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Abstract: A number of major companies in Kenya have been put under statutory management in the recent years due to serious financial problems. This, therefore, was an issue of concern to the financial performance of listed companies. This study investigated the association between working capital management and financial performance of commercial and service companies listed on the Nairobi Security Exchange. The study was guided by four specific objectives; to establish the association between accounts receivable period, inventory conversion period, accounts payable, cash conversion period and financial performance of commercial and service firms. The research used longitudinal research design. The study targeted all the 12 commercial and services companies listed on the Nairobi Security Exchange between the years 2011 to 2017. Secondary data was collected from published annual financial reports. Data was analyzed through descriptive statistics, Pearson correlation and multiple regression models. The study found that accounts receivable period, accounts payable period and inventory conversion period had positive significant relationship with return on equity an indication that higher values of accounts receivable period, accounts payable and inventory conversion period are related with lower values of return on equity while cash conversion cycle did not have significant relationship with return on equity. The study concludes that there was significant relationship between working capital management and financial performance. It was recommended that the companies should shorten inventory conversion period so as to increase financial performance. The study recommended that the commercial and services firms should take much more short time in converting their cash in order to realize improved financial performance. It was suggested that the sample firms should prolong payment periods so as to enhance the performance of the sampled firms.

Keywords: Working Capital Management, Financial Performance, Accounts Receivable Period, Inventory Conversion Period, Accounts Payables, Cash Conversion Period

I. INTRODUCTION

Working capital management is crucial in determining business growth because of its significance to financial performance (Vahid, Mohsen & Mohammadreza, 2012). Consequently, commercial and service companies’ financial excellence relies heavily on the capability of their executives to efficiently and effectively utilize the periods of working capital (Akoto, Awunyo-Vitor & Angmor, 2013). These periods are; account payables, account receivables, cash conversion and inventory periods.

Given the importance of WCM, a determination of its correlation with the performance of the organization is very significant as it plays a big part in the organizations financial performance (Filbeck & Krueger, 2015). In this error and age of stiff competition among firms, prices are greatly affected as companies as forced to reduce their prices so as to conform to demands in the market. In this case, enterprises need to manage their assets and liabilities efficiently and effectively in order for them to survive (Juan García-Teruel & Martinez-Solano, 2007). Today, companies have switched their attention to WCM as a source of internal financing. This is caused by the growing demand to invest in new products and services, pay debts and other numerous financial obligations. Therefore, WCM is a formidable tool in finance management.

This study is, therefore, focused in identifying the association between WCM and performance of commercial and services companies. The urge to carry out this study is informed by the fact that in the recent past, companies such as Kenya Airways and Uchumi Supermarkets Limited among others have been facing serious financial difficulties. There is, therefore, need for the current study to look at the nexus among WCM and performance of service and commercial enterprises. Notably, Afza and Nazir (2017) argued that efficiency and effectiveness working capital management is of essence in corporate management strategy in the creation of shareholders’ value vis-à-vis financial performance. Firms attempt to keep higher working capital level which can then increase their performance in order to satisfy customers’ financial needs (Deloof, 2003). The relevance of WCM could be seen from the perspective of how financial managers of firms in today’s business take a
considerable amount of time in the management of firm’s assets and liabilities. This is to avoid unnecessary risks in order to enhance financial performance (Filbeck & Krueger, 2015).

In debating the need for WCM in firms’ financial performance, Dong and Su (2010) explained that prudent WCM is of paramount importance in improving the financial positioning of any given enterprise. This is an indication that there is sound investment in assets and liabilities (Nwankwo & Osho, 2010). Alshubiri (2011) states that efficient WCM may enable a firm to react quickly to unexpected changes in the business environment so as to remain relevant in the market which could ultimately lead to improved financial performance. Working capital management primarily aims to ensure maximum link between financial performances and risks so that sound financial performance could be ascertained. Based on this knowledge, the value of WCM cannot be underestimated.

