Effect of Working Capital Management on Performance of Commercial SMEs in Mombasa County, Kenya

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Abstract: **This study aimed at establishing the effect of working capital management on performance of commercial SMEs in Mombasa Kenya. Specific objectives were; to evaluate the influence of the optimum inventory management on performance of commercial SMEs in Mombasa County, to assess the effect of cash conversion cycle on performance of commercial SME's in Mombasa County and to determine the effect of debtors' management on performance of commercial SMEs in Mombasa County. The study employed descriptive survey research design. A population of 70 respondents was drawn from all the six sub-counties. Data was collected through questionnaires and interviews. Collected data was analyzed using multiple-regression analysis. Inferential statistics was used to determine the relationship between variables. It was revealed that there was a positive correlation between inventory management, cash conversion cycle and debts management and performance of commercial SMEs in Mombasa County. This study is important for the policy makers to come up with the strategies on how to better SMEs businesses.**

I. INTRODUCTION

1.1 Background of the Study

In basic terminology terms, working capital is the difference between current assets and current liabilities. Current assets constitute cash, receivables and inventory and are managed closely on a daily basis for a whole financial year whereby the mix must be optimal. Current liabilities are defined as claims against the business by third parties such as suppliers of goods, services and lenders of short term cash and other financial instruments. Proper turnover decision making for any organization with a working capital to realize targeted profit is usually a challenge to financial managers. An organization with a strong projection of finance in the long run will have problems in managing the working capital (Ha, Thanh & Hang 2016).

Motlicek and Matinovicova (2014) argues that working capital management is very important for any organization irrespective of their size or the sector they belong to. Working capital consists of inventories, receivables and current financial assets. Working capital management affects significantly the performance of an organization and the managers must treat it with a lot of concern. Nandon (2017) argues that working capital management is very crucial component in financial performance of an organization. Working capital management entails on how an organization can manage its current assets and current liabilities efficiently that will lead to better performance.

Stubely and Laporsek (2016) assert that short term assets and short term liabilities are very important the organizations balance sheet. The firm must be able to exploit market opportunities and add equity capital value. Short term assets and short term liabilities produce holdings and financial costs. The correct working capital must maximize revenue or profits and minimize cost at agreed rate. Haro and Omar (2017) argue that cash is one of the important aspect in current asset from the point of acquisition of the resources to the point of marketing. It is important for the financial managers to balance cash inflow and cash outflow. The reason for holding cash ranges from precautionary purpose, transaction motive to speculative motives. They argued that inventory composes of raw material, work in progress, finished goods and consumables. The composition of inventories among the Small and Medium Enterprises depend on the business being undertaken. They define inventories as a cost that cannot be avoided at all cost irrespective of the business being undertaken. Inventory management entails maintaining smooth flow of the materials from production to sales.

Usman, Shaikh and Khan (2017) looks at working capital as a representation of 30% to 40% of enterprise overall investment. The major objective of working capital is to guarantee an enterprise that is capable of meeting its obligation at a given period of time. However, working capital mismanagement may lead to serious losses in the organization. Wambugu (2013) argues that firms that employ workers between 5 and 99 are referred to as small and medium enterprises (SMEs). In Kenya SMEs is growing at a high rate because of accessibility of loans, availability of grants, and increased level of exportation, subsidies and increase in domestic demand for the locally produced goods and services. However lack of proper knowledge on working capital management practice among Small Medium Enterprises (SMEs) among the managers poses a threat on the survival of Small and Medium Enterprise.

