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Effect of Cash Management on Financial Performance of Registered Motor Vehicle Retail Firms in Nairobi, Kenya

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Abstract

This study examined the effect of cash management on the financial performance of registered motor vehicle retail firms in Nairobi, Kenya. Although cash management is widely recognised as important for business performance, limited evidence exists on its effect on motor vehicle retail firms in Nairobi. The study was anchored on the Liquidity Preference Theory and adopted an explanatory cross-sectional survey design. Cash management was measured through cash management reviews, adequacy of cash reserves, and the frequency of monitoring cash budgets. Financial performance was assessed using participants' perceptions of profit growth, revenue growth, and cost efficiency. The target population comprised 468 registered motor vehicle retail firms, from which a sample of 215 firms was selected using Yamane's formula. The unit of observation was accountants and finance officers, with one respondent randomly selected from each sampled firm. Data were collected using structured questionnaires with five-point Likert-scale items. A response rate of 78 per cent was achieved after 168 questionnaires were returned. Data were analysed in SPSS version 26 using descriptive and inferential statistics. The results showed that firms practised effective cash management, with an overall mean of 4.14. The study concluded that regular cash management reviews, adequate cash reserves, and frequent monitoring of cash budgets improve financial performance. It recommended that motor vehicle retail firms formalise cash budgeting and forecasting, maintain optimal cash reserves, adopt secure electronic payment and reconciliation controls, and regularly review cash management strategies. The findings provide sector-specific evidence for dealers, lenders, and regulators managing liquidity in a capital-intensive sector.

Key terms: Cash management, financial performance, liquidity preference theory, motor vehicle retail firms.

INTRODUCTION

This study examined the effect of cash management on the financial performance of registered motor vehicle retail firms in Nairobi, Kenya. Retail motor vehicle dealers in Nairobi face declining motor vehicle demand and rising cash requirements. On the demand side, new registered road motor vehicles in Kenya fell by 21.4 per cent, from 119,205 units in 2023 to 93,646 units in 2024, and total registrations of vehicles and motorcycles fell by 14.9 per cent, from 195,656 to 166,514 units (KNBS, 2025). Sales data for new vehicles by major franchise dealers fell by 2.74 per cent to 11,059 units in 2024, the third consecutive annual decline and the lowest level since 2010 (Business Daily, 2025). On the cost side, the cash that dealers must commit to each vehicle before it is sold has increased. Import duty on motor vehicles rose from 25 per cent to 35 per cent (The Star, 2024); the Kenya Revenue Authority announced a revised Current Retail Selling Price schedule for computing duties on used vehicles with effect from 1 July 2025 (KRA, 2025); bank financing costs rose above 20 per cent in 2024 (Business Daily, 2025); and dealers were directed to register all vehicles held in their yards (NTSA, 2024). With decreased sales from selling fewer units and increased cash requirements, large funds are tied up in stock for extended periods, reducing margins and resulting in cash shortages that may affect operational efficiency and performance.

There is little evidence that cash management improves financial performance. Prior studies examined listed manufacturing and agricultural firms, public universities, public hospitals, public utility and textile firms (Wokeh & Nmehielle, 2023; Ankomah et al., 2023; Kithinji et al., 2023; Kimathi et al., 2024; Ochieng & Ghabon, 2025; Kibogo et al., 2025), which do not share features with motor vehicle retail firms. The approach and methodology of prior studies also differ because they measured cash through ratios or cash-flow figures, which capture outcomes rather than the practices managers control, and their findings are mixed. Reliance on small, purposive, or single-entity samples limits the generalizability of their findings. This study therefore examined the effect of cash management practices on the financial performance of registered motor vehicle retail firms in Nairobi, Kenya.

Cash management involves planning, monitoring, and controlling a firm's cash inflows and outflows so it can meet its obligations as they fall due and still earn a return (Burton & Miroga, 2024; Panigrahi, 2024). Globally, it is especially important in capital-intensive sectors such as motor vehicle retailing, where large sums are committed to stock long before vehicles are sold. Among listed automotive firms worldwide, receivable and payable days determine the timing of cash inflows and outflows and significantly affect return on assets, return on equity and market valuation (Daruwala & Mansour, 2025). In the European automotive industry, a longer cash conversion cycle significantly reduced return on assets both before and during the COVID-19 pandemic because cash remained tied up in operations for longer (Demiraj et al., 2022).

In Africa, motor vehicle markets depend heavily on imported used vehicles (Boateng & Klopp, 2022), and dealerships accounted for about 47.6 per cent of the African used-car market in 2025 (Mordor Intelligence, 2026). Import dependence brings long procurement lead times, exchange-rate exposure and large upfront capital requirements, all of which place cash at the centre of dealers' operations. Among industrial firms listed on the Johannesburg Stock Exchange, working capital policies, exchange rates and inflation significantly affected profitability (Mutambara et al., 2023), indicating how external shocks reach profitability through the management of short-term funds.

In Kenya, the motor vehicle retail sector supports mobility, trade, employment and tax revenue, but it has come under sustained cash-flow pressure. Demand for vehicles has weakened, while the cash dealers must commit to each vehicle before it is sold has risen due to higher import duty, a revised duty valuation schedule, and stricter registration requirements (KNBS, 2025; KRA, 2025; NTSA, 2024). Fluctuating inflation, interest rates and exchange rates also shape business conditions and the prices of second-hand vehicles (Onyiego et al., 2025). Dealers are further constrained by the eight-year import age limit, import duty, excise duty, value-added tax and prolonged clearance at the port of Mombasa (Njeru & Mutiso, 2021), all of which tie up cash in stock for extended periods (Gathoni, 2022; Mwangi, 2023).

Nairobi is Kenya's capital city, with a population of 4,397,073 (Kenya National Bureau of Statistics [KNBS, 2019]). Dealers in Nairobi pay high rents for yards and showrooms, which further pressures their liquidity (Kiarie & Thogori, 2025).

