SELECTED FINANCIAL MANAGEMENT PRACTICES BY SMALL ENTERPRISES IN KENYA; THE CASE OF KENYA INDUSTRIAL ESTATES (K.I.E.) LOANEES

BY

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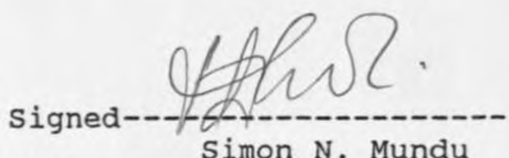
DECLARATION

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



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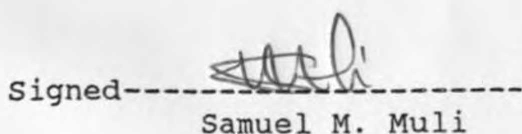
This research project has been submited for examination with my approval as university supervisor



Signed------------------ Date 27/11/97

Samuel M. Muli

DEDICATION

To my wife Grace and Daughter Effie

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ABSTRACT

Small enterprises have become an area of concern in many countries because of the expected contriution from them into the economy through employment creation and contribution to Gross Domestic Product. However, Small Firms have been faced by high mortality rate due to various reasons. This survey found out that Financial Management which is one of the reasons identified to cause failure is practised by older firms more than the younger ones in the firms surveyed. This may explain why small firms fail in their early years.

1.0 INTRODUCTION

1.1 BACKGROUND OF THE STUDY

In early 1980s, Small Business emerged as a nucleus for renewed economic growth in the United States. Many small businesses showed adaptability to change and were very successful during the the economic stress of the recession that occurred that time (Kuriloff & Hemphill JR 1988).

In Western Europe, small firms policy emerged largely by recognition of the employment creation potential of Small Enterprise (SE). Gibbs (1993) noted that " a common interest in job creation in the 1980s enabled European Governments of very different political colours to pursue policies in support of small and medium enterprise (SME) development.

In the United Kingdom (UK), Dewhurst and Burns (1989) puts it more clearly that:-

"In all the short history of modern business there is nothing so strange as this. On the one hand we have the traditional belief in the rightness and power of size. Rationalization, Standardization and concentration are the watchwords. Economies of scale rule the industrial world. In the United Kingdom (UK) we say we must be big to stand up against the ruthless cost-effective multinational corporations based in the USA and Japan . And indeed in the UK we have gone further along this road of concentration than any other country in the world. Yet this predilection for economic orthodoxy has not brought us economic success. And even some economic theory is now emphasizing the diseconomies of scale". (Dewhurst and Burns 1989 pg 1).

In sessional paper No. 1 of 1986, the Kenya Government stated that:

1. Future industrial development for kenya will depend on he development of small-scale industries in informal sector

2. The bulk of jobs to be created between then and the year 2000 will come from the small scale industry sector.

The structural Adjustment Programmes (SAPs) have aggravated the problem of unemployment. The government has suggested in the plan short and long term measures to cushion those adversely affected by the SAPs and they include promotion of small scale industrial, Agriculture and services enterprises.

The strategies that will be employed by the ministry of labour to create employment in the planned period (1997-2001) include accelerating small scale and jua kali enterprises (GOK 8th National Plan).

According to the plan, the process of industrialization will include building up the technical and managerial capacities of micro, small and medium scale industries to produce new products, process waste and develop new markets (pp 23).

All these show the importance that the government is placing on small enterprises.

An estimated 11 million Kenyans or about 43% of the entire population are living below the absolute poverty line. A poverty symposium held at the Limuru Conference Center on 16th-20th September1996 organized by KENAID said that one of the ways to reduce poverty was promotion of small scale enterprises (Daily Nation; 22nd January 1997 pg 14.)

In the sessional paper No.2 of 1992, the Kenya government stated that the small enterprise sector is a primary means of strengthening Kenya's economy. Since independence in 1963, very substantial

funds have been spent to implement government policies and programmes and to build institutions specifically aimed at promoting the small enterprise sector (Sessional Paper No. 2 1992)

Other people argue that economic success is not the sole criterion by which we should judge all things. Some evidence has been produced that people working in small business units in a civilized society are more committed than those working in large, amorphous, corporations (Dewhurst and Burns 1989).

The industrial revolution brought about the birth of large organizations as like in manufacturing, large production volumes were necessary to cut down costs per unit of output. This tied the minds of the industrialists to the view that technological and managerial efficiency were possible with large size. Size and technological /managerial efficiency are not the same, and are not at any rate hopelessly interlocked.(Dewhurst & Burns 1989)

When finance emerged as a separate field of study in early 1900s , the emphasis was on legalistic matters such as mergers, the formation of new firms etc. This focus shifted in 1930s to bankruptcy and reorganization, corporate liquidity etc. during the depression. Methods of financial analysis began to receive attention during 1940s and 1950s. Whereas the right-hand side of the balance sheet had received more attention in the earlier era, the major emphasis began to shift to asset analysis. Mathematical models were developed and applied to inventories, cash, accounts receivable and fixed asset. (Brigham 1982)

Dewhurst argues that it is possible to use sophisticated, sometimes highly quantitative techniques in the control of small businesses without impairing those special characteristics of a small business. They argue that the small business is thus beneficial, flexible, can adopt to new situations more easily than

large corporations, is innovative, it probably makes a large contribution pro-rata than large business, and with efficient control and management techniques the benefit it gives can be much greater.

