

## Revenue Controls and financial performance of Small and Medium Enterprises in Eldoret Town, Kenya

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African Journal of Commercial Studies, 2024, 5(3), 164-173

DOI Link: <https://doi.org/10.59413/ajocs/v5.i.3.3>

### Abstract

Small and medium enterprises (SMEs) are widely recognized for their important role in economic development, job creation, and GDP growth. In fact, SMEs account for 56% of private sector employment and 36% of global GDP. This is particularly true in Iraq, where they make up 99% of private sector companies, and in Africa, where they contribute 75% of total employment. Despite their significance, SMEs often encounter challenges when it comes to managing revenue controls, which are essential for their financial performance. To address this issue, this study focuses on the impact of revenue controls on the financial performance of SMEs in Eldoret, Kenya. We specifically examine various aspects of revenue controls, such as credit terms, customer creditworthiness, revenue recognition, and segregation of duties. Our findings reveal a statistically significant positive relationship between revenue controls and SME financial performance. In other words, SMEs that effectively implement revenue controls experience improved financial outcomes. Interestingly, larger SMEs tend to benefit more from stringent controls compared to smaller ones. Based on these results, we conclude that revenue controls play a crucial role in determining the financial success of SMEs. Proper implementation of these controls leads to enhanced financial performance. Our findings are consistent with existing literature, highlighting the importance of robust accounting control practices for the growth and sustainability of SMEs. Overall, this study provides valuable insights for SME owners, policymakers, and financial managers, helping to strengthen revenue management strategies. By recognizing the significance of revenue controls and adopting effective practices, SMEs can improve their financial performance and contribute to their own growth and the overall economy.

**Keywords:** Revenue Controls, Financial Performance, SMEs,

### Article Info

Volume 5, Issue 3

Publication history:

Accepted on 10 September 2024;

Published on 14 September 2024

Article DOI:

[10.59413/ajocs/v5.i.3.3](https://doi.org/10.59413/ajocs/v5.i.3.3)

## 1. Introduction and Background

All over the world, small and medium enterprises (SMEs) are considered the backbone of a country's economy. The SMEs are an important contribution to employment and job creation and play a key role in economic development GDP, which is Gross Domestic Product (Mephokee, 2004). The importance of the SMEs has grown in importance to the global economy during the last couple of decades. They are not only considered to be the principal driving force of economic development, but they are also regarded as vital for sustained growth in almost all economies (Garikai, 2011).

This study arises from the need to manage the accounting control practices of the SMEs for the viability of the sector. The SMEs in Kenya lead to economic growth through employment creation, poverty reduction, and as intermediaries in trade (Republic of Kenya, 2011).

SMEs contribute to around 56% of private sector employment and 36% of the GDP worldwide (Arianoff, 2010). According to ILO (2008), about 80% of the labor force in Japan and 50% of workers in Germany are employed in the SME sector. SMEs particularly have a vital role to play in the development of Iraq. Data from the Central Organization for Statistics (COS) indicates that the private sector in Iraq consists primarily of SMEs, where those companies represent 99% of all companies in Iraq (Harash et al., 2013). In the African economies, the contribution of the SME sector to job opportunities is even more important since they account for about 75% of total employment (Ayyagari et al., 2007). According to ILO (2008), the SMEs made a significant contribution to the GDP of Uganda, Kenya, and Nigeria, accounting for 20%, 19.5%, and 24.5%, respectively. In the Kenyan economy, the sector contributes to the national objective of creating employment opportunities, employing up to 75% of the workforce, training entrepreneurs, generating income, and providing a source of livelihood for the majority of low-income households in the country, accounting for 18.4% of the country's GDP (Republic of Kenya, 2011).

The process of revenue control verifies the completeness and accuracy of all cash received and any cash disbursements (Pandey, 2008). Efficient receivables management involves a shortened creditor's collection period, low levels of bad debts, and a sound credit policy, which often improves the businesses' ability to attract new customers and accordingly increase financial performance (Ross et al., 2008). This was further affirmed in a study by Sushma and Bhupesh (2007), who stated that putting in place a sound credit policy ensures proper debt collection procedures and is pivotal in improving efficiency in receivables management, hence the performance of firms. The standard measure of receivables management is the average collection period (ACP), which is the time taken to collect cash from customers. ACP is calculated as average accounts receivable divided by credit sales multiplied by 365 days (Mathuva, 2009).