**Financial Performance**

Financial performance of enterprises can be estimated using accounting information or stock market value (Tennent, 2018). If stock market value is used to measure financial performance, one is interested in analyzing the change in market value. Firm performance can also be measured over time by using the average stock market change per year. This value is usually obtained by computing the annual change in the stock price. When accounting information is used, accounting ratios are employed. The common accounting ratios used to estimate profitability are return on Investment (ROI), return on capital employed (ROCE) and return on assets (ROA) (Tennent, 2018). Return on assets is can be utilized to show how profitable a firm in regard to total assets. ROA is measured by division of the firm’s “annual earnings” by “total assets”, shown as a percentage. From the financial statements available this study employed ROE as an indicator for performance of the commercial and services companies.

**Nairobi Securities Exchange**

The firm was established in 1954 through incorporation into a company as a voluntary organization of stock brokers. As at August 2013, the NSE had listed a total of 63 companies. The company consist of three segments in the market namely: Main Investments Market Segment (MIMS), Alternative Investments Market Segment (AIMS) which provides an alternative method of raising capital to small, medium sized firms and the Fixed Income Securities Market Segment (FISMS) which is for fixed income security like corporate bonds, treasury bonds, preference shares, ordinary shares and debentures.

**Statement of the Problem**

In Kenya, major companies listed on the NSE like Hutchings Biemer and Uchumi Supermarkets Limited have been subjected to statutory management (NSE, 2018) due to serious financial problems which made them experience financial distress. This, therefore, hampered the performance of many companies hence the need for this study.

Different studies done on WCM and firm performance have come up with differing results. Nyamao (2012) found a positive association among WCM and performance. Stephen and Kiano (2011) revealed negative link among WCM and performance. Bhunia and Das (2012) study revealed that working capital cycle had positive relationship with financial performance while Bieniasz and Golas (2011) study established that WCM was positively related with profitability. Given that some studies were carried out in developed countries, their outcomes cannot be used to generalize the link among WCM and firm performance in Kenya hence a research gap. Further, studies in Kenya were carried several years hence their findings cannot also be employed to explain the current state of WCM and performance of commercial and services companies.

Many researchers have conducted studies on WCM and its relationship with financial performance of companies. However, minimal research has been carried out on its association with performance of these firms. The fact that many commercial and services companies have been facing financial challenges in the country and the absence of specific recent studies on WCM and performance on these firms has, therefore, led to a research gap. The evidenced research gap on a lack of similar studies focusing on commercial and service companies has consequently called for current the study. In addition, contradicting results from past studies informed the need for the present study.

**Main Objective**

The study aimed at investigating the association between working capital management and financial performance of commercial and service companies quoted on the NSE.

**Specific Objectives**

i. To establish association between accounts receivable period and performance of commercial and services companies quoted at NSE

ii. To assess association between inventory conversion period and performance of commercial and services companies quoted at NSE

iii. To examine the association between accounts payables period and performance of commercial and services companies quoted at NSE

iv. To determine the association between cash conversion period and performance of commercial and services companies quoted at NSE
The Conceptual Framework showing the measures of dependent and independent variables

<table>
<thead>
<tr>
<th>Independent variables (WCM)</th>
<th>Dependent variables</th>
<th>Control variables</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts receivable period</td>
<td>Firm performance</td>
<td>Firm size (Natural log of total assets)</td>
</tr>
<tr>
<td>Accounts receivable/Total credit sales) x 365</td>
<td>ROE (Profit after tax/Shareholders equity)</td>
<td>Leverage (Total debts/Total assets)</td>
</tr>
<tr>
<td>Inventory conversion period</td>
<td></td>
<td>Growth (Change in annual sales)</td>
</tr>
<tr>
<td>Average inventory/Cost of sales) x 365</td>
<td></td>
<td>Liquidity (Current assets/Current liabilities)</td>
</tr>
<tr>
<td>Accounts payable period</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable/Cost of sales) x 365</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash conversion period</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sum of average receivable period and average days of inventory less days accounts payables</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Figure 1: The Conceptual Framework

The Cash Conversion (CCC) Theory
CCC theory was developed by Richards and Laughlin (1980). The theory looks at working capital management, its components (payables, receivables, cash conversions and inventory periods) and their link with financial performance. This theory explains a cycle that starts from emergence and transformation of new products. The cycle is meant to improve financial performance in an organization. According to the CCC theory, this cycle process is significant as it enhances financial performance (Brigham & Ehrhardt, 2013). The fact that the theory is based on WCM components and their relationship with firm performance makes it relevant to the study thus its choice as the guiding theory.

