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ASSESSMENT OF FINANCIAL MANAGEMENT CHALLENGES FACING THE MICRO AND SMALL ENTERPRISES (MSES) IN KENYA: A CASE OF MERCHANDIZING MSES LOCATED IN NAIROBI RIVERROAD AREA

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Abstract

Purpose: This study was an assessment of the financial management challenges facing MSEs in Kenya in the case of merchandizing MSEs located along River Road.

Methodology: A descriptive survey research design was adopted. The target population was all the 210 MSEs located along river Road in Nairobi. The study used systematic random sampling. All the MSEs were numbered and included in the sampling frame. One MSE out of every five MSE was picked at random thus resulting to a sample size of 42 which was 20% of the population. Data was collected using a questionnaire, analyzed by use of descriptive statistics and findings presented using charts and graphs.

Results: Findings in this study indicated that the financial management challenges facing MSEs were in the area of trade credit management, inventory management, debtors' management and cash management. It was concluded that indeed MSEs were facing a serious challenge in financial management.

Unique contribution to theory, practice and policy: It was recommended in this study that business incubation projects should be set up to impart financial knowledge to MSE owners. It was suggested that a correlation or a regression analysis should be carried out as an area of further study in order to ascertain the influence of financial management training and MSE success/growth. Such a study would inform the formulation of government policy aimed at promoting the growth of the MSE sector

Keywords: *financial management challenges, micro and small enterprises, trade credit management, inventory management, debtors' management, cash management*

1.0 INTRODUCTION

In recent years, the role of micro, small and medium sized enterprises in employment creation has increasingly received attention in development policy debates, for example Poverty Eradication Paper (2002) and Vision 2030 blue print (2008). After the massive failure of stateowned enterprises in creating a solid industrial base, the inability of the Kenyan government to offer employment to all even after the Narc regime 2002 which had promised to create 500,000 jobs annually, the focus of attention is shifted towards small-scale private enterprises for the development of a dynamic economy and for the generation of jobs and income for the mass of urban and rural poor. This policy evolution has been observed in Kenya, with strong government participation in the productive sector, towards a liberalized economy with an emphasis on private activities.

At the same time and driven by a private sector oriented development approach, many developing countries started the development and implementation of an SME policy, which finds its justification based on several arguments. First and foremost, small and micro sized enterprises (SMEs) tend to generate employment and income for the poorest and most disadvantaged groups of people in the society. Therefore, stimulating the creation of small firms and their subsequent growth is expected to have a strong leverage effect on the standards of living of the poor. Hence the stimulation of SMEs is justified on the grounds of income redistribution.

Second, a policy tailored for SMEs deserves support in poorly developed markets where transaction costs are high. The policy is to address the fixed costs related to obtaining information necessary for business operations which are the more constraining the smaller the size of operations. Due to the existence of fixed costs for obtaining of the necessary inputs, small firms are inherently in a disadvantaged position to gain access to resources of different kinds, including credit, infrastructure, upgraded technology, access to markets and information.

Finally, in developed countries, new business startups and growth are lying at the heart of a dynamic economy where "creative destruction" entails economic and technological progress. Therefore, merely on promotional grounds, governments in developing countries have also shifted attention away from former, inefficiently working, large-scale enterprises to focus more on entrepreneurship and small business growth for the modernization of the economy.

The Nairobi River Road is known by business people and policy makers alike that it hosts the most diverse set of micro and small enterprises. The type of business is as varied as the owners. Not only does River Road host the biggest vehicle repair industry, it also host the suppliers of all types of spare parts for vehicle repair, building repairs, fixtures and fittings, glassware, stationery, beauty and cosmetics shops, music and entertainment retail shops, bus booking offices and three banks (KCB, Barclays and Bank of Africa) not to mention countless food joints, airtime and cell phone retails shops.

However, it has been noted that most of these business are either closing down or being replaced by exhibition stalls managed by individuals. Part of the reason causing these MSEs to close down is poor financial management. To begin with, most MSEs tend to take too much trade credit which pushes up their cost of goods sold. In addition, the majority of MSEs have a challenge managing their creditors as shown by the failure of MSEs to pay the creditors on time. In addition, failure to pay on time results in the denial of future credit terms. This situation impacts negatively on business growth.

Furthermore, most MSEs have a challenge managing the business inventory. They either stock up excessively hence attracting storage costs as well as opportunity costs on funds used to purchase stock. Slow moving items resulting from poor inventory management are prone to pilferage either by customers or employees. On the other hand, low stock levels result in stock outs which impacts negatively on sales turnover by causing customer turnover.

Poor management of debtors resulting into bad debts which have to be written off eats into business revenue. In addition, non-optimal level of debtors results into opportunity costs of funds tied up in the debtors. High collection costs also impacts negatively on the bottom line of businesses. Poor cash management impacts on the liquidity and solvency of the MSE as it is important to have optimal levels of cash in order to meet the business obligations as and when they fall due. In addition, high levels of cash should not be maintained as they result into opportunity costs of alternative investment of the idle cash.

1.1 Statement of the Problem

Sound financial management is essential in all types of organizations whether it be profit or non-profit. From time to time it is observed that many firms have been liquidated not because their technology was obsolete or because their products were not in demand or their labour was not skilled and motivated, but that there was a mismanagement of financial affairs. Even in a boom period, when a company make high profits there is also a fear of liquidation because of poor financial management. It is a well noted observation that MSEs in many countries in general and Kenya in particular have wound up in the first three years. While this study argues that MSE financial sector deepening is almost coming of age in Kenya, MSEs are still collapsing right left and centre. This study argues that the most probable reason for their collapse is poor financial management.

Gichira (1991) in his study concluded that the challenges to SME slow growth and employment creation included: stringent regulatory environment e.g. city council bylaws and trade licenses, lack of credit facilities, inadequate access to resources, poor infrastructure and poor management. McCormick and Pedersen (1992) concluded that MSEs cannot operate in isolation. Therefore, they need to be provided with adequate finance, business development services, proper infrastructure among other facilities. Kauffman (2004) also concluded that Africa's SMEs have little access to finance, which thus hampers their emergence and eventual growth.

The study by Kauffman establishes the financial challenge facing MSEs. However, the study did not investigate the financial management challenges facing MSEs as it dwelt solely on why SMEs have a challenge acquiring funds for their business needs. Therefore, there exists an evident research gap which this study aims to fill by determining the financial procurement and utilization challenges being faced by MSEs located along River Road. The primary reason for choosing River Road is because no other study has ever been done on River Road MSEs. In addition, River Road has the highest number and diverse set of MSEs compared to other streets. According to this study, it is one thing to acquire funds for business, but it's another thing altogether to effectively utilize such funds by putting into mind profit maximization and risk management.

1.2 Research Questions

i. What are the financial management challenges being faced by MSEs along River Road
ii. What are the solutions to the financial management challenges observed above?

2.0 LITERATURE REVIEW

The definitions used to describe the MSE sector in Kenya are based on employment size (and include both paid and unpaid workers). A micro-enterprise is defined as having no more than 10 employees; a small enterprise with 11-50 employees; and a medium/large enterprise with more than 50 employees. Farm holdings are excluded from the definition of MSEs, except those farm-based enterprises that involve some sort of processing before marketing. For example, a farmer who goes to market to sell roasted maize at the marketplace or at the roadside is seen as operating an MSE. Thus, the term micro and small enterprise covers the range of establishments, including informal economy activities that include one or more persons and enterprises in the formal economy employing up to 50 persons.

2.1 Definition of Financial Management

According to Bhat (2010), financial management is the efficient use of economic resources namely capital funds. Financial management is concerned with the managerial decisions that result in the acquisition and financing of short term and long term credits for the firm. Here it deals with the situations that require selection of specific assets, or a combination of assets and the selection of specific problem of size and growth of an enterprise. Herein the analysis deals with the expected inflows and outflows of funds and their effect on managerial objectives. In short, financial management deals with procurement of funds and their effective utilization in the business. So the analysis simply states two main aspects of financial management like procurement of funds and an effective use of funds to achieve business objectives.

2.1.1 Procurement of Funds

As funds can be procured from multiple sources so procurement of funds is considered an important problem of business concerns. Funds obtained from different sources have different characteristics in terms of potential risk, cost and control. Funds issued by the issue of equity shares are the best from risk point of view for the company as there is no question of repayment of equity capital except when the company is liquidated. From the cost point of view equity capital is the most expensive source of funds as dividend expectations of shareholders are normally higher than that of prevailing interest rates. Financial management constitutes risk, cost and control. The cost of funds should be at minimum for a proper balancing of risk and control.