This scenario probably led to the birth of small businesses as important in the development of the economy.

However, research evidence shows a high failure rate of small businesses. Kuriloff and Hemphill JR argues that most new businesses fail because their owners don't have balanced business experience. Three strengths are required to achieve balanced experience one of them being financial competence which means that you should know how to plan for and get the money you'll need to start your business and keep it running without getting into cash troubles (Financial Management).

Financial management has various components (Brigham 1982)-:

1. Financial analysis, Planning and control. This includes ratio analysis, financial forecasting and financial planning and control.

2. Working capital management. Included in this is current asset management that is management of cash, accounts receivable, inventory and marketable securities and major forms and sources of short term financing.

3. Investment decisions that is Capital budgeting techniques, and investment decisions under uncertainty.

4. Cost of capital and valuation .

5. Long-term financing decisions.

Although these aspects have been in use in the larger firms, the small firm is faced with the same problems . It is because of this that the small firm has to apply them in order to succeed.

1.2 DEFINITION.

Size of a business may be defined in terms of the number of employees, the turnover or the capital invested in the business. Classifications according to size may be either micro, small, medium or large enterprise. These as measured by number of employees, turnover or capital investment vary from country to country in terms of the magnitude. In UK, the 1969 Bolton committee of inquiry on small firms which reported in 1971 recognized that one single definition would not cover industries as divergent as manufacturing and service. The committee used eight definitions for varying industry groups. It therefore defined a small firm as one with under 200 employees in manufacturing, 50,000 pounds turnover for retailing and up to 5 vehicles or less for road transport. In the European Economic Community small firms are usually categorized by employees, but there is no general agreement on the number that is covered by the term "small". The most common definitions probably are that firms with less than 100 employees are small and those with 100 to 500 are medium. France and Sweden agree with the Boltons 200 employees limit. Other countries like west Germany regard 10 employees as the top limit for small firms (Dewhurst & Burns 1989).

Using employees as basis for definition, European countries defines a micro enterprise as that which employs 0-9 employees, small 10-99 employees, medium 100-499 employees and large more than 499 employees(Mulhern 1995):

The Government of Kenya defines a small business as one employing 0-50 employees (GOK/ILO/UNDP Center project pp 6.)

In America they employ between five to ten employees or those with sales of 500 000 dollars to 1, million dollars (Timmons 1990). In Kenya these are further divided into formal sector firms with between 10-50 employees and informal sector firms (Jua kali business) with 1-9 employees. This study will adopt the Government of Kenya definition as it will collect data from Kenya.

1.3 STATEMENT OF THE PROBLEM.

Sound Financial Management is crucial to the survival and well-being of small enterprises of all types (Mc Mahon & Holmes 1991). Wangai (1992) states "The existence of poor financial management in the Kenya small scale businesses is something that cannot be disputed". However, no empirical evidence has been advanced to proof this.

Studies of failure and success in small businesses repeatedly show that sound financial management is crucial to the survival and well-being of smaller enterprises of all types. Potts in McMahon and Holmes (1991) stated:- "the clearest and most startling distinctions between successful and discontinued small businesses lie in their approach to the uses which can be made of Accounting information..." . Available evidence suggests that the state of knowledge about financial management and the exercise of financial controls and techniques remains inadequate in small businesses (Mc Mahon & Holmes 1991).

Paliard et al (1992) observes that very few research studies have been done on finance in medium -sized businesses in France.

Gobeli and Seville (1988) stated that the alarming rate of small business failures each year can ultimately be traced to inefficient management. Various specific causes contribute to this problem but one root cause is a lack of good management information especially financial information.

In terms of small firm growth strategy, recent studies indicate that internal management issues are the most obstacles to growth in the small firm in Ireland (Anderson & Walsh 1995). Kessio (1981) puts it more strongly that "management know-how is what is needed by most businessmen more than they need capital".

The managing director of K.I. E was quoted saying that 50% of small businesses started in Kenya fail within 2-3 years the reason being lack of financial and management skills (Daily Nation 16th April 1996 pg19).The chairman of Kenya Management Assistance Programe(KMAP) in a Luncheon hosted by KMAP at Serena hotel said that 90% of business in Kenya are small scale ventures and management is the single most important hindrance for their advancement. Only 1 in 4 started survives beyond 5 years (Daily Nation 9th March 1996 pg4). Potts (1977) found that in 1973, 57% of all failing concerns in the US had been in operation five years or less. However Cochran (1981) states, "like the weather , small business failure is the subject of much discussion .....But unlike the weather .... There is ....a dearth of timely, reliable, and relevant information on small businesses failure rates .

The study will investigate selected financial aspects of financial management practices among small enterprises and will endeavour to answer the questions

(i) Do small enteprises practice formal financial management as set out in any finance book?

(ii) If they don't then what do they do in place of it

(iii) Can lack of formal financial management be linked to business failure?.

1.4 OBJECTIVE AND IMPORTANCE OF THE STUDY

This study will endeavour to:-

Investigate financial management practices in small firms that is:-

(i) find out whether they practice cash management

For the purpose of this paper this will cover safeguarding of cash and maintaining adequate cash .

(ii) Establish whether they practice accounts receivable management.

This will cover acceptable quality of credit, terms of extending credit and collection method for unpaid debts.

(iii) find out whether they do managerial planning and control.