## 2. Literature Review

### 2.1. Theoretical Framework

#### Stakeholder Theory

The study was modeled on stakeholder theory, which is a competing theory of the firm (Freeman, 1984). Freeman attempts to explain the relationship of the firm to its external environment and its behavior within this environment. A stakeholder is any group or individual who can affect or is affected by the achievement of an organization's objectives. Firms should identify their direct or indirect stakeholders. Stakeholder theory suggests that if we adopt as a unit of analysis the relationships between a business and the groups or individuals who can be affected by it, then we have a better chance to deal effectively with problems. A stakeholder's perspective understands a business as a set of relationships among groups that have a stake in the activities that make up the business (Freeman, 1984). It is about how customers, suppliers, employees, financiers, communities, and managers interact to jointly create and trade value. To understand a business is to know how these relationships work and change over time. It is the executive's job to manage and shape these relationships to create as much value as possible for stakeholders and to manage the distribution of that value (Freeman, 1984). Where stakeholder interests' conflict, the executive must find a way to re-think problems so that the needs of a broad group of stakeholders are addressed, and to the extent this is done, even more value may be created for each.

### 2.2. Empirical review

#### Revenue Controls

Revenue controls is the process that is used to verify the complete nature and accurate recording of all cash that is received, as well as any cash disbursements that take place (Pandey, 2008). Revenue from the sale of goods and services can be reserved over the counter in the form of cheques or currency. Cash should be recorded immediately on receipt. There are some common means of controlling cash sales receipts, i.e., cash registers and pre-numbered sales tickets; these can be put in place to mitigate the risk of misuse of business funds. The SMEs are not very good at managing their working capital, and this has led to a high failure rate compared with that of large businesses (Klein et al., 2010; GEM, 2010). They often lack the resources to manage their trade debtors (receivables) effectively, and therefore it is usual for SMEs to operate without the credit control department. This tends to mean that both expertise and the information required to make sound judgments concerning terms of sales and so on may not be available.

SMEs also lack proper debt collection procedures, such as prompt invoicing and sending out regular statements, leading to an increased risk of default. In an attempt to increase sales, the SMEs may be too willing to extend credit to customers that have poor credit risks. The SMEs should establish a credit control department with resources proportionate to the size of the organization. The following key elements should be taken into account in the formulation of the credit control policy: the terms of trade, the period of credit to be granted, discounts to be allowed for early settlements, and assessing the creditworthiness of debtors. It is necessary to assess the creditworthiness and to establish limits in terms of amount and time, as this can be beneficial to the SMEs. Thus, the more detailed and expensive investigations should be reserved

for potentially important or especially risky customers. SMEs must have collection policies to ensure that amounts owing are collected as quickly as possible (Chittenden, Poutziouris & Michaelas, 1998).

According to Kalunda et al. (2012), trade credit is created where a supplier offers terms that allow a buyer to delay payments. Accounts receivable are executed by generating an invoice, which is delivered to the customer, who in turn must pay within the agreed terms. The accounts receivable are one of the largest assets of a business enterprise, comprising approximately 15% to 20% of the total assets of a typical manufacturing firm (Dunn, 2009).

Investment in receivables takes a big chunk of an organization's assets. These assets are highly vulnerable to bad debts and losses. It is therefore necessary to manage accounts receivable appropriately. Trade credit is very important to a firm because it helps to protect its sales from being eroded by competitors and also attract potential customers to buy at favorable terms (Kakuru, 2001). As long as there is competition in the industry, selling on credit becomes inevitable. A business will lose its customers to competitors if it does not extend credit to them. Thus, investment in accounts receivable may not be a matter of choice but a matter of survival (Kakuru, 2001).

