CHALLENGES OF FINANCIAL MANAGEMENT AFFECTING PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN NAIROBI

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DECLARATION

This proposal is my original work and has not been presented for a degree in any other university

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ABSTRACT

Financial management is very critical in ensuring that Small and Medium Enterprises remain solvent. Meeting financial obligations reflects that SMEs are entitled to continuity. The world is changing at an alarming rate prompting new challenges that are making financial management in SMEs difficult. The common challenges in financial management resonate with record keeping, regulatory compliance, borrowing arrangements, financial analysis, financial reporting and operational funding. In this regard, this study sought to establish the financial management challenges faced by SMEs operating in Nairobi. In particular, the study sought to Establish the effects of business regulation, to determine the effect of record keeping on performance, to establish how financial sources influence performance of SMEs in Nairobi, to determine the effects of risk management on performance of SMEs, to find out how monitoring procedures affects performance in small and medium enterprises to establish the regulatory compliance attributes, the record keeping and financial analysis systems applied SMEs. To find out their financial sources and to establish the risk management and monitoring procedures they apply. The study applied a descriptive survey design. The target population of this study was 600 SMEs operating in the Nairobi Central Business District. This study applied the simple random sampling technique to select 60 SMEs. In this study, the managers of the SMEs were the respondents. Data collected was mainly quantitative in nature and was appropriately analyzed using descriptive statistics. The descriptive statistical tools in SPSS helped the researcher to describe the data and determine the extent used. Correlation analysis was used to analyze the relationship between the variables. The results of this study were presented in both tabular and graphic formats. The study concluded that the business regulations, record keeping, source of finance, risk management and the monitoring procedures were all significantly associated with the performance of the small micro enterprises. The study recommends that the SMEs managers to undertake some risk management courses to improve on the risk management skills. In addition, the study recommended that the SMEs managers need to come up with clear monitoring procedures and monitoring tools to monitor the performance of their businesses.

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Second I offer my sincere gratitude to my Supervisor Dr. Ambrose Jagongo who supported me throughout all my studies from nursery school to university level. I cant express my gratitude in words for my family. You have been a source of my strength.

DEDICATION

This proposal is dedicated to my daughter Joan Wairimu Kimani and my Husband Geoffrey Kimani, For their patience while I was writing and only dedicating little time to them.

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OPERATIONAL DEFINATION OF TERMS

Small Enterprises - A small enterprise is a business that is operated with a small number of employee and a low turnover.

Medium Enterprise - Business with employees less than 250 but more than 50.

Financial Management - Financial Management means planning, organizing, directing and controlling the financial activities such as procurement and utilization of funds of the enterprise.

Book Keeping - It is the recording of financial transactions

Regulatory compliance - The goal that corporations or public agencies aspire to in their efforts to ensure that personnel are aware of and take steps to comply with relevant laws and regulations.

Financial Plan - Its **is** a series of steps or goals used by an individual or business,

Vision 2030 - Kenya development blueprint covering the period 2008 to 2030. Its objective to help transform into a, "middle income country providing a high quality life to all it citizens by the year 2030"

Liquidation - The process by which a company (or part of a company) is brought to an end, and the assets and property of the company redistributed

ABBREVIATIONS AND ACRONYMS

GAAP	General Accepted Accounting Protection
GDP	Gross Domestic Product
GOK	Government of Kenya
HIV/AIDS	Human immunodeficiency virus infection / Acquired immunodeficiency syndrome
ICT	Information communication technology
KEBS	The Kenya Bureau of Standards
KIPI	Kenya Industrial Property Institute
KIRDI	Kenya Industrial Research and Development Institute
KNFJKA	Kenya National Federation of Jua Kali Association
NEMA	National Environmental Management Association
NEMA	National Environmental Management Authority
NSCE	National Council for Small Enterprises

SACCO	Savings and Credit Co-operative
SME	Small and Medium Enterprises
NGO	Non Governmental Organization

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The Small and Micro Enterprises (SMEs) play an important role in the Kenyan Economy. According to the Economic Survey (2006), the sector contributed over 50 percent of new jobs created in the year 2005. Despite their significance, past statistics indicate that three out of five businesses fail within the first few months of operation (Kenya National Bureau of Statistics, 2007). According to Amyx (2005), one of the most significant challenges is the negative perception towards SMEs.Self employment is identified with one employee, Micro business is identified with two to nine employees, Small business resonates with ten to forty nine employees and Medium sized business resonates with fifty to two hundred and forty five employees. Business and challenges are directly proportional (Henke, 2006). The challenges existing in Kenyan market identifies with; financial challenges, hiring the right persons, gaining the attention of customers, focusing on the customer needs and marketing challenges (Taylor, 2012). This project will incline towards the Financial Management challenges faced by the Small and Medium Enterprises operating in Nairobi

1.1.1 Financial Management

Financial Management means planning, organizing, directing and controlling the financial activities such as procurement and utilization of funds of the enterprise. It means applying general management principles to financial resources of the enterprise. Financial Management is the process of managing the financial resources, including accounting and financial reporting, budgeting, collecting accounts receivable, risk management, and insurance for a business (Tomecko and Dondo, 2001). The Financial Management system for a small business includes both how you are financing it as well as how you manage the money in the business. In setting up a financial management system the first decision is whether to manage the financial records or to have someone else do it. There are a number of alternative ways to handle this. The firm can manage everything; hire an employee who manages it on behalf of the firm; keep records in house, but have an accountant prepare specialized reporting such as tax returns; or have an external bookkeeping service that manages financial transactions and an accountant that handles formal reporting functions. Some accounting firms also handle bookkeeping functions. Software packages are also available for handling bookkeeping and accounting (Oketch, 2000). Bookkeeping refers to the daily operation of an accounting system, recording routine transactions within the appropriate accounts. An accounting system defines the process of identifying, measuring, recording and communicating financial information about the business. So, in a sense, the bookkeeping function is a subset of the accounting system.

Financial management is very critical in ensuring that Micro-Small and Medium Enterprises remain solvent. Meeting financial obligations reflects that Micro-Small and Medium Enterprises are entitled to continuity. The world is changing at an alarming rate prompting new challenges that are making financial management in SMEs difficult. The common challenges in financial management resonate with record keeping, regulatory compliance, borrowing arrangements, financial analysis, financial reporting and operational funding (Amram, 2005).Accurate record keeping is the biggest challenge facing SMEs in Nairobi County. The business operators hardly have basic knowledge on accounting principles. Record keeping must be taken seriously for the purposes of accountability (Ward, 1994). SMEs that have grown tremendously have proper records keeping in place. It is vital for the operators of SMEs consider upgrading their knowledge on accounting principles and book keeping.

Financial analysis in SMEs is critical in that the operators identify areas that are struggling in operations (Mead, 1998). This in return assists traders make timely adjustments. Financial analysis in SMEs relies on performance metrics considering debt turnover ratio to inventory turnover ratio. Researchers have identified that the inventory turnover ratio is equal to the costs of goods sold divided by the inventory. The ratio of debt coverage which measures solvency equals to the net profit added to the noncash expenses and then divided by the total debts.

1.1.2 Lack of Credit

Lack of access to credit is almost universally indicated as a key problem for SMEs. This affects technology choice by limiting the number of alternatives that can be considered. Many SMEs may use an inappropriate technology because it is the only one they can afford. In some cases, even where credit is available, the entrepreneur may lack freedom of choice because the lending conditions may force the purchase of heavy, immovable equipment (Amyx, 2005). Accessing adequate and timely financing on competitive terms, particularly longer term loans, accessing credit on easy terms has become difficult in the backdrop of current global financial crisis and the resultant liquidity constraints in the Kenyan financial sector, which has held back the growth of SMEs and impeded overall growth and development. Micro-Small and Medium Enterprises in Nairobi face eminent challenges in financial borrowing arrangements to fund their operations (Kiiru, 2004).

Financial services play a critical role in reducing poverty. Permanent access to financial services can help poor people take control of their lives. When good practice is applied, financial services can put power into the hands of poor households, allowing them to progress from hand-to-mouth survival to planning for the future, acquiring physical and financial assets, and investing in better nutrition, improved living conditions, and children's health and education. Because financial services can be delivered sustainably, these benefits can be enjoyed well beyond the duration of donor or government programs

In order to reap the advantages of such schemes, support needs to be directed not only to the small enterprise members through micro level assistance, but channeled at the meso level to alleviate the operational and accountability constraints of the organizations themselves. Meso-level service providers comprise auditors, rating agencies, professional associations or networks of retail financial service providers, credit bureaus, transfer and payments systems, information technology, technical service providers, and trainers.

One area of specific support from local non-government agencies can be found in the range of initiatives aimed at alleviating the financial constraints many small operators cite as a primary barrier to their development. This is facilitated through a varied package of NGO based financial assistance schemes. NGO links with donor agencies to provide investment funding, technical assistance and management support have increased the effectiveness of government agencies in administering support programmes. Financial liberalization has had mixed results in opening access to formal sources of credit for small scale enterprises, as illustrated by the cases of Nigeria and Kenya (Oyejide, 1993; Mwarania, 1993). Access to credit continues to be a constraint for smaller enterprises. Direct measures have been introduced to provide access to credit in the form of local financial institutions.

1.2 Statement of the Problem

Financial management has been found to be very critical in ensuring that Small and Medium Enterprises remain solvent by meeting financial obligations. The ability of the SMEs to fulfill their potential in the economy depends on the availability of finance. Finance in general and credit in particular is especially important for SMEs, since they are unable to finance themselves through retained earnings or equity financing. Despite the fact that financing is a major factor for growth of SMEs, a number of studies and government enquiries have mentioned that SMEs face problems when accessing finances from banks due to a market failure in credit markets. Although, a considerable number of research consultancy reports have mentioned that the access to finance has been a major problem in the SME sector, a survey of the literature dealing with this area indicates there is a significant gap in knowledge of the challenges of financial management affecting the performance of SMEs. This study therefore sought to investigate the financial management challenges affecting the performance of small and medium enterprises in Nairobi**.**

1.3 Objectives of the Study

1.3.1 General Objective of the Study

The general objective of this study was to investigate the challenges of financial management affecting performance of small and small and medium enterprises in Nairobi

1.3.2 Specific Objectives of the Study

The specific objectives of this study were;

a) To establish how business regulation affects performance of SMEs in Nairobi

b) To investigate how record keeping affects performance of SMEs in Nairobi

c) To establish the influence the source of finance has on performance of SMEs in Nairobi.

d) To determine the effects of risk management on performance of SMEs in Nairobi.

e) To find out how monitoring procedures affects performance in SMEs in Nairobi.

1.4 Research Questions

The study sought to answer the following questions;

a) How do business regulations affect SMEs in Nairobi?

b) How does record keeping affects performance of SMEs in Nairobi?

c) How do financial sources affect performance of SMEs in Nairobi?

d) What are the effects of risk management on performance of SMEs in Nairobi?

e) How do monitoring procedures affect performance of SMEs in Nairobi?

1.5 Significance of the Study

This study helped to establish the challenges of financial management faced by the SMEs operating in Nairobi. This study results will be used to sensitize the government on creating systems that considered the plight of the SMEs in Kenya. Financial institutions will be sensitized on the potential of the SMEs. The market is under exploited. Operators of the SMEs will be educated on the best channels of running their business in relation to financial management.

To the researchers and academicians the study results will provide a base upon which secondary material on financial management challenges facing SMEs operators. The study results will also provide good literature on financial management. To the general academic fraternity the study will form a base for further studies on financial management challenges facing SME operators in Kenya.

1.6 Delimitation of Research

In order to ensure that the research is of a manageable size the researcher demarcated the study to particular areas. Also in order to simplify the research the scope of the research was limited to the sampled SMEs the environment to be researched was to limited to the owners.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

The chapter presents a review of literature with the aim of identifying literature gap which this study will attempt to fill. The literature has been reviewed on the financial management challenges faced by SME. The chapter also presents the literature on regulatory requirements, SMEs in Kenya, theoretical framework the theories reviewed included; agency theory, signalling theory, the pecking-order theory. The chapter also presents the review in business regulations record keeping, financial analysis, financial sources, firm performance, risk management and monitoring, financial performance and conceptual framework. It is also in this chapter that the research gap has been expounded.

2.1 Financial Management.

Financial management resonates with the management of finances in businesses or organizations to achieve preset financial objectives (Codjia, 2012). Commercial businesses are the most common organization structures in place. The objectives associated with financial management directs at creation of wealth for the business, generation of cash and provision of return on investment (Amram, 2005). Financial management in businesses entails the financial planning, financial control and financial decision making. Financial planning is identified with making sure that enough business funding is available at the time of need. This is the planning of money to invest in stocks, pay the salaries and wages, pay the house rents and fund the sales made on credit (McNamara, 2012). Financial planning sets aside substantial amount of capital for future business expansions and acquisitions.

Financial control is critical in financial management. Financial control assists businesses in making sure that the objectives set are met. This is critical considering that businesses operate under targets. Financial control addresses effectiveness of the businesses, security of the businesses and making sure that the shareholders are protected. Financial controls entail maintenance of business ethics. Financial decision making relates to the investment management, financing and dividends administration. Investments are financed by the administration of the financial decision making process. This is critical focusing at sales of shares, taking credits from the suppliers and borrowing cash from the banks (Roxas et al., 2008). Financial decision making looks at the profits earned and the sustainability of the business organization. The decisions are translated to the divided earned by the shareholders. Financial decisions are necessary in determining the amount of cash that will be retained by the organization for emergency needs and future developments (Greenlees, 2008).

Finance has been identified in many business surveys as the most important factor determining the survival and growth of SMEs in both developing and developed countries (Nagayya and Rao, 2011). Access to finance allows SMEs to undertake productive investments to expand their businesses and to acquire the latest technologies, thus ensuring their competitiveness and that of the nation as a whole (Codjia, 2012). Poorly functioning financial systems can seriously undermine the microeconomic fundamentals of a country, resulting in lower growth in income and employment (Parijat, Saeed and Pranab, 2011).

Despite their dominant numbers and importance in job creation, SMEs traditionally have faced difficulty in obtaining formal credit or equity (Oketch, 2000). For example, maturities of commercial bank loans extended to SMEs are often limited to a period far too short to pay off any sizeable investment. Meanwhile, access to competitive interest rates is reserved for only a few selected blue-chip companies while loan interest rates offered to SMEs remain high. Financial affairs of the organization, with planning and controlling emphasized, and simply put, involve the application of basic management principles in the financial sphere. Financial management is a specialized field of study, but it cannot and does not operate in a void. Financial management relies on the conceptual principles and information systems embodied in other disciplines. The task of the financial manager can be summarized very broadly by saying that it involves the allocation of the scarce resources of the firm.