Included here shall be budgets and business plan preparation and use and also cost control reports.

The Small and Medium Enterprises (SME) sector employs the majority of the European labour force and commands 2/3 of sales volume in the non-primary sector. Most of the expansion in employment in Europe over the last decade has been in very small firms. Using employees as the basis for definition, of the 17 million enterprises in Europe in 1993, 99.9 % were SMEs while 0.1 % were large. Of the SMEs, 93.3% were micro, 6.2% small and 0.5% medium sized. European SMEs employ 68 million people (72% of the workforce of the non-primary private sector) and SMEs control 50% of manufacturing sales, 67% of services and 90% of the construction and trade sectors (Mulhern 1995).

Kuriloff and Hemphill, JR (1988) puts it more forcefully that small new business are now the main driving force for economic growth . They argue that the small business is creating more jobs e.g. 2,650,000 jobs compared to 1,664,000 in the large firms in 1981 to 1982.

New businesses create new jobs and support changes in the economy but the mortality rate is very high e.g. in west Germany, 3 of every 4 new die before their 8th year and in Kenya 1 in 4 started survives beyond 5 years.

The unemployed in Kenya are estimated at 2.7 million and the labour force is increasing by nearly half a million people yearly. To alleviate the employment problem the government has in the recent past recognized the importance of informal sector and is endeavouring to promote its development. This sector is creating more jobs than the formal sector e.g. in 1995, it employed about 2.2 million people compared to 1.6 million for the modern sector. The economy is creating 240,000 jobs every year i.e. 26,000 in modern and balance in informal sector (8th National Development Plan).

Taking into consideration all what the SME sector has achieved and what it is expected to achieve in the future, this study,

1. Can help in identifying the training needs of small scale entrepreneurs and extension services.

2. Can act as a stimulus for future research .

2.0 LITERATURE REVIEW.

2.1 INTRODUCTION

The health of the small business sector of the economy is a function of the rate of growth of new small businesses which is a function of birth rates, survival rates and overall death rates. This will determine the total stock of businesses in the economy (Gibbs 1993).

The SMEs in developing countries are expected to contribute to local economic development, innovations, provide outlet for entrepreneurial energies in society and provide an optimum ownership and size distribution of industry and services (optimizing structure and ownership).

The Japanese have demonstrated that it is possible to operate successfully a large-scale plant achieving full technological economies of scale without developing excessively "fat" organizations through subcontracting and buying out of large numbers of services and processes not essential to the core businesses (Gibbs 1993). In Kenya a subcontracting of business by big ones to do certain work for them which they are best in has been agreed on between Kenya Management Assistance programme (K-MAP) and united nations development programme (UNDP)

To be able to do financial management proper accounting records have to be kept and made use of. In North America, significant progress has been made in encouraging small business owner-managers to install and use accounting information systems. The standard of financial reporting is now quite high (81%).

In Kenya, Maalu (1990) found out that record keeping is not done by the most of the Kenyan small business holders (72.2%). However he notes that the results may not be generalized beyond the sample elements.

Wangai (1982) found that 81% of the small businesses he studied prepared financial records for tax returns while 47% prepared as a formality of business. He further argues that the small business owner needs someone to interpret the periodic financial statements of operations and financial position and counsel on financial matters.

The British Institute of Management contents that financial control is not merely a process of preparing financial information. It is a policy and an attitude as well. Users of financial statements must have the ability to understand the broad purpose and meaning of figures presented to them, and be prepared to use the data. The Accountant for his part will be wasting his time if he cannot mould the information he presents to the individual requirements of his clients.

Gobeli and Seville (1989) found out that financial planning services from the CPAs were needed by almost ¾ of the firms studied. 85% of the sample needed services for financial statements preparation and 60% required Business planning services and Business Consulting Services.

Paliard's research (1992) found that financial consultants are not used widely by the firm's in the sample (Rhone-Alps Region). One out of 3 do not use any and one out of 5 used them only once.

Dana (1988) studied the competencies needed for small business success in Jamaica. Although the most important competence differ from country to country due to cultural and governmental differences, the most important were identified as planning and Budgeting, Management, among others. This was mainly maintaining financial records and planning goals and objectives.

Having defined good management as the ability to develop and effect good business plans, to obtain and employ resources effectively, to balance traditional obligations with business demands, and to accurately keep records and control finances , Yusuf (1995) found that this is the most critical success factor in south pacific.

The concept of financial management is too broad and for the purposes of this study, some aspects of the concept will be studied. One of these will be the working capital. Research evidence shows that the largest portion of the financial managers' time is devoted to the day to day internal operations of the firm which can be put under the heading working capital. Current assets represent more than half the total asset of a business firm and since they are a relatively volatile investment, they are worthy the financial managers' careful attention. To the small firm, they cannot avoid investment in cash, account receivable and inventories but can minimize their investment in fixed asset by renting or leasing (Weston and Brigham 1987 pg 345). Working Capital is used to make adjustments in operations as economic condition change. The appropriateness of the response can spell success or failure for the firm (Brigham 1982). Due to the importance of this, two aspects will be studied that is cash which is the life blood of any organization and without which no plan or decision can be implemented and accounts receivable which if not well managed the firm looses both the inventory sold and the cash to be received .

