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Effects of Accounts Receivable Financing Practices on Growth of SMEs in Kakamega County, Kenya

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Accounts receivable financing practice is the act of exchanging Accounts Receivables with money, and it is defined as any type of financing which distinctly relies on AR, either as collateral or as an eligibility requirement. Financing firm operations through Accounts receivables is gaining prominence in the world because it enables firms to access finances easily. The objective of the study was to evaluate the effect of Accounts receivable financing practices on the growth of SMEs in Kenya. Descriptive survey design and purposive random sampling were used in this empirical study, based on a sample of 359 respondents. Secondary data was obtained from Kakamega County Revenue Department, for the examined timeframe. The assumptions that form the basis for the use of the regression model were tested using homoscedasticity and autocorrelation. Ordinary Least Square method was used to determine the cause-effect relationship between variables, while a main hypothesis was tested at 5% significance level. The overall model was found to be significant with values of F=31.692 and p-value of 0.00. The findings revealed that Accounts receivable financing practices lead to growth when they are adopted by SMEs. The study recommended that owners and managers should be enlightened on the importance of the various methods and practices of financing accounts receivables in order to enhance growth. The findings provide a basis for the government and policy makers to formulate strategies and policies that would help reduce the levels of tied up capital in form of accounts receivable. The study also forms a basis for further research and adds to the existing body of knowledge.

Keywords: *Accounts Receivable financing practices, SME Growth, Accounts Receivable Management*

JEL Classification: *G23, G31*

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1. Introduction

The liquidity decision is an important component of financial management that a prudent investor must focus on (Ongore and Kusa, 2013). It is sometimes referred to as a working capital decision which looks at working capital as an operating capital that is readily available to a firm (Teruel and Solano, 2007). Berk and Demarzo (2016) define net working capital as the "the capital required in the short term to run the business". It is the difference between current assets and current liabilities and it is recorded on the statement of a financial position. An entity's level of working capital measures its short term financial position. Sound working capital management is crucial to the survival and growth of an organization (Jindal et al., 2017). The working capital is essential in facilitating daily functions and enables firms achieve their corporate goals (Smith, 1980). Profit is one of those goals which a firm must strive to achieve to grow its worth and survive in the long run (Ongore and Kusa, 2013).

Accounts Receivable is one of the largest and most liquid of corporate assets Kimtai (2006) which are very important in facilitating business transactions. Pike and Neale (1999) consider accounts receivable as both a source and use of finance in that it can be obtained and extended. However, it can be unproductive unless it generates additional business since it ties up scarce financial resources and exposes organizations to risk of default in situations whereby the credit period is lengthy (Pike and Neale, 1999). Huge amounts of accounts receivable is likely to reduce the firm value and as such the need to have best Accounts Receivable best practices. Oware, Samanhyia and Ampong (2015) demonstrated that when a firm does not invest well in the collection of account receivable then the probability that a firm will be stagnant as a result of very poor account receivables levels and debt accumulation would be high.

A firm's investment in account receivable depends upon how much it sells on credit and how long it takes to collect receivable. The process of effective utilization and efficient management of Accounts Receivable constitute major challenges for the owners and managers of SMEs. The Kenya Association of Manufacturers had to intervene on behalf of pharmaceutical distributors who were demanding about Ksh.8billion, from their debtors among them leading supermarkets like Tuskys, Nakumatt and Naivas (Ciuri and Mutegi, 2015). This is a critical problem that has affected their cash flow and affected their operations. Inability of firms to collect accounts receivable draws our attention to the need to look for alternative methods of converting the idle monies tied in these accounts receivable (Lyani Sindani et al., 2016).

All around the world, various studies have been carried out on the growth of SMEs, illustrating the role SMEs play in the Economy. SMEs are very important economic wheels for growth and development in any country as indicated by recent publication by the 2016 Economic Survey (Kenya), they employ less than 99 workers. Studies indicate that in both developed and emerging economies (Mole and Namusonge, 2017), SMEs contribute 60 percent of total formal employment in the manufacturing sector (Ayyagari et al., 2007). OECD, (2010) states that SMEs play a significant role towards overall enterprise growth, real GDP growth, new job creation and reduction of poverty, however, this units have limited resources due to the inability to have enough cash flows to meet their day to day obligations.