Surge in upfront costs and declining demand therefore shape how motor vehicle retail firms in Nairobi manage their cash to achieve favourable financial outcomes. Forecasting firms' cash flow anticipates future payments to exporters, freight, duties, clearance charges, and registration fees relative to expected sales receipts. This enables a firm to plan adequately for imports and avoid costly emergency borrowing. This lowers finance costs and related transactions, safeguarding profits by reducing expenses. Cash budgeting sets limits for vehicle purchases and overhead expenses such as yard rent and salaries, tying them to expected sales and supporting cost efficiency. Adequate cash reserves allow duties and clearance charges to be paid on time, avoiding storage and demurrage charges, and allow a dealer to buy stock when prices or exchange rates are favourable, supporting revenue growth; however, reserves held beyond need become idle cash that earns little. Regular monitoring and periodic review of cash positions detect shortfalls early, while clear transaction controls and electronic payment systems reduce leakages, errors, and handling costs, protecting profitability (Katana et al., 2023; Kibogo et al., 2025).

Cash management in this study refers to the practices that registered motor vehicle retail firms use to plan, monitor and control cash. It was measured through three dimensions: cash management reviews (periodic review of cash management strategies, cash transaction control policies, cash control measures and electronic payment systems), adequacy of cash reserves (adequate cash balances, infrequent cash shortages and minimisation of idle cash) and monitoring frequency of cash budgets (regular monitoring of cash flows, cash flow forecasting and cash budgeting). Financial performance refers to the level to which a firm achieves its financial goals through revenue generation while minimising cost (Upadhyaya, 2024). Because privately held dealers do not publish financial statements, it was measured through respondents' assessments of three dimensions over recent years: profit growth, revenue growth and cost efficiency. A registered motor vehicle retail firm is a business licensed by the National Transport and Safety Authority to sell new or used motor vehicles and operating in Nairobi, Kenya.

Research Hypothesis

H_{01}: Cash management has no statistically significant effect on the financial performance of registered motor vehicle retail firms in Nairobi, Kenya.

Ultimately, the remainder of the document is organised as follows: the literature review section sets out Liquidity Preference Theory and links its three motives for holding cash to the cash management practices examined, critically reviews empirical studies from global, African, and Kenyan contexts, and presents the conceptual framework. The methodology section describes the explanatory cross-sectional survey design, the sampling procedure, the instrument, the construction of composite scores and the regression model. The findings and discussion section presents and discusses the findings in relation to the objective and hypothesis, and the summary of findings section summarises the findings, draws conclusions, makes recommendations, and states the study's limitations.

LITERATURE REVIEW

This section reviews Liquidity Preference Theory, the empirical literature on cash management and financial performance, and the research gaps the study addresses.

Theoretical Framework

The study was anchored on the Liquidity Preference Theory, proposed by Keynes (1936), which explains why economic agents hold cash rather than investing all their funds. Cash is held for three motives: the transactional motive, to meet routine obligations such as payments to suppliers and salaries; the precautionary motive, to cushion against unforeseen events (Wray, 2023); and the speculative motive, to exploit opportunities arising from favourable changes in prices, interest rates or exchange rates. Though Liquidity Preference Theory was designed to explain the aggregate demand for money, its three motives are widely applicable to cash management practices and the decisions about why firms hold cash.

This theory has been applied in this study because the three motives for holding cash are directly linked to the three dimensions of cash management. The transactional motive relates to the frequency of cash budget monitoring: regular monitoring of cash flows, cash flow forecasts, and cash budgets. This ensures that available cash is adequate when obligations such as duties, rent and salaries fall due. The precautionary motive is served by adequate cash reserves, which include maintaining adequate balances and avoiding cash shortages; this protects the dealer against duty changes, exchange-rate movements, delayed clearance at the port, and slow sales. The speculative motive is reflected in the same dimension by minimising idle cash and freeing funds that can be deployed when stock can be purchased at favourable prices. Cash management reviews, which cover periodic reviews of cash strategies, transaction control policies, control measures, and electronic payment systems, support all three motives by aligning cash practices with the firm's needs and ensuring payments are approved, recorded, and reconciled.

The theory has limitations. It assumes that cash requirements can be forecast with reasonable accuracy, gives no guidance on the optimal level of cash, and focuses on short-term liquidity rather than long-term financial planning (Oka, 2021). It also implies a trade-off that the study must recognise: cash held beyond transactional and precautionary needs earns little. Hence, the theory predicts benefits from adequate rather than maximal cash. These limitations are addressed by measuring cash management, including minimising idle cash, rather than the size of cash holdings.

Empirical Review

The review is organised from global to African to Kenyan studies, and for each group it considers what the studies measured, how they did so and what their designs can and cannot show—global evidence. Daruwala and Mansour (2025) analysed secondary data from listed automotive firms worldwide. They found that longer receivable periods reduced return on assets and return on equity, while longer payable periods improved both. The cash conversion cycle had no significant effect on accounting returns. Demiraj et al. (2022) found, for European automotive firms, that a longer cash conversion cycle significantly reduced return on assets before and during the pandemic. Both studies are sector-relevant and use objective financial data, but they focus on large listed manufacturers and measure the outcomes of working capital decisions rather than the practices that produce them; their results also differ on the role of the cash conversion cycle. In the Philippines, Arojo et al. (2024) used a questionnaire and a descriptive-correlational design. They found a strong positive association between cash flow management, measured as planning, monitoring and control, and the financial performance of speciality beverage businesses. Manalo et al. (2025) surveyed 187 micro and small enterprises and found that cash flow management was associated with better performance, but that firms emphasised planning over monitoring and control. These studies measure practices, as this study does. However, they stop at correlation, so they show association without estimating the size of the effect, and they concern sectors with very different cash cycles from vehicle retail.

In Africa, specifically in Nigeria, Wokeh and Nmehielle (2023) used panel data from five listed agricultural firms (2012–2021). They found that cash and cash equivalents were strongly positively associated with return on assets, while cash turnover had no significant effect. The panel design is a strength, but five firms provide a narrow basis for generalisation. In Ghana, Ankomah et al. (2023) studied ten listed manufacturers over 2012–2022 using pooled, fixed-effects and random-effects models and obtained mixed results: operating cash flow had a negative effect, investing cash flow had no effect, and financing and free cash flows had a positive effect on return on assets. Because these studies measure cash through balances and cash-flow statement figures, which are shaped as much by financing and investment decisions as by cash management, their mixed results are difficult to interpret as evidence of management practice. In South Africa, Mutambara et al. (2023) examined 83 JSE-listed industrial firms over 2010–2020. They found that the working capital investment policy had a negative effect. The working capital financing policy was positively related to profitability. At the same time, exchange rates and inflation had significant negative effects, underscoring the importance of external conditions for firms with large cash needs.