The Operating Cycle Theory
The theory considers account receivables as well as inventories that are linked to WCM so that performance can be to enhanced (Richards & Laughlin, 1980). According to the theory, companies should embrace the WCM components as such accounts receivables and inventory conversion measures are incorporated as useful in management of finance so as to improve financial performance (Tennent, 2018). One of the significant aspects of this theory is that changes in collection and credit policy have a direct significant effect on the balance of accounts receivable (an aspect of WCM) in relation to firm’s financial performance (Richard and Laughlin, 1980). According to operating cycle theory, when firms’ grant more credit terms to there is a likelihood of positive financial outcome.

II. EMPIRICAL REVIEW

Inventory Conversion period
An inventory conversion period is estimated by amount of days between the date that materials are procured and the date that the good is sold to customers (Marco, 2014). Decreasing inventory conversion enhances CCC in a firm thus, reducing a firm’s requirements for working capital thereby increasing cash flows. The period is estimated by dividing the firm’s inventory, as stated on its balance sheet, by the firm’s average daily sales (Tennent, 2018).

Accounts payable payment period
Accounts payable is the total cash a company has to pay to its suppliers for the products bought using credits. It estimates the mean amount of a firm take to settle its debts. This estimate is useful to the firm during
the evaluation of a firm’s cash management is concerned. Accounts payable payment period is computed as 365 days divide by products’ sales divided by mean accounts payable). A higher accounts payable means the firm takes longer to pay its suppliers, which conserves cash (Menifield, 2013).

**Accounts receivable collection period**

This can as well be described as days sales outstanding, estimates mean amount of days that accounts receivable are outstanding. Accounts receivables estimates mean days’ numbers between dispatching invoices to customers and collecting payments from them. To compute this ratio, the average accounts receivable is divided by mean sales per day in the period (Tennent, 2018). Mean accounts receivable is estimated by adding beginning accounts receivable to ending accounts receivable and dividing the result by two. The average daily sales can be estimated by division of sales for the period (e.g., a year) by the quantity of days in a given time (e.g., 365 days) (Brigham & Ehrhardt, 2016).

Deloof (2003) studied association among WCM and performance in Belgium. He established that there was negative link among gross operating income and accounts payable, accounts receivables and inventories. The study recommended that firms should initiate shareholders’ value by minimizing days for inventories and receivables. Negative association among payables and company performance is constant with the general understanding that the less profitable companies tend to take longer to pay for their bills.

Bhunia and Das (2012) scrutinized association among WCM and the Indian private sector firms’ profitability. They found a weak positive association among WCM elements and profitability. In addition, Raheman and Nair (2017) studied linkage among WCM and the profitability. Their study exposed negative linkage among profitability and WCM elements. This finding implies that shorter cycle leads to higher profitability and vice versa.

Izadima and Taki (2010) studied the impact of WCM on profitability of quoted firms at the Tehran Stock Exchange. They found negative association among profitability and accounts payables of the firms. It was also found that huge investment in stock and accounts receivables were correlated with declining profitability. A study conducted by Mathuva (2010) on effects of WCM on firm profitability revealed cash collection period has adverse effect on firm profitability. It was revealed further that inventory conversion had a significant effect on the company profitability. A study done by Makori and Ambrose (2013) established negative association among accounts receivable, cash conversion cycle and profitability however, a positive relationship was found among profitability and inventory as well as day’s payables. Nyamao (2012) observed that, WCM was minimal on small and micro enterprises as many did not embrace structured WCM elements and had financial performance below average as compared to Multinational enterprises.

Abubakar (2015) states that firm performance are majorly influenced by financial leverage decision. He warns that firms should exercise lots of trading cautiousness during equity debt decision. According to Maaka (2013) effective and efficient liquidity operation is verily important for the good performance of firms. For any firm, the nature of its assets predicts efficient ways of planning transactions. These predictions give firms the ability to obtain advantageous competition on their rivals (Kochhar, 1997).

### III. RESEARCH METHODOLOGY

**Research Design**

The current study used longitudinal research design. The study preferred utilization of longitudinal research design because the study sought to investigate the association between working capital management and financial performance of commercial and service companies listed on the NSE.

**Target Population**

The target population was the 12 commercial and service companies listed on the NSE.