Mukherjee, (2014) further stated that a good accounts receivable management practice will assist a firm reduce the amount of funds tied up in accounts receivables and decrease a firm's percentage of bad debts. Hence it is imperative to ensure proper practices are instituted to achieve this. Receivables finance unlocks the cash that is owed to the small company by selling the invoice that is invoice discounting or through factoring. Cunat (2007) argues that fast growing firms may finance themselves with trade credit when other types of finance are not sufficiently available. Factoring is a financial service where a firm sells its accounts receivables (in the form of invoices) to a factor at a discount in exchange for immediate cash and a range of services including risk management, credit protection, accounts receivable bookkeeping, collection services, and financing (Klapper, 2006; Vasilescu, 2010; Tomusange, 2015).

Economic pressures and business practices increases Bankruptcy rates, among several firms which have increased the probability of incurring losses and the inability to pay promptly. Therefore it is a necessity for credit professionals to search for opportunities to implement proven best practices (Mutwiri, 2007). Even large profitable firms can collapse if they fail to manage accounts receivables effectively, (Prere, 2010; Njeru et al., 2016). It is therefore in order to say that financing of AR, which is one of the largest tangible assets on a firm's balance sheet, receives little or no attention, except when there is a serious problem.

Poor management of accounts receivable is disastrous for a firm and more often leads to liquidity problems to many firms (Njeru et al., 2016). This does not only affect the individual firms but their failure affects the entire nation. The literature survey strongly proved need for growth, development and contribution of SMEs for economic development. However, present literature regarding SMEs in Kenya has not related receivables management to the net profit and hence growth, while the focus in previous researches was on

financial management broadly, this research narrows in on the receivable management practices (Lyani Sindani et al, 2016).

It was evident no research had not been conducted on the effects of ARM practices on the growth of SMEs in Kakamega County. This study fills this gap .This study sought answers to the question: do receivable management practices affect growth of SMEs? The general objective of this study was to determine the relationship between Accounts receivable management practices and growth of Small and Medium Enterprises (SMEs) with a special focus on SMEs in Kakamega County (Kakamega Central Sub County). The specific objective of this study was to establish the effect of Accounts receivable financing practice on growth of SMEs. The hypothesis tested is this paper is as follows:

H_0: There is no significant relationship between Accounts receivable financing practices and growth of SMEs.

2. Literature Review

2.1. Theoretical Framework

A theory represents the coherent set of hypothetical, conceptual and pragmatic principles forming, the general frame for reference for the field of enquiry (Wire, 2015). There are several theories that have been advanced for receivable management and growth of SMEs. These theories explain the practices of receivable management and the growth component, which apply to this study. This study was premised on the following three theories: Pecking Order Theory, Portfolio Theory and the Theory of the Growth of the Firm.

2.1.1. Pecking Order Theory

Pecking Order theory addresses an immediate need for funding in a context of asymmetric information. It is based on the existence of a pecking order and provides a rational explanation for choice in corporate finance. Firms would rather focus on internal sources of financing before resorting to external investors. Amounts collected from accounts receivables are funds that would contribute towards profits as internal sources. Financing by internal funds should be encouraged as opposed financing by external funds, according to the following hierarchy: cash flow / debt / issue of shares (Myers and Majluf, 1984). Internal financing is cheaper and easier to get than external financing since most financial institutions are reluctant to lend money to SME for lack of collateral. The pecking order theory was relevant in this study in that Accounts receivable is an asset which may be effectively used to finance other operations of the firm. Unlocking the funds tied up in AR through factoring, Securitization or Accounts receivable discounting would reduce costs and increase wealth formation.

2.1.2. Portfolio Theory

The Portfolio theory predicts that uncertainty in the economic environment affects the investment decisions one is likely to make. The theory suggests that to minimize losses and risk and increase returns then it is important to choose and combine wisely the options/assets that provide less risk and give higher expected return. So factors such as Accounts receivable financing practice and Accounts receivable analysis are more likely to influence the SMEs growth (Markowitz, 1952). It is important to determine the accounts receivable that are likely to end up tying up funds and convert them either through factoring, collateralizing and invoice discounting.