Without a well defined mission and clearly stated objectives, a business leaves its success to chance and improvisation. Chance leads most small business to fail in their first three years (Barrow 1988). Financial planning and control leads to the determination of the investment requirement giving rise to financing needs. Planning and budgeting is used internally to increase efficiency of a firm's

operations and externally are used in both credit and security analysis . Given these important functions, this area will also be studied.

2.2 CASH MANAGEMENT.

"Managing for cash flow is managing for survival. Manage your cash flow effectively, and your business works. Costs are in order. Sales and collection efforts work together. Margins are protected, market share grows and profits increase. Mismanage your cashflow and you won't be able to do much more than struggle to stay afloat and sing the cashflow blues" (Bangs 1989 pg 23).

Cash management means controlling your cash such that you have enough for your immediate needs i.e. you must maintain a cash level which does not far exceed your projected dues for certain periods.

Cash is the life blood of an organization and proper management is very important for the survival of the organization. However, cash management faces many pitfalls which include:

1. Poor internal control which may cause cash losses
2 Lack of cash planning. Lack of cash requirements planning may find you running short of money in the course of operations.
3. Diversion of funds to unproductive use
4 Poor management of cash e.g. carrying excess, late collection of bills and lack of expense control.

There are two important aspects of cash management:-

1. Safeguarding i.e. protect the cash from loss due to theft, fraud and other criminal manipulations and often times, carelessness.

2. Maintaining adequate funds to meet the needs of the business. This can be done by planning or budgeting the cash receipts and disbursements of business operations.

Cash may be stolen by employees or persons from outside the firm or misappropriated as an item accompanied by a manipulation of records or documents to cover up for the loss. Internal controls should be adopted to safeguard the cash. Cash budgeting is the process of planning the receipts and disbursements of the firm to determine cash requirements and cash surpluses. It is perhaps the most important single tool for business control.

Many small business entrepreneurs have learned the hard way that there is no relationship between cash and profits. They tried to measure profits through the cash in the bank account forgetting that business operates on credit and through money invested in inventories and capital items (SERDEF Inc. 1982).

Cash management is important because management needs cash to carry out its plans and policies. Lack of cash may lead to borrowing which sometimes is at high interest rates.

Studies indicate that between 80 and 90% of the time of business manager is spent on working capital (Dewhurst & Burns 1989). Anvarl & Gopal (1983) studied 123 small firms across a variety of industries in Canadian provinces of Quebec and Ontario. They found out that 53% of the sample firms forecasted their cash flows, 26% of the respondents to the survey said they used formal techniques for determining the level of their cash balances. Reported methods included fixed percentage of sales, purchases or expenses. About 71% of the firms indicated that they regularly monitor their current accounts. Grablowsky and Rowell (1988) Conducted a survey and analysis of small business firms in the Norfolk, Virginia area. They found that only

30% of the firms surveyed prepared a cash budget and only 34% made a conscious efforts to speed up cash collection and / or to slow disbursements.

This shows on average cash management is not widely practiced .

2.3 ACCOUNTS RECEIVABLE MANAGEMENT.

Management of accounts receivable first requires determining the firms policies on three variables:-

1. Acceptable quality of credit i.e. to whom to sell on credit
2. The terms on which credit will be extended to the customers
3. The collection method to be employed if customers do not pay according to these terms.

There are two techniques for monitoring debtors

1. preparing a schedule by age of debtor. This method focuses attention clearly on specific problem accounts.
2. Using the average collection period. This is calculated by expressing debtors as a proportion of credit sales and then relating that to the period in question.

Income is realised in the profit and loss account when goods are despatched and the invoice raised. But until the money comes in, the business has to find cash to meet its bills. Barrow (1988) says that if it cannot find cash to meet these day-to-day bills then it becomes "illiquid" and very often goes burst.

Two studies done in Virginia found generally naïve practices to predominate. Approximately 95% of firms that sold on credit tended to sell to anyone who wished to buy.

Most had no credit checking procedures and guidelines and only 52% enforced a late payment charge. 34% of the firms had no formal procedures for aging accounts receivable (Grablowsky and Rowell 1980).

20% of the businesses in Grablowsky's (1976) survey employed a full-time credit officer. Owner-managers tended to neglect accounts receivable management because of its difficulty and because they found it distasteful. Many viewed accounts receivable as exogeneously determined and beyond their control.

Accounts Receivable management is not highly practiced as evidenced by the 95% of firms selling to anyone who wished.

2.4 MANAGERIAL PLANNING AND CONTROL

"To the man who does not know where he is going, any road will take him there". For most entrepreneurs the principal reason for writing up a business plan is to persuade someone to fund or partially fund their venture. Some small businesses start off with their plans in the owners head. Most of these end up going broke in the first year. The small business that starts its life with a well thought through plan has great advantages. A business plan helps the owner/manager crystallize and focus his ideas, set objectives, gives him a yardstick against which to monitor performance and acts as a vehicle to attract any external finance.

"Owners should be able to set broad strategic direction for their businesses, being able to determine worthwhile and achievable goals and being able to undertake the necessary operational planning and control to maximize the chances of reaching targets" (Mc Mahon & Holmes 1991).

Without a well defined mission and clearly stated objectives, a business leaves its success to chance and improvisation. Chance leads most small businesses to fail in their first three years (Barrow 1988). Research evidence shows emphasis on operational rather than strategic planning and minor role of written plans. A significant proportion of small businesses owner-managers engage in shorter term operational planning, and this is often done informally "in the back of their minds" or even "on the back of envelops".