The findings in the study by Wanjohi and Mugure (2008) indicate that business environment is among the key factors that affect the growth of MSMEs. Unpredictable government policies coupled with 'grand corruption,' high taxation rates, all continue to pose great threat, not only to the sustainability of SMEs but also to the Kenyan economy.

Small and Medium Enterprises in Kenya are unable to secure financial support for the market. This has crippled the industry to a level of insignificant growth. The lucky SMEs that get the finances are unable to manage the funds effectively. Small and Medium Enterprises ends up not paying debts leading to financial crisis and lost trust among the finance stakeholders. Numerous money lenders in the name of pyramid schemes came up, promising hope among the 'little investors,' which they can make it to the financial freedom through soft borrowing. The rationale behind turning to these schemes among a good number of entrepreneurs is mainly to seek alternatives and soft credit with low interest rates while making profits. Financial constraint remains a major challenge facing Small and Medium Enterprises in Kenya.

2.1.2 Regulatory Requirements

Financial management cannot operate in a vacuum. If the value of a firm is to be maximized, the financial manager must understand the legal environment in which financial decisions are made. Regulatory requirements, as the term implies, are requirements mandated by relevant authorities for your business. Anything closely or remotely related to your business must be within your purview. Complete information on such requirements facilitates the future course of action and prevents any fines or enforcements attached. The requirements serve as a legal fence. A full understanding of these requirements is also crucial for achieving competitive edge. The key terms here are the right direction and, therefore, the strategy or the business direction must be carefully drafted to ensure that it is right. The basic regulatory frameworks and acts that govern the present business operations include Sarbanes Oxley Act ([SOX], 2002), Gramm-Leach-Bliley Act (1999), and Health Insurance Portability and Accountability Act ([HIPAA], 1996).The specific requirements vary and require careful study; however, at the core, these regulatory tools ensure that your operations benefit the society. Accountability, integrity, confidentiality, transparency, and availability are few of the functions served by the regulatory framework.

The basic impact of the regulatory requirements on your business depends largely on how you perceive and implement them. Ignorance or negligence toward this end can lead to eventual negative consequences. An important area affected is the customer trust and association with you. How you produce is an important determinant of how much you sell. The modern consumer is becoming increasingly cautious of things that go one backstage. In the same category falls the impact of such obligations on your prospective associations, mergers or alliances. The other party is wary of defaulters or partners who are continuously avoiding the legal net by wrong means for wrong reasons. Anticipating future changes and their implications are important in case of regulatory requirements. Investments or other crucial decisions made without taking into account such factors could cause huge losses in times to come. A minor amendment or an introduction could kill the profit streams and might entail huge modifications in your plans. So make sure to include regulatory commitments while planning. Regulatory requirements are supposed to benefit the society and you but what is important is how you mold them to gain. Do not expect to sit back and wait for things to change for you; rather, make necessary changes in the overall business strategy that includes the regulatory requirements as a complementary add on. Business Owners all across the country are joining "The Community of Small Business Owners" to receive and provide strategies, insight, tips, support and more on starting, managing, growing, and selling their businesses (Hashim et al 2002). As a member, you will have access to true Millionaire Business Owners who will provide strategies and tips from their real-life experiences.

2.1.3 SMEs in Kenya, the Contextual Background

The number of small businesses is growing rapidly in Kenya as evidenced by the growing activities within (Namusonge 2004, Sessional paper 2005, World Bank report). Every sector of operations has smaller operations. These include textile industry, manufacturing, finance, security, food and hotels, transport, service sector to mention a few. The business environment is highly turbulent characterized by external factors as political, legal, economic, socio-cultural, and technological as well as internal business factors such as management expertise, resources, individual characteristics etc. In the dynamism and turbulence, small businesses are affected more than the large organizations because the response to environmental changes is different in small businesses than in large companies (Hartshon and Wheeler, 2003: 203-320), which may exit from one business area and have resources and strategic choices not available to small business enterprises. It's necessary to study the management factors that are in place in the informal sector, that is, investigate individual business adjustment policies in relation to the state policies, the current business performance factors. As a sector that accounts for 75% of the total employment in Kenya while contributing 18.4 percent of the country's Gross Domestic Product, the SME sector has caught the attention of government and other private sector who in a bid to move the country to a middle level economy as envisaged in the development blue print of Vision 2030 are strategizing how to create an enabling environment for this sector with the realization that the sector is a key pillar if the country is to realize its Vision 2030. Statistics from the Economic Survey 2009 shows that SMEs created 533, 500 jobs an equivalent of 93% of the 566, 200 jobs created in the country in 2009, while the mainstream sector created a paltry 33,700 jobs in the same year.

The ballooning of SMEs in every sector of the economy has been indicative of investor's interest in the Kenyan economy even as these small and medium enterprises struggle to fight to stay afloat. Two national baseline surveys that have been commissioned by the government to measure the growth of the SMEs sector identified that SMEs in the informal sector had impressively grown from 900,000 enterprises providing jobs to 1.3 million Kenyans in 1993, to 1.3 million enterprises employing 2.3 million Kenyans in 1999.Recent studies however has put that figure at an all time high with one study commissioned by the International Poverty Centre estimating that in 2006 small enterprises went up to 1.9 million and created 4.4 million workers. Experts have predicted that the figures will go even higher buoyed by investor confidence and a growing interest from various sectors to support the sector. The Kenyan government has already taken the driver's seat in championing SME sector as key to shaping the Vision 2030 Kenyan dream. According to Abdulrazaq Adan Ali,

"SMEs are central in creating a balance between the needs of rural and other disadvantaged areas, where the majority of the poor live thus increasing competition and contributing to a more equitable distribution of income. This is due to the fact that they are the main source of economic growth and employment,"

The government guided by Sessional Paper No 2 of 2005 launched the 4k SME 2030 initiative under the first five years 2007 to 2012 of Vision 2030. The Institutions that were to work under the 4K initiative include the Kenya Industrial Research and Development Institute (KIRDI), the Kenya Industrial Property Institute (KIPI), The Kenya Bureau of Standards (KEBS), and the Kenya National Federation of Jua Kali Association (KNFJKA).The initiative is tasked with Ensuring SMEs produce quality products that meet both local and international standards, while enhancing consistency and cooperation with other sectors. The specific objectives are to: upgrade the SMEs products; build capacity for MSEs to manufacture upgraded products; promote innovation and technology transfer; instill a culture of quality and standardization; promote use of intellectual property as a tool of trade and business. Already the initiative has recorded encouraging results since it was set up. It has managed to train over 1,000 SMEs on mass production of quality products while diversifying on their portfolios.

"It has been a very encouraging process. We have seen those trained apply what they get to their businesses. The result has been so many SMEs especially those in the manufacturing and telecommunication sectors. We have seen these SMEs expand their brand, products are being produced overwhelmingly and the quality has been raised if remarks from the Kenya Bureau of

Standard are anything to go by. We plan to get everyone in the SME sectors on board if we are to have a strong middle class economy by 2030," (Hashim and Wafa 2002).

The government also recently set aside Sh. 1 billion to be used in the creation of five small and medium enterprise industrial parks that are modeled along the Export processing Zones and which are expected to create roughly 10 million jobs once set up. The decision to create the industrial parks was inspired by Cabinet's approval to transform the country's Export processing zones to all inclusive Special Economic Zones, which are a step ahead of the EPZs. Special Economic Zones is a geographical region that has more liberal laws than the typical laws governing investment and trade, the purpose of which is to attract mostly foreign investors. Out of the KSh. 1 billion the Ministry of Information and communications has been allocated KSh. 900m as a first priority to set up an ultra modern ICT park near Nairobi. The Small enterprises Bill awaiting discussion in parliament is another landmark attempt by the government to empower the SMEs sector to drive the process to the attainment of Vision 2030. The Bill targets businesses with an annual turnover of less than Sh500,000 or companies that employ less than 10 people and manufacturing plants who have an investment and capital base of less than KSh. 10 million.

The bill seeks to create a department in the Ministry of Labour that will specifically be mandated with marketing goods and services of the SMEs to both the local and international markets. The department to be called "the National council for Small enterprises (NCSE), will also be the link between government and the enterprises communicating government decision to the SMEs and voicing the concerns and needs of the SMEs to the government. The bill will also regulate the ever burgeoning SMEs sector while ensuring that only the SMEs that meet the set guidelines are represented. It will establish a credit Bureau where SMEs keen on expansion can access credit and financial services including free financial advice. This will consolidate the government's efforts to reach the informal sector after having successfully implemented the Joint Loans Board Credit Scheme, a revolving credit fund which gives access to affordable credit SMEs. The scheme covers the whole country and has since 1954 extended over Sh. 600 million to over

40, 000 SME owners.

"There has been a lot of pressure for the government to pass the bill which has been sitting in parliament for the last ten years. The political bickering hasn't really helped because if we are serious about empowering the SMEs sector then we need to do it now," (Kithuma)

According to the 2003 Economic Survey by the Government of Kenya, employment within the SMEs sector increased from 4.2 million in 2004 to 5.1 million in 2006; with the informal sector accounting for 70.4 per cent of total employment opportunities. In 2005, the informal sector accounted for 72.8 per cent of total employment opportunities. This percentage rose to 74.3 per cent in 2006 and 76.5 per cent in 2008 (GoK Economic Survey, 2008). The difficulty investors encounter in investing in SMEs is unfortunate as they tend to be more innovative and generate more growth than bigger companies. The costs involved in accessing capital markets make this something that is unlikely to change despite the lack of access to capital faced by the firms

Some of the key constraints that are being faced by the Kenyan SMEs include accessing adequate and timely financing on competitive terms, particularly longer term loans, accessing credit on easy terms has become difficult in the backdrop of current global financial crisis and the resultant liquidity constraints in the Kenyan financial sector, which has held back the growth of SMEs and impeded overall growth and development. In addition, financing constraints faced by Kenyan SMEs are attributable to a combination of factors that include policy, legal/regulatory framework (in terms of recovery, bankruptcy and contract enforcement), institutional weaknesses (absence of good credit appraisal and risk management/ monitoring tools), and lack of reliable credit information on SMEs. It has also become difficult for lenders (Manickaraj, 2010).

Small enterprises and most of the poor population in sub-Saharan Africa have every limited access to deposit and credit facilities and other financial services provided by formal financial institutions. For example, in Ghana and Tanzania, only about 5–6 percent of the population has access to the banking sector. This lack of access to financial services from the formal financial system is quite striking, when one considers that in many African countries the poor represent the largest share of the population and that the informal sector is an important part of the economy (Lokhande, 2011).

Africa's SMEs have little access to finance, which thus hampers their emergence and eventual growth. Their main sources of capital are their retained earnings and informal savings and loan associations, which are unpredictable, not very secure and have little scope for risk sharing because of their regional or sectoral focus (McNamara, (2012). Access to formal finance is poor because of the high risk of default among SMEs and due to inadequate financial facilities. Small business in Africa can rarely meet the conditions set by financial institutions, which see SMEs as a risk because of poor guarantees and lack of information about their ability to repay loans. The financial system in most of Africa is under-developed however and so provides few financial instruments. Capital markets are in their infancy, shareholding is rare and no long-term financing is available for SMEs. Non-bank financial intermediaries, such as micro-credit institutions, could be a big help in lending money to the smallest SMEs but they do not have the resources to follow up their customers when they expand SMEs find it hard to access finance due to various reason like the High interest rates most bank charges higher interest rates to the SME because of fear of defaults (Lazear, 2005). This deters them from borrowing from the banks – disparities between savings account returns and borrowing rates Collateral requirement– Land ownership etc Multiple transaction costs Delays in processing Inflexible conditions Government requiring unmovable collateral SME's to have good track records SACCO's demanding group borrowing rather than individual companies.

Interest rates for commercial banks 18 – 25%, Sacco's 50% Lack of transparency – Conditions and requirements are not shown in advance Slow in processing loans, corruption (TZ) Lack of skills to present bankable projects (U sellable business plans) People borrow and do not pay back Ministry of youth, National youth committee developing professional activities for the youth (Budget allocations). Question is sustainability due to lack of follow up and monitoring but this has collateral requirements which some small businesses cannot meet Sector diversification from agricultural Loan security (Parijat, Saeed and Pranab, 2011). Loan security is one of the important aspects of credit to SMEs. Most lending to small-scale enterprises is security based, without any regard for potential cash flow. However, organizations lending to micro-enterprises have devised alternative forms of collateral. These include: group credit guarantees, where organizations lend to individuals using groups as guarantors, and personal guarantors, where individuals are given loans based on a guarantor's pledge. Loan guarantee schemes are increasingly being implemented as a means of encouraging financial institutions to increase their lending to the risky sectors and those without the traditional formal security Some countries (such as Kenya) have dealt with the lack of funding by supporting growth of smaller commercial banks or (in Ghana) of rural banks, so as to bring traditional banks and MSMEs closer geographically and business-wise (Manickaraj, 2010).

Osteryoung et al (1997) noted that *“while financial management is a critical element of the management of a business as a whole, within this function the management of its assets is perhaps the most important. In the long term, the purchase of assets directs the course that the business will take during the life of these assets, but the business will never see the long term if it cannot plan an appropriate policy to effectively manage its working capital"*. In effect the poor financial management of owner-managers or lack of financial management altogether is the main cause underlying the problems in SMEs financial management. Hall and Young (1991) in a study in the UK of 3 samples of 100 small enterprises that were subject to involuntary liquidation in 1973,1978,and 1983 found out that the reasons given for failure, 49.8% were of financial nature. On the perceptions of official receivers interviewed for the same small enterprises, 86.6% of the 247 reasons given were of a financial nature. The positive correlation between poor or nil financial management (including basic accounting) and business failure has well been documented in western countries according to Peacock (1985a).

It is gainsaying the fact that despite the need to manage every aspect of their small enterprises with very little internal and external support, it is often the case that owner-managers only have experience or training in some functional areas. This is also not always or usually applied because they might be doing everything from abusing telephone calls to ordering products. It must be possible to undertake production, marketing, distribution and the like, without repeatedly causing, or being hindered by, financial pressures and strains. It does not mean, however, that financial management can be ignored by a small enterprise owner-manager; or as is often done, given to an accountant to take care of. Whether it is obvious or not to the casual observer, in prosperous small enterprises the owner-managers themselves have a firm grasp of the principles of financial management and are actively involved in applying them to their own situation (McMahon et al. 1993).