In Kenya, Kithinji et al. (2023) used secondary data from 31 public universities. They found that cash management, measured through the cash ratio, operating cash flow and cash budgets, influenced return on assets, with student enrolment acting as a moderator. Kimathi et al. (2024) surveyed 53 officers in public hospitals in Meru County and found a strong positive relationship between cash management practices and financial performance. Ochieng and Ghabon (2025) surveyed 53 finance staff of the Kenya Power and Lighting Company and found a significant positive effect of cash management on return on assets ($\beta = 0.271$, $p = 0.009$). Katana et al. (2023) found that cash control practices had a significant positive influence on the financial efficacy of 31 manufacturing firms in Mombasa, using a purposive sample of 62 executives and finance officers. Kibogo et al. (2025) surveyed 75 finance managers of textile and apparel firms and found that cash management explained 66.7 per cent of the variation in profitability ($B = 0.661$). Kenyan studies consistently report positive effects, but they focus on public, manufacturing, or textile entities rather than vehicle dealers, and most use small, purposive, or single-entity samples, limiting generalisation to the population of private firms. Table 1 summarises the reviewed studies.

Table 1. Summary of Reviewed Empirical Studies

Study	Context and sample	Design and data	Measure of cash management	Key finding	Gap relative to present study
Daruwala & Mansour (2025)	Listed automotive firms, global	Secondary panel data; regression	Receivable, payable and inventory days; CCC	Receivable days (–), payable days (+) on ROA/ROE; CCC not significant	Listed manufacturers; outcome ratios, not practices
Demiraj et al. (2022)	Listed automotive firms, Europe	Secondary panel data, pre-pandemic and pandemic	CCC and its components	Longer CCC lowered ROA in both periods	Listed firms; no measure of cash practices
Arojo et al. (2024)	Specialty beverage businesses, Philippines	Questionnaire; descriptive-correlational	Planning, monitoring, control	Strong positive correlation with performance	Bivariate; no controls; different sector
Manalo et al. (2025)	187 micro and small enterprises, Philippines	Survey; Pearson correlation	Planning, monitoring, control	Positive association; planning emphasised over control	Bivariate; micro firms
Wokeh & Nmehielle (2023)	5 listed agricultural firms, Nigeria	Secondary panel, 2012–2021; panel OLS	Cash and equivalents; cash turnover	Cash holdings (+) on ROA; turnover not significant	Very small sample; balances, not practices
Ankomah et al. (2023)	10 listed manufacturers, Ghana	Secondary panel, 2012–2022; pooled, FE, RE	Operating, investing, financing and free cash flows	Mixed: operating (–), investing (ns), financing and free (+)	Cash-flow figures reflect financing decisions; mixed results
Mutambara et al. (2023)	83 JSE-listed industrial firms, South Africa	Secondary panel, 2010–2020	Working capital investment and financing policies	Investment policy (–), financing policy (+); exchange rate	Listed firms; working capital policy, not cash practices

				and inflation (–)	
Kithinji et al. (2023)	31 public universities, Kenya	Secondary data (Auditor General)	Cash ratio, operating cash flow, cash budget	Cash management influenced ROA; enrolment moderated	Public institutions; ratios
Kimathi et al. (2024)	Public hospitals, Meru County; 53 respondents	Descriptive survey; questionnaire	Cash management practices	Strong positive relationship	Small sample; public sector; bivariate
Katana et al. (2023)	31 manufacturing firms, Mombasa; 62 respondents	Descriptive; purposive sample; questionnaire and statements	Cash control practices	Significant positive influence on financial efficacy	Purposive sample; manufacturing
Ochieng & Ghabon (2025)	KPLC, Central Rift; 53 staff	Descriptive; questionnaire	Budget reviews, cash handling, banking	$\beta = 0.271$, $p = 0.009$ on ROA	Single public utility; small sample
Kibogo et al. (2025)	75 textile and apparel firms, Kenya	Correlational; census of finance managers	Cash management practices	$r = 0.817$; $B = 0.661$; $R^2 = 0.667$	Textile sector; small population

Note. CCC = cash conversion cycle; ROA = return on assets; ROE = return on equity; FE = fixed effects; RE = random effects; ns = not significant. (+) positive effect; (–) negative effect. Source: Compiled from the literature reviewed.

Three conclusions follow from the review. First, what is known: when cash management is measured as a set of practices, studies consistently report a positive association with financial performance (Arojo et al., 2024; Manalo et al., 2025; Kimathi et al., 2024; Katana et al., 2023; Ochieng & Ghabon, 2025; Kibogo et al., 2025), and automotive studies show that the longer cash remains tied up in operations, the lower the returns (Demiraj et al., 2022). Second, what remains uncertain: studies that measure cash through balances or cash flows report mixed results (Ankomah et al., 2023; Wokeh & Nmehielle, 2023); no study has examined privately held vehicle dealers, whose cash cycle is driven by imports, duties and port clearance; and most practice-based studies rely on small, purposive or single-entity samples, so the size of the effect in a population of private firms is unknown. Third, this study responds by examining privately held registered dealers, drawing a random rather than purposive sample from a complete register, measuring cash management through practices mapped to Liquidity Preference Theory, and using regression to estimate the size and significance of cash management's effect on financial performance.

The use of primary, perception-based data is a deliberate response to the setting rather than a methodological advance. Privately held dealers do not publish audited financial statements, so the ratio-based panel designs used in studies of listed firms cannot be applied to them. Questionnaire data also capture practices managers control, such as forecasting, budgeting, reviews, and controls, which financial ratios cannot observe. The approach has costs: perception-based measures may be affected by social desirability and by common-method variance, because the same respondent reports both cash management and performance, and a single cross-sectional survey cannot establish the direction of causality. These limitations were reduced through anonymity, piloting and separate questionnaire sections for each construct, and they are acknowledged in interpreting the results.