2.1.3. The Theory of the Growth of the Firm

The firm has to grow because its owners or the entrepreneur always strives to continuously make profits and maintain a better liquidity position to enable him/her meet the daily financial obli**g**ations and this is the driving force of all expansions of the firm (Penrose, 1959). Penrose (1959) argues that, when a firm wants to grow, it grows by expanding its stock of knowledge. She argues that automatic increase in knowledge and incentive to search for new knowledge are built into the very nature of the firm. Many ideas of Penrose (1959) are seminal and create a path for researchers' further research into the growth of firms, which has yet to be completed (Martin and Wiklund, 2010). In this study, financing through accounts receivable is a tool that can be effectively used to enhance growth of a firm.

2.2. Conceptual Framework

Njeru (2015) defines the conceptual framework as a group of concepts that are systematically organized to provide a focus, a tool and rational for interpretation and integration of information and is usually achieved in pictorial illustrations. Others authors suggest that the conceptual framework summarizes behaviors

and provides explanations and predictions for the majority number of empirical observations (Cooper and Schindler, 2008; Mugenda, 2008). The Accounts receivable risk assessment practices adopted are the independent factors influencing growth of SMEs and growth is the dependent variable as measured in terms of profitability and sales turnover obtained from the SMEs.

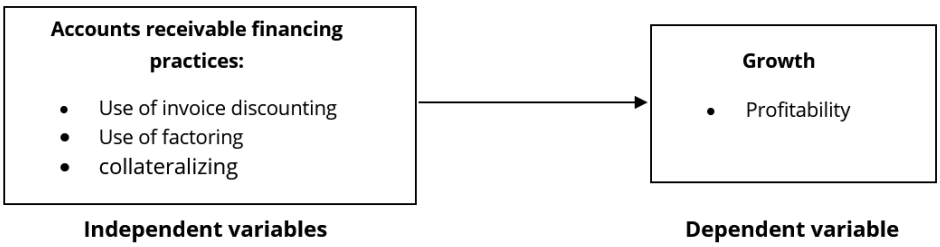

Figure 1. *Conceptual framework*

2.3. Accounts Receivable Financing Practices

Access to finance is crucial to the survival and growth of any business enterprise (Ngugi and Bwisa, 2013). Small and Medium Enterprises (SMEs) need financing for two basic reasons: the first being financing the production cycle once it has stabilized (that is, working capital) and secondly financing capital expenditure (World Bank, 2014). Cunat (2007) defines Accounts Receivable financing as any type of financing which distinctly relies on Accounts Receivables, either as collateral or as an eligibility requirement. Receivables finance unlocks the cash that is owed to the small company by selling the invoice for example, invoice discounting or through factoring. Cunat (2007) argues that fast growing firms may finance themselves with trade credit when other types of finance are not sufficiently available. The financing options include: securitization of AR (both on and off balance sheet), factoring of receivables, AR collateralized debt, and general collateralized debt which contains an AR eligibility requirement.

Factoring is a financial service that enables a firm to sell its accounts receivable to a factoring company in exchange for cash. This is a very recent trend that is gaining prominence the world over. Most firms in developed and developing countries are embracing this as a financing tool (Klapper, 2005). Factoring, as a financial service involves purchasing of invoices or receivables. The trade debtors are notified that payments are to be made to the financing agency. In fact, this method minimizes risk to the sellers; the agency generally assumes the credit risks on the receivables. The seller's accounts receivable are considered as the underlying assets for purposes of factoring and are purchased by the factor at a discount. Once the accounts receivables are paid to the factor the remaining balance is paid to the seller, less interest and service fees. Klapper (2005) stated that factoring is a broad financial service that includes credit protection, accounts receivable bookkeeping, collection services and financing. This service is very relevant to small and medium enterprises which operate in financial systems which have weak commercial laws and enforcement. Klapper (2005) further emphasizes that factoring is quite appropriate for financing receivables from large or foreign firms when those accounts receivables are obligations of buyers who are more financially stable and creditworthy than the firm itself. There is an assurance that the accounts receivables will be paid in due course.