2.2 Theoretical Framework

Financial management theories and their application are really vital for an organization. It involves application of management principle to all financial operations. Theories of financial management are applicable to run an organization. These theories are designed and developed for promising positive cash flow and maximizing the profit of stakeholders. Financial management theories comprise of large complex strategies for administration, maintenance of financial operations and minimizing risk involve in different aspects of such operations. By using financial management theories and principles, it becomes easy for executives to figure out the right way to handle various affairs of an organization. Some of the theories of financial management that are applicable to run an organization are as follow:

2.2.1 Agency Theory

Agency theory deals with the people who own a business enterprise and all others who have interests in it, for example managers, banks, creditors, family members, and employees. The agency theory postulates that the day to day running of a business enterprise is carried out by managers as agents who have been engaged by the owners of the business as principals who are also known as shareholders. The theory is on the notion of the principle of 'two-sided transactions' which holds that any financial transactions involve two parties, both acting in their own best interests, but with different expectations. Problems usually identified with agency theory may include:

2.2.1.1 Information asymmetry- a situation in which agents have information on the financial circumstances and prospects of the enterprise that is not known to principals. (Emery etal.1991).for example ”The Business Roundtable" emphasized that in planning communications with shareholders and investors, companies should consider never misleading or misinforming stockholders about the corporation's operations or financial condition. In spite of this principle, there was lack of transparency from Enron's management leading to its collapse;

2.2.1.2 Moral hazard: a situation in which agents deliberately take advantage of information asymmetry to redistribute wealth to themselves in an unseen manner which is ultimately to the detriment of principals. A case in point is the failure of the Board of directors of Enron's compensation committee to ask any question about the award of salaries, perks, annuities, life insurance and rewards to the executive members at a critical point in the life of Enron; with one executive on record to have received a share of ownership of a corporate jet as a reward

2.2.1.3 Adverse selection: concerns a situation in which agents misrepresent the skills or abilities they bring to an enterprise. As a result of that the principal's wealth is not maximized (Emery et al.1991).In response to the inherent risk posed by agents' quest to make the most of their interests to the disadvantage of principals (i.e. all stakeholders), each stakeholder tries to increase the reward expected in return for participation in the enterprise. Creditors may increase the interest rates they get from the enterprise. Other responses are monitoring and bonding to improve principal's access to reliable information and devising means to find a common ground for agents and principals respectively.

Emanating from the risks faced in agency theory, researchers on small business financial management contend that in many small enterprises the agency relationship between owners and managers may be absent because the owners are also managers; and that the predominantly nature of SMEs make the usual solutions to agency problems such as monitoring and bonding costly thereby increasing the cost of transactions between various stakeholders (Emery et al.1991). Nevertheless, the theory provides useful knowledge into many matters in SMEs financial management and shows considerable avenues as to how SMEs financial management should be practiced and perceived. It also enables academic and practitioners to pursue strategies that could help sustain the growth of SMEs.

2.2.2 Signaling Theory

Signaling theory rests on the transfer and interpretation of information at hand about a business enterprise to the capital market, and the impounding of the resulting perceptions into the terms on which finance is made available to the enterprise. In other words, flows of funds between an enterprise and the capital market are dependent on the flow of information between them (Emery et al, 1991). For example management's decision to make an acquisition or divest; repurchase outstanding shares; as well as decisions by outsiders like for example an institutional investor deciding to withhold a certain amount of equity or debt finance. The emerging evidence on the relevance of signaling theory to small enterprise financial management is mixed. Until recently, there has been no substantial and reliable empirical evidence that signaling theory accurately represents particular situations in SME financial management, or that it adds insights that are not provided by modern theory (Emery et al.1991).

According to Keasey et al (1992) the ability of small enterprises to signal their value to potential investors, only the signal of the disclosure of an earnings forecast were found to be positively and significantly related to enterprise value amongst the following: percentage of equity retained by owners, the net proceeds raised by an equity issue, the choice of financial advisor to an issue (presuming that a more reputable accountant, banker or auditor may cause greater faith to be placed in the prospectus for the float), and the level of under pricing of an issue. Signaling theory is now considered to be more insightful for some aspects of small enterprise financial management than others (Emery et al 1991).

2.2.3 The Pecking-Order Theory or Framework (POF)

This is another financial theory, which is to be considered in relation to SMEs financial management. It is a finance theory which suggests that management prefers to finance first from retained earnings, then with debt, followed by hybrid forms of finance such as convertible loans, and last of all by using externally issued equity; with bankruptcy costs, agency costs, and information asymmetries playing little role in affecting the capital structure policy. A research study carried out by Norton (1991b) found out that 75% of the small enterprises used seemed to make financial structure decisions within a hierarchical or pecking order framework .Holmes et al. (1991) admitted that POF is consistent with small business sectors because they are owner-managed and do not want to dilute their ownership. Owner-managed businesses usually prefer retained profits because they want to maintain the control of assets and business operations. This is not strange considering the fact that in Ghana, according to empirical evidence, SMEs funding is made up of about 86% of own equity as well as loans from family and friends Losing this money is like losing one's own reputation which is considered very serious customarily in Ghana.

2.3 Empirical Literature

Prospering countries have SME driven economies because the SME sector is the cornerstone of strong economic growth. Employment opportunities, reduction in poverty levels and subsequent improved standards of living are some of the major contributions of the SME sector. However, this sector has many challenges which hamper its growth thereby negatively influencing its contributions. A discussion of the challenges facing SMEs in many developing countries is presented in the empirical review below.

2.3.1 Business Regulation

Regulation is an administrative legislation with set responsibilities (Amram, 2005). The parliament and the local authority officials have the responsibilities of regulating businesses within the cities. The governments and the local authorities expect businesses organizations to obey the set rules to the letter. Any business defaulting rules finds itself being heavily fined ultimately influencing financial management process (Yourbusinesspal.com, 2012) in SMEs. The government and the City Council of Nairobi should make all the laws available to the SMEs, so that chances of defaulting are highly minimized. This is not the case in Kenya. The laws are not known to many business operators making it hard to operate under such an environment. There are a number of regulatory licenses in place. The government and the local authorities have set it hard to operate within the central business district of Nairobi. City council of Nairobi officials are corrupt with intention of gaining some cash favors from the small business operators. This influences the financial management in the SMEs. Regulations in business takes various forms, there are government regulations, self regulation by industries such as the trade associations, social regulation, co-regulation and market regulation. The business environment is imposed with sanctions such as fines that are enforced by the administrative law (Amram, 2005). The government and local authority officials make sure that SMEs follow the set regulations. In the event of fines, which are a common site in Nairobi, SMEs finds themselves unable to handle proper internal financial management processes.

There are a number of regulations in the market. Controls on market entries, control on prices, wages control, approval of development, environment controls e.g. NEMA, employment regulations, expected standards of production and other vital services. Regulatory economics deals with imposing or removing regulations to a market (Williams, 2011). The regulations alter the financial management of the SMEs due to increased costs. Business regulations are performed with intentions to reduce market failures, reduce monopoly, encourage collective action, offer adequate information to the players and manage unseen challenges (Taylor, 2012). Other benefits of regulations offers collective desires, diverse experiences, social subordination, irreversibility, encourage professional conduct and transfer of interests groups (Yourbusinesspal.com, 2012).

2.3.2 Record Keeping and Financial Analysis

Record keeping and financial analysis in SMEs has been a challenge over the years. Majority SMEs never keep records of their operations. This indicates that responsibility in the small business is highly compromised. Record keeping is critical for the financial management of SMEs. The business income and transactions are computed to indicate a detailed financial health of the organization. SMEs must learn how to keep proper book keeping in order of maintaining corporate status. This is essential considering that proper records enables easy financial management models and expansions of the business (Amram, 2005). This is mostly essential in looking back at what has worked and what has not worked (Codjia, 2012). Repeat of mistakes is discouraged and encourage a culture of saving money. Business records acts as a platform of reference. SMEs can enhance business record keeping by making sure that day to day operations are recorded down. Records on; accounting, permits, applications, contract documents, insurance policies, certificates of membership, addresses and names of all the stakeholders, operating agreement laws among other documents (Henke, 2006). Proper documentation ensures that the company is always on track. Success in financial management in SMEs relates to keeping track of the sales, proceeds and the turnover of the business (Taylor, 2012).

Proper record keeping enhances financial statements, business analysis, monitoring of cash flow and enabling accurate tax returns. Financial statements in the business financial management are crucial in the borrowing or lending agency and auditing of books. Records enhance business analysis by constantly checking the finance health status of the businesses (McNamara, 2012). This is crucial in identifying the sectors that make more cash than the others. Losses are identified in time and corrected hence protecting the business from a possible collapse. Record keeping is very crucial in the running of SMEs. Record keeping demands daily updates to eliminate huge paperwork, the receipts should be filed in the right headings, tracked to the source and placed in the right place. Separate businesses should have different books of accounts (Amram, 2005). Documents must be placed in particular areas, records of finances that resonates with purchases, sales, payrolls, receipts must be preserved safely. All related documents must be kept in one folder. This is critical in ensuring that mix up of documents is avoided (Smallbusinessnotes.com, 2011).

Records of bank receipts, cash register bills and credit card details must be kept safely as prove for income. Documents relating to suppliers are subject to be filed accordingly. Supplier receipts indicate the buying and selling transactions. It is vital noting that documents relating to expenses should be kept separately from documents relating to income. Petty cash records should be kept safely and in the right manner (Codjia, 2012). Documents relating to assets are preserved in one file to enable easy accounting and auditing. Compensation records are subject to be kept updated. Records keeping in businesses are essential in order to maintain a clear picture of the business financial transactions (Smallbusinessnotes.com, 2011). This is in turn crucial in solving challenges emanating from the financial management.

2.3.3 Financial Sources

Financial sources in SMEs varies, some have regular funds while others have irregular funds, translating that the sources of finances influences the financial management process. Finances are a major challenge in SMEs (McNamara, 2012). Considering that majority of them does not keep records. It is very difficult to establish the financial health of the business. This translates that consideration if a business is making loss or profits; it is just by mere speculation. SMEs are financed from own funds and assets. This has been established by researchers as the most common and easy. There are other channels of financing a business, family and friends plays a critical role. There are financial institutions like the banks that offered financial assistances. This is in form of loans and it is considered to as the most difficult (McNamara, 2012). Considering that SMEs keep poor records, banks and other financial institutions shy away from offering loans to the players. This has presented a serious challenge in expansions ultimately influencing the financial management in the SMEs.

Government has realized the financial management challenges in the SMEs and considered offering channels that offer materials on financial management (Amram, 2005). Successful businesses are boasted by means of soft loans (Greenlees, 2008). This has not been significantly successful considering that majority of the businesspeople in this sector are not much educated meaning that they struggle with record keeping paralyzing the efforts of government.

Businesspeople in the SMEs must learn how to save finances (Yourbusinesspal.com, 2012). This means that they have to set up debt reduction strategies. It is worth noting that SMEs has the responsibilities of taking care of their businesses or the businesses will go down the drain. Financial management in SMEs means that the businesspeople in this sector have them dates of figuring where they are going, this is done by setting targets (Henke, 2006). The goals are set relating to daily, monthly and yearly. Goals must have deadlines. The best model to counter bills management is start by paying the small bills first. This is referred to as the target bill. This leads to financial stability with time.

There are two types of finance sources in SMEs; there is primary source that identifies with retained profits and external sources that identifies with loans and debentures (Codjia, 2012). Acquiring loans for SMEs is not easy considering that most of the SMEs do not keep proper records hence difficult to determine the health conditions of the businesses (Greenlees, 2008). External sources of finances indicate that businesses will owe finance to debtors. Primary sources and secondary sources of finances have their attached merits and demerits (Smallbusinessnotes.com, 2011). SMEs also contribute to long-run industrial growth by producing an increasing number of firms that grow up and out of the small sector. Thus the emergence of wholly modern small- and medium-scale Kenyan industries is likely to be a prerequisite for any enduring industrialization in that country.

However, despite government efforts in Kenya to promote informal sector activity, not much progress seems to have been achieved, judging by the performance of the informal sector. Most previous studies throughout Africa treat the informal sector as essentially homogeneous in its characteristics (Morris and Pitt 1995; Bewayo 1995; Ekpenyong and Nyong 1992). Recent research suggests that government policy should be more narrowly targeted to subsectors within the informal sector (Parker and Torres 1994).

2.3.4 Firm Performance

Specifically, business performance measurement and control systems are the formal, information-based routines and procedures managers use to maintain or alter patterns in organizational activities (Simmons 2000). A typical performance measurement helps businesses in periodically setting business goals and then providing feedback to managers on progress towards those goals. The time horizon for these goals can typically be about a year or less for short-term goals or span several years for long-term goals (Simmons 2000). Since a BPM system measures performance, it is important to define what performance is. Lebas and Euske (2002) provide a good definition of performance as "doing today what will lead to measured value outcomes tomorrow." BPM then is concerned with measuring this performance relative to some benchmark, be it a competitor's performance or a preset target.

Measurement systems are comprised of multiple measures. A measure (or metric) is a quantitative value that can be used for purposes of comparison (Simmons 2000). A specific measure can be compared to itself over time, compared with a preset target or evaluated along with other measures. Since a measure is used for the purpose of comparison, it need not represent an absolute value. For example, in measuring customer profitability, knowing the relative distance in profitability between two customers may be as valuable (and more easily gotten) than knowing the absolute value for a customer's profitability. Moreover, many BPM systems normalize a measure into a value that promotes comparison not just with itself, but also with other measures.

In the opinion of Simmons (2000), measures can be objective or subjective. Objective measures can be independently measured and verified. Subjective ones cannot. Measures are also typically classified as financial or non-financial. Financial measures are typically derived from or directly related to chart of accounts and found in a company's profit and loss statement or balance sheet, such as inventory levels or cash on hand. Non-financial measures are measures not found in the chart of accounts, such as customer satisfaction scores or product quality measures. Measures are also leading or lagging. Lagging measures give feedback on past performance, such as last month's profit, and typically do not provide insight into future performance. Leading indicators, in contrast, are designed to measure future performance, and more often than not, future financial performance. Some leading indicators to future performance might include customer defection rate, customer satisfaction scores or changes in consumer confidence.

Measures are either complete or incomplete. Complete measures capture all the relevant attributes of achievement, whereas incomplete measures do not. Measures are also responsive or not responsive. Individuals can influence responsive measures, whereas non-responsive measures are outside the influence or control of an individual (such as consumer confidence). Measures may be related to inputs into a process, feedback on the performance of a process itself or they may be related to the outcomes or outputs from the process. Measures may be related to human performance, process performance or market conditions. Some, but not all, measures are directly related to the firm's strategy and are critical for its successful execution of its strategy. These are called critical or key performance indicators. Finally, measures can refer to tangible things, often recorded in the chart of accounts, such as inventory levels, accounts receivable balances, employee headcount, or can refer to intangibles such as level of skill or knowledge, creativity and innovation.