According to Pandey (2008), credit policy is the manner in terms of the combination of such terms as credit period, credit standards, collection period, cash discounts, and cash terms. Therefore, despite the fact that organizations have different credit policies, the content of these policies must touch on credit period, credit standards, collection period, and credit terms (Filbeck & Krueger, 2005). There are no two organizations with a similar credit policy. Whether lenient or stringent credit policy is adopted by an organization, it must ensure that it attracts and retains good customers without having a negative impact on the cash flow (Kalunda et al., 2012). While most companies have their own policies, procedures, and guidelines, it is unlikely that any two firms will define them in a similar manner.

However, no matter how large or small an organization is and regardless of the differences in their operations or product, the effects of credit policies usually bring about similar consequences. The effects of a credit policy are either good enough to bring growth and profits or bad enough to bring decline and losses. This similarity is a result of the aim of every manager, which is to collect their receivables efficiently and effectively, thus maximizing their cash inflows (Ojeka, 2012). Credit period refers to the time allowed to the customers to pay up for the goods bought on credit. It also includes a cash discount offered to encourage prompt payment. Many firms establish a credit period for their customers and offer discounts to encourage them to pay early. The basic form of trade credit: the simpler form, net terms, specifies that full payment is due within a certain period after delivery (Saunders, 2008). For example, 'net 30' means full payment is due 30 days after invoice; after that, the buyer is in default. Invoicing normally occurs either around the delivery or at the end of a billing cycle. The more complex form of credit, two-part terms, has three basic elements: the discount percentage, the discount period, and the effective interest rate. The most common two-part terms are '2/10 net 30'. This means a 2% discount for payment within 10 days and a 21-day net period ending on day 30. As with net terms, the buyer is in default if payment is not made by the end of the net period.

Longer credit periods or more liberal credit terms are likely to stimulate sales, but at the same time, the firm foregoes the use of its money for a greater length of time and increases the potential for bad debt losses (Saunders, 2008). A firm can shorten its credit period if customers are defaulting too frequently and bad debts are building up. However, the firm will lengthen the credit period to increase its operating profit through expanded sales (Pandey, 2008). Customers should only be allowed credit on the basis of their creditworthiness in order to minimize the level of default and bad debts. Creditors must apply the techniques of credit selection and standard for determining which customers should receive credit. In the process of determining the creditworthiness of a customer, the creditor has to apply the six C's of credit: character, capacity, capital, collateral, condition, and contribution (Weston & Copeland, 2008). Managers can create profit for their companies if they maintain accounts receivable at optimal levels (Gill et al., 2010). Systems can be installed to decrease investment in inventories and can enable companies to increase profitability. Managers can create value for shareholders by means of decreasing receivable accounts. There is a significant negative relationship between profitability and the average collection period. High investment in accounts receivable is associated with low profitability.

Segregation of duties is the process of dividing or allocating tasks among various individuals, making it possible to reduce the risks of error and fraud (Mitchell, 2010). One of the fundamental concepts of control systems is that the level of control increases when duties are segregated among employees. By segregating duties, one person typically is responsible for handling an asset, while another records the transaction and a third approves the transaction (Bragg, 2006). The advantage of using segregation of duties is that a massive level of collusion would be required to commit fraud. A typical case of fraud involving collusion results in a loss averaging six times the amount lost when a single person is involved, so there is certainly a valid point behind the use of duty segregation (Bragg, 2006).

The revenue cycle is the set of activities in a business that brings about the exchange of goods and services with customers for cash. Most business transactions are conducted on a credit basis (Savage, 2004). Credit notes that are not monitored for recurring or systemic problems can lead to perpetual losses and abuse of the system until the reasons behind the credit

notes are remedied (FSN & Oracle, 2013). The manipulation of credit notes and refunds are especially popular methods of defrauding the business (FSN & Oracle, 2013). The risk lies in the fact that, when not properly monitored, credit notes may result in undetected and unauthorized outflows of cash from the company. In order to be able to control the use of credit notes, Ahokas (2012) asserts that management should have clearly communicated policies in place for determining which employees in the company are allowed to assign credit notes and on which basis. Anderson et al. (2012) assert that external auditors should perform analytical reviews of credit notes in order to ensure that they are not being used for fraudulent purposes. The analyses should be conducted by comparing the amount of credit memos in the current period to prior periods while looking for unusual trends or patterns, such as large numbers of credit memos pertaining to one customer or salesperson or those processed shortly after the close of the accounting period (Anderson et al., 2012). These methods can be easily utilized by the company controllers as well and can provide useful tools for monitoring credit notes.