Conceptual Framework

Figure 1 presents the hypothesised relationship between cash management (independent variable) and financial performance (dependent variable). Each variable is represented by three dimensions and ten indicators that summarise the ten questionnaire statements tested for that variable and reported in the

descriptive statistics (Table 4 for cash management and Table 5 for financial performance). The ten cash management indicators are grouped under three dimensions: cash management reviews (four indicators), adequacy of cash reserves (three indicators) and monitoring frequency of cash budgets (three indicators). The ten financial performance indicators are grouped under profit growth (four indicators), revenue growth (three indicators) and cost efficiency (three indicators)—tables 4 and 5 present the statements under the same headings.

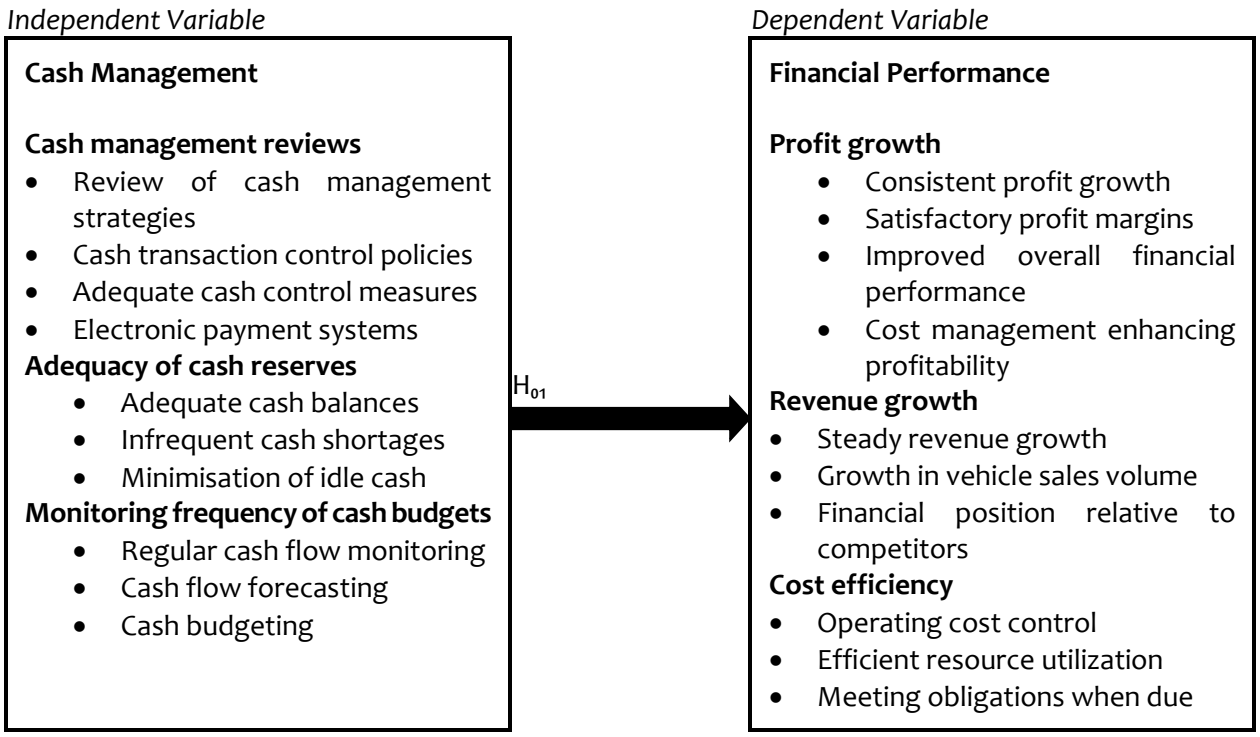

Figure 1: Conceptual Framework

Note. *Dimensions (bold) and indicators correspond to the groupings and statements in Tables 4 and 5. The arrow shows the hypothesised effect (H_{01}). Source: Author (2026).*

METHODOLOGY

The study adopted an explanatory cross-sectional survey design with a quantitative approach. The design is cross-sectional because data were collected from a defined population at a single point in time, and explanatory because it tests a hypothesis derived from Liquidity Preference Theory about the effect of cash management on financial performance. The design suited the study for three reasons: privately held dealers do not publish financial statements, which rules out the panel designs used for listed firms; the practices of interest are best reported by the accountants and finance officers who carry them out; and random sampling from a complete register of licensed dealers allows the results to be generalised to the population.

The study was conducted in Nairobi County, Kenya's main commercial hub, which hosts a large and diverse concentration of new and used vehicle dealers. The population comprised 468 registered motor vehicle retail firms in Nairobi, as listed following the multi-agency licence revalidation of motor vehicle dealers by the National Transport and Safety Authority (NTSA, 2024); register of licensed motor vehicle dealers, Nairobi county [Unpublished raw data]. This list served as the sampling frame. The unit of analysis was the motor vehicle retail firms. Accountants and finance officers of the firms were the unit of observation. Accountants and finance officers were selected as respondents because they are knowledgeable about cash management and financial performance. They handle responsibilities that include preparing financial

records such as source documents, journals, financial statements, budgets, and management accounts. The Firms were eligible if they were registered, operated in Nairobi County, engaged in motor vehicle retailing and had an accountant or finance officer. Respondents were eligible if they had served in the firm for at least six months. This is because six months covers two quarterly reporting cycles and a half-year of monthly reconciliations, budget reviews, and stock-purchase decisions, which is considered sufficient for them to observe how cash is planned, monitored, and controlled, and how performance has been. Excluded staff included interns, temporary staff and staff on extended leave. The sample size was arrived at using Yamane's (1967) formula. The formula assumes simple random sampling from a finite population, a 95 per cent confidence level, and maximum variability (p = 0.5). A margin of error of 5 per cent was chosen because it is the conventional level of precision for survey research in the social sciences and balances precision against the cost of reaching dealers across the county:

$n = N / (1 + Ne^2) = 468 / (1 + 468 \times 0.05^2) = 468 / 2.17 \approx 215$

Where n is the sample size, N is the population, and e is the margin of error.