The word enterprise has been used in a range of contexts and meanings (Bridge, O'Neill and Cromie 2003). Salminen (2000) describes an enterprise as a controlled system consisting of a detector, a selector and an effector. The detector is the function by which a system acquires information about its environment, which is then used as the basis of the selection of a behavioral response by the selector. Finally, the behavior is executed by the effector. The measurement system of an enterprise gathers information about the changes in both the environment and the performance of the enterprise. This information is then used together with the values and the preferences of the enterprise and its management to produce decisions about the required actions. As a result, the outputs of the enterprise – the products, the services, the operational performance and the financial performance - are changed. Firm performance refers to the firm's success in the market, which may have different outcomes. Firm performance is a focal phenomenon in business studies. However, it is also a complex and multidimensional phenomenon. Performance can be characterized as the firm's ability to create acceptable outcomes and actions.

Success, in general, relates to the achievement of goals and objectives in whatever sector of human life. In business life, success is a key term in the field of management, although it is not always explicitly stated. Success and failure can be interpreted as measures of good or indifferent management. In business studies, the concept of success is often used to refer to a firm's financial performance. However, there is no universally accepted definition of success, and business success has been interpreted in many ways (Foley and Green 1989). There are at least two important dimensions of success: 1) financial vs. other success; and 2) short- vs. long-term success. Hence, success can have different forms, e.g. survival, profit; return on investment, sales growth, number of employed, happiness, reputation, and so on. In other words, success can be seen to have different meanings by different people. In spite of these differences, people generally seem to have a similar idea of the phenomenon, i.e. of what kind of business is successful. The Small and Medium Enterprises has special features as to compare with the larger organizations. SMEs must consider the motivations, constraints and uncertainties facing smaller firms and recognize that these factors differ from those facing larger firms. According to Westhead and Storey (1996) noted the characteristics which distinguishes small organizations form larger ones other than size itself is that of uncertainty. For the small organization external uncertainty has affected the most such as lack of power and influence in a market place, larger customer and vulnerability. Therefore, the SMEs seem unpredictable and ruthless market. Therefore, uncertainties have become a major problem in the small organizations. In the current development, changes in the environment such as globalization, political, social, economic and technological occurred surrounding the organizations. The changes in environment pose a challenge to the SMEs, which limits their abilities to maintain their position against larger organizations.

According Snell and Lau (1994) found that more management competencies are required for growth in small organization compared to larger organizations. In this situation, small organization failed to develop skills, knowledge and competencies among workers in the small organization. This is mainly because of financial constraints and insufficient training. According to Gupta and Cawthon (1996) argued that small organization especially managers required the most training. Therefore, training is an essential tool for developing employees and the organizations. The small organization receives major challenges form larger firms, whose command of resources and global reach can be significant. Some great innovations have come from SMEs, particularly in technological fields, but these often owe much to larger firms. These features are becoming a trend for many entrepreneurs is seizing their opportunities. Small firms receive more information such as global market accessible, tax, regulatory frameworks, trade rules, and other legal and advisory services. Helping them to gain access to finance is also important. By receiving all information, small firms prefers to join with larger organizations. Financing is frequently becoming a major hurdle to overcome the way to setting up and staying in business, with access to risk capital. According to Hill and Stewart (2000), small organizations lacked career structure which did not guarantee promotion and training. Therefore, small firms have difficulties to progress and compete with larger firms whereby the employees have low motivation to perform. This is a major hurdle that small firms faced especially in the developing countries.

In today’s world firms are very much exposed to market pressure, SMEs are frequently at a disadvantage relative to their larger counterparts regarding their abilities to attract, retain, and motivate the best human resources (Beaver and Hutchings, 2005). Consequences of this practice, the SMEs are unable to attract and retain highly qualified staff in the firms. These have led for poor performance and eventually the small sized firms were unable to be competitive in the market. According to Schlogl (2004) small sized firms failed to improve the basic infrastructure like expanding broadband and secure servers. These factors have led to the small sized firms to turn to e-business approach. One of the main reasons is cost. In addition, the SMEs frequently cannot afford or find qualified e-business staff to operate the business. These major impediments for smaller firms simply lengthen the usual problems relating to trust, traction security and, crucially concerns about violations of intellectual property rights. Therefore, Human Resource Development (HRD) is the solutions for training the staff to be more equipped with knowledge and skills on handling e-business.

2.3.5 Risk Management and Monitoring

SMEs do not have systems for checking and monitoring risk. This translates that once a disaster strike, the possibility of losing one hundred percent of the investments is evident (Ward, 1994). Risk management relates to identification, prioritization and assessment of risks. This is done to determine the uncertainty in the businesses. The uncertainties can take the positive shape as well as negative shape (Codjia, 2012). Risk management in the SMEs is a new term that most of the businesspeople are not conversant with. There are coordinated and economical applications of the resources to monitor minimize and control the probability and the associated impact of the events (McNamara, 2012). SMEs are hard hit by the risks due to lack of systems that guide them in financial markets (Greenlees, 2008), development, project administration, business design and sustainable production.

Risks can be either natural or manmade. Natural risks are associated with disasters and manmade risks are associated with the hazards caused by humans (Henke, 2006). The common hazards are fire and burglary. SMEs are not protected from the effects of these disasters leading to devastating losses. Risk management is an expensive process prompting most of the small businesses unable to afford the insurance fees. The best strategy of averting risk is by transferring it to another party. This is known as avoiding the risk. There are small levels of risks that forces people to accept the probability of particular risks. Risk is not measurable since it means different to different organizations (Amram, 2005). The extent of damages depends on the financial capabilities of the organization. In case of fire many SMEs can easily burn down since they are located only in one place unlike multinational companies that have branches all over (Ward, 1994). Once one outlet burns down, they rebuild it fast and resume business. Monitoring is part of risk management.

Monitoring relates to the essence of being aware of the environment. Monitoring is best done by observing situations for any changes over time. There are some monitoring devices used in risk management (Codjia, 2012). Many based SMEs such as restaurants and retail stores are likely to benefit from such devices SMEs have been unable to monitor the situations leading to challenges in financial management. Monitoring the market waves needs a keen eye that watches up with new developments in the market. This ensures continuity in SMEs.

2.3.6 Financial Performance

Firms use financial information developed by accountants to support decisions. For example, the historical revenue and cost information can be used for budgeting decisions. The marketing managers can use sales information to evaluate the impact of a particular promotion strategy while the same sales information can be used by production manager to determine the future production levels. Income statements are very useful in measuring financial performance where many kinds of ratio analysis can be calculated (Madura 2007).

2.3.7 Business Performance

According to (Pearce and Robinson 2007: 233) Business performance is sometimes used to refer to the outcome of the whole business but in management, it is used to refer to the middle level activities within an organization. The managers at this level will select strategies that create competitive advantages in order to experience above average profitability within the industry

Despite the critical role played by the SME sector, it is faced with numerous changes and constraints that include unfavorable policy access to financial services and markets, inadequate business know-how and linkages with large enterprises, gender inequality, job quality deficits, limited access to information, impact of HIV/AIDS pandemic, unsatisfactory occupational health and safety standards. These constraints have not been well-addressed resulting in a weak base for industrial take-off and sustainable development. Nevertheless, the field of small businesses still remains attractive because the creative enterprising individual likes to be independent and be in control of action and issuing instructions (Sessional Paper No. 2; 2005).

Small enterprises can flexibly respond under difficult and changing conditions because they do not depend heavily on infrastructure but typically use low level technology allows product lines and inputs to be charged at relatively low cost (Hamilton, 2000; Adams, 2004). For example, if the raw materials are liable to deterioration and small enterprises production centres are geographically well-spread, (as the case of milk and its products), industrial units, (such as pasteurization and bottling plants), are likely to be small. On the other hand, economies of scale may be exhausted at a very initial stage in several industrial processes where there are no major technical indivisibilities involved, or where they are not very significant in terms of investment or cost. Thus, in the clothing and leather footwear industries, although economies of organisation and marketing may be achieved by combining the output of lots of similar sewing machines or leather shoe-machines, there is no opportunity for securing the kinds of economies of scale such as are involved in large cement plants and blast furnaces.

2.4 Research Gaps

According to the Economic Survey (2006), the Small and Medium Enterprises act as one of the major booster of the Kenyan Economy. In addition, the same report indicates that MSME's holds over 30% of the total population employed in the country hence being the leading source of employment in the country. Moreover, according to the same report over 50% of new jobs created in 2005 were attributed to MSMEs. However, despite the roles that the MSMEs' play in the Kenyan Economy, few studies have been done locally to identify the major financial management challenges that face them. Therefore, this study aims at filling this gap through the establishment of the challenges which face the MSMEs in Nairobi

2.6 Conceptual Framework

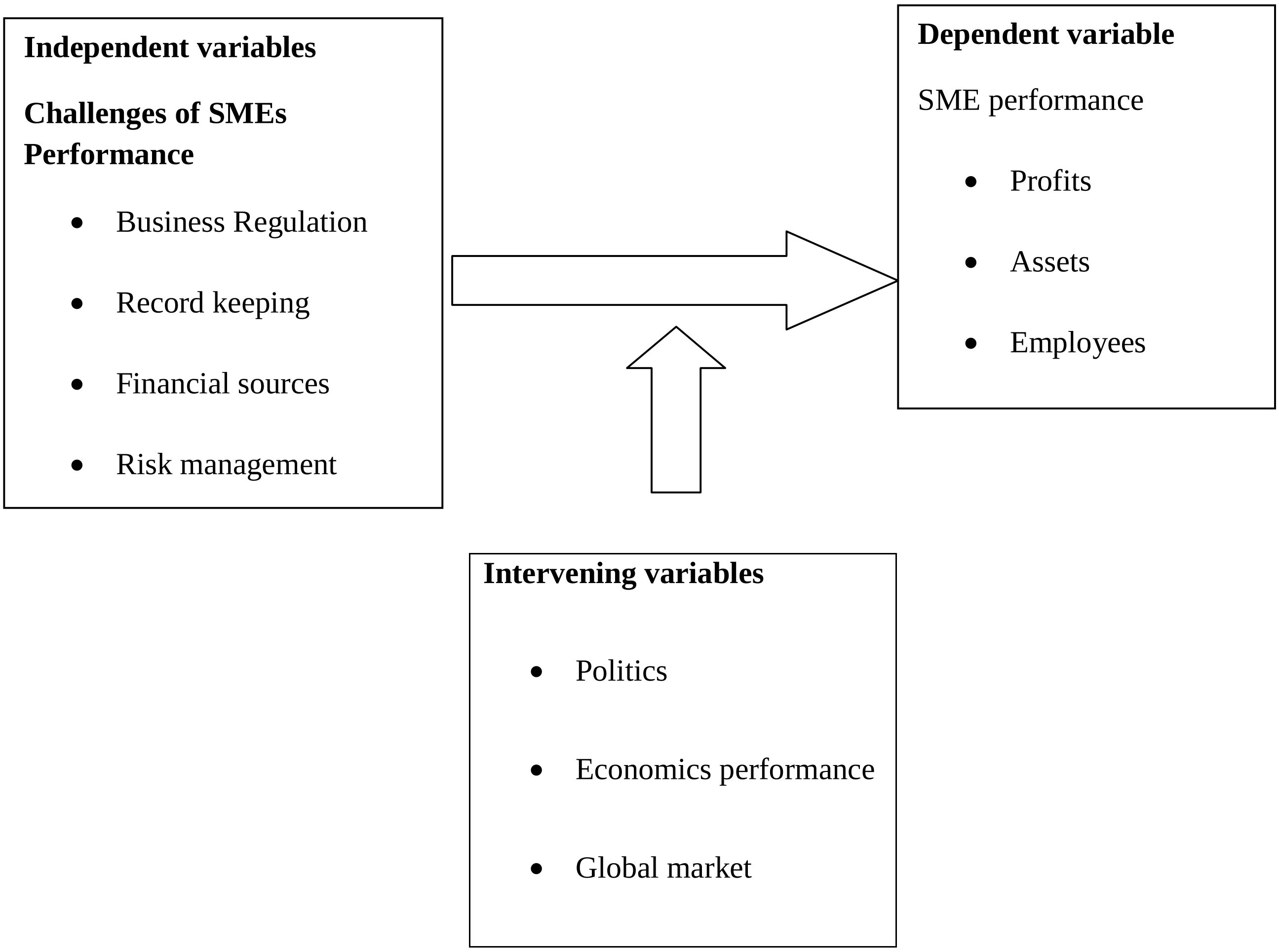


Fig 1

Source: Author (2012)

This study was motivated to ascertain the financial management challenges affecting performance of SMEs. The independent variables in this study were regulatory challenges, record keeping and risk management and monitoring procedures. The diagram above indicates that business regulations, record keeping, financial sources, risk management and monitoring procedures affect SME performance. This performance is represented by profits, assets, Employees and sales in the organization. Apart from these variable there are intervening variables that can be considered as external forces these include politics, economic performance, global market all these interferes with the financial management of SMEs

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methodology that was used to carry out the study. This includes the study design, target population, sampling techniques, data collection tools to be used and data collection technique, and data analysis method and presentation. This research methodology enabled the researcher to obtain and process the data.

3.2 Research Design

This study used a descriptive research design. A descriptive study attempts to describe or define a subject, often by creating a profile of a group of problems, people, or events, through the collection of data and tabulation of the frequencies on research variables or their interaction, (Cooper and Schindler, 2006 descriptive design method will provide quantitative data from the respondents. The data collected answered questions concerning the current status of the subject under study.

3.3 Target Population

The target population of this study comprised 600 SMEs operating in Nairobi Central Business District (as per Nairobi City Council 2012). According to Mugenda and Mugenda (1999), target population in statistics is the specific population about which information is desired. A population is a well-defined or set of people, services, elements, and events, group of things or households that are being investigated (See appendix III).

3.4 Samples and Sampling Procedure

In this study, the sampling frame was the list of the all the SME's in Nairobi CBD. The sampling frame describes the list of all population units from which the sample is selected.

The researcher used stratified random sampling method because the population was divided into strata which include commercial and trade, service and light manufacturing SMEs. After the stratification simple random sampling was used to select the specific respondent to participate in the study.

According to Mugenda and Mugenda (2003) a sample size of between 10% and 30% is a good representative of the target population. Therefore, the researcher settled down on a sample size of 10% which resulted to a sample size of 60 SMEs. To arrive at the sample of 60 SME the researcher picked the first business and every tenth in every street in Nairobi CBD.