Zimmer and Gray (1973) studied cost control practices of 58 small and medium sized businesses manufacturing fabricated metal products in the state of Minnesota. 55% prepared cost control reports for plant level managers on a monthly basis, 46% of those who prepared cost control reports regularly compared this year's actual with those of last year, while 91% made actual vs budget comparisons 69% used standard costing for control of raw materials and direct labour costs.

Jones & Awad (1972) studied 35 small & medium sized manufacturing businesses located at Michigan. They found that 54% of respondents used standard costing. In Luoma's (1967) survey of smaller manufacturing businesses in the United States, 62% claimed to undertake break-even analysis. 41% reported using direct costing. Stoner (1983) reports that around 70% of the respondents included break-even point calculations in their long-range plan. Haynes (1964) studied 88 small firms from a range of industries located mainly in Kentucky and parts of Ohio and Indiana. He found that at least 20% of the businesses computed full product costs but were flexible in applying mark-ups on this cost according to market conditions.

Almost ½ of the businesses made no use at all of full cost calculations in pricing . overall the most widely-used instrument of managerial planning and control is budgeting. The published evidence

from North America suggests that they are less common in smaller businesses. On average 20 to 30% of small businesses engage in some form of budgeting Luoma (1967) reports that many firms prepare budgets but do not use them.

Schabacker (1960) found no significant relationship between the financial health and growth of his sample businesses and the use of formal cash flow forecasting. Grablowsky (1978) reports that younger small businesses were more likely to prepare cash budgets than longer established businesses. He also reports that the most common planning period for cash budgets was a year ahead, with the frequency of updating distributed over weekly, semi-monthly, monthly, quarterly, and annual intervals.

Wyckham & wedley (1990), studied a sample of 86 out of the 97 graduates of the New enterprise programme (NEP) in Canada. 76% of the respondents had completed a plan. Of the 65 participants who completed a business plan, 46 used it as an internal planning document, 32 used it as a marketing plan, 27 to get financing and 12 to attract a partner. Only 11 did not use it at all.

Generally financial planning and control tools are used by small firms on average in the studies reviewed.

3.0 RESEARCH DESIGN

3.1 POPULATION OF THE STUDY

The population of interest was the clients of Kenya Industrial Estates (K.I.E) located in Nairobi for ease of data collection and cost considerations. K.I.E is a government funded organisation which gives loans to small enterprises. Since its establishment in 1967, it has disbursed loans of about Kshs. 400 million to approximately 700 enterprises by 1988 as compared to Joint Loans Board Scheme Kshs. 170 million since 1955, Small Enterprise Finance Company (SEFCO) a private company Kshs. 45 million, Industrial Commercial and Development corporation (ICDC) Kshs. 275 million to 7400 firms for both start ups and expansion of existing businesses and approximately Kshs. 97 million to manufacturing enterprises including those in the informal sector under its "small industry loan scheme" (GOK/ILO/UNDP project 1988 pg 31). According to this project, Development Finance Institutions (DFIs) concentrate on those employing between 10-50 employees (pg 37).

3.2 SAMPLING PLAN

A total of 101 businesses were sampled out of 147 businesses located in Nairobi.The basis of sampling was on availability of physical address or telephone conduct or both. The rest had no definate contact as KIE could only tell that the business is in Nairobi but could not provide telephone contact or

physical address which is the information they have either after business premises change or in the details they have.

3.3 DATA COLLECTION PROCEDURE

The data required was primary data. Of the 101 businesses, only 75 were reached and interviewed the remaining 26 were not reached because they have either changed their business premises or have collapsed. The process was through a prepared semi-structured questionnaire which was administered immediately and where the respondent was busy then drop and pick later during which a discussion of the answers indirectly would be done for clarification. A large sample statistically is that which is greater or equal to 30. Therefore 75 is a large sample which is more than 50% of the population of interest (Nairobi Clients) . Previous studies have used different sample sizes Wyckham and Wedley (1990) used 86, Anvarl and Gopal (1983) 123, Zimmer and Gray (1973) used 58, Jones and Awad (1972) used 35, and Haynes (1964) used 88 units. All these were considered adequate. Therefore 75 units are also adequate for this study.

3.4 DATA ANALYSIS

The data was analysed by way of descriptive statistics that is percentages, simple and cross tabulations. Percentages and simple tabulations were used for the simple analysis of the data while cross tabualation was used to bring out any trends which may lead to conclusions. These tools are adequates as they will address the objectives of the study adequately. A summary of the answeres will be prepared in table form where possible and then conclusions drawn from these table summaries. These methods of data

analysis were used by other researchers who conducted surveys on small enterprises including Wychham and Wedley (1990), Anvarl and Gospel (1983), Grablowsky and Rowell (1988).

	< 5 YRS	>= 5 YRS < 10 YRS	>= 10 YRS	TOTAL
[illegible]	12	5	5	22
[illegible]	27	10	3	40
[illegible]	10	0	3	13
[illegible]	49	15	11	75

[illegible] Summary by Ages and Type of Business

[illegible]

	< 50	>= 50<100	>=100	TOTAL
[illegible]	15	5	2	22
[illegible]	17	13	10	40
[illegible]	0	5	8	13
[illegible]	32	23	20	75

[illegible] Summary by Investment Size '000 KSHS.