The 215 sampled units were firms, with one accountant or finance officer randomly selected from each because their organisational structures were not homogeneous. To select the firms, the 468 firms in the sampling frame were numbered consecutively, and 215 numbers were drawn at random without replacement, so that every firm had an equal chance of selection. At each selected firm, the researcher or a research assistant asked management to identify the accountant or finance officer responsible for the firm's cash records and financial reporting, confirmed that the officer met the six-month service criterion, and obtained informed consent before administering the questionnaire. A total of 168 questionnaires were returned, indicating a response rate of 78 per cent.

Primary data were collected using a structured 5-point Likert scale questionnaire, rated as 1-strongly disagree, 2-disagree, 3-neutral, 4-agree, and 5-strongly agree. The questionnaire contained 10 questions on cash management and 10 questions on financial performance, each grouped into three dimensions, as shown in Figure 1. A pilot study with 22 respondents (10% of the sample) was conducted in Kiambu County, which borders Nairobi and has similar business conditions. Content validity was established through review by supervisors and experts, who rated each item's relevance on a four-point scale; Reliability was assessed using Cronbach's alpha with a threshold of 0.70 (Table 2).

Table 2. Reliability Results

Variable	Number of Items	Cronbach's Alpha	Decision
Cash management	10	0.712	Reliable
Financial performance	10	0.707	Reliable

Source: Pilot study data (2026).

Both constructs exceeded 0.70, indicating that the questionnaire was reliable. The researcher and two trained research assistants administered the questionnaires after obtaining clearance from Kabarak University, a research permit from NACOSTI, approval from the firms, and consent from the participants, and made follow-ups through visits and calls to improve the response rate. Returned questionnaires were checked for completeness, coded and analysed in SPSS version 26. For each respondent, a composite score for each construct was computed as the mean of its ten items, yielding a score from 1 to 5, with higher values indicating more effective cash management or stronger financial performance.

Descriptive statistics summarised the item responses. Pearson correlation and ordinary least squares regression were applied to the composite scores rather than to individual items. Although each Likert item is ordinal, the mean of ten items takes many values across the 1–5 range. It can be treated as approximately interval, and parametric methods are

robust when applied to such summated scales (Norman, 2010). The effect of cash management on financial performance was estimated using the following simple linear regression model:

$$FP = \beta_0 + \beta_1 CM + \varepsilon$$

Where FP is financial performance, CM is cash management, β_0 is the constant, β_1 is the coefficient of cash management, and ε is the error term. With one predictor, the model has one regression degree of freedom. H_{01} was tested using the t-test on β_1 at the 5 per cent significance level; in a model with a single predictor, this test is equivalent to the overall F-test. Before estimation, the data were tested for normality, autocorrelation and heteroscedasticity; multicollinearity does not arise with a single predictor.

Ethical Considerations

The study obtained approval from the Kabarak University Scientific and Ethics Review Committee and a research license from the National Commission for Science, Technology and Innovation (NACOSTI). Participation was voluntary and written informed consent was obtained; respondents could skip questions or withdraw without penalty. Questionnaires included only study codes, with no firm or respondent names, and consent forms were stored separately from questionnaires. Paper records were kept in locked storage, and electronic records were held in password-protected, encrypted institutional cloud storage with multi-factor authentication. Access to identifiable records was restricted to the researcher; research assistants handled only the records needed for their duties, signed confidentiality agreements and retained no copies. De-identified data and consent records will be retained for five years after acceptance of the thesis, after which paper records will be shredded and electronic records securely erased, with disposal recorded in a destruction log. The data are used for academic purposes only.

FINDINGS AND DISCUSSION

This section presents the findings in relation to the study objective and hypothesis. It discusses them in relation to Liquidity Preference Theory, the empirical literature, and the conditions facing motor vehicle dealers in Nairobi.

Response Rate and Respondents' Profile

Of the 215 questionnaires administered, 168 were completed and returned, a response rate of 78 per cent, which is high for organisational surveys (Sammut et al., 2021). Table 3 summarises the respondents' profile.

Table 3. Respondents' Profile (n = 168)

Characteristic	Category	Frequency	Percentage%
Gender	Male	106	63.1
	Female	62	36.9
Age	Below 25 years	15	8.9
	25–34 years	42	25.0
	35–44 years	57	33.9
	45–54 years	37	22.0
	55 years and above	17	10.1
Education	Diploma	68	40.5
	Bachelor's degree	89	53.0
	Master's degree	11	6.5
Experience in the sub-sector	Less than 1 year	8	4.8
	1–3 years	38	22.6
	4–7 years	73	43.5
	8–10 years	37	22.0
	Above 10 years	12	7.1

Source: Field data (2026).

Most respondents were male (63.1%) and aged 35–44 years (33.9%). All held at least a diploma, and more than half held a bachelor's degree (53.0%). These characteristics matter for the credibility of the data in specific ways. As accountants and finance officers, respondents were the staff who prepare cash forecasts and budgets, reconcile bank and cash records and compile management accounts. Hence, the cash management practices they reported are ones they carry out or observe directly. Their post-secondary qualifications indicate familiarity with the financial concepts used in the questionnaire. In addition, 95.2 per cent had worked in the motor vehicle retail sub-sector for at least one year and 72.6 per cent for four years or more, so most had observed at least one full annual cycle of budgeting, stock purchases and financial reporting and could judge changes in profit, revenue and costs over time. The data nonetheless reflect the perceptions of one officer per firm, a limitation discussed in the limitations section.

Descriptive Statistics for Cash Management

Table 4 presents responses on the ten cash management statements.