**Description of Sample and Sampling Procedures**

The sample for the current study comprised the 12 commercial and services companies listed on the NSE between the years 2011 to 2017. The seven-year period was applied consistent with Juan and Martinez-Solano (2007) who relied on eight year period data, 1996-2003. The study was limited to commercial and services companies because some such as Kenya Airways Company and Uchumi Supermarket Ltd have been grappling with financial performance issues.

**Description of Data Collection Procedures**

Data was collected from financial reports posted on the websites of the commercial and services companies listed on the NSE. Accounts receivable, accounts payable, inventory, assets, current assets, current liabilities and long term liabilities, and shareholders’ equity were gotten from the statement of financial position of the companies under study. While, Credit sales, revenue, cost of sales, and profit after tax were drawn from the income statement for the period between 2011 and 2017.

**Description of Data Analysis Procedures**

Analysis was done through descriptive statistics, Pearson’s correlation, and multiple regression by use of Statistical Packages for Social Sciences (SPSS) version 20. Descriptive statistics was used to estimate the magnitude of the working capital components, firm characteristics and financial performance. The descriptive
statistics used consisted of mean, standard deviation, median, minimum, and maximum. For preliminary analysis, the study used Pearson’s Product Moment correlation to estimate the association between working capital management, firm characteristics and financial performance. The study also used multiple regression analysis. This method of analysis was useful in analysing the in-depth association of the independent variables (working capital management components), control variables (firm characteristics) and the dependent variable (financial performance). The following multiple regression model was used to estimate the relationship between working capital management and financial performance of the firms:

\[ \text{ROE} = \alpha_0 + \beta_1 \text{ARP} + \beta_2 \text{ICP} + \beta_3 \text{APP} + \beta_4 \text{CCC} + \beta_5 \text{FS} + \beta_6 \text{LEV} + \beta_7 \text{LIQ} + \beta_8 \text{GR} + \epsilon_i \]

ROE is return on equity, \( \alpha_0 \) is the constant, ARP represents accounts receivable period, ICP is the inventory conversion period, APP is accounts payable period, CCC is cash conversion cycle, FS is firm size, LEV is leverage, GR is growth, LIQ is liquidity, \( \epsilon_i \) is the error term and \( \beta_1, \beta_2 \) are the regression coefficients.

**Operationalization of Variables**

The financial performance was measured by use of ROE. The ROE was computed by dividing net income before tax by shareholders equity. A study by Wesley, Musiega, Douglas and Atika (2013) used ROE as an indicator to financial performance. On the other hand, independent variables were measured by cash conversion (sum of average receivable period and average days of inventory less accounts receivable), account payable (computed by dividing accounts payable by cost of sales and multiplying by 365 days), account receivable period (computed by dividing account receivable by total credit sales and multiplying by 365 days) and inventory conversion (computed by dividing average inventory by cost of sales and multiplying by 365 days) consistent by Raheman and Nasr (2007).

Concerning control variables, a study by Usama (2012) used firm size (natural log of total assets). Mengesha (2014) used leverage (total debts/total assets) as control variable on profitability. Again, a study conducted by Akinlo (2011) show that firm growth (annual sales). The study, therefore, used growth, firm size, leverage and liquidity as control variables.

### IV. DATA ANALYSIS AND PRESENTATION

**Descriptive Statistics**

Table 1 shows the descriptive statistics for the four measures of working capital management, all the control variables and measures for financial performance (ROE).

