African Journal of Emerging Issues
Peer reviewed | Double blind | Interdisciplinary

African Journal of Emerging Issues (AJOEI)
Online ISSN: 2663 - 9335
Available at: https://ajoeijournals.org

FINANCE

EFFECT OF CASH POSITION ON FINANCIAL PERFORMANCE: A SURVEY OF SELECTED SMALL RETAIL ENTERPRISES IN NAKURU CITY

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Publication Date: February 2025

ABSTRACT

Purpose of the Study: The study was to determine the effect of cash position on the financial performance of selected small retail enterprises in Nakuru City, Kenya.

Statement of the Problem: Small retail enterprises in Nakuru City often operate for years without significant growth, mainly selling similar, non-standard products. Many experience financial losses or minimal profitability, with low sales, return on equity, return on assets, and net profit margins.

Methodology: The study utilized stratified random sampling to select 344 small retail enterprises from various sectors. Data was collected through structured questionnaires and analyzed using descriptive and inferential statistics. Descriptive statistics included frequencies, percentages, means, and standard deviations, while multiple linear regression was applied for hypothesis testing at a 5% significance level.

Results of the Study: The study found that cash position was a significant predictor of financial performance among small retail enterprises in Nakuru City. Cash position was correlated to the financial performance of selected small retail enterprises in Nakuru City, Kenya.

Conclusion and Policy Recommendation: The study concluded that cash position significantly influenced financial performance among small retail enterprises in Nakuru City. It recommended that these enterprises strategically manage liquidity, forecast receipts and payments, and assess the opportunity cost of cash and time value of money for better financial outcomes.

Keywords: *Cash Management, Financial Performance, Retail Enterprise, Small Enterprise, Cash Position, Cash Planning, Kenya*

INTRODUCTION

Small retail enterprises dominate the retail industry and form a huge source of employment in the economy of most of the countries across the globe (Amagoro, 2022). The small retail enterprises are involved in business activities of selling of goods and services to the ultimate end consumers and customers for personal consumption or non-business use (Ali et al., 2021). In most of the economic jurisdictions, small retail enterprises are defined in terms of number of employees and annual turnover. In Kenya, small retail enterprises include those business that sell goods and services to the ultimate end consumers and whose number of employees is less than 50 and with an annual turnover of less than one million Kenya shillings (MSE Act, 2012).

Small retail enterprises lack knowledge on cash handling practices, planning and usage of cash budgets, determining target cash balance, and on theories and practices of cash management. In Pakistan, Yousef and Smirat (2021) noted that 67 per cent of the operators of small retail enterprises did not track cash receipts and payments and that they lacked knowledge on cash control procedures. In China, most of the small retail enterprises were not competitive with respect to the market dynamics due to poor track of their cash flows and cash projections (Chang & Hu, 2020).This means the owners are not able to determine the cash position and project on the cash usage hence fail on sustaining competitiveness in the market.

In Africa, most of the small retail enterprises in South Africa did not prepare cash budgets and made business decisions without reference to the cash flows in the business (Kemp et al., 2018).This leads to poor decisions and mismanagement of funds since there is insufficient knowledge on what is to be purchased and how much is to be spent. In Nigeria, Onyemaechi and Nneka (2022) noted that most operators of small retail enterprises had low understanding on conservative cash management policy measures and lacked knowledge on how to manage cash and cash equivalent (CCE).

In Kenya, there are over 1.5 million formally registered Micro, small, and medium enterprises (MSMEs) which accounts for at least 50 per cent of the new job opportunities created every year (Kenya Bureau of Statistics, 2023). Kenyan economy heavily depends on the establishment of new small retail enterprises as well as their performance in the industry (Kenya Bureau of Statistics, 2018). With respect to this, Kenya Vision 2030 seeks to strengthen small retail enterprises through improving their productivity and innovation so that they grow to the level of key industries (Government of Kenya, 2007).