2.1.2 Utilization of Funds

Effective utilization of funds as an important aspect of financial management avoids the situations where funds are either kept idle or proper uses are not being made. Funds procured involve a certain cost and risk. If the funds are not used properly then running business will be too difficult. In case of dividend decisions we also consider this. So it is crucial to employ the funds properly and profitably.

2.1.3 Scope of Financial Management

Sound financial management is essential in all types of organizations whether it be profit or non-profit. Financial management is essential in a planned Economy as well as in a capitalist set-up as it involves efficient use of the resources. From time to time it is observed that many firms have been liquidated not because their technology was obsolete or because their products were not in demand or their labour was not skilled and motivated, but that there was a mismanagement of financial affairs. Even in a boom period, when a company make high profits there is also a fear of liquidation because of bad financial management. Financial management optimizes the output from the given input of funds. In a country like India where resources are scarce and the demand for funds are many, the need of proper financial management is required. In case of newly started companies with a high growth rate it is more important to have sound financial management since finance alone guarantees their survival.

2.1.4 Objectives of Financial Management

Efficient Financial management requires the existence of some objectives, which are as follows

1) Profit Maximization:

The objective of financial management is the same as the objective of a company which is to earn profit. But profit maximization alone cannot be the sole objective of a company. It is a limited objective. If profits are given undue importance then problems may arise. For example, the term profit is vague and it involves much more contradictions. Profit maximization must be attempted with a realization of risks involved. A positive relationship exists between risk and profits. So both risk and profit objectives should be balanced.

2) Wealth Maximization:

It is commonly understood that the objective of a firm is to maximize value and wealth. The value of a firm is represented by the market price of the company's stock. The market price of a firm's stock represents the assessment of all market participants as to what the value of the particular firm is. It takes in to account present and prospective future earnings per share, the timing and risk of these earning, the dividend policy of the firm and many other factors that bear upon the market price of the stock. Market price acts as the performance index or report card of the firm's progress and potential.

2.2 Theoretical Review

2.2.1 Theories over the existence of Small Enterprise

According to McCormick and Pedersen (1996), the development strategies of Third World countries since the Second World War tended to relate directly or indirectly to industrialized countries production and market systems rather than the local environment. These strategies were propagated at different times. Some of them were import substitution export orientation and agriculture demand led industrialization. Their emphasis was more so on production for industrialized markets but not for the local market. Industrialization was implicitly or explicitly perceived as a process leading from Small to large scale production. Therefore, existence of small scale enterprises and informal activities was seen as an economic anomaly which needed to be avoided. At best, small enterprises were seen to have a social function but in the long run they had to disappear. This perception changed gradually in the 1980s and researchers and donors started focusing on the positive role of small enterprise sector However Governments, World Bank and development agencies mainly focus on graduation of small enterprises to large firms. Therefore, small enterprises are to a large extent perceived as an intermediate solution. This perception contrast with most of the new theories of production systems developed during the last 10-15 years. The following section discusses some of the new theories.

2.2.2 Neo- Classical Conceptual Framework

This theory considers both small and large enterprises as independent economic units that are producing for the market on the basis of the forces of demand and supply. Small enterprises are therefore marginalized since they operate in a market with cut-throat competition. This theory further states that, small enterprises have fewer possibility of advancing since the economy is completely dominated and controlled by large national and multinational corporations (McCormick & Pedersen, 1996). According to this theory, small enterprises are likely to remain small due to the cut-throat competition from large firms. This theory is relevant to the Kenyan situation today since the small enterprises are facing stiff competition from goods imported from other countries and those that are produced by big firms in the country. This competition limits their ability to advance.

2.2.3 Theory of Flexible Specialization

According to McCormick and Pedersen (1996), this theory is based on the choices that firms make on the stages of production process or on parts and components they specialize in producing. There is an increase in small batch production and a corresponding decrease in mass production. This was made possible in the 1970s after the introduction of flexible technology based on micro-electronics. Introduction of this technology enhanced production of standardized products and intermediate goods in small batches and with higher precision than before which made them more trade able. The theory states that flexible technology led to emergency of small enterprises although it could be used by large firms. The theory has some relevance in Kenya and in developing countries in general due to the flexible small batch production and business clustering which is consistent with the relatively small markets and low level technology characterizing the countries.

2.2.4 Flexibility and Instability Theory

The theory is based on conceptual framework that, large scale production requires a relatively large and stable market to be profitable. In industrialized countries, much of development during the period of industrialization was geared towards creation of a stable society. This led to a social system in the industrialized countries which has been stable and predictable for a long period than that found in developing countries. To secure the necessary market stability the large scale producers have to opt out of the smallest and most unstable markets and leave them to small enterprises. Small enterprises venturing into unstable markets survive by minimizing their investments, rely on unskilled labor which can be hired and fired at short notice, prefer to use family labor and rely on other sources of income from agriculture, formal wage among other sources (McCormick & Pedersen, 1996).

This theory is relevant in the Kenyan context since: the market is unstable, political: instability and economic uncertainty. As the theory states, the small enterprises survive by responding to market changes since they are flexible and therefore reduce the perceived risks by investing very little in business. Therefore, small enterprises will tend to remain small in unstable environment. The government needs to create a more stable environment for enterprises to grow.

2.3 Constraints to Growth of Small Enterprise Sector

Several studies have highlighted the following as some of the problems affecting the MSEs, hence limiting the growth of the sector.

2.3.1 Inappropriate Legal and Regulatory Framework of MSEs

Harper (1976) states that a tightly regulated economy work against small enterprises since large firms have capacity and resources to get around regulations or bend the rules in their favor but small enterprises are caught in them and this affect their growth. McCormick (1992) argues that laws have an effect in business entry and growth and even if they are not enforced they increase uncertainty in the business environment since nobody knows when the law will be enforced. She concludes that policy makers should examine the entire business environment and identify regulations and policies that affect entry and growth of small enterprises.

Gichira (1991) and Liedholm (1990) argues that micro enterprises are able to remain invisible to law enforcers but it is not possible when they graduate to medium level and this creates discontinuity as enterprises reach small cluster level. Gichira (1991) identifies types of regulatory policies as follows:

i. Legislation — which gives legality to the enterprise, which include trade License act, and business name act.
ii. Legislation that imposes standards on the sector e.g. Public health act.
iii. By laws imposed by local authorities.

He notes that small enterprises are harassed by local authorities for non-compliance with the set policies and regulations. The National baseline Survey (CBS/KREP/ICEG1999) revealed that only 11.7% of the businesses were registered and 39.4% were operating with a license mainly form local authorities. This means that 88.3% and 60.6% of the businesses were operating without registration or any license respectively .As a result of their informality, especially local authorities and a tendency of remaining small so that they can evade compliance harass them. Due to the informality of small enterprise, they are often harassed by law enforcers and fail to access credit from formal banks (Gichira, 1991). He concludes that to ensure easy entry and facilitate the growth of the sector, the government needs to examine the business environment to ensure it is conducive for enterprise growth.

2.3.2 Lack of Enhanced Entrepreneurship Culture

McCormick 1992 states that firms grow because those directing them value expansion and are able to seize opportunities and overcome obstacles on the path to larger enterprise but growth will stagnate when those directing them fail to see the benefits of growth or when obstacles become insurmountable. She attributes entrepreneurial behavior to growth or stagnation of the enterprise since some are more enterprising than others. They are willing to take risk while others are risk averse. She however acknowledges that small enterprises operate in uncertain environment and entrepreneurs use the following strategies to minimize risks:

i. They maintain flexibility by working in rent free quarters, using family labor, and little capital.
ii. They manufacture standard products for a known market.

iii. They diversify their income and assets rather than expanding a single enterprise.

The four strategies work against the growth of the enterprises:-

Ferrand (1992) alludes that entrepreneurs aim at survival since their enterprises are of subsistence nature rather than accumulation of assets, job creation and creation of wealth. If this is their perception of growth, then it is in conflict with policy makers and agencies assisting the sector since they view growth as vertical in terms of employment creation, profitability, and accumulation of business assets among others. In a study conducted in Eldoret town by Sethna (1992), entrepreneurs indicated that they needed business loans but they had savings amounting to Kshs 25,000 which of them intended to invest in land. The main reason for investing in land was that risks are lower than investing in business. McCormick and Sethna (1992) concludes that entrepreneurial behavior will affect the success of the enterprise since they must perceive the need to grow but acknowledges that there is need to examine the micro and macro business environment so as to reduce the uncertainty.