Klapper (2005) suggests that factoring provides small and medium enterprises (SMEs) with working capital financing which is different from the traditional forms of commercial lending. However, unlike traditional forms of working capital financing, factoring involves the outright purchase of the accounts receivable by the factor, rather than using accounts receivables as collateral for a loan (Curat, 2007).

Invoice discounting can be defined as the selling of invoices those payments are not yet been paid. This method has freed SMEs from traditional, financing from banks, helping end the liquidity challenges that so often slow down small businesses' growth plans. The recent financial crunch that most firms experienced, has led to the reluctance of many banks unwillingness to extend credit to firms especially the SMEs. Firms are forced to look for alternative methods of raising finances to run their businesses (Tomusange, 2015). The second method other than factoring is invoice discounting. Invoice discounting is a facility which allows a firm to improve its cash flow by borrowing against invoices that have been raised. The firm is able to access the value of the invoice immediately without having to wait for the normal payment period. In fact, waiting to get paid on their invoices can be very disappointing.

Cash flow affect the business' ability to meet its daily financial obligations. This problem can be worse when the business has a number of orders that it cannot meet as a result of idle cash tied up in unpaid invoices. This is particularly important for both small and large firms who need to finance increasing amounts of debtors.

If a company is also using its accounts receivable as collateral for a loan, the lending institution will generally exclude any past due accounts from those used as back up for the credit line (Waweru, 2013). Muschella (2003) in his study of Italian firms, concluded that alternative methods of financing in the business environment are increasing in both developing and developed countries.

3. Research Methodology

The study adopted the mixed research design. Descriptive study was undertaken in order to ascertain reliability of data collected which made it possible to describe the characteristics of the study's variables and answer the research questions in chapter one. Best and Khan (2009) posit that descriptive research is aimed at describing the characteristics of variables in a situation and is concerned with conditions or relationships that exist, opinion that are held, processes that are going on, effects that are evident or trends that are developing. Cooper and Schindler (2008) further recommend descriptive survey design for its ability to produce statistical information about aspects of education that interest policy makers and researchers. A sample survey method was used to collect data from SME operators in Kakamega County. The Population of this study was 5401 SMEs in (Kakamega County, which had been in operation as at 22nd April 2015 as per the Kakamega County Revenue Department Register. The finance officers in the SMEs were interviewed. This study used the geographical location (ward) as the key unit for sampling to categorize firms into twelve strata. Firms in other sub Counties were not included in the study. Mugenda and Mugenda (2003) and Kothari (2004) define the term sampling frame as a list that contains the names of all the elements in a universe. Sampling frame comprised 5401 small and medium enterprise which operated in Kakamega County. . The SMEs were first of all stratified according to the geographical location (Ward), then samples were selected from each stratum using proportionate random sampling to ensure equal representation from every stratum.

A sample of 359 SMEs was selected. Kriejcie and Morgan (1970) prescribes a model for a sample size determination of 359 subjects for a population of 5401. By applying purposive sampling for primary data collection, financial officers from every SME dealing with accounts receivables were targeted. Questionnaires with 5-point Likert scales were administered to 359 respondents. The study employed both descriptive as well as inferential statistics for the data analysis. Descriptive statistics was used to test for normality of data. Homoskedascity was used to determine whether the variance of the error term is constant and the same for all observations. Hypotheses were tested at 5% level of significance using t-test, and F-test. Ordinary least square method was used to determine the cause-effect relationship among the variables.

A linear regression was applied to explore the degree and magnitude of the connection that exist between variables. Hypotheses were tested at 5% level of significance using inferential statistics. Ordinary least squares method was used to determine the cause and effect relationship among the variables examined in this study. In this paper, regression analysis was used to examine the relationship between the variables by analyzing coefficients for the equation in a straight line (Faraway, 2002). In answering the research questions and objectives, multiple regression analysis was used to examine the identified hypotheses. Regression consists of R Square, which was used to test the overall significance of the model (Malholtra, 2007).