Nandon (2017) argued that there are many Small and Medium Enterprises that are not very in managing working capital despite the existence of high investment in current asset. This is one of the major reasons of the failure of Small and Medium Enterprises. Wambugu (2013) argues that most of the SMEs operate without credit control departments which contribute to the failure of SMEs in countries like Kenya. SMEs lack proper and systematic debt collection procedures which avenue of bad debts. Several studies have shown that SMEs with poor working capital management leads to failure of such businesses. On the other hand SMEs that have good and organized working capital management have better performance. Good performance of SMEs can be realized in terms of; Returns on Investment (ROI), Return on Assets (ROA), Returns on Equity (ROE) and growth of the business in terms of size (Motlicek and Matinovicova 2014)

1.2 Statement of the Problem

The Kenyan Government has a vision 2030. It has come up with different strategies in order to achieve this vision. One of the strategy is empowering SMEs through accessible loans and business subsidies. SMEs have contributed a lot to the Gross Domestic Product (GDP), employment opportunities and reduction of poverty levels. Despite the significant contribution of SMEs recent studies shows that 60% of the SMEs fail within the first few months (Wambugu 2013). It is hard for SMEs to access loans from financial institutions because they lack proper working capital management. Most of the SMEs fail to balance between working capital surplus and working capital shortages. This is as a result of poor working capital management. Poor Working capital management makes the SMEs to fail in exploiting new markets. This means that Working Capital decisions are very crucial on performance of any organization.

Up to now there have been studies on the effect of Working Capital management and performance of SMEs with different results. Some have shown positive correlation between Working Capital and performance of SMEs for instance, (Nyakundu,Ombuki, Evusa & Ariemba 2016) (Gorondutse, Abass, Abubakar & Naala 2018). On the other hand some studies have shown negative correlation between Working Capital and the performance of SMEs. For instance, Lamptey, Frimpong & Morrison (2017). It is on these contradicting results that provides a basis of this study. Therefore this study will look at the effect of working capital management on the performance Commercial SMEs in Mombasa County.

1.3 Objectives of the Study

1.3.1 General Objective

The general objective of the study was to examine the Effect of Working Capital Management on Performance of Commercial SMEs in Mombasa County, Kenya.

1.3.2 Specific Objectives

1. To evaluate the influence of optimum inventory management on performance of Commercial SMEs in Mombasa County Kenya.
2. To assess the effect of cash conversion cycle on performance of Commercial SMEs in Mombasa County
3. To determine the effect of Debts management on performance of Commercial SMEs in Mombasa County.

1.4 Scope of the Study

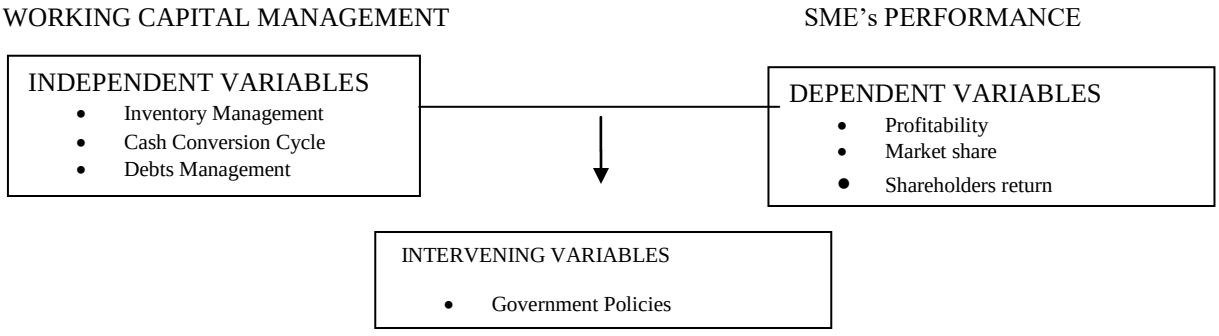
The study was conducted in Mombasa County that is found in western part of Kenya. The study included all the 6 sub counties found in Mombasa County. The study looked at Commercial SMEs found from the 6 sub-counties in Mombasa County. These Commercial SMEs included producers and traders SMEs.

1.6 Significance of the Study

The findings of this study would be beneficial to the policy makers in the way that they would use results to come up with strategies on how to better performance of SMEs. This study would be beneficial to the government as it will be in position to plan for its citizens. Findings of this study would be beneficial to the researchers as it would provide grounds for further researcher to be conducted.