<table>
<thead>
<tr>
<th>Variable</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Median</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>ARP</td>
<td>1.11</td>
<td>2.83</td>
<td>1.90</td>
<td>1.87</td>
<td>0.29</td>
</tr>
<tr>
<td>ICP</td>
<td>-0.37</td>
<td>2.98</td>
<td>1.73</td>
<td>1.56</td>
<td>0.83</td>
</tr>
<tr>
<td>APP</td>
<td>1.55</td>
<td>2.85</td>
<td>2.12</td>
<td>2.15</td>
<td>0.29</td>
</tr>
<tr>
<td>CCC</td>
<td>0.00</td>
<td>2.99</td>
<td>1.64</td>
<td>1.6</td>
<td>0.64</td>
</tr>
<tr>
<td>ROE</td>
<td>-0.10</td>
<td>2.64</td>
<td>1.08</td>
<td>1.10</td>
<td>0.46</td>
</tr>
<tr>
<td>Liquidity</td>
<td>1.53</td>
<td>2.63</td>
<td>2.16</td>
<td>2.12</td>
<td>0.26</td>
</tr>
<tr>
<td>Leverage</td>
<td>-0.57</td>
<td>1.9</td>
<td>1.19</td>
<td>0.98</td>
<td>0.69</td>
</tr>
<tr>
<td>Firm size (millions)</td>
<td>45</td>
<td>182,063</td>
<td>5,906</td>
<td>20,583</td>
<td>4,124</td>
</tr>
<tr>
<td>Growth</td>
<td>-0.28</td>
<td>1.85</td>
<td>1.17</td>
<td>1.10</td>
<td>0.45</td>
</tr>
</tbody>
</table>

The results in Table 2 show that sample firms have a mean account receivable period of 1.87 days. The results show that the mean inventory conversion is 1.56 days and mean accounts payable period of 2.15 days. Further, cash conversion cycle was found to have an average value of 1.60 days. The results show that ROE had a mean value of 1.10 percent. However, some firms had minimum ROE of -0.104 percent indicating poor financial performance. The average value for the liquidity for the sampled companies is 2.12 percent. Leverage was also found to have a mean value of 0.98 percent. show that the average value for firm size is 20,583 million Kenya shillings while the minimum and maximum values for firm size for the sampled firms are 45 million and 182,063 million Kenya shillings respectively. Based on the results, most of the firms were small. Growth had a mean value of 1.10 percent with minimum and maximum values of -0.28 and 1.85 percent respectively.

**Correlation Results**

Pearson’s correlation results are presented in Table 2.
The results in Table 2 show that all the measures of working capital management apart from cash conversion cycle are positively correlated with financial performance. The results are inconsistent with Njanga, Pelissier and Ogutu (2010) who found a positive relationship. Further, only accounts payable period was significantly related with return on equity at the 10% level (-0.239, p-value = 0.084). Based on the correlation results, the findings provide preliminary evidence to show that working capital management is not significantly associated with the financial performance of commercial and services firms listed at the Nairobi Securities Exchange.

Regression analysis

The results for regression analysis are presented in Table 3.

Table 3: Regression results

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient ($\beta$)</th>
<th>t-value</th>
<th>p-value</th>
<th>VIF</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>0.574</td>
<td>0.287</td>
<td>0.779</td>
<td></td>
</tr>
<tr>
<td>ARP</td>
<td>0.412***</td>
<td>1.425</td>
<td>0.078</td>
<td>2.210</td>
</tr>
<tr>
<td>ICP</td>
<td>0.448**</td>
<td>2.060</td>
<td>0.039</td>
<td>4.712</td>
</tr>
<tr>
<td>APP</td>
<td>0.046**</td>
<td>0.173</td>
<td>0.066</td>
<td>1.882</td>
</tr>
<tr>
<td>CCC</td>
<td>0.2834</td>
<td>0.693</td>
<td>0.501</td>
<td>4.400</td>
</tr>
<tr>
<td>Firm size</td>
<td>0.263*</td>
<td>0.735</td>
<td>0.073</td>
<td>3.380</td>
</tr>
<tr>
<td>Liquidity</td>
<td>-0.368</td>
<td>-1.233</td>
<td>0.241</td>
<td>2.349</td>
</tr>
<tr>
<td>Leverage</td>
<td>0.563</td>
<td>1.659</td>
<td>0.125</td>
<td>3.042</td>
</tr>
<tr>
<td>Growth</td>
<td>0.119</td>
<td>0.855</td>
<td>0.405</td>
<td>1.290</td>
</tr>
<tr>
<td>N</td>
<td>70</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjusted R-squared</td>
<td>0.205</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>F-statistic (p-value)</td>
<td>1.676' (0.096)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 2: Correlation Results (figures in brackets are significant values)

