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ENTREPRENEURIAL MONEY MANAGEMENT PRACTICES AND COMPETITIVE OUTCOMES OF SMALL AND MEDIUM ENTERPRISES

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ABSTRACT

This study aimed at determining the effect of entrepreneurial money management practices on competitive outcomes of small and medium enterprises. The specific objectives of the study were to; assess the entrepreneurial money management practices of small and medium enterprises, determine the competitive outcomes of small and medium enterprises and to determine the relationship between entrepreneurial money management practices and competitive outcomes of small and medium enterprises. The study used both descriptive, cross-sectional and correlation research designs. The target population was 324 SMEs trading in Trans Nzoia county out of which 179 were sampled to participate in this study. The sampling method used was stratified and simple random sampling. The research instruments reliability test had a Cronbach alpha value of 0.825 which was above the threshold. The study findings indicated that entrepreneurial money management practices among SMEs was moderately embraced affecting their competitive outcomes. The study results also indicated that competitive outcomes of SMEs were dismal affecting their graduation into large enterprises. It was also found that there existed a positive significant relationship between entrepreneurial money management practices and competitive outcomes of SMEs. The study concluded that for SMEs to realize their competitive outcomes of increasing their respective

product portfolio and increased revenue, it's imperative that they apply entrepreneurial money management practices of prioritized financing, budgeting and adequate working capital to graduate SMEs to large enterprises. The study recommended that SMEs to allocate the realized financial resource prudently to exploit opportunities available to them to remain competitive. The study also recommended that SMEs should prioritize on innovations to differentiate themselves in the overcrowded market by expanding their bundle of product portfolio and also the government to formulate workable SME policies which impart entrepreneurial money management practices to improve SME performance.

Keywords: Entrepreneurial, Money Management Practices, Competitive Outcomes, Small and Medium Enterprises.

INTRODUCTION

SMEs have an important role to play in the economic development of the country (Sharmilee 2016). According to ACCA (2010) SMEs are considered as the backbone of an economy in some countries whereby they contribute to more than 50% of Gross Domestic Product (GDP). Kenya's SMEs is estimated at 34.3% and accounting for 77% of employment statistics, over 60% of those working in these SMEs are youths aged between 18-35 years, 50% being women (Kilonzo et al. 2015). Although SMEs play critical roles, they are faced with numerous challenges and constraints that include poor financial management (Sessional Paper No. 2; 2005). Despite their significance, past statistics indicate that three out of five businesses fail within the first few years of operation (Kenya National Bureau of Statistics, 2007). According to Amyx (2005), argued that one of the most significant challenges is the negative perception towards SMEs where potential clients perceive SMEs as lacking the ability to provide quality services and are unable to satisfy more than one critical project at the same time. This study was therefore conducted to find out whether entrepreneurial money management practices will improve SMEs competitive outcomes to exploit available opportunities to enable them graduate into large enterprises.

Objectives and Significance of the study

The purpose of the study was determine the effect of entrepreneurial money management practices on competitive outcomes of small and medium enterprises trading in Trans Nzoia county, Kenya.

Specific Objectives

The specific objectives of the study were to;

1. Assess the entrepreneurial money management practices of small and medium enterprises trading in Trans Nzoia county, Kenya.
2. Determine the competitive outcomes of small and medium enterprises trading in Trans Nzoia county, Kenya.
3. Determine the relationship between entrepreneurial money management practices and competitive outcomes of small and medium enterprises trading in Trans Nzoia county, Kenya.

Hypothesis of the Study

The null hypothesis of the study stated that there is no significant relationship between entrepreneurial money management practices and competitive outcomes of small and medium enterprises trading in Trans Nzoia county, Kenya.