1.7 Conceptual Framework

Mathiason *etal* (2001) defines conceptual framework as an item that is presented either in graph form or in words that explains what is being studied. It shows the relationship between the variables. In this study conceptual framework shows the relationship between Working Capital Management (independent variable) and SME's Performance which is (dependent variable).



II. LITERATURE REVIEW

Introduction

This chapter discusses the previous studies that have been conducted on the effect of Working Capital on performance of an organization. The chapter presents reviewed literature on optimal inventory management, cash management and debtor's management in relation to performance of an organization.

2.2 Empirical Literature Review

2.2.1 Effect of Optimal Inventory Management on performance of SMEs

Motlicek and Martinovicova (2014) conducted a research on impact of working capital management on sales of enterprises for cussing on the manufacture of machinery and equipment in Czech Republick. It was revealed that there is a strong correlation between working capital management components and performance of SMEs. Another research was conducted by Javid (2014) on the effect of working capital management on SMEs performance in Pakistan. Using a sample of 54 SMEs listed in Kawach stock exchange for a period of 5 years. Using a random effect regression model the study showed that SMEs with shorter inventory holding period, short receivable and shorter accounts payable are more profitable and create value. However the study never looked at factors such as liabilities, government policies and returns on capital.

Ali (2015) conducted a research on the effect of working capital management on SMEs profitability in Malaysia. The study used 66 SMEs manufacturing firms in Malaysia. It was revealed that there is negative correlation between working capital measure and profitability of SMEs. From the results it implied that profitability of SMEs manufacturing firms depends on effective working capital management. However the study never looked at other sectors of the economy. Ha, Thuhn and Hang (2016) carried a research on the impact of working capital on financial performance of SMEs in Vietinam. It was revealed that receivables and working capital turnover impacts negatively on financial performance of enterprises. Accounts payable period and inventory conversion period have a direct relationship with cooperate financial performance. It was also revealed that the growth rate and age of enterprises also affect financial performance.

Usman, Shaikh and Khan (2017) conducted a research on impact of working capital management on firm profitability, Evidence from Scandinavian countries, Denmark, Norway and Sweden. It was revealed that working capital and current ratio (CR) are positively related to the firm profitability (ROA). Zariyawati, Hirnissa and Rose (2017) conducted a research on working capital management and firm performance of small and large firms in Malaysia. It was revealed that working capital man agent has a significant effect on firm performance. A study by Zhang, Chen and Yu (2017) the trends in working capital management and its impact on firm's performance. The study looked at the specific components of working capital; Average collection period, return on Assets and inventory holding period. Collected data was analyzed through regression analysis. It was revealed that the use of working capital management such as cash conversion cycle, Return on Assets and inventory holding has a significant impact on the performance of SMEs. It was further revealed that SMEs that invested heavily in Current Assets realized better performance.

Gorondutse, Abass, Abubakar and Naala(2018) conducted a research on the effect of working capital management on SMEs in Malaysia. Data was collected from companies' commission of Malaysia. It was revealed that there was a negative effect of working capital administration measures. Further it was revealed that there was a positive effect on net operating profit on cash conversion cycle. It was further revealed that there was a positive correlation of days account payable on SMEs, Return on Assets and Return of Equity. From the study it was concluded that the performance indicator s like profits of SMEs depends on effective working capital management. However it never looked at other components of working capital like cash management.

Nandon, Mubarik and Aziz (2017) conducted a research on the impact of working capital management on corporate performance: Evidence from non- financial firms in Ghana. It was revealed that average payment period and current ratio has a positive correlation with performance of an organization. It was further revealed that average collection period, inventory turnover, cash conversion cycle and firm size have a negative correlation on the performance of an organization. The study recommends that managers of non-financial management to adopt sound working capital policies that will help firms to deal with liquidity challenges thus better performance.