STATEMENT OF THE PROBLEM

Small retail enterprises form 68.14 per cent of all small and medium enterprises (SMEs) in Nakuru City and accounts for over 50 per cent of all employment in the City (KIPPRA, 2023). However, many small retail enterprises in Nakuru City fail few months or years after establishment evidently through closed and vacated operational premises. Other retailers operate for many years without any major transformational growth; mostly retailing on similar and non-standard products (Kenya National Bureau of Statistics, 2022). In addition, many small retail enterprises in Nakuru City operate in financial losses or small profitability margins with respect to sales, return on equity, and return on assets as well as net profit margin (Kenya National Bureau of Statistics., 2022).

The challenges that the small retail enterprises face include closure of business few months or years after establishment, lack of any major transformational growth, small profitability margins with respect to sales, return on equity, and return on assets. On this basis, the current study aims to determine the effect of cash position on the financial performance of Small Retail Enterprises in Nakuru City. Previous related studies done in Kenya by Gitau et al. (2022), Oteyo (2018), Turgut (2019) and Wanjuki (2021) have focused on establishing the relationship between financial management and organizational performance in general. This study evaluated financial performance on metrics such as capital management, budgetary aspects, working capital management and capital structure. Few and conclusive studies have narrowed down the management of working capital into cash management practices but not into component such as cash position as it is in the current study. Due to the evidence of financial performance challenges and the establishment of knowledge gap, the current study sought to determine the effect of cash position on the financial performance of small retail enterprises in Nakuru City, Kenya.

RESEARCH OBJECTIVE

The objective of the study was to determine the effect of cash position on the financial performance of selected small retail enterprises in Nakuru City, Kenya.

RESEARCH HYPOTHEIS

There is no statistically significant effect of cash position on the financial performance of selected small retail enterprises in Nakuru City, Kenya.

THEORITICAL REVIEW

Free Cash Flow Theory was developed by Jensen in 1986. The theory defines free cash flow as the cash that is in excess of the cash that is required to finance all projects (working capital) with positive net present values (NPV) while discounting for relevant cost of capital the theory assumes that when a firm generates more free cash flow, it results in conflicts of interests between shareholders and managers. Business managers have incentive to hold more cash in order to increase the amount of assets under their control and also to increase their discretionary power. When the managers or business owners have excess free cash, it implies that the managers may not need to raise external funds in order to carry out additional investments (Ahmad et al., 2021). The relevance of this theory to the study is that it focuses on management of cash flows from investing activities and shows the flow of cash to be either surplus or deficit in the cash budget. Therefore, the managers of the small retail enterprises seek to manage the available cash in ensuring there is a balance between meeting the current obligation to mitigate liquidity short fall and investing in the interest of the small enterprise wealth maximization. Small retail enterprises should have a prudent plan on the extent of credit limit and how much to invest in short-term and long-term.

EMPIRICAL REVIEW

In India, Naidu and Sri (2020) carried out a study to examine the influence of cash management on financial performance of small enterprises. The cash management aspects that the study focused on included the preparation of cash budgets, determination of cash balance targets and review of cash budgets. The results indicated that on average majority of the small enterprises prepared cash budgets and had a predetermined cash balances target. The study concluded that cash management practices are effective in ensuring efficient performance of small enterprises in India.

In Somalia, Bari *et al*. (2019) sought to determine the effect of cash management on the financial performance of small retail enterprise in Puntland State dealing with food and beverage. Among the cash management practices that the study focused on included cash conversion cycle, inventory management, accounts receivables and accounts payables management. The results indicated that 70.99% of the financial performance of food and beverage retailers in Puntland State was explained by cash management practices adopted by the enterprises. Focusing on Non-Financial Firms Listed at Nairobi Securities Exchange, Koech and Muturi (2021) sought to establish the influence of cash management on financial performance. The study specifically focused on how cash conversion cycle influences the return on assets and net profit margin. The study revealed that 36.6% of the variation in return on assets was explained by the cash conversion cycle. In addition, the regression analysis showed that 82.1% of variation in net profit margin was accounted by the changes in cash conversion cycle. The study further revealed that firm size moderated the relationship between cash conversion cycle and financial performance metrics.