Table 4. Descriptive Statistics for Cash Management

Statement	SD n (%)	D n (%)	N n (%)	A n (%)	SA n (%)	Mean	Std. Dev.
Cash management reviews						**4.16**	
The firm regularly reviews its cash management strategies.	6 (3.6%)	2 (1.2%)	3 (1.8%)	85 (50.6%)	72 (42.9%)	4.28	0.861
The firm has clear policies for controlling cash transactions.	2 (1.2%)	7 (4.2%)	5 (3.0%)	89 (53.0%)	65 (38.7%)	4.24	0.798
There are adequate cash control measures in the firm.	5 (3.0%)	6 (3.6%)	15 (8.9%)	92 (54.8%)	50 (29.8%)	4.05	0.894
Electronic payment systems have improved cash management efficiency.	1 (0.6%)	8 (4.8%)	11 (6.5%)	106 (63.1%)	42 (25.0%)	4.07	0.747
Adequacy of cash reserves						**4.06**	
The firm maintains adequate cash balances to meet its short-term financial obligations.	3 (1.8%)	7 (4.2%)	18 (10.7%)	91 (54.2%)	49 (29.2%)	4.05	0.853
Cash shortages rarely occur in the firm.	8 (4.8%)	2 (1.2%)	14 (8.3%)	93 (55.4%)	51 (30.4%)	4.05	0.930
Cash management practices in the firm help minimise unnecessary idle cash.	1 (0.6%)	8 (4.8%)	11 (6.5%)	106 (63.1%)	42 (25.0%)	4.07	0.747
Monitoring frequency of cash budgets						**4.21**	
Cash flows are regularly monitored in the firm.	5 (3.0%)	3 (1.8%)	14 (8.3%)	94 (56.0%)	52 (31.0%)	4.10	0.852
The company prepares regular cash flow forecasts to manage liquidity.	6 (3.6%)	2 (1.2%)	3 (1.8%)	85 (50.6%)	72 (42.9%)	4.28	0.861
Cash budgeting helps the firm make better financial decisions.	2 (1.2%)	7 (4.2%)	5 (3.0%)	89 (53.0%)	65 (38.7%)	4.24	0.798
Overall mean						**4.14**	

Note. SD = strongly disagree; D = disagree; N = neutral; A = agree; SA = strongly agree. Percentages are of n = 168. Dimension means (bold) are the averages of the item means under each dimension. Source: Field data (2026).

Participants mostly agreed that their firms practised effective cash management (overall mean = 4.14). Across the three dimensions, monitoring frequency of cash budgets was rated highest (mean = 4.21), followed by cash management reviews (mean = 4.16) and adequacy of cash reserves (mean = 4.06). The highest-rated practices were regular cash flow forecasting (mean = 4.28, SD = 0.861) and periodic review of cash management strategies (mean = 4.28, SD = 0.861), followed by clear policies for controlling cash transactions and cash budgeting (mean = 4.24 each). Cash flow monitoring (mean = 4.10), minimisation of idle cash (mean = 4.07) and electronic payment systems (mean = 4.07) were also rated positively.

The prominence of planning and review is consistent with Arojo et al. (2024), who found high levels of planning, monitoring and control among speciality beverage businesses, but contrasts with Manalo et al. (2025), who found that micro and small enterprises emphasised planning while neglecting monitoring and control. The difference may relate to firm size and regulation: registered dealers handle high-value transactions. They are subject to licensing, tax and registration requirements from NTSA and KRA, which encourage formal controls and documented payments. The strong rating for transaction controls also agrees with Katana et al. (2023), who found that cash control practices improved the financial efficacy of manufacturing firms in Mombasa.

The construct statements on adequate cash balances, rare cash shortages and adequate cash control measures were the lowest rated (mean = 4.05 each), while cash shortages had the largest dispersion (SD = 0.930). The gap between planning-related and outcome-related items is informative. Forecasting and reviews are internal activities that management controls, whereas holding adequate balances and avoiding shortages also depend on external conditions: slower sales, higher duties under the revised valuation schedule, delays at the port and lending rates above 20 per cent can drain cash even in firms that plan well. Outlays for a shipment are also large and lumpy, so that a single delay can produce a temporary shortage. The wider spread of responses to shortages suggests that firms differ in their ability to absorb these shocks, possibly by size and access to finance. This pattern is consistent with the precautionary motive of Liquidity Preference Theory, which predicts that reserves matter most where cash flows are uncertain, and with Wokeh and Nmehielle (2023), who linked adequate cash holdings to higher return on assets.

These findings have practical implications for vehicle procurement and operating costs. Forecasts are most useful when they follow the full cash cycle of each shipment, from the deposit to the exporter, through freight, import duty, excise duty and VAT assessed on the revised retail selling price, clearance and port charges and registration, to the eventual sale. Budgets should provide for duty at current valuation rates rather than historical ones, and minimum reserves should be set to cover clearance delays and storage charges as well as fixed costs such as yard rent and salaries during slow sales periods. Aligning the size and timing of each import order with forecast sales would reduce the cash tied up in unsold stock.

Descriptive Statistics for Financial Performance

Table 5 shows the results for the ten financial performance statements.

Table 5. Descriptive Statistics for Financial Performance

Statement	SD n (%)	D n (%)	N n (%)	A n (%)	SA n (%)	Mean	Std. Dev.
Profit growth						**4.19**	
The firm has experienced consistent profit growth over the past few years.	3 (1.8%)	7 (4.2%)	18 (10.7%)	91 (54.2%)	49 (29.2%)	4.05	0.853
The firm achieves satisfactory profit margins from its sales.	2 (1.2%)	3 (1.8%)	8 (4.8%)	111 (66.1%)	44 (26.2%)	4.14	0.686
The firm has improved its overall financial performance in recent years.	4 (2.4%)	1 (0.6%)	4 (2.4%)	94 (56.0%)	65 (38.7%)	4.28	0.758
The firm's cost management strategies have enhanced its profitability.	4 (2.4%)	1 (0.6%)	4 (2.4%)	94 (56.0%)	65 (38.7%)	4.28	0.758
Revenue growth						**4.04**	
The firm's revenue has steadily increased over time.	5 (3.0%)	7 (4.2%)	22 (13.1%)	84 (50.0%)	50 (29.8%)	3.99	0.932
The firm has experienced growth in sales volume of motor vehicles.	2 (1.2%)	3 (1.8%)	8 (4.8%)	111 (66.1%)	44 (26.2%)	4.14	0.686
The firm maintains a strong financial position compared to competitors.	5 (3.0%)	7 (4.2%)	22 (13.1%)	84 (50.0%)	50 (29.8%)	3.99	0.932
Cost efficiency						**4.24**	
The firm effectively controls its operating costs.	1 (0.6%)	2 (1.2%)	7 (4.2%)	87 (51.8%)	71 (42.3%)	4.34	0.673
The firm efficiently utilises its resources to generate income.	3 (1.8%)	7 (4.2%)	18 (10.7%)	91 (54.2%)	49 (29.2%)	4.05	0.853
The firm is able to meet its financial obligations when they fall due.	1 (0.6%)	2 (1.2%)	7 (4.2%)	87 (51.8%)	71 (42.3%)	4.34	0.673
Overall mean						**4.16**	

Note. SD = strongly disagree; D = disagree; N = neutral; A = agree; SA = strongly agree. Percentages are of n = 168. Dimension means (bold) are the averages of the item means under each dimension. Source: Field data (2026).