Wanjiru (2013) conducted a research on effect of working capital management practices on the financial performance of small and medium enterprise in Kenya. The study employed cross-sectional survey. A sample of 100 SMEs for a period of two years 2009 and 2010 was used. Data was collected through questionnaire and annual reports. Data collected was analyzed through Pearson correlation analysis. It was revealed that more than 62% of SMEs in Kenya did not have written policy on working capital management. It was further revealed that there was a significant positive relationship between working capital management components; APP, ACP ICP and financial performance of SMEs. Haro and Omar (2017) conducted a research on the effects of working capital management on the financial performance of SMEs in Mombasa County, Kenya. The researcher used 393 respondents that were collected from 6 sub-counties in Mombasa County. Descriptive research design was adopted. Data was collected through questionnaires. It was revealed that there is a strong correlation between working capital and performance of SMEs. The study concludes that SMEs can improve both liquidity and profitability by reducing the cash

conversion cycle, average account receivable days and the average inventory days. The study recommended that SMEs to prepare cash budget, debt collection and inventory management.

2.2.2 Effect of Cash Conversion Cycle on Performance of SME

Lampty, Frimponj and Morrison (2017) conducted a descriptive and correlation research on empirical study on the influence of working capital management on performance of SMEs in developing economy, Ghana. The study reviewed annual report of 2011 to 2015 of SMEs. The study adopted convenience sampling technique to select 400 SMEs. It was revealed that cash conversion period, account receivable days and inventory turnover days were significantly negative correlated to the performance of SMEs.

Kiprotich, Kimosop, Sarmwei and Abalo (2015) carried out a research on assessment of the performance of working capital management practices on SMEs in Eldoret Kenya. The study adopted a cross-sectional survey research design and in depth interviews and questionnaire were used to collect data. The sample size was 224. Collected data was analyzed through descriptive and inferential statistics. It was discovered that cash management contributed significantly to the performance of SMEs. The study recommends adopting of working capital management practices to enhance performance of SMEs. Nyakundi, Ombuki, Evusa and Ariemba (2016) carried out research on the influence of working capital management practices on financial performance of SMEs in Machakos sub county Kenya. A study applied a cross sectional survey research design. Data was collected through questionnaires and interviews from the target population of 159 managers. The sample size was 22 SMEs trading in Machakos sub-county. Collected data was analyzed using inferential and descriptive statistics. It was revealed that working capital management practices were low among the majority of SMEs which led to low profit margins. It was further revealed that SMEs financial performance had a positive correlation with efficient cash management. It was concluded that working capital management practices had a positive correlation with performance of SMEs.

Nunow (2016) conducted a research on the effect of working capital management on profitability of SMEs Nairobi, Kenya. The study used a sample size of 160 registered SMEs in Nairobi. Data was collected through questionnaires conducted through analysis of variance, (ANOVA). It was established that all working capital components had a positive correlation except cash management systems. Similarly, Kinyanjui, Kiragu and Kamau (2017) conducted a research on cash management practices on financial performance of SMEs in Nyeri town, Kenya. The study employed descriptive research design with a target population of registered SMEs in Nyeri town. The sample size was 62 SMEs operating in Nyeri town. Data was collected through questionnaires. Collected data was analyzed through SPSS. It was revealed that cash management as one of the components of working capital had a significant positive correlation on performance of SMEs. The study recommends that all stakeholders in business operation ranging from suppliers and customers s should embrace cash management for better SMEs performance.

2.2.3 Effect of Debt Management on Performance of SMEs

Gul, Khan, Rehman, Khan,Khan and Khan (2013) conducted a research on working capital management and performance of SMEs sector in Pakistan. It was revealed that a day's account payable has a positive association with profitability, size and growth in sales has a positive influence on profitability. Konak and Guner (2016) conducted a research on the impact of working capital management on firm performance; empirical evidence from BIST SMEs industrial index. Among 29 companies listed on the Borsa Istanbul SMEs industrial index. The study applied cross sectional time series techniques. It was revealed that there was negative relationship between net margin and short term debt and date turn over days and cash conversion cycle. It was concluded that effective management of working capital; for instance decrease in short term debts turn over days can positively affect firm's performance.