LITERATURE REVIEW

Ayyagari et al. (2011) reported that the European Union SMEs constitute 99.8% of all firms and employs around 76 million people representing around 67.4% of total employment in 2010. In the United States of America, SMEs constituted more than 50% of the non-farm private GDP and created 75% net new jobs in the economy (ACCA 2010). It is imperative to note that SMEs play an important role in promoting inclusive growth in countries whereby it accounts for 60% to 70% of jobs in most Organizations of Economic Cooperation development (OECD) countries, with a particularly large share in Italy and Japan and a relatively smaller share in the United States. Japan has the highest proportion of SMEs among the industrialized countries of which it accounts for more than 99% of total enterprises (EIU, 2010). Sharmilee (2016), argued that South Africa has a strong SMEs sector which contributes to the country's Gross Domestic Product, reducing the level of unemployment, reduction in poverty levels. Abdel et al. (2010) indicated that SME managers have low basic understanding of money management and planning skills. Because of this Olawale et al. (2010) were of the opinion that 75 percent of new SMEs in South Africa will never graduate to become large enterprises to compete favorably with multinational corporations. According to Agyei-Mensah (2011), the careless money management practices are the major cause of the business enterprise failures in Ghana. The planned goals of money management practices are the basics upon which the efficiency and effectiveness of financial management are evaluated and compared. The intended goals of financial management are growth maximization of profit and wealth by re-investing or expanding the business (Paramasivan & Subramanian, 2009). Meredith (2017), emphasized that, financial management is concerned with all areas of management which involve finance not only the sources where they are obtained, but also the uses of finance in the enterprises and the financial implications of investment, production, marketing or personnel decisions and the total performance of the enterprise. Anne (2014), argued that poor money management practices have hindered the ability of SMEs to raise finance for their business and remain competitive. Kilonzo et al. (2015), indicated that poor money management can damage business efficiency and this will continuously affect the growth of SMEs. According to Kilonzo et al. (2015), Kenyan SMEs are making positive contributions to economic growth and development although the rate of failure is high. Further Kilonzo argued that though Kenya is among the countries with high startup of SMEs, it also has the highest numbers of non-performing SMEs as well high number of closure of SMEs due to internal factors. A large number of business failing have been attributed to inability of financial managers to plan well and control properly the current assets and current liabilities of SMEs (Mbaguta, 2002).

Theoretical Review

Resource Based Theory

Barney in (1991) developed the resource based theory (RBT) to understand how organizations achieved sustainable competitive advantages (SCA). Barney argued that RBT competitive advantage occurred only when there was a situation of resource heterogeneity with different

resources across firms with resources having; a strategic value to the firm to exploit opportunities or neutralize threats, resource were unique or rare to find amongst the current and potential competitors or difficult to acquire because the link between the capability or the achieved sustained competitive advantage was ambiguous or because it was socially complex, resource had to be non-substitutable when competitors could not substitute the resource by another alternative resource to achieve the same results, resources to be imperfectly immutable where the resources could not be bought or sold on the market freely.

The Profits Theory of Investment

According to Edward Shapiro (1984), the profits theory of investment explains how total profits vary directly with the income level. For each level of profits, there is an optimal capital stock. The optimal capital stock varies directly with the level of profits. The profits theory regards profits, in particular undistributed profits, as a source of internal funds for financing investment. Investment depends on profits and profits, in turn, depend on income. In this theory, profits relate to the level of current profits. It continues to explain how poor financial management affect the business and working capital as internal funds.

Pecking Order Theory

Myers (1984) argued that optimal capital stock varies directly with the level of profits. This enable the business to diversify by reinvesting which gives the business the security to stay in the market for long. By opening new business Myers argued that it provides employment to people in the community. Looking at the internal and external funds he refers to the financial management and level of income. That is why firms prefer to reinvest their extra profit for making investments instead of keeping them in banks in order to buy securities or to give dividends to shareholders but when their profits fall, they cut their investment projects. This is the liquidity version of the profits theory. Another version is that the optimal capital stock is a function of expected profits. If the aggregate profits in the economy and business profits are rising, they may lead to the expectation of their continued increase in the future.