Table 1 Target Population and Sample Size

Type of SMEs	**Target Population**	**Sample Size**
Commercial and Trade	220	22
Services	280	28
Light Manufacturing	100	10
Total	**600**	**60**

Source: Author (2012)

3.5 Data collection Instruments

The study used a questionnaire as a data collection Tool. The questionnaires included structured and unstructured questions. In this research, the researcher identified the degree to which respondents agree or disagree or simply the degree of response.

3.6 Data Collection Procedures

Primary data was collected using a questionnaire which had open-ended questions, closed-ended questions and Likert scales. An open-ended question does not provide the participant with a choice of answers. Instead, participants are free to answer the question in the manner they choose. By contrast, a closed-ended question provides the participant with several answers to choose from. The Likert scale asks participants to provide a response along a continuum of possible responses.

3.7 Pilot-testing

In this study, reliability was ensured by pre-testing the questionnaire with a selected sample from one of the departments which will not be included in the actual data collection. The pre-test was conducted by both the principal researcher and the research assistant to enhance clarity of the questionnaires.

According to Mugenda and Mugenda (2003) the accuracy of data to be collected largely depends on the data collection instruments in terms of validity and reliability. Validity as noted by Robinson (2002) is the degree to which the results obtained from the analysis of the data actually represent the phenomenon under study. Piloting was done on 10 SMEs found moi Avenue in Nairobi. The information collected during the piloting was checked for validity and reliability. This was done by randomly selecting a sample of 5 employees each from the Ministry and administering the questionnaire on them. The random sample ensured that all the respondents got an equal chance of participating in the pilot study. The instrument will be reviewed based on the pre-test experience. According to the results of the pilot test the cronbach alpha was found to be 0.79 which was sufficient and thus the instrument was considered valid and reliable for the study. In addition, the SMEs included in the piloting were excluded for the sampling frame for the entire study.

3.8 Data Analysis

Data collected was mainly quantitative in nature and was appropriately analyzed using descriptive statistics. The raw data from the field was entered into the SPSS software and thereafter cleaning was done before the analysis began. The descriptive statistical tools in SPSS helped the researcher to describe the data and determine the extent to be used. Correlation analysis was used to analyze the relationship between the variables. Measures of central tendencies and frequency distribution were also generated. The results were presented using charts, graphs and frequency tables.

CHAPTER 4

DATA ANALYSIS AND DISCUSSION

4.0 Introduction

This chapter focuses on the analysis of the collected data from the field as well as the discussions of the findings. The results of the study are based on general objective of the study which was to investigate financial management challenges affecting performance of the small and medium enterprises in Nairobi. The results of the study are presented in both tabular and graphical formats.

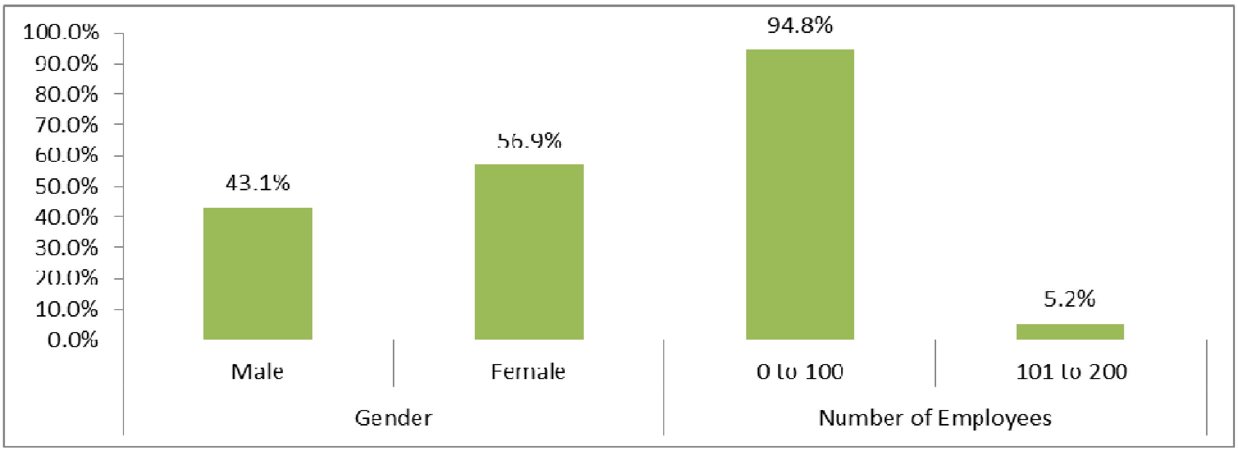
4.1 Response Rate

The target sample for this study was 60 SMEs operating in Nairobi. However, only 58 SMEs that responded to the questionnaires issued out by the researcher thus resulting to a response rate of 96.7% which is above the 70% response rate threshold (Mugenda and Mugenda 2003). Hence the sample size was sufficient.

4.2 Personal Details

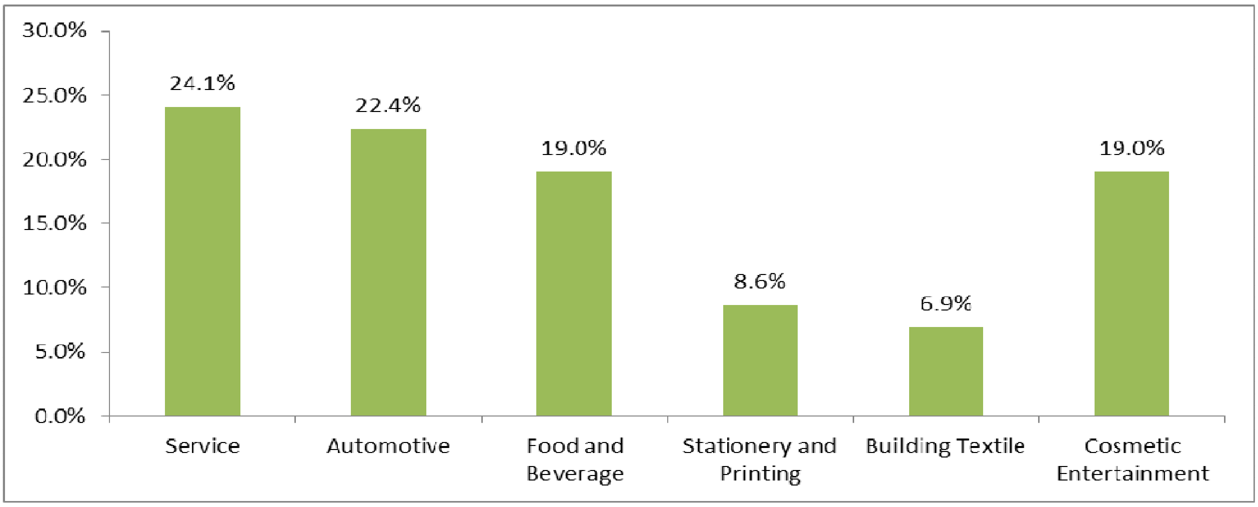
This section presents the personal details of the respondents. The following are presented below, gender of the respondents, number of employees that the SMEs have and the sector which the business operates.

Figure 4.1: Back Ground Information



According to the results of the study, 43.1% of the respondents interviewed were males while the rest 56.9% were females. In addition, the results of the study showed that majority (94.8%) of the SMEs sampled had between 0 and 100 employees while the rest (5.2%) of them had employees between 101 to 200. Therefore according to the results most of the SMEs in Nairobi had less 100 employees in total.

Figure 4.2: Nature of SMEs



The figure above show that majority (24.1%) of the sampled SMEs were in service sector, followed by the SMEs in the automotive sector which constituted to 22.4% of the total sample.

In addition, food and beverage SMEs and cosmetic entertainment constituted to 19% each of the total sample size while the stationery and printing formed 8.6% of the sample size and finally the building textile contributed to 6.9% of the total sampled. This implies that most of the sampled SMEs were in the service and automotive sectors as well as food and beverage and cosmetic entertainme

4.3 Business Regulation

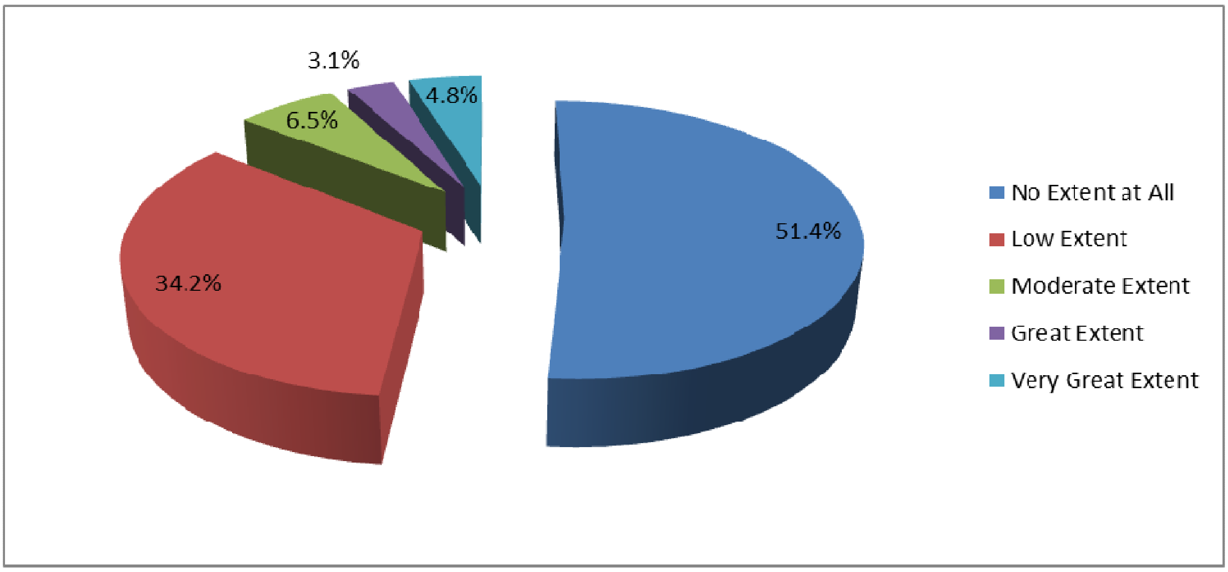
This section presents the results of the business regulation.

TABLE 1: Business Regulation

Statement	Frequency	Percent
Setting of Business Regulations		
Yes	51	87.9
No	7	12.1
Business affected by Recent Fluctuations		
Yes	54	93.1
No	4	6.9
Recent Fluctuating Interest Rates affected the Business		
Yes	52	94.5
No	3	5.5
Recent Increase in Inflation Affected Organization Financially		
Yes	52	89.7
No	6	10.3

The results in the above table show that 87.9% of the SMEs sampled had business regulations while only 12.1% of them that didn't have the regulations. Moreover, 93.1% of the sampled businesses according to the respondents had been affected by the recent fluctuations in the exchange rates in the market while the rest (6.9%) indicated that they had been affected. The results also showed that 94.5% of the sampled businesses had been affected by the recent fluctuations of the interest rates by the financial institutions while only 5.5% of them that indicated that they had been affected by the same. Finally, the results showed that 89.7% of the sampled businesses had been affected financially by the recent increase in the inflation rates while 10.3% of them indicated that they had not been affected. The above results imply that the recent fluctuations, fluctuation in the interest rates and increase in the inflation had a negative impact on the business of the respondents.

FIGURE 3: Impact of Global Competition

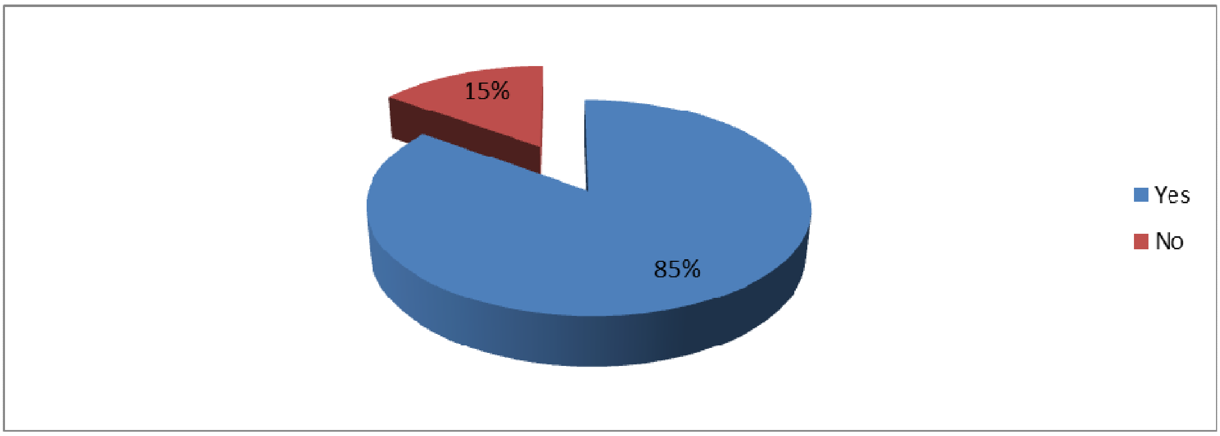


On the effect of global competition on the businesses, the results of the study showed that 51.4% of the SMEs had had no any effect at all, 34.2% of them said that the global competition had a low impact on their SMEs, 6.5% said that the impact was moderate. In addition, 4.8% of the

SMEs reported that the impact of the global competition was great while only 3.1% of the SMEs reported that the impact was very great. Further, on the effect of tax legislation in the recent years' impact on the business, the survey results showed that 48.3% of the SMEs experienced a great impact while 43.1% experienced a fair impact and only 8.6% of them experienced no effect of the securities exchange on business in the SME sector. Finally, on the recent changes in the rules and regulations of the securities exchange 58.6% of the sampled SMEs said that it had an impact while the rest said that it didn't have any impact on the SMEs performance. This implies that the global competition had little or no impact on the performance of the SMEs.4.4 Record Keeping

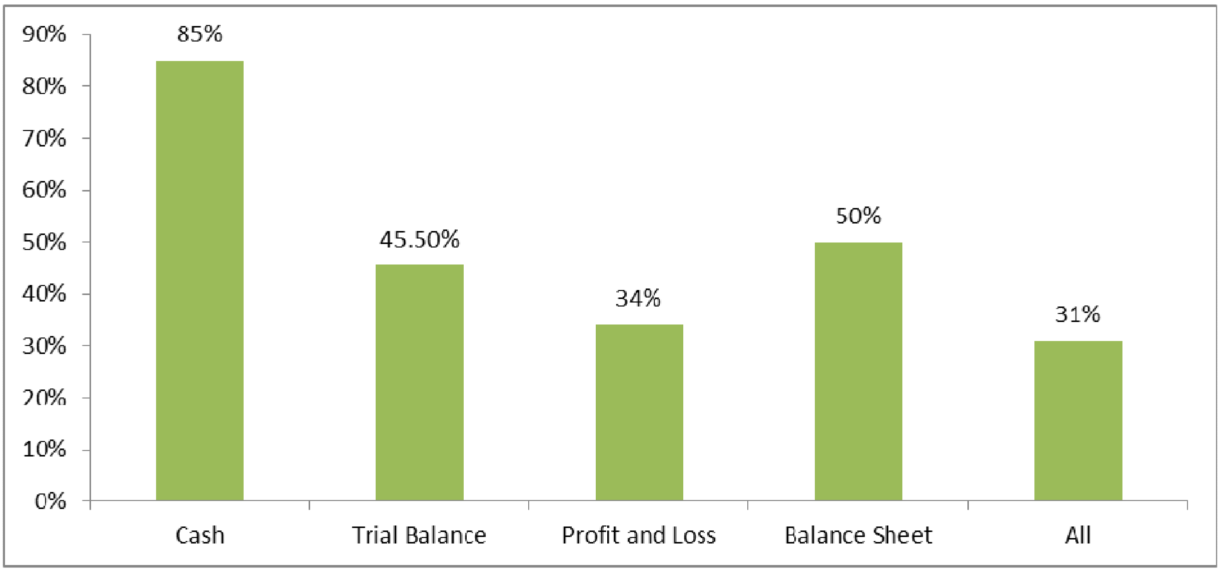
This section presents the results for record keeping by the SMEs.