CONCEPTUAL FRAMEWORK

Independent Variable **Dependent Variable**

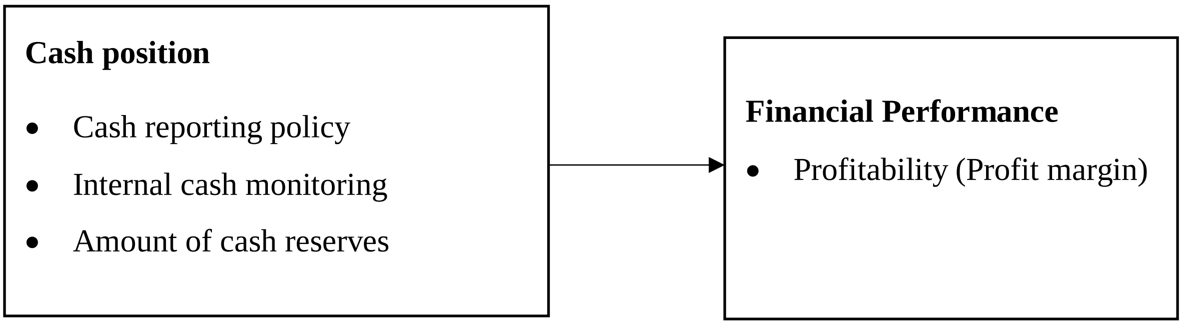

Figure 1: Conceptual Framework

RESEARCH METHODOLOGY

This study employed predictive correlational research design. The research design seeks to establish relationship between two measured variables (Miller & Whicker, 2017). This research design aim to examine if a variable or set of variables can predict another variable or set of variables. The target was all the managers of the 3397 registered small retail enterprises in Nakuru City in major diverse business categories. A sample of 344 managers of small retail enterprise was selected using stratified random sampling from the target population of 3397 small retail enterprises. Data was collected using closed-ended questionnaires to capture both quantitative and qualitative insights. The data obtained was analyzed using descriptive and inferential statistics. Descriptive statistics were frequencies, percentages, means, and standard deviations. For inferential statistics, multiple linear regression was used to test the research hypotheses at 5% significance level. The study adhered to all ethical requirements, ensuring the respondents were fully informed about the nature of the study and procedures to be involved in order to have informed consent before responding to the research questions.

RESULTS AND DISCUSSIONS

The study sought to collect data using questionnaires from 344 managers of small retail enterprise within Nakuru City, Kenya. Out of the sampled 344 managers, the study was able to collect 310 correctly filled questionnaires. This was a response rate of 90.1%. Table 1 shows the frequencies, means, and standard deviations on various constructs of cash position among the small retail enterprises within Nakuru City.

Table 1: Descriptive Statistics of Cash Position

Cash Position	SD	D	Neither	Agree	SA	Mean	Std. Dev.
The business manages cash receivable from customers	5%	2%	7%	43%	44%	4.20	0.975
The business generates sufficient cash for meeting immediate business obligations	71%	23%	1%	3%	2%	1.43	0.847
The business maintains good liquidity positions	81%	5%	8%	5%	2%	1.41	0.933
The business makes cash payments to suppliers	2%	10%	9%	46%	33%	3.99	0.985
The business easily manages its day-to-day operations	10%	23%	30%	33%	5%	3.00	1.061
The business manages trade-offs between holding too much cash and too little cash	83%	7%	6%	4%	1%	1.34	0.843
The business has built a sustainable cash flow	70%	24%	2%	2%	3%	1.44	0.848
This business has adequate free cash flows	87%	5%	7%	1%	1%	1.25	0.692
The business' cash flow is positively improving	61%	25%	9%	3%	2%	1.61	0.937
The business maintains large cash reserves	7%	24%	31%	34%	5%	3.04	1.025

The study examined whether businesses manage cash receivable from customers, revealing that 43.2% of the managers agreed while 43.9% strongly agreed, resulting in a mean score of 4.20 and a standard deviation of 0.975, indicating consensus among respondents. However, businesses were found to have unsustainable cash flow, as evidenced by a mean of 1.44 and standard deviation of 0.848, with many respondents strongly disagreeing or disagreeing.