Conceptual Framework

The independent variable considered in this study was entrepreneurial money management practices whereas the dependent variable was competitive outcomes of small and medium enterprises

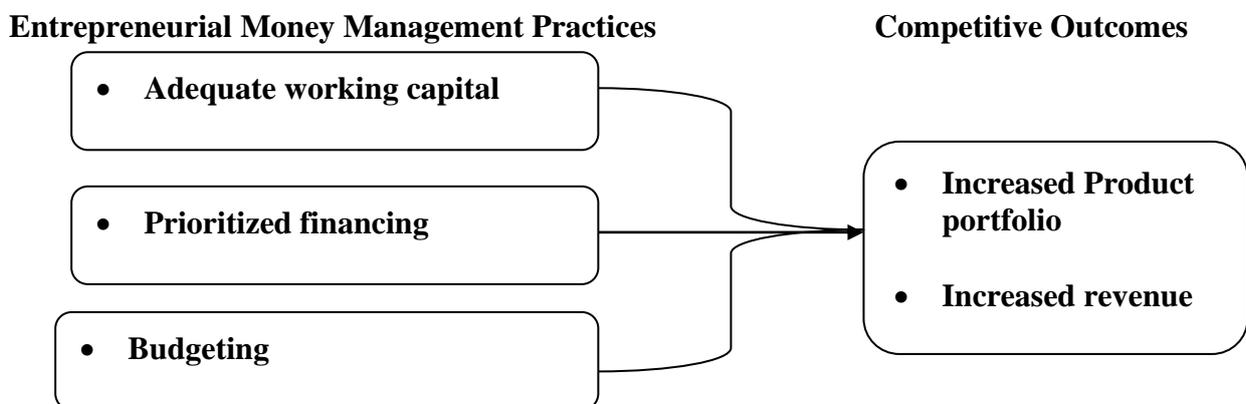


Figure 1. Conceptual Framework

METHODOLOGY

Research Design

The study was conducted through a cross sectional, descriptive and correlation survey design using both quantitative and qualitative research approaches to collect and analyze data. Descriptive survey research design helped the researcher to obtain the important information concerning the status of phenomena and drew general conclusions from the facts discovered. According to Orodho (2003), descriptive survey is a method of collecting information by interviewing or by administering a questionnaire to the targeted individuals. Correlation research design helped the researcher to determine whether there is any significant relationship between entrepreneurial money management practices and competitive outcomes of small and medium enterprises.

Population and Sample Size Determination

According to the report obtained from the office of trade in TransNzoia county there were 324 SMEs, registered and trading within the county. A sample is a set of respondents selected from the target population for purposes of a survey Slovenes (1970). It is a sub-set of the total population that could be studied. The ideal sample is one that is large enough to serve as an adequate representation of the target population about which the researcher would like to generalize and small enough to be selected economically in respect to degree of accuracy, time, money, complexity of data analysis and respondent availability Yamane (1967) and Slovenes (1970). This agrees with Kothari (2010) who believed that a sample size should be optimum, that is, one that fulfils the requirements of efficiency, representativeness, reliability and flexibility. The targeted population is 324 where the sample size is 179 according to Slovin's formula.

$$n = \frac{N}{1 + N(e)^2}$$

Where; N = Total Population [324]

n= Total Sample Size.

E= Desired Margin Error [0.05]

$$n = \frac{324}{1 + 324(0.05)^2} = 179 \quad n=179$$

Table 1
Population and Sample Size Determination

Respondents Category [Strata]	Target Population	Sample size	Sampling procedure
Kitale town	186	103	Simple random sampling
Kimini Market	74	40	Simple random sampling
Mail Nane Market	37	21	Simple random sampling
Endebess	27	15	Simple random sampling
Total	324	179	

Reliability of the Instrument

The research instruments were tested for reliability and a cronbach's alpha value of 0.825 was obtained which was above the recommended scale of 0.7.