[illegible]

4.0 RESULTS AND FINDINGS.

	< 5 YRS	> = 5 YRS < 10 YRS	> = 10 YRS	TOTAL
SERVICE	12	5	5	22
TRADING	27	10	3	40
MANUFACTURING	10	0	3	13
TOTAL	49	15	11	75

Table 1: Summary by Ages and Type of business

As evidenced by the summary above, over 65% of the businesses surveyed are less than 5 years old. This could be explained by the high failure rate.

	< 50	> = 50 < 100	> =100	TOTAL
SERVICE	15	5	2	22
TRADING	17	13	10	40
MANUFACTURING	0	5	8	13
TOTAL	32	23	20	75

Table 2: Summary by investment based '000 KSHS.

Most manufacturing firms have investment of more than Kshs. 100,000.00 due to heavy investments in machinery. Of the 75 businesses studied, 29.3% were service businesses, 53.3% were trading businesses while 17.4% were manufacturing firms. 49 of the businesses were less than 5 years old, 15 between 5 & 10 years old

while 11 were more than ten years old. This may be explain by the failure of small businesses before age of 5 years.

4.1 CASH MANAGEMENT

	Monthly	Quarterly	Twice	Not Done	TOTAL
Service	7			15	22
Trading	4		4	32	40
Manufacturing	3	3	4	3	13
TOTAL	14	3	8	50	75

Table 3: Cash budgeting, type of businesses and number of times

Among the surveyed firms, 66.7% (50) did not undertake any cash budgeting while 33.3% (25) did cash budgeting.

Of those which undertook cash budgeting, 56% did it monthly, another 32% did it after every 6 months while the remaining 12% did it after every 3 months. 70% of the firms owners kept surplus business cash with themselves(i.e carried in the pocket to home then used later or deposited in the bank. The remaining 30% deposited there money in the bank before 3.00 p.m. daily and used the sales after 3.00 p.m. as beginning cash in hand. 56.7% of the firms studied used personally handling the cash as the precaution to void cash loss, 30% kept records as a precaution, 3.3% only kept cash in a locked up place,6.7% used the trick of showing the assistants handling cash that each is trusted more than the other but not when they are together so each watches over the other, and 3.3% used bank statements every month as a control.

86.7% of the firms surveyed did not differentiate between business money and personal cash. Infact they argued that business money is their personal money as they have no other source of income. The remaining 13.3% kept business money separate from their personal cash and any money taken from the business would be recorded as a drawing or a soft loan.

4.2 ACCOUNTS RECEIVABLE

	<=1 week	2-3 weeks	1 month	Variable	No Credit	Total
SERVICE	2	8	2	5	5	22
TRADING	7	5	13	3	12	40
MANUFACTURING	3	0	7	0	3	13
TOTAL	12	13	22	8	20	75

Table 4: Sell on credit, credit period and type of business

26.7% of the respondents did not sell on credit. The credit period ranged from 7 days to one month. However, 10% of those who sold on credit had no specific period since it was varying with the customer. The main criterion for granting credit was if the customer is known by the business owner (68%). Only 3.3% used credit worthiness rating as the basis and another 3.3% used past records and were paid within the credit period. All overdue accounts are followed up through reminders either by personal visits or telephone calls or both in most businesses (86.7%). The remaining 13.3% followed either those with largest amounts or those with longest period past due.

4.3 MANAGERIAL PLANNING AND CONTROL

	Attract partner	Get Financ-ing	Mark-eting Plan	Internal Plan. doc.	Not Prep-ared	Total
SERVICE	2	14	3	5	2	26
TRADING	4	20	10	7	10	51
MANUFACTURING	2	11	7	3	0	23
TOTAL	8	45	20	15	12	100

Table 5: Reason for preparing business plan and type of business.

Of the firms studied, 16.7% prepared neither business plans nor budgets not even cost control reports. 60% prepared business plans to get financing, 26.6% used it as a marketing plan, 10.7% to attract a partner,and 20% as an internal planning document.

(NB: this total is more than 100% because some use business plans for more than one purpose).

53.3% of the firms prepared budgets. Of those which prepared budgets, 31.3% used budgets as a guide to the expected expenses while the remaining 68.7% used them as basis of measuring performance and spending money correctly.

Only 16.0% of the firms prepared cost control reports. Of those which prepared cost control reports , 40% used them to help in pricing while the remaining 60% used them to help reduce costs. 70% of the businesses charged price on the basis of full cost plus margin while 10% used price discrimination, another 10% charged price per manufactures' guideline and the remaining 10% used the price prevailing in the market by checking what others are charging.

CROSS TABULATIONS:

	< 5 YRS	>= 5 YRS< 10 YRS	>= 10 YRS	TOTAL
SERVICE YES	2	3	5	7
SERVICE NO	10	2	0	15 22
TRADING YES	5	3	0	8
TRADING NO	22	7	3	32 40
MANUFACTURING YES	7	0	3	10
MANUFACTURING NO	3	0	0	3 13
TOTAL	49	15	11	75

Table 6: Cash Budgeting, Business type and Age

For the business which are between 5 to 10 years, 40% practice cash management (20% in service and 20% in trading), 60% does not with 46% being trading and 13.3% in service. 71.4% of the businesses aged less than 5 years do not practice cash management (20.4% in serivce, 44.9% in trading and 6.1% in manufacturing). 72.7% of the businesses aged 10 years and above practice cash management with 45.4% in service and 27.3% in manufacturing. Only trading businesses constituting 27.3% do not practice cash management in this age bracket. Overall 68.2% of service businesses, 80% of trading businesses and 23.1% of manufacturing businesses studied do not practice cash management.