Respondents generally agreed that their firms performed well (overall mean = 4.16). Cost efficiency was the strongest dimension (mean = 4.24), followed by profit growth (mean = 4.19), while revenue growth was the weakest (mean = 4.04). Control of operating costs and the ability to meet obligations when due were rated highest (mean = 4.34 each). Both ratings can be explained by sector conditions and cash management. When sales are falling, managers have far more control over costs than over revenue, so cost discipline becomes the main lever for protecting profit. The ability to meet obligations when due is the direct outcome of the transactional and precautionary motives: firms that forecast and hold reserves can pay suppliers, duties and rent on time. Steady revenue growth and competitive financial position were rated lowest (mean = 3.99 each), consistent with the decline in vehicle registrations reported by KNBS (2025) and in new-vehicle sales by the major dealers (Business Daily, 2025).

The ten items were combined into a single composite by taking their mean, as described in the methodology section. The items are grouped under the three dimensions of financial performance used in the study: profit growth (profit growth, profit margins, improvement in overall financial performance and the effect of cost strategies on profitability), revenue growth (revenue growth, growth in vehicle sales volume and financial position relative to competitors) and cost efficiency (control of operating costs, efficient use of resources and the ability to meet obligations when due). Its internal consistency (α = 0.707) supports combining the items into one score. However, the composite reflects respondents' assessments rather than audited figures, so it measures perceived rather than accounting performance.

Diagnostic Tests

Table 6 summarises the diagnostic tests for the regression model specified in the Methodology section.

Table 6. Diagnostic Test Results

Test	Statistic	Value (Sig.)	Threshold
Normality of cash management (Shapiro–Wilk)	W (Sig.)	0.932 (0.142)	Sig. > 0.05
Autocorrelation	Durbin–Watson	1.638	1.5–2.5
Heteroscedasticity (Breusch–Pagan)	χ^2 (df = 1)	2.520 (0.112)	χ^2 < 3.841; Sig. > 0.05
Multicollinearity	VIF (Tolerance)	1.000 (1.000)	VIF < 5

Source: Field data (2026).

Shapiro–Wilk (W = 0.932, p = 0.142) test was not significant for cash management, indicating that the scores did not depart significantly from a normal distribution. The Durbin–Watson statistic of 1.638 was within the range of 1.5–2.5, indicating independent residuals (Durbin & Watson, 1950). The Breusch–Pagan statistic of 2.52 was below the critical chi-square value of 3.841 at the 5 per cent level with one degree of freedom (p = 0.112), so the null hypothesis of constant error variance was not rejected and there was no significant evidence of heteroscedasticity (Breusch & Pagan, 1979). Multicollinearity was not tested because the model has only one predictor; SPSS version 26 accordingly reports a tolerance and VIF of 1.000. The data were therefore suitable for regression.

Correlation Analysis

Table 7 presents the Pearson correlation between the composite scores for cash management and financial performance.

Table 7. Correlation between Cash Management and Financial Performance

Variable	Statistic	Financial Performance	Cash Management
Financial performance	Pearson r	1	
Cash management	Pearson r	0.715	1
	Sig. (2-tailed)	< 0.001	
	N	168	168

Note. Correlation is significant at the 0.01 level (2-tailed). Source: Field data (2026).

Cash management had a strong, positive and significant correlation with financial performance (r = 0.715, p < 0.01), sharing about 51.2 per cent of its variance (r^2 = 0.512). The direction agrees with Wokeh and Nmehielle (2023), Arojo et al. (2024), and Kimathi et al. (2024), but the strength differs across settings in informative ways. The correlation is weaker than the r = 0.817 reported for textile and apparel firms by Kibogo et al. (2025) and considerably stronger than the r = 0.431 reported for the Kenya Power and Lighting Company by Ochieng and Ghabon (2025).

One explanation is the degree of cash constraint: in privately held firms that must finance stock from their own funds and trade credit, the availability of cash directly limits purchases and sales, whereas a large public utility has more stable revenue and access to funding, so cash practices make a smaller difference to its results. Studies that measure cash through balances or cash-flow figures, such as Ankomah et al. (2023), report weaker or mixed relationships because those figures are also shaped by financing and investment decisions. Because the correlation is bivariate, it may also partly reflect other aspects of financial management that tend to accompany good cash management, a point taken up in the limitations section.

Model Summary

Table 8 presents the regression model summary.

Table 8. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.715	0.512	0.509	0.27405

Note. Predictor: (Constant), cash management. Dependent variable: financial performance. Source: Field data (2026).

Cash management had a strong relationship with financial performance (R = 0.715) and explained 51.2 per cent of its variation (R^2 = 0.512; adjusted R^2 = 0.509). In other words, about half of the differences in financial performance among the dealers are accounted for by differences in how they manage cash. The explained share is lower than the 66.7 per cent reported for textile and apparel firms by Kibogo et al. (2025), consistent with vehicle dealers' greater exposure to external factors such as duty changes, port delays, and credit conditions. The remaining 48.8 per cent of the variation reflects factors outside the model.

Analysis of Variance (ANOVA)

Table 9 presents the analysis of variance.

Table 9. Analysis of Variance

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	13.074	1	13.074	174.083	< 0.001
Residual	12.467	166	0.075		
Total	25.541	167			

Note. *Predictor: (Constant), cash management. Dependent variable: financial performance. Source:* Field data (2026).