Revenue recognition practices have stemmed from the fraudulent earnings of management schemes that have surfaced over the past decades (Kamau & Murori, 2024). However, the objective of correct and timely revenue recognition is not only about deterring fraud. Under normal conditions, consistent revenue recognition and reliable sales figures are of high importance to the management team itself, as reliable sales reporting provides a solid foundation for informed decision-making with regard to the future. Failures in revenue recognition are generally one of the main causes for major profit and loss misstatements stemming from the sales process. Consequently, internal controls should provide specific guidance regarding how to and how not to record transactions (Stallworth & DiGregorio, 2005). In general, revenue can be recognized when all the following conditions are met: (1) persuasive evidence of a (sales) arrangement exists; (2) delivery has occurred or services have been rendered; (3) the seller's price to the buyer is fixed or determinable; and (4) collectability is reasonably assured (Kamau & Murori, 2024). The financial impact of the sales process commences with the generation of an invoice (Mukerji, 2012). Invoices are normally prepared when notice is received that goods are shipped (Anderson et al., 2012). Thus, invoicing obviously comprises an essential part of the revenue recognition process. With regard to invoices, it is important that the goods invoiced correspond to the ones listed on the bill of lading. Special attention should be paid to deliveries that have not been invoiced for some reason (Ahokas, 2012).

Ratings on SMEs reflect the rated entities' overall creditworthiness, adjudged in relation to other SMEs. These ratings are entity-specific and not specific to debt issuances. The enterprise is analyzed internally and awarded a rating according to the particular enterprise's creditworthiness, its management team, and its effective relationship with customers and suppliers. The SME sector has its own unique features: unlike large corporations, it has no organized information on industries, their functional details, market shares, competition dynamics, or promoter or management track record. The creditworthiness of entities in the sector, therefore, needs to be assessed using tools and methods that are different from those traditionally used for large corporations. The SME is rated according to the strength and weakness of that enterprise only and is compared to the sector as a whole, which gives increased leverage for the enterprise to work on a better platform (Subramanian & Nehru, 2012).

Ahokas (2012) lists a variety of basic procedures that should be put in place to ensure proper control over accounts receivable. To begin with, specific attention should be paid to overdue accounts and the effectiveness of debt collection (Ahokas, 2012). One of the most basic and important procedures is to frequently review an age-distributed list of the company's accounts receivable and to identify customers with overdue payments. If reminders prove ineffective, a collection agency could be involved (Ahokas, 2012). Furthermore, if a customer has difficulties paying bills, it's recommended that the credit limit be re-evaluated and possibly lowered. Further deliveries should also be denied until overdue payments are received (Ahokas, 2012).

KPIs that can help companies assess the riskiness of their receivables include increases in the number of days past due and unusually high concentration in a few key customers whose financial prospects are declining (Anderson et al., 2012). Accounts receivable that are unlikely to be collected should be written off at the latest in the year-end closing of the books. Companies should have an established process for these write-offs, and they should be approved on a proper level, Ahokas (2012). A classical fraud committed by an accountant is to pocket the cash received from a customer and cover up the theft by writing off the customer's balance. For this reason, FSN and Oracle (2013) suggest that management establishes a report to monitor users with a high number of write-offs or high value write-offs. It is also important to ensure that received collections are applied against specific invoices to wipe out customers' outstanding debts and to make sure that payments are of the correct amount. Any non-matching payments should obviously be investigated (Ahokas, 2012). Cash applications are nowadays often handled by IT systems that are capable of automatically matching the payments with a specific invoice (Mukerji, 2012).