Padachi and Carole (2014) conducted a research by focusing on working capital management practices among Mauritania SMEs; survey evidence an empirical analysis. The study adopted survey research design. Findings revealed that firms which claimed a more severe late payment focused more on credit management and pay more attention to working capital financing. The smaller firms may not have such problems because of lack of need. The study recommends that financial institutions and policy makers need to focus on educating such owners- managers with necessary working capital management. Similarly, Mujau (2015) conducted a research on the effects of working capital management on profitability of public listed energy companies in Kenya. The study adopted explorative research design. Both primary and secondary data were collected from senior managers and employees. The sample size was 36. Data was collected through questionnaires and interviews. Data was analyzed through STATA12. It was revealed that companies take 48 - 63 days to sale their inventories. Companies take long time to pay their creditors to enhance their profits. The study recommended that managers of listed energy companies aspire to eliminate the time it takes to convert non cash assets into cash by introducing services that allow customers to pay in advance. The study also recommended that companies should develop better relationship with their suppliers which will enable them make favorable agreement concerning the account payables.

2.3 Theoretical Literature Review

The following section reviews relevant theories guided this study.

2.3.1 Finance Theory

Aksoy (2005) is the proponent of the finance theory. This theory is built on three ground; capital budgeting, capital management and capital structure. This theory argues that financial decisions relate with working capital management and short-term investments. Capital budgeting on the other hand and capital structure relate to long-term investment. Wambugu (2013) argues that efficiency is critical in working capital management especially where it depends on current assets. Organizations that implements inaccurate working capital are likely to become bankrupt. Excessive working capital may lead to sub-standard return on assets. Working capital is external source for SMEs. SMEs have minimum access to capital market. They end up with short-term borrowing. An organization that has higher working capital enables it to meet its short-term financial obligations. In the long run it leads to increased borrowing capacity and reduces default cases thus decrease in cost of capital and increase in performance of an organization. This theory is relevant to this study because it deals with cash management and debt management. This theory underpins all the objectives of the study because all the transactions of the business deal with finance. The theory majorly underpins the second objective that concerns cash management and the third objective that concerns Debt management.

2.3.2 Liquidity theory

Jose (1996) was the proponent of the theory .The theory argues that liquidity is a function of current liabilities and current assets. Liquidity theory plays an important role in determining working capital policies. It also plays a role of gauging the firms' capability of generating cash when the need arises. Wambugu (2013) argues that ongoing liquidity is an inflow and out flow of cash by the firm product acquisition, payment, sales and collection process that takes time. An organization that is position of raising cash at any time when the need be is said to be performing better. Many SME's fail to raise cash when it is needed this makes them not to operate efficiently. Cash is always needed for day to day operation of an organization. SME's have a challenge of accessing enough cash because of small capital they own. This theory underpins this study by being relevant to the second objective; effect of cash management and the performance of Commercial SMEs and the third objective; the effect of Debts management on performance of Commercial SMEs. It is relevant as it deals with liquidity management.

Cash Conversion Cycle Theory

CCC is calculated by adding inventory period to accounts receivables period and then subtracting accounts payables from it. By approximating these three periods with the financial ratios of inventory days, trade receivables days and trade payables days, the length of the cash conversion cycle (CCC) is given by adding inventory days to trade receivables days less trade payables days Gitman, (1994). By shortening the CCC the company cash flows will have a higher net present value (NPV) because cash is received quicker. A shorter CCC leads to lower investment in the working capital needed by the firm while a higher CCC on the other hand could mean higher profitability by increasing the sales cycle through longer accounts receivable periods. These could however lead to investment rising faster than the benefits of higher (Kirkman 2006).

The Net Trade Cycle Theory

This theory builds on the cash conversion cycle where the components of the CCC are expressed as a percentage of sales. A further study by Shin and Soenen (1998) argued that the net trade cycle is a better working capital efficiency measure comparing with the cash conversion cycle and the weighted cash conversion cycle because it indicates the number of days' income the organization has to finance its working capital. The working capital management team can simply evaluate the financing needs of working capital expressed as a fraction of the expected income growth.