2.3.3 Limited Access to Credit

Access to credit has been cited a major constrain towards the development of MSEs. According to National baseline survey (CBS/KREP/1CEG1999) only 10.4 % of MSEs had accessed some form of credit. Sethna 1 992 and McCormick I 992 alludes that firms grow because they have sufficient capital, labor and materials. Firms with bigger endowments of resources can produce a given level of output at a lower cost, increasing their profits and chances of growth. Although there is plenty of labor, small enterprises lack access to capital.

Consequently they start with little capital as little as 500/= and are unable to expand. In most cases entrepreneurs have more ideas than they have money to put them into effect (Haper, 1976). Formal financial sector considers small enterprise sector as a high-risk sector for lending and therefore they are not willing to advance the sector with credit. The informal micro finance institutions which have an objective of providing financial services to micro enterprise sector, have so far only reached 250,000 enterprises. In addition the institutions advance very small loans of between Kshs 10 000 — 20 000 that may not be suitable for some businesses like which require more specialized institutional and financial support (Dondo, 1990).

Given the limited resources available to the sector entrepreneurs cannot be expected to be prime forces of economic development Successful entrepreneurs cannot spring up in a vacuum nor continue to expand without support. There is need for an enabling environment that can provide essential business nutrients such as credit, capital, technical expertise etc. If enterprises are to grow, there is need to be provide them with all the required resources (Sethna, 1992).

2.3.4 Inadequate Market and Promotion

Existing firms fail to grow large when more small firms constantly enter into a stagnant or slowly growing market. In small enterprise individuals constantly enter in the market after losing hope of formal employment. They start businesses in order to survive (ILO, 1972). Due to low income and poor economic conditions, the businesses compete for a very limited market making it difficult for them to earn a reasonable living and re invest. According to the baseline survey, (1999) 49.2% of enterprises had not advertised their products either through electronic, print media and trade exhibition while 42.2% indicated that promotion is through their customers after they are supplied with quality goods. Market promotion can be quite expensive for the small enterprises. The government and development agencies in the sector need to identify appropriate marketing channels for small enterprise products.

2.3.5 Inappropriate Infrastructure

Dondo (1990) observed that many small enterprises tend to be located often temporary in areas than have scanty infrastructure facilities. In Nairobi, popular sites tend to be poorer and undeveloped areas of the city and of low-income residential areas such as Gikomba, Kariobangi, Mathare Valley, Ziwani etc. the structures are made of cardboards, cartons, polythene papers etc. Water, electricity and sanitation are often missing or inadequate. These entrepreneurs are prone to dust, rain and harassment by local authorities. They have no security of tenure to these places. Poor infrastructure facilities and lack of security of tenure to their premises makes growth of the enterprises difficult since there is a lot of uncertainty.

2.3.6 Inadequate Access to Information

Hodgetts and Kuratico (1989) noted that most small enterprises lack access to vital business information and therefore fail to take advantage of services provided by government or other organizations. They also infringe the law because they are not aware of it (Gichira 1992). He concludes that there is need to establish a channel of disseminating information to small enterprises since survival and growth of enterprises depend on how well the business responds to the business environment.

2.3.7 Lack of Technical and Management Training

Tolentino and Theocharides (1992) state that most entrepreneurs start enterprises with inadequate technical skills and managerial skills. Consequently, most enterprises are poorly management and the products and services are of poor quality due to inadequate skills. These findings are backed by National baseline survey which revealed 85% of entrepreneurs had not received technical and management training. They conclude that, there is need to ensure entrepreneurs are well-trained in technical and management skills to stimulate the growth of enterprises.

2.3.8 Inappropriate Technology

Sethna 1992 observed that small enterprises use simple technology that is often human powered and this limits the quantity of goods to be produced and hence the growth of the enterprise. He concludes that entrepreneurs require access to technical skills upgrading and to appropriate technology so as to produce quality goods and increase their sales. McCormick (1992) attributes the poor quality of goods manufactured by MSEs to poor technology. Goods manufactured are therefore unable to compete with goods coming from the Asian countries which have better technology. The study notes that the technology available in the country is from the western countries which most of the MSEs are unable to afford. There is therefore need to develop local affordable technology to increase access of MSEs to appropriate technology.

3.0 RESEARCH METHODOLOGY

A descriptive survey research design was adopted. The target population was all the 210 MSEs located along river Road in Nairobi. The study used systematic random sampling. All the MSEs

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were numbered and included in the sampling frame. One MSE out of every five MSE was picked at random thus resulting to a sample size of 42 which was 20% of the population. Data was collected using a questionnaire, analyzed by use of descriptive statistics and findings presented using charts and graphs.

4.0 RESULTS AND DISCUSSIONS

4.1 Response Rate

A response rate of 100% was achieved in this study as all the 42 questionnaires distributed were returned with valid responses.

4.2 General Information

The majority of the MSEs (25, 59%) were merchandizing car and vehicle parts. While 10(24%) of the MSEs were music and computers, 4(10%) were selling construction and plumbing parts. A further 3(7%) were selling beauty products.

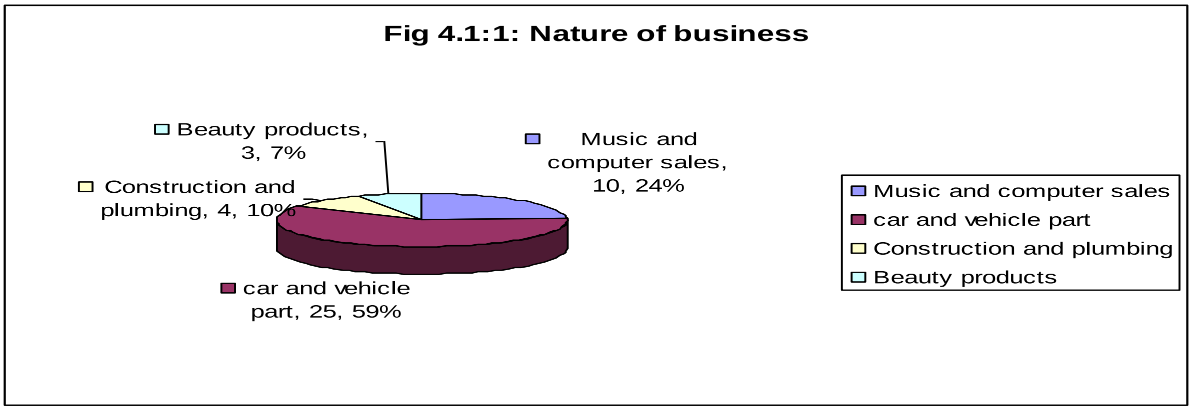

Figure 1: Nature of Business

A majority of the SMEs (16, 33%) had been in existence for one to three years. A further 14(33%) had been in existence for the less than one year. While 8(19%) had been existence for four to five years, 4(10%) had been existence for over 5 years.

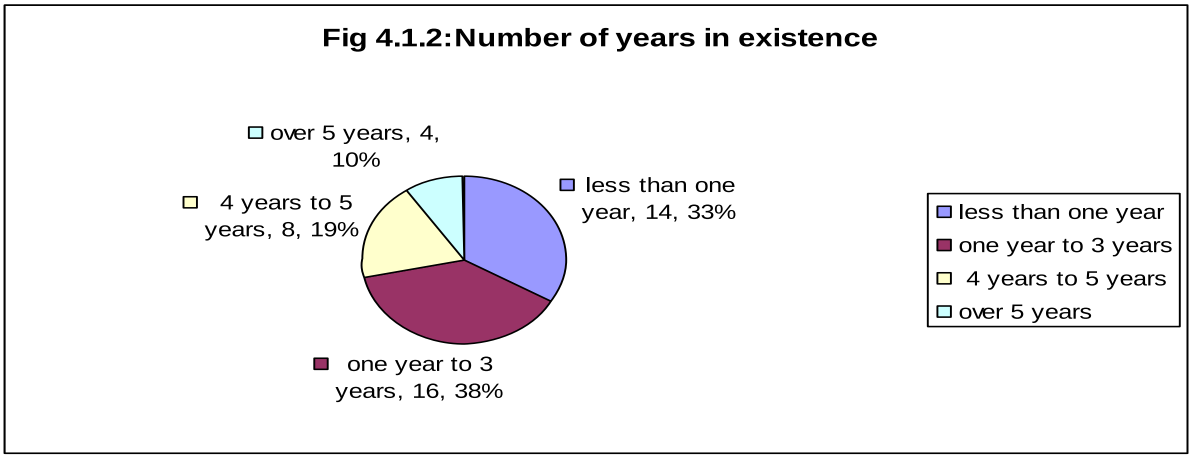

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Figure 2: Number of Years in Existence

Findings in this study indicated that the majority of SMEs (23, 55%) had between one to five employees. While 12(29%) of the SMEs had between 6 and 10 employees, 5(12%) had no employees meaning that the owner was also the employee. Meanwhile, 2(5%) had 11 to 50 employees while no case was identified for an SME with over fifty employees. These findings were consistent with literature review and Sessional paper No. 2 which defines micro enterprises as firms consisting of Zero to 10 employees and small enterprises as firms consisting of 11 to 50 employees.