Background Information of the Respondents

The demographic characteristics of the respondents was ascertained and results are indicated in Table 2

Table 2

Background Information of the Respondents

Demographic		Frequency	Percent
Gender	Male	89	53.9
	Female	76	46.1
Age	18 – 23	3	1.8
	24 – 29	36	21.8
	30 – 35	70	42.4
	36 and above	56	33.9
	Education level	Primary	1
	Secondary	37	22.4
	Diploma	49	29.7
	Degree and above	78	47.3
Years of operation	1 - 5 years	43	26.1
	6 - 10 years	65	39.4
	11 - 15 years	30	18.2
	16 and above	27	16.4

The results on demographic statistics showed that both genders were represented, the males were 89(53.9%) females were 76(46.1%). The implication of the results is that more males than females operated SMEs. In relation to the age of respondents, 3(1.8%) were aged between 18-23 years, 36(21.8%) were between 24-29 years, 70(42.4%) were aged between 30-35 years and 56(33.9%) between 36 years and above. This indicates that the majority of the SMEs owners 'were youthful and mature to operate growth-oriented enterprises. On level of education 1(0.6%) attained primary, 37(22.4) secondary, 49(29.7%) diploma and those who attained degree level and above were 78(47.3%). This implied that most of the SMEs operators were well educated to operate their enterprises. In regards to years of operation it was found that 43(26.1%) operated between 1-5 years, 65(39.4%) between 6-10 years, 30(18.2%) between 11-15 years and 27(16.4%) operated between 16 and above years. The results implied that majority of the SMEs operators possessed adequate experience to run their enterprises.

The study had the objectives of assessing the entrepreneurial money management practices of SMEs . The results are presented in Table 3

Table 3

Assessment of the Entrepreneurial Money Management Practices of SMES

Variable	Mean	SD	Interpretation
Adequate working capital	2.67	0.14	Moderate
Prioritized financing	1.92	0.56	Low
Budgeting	2.79	0.822	Moderate
Grand mean	2.46	0.50	Moderate

n=165

A mean of 4.20-5.00 means the level is very high; 3.40-4.19 high; 2.60-3.39 moderate; 1.80-2.59 low; and 1.00-1.79 very low.

The results of the findings on assessment of the entrepreneurial money management practices of SMEs in Table 3 revealed that adequate working capital among SMEs had a moderate mean of 2.67 and SD of 0.14. The implications of the findings was that SMEs lacked enough financial resources to meet their financial obligations. It was also realized that prioritized financing has a low mean of 1.92 and SD of 0.56 implying that SMEs did not have a priority based financing arrangement which could affect their exploitation of opportunities. The results further indicated that budgeting had a moderate mean of 2.79 and SD of 0.822 implying that SMEs did not adhere to budgeting in allocation of their finances. The results also indicated that entrepreneurial money management practices had a mean of 2.46 and SD of 0.50 implying that SMEs have moderately embraced entrepreneurial money management practices affecting their competitive outcomes. The study findings agree with Agyei-Mensah (2011) who argued that careless money management practices are the major cause of the business enterprise failures.

The study had the objective of determining the competitive outcomes of MSEs. The results are presented in Table 4.

Table 4
Determination of Competitive Outcomes of Mses.

Variable	Mean	SD	Interpretation
Increase product portfolio	2.45	0.43	Low
Increased revenue	2.23	0.56	Low
Grand mean	2.34	0.50	Low

n=165

A mean of 4.20-5.00 is very high; 3.40-4.19 high; 2.60-3.39 moderate; 1.80-2.59 low; and 1.00 1.79 very low. The study results on determination of competitive outcomes of MSEs in Table 4 showed that increased product portfolio among SMEs had a low mean of 2.45 and SD of 0.43. The implications of the findings was that SMEs had very few innovations which did not increase their product portfolios. The results also showed increased revenue had a low mean of 2.23 and SD of 0.56 implying that the competitive outcomes of SMEs was dismal affecting their graduation into large enterprises. The study findings agree with Anne (2014) who argued that poor money management practices have hindered the ability of SMEs to raise finance for their business and remain competitive.