In order to succeed in business, SMEs owners or managers need to realize that the real success of a business is based on their ability to keep close control over cash flows, avoiding holding excessive stocks and collecting debts on time (Suwastika & Anand, 2012).

## Financial Performance

Financial performance refers to the degree to which financial objectives have been accomplished (Van der Waldt, 2004). It is the process of measuring the results of a firm's policies and operations in monetary terms. It is used to measure firms's overall financial health over a given period of time and can also be used to compare similar firms across the same industry or to compare industries or sectors in aggregation (Delgado, 2009).

Asset turnover is the ratio of sales to average total assets of the firm. It measures the organization's efficiency in deploying and utilizing its assets to generate sales revenue. Sales revenue has an effect on financial performance, and since asset turnover is related to sales, it can therefore be concluded that asset turnover also has an impact on the eventual financial performance of the organization. Profitability of the firm is net income to average assets. Holding margins and other operating expenses constant, it can be predicted that the higher the asset turnover, the higher the profitability of the firm (De-Mesquita & Lara, 2008).

### 2.3. Critique

Gill et al. (2010) extended Lazaridis and Tryfonidis's (2006) findings regarding the relationship between working capital management and profitability. They selected 88 American firms listed on the New York Stock Exchange for a period of three years from 2005 to 2007. The study found a statistically significant relationship between the cash conversion cycle and profitability, measured through gross operating profit. It follows that managers can create profits for their companies by handling correctly the cash conversion cycle and by keeping accounts receivable at an optimal level. The study focused on the relationship between working capital management and profitability; hence, the results can only be generalized based on these variables.

Deloof (2003), using a sample of 1,009 large Belgian non-financial firms from the period (1992–1996), found a significant negative relationship between gross operating income and the number of days of accounts receivable, inventories, and accounts payable for Belgian firms. Deloof (2003) suggests that in order for managers to increase profitability, they should therefore minimize the number of inventory turnover days and the accounts receivable collection days.

Lazaridis and Tryfonidis (2006) assessed the relationship between working capital management and profitability; they conducted a cross-sectional study by using a sample of 131 firms listed on the Athens Stock Exchange for the period of 2001 to 2004. The study found a statistically significant relationship between profitability, measured through gross operating profit, and the cash conversion cycle and its components, including accounts receivable, accounts payable, and inventory. The study targeted firms listed on the Athens Stock Exchange; hence, the results can only be generalized to these firms.

Ramachandran and Janakiraman (2009) employed the measures of profitability index, utilization index, and efficiency index to measure the WCM efficiency and company profitability of the paper industry in India during the period from 1997/8 to 2005/6. By employing a sample of 30 companies listed on the Bombay Stock Exchange, inventory holding period and cash conversion cycle were found to be negative and significantly related with profitability. It was therefore suggested that less profitable companies will pursue a decrease in their accounts receivable period in an attempt to reduce their cash gap in the cash conversion cycle. Accounts receivable period and accounts payable period, on the other hand, were found to be positively related to profitability, which led to the conclusion that a more profitable company delays its payment to its suppliers.

Murugesu (2013) attempted to find the effect of debt on profitability of 11 listed Sri Lankan hotels over the past 5-year period from 2008 to 2012. The regression analysis results found no significant relationship between debt and profitability, Murugesu (2013). But based on the correlation analysis, there were strong negative relationships between short-term liabilities, ROE and ROA. Furthermore, total liabilities to total assets had a strong negative relationship between ROE and ROA. But there was no significant relationship between long-term liabilities, ROE, and ROA. The study was done for a period of five years between 2008 and 2012; hence, the results can only be generalized for that period of time.

Padachi (2006) has examined the trends in current asset management and its impact on a firm's performance for 58 Mauritanian small manufacturing firms during the period 1998–2007. He says that well-designed and implemented current asset management can contribute significantly towards the realization of a firm's value. The results demonstrated that a higher investment in receivables is generally associated with low profitability, leading to the firm having short-term current asset financing.