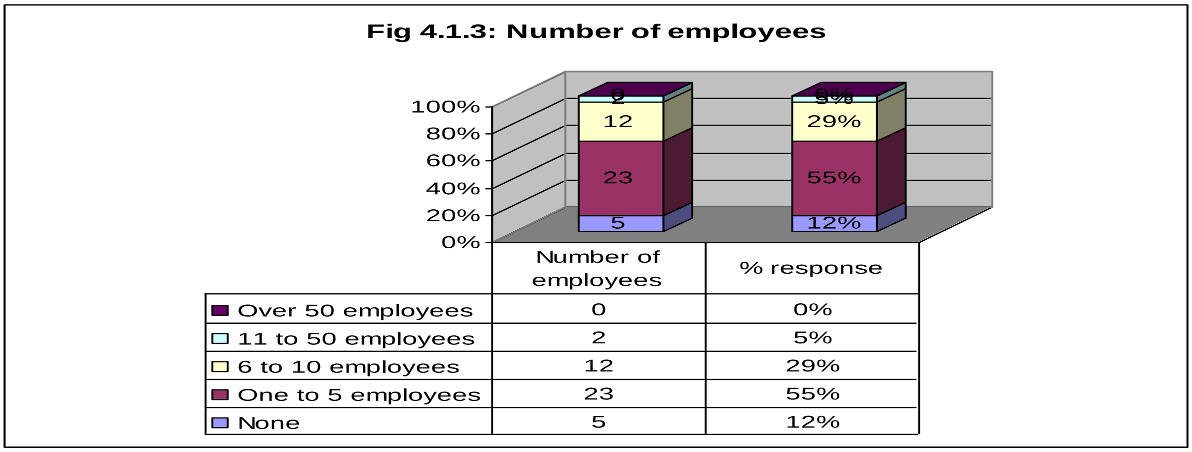

Figure 3: Number of Employees

According to this study, the majority of SMEs (28, 67%) reported a gross monthly income of less than KShs 50,000. While 12(29%) reported a gross monthly income of KShs 50,000 to KShs 100,000, a further 2(5%), reported a gross monthly income of KShs 100,000 to KShs 200,000. No SME was identified to have reported gross monthly income of over KShs 200,000.

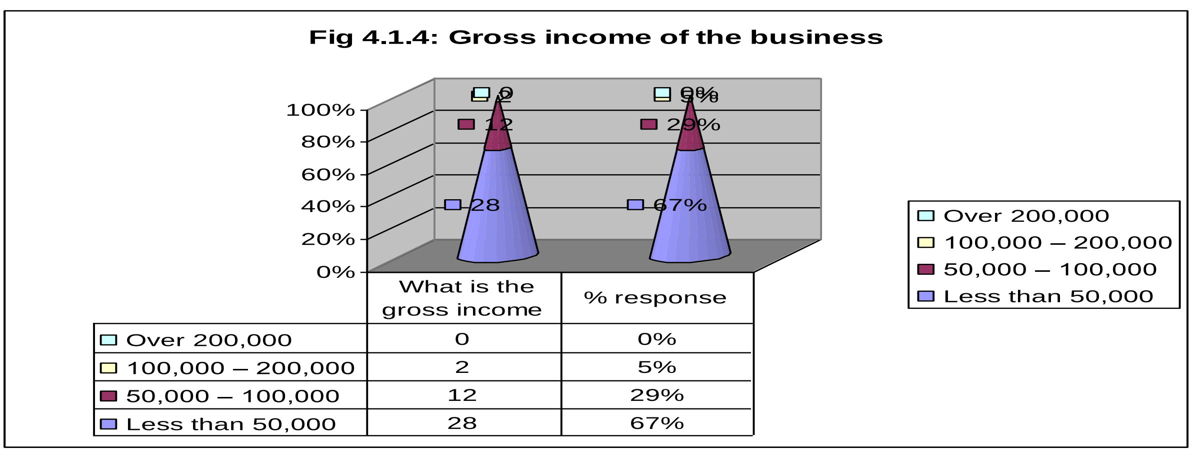

Figure 4: Gross Income of the Business

Study findings indicate that the majority of our respondents (30, 71%) were male. In addition, female respondents constituted 12(29%) of the population.

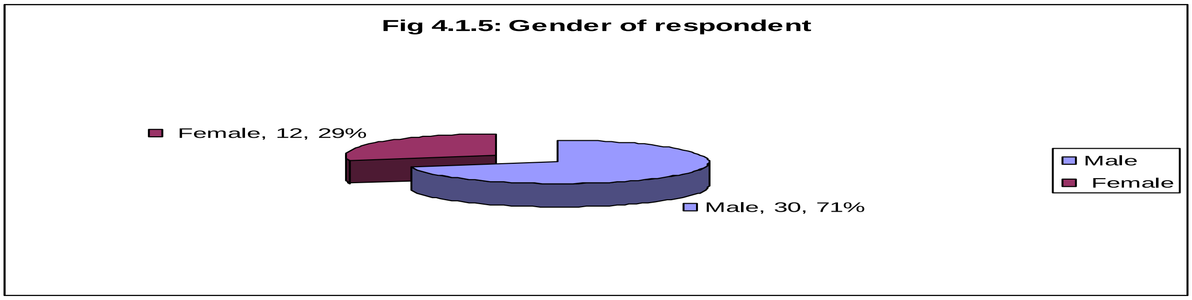

Figure 5: Gender of Employees

The majority of the respondents in this study (25, 60%) had attained secondary school education as the highest level of education. While 15(36%) had attained college level of education, 2(5%) had primary school education as the highest level of education. No other response was obtained for this variable.

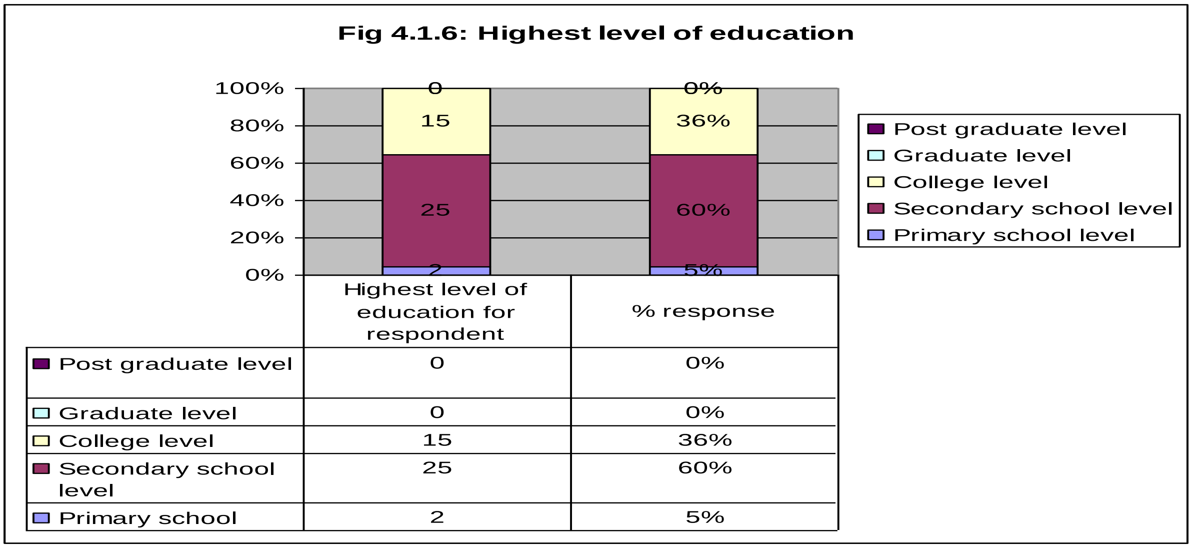

Figure 6: Highest Level of Education

4.2 Financial Management Challenges facing MSEs

As noted in this study, the majority of the respondents, 62%, indicated that trade credit was very important to the survival and success of their business. While 24% indicated that trade credit was important to their business, a further 14% indicted that trade credit was unimportant to their

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business.