A trend seems to be emerging here that older businesses practice cash management more than the young ones as evidenced by 28.6% for aged below 5 years, 40% for ages between 5 to 10 years and 72.7% for 10 years old or more. Trading businesses are poorest in practicing cash management. This may be explained by the short lead time between ordering and receiving the goods and credit arrangements unlike service and manufacturing where a substantial time is taken to give a service or product.

	< 5 YRS	>= 5 YRS < 10 YRS	>= 10 YRS	TOTAL
SERVICE YES	7	5	5	17
SERVICE NO	5	0	0	5 22
TRADING YES	17	8	3	28
TRADING NO	10	2	0	12 40
MANUFACTURING YES	7	0	3	10
MANUFACTURING NO	3	0	0	3 13
TOTAL	49	15	11	75 75

Table 7: Sales on credit, business type and age

All the studied businesses 10 years old and above sell on credit. This may be explained by the fact that to expand their sales they sale on credit. 86.7% of the studied businesses between 5 and 10 years old sell on credit while 63.3% of those below 5 years old sell on credit. Overall 77.3% of service businesses, 70% of trading businesses and 76.9% of manufacturing businesses studied sell on credit.

Another trend seems to emerge here that older businesses are likely to sell on credit while young ones may not as evidenced by 63.3% for those less than 5 years, 86.7% for those between 5 to 10 years and 100% those 10 years old and above.

These two elements of financial management are implying that to survive, small businesses have to practice cash management and sell on credit. It is only in the businesses 10 years old and above that some were found to use credit worth rating .

	< 5 YRS	> = 5 YRS < 10 YRS	> = 10 YRS	TOTAL
YES SERVICE	10	3	5	18
NO	2	2	0	4 22
YES TRADING	21	8	0	29
NO	6	2	3	11 40
YES MANUFA-CTURING	10	0	3	13
NO	0	0	0	0 13
TOTAL	49	15	11	75 75

Table 8: Prepared business plan, age and type of business

All manufacturing businesses studied have prepared a business plan with one of the reasons nearly common to all being to get financing . 72% of businesses 10 years old and above prepared a business plan, 73.3 % of those between 5 to 10 years and 83% of those below 5 years old have prepared business plan. All those trading businesses which have not prepared a business plan do not also practice cash budgeting.

		<5YRS	>= 5 YRS < 10YRS	>= 10 YRS	TOTAL
Does cash budgeting, sells on credit	S	2	3	5	
& has prepared a	T	2	3		
business plan	M	4		3	22
Does cash budgeting,doesn't sell on credit &	S				
hasn't prepared	T	3			
a business plan	M				3
Doesn't cash budgeting,doesn't sell on credit &	S	2			
hasn't prepared	T	3	2		
a business plan	M				7
Doesn't cash budgeting, sell on credit &	S	5			
has prepared	T	15	5		
a business plan	M	3			31
Does cash budgeting,doesn't sell on credit & has prepared	S T				

a business plan M	3			3
Doesn't cash S budgeting, sell on credit &		2		
hasn't prepared T			3	
a business plan M				5
Doesn't cash S budgeting,doesn't sell on credit &	3			7
has prepared T	4			
a business plan M				
TOTAL	49	15	11	75

Table 9: Age, business type and three main questions,
Key: S-Service, T-Trading, M-Manufacturing.

29.3% of the businesses studied practice cach management, sell on credit and have prepared a business plan. 4% practice's cash budgeting doesn't sell on credit and have not prepared a business plan. 9.4% doesn't do cash budgeting, doesn't sell credit and has not prepared a business plan. 37.3% doesn't do cash budgeting, sells on credit and has prepared a business plan. 4% does cash budgeting, doesn't sell on credit and has prepared a business plan. 6.6% doesn't do cash budgeting, sells on credit and has not prepared a business plan and 9.4% doesn't do cash budgeting, doesn't sell on credit and has prepared a business plan.

72.7% of the businesses 10 years and above practice cash budgeting, sell on credit and has prepared a business plan as compared to 40% for those between 5 to 10 years old and 16.3% for those below 5 years old. Non of the businesses in the 10 years and above age was found not to practice cash budgeting, not to sell on credit and having not prepared a business plan simultaneously as campared to 13.3% in age 5 to 10 years and 10.2% for below 5 years old businesses. 53.8% of manufacturing businesses studied doesn't do cash budgeting, sells on credit and has prepared a business plan as compared to 45.5% in service and 12.5% in trading.

5.0 CONCLUSIONS AND RECOMMENDATIONS

5.1 CONCLUSIONS

Over 65% of the businesses studied were less than 5 years old probably due to high mortality rate. More than 66% of the respondents did not undertake cash budgeting, 70% of the business owners kept surplus cash with themselves and over 56% of the business owners used handling cash personally as the security to their money.

More than 70% of the respondents sold on credit with the main criterion for granting credit being if ythe customer is known by the business owner. Overdue accounts are followed up through reminders either by personal visits or telephone calls or both.

70% of the businesses charged prices on the basis of full cost plus margin and only 16% of them kept cost controll reports. The full cost plus margin pricing may therefore be a mentally calculated price or selling at what the competitors are charging. Over 80% of the businesses have prepared a business plan with the most common reason being to get financing.