Accounts receivable period was also found to be negative and significantly related to AIM-listed SME profitability (Afrifa, 2013). The result indicated that the granting of credit periods to customers represents a cost to a company and therefore reduces profitability. This result is consistent with prior studies that have looked into the relationship between accounts receivable period and company profitability. The regression results indicate that the accounts payable period has a negative influence on the profitability of AIM-listed non-financial SME companies. The result shows that less profitable companies wait longer to pay their bills (Deloof, 2003). The negative association between accounts payable period and profitability of AIM-listed SME non-financial companies is consistent with similar previous studies (Gill et al. 2010; Dong and Su

2010; Mathuva 2010). The study targeted AIM-listed non-financial SME companies; hence, the results can only be generalized to SMEs that were listed in AIM.

According to Vural, Sokmen, and Cetenak (2012), a firm's profitability is negatively related to the collections of receivables and cash conversion cycle. When the firm shortens its receivables collection period, it reduces its cash conversion cycle, hence increasing its profitability. This renders the relationship between other working capital components and the firm's profitability insignificant. The relationship between a firm's leverage and its profitability is negative, whereas the relationship between firm size and its profitability is positive.

Warue and Wanjira (2013) assessed the budgeting process in SMEs in Nairobi's Central Business District: A case of the hospitality industry. The study adopted a descriptive research design, and the target population comprised of 96,608 of all the registered SMEs located within the Central Business District of Nairobi City. Stratified random sampling was employed in selecting the sample. The population strata was based on the nature of the business conducted by the SMEs in the hospitality industry. The sample of 104 was shared proportionately among the 526 SMEs in the hospitality industry in the Central Business District. A self-structured questionnaire was administered to SMEs managers. The findings revealed that the budgeting process contributes significantly to the general performance of SMEs. The study focused on one segment of the SMEs sector; hence, the results can only be generalized for the hospitality industry.

### 3. Methodology

The target population of the study was 300 SMEs owners/managers with between 0 and 50 employees who were beneficiaries of the Equity FIKA program operating in Eldoret town registered with the Ministry of Trade of Uasin Gishu County. Data was collected from the stratified sample of 171 SME owners/managers. Primary data was collected through the use of self-administered structured questionnaires. Cooper and Schindler (2011) support the use of self-administered questionnaires in descriptive studies because they cost less. Saunders et al. (2007) argue that self-administered questionnaires are usually completed by the respondents' electronically using the internet, posted to respondents who return them by post after completion, or delivered by hand to each respondent and collected later. In this study, the drop-and-pick method was used to administer the questionnaires. This method was convenient to use, cheap, easy, and quick to administer. It was also highly convenient for the respondents, as they completed the questionnaire during their spare time when their work load was manageable. In the recent past, the drop-and-pick administered questionnaire method was used in Bangladesh by Rahman (2011) to collect primary data on working capital management and profitability in the textile industry

### 4. Findings

#### 4.1. Descriptive statistics on Revenue Controls

The objective of the study was to establish the influence of revenue controls (as an accounting control practice) and the financial performance of small and medium enterprises in Eldoret town. Revenue controls were operationalized along the following dimensions: credit terms, credit worthiness of customers, revenue recognition, revenue analysis, segregation of duties, revenue cycle audit, revenue cycle risks, and controls. The statements were anchored on a five-point Likert-type scale. The respondents were asked to indicate the extent to which they agreed to the statements.

The respondents' aggregate score of revenue controls was computed as the simple average of the respective sub-concept scores, and the pertinent results are as shown in Table 1 next page.

Table 1: Distribution of the response across the revenue controls

Revenue Controls		SD(1)	D(2)	U(3)	A(4)	SA(5)
The length of time allowed for credit to customers has a positive influence on profitability	Count	6	15	23	54	58
	Raw %	4%	10%	15%	35%	36%
The firm extends credit facilities to its customers	Count	8	10	18	55	65
	Raw %	5%	6%	12%	35%	42%
The firm offers cash discounts to induce customers to pay promptly.	Count	3	5	21	72	55
	Raw %	2%	3%	13%	47%	35%
Most debtors pay their accounts within the credit period agreed upon.	Count	15	18	20	60	43
	Raw %	10%	12%	13%	38%	27%
The debtors default in payment hence the business incurs	Count	10	20	16	71	39
	Raw %	6%	12%	9%	41%	24%

