<td>.000</td>
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</tr>
<tr>
<td>STG</td>
<td>Pearson Correlation</td>
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<td>.527**</td>
<td>.724**</td>
<td>.205</td>
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<td>Sig. (2-tailed)</td>
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<td></td>
<td>.000</td>
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</tr>
</tbody>
</table>

**.** Correlation is significant at the 0.01 level (2-tailed). 
**Independent variables:** Financing Decisions (FDs), Investment Decisions (IDs), Working Capital Management (WCM), Profit Distribution (PDs) and **dependent variable:** Turnover growth

**Table 1** shows the Pearson's correlation between financial management practices and turnover growth of MSEs in Kwale County. Financing decisions indicated a temperate significant positive correlation with turnover growth of MSEs in Kwale County (r = 0.306, p = 0.001, α = 0.01). The positive correlation implies that optimum financing decisions by MSEs managers led to higher sales turnover growth. Investment decisions had a fairly strong and significant positive correlation with turnover growth (r = 0.527, p = 0.001, α = 0.01). The results imply that when the MSEs managers made optimum investment decisions it led to improved turnover growth. Working capital management had a strong positive correlation with turnover growth of MSEs in Kwale County (r = 0.724, p = 0.000, α = 0.01). The correlation being significant at 1 percent implying that when efficient working capital management tools were employed it resulted to a better turnover growth. Moreover, profit distribution had a week positive
correlation \( r = 0.205, p = 0.015, \alpha = 0.01 \) which was insignificant at 1 percent. This reveals that profit distribution decisions had little influence on turnover growth of MSEs in Kwale County.

**REGRESSION ANALYSIS**

**Table 2: Model Summary**

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>Change Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.740(^a)</td>
<td>.547</td>
<td>.426</td>
<td>1.099</td>
<td>.547</td>
</tr>
</tbody>
</table>

\(^a\) Predictors: (Constant), Profit Distribution, Financing Decisions, Working Capital Mgt, Investment Decisions

Coefficient of determination explains the extent independent variables to which changes in the dependent variable can be explained by the change in the or the percentage of variation in the dependent variable that is explained by all the four independent variables (financing decisions, investment decisions, working capital management and profit distribution programs). The blanket correlation coefficient (R) between independent variables (financial management decisions) and turnover growth value was 0.740 as demonstrated in table 3. The implication is that there is a strong positive relationship between turnover growth and financial management practices among MSEs in Kwale County. Furthermore the table displays that only 54.7 percent of the variation is explained by the model concerning turnover growth as shown by R Square .0547. Therefore, 45.3 percent of the variation on turnover growth of MSEs in Kwale County is explained by other factors not included in the model.

**Table 3: ANOVA**

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>21.883</td>
<td>4</td>
<td>5.471</td>
<td>4.530</td>
<td>.003(^b)</td>
</tr>
<tr>
<td>Residual</td>
<td>18.117</td>
<td>15</td>
<td>1.208</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>40.000</td>
<td>19</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\(^a\) Dependent Variable: Sales Turnover
\(^b\) Predictors: (Constant), Profit Distribution, Financing Decisions, Working Capital Mgt, Investment Decisions

The significance value is 0.003 which is less than \( \alpha = 0.01 \) thus the model is statistically significant in predicting how the profit distribution, financing decisions, working capital management and investment decisions affect sales turnover among MSEs in Kwale County.
Multiple regression analysis was conducted as to determine the relationship between sales turnover and the four variables. As per the SPSS generated table above, the equation (ii) below is generated.

\[ Y = 2.300 + 0.382\text{Fin}_1 + 0.554\text{Inv}_2 + 2.083\text{WCM}_3 + 0.177\text{Pd}_4 \] ..................ii

The estimated model (ii) illustrates the relationship between financial management practices and turnover growth among MSEs in Kwale County. The value 2.300 is the intercept term of the model showing the level of sales turnover when the independent variables in the model are held constant. Financing decisions had a statistically significant effect on sales turnover among MSEs in Kwale County \((B_1 = 0.382, t = 0.376, p = 0.002 \text{ and } \alpha = 0.01)\). Investing decisions had a statistically significant effect on sales turnover among MSEs in Kwale County \((B_1 = 0.550, t = 0.280, p = 0.001 \text{ and } \alpha = 0.01)\). Further working capital management decisions statistically significant effect on sales turnover among MSEs in Kwale County \((B_1 = 2.083, t = 2.569, p = 0.003 \text{ and } \alpha = 0.01)\). While profit distribution decisions did not have a statistically significant effect on turnover growth among MSEs in Kwale County \((B_1 = 0.177, t = 0.111, p = 0.003 \text{ and } \alpha = 0.01)\).

**CONCLUSIONS**

The study sought to determine the effect of financial management practices on turnover growth of Micro and Small Enterprises in Kwale County. The study concludes that financing decisions had a moderate significant positive correlation with turnover growth of MSEs. Investment decisions had a fairly strong and significant positive correlation with turnover growth. Working capital management had a strong positive correlation with turnover growth of MSEs in Kwale County. The study further concluded that all the independent variables (financing decisions, investment decisions, investment decisions, working capital management decisions, profit distribution) had a fairly strong positive relationship with sales turnover. Only 54.7 percent of the variation was explained by the model concerning turnover growth as shown by R Square .0547.
RECOMMENDATIONS

Going by the afore mentioned conclusions, the research study recommends that MSEs managers/owners ought to be comprehensively skilled on financial management practices tools such as investment techniques and cash flow management. They need be subjected to continuous development programmes such as those organised by the Institute of Certified public Accountants of Kenya (ICPAK), Kenya Revenue Authority (KRA), The Kenya Institute of Supplies Management (KISM) among others. The study further endorses for hiked state aid to the MSEs sector. This can be actualized by resource allocation in this sector especially by the escation of Uwezo fund and greatly sensitize adoption of the fund. Besides, the study recommends that the MSEs managers take a personal effort to acquire financial management skills even at a dismal level in a formal training facility. This will enable them apply such skills o manage their businesses effectively going by the fact the studied practices had a significant effect on turnover growth of MSEs.

REFERENCES