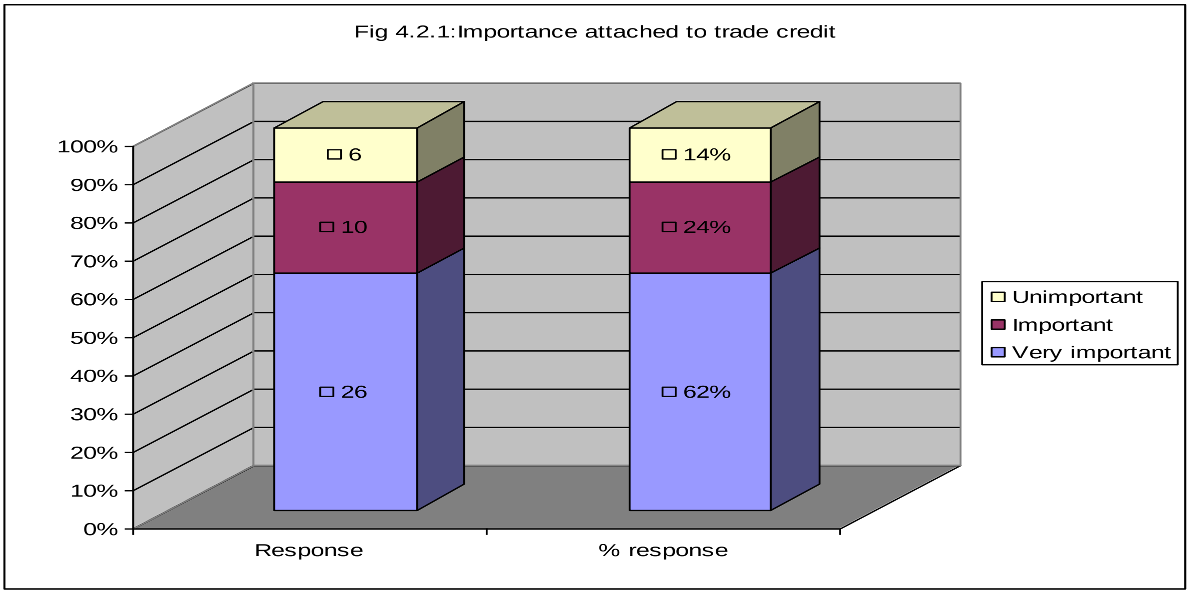

Figure 7: Importance Attached to Trade Credit

A majority of respondents, 57% indicated that merchandise purchased on credit was costlier than merchandize purchased in cash. While 24% indicated that merchandise bought on credit was very costly, a further 19% indicated that the cost was similar for merchandize purchase on credit or on cash.

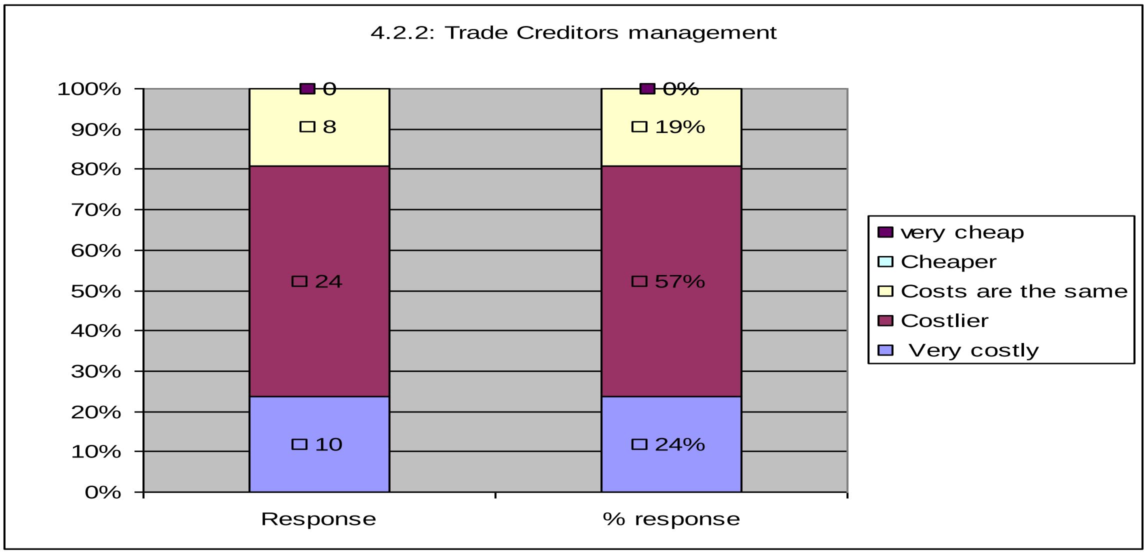

Figure 8: Trade Credit Management

The majority of the respondents, 60%, indicated that the credit term offered by the majority of suppliers was 30 days. While 24% indicted that majority of the suppliers never offered any credit terms, 12% of respondents indicated that majority of suppliers offered the business 15 days credit and a further 4% indicated that majority of the suppliers offered 45 days credit.

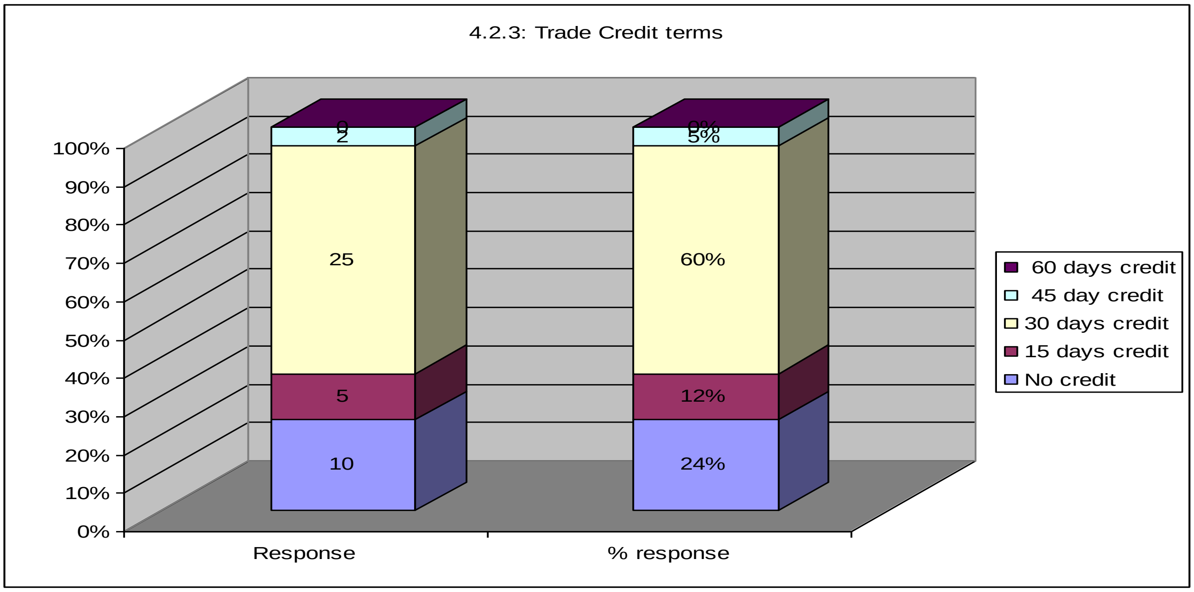

Figure 9: Trade Credit Terms

The majority of respondents, 67%, 71% and 74% indicated that in over three instances, a supplier's cheque issued by the business had bounced, a supplier changed the credit terms to cash due to nonpayment, and a supplier refused to deliver merchandise due to nonpayment respectively. It was also indicated by the majority of respondents, 83%, that there was no instance where the business was sued for nonpayment of creditors. 0720476520

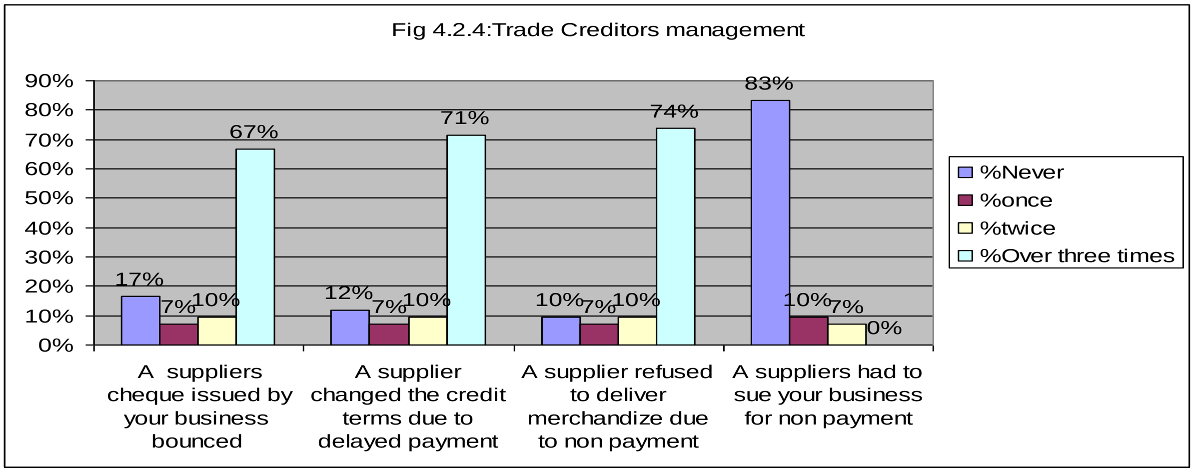

Figure 10: Trade Credit Management

The majority of the respondents, 60%, indicated that the business had run out of stock over five times. Meanwhile, 17%, indicated that the business had never run out of stock, 14% indicated that the business had run out of stock less than 3 times and 10% indicated that the business had run out of stock 3 to 5 times.