FIGURE 4: Books of Accounts



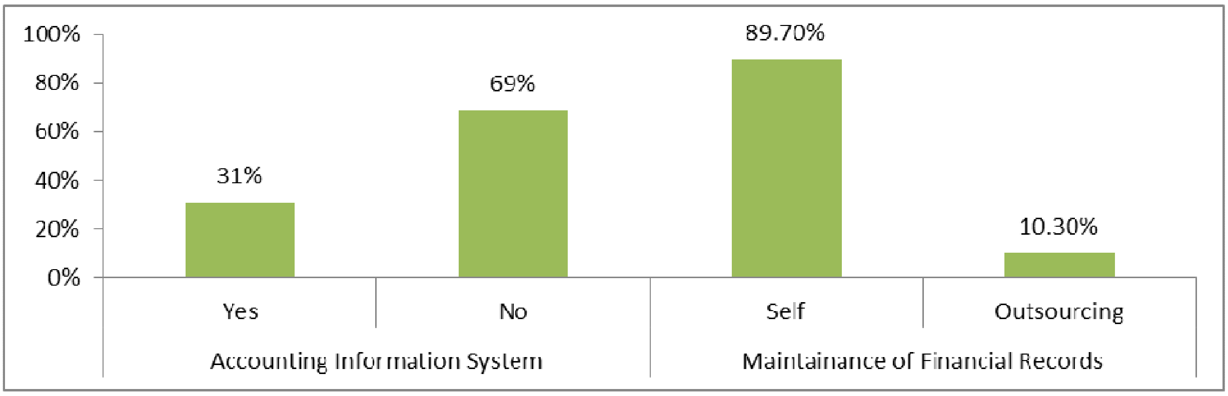
Based on the above figure the results of the study show that 85% of the sampled SMEs in Nairobi had books of accounts while 15% did not have the books of accounts. Among the SMEs which had books of accounts the following figure displays specific financial records which they said that they maintained

FIGURE 5: Financial Records Maintained by SMEs



According to the results of the study, 85% of the sampled SMEs maintained the Cash Book records, while 50% maintained the balance sheet. In addition, 45.5% maintained the trial balance and another 34% maintained the profit and loss records. However, only 31% of the sampled SMEs confirmed that they maintained all the above financial records. On how often they use the above financial records, 53.4% of the respondents said that they use the above sometimes; while 31% said that they use the above always. This implies that majority of the SMEs do not have proper maintenance of the financial records.

FIGURE 6: Accounting Information System

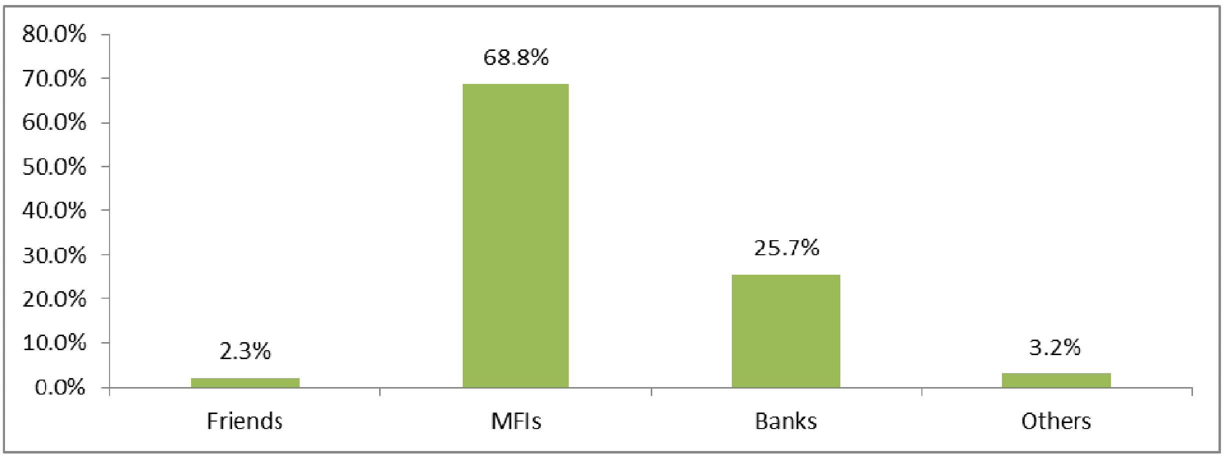


69% of the respondents noted that their SMEs did not have accounting information system while only 31% of the SMEs had the accounting information system. In addition, according to the results, 89.7% of the respondents said that they maintain their SMEs financial records while only 10.3% of them who said that they outsource services to maintain the financial records.

4.5 Financing Sources

This section presents the analysis of the source of funding to the sampled SMEs

FIGURE 7: Sources of Finance



According to the above graph, the Micro Finance Institutions were the highest (68.8%) source of finance to the sampled SMEs, these were followed by the banks (25.7%) and then other sources at 3.2%. in addition, there was 2.3% of the sampled SMEs which relied on friends for funding. On whether the SMEs required collaterals when accessing funds from the lending institutions, 69% of the respondents said that they required while 31% of them said that it was not required. On the extent to which the financial institutions structure affected the businesses when accessing funds from the financial institutions, the results of the study showed that 44.8% considered the effect as moderate, 27.6% as great extent and another 15.5% considered the structures as having no effect at all. Thus the MFIs were the major source of funds to the SMEs.

TABLE 2 Impact of Financial Institutions Structure on SMEs Funding

Statement	**Very Great Extent**	**Great Extent**	**Moderate Extent**	**Low Extent**	**No Extent at All**
The size of the Financial Institution	19.6%	39.2%	13.7%	3.9%	23.5%
Ownership of Financial Institution	30.6%	22.4%	10.2%		36.7%

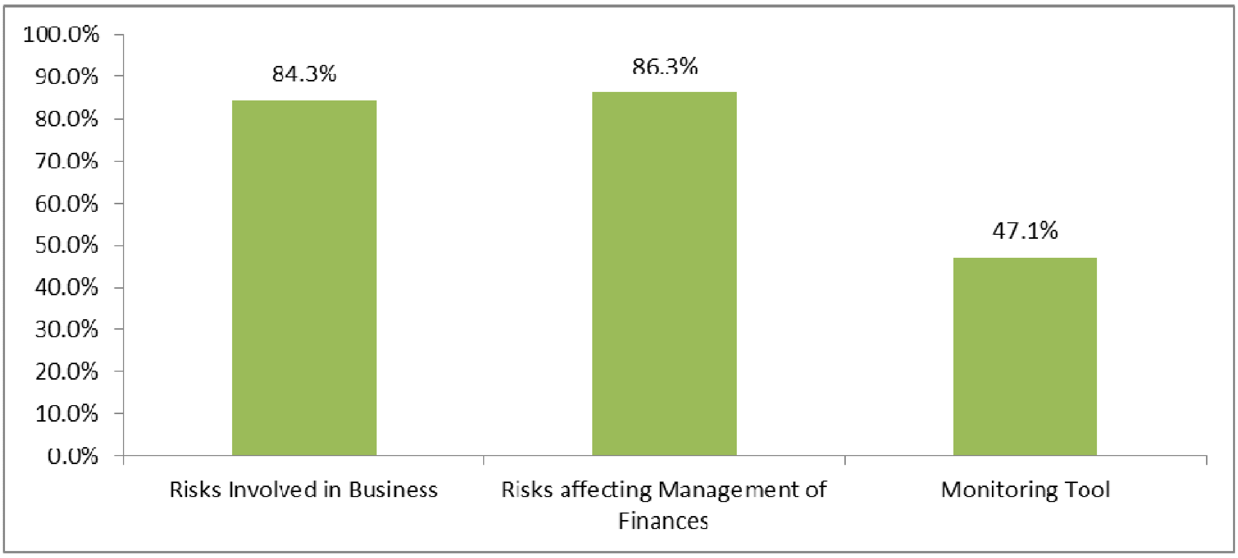
The results in the above table show that majority (39.2%) of the respondents said that the size of the financial institution greatly impacted on the SMEs funding, 19.6% of the respondents said that the impact of the size of the financial institution had a very great impact on the SMEs funding. In total, majority of the respondents agreed that the size of the financial institution had a great impact on the funding of the SMEs. Further, over 52% of the interviewed respondents agreed that the ownership of the financial institution had a great impact on the funding of the SMEs where most actually reported that the impact was very great. However, only a significant proportion (36.7%) of the respondents said that there was no impact at all of the ownership of the financial institution on the funding of the SMEs. Nevertheless, majority reported that the ownership of the financial institution impacted negatively on the SMEs funding. In addition, market concentration and market share was deemed to have no impact at all on the funding of the SMEs. This is according to 36.7% of the respondents. Nevertheless, a significant 28.6% of the respondents said that the market concentration and share had a great impact on the funding of the SMEs. However, according to the results, majority of the respondents felt that the market concentration and market share had no impact or the impact was low on the funding of the SMEs.

TABLE 3: Credit Availability

Statement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Foreign Owned Banks		33.3	25.0	33.3	8.3
Higher Market Concentration	29.4	38.2	14.7	17.6	0.0
Institutions in More Concentrated Market	8.8	82.8	8.8	0.0	0.0

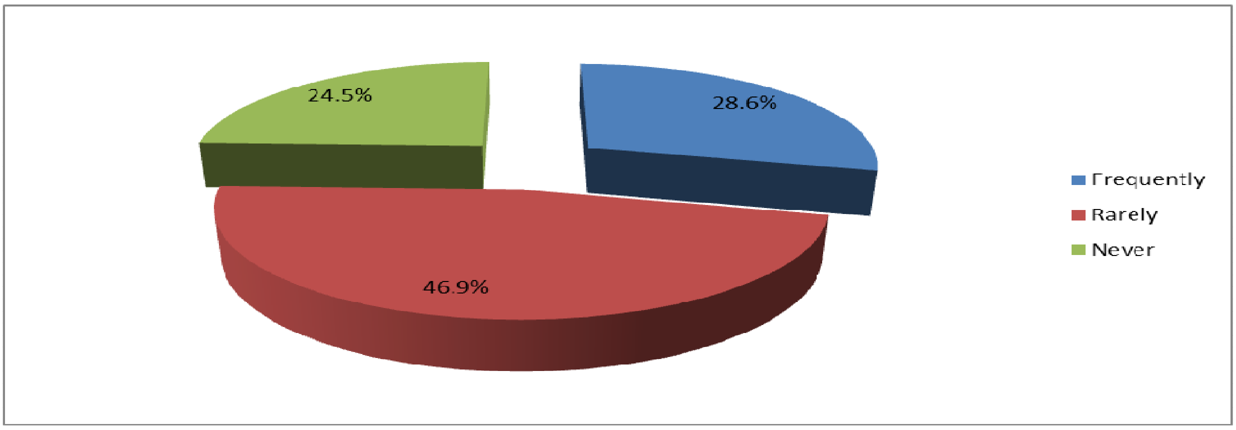
On the association of the foreign-owned banks with greater credit availability for the SMEs, 33.3% of the respondents disagreed with the above statement, while 8.3% strongly disagreed with the statement. Nevertheless, another 33.3% of the respondents agreed with the statement and 25.7% remained neutral when asked this question. However, according to the results most of the respondents disagreed that foreign-owned banks individually or larger shares for these banks are associated with greater credit availability of SMEs. In addition, on the statement "greater market concentration of financial institutions reduces the supply of credit of credit available to credit worthy SMEs", majority (over 70%) of the respondents agreed with the statement while only 17% of them disagreed with the statement. This means that higher market concentration of financial institutions reduces the supply of credit available to credit worthy SMEs according to the respondents. Finally, on the statement “institutions in more concentrated markets increase SMEs access to credit by using relationship lending”, over 90% of the respondents agreed with this statement and hence institution in more concentrated markets increase SMEs access to credit by using relationship lending according to the sampled respondents. Hence according to the results greater market concentration and institutions in more concentrated markets affected credit availability. However, presence of foreign owned banks did not have any impact on credit availability.

FIGURE 8: Risk Affecting SMEs



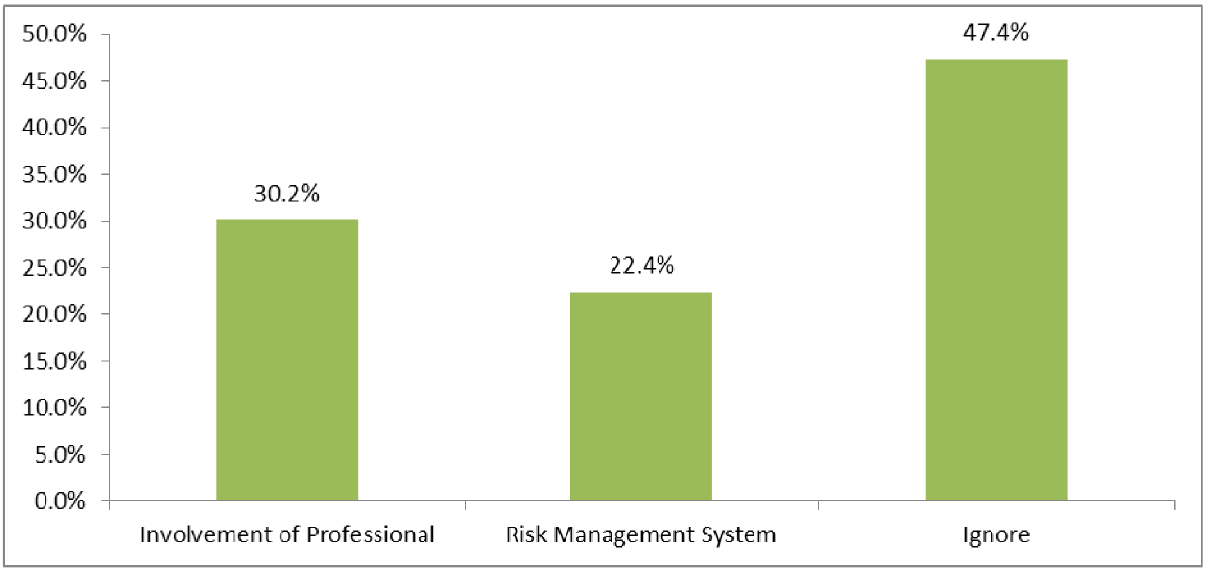
According to the above figure, 84.3% of the sampled SMEs said that there were risks which were affecting their businesses while another 86% said that they faced risks in the management of the finances. However, the results of the survey showed that 47.1% of the sampled SMEs in Nairobi had monitoring tools. This implies that over 50% of the SMEs do not have monitoring tools which may impact on their performance negatively.