losses.	Raw %	6%	13%	10%	46%	25%	
The firm writes of bad debts from customers who do not pay	Count	6	13	45	55	37	
	Raw %	4%	8%	29%	35%	24%	
The firm screens customers or do client reference before giving credit.	Count	13	16	28	43	56	
	Raw %	8%	10%	18%	28%	36%	
The firm regularly writes to customers reminding them to pay their debts.	Count	6	6	33	64	47	
	Raw %	4%	4%	21%	41%	30%	
The firm takes legal against customers who refuse to pay.	Count	9	6	25	72	44	
	Raw %	6%	4%	16%	46%	28%	
The average length of time between credit sales and cash collection from customers is longer than 30 days.	Count	9	8	42	67	30	
	Raw %	6%	5%	27%	43%	19%	
<b>Average score of Revenue controls</b>							
	N	Mean	%mean	SE	SD	CV	Skewness
	156	4.1852	70%	0.0730	0.9123	0.21	1.0234
						80	

The results reveal that the mean score for the ten statements used to assess revenue controls was 4.1852. The average mean score of 4.1852 (agree) implies that the respondents generally engage in proper revenue management practices and have a general understanding of the revenue control aspects of the enterprise. The standard error (SE) was 0.0730, which was small, indicating that the sample mean had a good chance of being close to the population mean and a good estimator. The coefficient of variation (CV) was 0.2180, which was small; this indicated that the degree of variation from one data series to another is small, thus a reliable mean score. A positive skewness of 1.0234 > 0 was observed in the study, an indication that the constructs are relatively asymmetrical and thus a reliable measure of central tendency. The results imply that the SME owners/managers that were surveyed have adequate knowledge on the revenue control practices.

#### 4.2. Regression Results for Revenue Controls

The results in Table 2 show that revenue controls had a statistically significant contribution in the prediction of the financial performance of SMEs (B = 0.593; r = 0.542).

Table 2: Regression Model for Revenue Controls

Model Summary <sup>c</sup>										
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change statistics					
					R Square change	F change	.df1	.df2	Sig. F change	
1	.729 <sup>a</sup>	.532	.530	.03	.002	186.341	2	153	.000	
a. Predictors: (Constant), Revenue Controls										
c. Dependent Variable: Financial Performance of SMEs.										
ANOVA <sup>a</sup>										
Model		Sum of Squares	Df	Mean Square	F	Sig.				
1	Regression	7725.756	2	3862.878	186.341	.000 <sup>b</sup>				
	Residual	6806.728	153	44.488						
	Total	14532.484	155							
a. Dependent Variable: Financial Performance of SMEs.										
b. Predictors: (Constant), Revenue Control										
Coefficients <sup>a</sup>										
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Correlations			
		B	S.E.				Beta	Zero order	Partial	Part
1	(Constant)	.511	.068		3.412	.000				
	Revenue control	.593	.075	.542	9.115	.000	.546		.379	.298
a. Dependent Variable: Financial Performance of SMEs										

The results of the zero-order correlation in table 4.13 indicate a significantly strong positive correlation between revenue controls and financial performance (B = 0.593; r = 0.542). Squaring the part correlation coefficient (in the coefficients results of table 4.13) gives an indication of the unique contribution of revenue controls to the total coefficient of determination (R<sup>2</sup>). Revenue controls had a part correlation coefficient of 0.298, thus it uniquely explains 0.298<sup>2</sup> = 8.9% of the variance in financial performance of SMEs.

#### 4.3. Discussion of Findings

The results in Table 2 show that revenue controls had a statistically significant contribution in the prediction of the financial performance of SMEs (B = 0.593; r = 0.542). Therefore, the null hypothesis was rejected and concluded that revenue controls had a significant influence on the financial performance of SMEs. The results of the zero-order

correlation in table 4.13 indicate a significantly strong positive correlation between revenue control and financial performance ( $B = 0.593$ ;  $r = 0.542$ ). Squaring the part correlation coefficient (in the coefficients results of table 4.13) we get an indication of the unique contribution of revenue controls to the total coefficient of determination (R squared). Revenue controls had a part correlation coefficient of 0.298, thus it uniquely explains  $0.298^2 = 8.9\%$  of the variance in financial performance of SMEs.

