

**THE IMPACT OF LIQUIDITY ON THE PROFITABILITY OF SMALL AND MEDIUM
ENTERPRISES IN EMBU COUNTY**

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Abstract

Small and medium enterprises operate in all segments or sectors of the economy in Kenya. They are in a high risk since they face challenges of liquidity management which in turn might have great impact on profitability. In another point of view small and medium-sized enterprises (SMEs) in Kenya commonly have distinctive features: they are small in scope, have great probability of insolvency, great aptitude to alter the nature of their resources or assets and less transparency in the information provided to creditors. Due to this, in case of inadequate finances SMEs may have complications in accessing external funding, therefore edging their investment alternatives and probably leading to severe falls in performance in wide-range and profitability in particular. Therefore this study aimed to establish whether there is statistically a substantial relationship between liquidity and profitability on SMEs in Embu County. It reviewed theories of working capital management developed by various scholars as well as researches which have been carried out on liquidity and working capital in the ancient days. These philosophies include; cash conversion cycle, simulation models, Baumol model and Keynesian theory of money. This research applied a descriptive research design. This design chiefly emphasized on determining the magnitude to which two variables relate and frequency of occurrence. Furthermore it was ordinarily concerned with delineating a population in accord to crucial variables, explaining relationships, and fact finding of various kinds. The population of consideration in this research composed of registered small and medium size firms and establishments operating in Embu County Kenya. The population encompassed SMEs from different sectors such as catering, banking, retail and wholesale and others. The study used secondary data which was collected from the financial reports of the enterprises selected. Two types of data analysis were applied i.e. quantitative and descriptive analysis. The research findings concluded that liquidity, leverage, and size have a positive but insignificant effect on profitability of SMEs in Embu County. Furthermore the results found that growth of the firms has a positive and significant effect on the profitability of SMEs in Embu County.