<table>
<thead>
<tr>
<th>Variable</th>
<th>ARP</th>
<th>ICP</th>
<th>APP</th>
<th>CCC</th>
<th>FS</th>
<th>LIQ</th>
<th>LEV</th>
<th>GR</th>
<th>ROE</th>
</tr>
</thead>
<tbody>
<tr>
<td>ARP</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ICP</td>
<td>0.177</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>APP</td>
<td>-0.336</td>
<td>.228*</td>
<td>.347***</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CCC</td>
<td>-0.057</td>
<td>-0.014</td>
<td>.774***</td>
<td>0.214</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FS</td>
<td>0.181</td>
<td>-.452***</td>
<td>-.262**</td>
<td>-.492***</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LIQ</td>
<td>0.134</td>
<td>0</td>
<td>-0.153</td>
<td>-0.003</td>
<td>-0.01</td>
<td>-0.327</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LEV</td>
<td>0.293***</td>
<td>0.173</td>
<td>.348***</td>
<td>.376***</td>
<td>-0.119</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GR</td>
<td>-0.024</td>
<td>-0.169</td>
<td>0</td>
<td>-0.004</td>
<td>-0.009</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ROE</td>
<td>-0.151</td>
<td>0.172</td>
<td>67</td>
<td>.361*</td>
<td>-0.16</td>
<td>0.131</td>
<td>0.232</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td></td>
<td>-0.372</td>
<td>-0.309</td>
<td>-0.693</td>
<td>-0.076</td>
<td>-0.345</td>
<td>-0.438</td>
<td>-0.168</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>0.188</td>
<td>0.037</td>
<td>.298***</td>
<td>-0.129</td>
<td>0.105</td>
<td>-.239*</td>
<td>-0.135</td>
<td>-0.052</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>-0.178</td>
<td>-0.794</td>
<td>-0.03</td>
<td>-0.491</td>
<td>-0.455</td>
<td>-0.084</td>
<td>-0.335</td>
<td>-0.771</td>
<td></td>
</tr>
</tbody>
</table>

***, **, * represent significance at 1%, 5%, 10% level respectively

As presented in the results in Table 3, the adjusted R square which is the coefficient of determination is 0.205. This means that 20.5% in the financial performance of the sampled firms can be explained by the model used in the study. Results show that the model is significant at the 10% level (F-value = 1.676, p-value = 0.096).
The F test, therefore, confirms that the model explains changes in financial performance as measured by return on equity.

The regression coefficients show that account receivable period is significantly and positively associated with firm performance at the 10% level ($\beta = 0.412$, p-value = 0.078). This means that companies that have shorter credit period perform better than those with longer credit periods. This result is inconsistent with Deloof (2003) who found a significant negative relationship between firm performance and the number of days account receivables. The study found that inventory conversion period is significant at the 5% level ($\beta = 0.448$, p-value = 0.039). This, therefore, mean that companies that have shorter inventory conversion periods exhibits good financial performance. These results are consistent with another study by Mathuva (2010) who found a positive significant relationship existed between inventory conversion period and profitability. The results show that account payable period is significant at the 5% level ($\beta = 0.066$, p-value = 0.046). This implies that firms that take short time to pay their creditors demonstrates good financial outcome. The results are inconsistent with another study by Izadima and Taki (2010) that found a significant negative relationship between account payables and profitability.

Results for control variables show that firm size was positively and significantly related with return on equity at the 10% level ($\beta = 0.263$ p-value = 0.073). This means that as firm size increases so does return on equity. The result concurs with another study by Izadima and Taki (2010) who found that size of the firm was significantly interconnected with return on equity.

VI. CONCLUSION

The study concludes that there was significant relationship between working capital management and financial performance. Accounts receivable period, accounts payable period and inventory conversion period was found to have positive significant relationship with return on equity an indication that higher values of accounts receivable period, accounts payable and inventory conversion period are related with lower values of return on equity while cash conversion cycle have positive but not significant relationship with return on equity.

Recommendations

The study recommends that the companies should shorten inventory conversion period so as to increase financial performance. The study recommends that the commercial and services firms should take much more short time in converting their cash in order to realize improved financial performance. The study recommends that the sample firms should prolong payment periods so as to enhance the performance of the sampled firms.

Areas for Further Research

The study recommends that a further study should be carried out on the same topic but with specific focus on all listed companies at the NSE. Non-listed companies in the commercial and services sector in Kenya can also be considered by any future study. This is because they also face tremendous challenges emanating from WCM and financial performance.

VI. REFERENCES


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