The interaction plot indicates that SMEs whose firm sizes have large capacity with high revenue controls are likely to experience high financial performance compared to those with firm sizes with low capacity with high revenue controls. At low revenue controls, firm size seems to have a higher moderation effect on the relationship between revenue controls and financial performance as compared to when the revenue controls are high, as shown in Appendix IV. The moderation effect seems to become weak as the revenue controls increase.

The results of the study are consistent with some previous studies and contradictory with other studies. The results were consistent with studies by [Lazardis and Tryfonidis \(2006\)](#), [Padachi \(2006\)](#), [Ramachandran and Janakiraman \(2009\)](#), [Gill et al. \(2010\)](#), [Warue & Wanjira \(2013\)](#) which revealed a significant positive relationship. On the other hand, the results contradict the studies by [Deloof \(2003\)](#), [Gill et al. \(2010\)](#), [Mathuva \(2010\)](#), [Vural, Sokmen, and Cetenak \(2012\)](#), [Afrifa \(2013\)](#), and [Murugesu \(2013\)](#), which revealed a significant negative relationship.

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## 5. Conclusion and Recommendations

The study had proposed the null hypothesis, H02: There is no significant relationship between revenue controls and the financial performance of SMEs in Eldoret town. Revenue controls had a statistically significant contribution in the prediction of the financial performance of SMEs ( $B = 0.593$ ;  $r = 0.542$ ). The results of the zero-order correlation indicated a significantly strong positive correlation between revenue control and financial performance ( $B = 0.593$ ;  $r = 0.542$ ). Therefore, the hypothesis was rejected and concluded that revenue controls had a significant influence on the financial performance of SMEs.

Revenue controls is the process that is used to verify the complete nature and accurate recording of all cash that is received, as well as any cash disbursements that take place ([Pandey, 2008](#)). In this study, revenue controls were measured by credit terms, credit worthiness of customers, revenue recognition, revenue analysis, segregation of duties, revenue cycle audit, and revenue cycle risks and control.

This study underscores the vital role of revenue controls in enhancing the financial performance of small and medium enterprises (SMEs) in Eldoret, Kenya. The research reveals a significant positive correlation between effective revenue management practices—such as setting clear credit terms, evaluating customer creditworthiness, and implementing accurate revenue recognition—and improved financial outcomes. SMEs that adopted robust revenue control measures showed better financial performance, supporting the critical need for systematic revenue management to sustain business success. Additionally, the findings indicate that larger SMEs benefit more from stringent revenue controls compared to smaller ones, suggesting that firm size moderates this relationship. These results are consistent with existing literature, which highlights the importance of effective revenue management in boosting SME profitability and growth.

To build on these insights, SMEs should implement comprehensive revenue control systems, ensuring they have clear credit terms, conduct thorough assessments of customer creditworthiness, and recognize revenue accurately. Investing in training for financial management staff and allocating resources to develop and maintain effective revenue control systems are essential for minimizing financial risks and optimizing revenue collection. Regularly reviewing and adjusting revenue policies is also recommended to keep them aligned with the dynamic business environment. Additionally, leveraging technology through accounting and financial management software can enhance the accuracy and efficiency of revenue tracking and control. For larger SMEs, more detailed revenue control measures should be adopted, while smaller SMEs might focus on simplified yet effective controls tailored to their scale and resource availability. By following these recommendations, SMEs can improve their financial management practices, thereby enhancing their performance and contributing more effectively to economic growth.

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## Declaration of Competing Interest

The authors declare that they are not aware of any competing financial interests or personal relationships that may have influenced the work described in this document.

## Funding

This research did not receive specific grants from any public, commercial, or non-profit sector funding bodies.

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