Risk-return trade-off theory

According to Pandey (2011), the management of working capital involves risk and return trade-off. It is not possible to accurately estimate the working capital needs and so a firm must decide about levels of current production to be carried out. Given a firm's technology and production policy, income and demand conditions and operating efficiency, its current assets holdings will depend upon its working capital policy which may follow conservative or aggressive policy and these policies involve risk and return trade-offs.

The Cost trade-off theory

This theory postulates that cost of liquidity through low rates of return increases with the level of current assets. Conversely, cost of - 132 - illiquidity means holding insufficient current assets whereby a firm will be unable to honor its obligations forcing it to borrow on short-term at high interest rates. This adversely affects a firm's creditworthiness and may limit future access to funds and possible insolvency, Pandey (2011).

III. RESEARCH METHODOLOGY

3.1 Introduction

This section looked at the methods that were used to collect data. It also looks at how data was analyzed and presented.

3.2 Research Design

The study adopted a descriptive survey research design by making careful descriptions of phenomena. The descriptive design is appropriate in discovering the relationships between variables and the degree to which the variables relate to one another. It is also appropriate because the respondents (Commercial SMEs) are in position to give their views. It also allowed the researcher to access more information (Atieno 2017). Descriptive research design is appropriate because it aims establishing causes of low performance of Commercial

SMEs in Mombasa County despite the existence of Working Capital Management; optimum inventory management, cash management, Debt management. This study employed both quantitative and qualitative in order to get in depth information. Multiple correlations will be used to determine the relationship between working capital management and performance of Commercial SMEs.

3.3 Population of the Study

The study population comprised of Commercial SMEs in Mombasa, Kenya that were drawn from Mombasa County. The researcher's inclusion criteria were Commercial SME's in operation for the last five years. The respondents were selected from 70 Commercial SMEs in Mombasa County.

3.4 Sampling Design

The study targeted Commercial SMEs that consist traders and producers in Mombasa County are. They were sampled because they would provide the required information. The researcher used purposive sampling for Commercial SMEs traders. Researcher used purposive sampling because it enabled the researcher to engage with the most experienced traders. Stratified random sampling was used in this study where stratification was done by sub-counties they trade from. The sub-counties used as strata to ensure that the results are proportional and representative of the whole population. The study used Yamen (1967) simplified method to calculate the sample size. The number of responses needs to be acquired using the equation.

3.5 Data Collection Procedures

Collected data was both primary and secondary data.

3.5.1 Data Collection Tools

Primary and secondary data were collected from the respondents. Data was collected through questionnaires and interviews from the respondents. These data collection instruments were appropriate for the study because it allows the researcher to get opinion from the large respondents thus making it easier to determine the relationship between the variables.

3.6.1 Validity of the Instruments

Validity is the degree to which results acquired from the analysis of data actually represents the phenomena under investigation (Atieno 2017) this study used Content validity.

3.6.2 Reliability of the Instrument

Atieno, (2017) argues that the instruments to be used in collection of data should be tested to determine their reliability. Reliability testing was carried out to determine the degree to which data collection processes and consistence. Reliability was tested using test and retest method.

3.7 Data Analysis and Presentation

Quantitative data was analyzed using multiple regression analysis using Statistical Package for Social Science (SPSS) .Inferential statistics was used to determine the rate of performance of SME's. Qualitative data was reviewed using content analysis.

IV. RESULTS AND DISCUSSIONS

Frequency Tables

4.1.1 Age of Respondent

The study established that the 7.1% of respondents are aged below 30 years, those aged between 31-40 years were 12.9%, those aged between 41-50 years were the majority at 61.4% whereby 18.6% of the respondents were above 50 years of age as illustrated in Table 1.

Table 1: Years of existence of the organization

	Frequency	Percent	Valid Percent	Cumulative Percent
<30 years	5	7.1	7.1	7.1
31-40 years	9	12.9	12.9	20.0
41-50 years	43	61.4	61.4	81.4
>50 years	13	18.6	18.6	100.0
Total	70	100.0	100.0	

4.1.2 Level of education of respondents

In regard to the level of education of the respondents, 30% indicated University while those who attained tertiary qualification accounted for 37.1% and formed majority of respondents for this study. Respondents who hold primary school qualification accounted for 25.7%, and those with no education level were 7.1% and were the least group in the study as indicated in Table 1 below.