All the businesses 10 years old and above sold on credit, 72% had prepared a business plan, 72.7% practice cash management but the percentages are lower for younger businesses. It is only in this age bracket that some businesses use credit worth rating as the basis to grant credit. This generally shows that older businesses practice formal financial management more than younger ones. The results therefore seem to be leading to a conclusion that the older the business, the more likely it is to practice formal financial management which implies that to survive small businesses have to practice formal financial management.

5.2 RECOMMENDATIONS TO BUSINESSES

The business owners need training so that they can use formal methods like credit rating which will increase their sales. They also need training to understand the importance of and do cash budgeting to avoid buying just because they have money.

5.3 RECOMMENDATIONS FOR RESEARCH

Further research can be done to establish whether:-

(1) Those who practice cash budgeting and other formal financial management practices have undergone some training to estimate the value of training

(2) high failure rate in this sector is due to lack of formal ways of conducting business.

5.4 LIMITATIONS OF THE STUDY

In conducting this study, the researcher encoutered various problems

(i) The respondents were uncooperative as they feared this was aimed at forcing them pay tax

(ii) Other businesses had changed their location and it was not easy to locate them unless they had a telephone contact.

(iii) Where circumstances would force the researcher to leave the questionaire, some respondents would say that they have mailed it and it was not easy to convince them to fill another as they could not tell which address they used while others said they left it at home.

QUESTIONNAIRE

PART ONE

Please indicate the most appropriate response

1. What type of business are you engaged in?
   (a) manufacturing
   (b) trading
   (c) service

2. How long have you been in this business?
   ......years,and .....months

3. Do you have employees or assistants?
   if yes how many?.................................

4. How much is your investment base in Kshs?

....

... ...

PART TWO

Please answer yes or no where applicable (----,----)

YES NO

5. Do you plan/budget your cash receipts and disbursements?

--- ----

6. if yes to 5, how many times in a year?

....

7. Where do you keep surplus business cash

....

....

8. What precautions have you taken to ensure that none

is lost?

....

....

9. Where is personal cash kept?.........................

....

PART THREE

10. Do you sell on credit? _____ _____

11. If yes to 10, what do you use to determine who to sell to?..

....

....

12. Do you keep records of debtors? ------ ------

13. What is the credit period you give to your customers?

...............months/days(please specify).

14. Do all your debtors pay within the credit period?

----- -----

15. If no to 14 do you make any effort to speed up cash collections?

---- ----

16. If yes to 15, what methods do you use?
....
....

17. How do you determine which debtor to follow?...
....

PART FOUR

18. Do you prepare any business plans? ------ -------

19. If yes to 18, why do you prepare them?

(a) to attract a partner
(b) to get financing
(c) as a marketing plan
(d) as an internal planning document
(e) other (specify)

....

20. Do you prepare any budgets? ----- -------

21. If yes to 20, why do you prepare them?...
....

22. Do you undertake any break-even analysis? ------ ---
--

23. Of what use is break-even analysis to you and your business?
....
....

24. Do you prepare any cost control reports? ----
- ----

25. What use do you make of costs control reports?...
....

26. How do you determine the price to charge?
....

RESPONDENTS

MANUFACTURING

Bond Garments k ltd
Emperor Body Builders
Decorative Black Smith
Frera Engineering Company
Gulf Industries ltd
Hercules Mills ltd
Jet Link Industries
Coast Biscuits Manufactures
Mecca Quality Bakery
Specialised Towel Manufactures
Nzomo Trust Investment Co. ltd
Universal Industries ltd
Woven Fabric Labels

SERVICE

Afrikana Salon & Boutique
Clinical Laboratories
Camel Dry Cleaners
Castal Engineering Contractors
Car Care Services
Chimmy Okoth-Olende Clinic
City X-ray Services ltd
City Dry Cleaners
Conference Photo Studio
Delux Printers ltd
Enns Services

TRADING

Boneri Maschinen Fabrik ltd
Continental Industries
Fresh Produce ltd
Industrial Components
Ndala Enterprises
Tekno-Denki ltd
Tiva Enterprises
Urima Emterprises
African Novelties Enterprises
Al Ahli Trading Co. ltd
Allan's Distributors ltd
Anka ltd
Apisquip Distributors
Beco Leather Products
Leather Masters ltd
Markex Garments
Volcanic Franchise International
Alpha General Agencies
Juen Enterprises ltd
Famtex Boutique
Foundation Paper Products
Insydi Enterprises
Inter- Colour Industries
Jedina Enterprises
Joshango and Company ltd
Masawa Leather Works
Merge Enterprises ltd
Rambo K ltd

Fabprint Services ltd

Expert Printers ltd

Farmers Dry Cleaners & Laundry

Dental X-ray Center

Eastleigh Quality Butchery

Lunch Box ltd

Madix Secretarial Bureau

Nyandik Enterprises

Pleats and Dress Makers ltd

Pisera Cafe ltd

Mumo Motors Garage

Murimi Electronics & Hardware

Naju Investments

New Hardweels (k) ltd

Pesmu Investments ltd

Supreme(suprina) Phar. ltd

Tack Products

Taptok ltd

Vic Brand International

Passy Boutique ltd

Regent Industries ltd

Castle Distributors

Jimsons Products

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