The study used Pearson's correlation moment to analyze the relationship between entrepreneurial money management practices and competitive outcomes of SMEs. The results are presented in Table 5.

Table 5
Relationship between Entrepreneurial Money Management Practices and Competitive Outcomes of SMEs

Variable	Pearson analysis	Entrepreneurial money management practices	Competitive outcomes of SMEs
Entrepreneurial money management practices	Pearson Correlation	1	.364**
	Sig. (2-tailed)		.000
	N	165	165
Competitive outcomes of SMEs	Pearson Correlation	.364**	1
	Sig. (2-tailed)	.000	
	N	165	165

** . Correlation is significant at the 0.01 level (2-tailed).

The study results in table 5 showed a positive significant relationship between entrepreneurial money management practices and competitive outcomes of SMEs with ($r = .364^{**}$, $p = 0.000 \leq 0.01$). The results implied that entrepreneurial money management practices greatly influenced competitive outcomes of SMEs. The study findings agree with Kilonzo et al. (2015) who argued that a large number of business failing have been attributed to inability of financial managers to plan well and control properly the current assets and current liabilities of SMEs.

Hypothesis Testing

The study tested the null hypothesis and the results had the P – value (0.000) which was less than the level of significance (0.005) hence rejected the null hypothesis that “There was no significant relationship between entrepreneurial money management practices and competitive outcomes of small and medium enterprises trading in Trans Nzoia county, Kenya. The study further conducted a regression analysis to find out the contribution of each of the entrepreneurial money management indicators on competitive outcomes of SMEs. The results are shown in Table 6.

Table 6

Regression Analysis on Contribution of Entrepreneurial Money Management Practices on Competitive Outcomes of SMES

Items	Unstandardized Coefficients			t-value	Sig.	Interpretation
	B	Std. Error	Beta			
(Constant)	36.451	4.651		7.837	0.000	Significant
Adequate working capital	0.070	0.147	.039	0.474	0.636	Not significant
Prioritized financing	0.557	0.156	0.312	3.575	0.000	Significant
Budgeting	0.240	0.156	0.124	1.537	0.126	Not significant

A Dependent Variable: competitive outcomes of SMEs.

The regression results from Table 6 indicated that adequate working capital obtained a t-value of 0.474 and the significance level of 0.636 which is greater than the 0.05 meaning that it is not significant. This implies that adequate working capital does not significantly influence competitive outcomes of SMEs. Similarly budgeting obtained a t-value of 1.537 and a significance level of 0.126 which is greater than 0.05 significance level. This also shows that budgeting does not significantly influence competitive outcomes of SMEs. However prioritized financing obtained a t-value of 3.575 and a significance level of 0.000 which is less than 0.05 significance level implying that that prioritized financing significantly influences competitive outcomes of SMEs. The study findings agree with Kilonzo et al. (2015) who found that poor money management can damage business efficiency and this will continuously affect the growth of SMEs.

CONCLUSION AND RECCOMENDATIONS

Conclusion

The study sought to determine the effect of entrepreneurial money management practices on competitive outcomes of SMEs. The study findings indicated that there was a positive significant relationship between entrepreneurial money management practices and competitive outcomes of SMEs. For SMEs to realize their competitive outcomes of increasing their respective product portfolio and increased revenue, it's imperative that they apply

entrepreneurial money management practices of prioritized financing, budgeting and adequate working capital to graduate SMEs to large enterprises.

Recommendations

1. The researcher recommendation to the SMEs is to allocate the realized financial resource prudently to exploit opportunities available to them to remain competitive.
2. The SMEs should prioritize on innovations to differentiate themselves in the overcrowded market by expanding their bundle of product portfolio.
3. The government to formulate workable SME policies which impart entrepreneurial money management practices to improve their performance.

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Conflict of Interest Statement

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