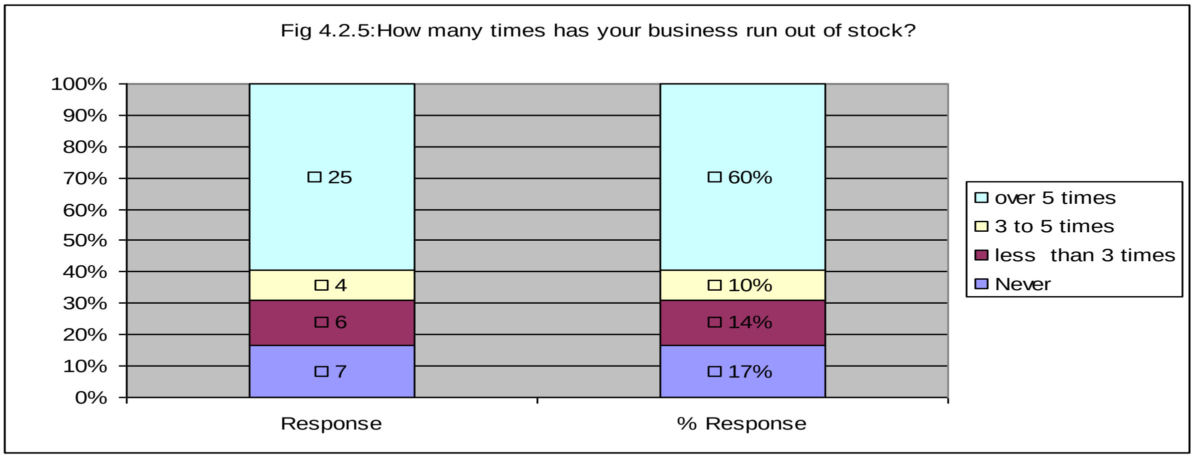

Figure 11: Number of Times Business has run out of Stock

The majority of the respondents, 71%, indicated that the problem of slow moving stock items was a very significant problem to their business. While 14% indicated that the problem was significant, 10% indicated that the problem was insignificant and a further 5% indicated that the problem was very insignificant.

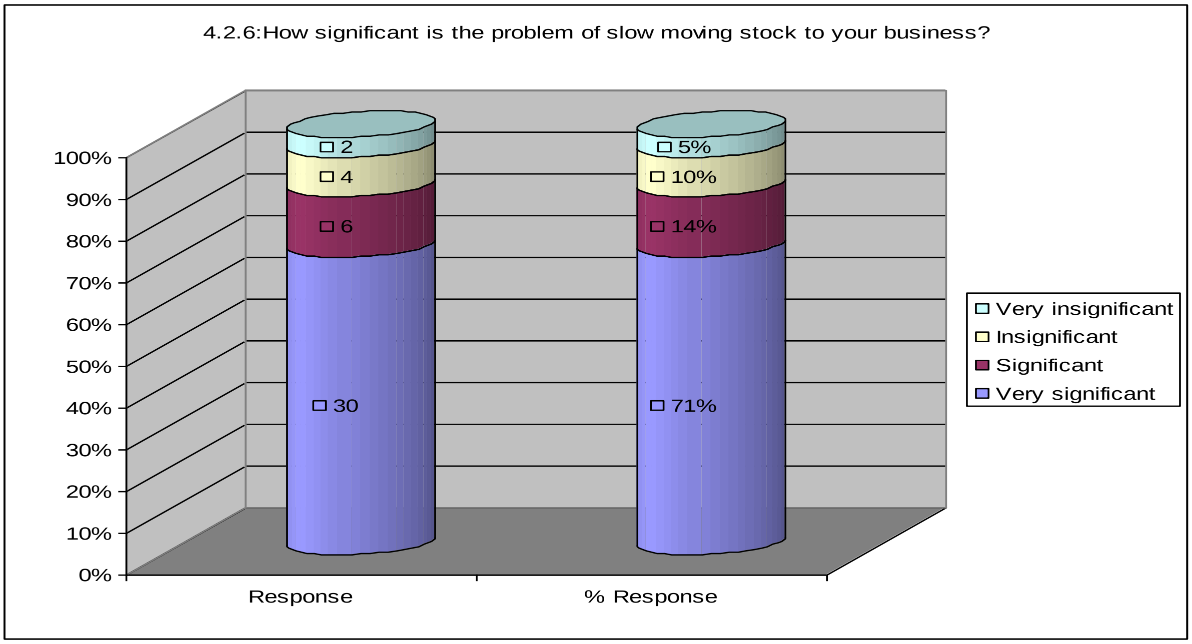

Figure 12: Significance of Slow Moving Stock to Business

The majority of respondents, 57%, 67% and 60% indicated that to large extent loss of inventory was through pilferage by employees, pilferage by customers and through poor accounting and stock taking exercises respectively.

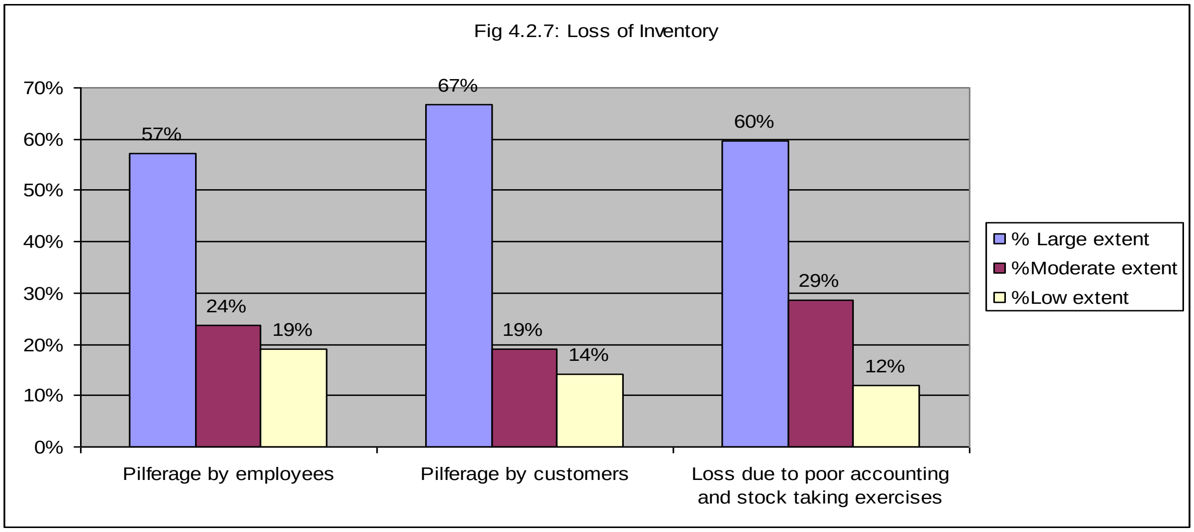

Figure 13: Loss of Inventory

The majority of respondents, 60%, strongly agreed that the largest composition of debtors were aged 30 days. The majority of respondents, 52%, 57% and 52% strongly disagreed with the statements that the largest composition of debtors is over 90 days, the largest composition of debtors was 30 days and the largest composition of debtors was current respectively.