Table 2: Level of education of respondents

	Frequency	Percent	Valid Percent	Cumulative Percent
None	5	7.1	7.1	7.1
Primary	18	25.7	25.7	32.9
Tertiary	26	37.1	37.1	70.0
University	21	30.0	30.0	100.0
Total	70	100.0	100.0	

4.1.3 Experience in management of working capital

Also, the study sought to establish the officers' previous experience in experience in management of working capital. From the scores, out of the 70 participants, 15.7% indicated less than 5 years, 10% indicated 6-10 years. Traders who have 11-15 years' prior exposure accounted for 15.7. On other hand those with over 16 years' experience were 58.6 5 % as shown in table 3.

Table 3: Experience in management of working capital					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	<5 years	11	15.7	15.7	15.7
	6-10 years	7	10.0	10.0	25.7
	11-15 years	11	15.7	15.7	41.4
	>16 years	41	58.6	58.6	100.0
	Total	70	100.0	100.0	

4.1.4 What Sector does the SME serve in Mombasa County?

Besides, the study enquired on whether what Sector the SME serves in Mombasa County. From the respondents' responses out of the 70 participants, 17.1% were in production sector, 31.4% were in trade whereas 51.4 % were in other sectors especially the service sector as summarized in table 4.

Table 4: What Sector does the SME serve in Mombasa County?					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Producer	12	17.1	17.1	17.1
	Trader	22	31.4	31.4	48.6
	Other specify	36	51.4	51.4	100.0
	Total	70	100.0	100.0	

4.1.5 Which Capital Management Components does your firm apply?

Besides, the study enquired on which Capital Management Components does apply to respondents firm. From the respondents' responses out of the 70 participants, 11.4% were involved in inventory, 42.9% were in cash management whereas 45.7 % were in other debtors management as summarized in table 5.

Table 5: Which Capital Management Components does your firm apply?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Optimum Inventory Management	8	11.4	11.4	11.4
	Cash Management	30	42.9	42.9	54.3
	Debtors Management	32	45.7	45.7	100.0
	Total	70	100.0	100.0	

4.6 Analysis of Variance (ANOVA)

Analysis of variance (ANOVA) is an analysis tool used in statistics that splits an observed aggregate variability found inside a data set into two parts: systematic factors and random factors. In this study ANOVA was used to determine the influence that independent variables have on the dependent variable in a regression study. For the regression model yielded a sum of squares of 10.205 and a residual of 3.450 whereas the mean square was 3.402 and 3 degrees of freedom.

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	10.205	3	3.402	65.079	.000[b]
	Residual	3.450	66	.052		
	Total	13.655	69			
a. Dependent Variable: performance						
b. Predictors: (Constant), conversion, debt management, cash management						

4.7 Regression Analysis

The data was analyzed using linear regression analysis to establish the extent to which the three variables affect performance of commercial SMEs in the Coastal Kenya. The summary model with a regression of 0.864a, an R square of 0.747, adjusted R square of 0.736 with a standard error of estimate of 0.22863.

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.864[a]	.747	.736	.22863
a. Predictors: (Constant), conversion, debt management, cash management				

4.8 Correlation Coefficients

The regression coefficients revealed that significance of 0.000, 0.000 and 0.000 for X1, X2 and X3 respectively indicating that the variables are significant and affect the performance of an organization. The standardized beta coefficients yielded 0.584, 0.538 and 0.383 for Inventory management, Debt management and Cash conversion respectively.

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.403	.140		10.031	.000
	Inventory management	.199	.024	.584	8.266	.000
	Debt management	.201	.030	.538	6.599	.000
	Cash conversion	.159	.031	.383	5.118	.000
a. Dependent Variable: performance						

V. CONCLUSSION

In conclusion, from the study there is a positive correlation between the working capital management and performance of small and medium enterprises. These working capital management include; optimum inventory management, cash conversion cycles and debtors management.

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