Regarding cash flow adequacy, findings showed that businesses generally lacked adequate free cash flows, supported by a mean of 1.25 and standard deviation of 0.692. Similarly, businesses' cash flow was not positively improving, with a mean of 1.61 and standard deviation of 0.937, reflecting financial instability. The study further investigated whether businesses maintain large cash reserves, finding that respondents were largely indifferent, reflected by a mean of 3.04 and standard deviation of 1.025. Notably, 23.5% of respondents disagreed, 33.5% agreed, and 31.0% neither agreed nor disagreed, highlighting mixed views on cash reserve management in small retail enterprises within Nakuru City.

INFERENTIAL STATISTICS

The study sought to determine the effect of cash position on the financial performance of selected small retail enterprises in Nakuru City, Kenya. With respect to this, the study first established whether the cash position practice was related to the financial performance of the selected small retail enterprises in Nakuru City, Kenya.

Correlational Analysis

Table 2 shows the correlation between cash position practice and financial performance.

Table 2: Correlations between Cash Management Practices and Financial Performance

Cash Management Practices		Financial Performance
Cash Position	Pearson Correlation	0.261**
	Sig. (2-tailed)	0.000
	N	310

The study found that there was a weak and positive relationship between cash position and financial performance of small retail enterprises in Nakuru City. This is evidenced through a correlation coefficient of 0.261 which was significant at 5% significance level ($p<0.05$). The results indicate that cash position was related to the financial performance of the small retail enterprises.

Regression Analysis

The study carried out regression analysis between the cash position as a predictor variable and financial performance of small retail enterprises within Nakuru City as the predicted variable.

Table 3: Model Coefficients

		Unstandardized Coefficients		Standardized Coefficients		
Model		**B**	**Std. Error**	**Beta**	**t**	**Sig.**
1	(Constant)	1.145	0.193		5.931	0.000
	Cash Position	0.143	0.053	0.165	2.730	0.007

a. Dependent Variable: Financial Performance

The study revealed that cash position was a significant predictor of financial performance among the small retail enterprises in Nakuru City as evidenced by p-value of less than 0.05. The unstandardized coefficient on cash position was 0.143 and thus implying one unit increase in cash position results into 0.143 units increase in financial performance among the small retail enterprises in Nakuru City. This therefore implies that cash position has a significant effect on financial performance among the small retail enterprises in Nakuru City. Based on these findings, the study hypothesis stating that there is no statistically significant effect of cash position on the financial performance of selected small retail enterprises in Nakuru City, was rejected at 95% confidence interval. Therefore, it implies that cash position has a significant effect on financial performance of selected small retail enterprises in Nakuru City.

CONCLUSION

Cash position was concluded to have a significant effect on the financial performance of selected small retail enterprises in Nakuru City, Kenya. There was a weak and positive relationship between cash position and financial performance of small retail enterprises. The weak and positive relationship leads to most of the enterprises close few years after establishment while operate in loss or minimal profit margins because they depend on cash to pay their suppliers as well as other expenses that are immediate. Therefore, management of cash receivable, generating sufficient cash, maintaining good liquidity positions, building sustainable cash flow, and having free cash flows are seen to be predictors of good performance among the small retail enterprises.

RECOMMENDATIONS

Based on the conclusions, the study makes recommendations for practice, policy, and academia. For practice, small retail enterprises should carefully plan for funding liquidity management, forecast receipts and payments, and evaluate the opportunity cost of cash and time value of money. Proper monitoring of cash receivables and credit information analysis is essential to assess a prospective customer's creditworthiness and ensure effective cash flow management. For policy, national and county governments, alongside economic planners such as the National Treasury and the Ministry of Cooperatives, Labor, and Social Welfare, should develop policy frameworks and training manuals on best practices for cash management in small retail enterprises. Businesses should also establish credit limit policies for credit extension, collateral policies for receivables collection, and implement transactional, precautionary, and speculative cash policies to maintain liquidity, large cash reserves, and sustainable cash flows. For academia, further studies should examine the effect of cash budgeting on financial sustainability in micro, small, and medium enterprises in Kenya.

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