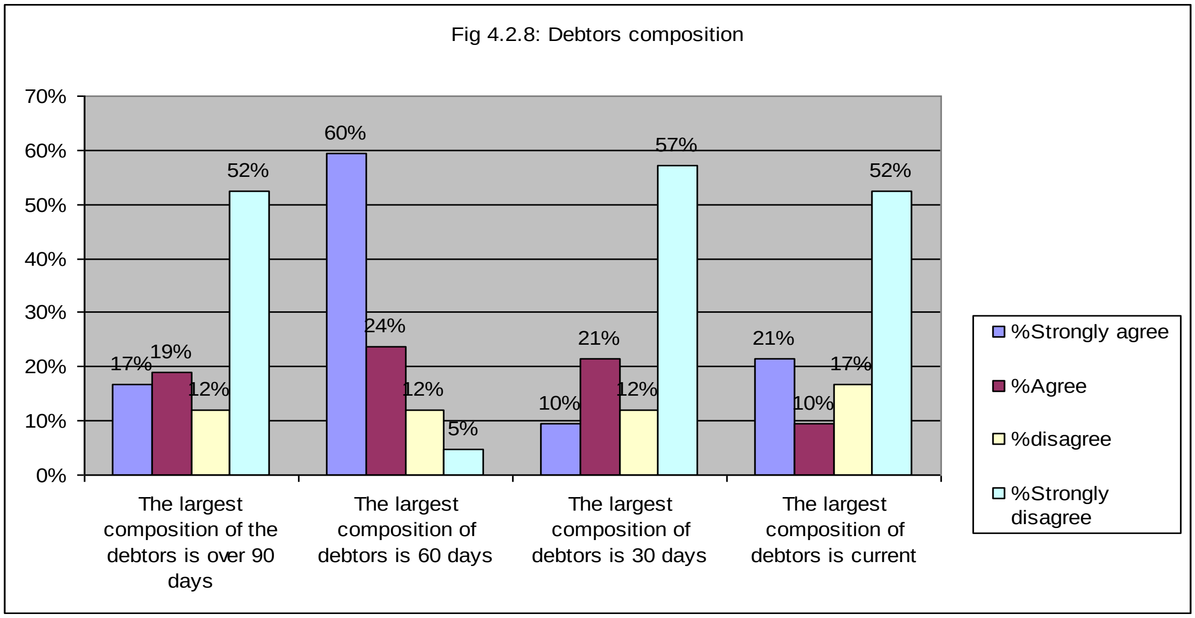

Figure 14: Debtor's Composition

The majority of respondents, 67%, indicated that approximately 3% of turnover was written off per year as bad debts.

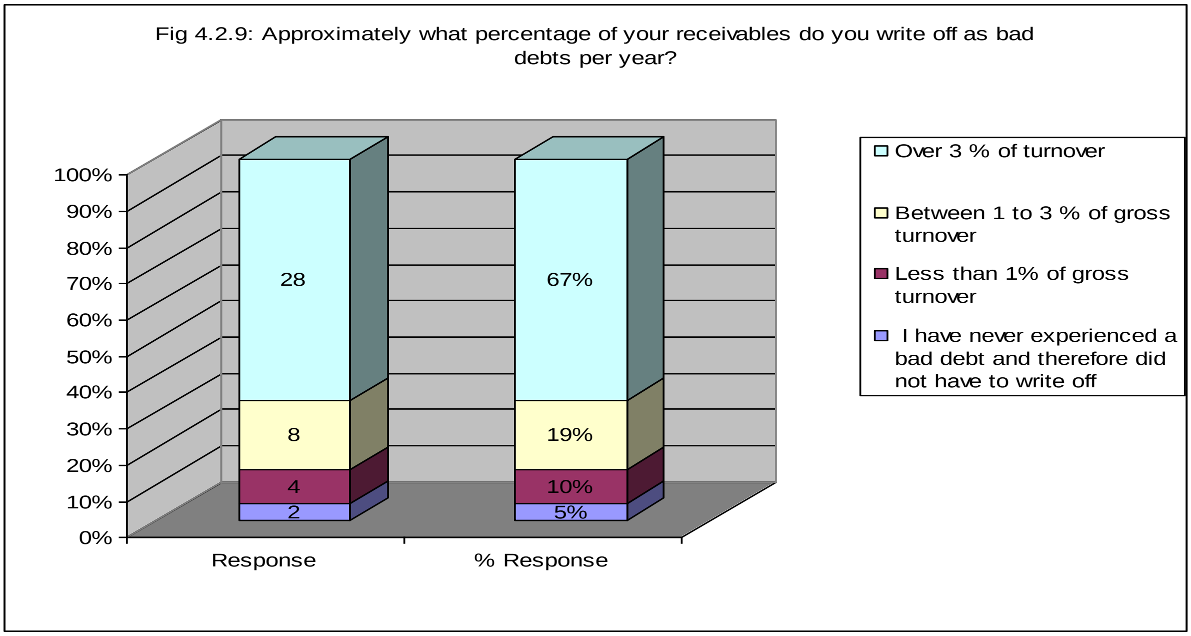

Figure 15: Percentage of Receivables Written Off as Bad Debts per Year

The majority of respondents, 71%, indicated that they have never been forced to take their debtors to courts over nonpayment. In the researchers' opinion, the reason behind the respondents not taking defaulters to court was due to the high and uneconomical costs of litigation as well as lack of a transparent process for determination of such cases.

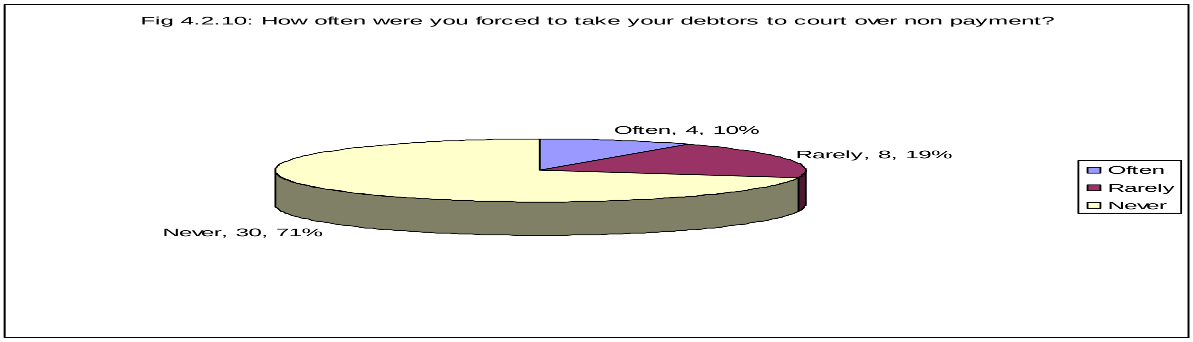

Figure 16: How Often One was forced to take Debtors to Court over Payment

The majority of the respondents, 57%, indicated that the collection cots experienced by their business was high.

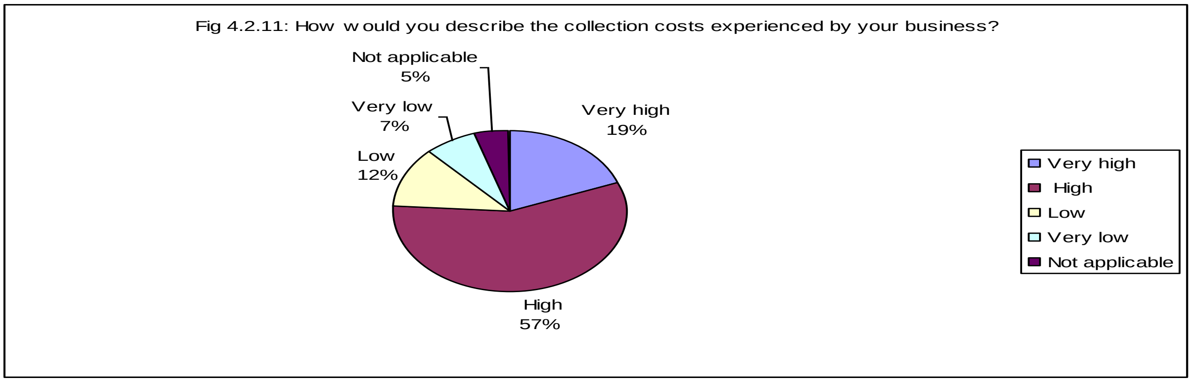

Figure 17: Collection Costs

The majority of the respondents, 76%, 71%, 67% described the ability to meet daily expenses such as stationery and office expenses, monthly expenses such as salaries, rent and utility bills, and periodical expense such as interest and taxes as difficult respectively.