3.1. Model Specification

Linear multiple regressions was used to establish and explain the relationship between Accounts receivable management practices and growth. Based on Aiken and West (1991), the relationship between ARMP and SMEs growth was developed into linear regression model as follows

$$Y= \beta o+ \beta_1 X_1+ \beta_2 X_2+ \beta_3 X_3+ \beta_4 X_4+\beta_5 X_5+ \beta_6 X_6+\varepsilon$$

Where:

Y=The dependent variable, referring to SMEs growth (proxied by profitability)

β_0 Regression constant; it is the value of Y when $X_1=X_2= ....X_n=0$

β_1 Change in Y with respect to a unit change in X_1

X_1 - Accounts Receivable financing Practice (measured by factoring, invoice discounting, collaterizing)

βi (i = 0, 1) are the coefficients

ε is the error term.

The inclusion of a random error, ε, is necessary because other unidentified variables may also affect SMEs growth The multiple regression is based on the assumption that for any specific value of the independent variable, the value of the Y variable is normally distributed (normality assumption) and the variances for the

Y variables are the same for each of the independent variable (equal –variance assumption). Based on the model above the researcher hypothesizes that:

H0: $\beta 1 = 0$ (Xi is not significantly related to Y)

H1: $\beta 1 \neq 0$ (Xi is significantly related to Y)

The study applied one hypothesis generated from the model as follows;

Ho_1: Accounts Receivable financing Practice has no significant effect on growth of Small and Medium Enterprises in Kakamega County in Kenya. Growth of SMEs = f (Accounts receivable financing practices, random error)

$$Y = \beta o + \beta_4 X_4 + \varepsilon$$

4. Research Findings and Discussions

4.1. Response Rate

The number of questionnaires that were administered was 359. A total of 276 questionnaires were properly filled and returned. This represented an overall successful response rate of 77% as shown on Table 1. According to Gall, Borg, and Gall (1989) response rate of 80 % is considered excellent in quantitative research in social sciences, and according to Fincham (2008), a response rate of 60% is considered appropriate in research, while according to Mangione (1995) a response rate of over 85% is considered excellent for self-filled questionnaires. The response rate was considered appropriate for further analysis since it was 77%.

Table 1. *Response Rate*

Response	Frequency	Percent
Returned	276	77
Unreturned	83	33
Total	**359**	**100**

4.2. Entrepreneurs' Background Information

This section analyses the entrepreneurs' background information of the respondents. This section presents the descriptions of the respondents in terms of their gender, level of education, number of years in current firm and the job title. Results are as presented in Table 2.

Table 2. *Showing respondents' Gender*

Sex	Frequency	Percentage
Female	117	57.6
Male	159	42.4
Total	276	100

Source: primary data

Results reveal that 57.6% of the respondents were male while 42.4% of the respondents were female. This is an indicator that most of the people who operate SMEs are male. This can be explained by the culture of the residents of Kakamega whereby men are viewed as providers and while women stay at home to take care of the children. However, small margin can be seen as a good representation of the study population

4.3. Descriptive Analysis

Descriptive statistics were used to test for normality of the data. Normality test was used to determine the normal distribution of the sampled data in order to make accurate and reliable conclusions; the mean is a measure of central tendencies and in this study was used to generalize the findings. On the other hand standard deviation was used to measure dispersion from the mean. Below is a summary of the descriptive statistics shown in Table 3.

Table 3. *Descriptive analysis*

Variable	Mean	Standard Deviation
Growth	43.762	6.962
Use of securitization	2.99	1.159
Use of factoring	3-32	1.150
Collaterizing	3.35	1.185
Invoice discounting	3.24	1.194

The mean is the average for all the variables, while standard deviation summarizes the concentration of data around the mean, growth had a mean of 43.762 which represents the mean amount of growth originated by all SMEs in Kakamega County Kenya. Use of securitization had a mean of 2.99 which represents the average changes in use of securitization in the period under study while factoring had a mean of 3.32. Use of collateralization had a mean of 3.35 which indicates the mean changes in use of collateralization for the period under study. Invoice discounting had a mean of 3.24 which indicates the average changes in the use of invoice discounting for the period under study, lastly use of factoring had a mean of 3.24. The standard deviation for securitization was 1.159, collateralization had 1.150 and factoring had 1.185 while invoice discounting had 1.194. The standard deviations for the variables are closer to zero which implies that the values are concentrated around the mean. Invoice discounting had the highest deviation from its mean this could imply that it would have a higher effect on the dependent variable.