The model was statistically significant, $F(1, 166) = 174.083$, $p < 0.001$. The single regression degree of freedom corresponds to the one predictor, cash management, consistent with the specification in the Methodology and Findings sections, and the 166 residual degrees of freedom correspond to the 168 responses less two estimated parameters. The model was therefore suitable for examining the effect of cash management on financial performance.

Regression Coefficients

Table 10 presents the coefficients of the estimated model.

Table 10. Regression Coefficients

Predictor	Unstandardized B	Std. Error	Standardised β	t	Sig.	95% CI for B
(Constant)	1.125	0.231	—	4.870	< 0.001	[0.669, 1.581]
Cash management	0.733	0.056	0.715	13.194	< 0.001	[0.623, 0.842]

Note. *Dependent variable: financial performance. CI = confidence interval. Source:* Field data (2026).

Cash management had a positive and significant effect on financial performance (B = 0.733, SE = 0.056, β = 0.715, t = 13.194, p < 0.001, 95% CI [0.623, 0.842]). The 95 per cent confidence interval lies entirely above zero. The unstandardised coefficient indicates that a one-unit increase in the cash management composite score is associated with a 0.733-unit increase in the financial performance composite score. The standardised coefficient indicates that a one-standard-deviation increase in cash management is associated with a 0.715-standard-deviation increase in financial performance; with a single predictor, the standardised coefficient equals the correlation coefficient. The fitted model is:

FP = 1.125 + 0.733CM

The finding supports Liquidity Preference Theory. Frequent monitoring of cash budgets, forecasts and cash flows ensures that cash is available and properly used for daily obligations to suppliers, employees and landlords (transactional motive); adequate reserves and regular reviews protect dealers against duty changes, exchange-rate movements and clearance delays (precautionary motive); and minimising idle cash frees funds for stock purchases on favourable terms (speculative motive). The result agrees with the positive effects reported in Kenya by Kimathi et al. (2024), Ochieng and Ghabon (2025) and Kibogo et al. (2025). The coefficient is close to the B = 0.661 found by Kibogo et al. (2025) for textile firms using a similar practice-based measure, suggesting that cash practices have a substantial effect in Kenyan private firms facing tight liquidity. The result differs from the mixed findings of Ankomah et al. (2023) for listed Ghanaian manufacturers, and from Daruwala and Mansour (2025), who found that the cash conversion cycle did not significantly affect returns in listed automotive firms. These differences align with the measurement argument made in the literature review and methodology sections: practice-based measures capture what managers do to control cash, whereas cash-flow figures and cycle lengths in large listed firms are also shaped by financing structure and access to capital markets, which privately held dealers lack.

Hypothesis Testing

H_{01} was tested using the t-test on the cash management coefficient in the regression model, and the null hypothesis was to be rejected if p < 0.05. Table 11 presents the results.

Table 11. Hypothesis Testing Result

Hypothesis	B	β	t-value	p-value	Decision
H_{01}: Cash management has no statistically significant effect on the financial performance of registered motor vehicle retail firms in Nairobi, Kenya.	0.733	0.715	13.194	< 0.001	Reject H_{01}

Note. *B = unstandardised coefficient; β = standardised coefficient.* Source: Field data (2026)

Since p < 0.001 (below 0.05), the null hypothesis was rejected. Cash management has a positive and statistically significant effect on the financial performance of registered motor vehicle retail firms in Nairobi, Kenya.

Summary of Findings

The descriptive findings showed that dealers rated their planning and review practices, especially cash flow forecasting and periodic review of cash strategies, more highly than their liquidity outcomes, and that adequate balances and the avoidance of shortages varied most across firms. The inferential findings showed that cash management was strongly correlated with financial performance and was a positive, significant predictor, explaining about half of its variation (B = 0.733, β = 0.715, R^2 = 0.512, p < 0.001). The null hypothesis was therefore rejected. The study's principal contribution is to show that, in privately held and import-dependent vehicle dealers, cash management practices are strongly associated with better financial performance, and that dealers' weak points in cash management lie less in planning than in maintaining liquidity under external shocks.

CONCLUSION AND RECOMMENDATIONS

Conclusion: The study concludes that cash management has a positive and significant effect on the financial performance of registered motor vehicle retail firms in Nairobi. Theoretically, the results support Liquidity Preference Theory at the firm level: practices that serve transactional, precautionary, and speculative motives are associated with stronger perceived profit growth, revenue growth, and cost efficiency. For dealers, the findings imply that, in a period of falling sales and rising duty-related cash requirements, disciplined forecasting, budgeting, reserves and controls are associated with better results. Because the evidence is cross-sectional and perception-based, it establishes a strong association rather than a definitive causal effect.

Recommendations: The study recommends that motor vehicle dealers formalise their cash management policies. Cash budgets and cash forecasts should follow the full cash cycle of each shipment, from deposits and freight to duties computed on current retail selling prices, clearance, registration and sale. They should align the size and timing of import orders with expected sales. Dealers should also set minimum cash reserves that cover duty changes, exchange-rate movements, clearance delays and several months of fixed costs such as rent and salaries. Since adequate balances and avoiding shortages were the weakest areas, dealers should review cash balances and liquidity indicators at least monthly so emerging shortages are identified early. They should adopt secure electronic payment systems with clear procedures for approving/authorizing, recording and reconciling transactions.

Moreover, regarding policy, banks and asset financiers that fund dealer stock should incorporate cash budgets, forecasts and liquidity buffers into credit assessment and monitoring because they are associated with favourable financial results. The Kenya Revenue Authority and the National Transport and Safety Authority should consider the liquidity effects on dealers of changes in duty valuation and in clearance and registration requirements. They should give adequate notice of such changes so that dealers can plan their cash needs. Industry associations could support members with training in cash flow planning and financial management.

Ultimately, further research could combine questionnaire data with financial ratios such as the cash ratio, the cash conversion cycle and return on assets obtained from firms' records, extend the analysis to other countries, collect performance data from a second respondent such as the owner to reduce common-method bias, and use panel data to track changes in cash management and performance over time. Future studies could also examine whether the effect of cash management holds after controlling for firm size, age and access to credit.

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