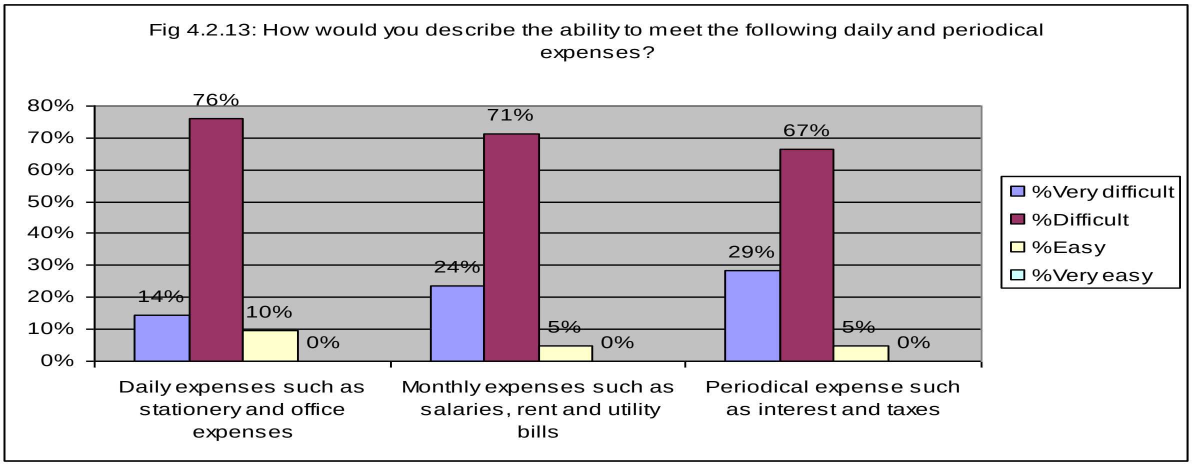

Figure 18: Ability to Meet Various Expenses

The majority of respondents, 60%, 48%, 52%, 57% indicated that they frequently sourced funds from shylocks, banks, friends and relatives and Saccos respectively to meet the business expenses.

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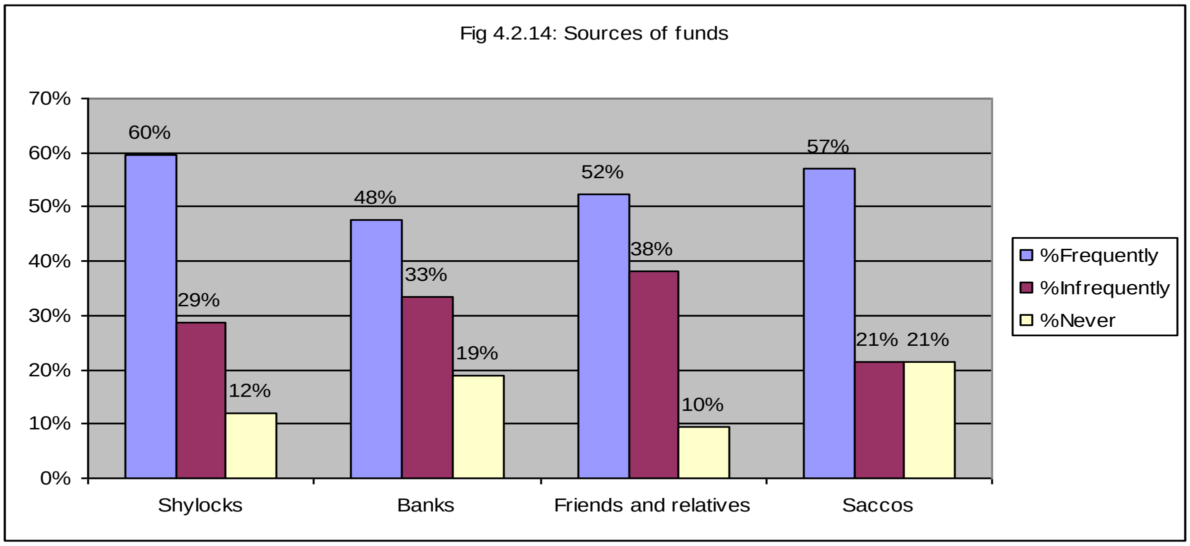

Figure 19: Sources of Funds

The majority of the respondents, 62% and 67% indicated that they rarely faced legal action due to nonpayment, and eviction from trading premises respectively. A majority of the respondents, 71% and 81% also indicated that they often faced water disconnection and discontinuation of services such as stationery delivery respectively.

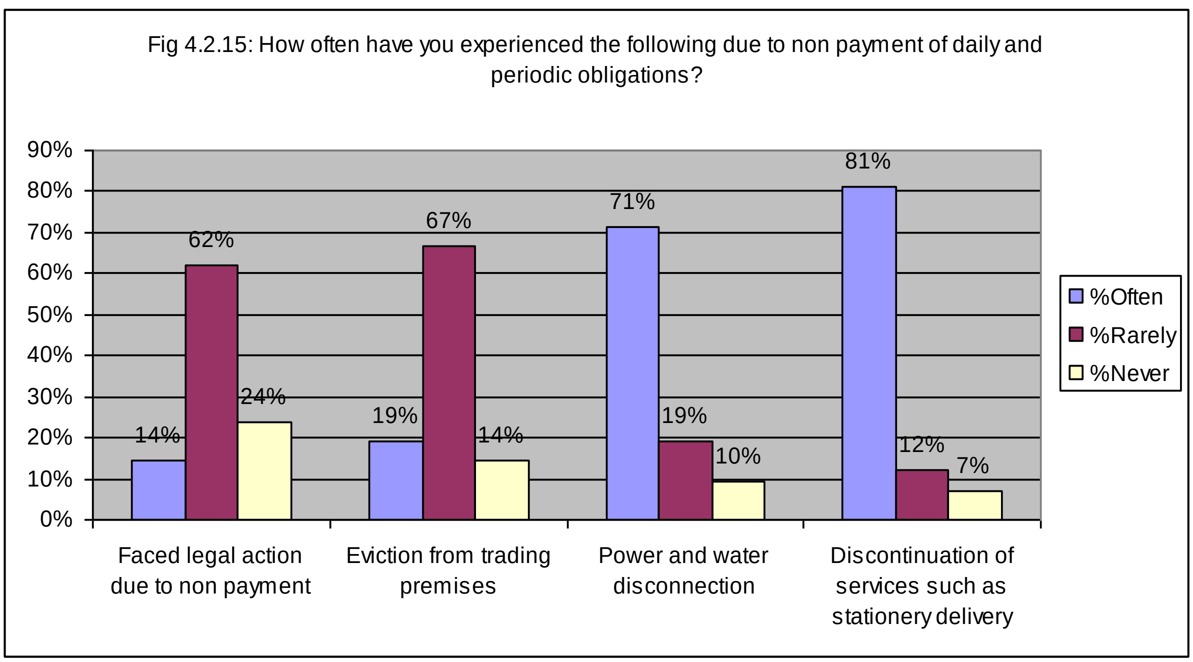

Figure 20: Problems associated with Nonpayment of Daily Periodic Obligations

5.0 DISCUSSION CONCLUSIONS AND RECOMMENDATIONS

5.1 Findings

One of the objectives of this study was to determine the financial challenges facing MSEs located along River Road. Findings in this study indicate that MSEs face challenges in managing trade creditors as supported by the response that trade credit was expensive, that in over three instances, a supplier's cheque issued by the business had bounced, a supplier changed the credit terns to cash due to nonpayment, and a supplier refused to deliver merchandise due to nonpayment.

In addition, the findings indicated that the majority of the business faced a challenge in inventory management as supported by the response that they frequently faced stock outs, experienced a significant problem due to slow movement of inventory and faced loss of stock through pilferage by customers, employees and also due to poor stock taking exercises. Furthermore, the MSEs faced a challenge in debtor's management as evidenced by the response that they wrote off over 3% of the debtor's portfolio as bad debt. In addition, the high collections costs were also tell signs of challenges in managing debtors. Finally, the findings indicate that the MSEs faced a challenge in cash management as the majority found it difficult to settle their daily business expenses, monthly and periodical business expenses. In addition, they often faced water and power disconnection and discontinuation of services such as stationery delivery.

5.2 Conclusions

The researcher was able to conclude that indeed MSES along River Road faced challenges in the financial management in the areas of trade credit, inventory management, debtors' management and cash management.

5.3 Recommendations

It was recommended that a small business 'doctor' who in this case is an Accountant should be engaged by the MSE owner so as to assist in streamlining the financial aspects of the business. In addition, business incubation project directed by organizations such as International Financial Corporation (The Private Arm of the World Bank) should harness this opportunity and approach MSE owners with a view of trying to impart financial knowledge to the owners at a cost.

5.4 Suggested areas of further research

The researcher recommends a regression or correlation study into the relationship between MSE owner training and experience in financial management and the success /growth of an enterprise. As a result of this study, it would be possible to ascertain the effect of government policy on financial management training for MSE owners and whether it is a panacea for the ailing and troubled MSE sector.

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