4.4. Homoscedasticity

The assumption of homoscedasticity (literally, same variance) is central to linear regression models. Homoscedasticity describes a situation in which the error term (that is, the "noise" or random disturbance in the relationship between the independent variables and the dependent variable) is the same across all values of the independent variables. Heteroscedasticity (the violation of homoscedasticity) is present when the size of the error term differs across values of an independent variable. The impact of violating the assumption of homoscedasticity is a matter of degree, increasing as heteroscedasticity increases. (Andrean, 2007) In regression analysis, heteroscedasticity means a situation in which the variance of dependent variable varies across the data. Heteroscedasticity complicates and because many methods in regression analysis are based on an assumption of t variances (Cooley, 2009). On the other hand, homoscedasticity means a situation which the variance of the dependent variable is the same for all the data. According to Deloof (2009), homoscedasticity describes the consistency of variance of the error term (e, residual) at different levels of the predictor variable. Smith (2010) explains homoscedasticity in terms of the standard error estimate (of the regression line). The standard error of estimate is an index of the variance of measured values around each predicted value. The homoscedasticity assumption more formally stated as VAR (ej) = c that, is, the variance of the error of residual term of each point j is equal to the variance for all residuals. The Gauss-Markov theorem states that when all the methodological assumptions are met, the least squares estimator regression parameters are unbiased and efficient, that is, the least square estimators said to be BUE: Best linear Unbiased Estimators (Van, 2010).

4.5. Multicollinearity

Multi-collinearity was used to test correlation between the independent variables. The presence of multicollinearity makes it difficult to isolate the impact of each independent variable on the dependent variable and also standard errors for each independent variable become inflated (Landau and Everitt, 2004). Multicollinearity can be corrected by excluding one or more of the corrected by excluding one or more of the correlated independent variable from the regression model (Lind et al., 2008). To check for multicollinearity Variance inflation Factor and Tolerance level were used. A VIF of less than 10 or a tolerance level of greater than 0.1 is acceptable. A summary of multicollinearity statistics is shown in Table 4.

Table 4. *Collinearity Diagnostics*

Independent variable	Tolerance	VIF
Securitization	0.715	1.400
Factoring	0.523	1.915
Collaterizing	0.467	2.140
Invoice discounting	0.450	2.221

In Table 4, Invoice discounting had the lowest tolerance level of 0.450 and securitization had the highest tolerance level of 0.715.The tolerance level for all the independent variables was greater than 0.1 which suggests the absence of multi-collinearity problem. Invoice discounting had the highest VIF of 2.221 and securitization had the lowest VIF of 1.400, the VIF for all the variables was less than 10 hence this suggests there is no multi-collinearity among the independent variables

4.6. Relationship between Accounts Receivable Financing Practices and SME Growth

The study sought to assess the influence of financing practices on growth of SMEs. The study specifically investigated the following elements of financing practices; regular discount/sale of overdue

invoices, use of accounts receivable as collateral for a loan, and factoring accounts receivables and collateralization.

Table 5. *Accounts Receivable Financing Practices*

Statement	Never	Once a year	Twice a year	Monthly	Always	Mean
1. do you discount/sell overdue invoices	12.30%	22.10%	27.50%	30.10%	8.00%	2.99
2. Use of account receivable as collateral for a loan.	8.30%	19.20%	14.50%	47.50%	10.50%	3.33
3. Use of securitization	24.1%	32.8%	21.1%	17.1%	3%	3.35
4. Factoring accounts Receivables.	39.10%	18.80%	19.60%	10.10%	12.70%	3.25
					Average:	**3.23**

Source: Field data 2016

The study sought to assess the influence of financing practices on growth of SMEs. Results in Table 4.5 show that 38.1% of the respondents indicated that they discounted/sold overdue invoices regularly while 58% of the respondents agreed that they used accounts receivable as collateral for a loan. Results also revealed that 56.7% of the respondents agreed that they sometimes securitized accounts receivables while 51.5% of the respondents agreed that they factored accounts receivables. The results show good financing practices as confirmed by the mean of the responses (3.23) which means that majority of the respondents were agreeing to the statements in the questionnaire.