FIGURE 9: Monitoring and Evaluation



On how frequent the monitoring and evaluation is done in the SMEs, 46.9% of the respondents said that it's rarely, 28.6% said frequently while 24.5% said that it's never. Therefore, based on the above only 28.6% of the SMEs sampled which did a monitoring and evaluation of their business in the sampled area. This implies that monitoring and evaluation is carried out by a few businesses and this poses a financial risk.

FIGURE 10: Management of Risks



On the management of risk in the SMEs, majority (47.7%) of the respondents said that they usually ignore whenever a risk appears, 30.2% of the respondents said that they involve a profession in dealing with the risk while 22.4% of the respondents said that they use the risk management system to deal with the risk.

4.6 Correlation Analysis

Correlation analysis is a statistical technique which is used to establish if there exists a relationship between two variables. In correlation analysis, the researcher is interested in computing the correlation coefficient which lies between (-1) and (+1). A correlation coefficient of positive one (+1) means that there is a perfect positive relationship between the two variables and a correlation coefficient of negative 1 means that there is a strong negative relationship between the two variables. In this study, the researcher generated six variables using factor analysis in SPSS. Factor Analysis is a statistical technique of reducing the dimensionality of the data while maximizing on the variation explained the generated factor scores. The generated variables were business regulation, record keeping, financial source, risk management, monitoring procedure and the performance. In this study, the dependent variable was performance of the SMEs while the independent variables were business regulation, record keeping, financial source, risk management and monitoring procedure. The results of the correlation analysis are presented below:

TABLE 4: Correlation Coefficients between Dependent Variable and Independent Variables

Variable	Correlation Coefficient (ρ)	p-value
Business Regulations	0.462	0.001
Record Keeping	0.582	0.000
Financial Source	0.488	0.002
Risk Management	0.679	0.000
Monitoring Procedure	0.514	0.001

$\alpha=0.05$ (Level of significance is 0.05)

The results of the correlation analysis showed that there was a positive significant relationship between the business regulations and the performance of the SMEs in Nairobi ($\rho=0.462$, $p<0.05$). The relationship between record keeping and the performance of SMEs was found to be significant and positive ($\rho=0.582$, $p<0.05$). This implies that the correlation between the two variables is significant such that an improvement in the business regulations will lead to better performance by the SMEs. In addition, the results of the study showed that there was a significant positive relationship between the record keeping and the performance of SMEs. The correlation coefficient between these two variables was found to be 0.582 with an associated p-value of 0.000.

According to the study this implies that an improvement in the record keeping for the SMEs can lead to a better performance. Further, the results showed that the correlation coefficient associated with financial source is 0.488 with an associated p-value of 0.002 which implies that there is a significant relationship between financial source and the performance of the SMEs. An improvement in the funding of the SMEs would lead to an improved performance of the SMEs. Moreover, the study showed that risk management is also associated with the performance of the SMEs. According to the results there is a strong positive relationship between risk management and performance of the SMEs. The correlation coefficient associated with these two variables is 0.679 with an associated p-value of 0.000. This according to the study implies that an improvement in the risk management practices by the SMEs would lead to an improved performance by the SMEs. Finally, the study showed that the monitoring procedures applied by the SMEs are strongly related to the performance. The correlation coefficient associated with these two variables is found to be 0.514 with an associated p-value of 0.001. These results imply that an improvement in the monitoring procedure which is applied by the SMEs will lead to an improved performance by the SMEs.

CHAPTER FIVE

SUMMARY OF THE FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter presents the summary of the main finding from the study, the conclusion of the study and the recommendations which are based on the conclusion of the study. The general objective of the study was to investigate financial management challenges affecting performance of the SMEs in Nairobi. In particular, the study sought to establish how business regulations affected the performance of the SMEs in Nairobi. In addition, the aimed at investigating how record keeping, source of finance, and the monitoring procedures affected the performance of the SMEs. Finally, the study was interested in investigating how the source of funding affected the performance of the SMEs in Nairobi County.

5.1 Summary of the Major Findings

This study targeted sixty SMEs operating in Nairobi County, however, only 58 SMEs that responded to questionnaires and this translated to a response rate of 97% which is above the recommended 70%. In addition, according to the results 56.9% of the respondents were females while majority of the sampled SMEs had a work force of less than 100 employees. On the nature of the SMEs, the study revealed that majority of them was in the service industry while still there were a significant number of those in the automotive industry.

The study revealed that the SMEs sampled had business regulations. Further, it was noted from the study that the fluctuations in the exchange rates had impacted negatively on the performance of the SMEs as reported by the respondents. The results of the study also showed that the SMEs had been affected by the fluctuations of the interest rates by the financial institutions while still most of the SMEs had been affected financially by the recent increase in the inflation rates. On the impact of the global competition on the business, the results of the study showed that this did not have much impact on the SMEs. This may be attributed to the fact that the SMEs sampled in the survey dealt with local products and hence the impact of global competition was little. Further, on the impact of the tax legislation in the recent years' impact on the business, the survey results showed that majority of the SMEs experienced great impact. Finally, the recent changes in the rules and regulations of the securities exchange were found to have impacted on the performance of the SMEs negatively.

The study found that the SMEs in Nairobi had adopted the book keeping habit which is a positive behavior among the SMEs. In addition, the study found that the mostly used form of financial records among the SMEs were cash, trial balance, profit and loss, and the balance sheet. However, the study established that the SMEs holders had no existing accounting information system. In addition, most the SMEs reported that they maintain their own financial records and hence do not outsource for the expertise.

On the financial sources, it was established by the study that them receive funding from the micro finance institutions followed by banks and still some reported that they receive the funding from the friends. For the SMEs that rely on the financial institutions for funding, the results of the survey established that the size of the financial institution greatly affected the allocation of funds as does the ownership of the financial institution. It was found by the study that local financial institution were more likely to fund the SMEs compared with the foreign owned financial institutions. However, the study also found out that market concentration and market share had little impact on the funding of the SMEs. The results of the survey showed that the

SMEs were exposed to various risks which among them included poor monitoring and evaluation of the SMEs. The study found that most of the SMEs carry out monitoring and evaluation on rare cases. Finally, the study found out that the SMEs managers had little or no skills of managing risks which may arise in the businesses.

The results of the correlation analysis showed that there was a significant correlation between the performance of the SMEs and the business regulation. According to the results of the study, an improvement in the business regulations would improve the performance of the SMEs positively; mean that there was a direct relationship between the business regulations and performance of the SMEs. In addition, the study showed that there was a significant correlation between the record keeping and the performance of the SMEs. This relationship was found to be positive implying that an improvement in the book keeping habits would improve the performance of the SMEs. The results of the study also showed that the financial source was also associated with performance of the SMEs. According to the results, the SMEs which got their financial source from the micro finance institutions were more likely to perform better than the SMEs which received funds from others sources. The outcome of the study is in line with Lokhande, (2011) that source of financial funds were critical in the performance of the SMEs. However, this result needs further investigation. Also the results of the study showed that risk management was positively associated with the performance of the SMEs which mean that an improvement in the risk management procedure would improve the performance of the SMEs. Finally, the results showed that there was a strong positive correlation between the monitoring procedure which had been employed by the SMEs and their performance. This corresponds with the findings of Manic Karaj in (2010) which established that risk management and monitoring tools were critical in the performance of the SMEs.

5.2 Conclusions

The results of the correlation analysis showed that there was a positive significant relationship between the business regulations and the performance of the SMEs in Nairobi ($\rho=0.462$, $p<0.05$). This shows that a positive change in government regulations would help improve the performance of the women owned SMEs.

The relationship between record keeping and the performance of SMEs was found to be significant and positive ($\rho=0.582$, $p<0.05$). This implies that the correlation between the two variables is significant such that an improvement in the business regulations will lead to better performance by the SMEs.

In addition, the results of the study showed that there was a significant positive relationship between the record keeping and the performance of SMEs. The correlation coefficient between these two variables was found to be 0.582 with an associated p-value of 0.000. This implies that an improvement in the record keeping for the SMEs can lead to a better performance.

The results showed that the correlation coefficient associated with financial source is 0.488 with an associated p-value of 0.002 which implies that there is a significant relationship between financial source and the performance of the SMEs. An improvement in the funding of the SMEs would lead to an improved performance of the SMEs.

The study showed that risk management is also associated with the performance of the SMEs. According to the results there is a strong positive relationship between risk management and performance of the SMEs. The correlation coefficient associated with these two variables is 0.679 with an associated p-value of 0.000. This implies that an improvement in the risk management practices by the SMEs would lead to an improved performance by the SMEs.

Finally, the study showed that the monitoring procedures applied by the SMEs are strongly related to the performance (r= 0.514 p= 0.001. These results imply that an improvement in the monitoring procedure which is applied by the SMEs will lead to an improved performance by the SMEs.

5.3 Recommendations

Based on the above conclusion, the study recommends that the SMEs managers should undertake some risk management courses to improve on the risk management skills. In addition, the SMEs managers need to come up with clear monitoring procedures and monitoring tools to monitor the performance of their businesses. This will be helpful in tracking the progress of the performance from one point in time to another. The line ministries and the various microfinance institutions should also assist the SMEs in developing the monitoring tools and monitoring plans. In addition, there is need for more training to the SMEs by the line ministries and microfinance institution in regard to monitoring procedure.

The financial institutions should increase their funding to the SMEs and make the funds easily accessible to them so that the performance of SMEs may not be affected negatively by lack of funds. The study also recommends that the SMEs need to make use of the accounting information system.

5.4 Recommendation for Further Research

From the results of this study, the researcher strongly recommends for an analytical study to investigate the challenges that the SMEs face in accessing funds from the financial institutions. This could be done from both perspective namely, from the financial institutions view and from the SMEs view and then integrate the results to come up with the challenges faced by SMEs in accessing funds. Finally, the study recommends that a research be done to establish how access to funds affects the growth of the SMEs in Kenya. Finally, there is need to establish the growth trend of the SMEs in the country in respect with the period that these SMEs have been operational.

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APENDIX I: Letter of Introduction

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KCAU/SOB & PM .12/wm

Thursday, July 26, 2012

Your Ref ....

To whom it may concern,

Dear Sir/Madam,

RE: RESEARCH PROJECT

This is to certify that **ESTHER WANJIKU WAWERU REG NO. 10/04237** has been permitted by the School of Business and Public Management to carry out research on the topic **"Financial Management challenges affecting the Performance of Small and Medium Enterprises in Nairobi".** The research is purely for academic purposes and for the partial fulfillment of the requirements for the MBA Corporate Management Degree Program.

Kindly assist the student with information where possible.

Yours faithfully,

Prof. Silas Onyango
Dean, School of Business and Public Management

ANNEX II: QUESTIONNAIRE

Research on Financial Management Challenges Affecting the Performance of Small and Medium Enterprises in Nairobi

Part I Personal details

Instructions

Please place a cross (X) in the appropriate box.

1. Please indicate your gender

Female [ ]

Male [ ]

2. How many employees does your organization have in total?

0 to 10 [ ] 11 to 20 [ ]

21 to 30 [ ] 31 to 40 [ ]

Over 40 [ ]

3 In which sector does your business operates?

Service [ ] (please specify)………………

Automotive [ ]

Food and beverages [ ]

Stationery and printing [ ]

Building Textile [ ]

Steel Consumer goods [ ]

Part II Business regulation

1. Have set any business regulations in your business

Yes [ ] No [ ]

if yes, list four of them

……………………………………………………………………………………………………

……………………………………………………………………………………………………

……………………………………………………………………………………………………

2. Have the recent fluctuating exchange rates affected your business?

Yes [ ] No [ ]

If so briefly explain

……………………………………………………………………………………………………

……………………………………………………………………………………………………

……………………………………………………………………………………………………

3. Have the recent fluctuating interest rates affected your business?

Yes [ ] No [ ]

If yes briefly explain how it affects your business

……………………………………………………………………………………………………

……………………………………………………………………………………………………

……………………………………………………………………………………………………

4. Has the recent increase in inflation affected your organization financially?

Yes [ ] No[ ]

If yes briefly explain how it affects your business

……………………………………………………………………………………………………

……………………………………………………………………………………………………

……………………………………………………………………………………………………

5. How has your business been affected by local competition?

To a very great extent [ ]

To a great extent [ ]

To a moderate extent [ ]

To a low extent [ ]

To no extent at all [ ]

1. In which way have the tax legislation changes in the last three years affected your organization?

Greatly [ ]

Fairly [ ]

Not at all [ ]

2. Do the changes in the rules and regulations of the securities exchange affect your organization?

Yes [ ] No [ ]

If yes briefly explain how they affect your business

……

……

……

Part IV Record keeping

1. Does your organization maintain books of account?

Yes [ ] No [ ]

2. Which Financial Records do you maintain in your business?

i) Cash [ ] ii) Trial Balance [ ] iii) Profit and loss [ ] iv) Balance sheet [ ]

v) All [ ]

3. Please tick as appropriate

1. Daily 2. Weekly 3. Monthly 4. Quarterly 5. yearly

Financial Records	1	2	3	4	5
Cash Book					
Trial Balance					
Profit and Loss					
Balance Sheet					

3. Does your organization have an accounting information system?

Yes [ ] No. [ ]

If yes briefly explain how it is used.

……………………………………………………………………………………………………

……………………………………………………………………………………………………

……………………………………………………………………………………………………

4. Who maintains your financial records?

i) Self

ii) Outsourcing

iii) Company's Accountant

Part Financial Sources

1. how do you raise your finances?

   i) Friends

   ii) Micro finance institution

   iii) Banks [ ]

   iv) Others [ ]

2. Do you require collaterals when accessing funds from the lending institutions?

   Yes [ ] No [ ]

If yes briefly explain how it affects your business

…………………………………………………………………………………………………

…………………………………………………………………………………………………

…………………………………………………………………………………………………

3. To what extent does the financial institution structure affect your accessibility for funds from the financial institutions?

To a very great extent [ ]

To a great extent [ ]

To a moderate extent [ ]

To a low extent [ ]

To no extent at all [ ]

4. To what extent do the following factors of financial institution structure affect your organization in accessing funds from financial institutions?

Description	Very great extent	Great extent	Moderate extent	Low extent	No extent at all
The size of the financial institution					
Ownership of the financial institution(locally owned or foreign owned)					
Market concentration and market share					

5. To what extent do you agree with the following statements in relation to your organization accessing funds from financial institutions?

Description	Strongly agree	agree	neutral	disagree	Strongly disagree

Foreign-owned banks are associated with greater credit availability for SMEs					
Higher market concentration of financial institutions reduces the supply of credit available to creditworthy SMEs					
Institutions in more concentrated markets increase SMEs access to credit by using relationship lending					

Part V Risk Management and Monitoring

1. Does your business face some risks

   Yes [ ] No [ ]

2. Are these risks affecting you in managing your finances?

   Yes [ ] No [ ]

3. Does your business have a monitoring tool?

Yes [ ] No [ ]

1. How often is Monitoring and evaluation carried out in your business?

i) Frequently [ ]

ii) Rarely [ ]

iii) Never [ ]

2. How does the SME manage the risks encountered in business?

i) Involves a professional [ ]

ii) By use of risk management system

iii) Ignore [ ]

APPENDIX III LIST OF SMES

	Business name	Businessactivitydescription
1	Elimatt distributors	Small hardware
2	Monica nyanjau ndungu	Small shop & miraa m-pesa
3	Neypart communications ltd	M-pesa services/photocopy
4	Marinoz enterprises	Cyber cafe
5	Al mosko ventures	Scrap metal dealers
6	Makro communications	Mpesa/ mmobile accesories
7	Cleatech communication & accessories	Mobile accessories m-pesa services
8	Cilas enterprises ltd	General supplies
9	Prince uniforms	Sellining & tailoring uniforms
10	Cumaki productions	Music shop
11	Grace wangui itotia t/a wa - mathaai hawkers pride	Hawkers ware
12	Isotech interconnections ltd	Mobile accessories- mpesa
13	Vabene couture	Retail of clothes
14	Keylink distributors	Imports wholesale and retail of tailoring accesories & storage
15	Tell tell	Retail and wholesale of hardware and general merchandise
16	Partex enterprises	Tailoring and ready made garments
17	Vaghela men's wear ltd	Tailoring and readymade garments
18	Kagochi spot shop	Retail shop & mpesa
19	Express garments	Medium trader
20	Kibrose school uniforms	Ready made clothing & tailoring
21	Benwa african wear	Retail of cloth
22	Krish trading co.	General merchants
23	Sewtech (k) limited	Sales and service of sewing machines

24	Ben electronics	Retail of radio and television & electronic spares
25	Beauty b services	Secretarial services
26	Mvinyo centre	Wholesale & retail of mobile phones & accessories, calling cards, electronics, electricals / m-pesa
27	Kenya toner & ink suppliers	Retail of stationery
28	Mara creations	Selling of beads and textiles
29	Vineyard communications	M - pesa, scratch cards, photocopy & mobile accessories
30	Krish trading co. Ltd	General merchants
31	Strategic mobile ltd	Retail of mobile accessories/ mpesa
32	Best image exhibition	Electronics mobile accesories
33	Delight technology	Mobile and accessories
34	San liam (k) ltd	Belts retail and wholesale
35	Daves corner electricals ltd	Retail of electricals / equity agency
36	Telemon communication	M-pesa , sale of scratch cards
37	Rohi textiles	Retail services
38	Uniform distrubutors ltd	Wholesalers/retailers/general
39	Jaylin stores ltd	Dealers in suiting materials and accessories
40	Naran's	Retail and wholesale of ready made garments
41	M ismail and bros	Retail stationery and electronics
42	Gobss wholesalers	Wholesale of garments
43	Gemdip wears	Wholesale /retail of ready made garments -travelling goods shoes
44	Krish trading company	Retail general merchants
45	Five star tailors	Retail of textiles
46	Fast card point	Retail of greeting cards
47	Worth foto studio	Photographic shop
48	Grace wangui itotia t/a wa - mathaai hawkers pride	Hawkers goods
49	Kigutha music store	Music shop & duplicating
50	C k gakuru & sons	General merchant shop and retail of polythene bags and tailoring
51	High view optical centre	Optician

52	Soft and fair cosmetic	Retail of cosmetics & mpesa
53	Channia transport co. Ltd	Courier services
54	Fine glass merchants	Retail of glass and mirrors
55	Control fire systems limited	Supply & installation of fire alarm,fire suppretion & security systems
56	Depeniel links enterprise ltd	Stationery & printing papers
57	Iftin electricals	Electricals
58	Combo store	Mini shop & m-pesa
59	Capter enterprises	Small hardware shop
60	Capri shop	General merchant
61	Tevan enterprises	Retail hawkers items
62	Bizz connections	Mobile phones and accessories/m-pesa
63	Delight twechnology	Retail shop,mobile and m-pesa
64	Green seas enterprises	Wines and spirit wholesalers
65	Balozi beauty care	Wholesale of cosmetics
66	Jasper rose	Mobile accessories and mpesa
67	Baraka communications and electronics	Mobile accessories & electronics & mpesa
68	Comlink invesments	Mpesa/computer services & photocoping
69	Njambas book centre	Bookshop
70	Shayna cosmetics ltd	Sale of cosmetics
71	Shaneva stockist	Gift goods (storage)
72	Top achievers bookshop	Bookshop and storage
73	Bereka hawkers point	Selling hawkers accessories toys, hairpieces, handichief
74	Regent book supplies (e.a)	Suppliers of text books
75	Stewan computer garage ltd	Sales & repair of second hand computers
76	Krish trading company	General retail merchants
77	Treadstone ventures ltd	Import & export
78	Paradise eye care	Retail opticians - optics
79	Dolphin cellular services	Phone & beauty accessories/mpesa services
80	Benwide general suppliers	Retail of stationery/ equity agent
81	Jowaka beauty salon	Salon & kinyozi/ massage

82	Touchline agencies ltd	Safaricom airtime and mpesa
83	Julius wanjohi maina	General merchant
84	Texkim agencies	Mobile accessories/m-pesa services
85	Josrick merchants	General supplies
86	Petty designs	Tailoring
87	Ernest mburu	Soda distributor
88	Magnum africa ltd	Sale of motor bikes and spare parts
89	Esko polythene centre	Wholesale and retail of packaging bags
90	Kiwi communication ltd	Mpesa & sale of cds &electrical items
91	Bliston enterprises	Retail of textiles
92	Sarahs beauty ware house	Cosmetics products
93	Premier trading company ltd	Whole sale retail of general merchant /motor bikes/bicycles/sewing machine/electricalapliances etc
94	Touchline agencies ltd	Mobile phone,accessories & m-pesa
95	Candy land ltd	Confectionery and general traders
96	Kichewa trading agencies	Import and retail
97	Spurtech enterprises	Toys shop
98	Tracejack limited	Sale of cd-rs, audio tapes and general supplies
99	Samuna enterprises systems	Buying & selling of stationery,text books
100	A one electronics ltd	Import,wholesale of electronics
101	Camp david electronics	Grocery and mpesa services
102	Bestman cosmetics shop	Retailof cosmetics products/ storage
103	Lexus auto spares	Retail of motor vehicles spares
104	Mirror sew -knit parts	Retail of sewing and knitting and raw material s of immmitation jewellery
105	Cake art	Wedding cakes and services
106	Corner polythene shop	Retail of polythene bags, photocopy services & soda
107	Profile kenya ltd	Retail shop
108	Isotech interconnections ltd	Mobile accessories & mpesa services
109	Urembo centre ltd	Retail of beauty care products

110	Premier trading company limited	General merchandise motor bike,bicycle sewing machine,electrical appliances
111	Jk vision ltd	Electronics retail and wholesale
112	Brysalexonn electro services & m-pesa	Sale of electronics & m-pesa
113	Kamusinga shop	Retail shop with mpesa
114	Keen merchandisers	Beauty products
115	Blueberry art company	Printing and stationery shop
116	Starwest technologies limited	Mpesa services and spare parts
117	Aquanetiks gift shop	Pet products
118	Zolar enterprises	Stall management office
119	Roms communication	Mobile phones repair and mpes
120	Sowaki electricals	Electricals
121	Beauty beat cosmetics	Beauty products & telephone accessories
122	Coptex	Wholesale and retail of textile garments
123	Prince wears	Dealers in textiles
124	Shethia wholesalers	Wholesale and retail trade of garment shoes and general merchant
125	Bumper harvest ltd	General merchants
126	Raj ushanga house ltd	Import/wholesale/retail medium trader shop
127	Eagle wholesalers ltd	Wholesal & retail of readymade garments
128	Idris enterprises ltd	Retail of watches & electronics repair
129	Vic agencies limited	Wholesale & retail of general items
130	Ushanga ltd	General merchant and storage
131	Mibisco ltd	Medium grocery
132	Chase collections ltd	Sale of clothes/ shoes and storage
133	Turtle wines and spirits	Sale of wines and spirits/storage
134	New faith beauty cosmetics	Retail hawkers items
135	Ndathe bata stokist	Foot wear
136	Overt services	Mpesa, snacka nad mobile phone accessories
137	Feliwama cyber cafe	Cyber cafe
138	Blue nile investment and trading company limited	M-pesa anc cosmetics

139	Sebarchy logistics	Storage
140	Sew-tech (kenya) ltd	Sales & services of sewing machines
141	Roselyn packs	Stephen polythene
142	Muhoro electronics & boutique	Electronics boutique
143	White rose drycleaners ltd	Spare parts
144	Grand destiny company ltd	Selling of music accessories/mpesa
145	Friendly exbitions	Boutique
146	Multi tools (k) ltd	Retail of hardware items
147	D m cosmetics	Retail of cosmetics and m-pesa services
148	Intensive printing works ltd	Small printing & stationery
149	Jitegemee enterprises	Sale of second hand clothes & shoes
150	Yag general suppliers	Suppliers of stationery
151	Joseph macharia ngonyi	Sale of second hand clothes and shoes
152	Branvic agencies	Printing and stationery
153	Acts enterprises	Stationary (text books) and m-pesa
154	Kayaba one shop	Retail shop, stationery & mpesa
155	Pamoja enterprises ltd	Shop
156	Multi - trade investments (e.a) co. Ltd	Selling commodities
157	Joncy textiles	Tailoring materials and accessibles
158	Kausik & co ltd	Wholesale retail of textiles and accessories
159	Jessica international	Import of stationery & wholesale
160	Jagi ventures ltd	Supermarket
161	Gawa cosmetics shop	Wholesale & retail of cosmetics
162	Gawa cosmetics shop	Wholesale & retail of cosmetics
163	Beauty city	Sale of cosmetics & sale of phone s and cards
164	Shammah graphics & stationers	Small computer printing
165	Lamini emporium	General merchants/agro chem/gen.trade
166	Glass craft limited	Retail household goods
167	Kagwanja emporium	Retail of textile
168	Dunsac textiles	Retail of textile materials

169	Anchor graphics works	stationary shop and printers
170	Elimatt distributors	Supplies of general hardware
171	Gravity trading co. Limited	Retail of sundries and hardware
172	Optiven enterprises	Supply of stationery
173	Hari pharm pharmacy ltd	Dispensing chemist
174	Ridhdhi (e.a) limited	Import wholesale of masai beads shukas wire textile
175	Art beads	Medium trader
176	Wananchi optical goods	Optician
177	The music makers	Small music studio
178	Active wear limited	General merchant
179	Sovee limited	Trading in agricultural equipments, generators, water pumps and hardware
180	Afri labaratory supplies	Retail of laboratory equipment
181	Finstar enterprise limited	Retail of house-hold & electrical goods
182	Franiza clothing & materials	Retail of new clothes, telephone services
183	Internet cyber one	Cyber cafe and cyber bureau
184	Manorath office supplies	Medium general supplies
185	Generation insight	Stationery and m-pesa
186	Patel auto mobile house ltd	Retail of new automobile spares, motor cars, batteries & accessories lubricants
187	Jirani pharmacy	Chemist
188	Khoja telecoms	Mobile phones, accessories & mpesa
189	Tasneem stores ltd	Wholesale and retail of textiles
190	Mobile friendly	Mobile phones and accessories
191	Green seas enterprises	General shop
192	Acts enterprises	Stationery -text books/ m-pesa
193	Topknit sewing	Retail of sewing machines and textiles commodities
194	Gondalwalla trading	Hardware,glass,stationery and graphic materials
195	Kak & q stationery	Stationery & m- pesa services
196	Sure pharma ltd	Retail of pharmacy m pesa

197	Style and glamoure ltd	General marchant and m-pesa
198	Air minister music shop	Sale of music production
199	Ponamu ventures ltd	Retail of electronics/mpesa/photocopy
200	Pauldon limited	Retail of foodstuff
201	Pesa point ltd-river rd	Atm services
202	Jacks communications	Retail shop & simu ya jamii & mobile charging
203	Digo emporium	Bicycle dealer s &spares
204	Trust opticians	Selling spectacles frames, lenses & accesories
205	Nitin wholesalers ltd	Wholesale
206	Wireless communication	General merchant
207	East african studios (2004) k ltd	Photo-stidio,photoprocessing,&retail
208	Ketan emporium.	General merchants
209	Dipkatex	General trader shop and retail services
210	Eye world ltd	Ophthalmic &dispencing opticians
211	Daily domestic ltd	Retail of house hold utensils
212	Manfreco ltd	Small trader-wholesaler
213	Riverside communications	Computer & telephone services and courier service agent
214	Bluehill investment limited	Stationery retail / supplies
215	Livingcos (k) limited	Wholesale retail cosmetics
216	Omulembe enterprises	Retail of picture frames/tailoring
217	Aanfra computer solutions	Sale of computer parts ,accessories &communications
218	Eunice njeri t/ahigh power investments	Hawkers ware
219	Maharshi stationers ltd	Medium trader- stationers
220	Damsolo music work	Music editting and progarmming

APPENDIX: IV

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