Table 5 demonstrates 12.30 percent of respondents never discount overdue invoices, while 22.10 percent discount annually 27.5 % discount twice a year and 30.10 % monthly while 8.00 % always when they are in need of cash. This finding suggests that discounting overdue invoices is commonly practiced by SMEs in Kakamega County majority of the SMEs studied about (56 %) agreed to discounting invoices .and reason could be that majority have formal education and are enlightened. The major objective of discounting invoices is to ensure that that money is not tied up in invoices or remain idle for a long time. Table 4.5 demonstrates 8.30% percent of respondents never used accounts receivable as collateral, while 19.2% did annually and 47.5% semi-annually while 10.5% used accounts receivable always as collateral. This finding suggests that having a use of accounts receivable as collateral for loans is strongly practiced by SMEs in Kakamega County. Majority of the SMEs studied about more than (58%) agreed to use AR as collateral,)

Table 5's findings suggest that Factoring accounts receivable is not a common practice among SMEs in Kakamega County. Majority of the SMEs studied about (78.1 %) rarely use factoring and reason could be that majority have do not have sufficient level of financial literacy in this area. This is meant majority do not understand factoring.

4.7. Discounting Overdue Invoices

The study sought to determine whether SMEs regularly discount/sell overdue invoices. Results in Table 4.5 reveal that majority of the respondents regularly discount/sell overdue invoices the findings implied that the SMEs under study do regularly discount/sell overdue invoices. Failure to regularly discount/sell overdue invoices may result to an increase in the volume of bad debts which in return dampens the SMEs growth. This study agree with the results obtained by Waweru (2013).

4.8. Use of Accounts Receivable as Collateral for a Loan

The study sought to determine whether SMEs use accounts receivable as collateral for a loan. Results in Table 4.5 reveal that 58% of the respondents agreed that they quite often use accounts receivable as collateral for a loan either once a year or twice. Further 17.5% of the respondents occasionally or even do not use. The findings concurred with those in Njeru et al. (2016). The findings implied that the SMEs under study use accounts receivable as collateral for a loan. When Banks allow customers to use accounts receivable as collateral for a loan helps the SMEs to increase their performance as more customers as able to access loans to grow their businesses. This is also an indicator that the SMEs in Kakamega County have put in place effective financing practices which may have an implication on the growth of the SMEs. If a company is also using its accounts receivable as collateral for a loan, the lending institution will generally exclude any past due accounts from those used as back up for the credit line (Waweru, 2013).

4.9. Securitization of Accounts Receivables

The study sought to determine whether SMEs securitize accounts receivables. Results in Table 4.5 reveal that 56.7% of the respondents did not or did once in a year. Further, about only 3% of the respondents

were always securitizing. The findings disagree with those in Palia and Sopranzetti (2004) who argued that securitization is becoming a more acceptable way of financing SMEs which are starved of external financing. It means that banks and other financial institutions in Kenya have not yet embraced securitization of accounts receivable as a practice for SMEs. In Kenya these method of converting overdue accounts receivable into cash is yet to take root.

4.10. Factoring Accounts Receivables

The study sought to determine whether SMEs factor accounts receivables. Results in Table 4.5 reveal that 57.5% of the respondents agreed that they factor accounts receivables, more than 38% not using the practice while more than 28.9% of the respondent's factor accounts receivables either monthly or semi-annually. Further, 19.6% of the respondents were twice a year. The findings concurred with those in Blayney (2006) and Mutwiri (2007) agree with the study that few of the SMEs are now using factoring. The findings implied that there are a handful of SMEs under study that factor accounts receivables. This is of great significance to the SMEs owners as they are able to access their cash more quickly than it would by waiting for many days for a customer payment. This is an indicator that the SMEs in Kakamega County have started to see factoring as an effective financing practices which may have an implication on the growth of the SMEs. This supports the findings of Asselbergh (2002) who described factoring as an alternative mean of finance.

4.11. Bivariate Regression Showing Relationship between Accounts Receivable Financing Practices and Growth

Regression analysis was used to find out if there is a relationship between financing practices and SMEs growth by evaluating the contribution of the financing practices in explaining SMEs growth, when the other variables are controlled; the R Square value was obtained in this case. From the results in Table 4.6, financing practices were found to have an R Square value of 0.1 or to contribute to 1% SME growth. The R square value is an important indicator of the predictive accuracy of the equation. The remaining 99% can be explained by other factors. The implication of these finding is that financing practices affects SME growth.

Table 6. *Model Fitness*

R	R Square	Adjusted R Square	Std. Error of the Estimate
0.322	0.104	0.1	0.56776

Table 7 provides the results on the analysis of the variance (ANOVA). The results indicate that the overall model was statistically significant. Further, the results imply that financing practices are good predictors of SMEs growth. This was supported by an F statistic of 31.692 and the reported p value (0.000) which was less than the conventional probability of 0.05 significance level.

Table 7. *Analysis of Variance*

Indicator	Sum of Squares	df	Mean Square	F	Sig.
Regression	10.216	1	10.216	31.692	0.000
Residual	88.325	274	0.322		
Total	98.541	275			

Regression of coefficients results in Table 4.8 shows that there is a positive and significant relationship between financing practices and SMEs growth as supported by a p value of 0.000 and a beta coefficient of 0.04. This was also supported by the t values whereby $t_{cal} = 24.134 > t_{critical} = 12.706$ at a 95 percent confidence level which depicts that we reject the null hypothesis and accept the alternative. The findings concurred with those in Mutwiri (2007) who illustrated that respondents agreed that they engaged in invoice discounting and factoring use of accounts receivables as collateral due to provision of finance, this implies that an increase in financing practices by 1 unit would results to increase in SMEs growth by 0.204 units.

Table 8*. Regression Coefficients*

Variable	B	Std. Error	t	Sig.
(Constant)	2.946	0.122	24.134	0.000
Financing Practices	0.204	0.036	5.63	0.000

SMEs Growth = 2.946 +0.204 Accounts Receivable financing Practice

4.12. Discussion of the Findings for the Examined Hypothesis

Ho Stated that Accounts receivable financing practice has no significant effect on the growth of SMEs in Kakamega. However, study findings showed that Accounts receivable financing practice had coefficients of estimate which was significant basing on $\beta 1 = 0.204$ (p-value = 0.000 which is less than $\alpha = 0.05$) hence research rejected the hypothesis and concluded that Accounts receivable financing practice has significant effect on the growth of SMEs in Kakamega.

This indicates that for each unit increase in Accounts receivable financing practices, there is up to 0.03 units increase in the growth of SMEs in Kakamega. The effect of Accounts receivable financing practices is stated by the t-test value = 5.63 which point out that the positive effect on growth of SMEs.

5. Summary of the Findings, Conclusions and Recommendations

5.1. Summary

The bivariate regression results revealed that there is a positive and significant relationship between financing practices and SMEs growth which depicts that we reject the null hypothesis and accept the alternative. This implies that an increase in financing practices would results to increase in SMEs growth.

5.2. Conclusion

The study concluded that Accounts Receivable Financing Practices influence the growth of SMEs in Kakamega County, Kenya individually without inclusion of other factors. This can be explained by the bivariate regression which revealed that the influence was positive and significant.

5.3. Recommendations

The study findings reveal that AR financing practices play a key role in the growth of SMEs in Kakamega County, Kenya. The study, therefore, recommends that SMEs owners should continue in their practice of AR financing practice for consistent growth. Additionally, the SMEs owners should endeavour to use financing practices to unlock the tied funds in Accounts Receivables.

The Government should increase funding to facilitate workshops and training of SMEs owners and employees.

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