

Effect of Working Capital Management on Financial Performance of Listed Non-Financial Firms in Kenya

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Abstract: The study sought to establish the Effect of working capital management on the financial performance of listed non-financial firms in Kenya. The research design used was descriptive survey design. The data used was secondary data from 40 non-financial firms listed in the NSE. Data was extracted from Audited financial statements of various non-finance firms listed at the NSE and the analysis covered the period from the year (2011-2015). Data collected was recorded in data collection sheets and then coded and entered into SPSS Version 21 for further analysis. Descriptive statistical analysis involved means, standard deviation, minimum and maximum. Inferential statistical analysis involved the bivariate Pearson correlation analysis and multiple regression. The study found out that cash conversion cycle and accounts receivables had statistically significant effect on financial performance of listed non finance companies in Kenya. However, the effect of accounts payables and inventory turnover had statistically insignificant effect on financial performance of the same companies. The study thus concludes that working capital had a significant effect on financial performance of listed non-financial companies in Kenya as shown by ANOVA. The study further recommends that listed non finance companies should improve debt collection by reducing the accounts receivables period through means like giving debtors discount for prompt payments of outstanding debts.

Keywords: Working Capital Management, Financial performance, Listed-non financial Companies.

I. INTRODUCTION

A. Background of Study:

Working capital management is a vital function in firm's financial management decision and this has a big implication on its financial performance (Pandey, 2009). Efficient management of working capital has far reaching implication on the liquidity and profitability of a firm of which depict the financial performance of the institution. To reach an optimal working capital management, a firm manager should control the trade-off between profitability and liquidity accurately. An optimal Working capital management is expected to contribute positively to the creation of a firm value. For the evaluation of how a firm is able to apply its working capital, the financial performance is the measure used as an indicator of the profit or returns to the shareholders wealth. Working capital management involves planning and controlling current assets and current liabilities in a manner that eliminates of the inability to meet the short term obligations on one hand and avoid excessive investment in these assets on the other hand (Ganesan, 2007). The main goal of working capital management is to teach and keep an optimized balance between each component (Gitmen, 2009). Business success heavily depends on the ability of the financial executives of a firm to effectively manage receivables, cash, inventory and payables (Filbeck and Krueger, 2005).The evaluation of working capital in a firm shows that it critically affects its financial performance more so investment decision and the returns to pay the shareholders. In the conventional terms working capital management consists of current assets and current liabilities. Current assets consists cash, marketable

securities, accounts receivables and short term investments. These assets can be converted into cash within an accounting year. Current liabilities represent the total amount of short term debts that must be settled within one year. They represent creditors, bills payable, bank overdraft and outstanding expenses. The excessive investment in inventory and receivables reduces the profit, whereas too little investment increases the risk of not being able to meet commitments as and when they fall due. The financial performance of a given firm is enhanced or improved depending on the management of the working capital and the investment returns the firm gets (Mwega, 2012). Financial performance is the ultimate goal of a well-managed firm as it is manifested in the decision made from the financial management point of view. A well designed and implemented financial management is expected to contribute positively to the creation of a firm's value (Padachi, 2006). Dilemma in financial management is to achieve the desired trade-off between liquidity, solvency and profitability (Lazaridis, 2006). There has been several measures used to evaluate financial performance. Among the methods used are the mathematical measures used to establish how well a company is using its resources to make a profit. It is well illustrated as operating income, earnings before interest and taxes and net assets value. Decision related to working capital management affect liquidity and profitability. Appuhami and Ranjith (2008) provides that there is still little knowledge about the ideal liquidity level represented by current assets to maximize company value. Raheman and Nasr (2007) observed that balancing between liquidity and profitability was a major dilemma to most managers. Further, most companies do not know the working level that maximizes the company value. Jape and Korde (2013) argue that studies done on corporate finance mainly focus on the main decision such as capital budgeting, capital structure and dividend, which show greater attention being put on long term investment than on working capital management. However, it is evident that a company that is more liquid has greater ability to quickly invest in profitable opportunities, hence, generates more cash flows in future.

B. Statement of the Problem:

The study of working capital management has shown that firms that effectively control the working capital to the optimum level have positive results in profitability. Some studies have also shown a negative relationship between working capital management and profitability in different industries or countries in the study (Nazir and Afza, 2009). But all studies nevertheless, agree in unison that business success depends heavily on the ability of financial managers to effectively manage the components of working capital (Filberk and Krueger, 2005). Several companies in Kenya have had significant difficulties that can be attributed heavily on management of working capital, Uchumi retail shop, Kenya airways and Webuye pan paper mills. There are few studies that have been done previously on the 42 non-financial firms and their financial performance in connection to the working capital management. This has motivated this study as listed firms are supposed to be the model and also the better they perform the easier is for them to generate capital from the Nairobi securities exchange and this forms the essence of which they list in the first place. Most of the studies done on working capital management dealt with the listed firms in the NSE but divided them into different industries in the stock exchange like the energy companies and also manufacturing which made the research end up with a very narrow scope (Musau, 2015). Studies done on listed non-financial firms have had limited scope and the time. Their chosen methods of testing the conservative and the aggressive working capital combining them have limited analysis (Wamugo and Mwangi, 2014). The exclusion of the finance, investment and insurance companies will assist in evaluating the efforts that the non-finance firms are making as they maintain optimal working capital in their businesses.

C. Objectives of the Study:

The overall objective of this study was to analyse the effect of working capital management on the financial performance of listed non-financial firms in Kenya.

D. Hypotheses of the Study:

The study tested the following hypotheses:

- H0₁:** Cash conversion cycle has no significant effect on the financial performance of listed non-financial firms in Kenya.
- H0₂:** Accounts receivables has no significant effect on the financial performance of listed non-financial firms in Kenya.
- H0₃:** Accounts payables has no significant effect on the financial performance of listed non-financial firms in Kenya.
- H0₄:** Inventory turnover has no significant effect on the financial performance of listed non-financial firms in Kenya.

II. LITERATURE REVIEW

A. Theoretical Review:

There are several theories for this study that have derived the working capital management and financial performance. The first theory is the Tradeoff Theory: The tradeoff theory suggests that firms target an optimal level of liquidity to balance the benefit and cost of holding cash. Eljely (2004) adds that firms save transactions costs to raise funds and do not need to liquidate assets to make payments. Moreover the firm can use liquid assets to finance its activities and investment if other sources of funding are not available or are extremely expensive. In a more evaluative perspective, Eljely (2004) the concern of business owners and managers all over the world is to devise a strategy of managing their day to day operations in order to meet their obligations as they fall due and increase profitability and shareholders wealth. The crucial part in managing working capital is required in maintaining its liquidity in day to day operation to ensure its smooth running and meets its obligation. A business firm should ensure that it does not suffer from lack of enough liquidity to meet its short term compulsions (Bhunia, 2010). The dilemma in liquidity management is to achieve the desired tradeoff between liquidity and profitability (Raheman and Nasr, 2007). According to Charitou *et al* (2010), management of current assets and current liabilities is important in creating value for the shareholders. If a firm can minimize its investment tied up in the current assets, the resulting funds can be invested in value creating projects, thereby increasing the firm's growth opportunities and shareholders return. The theory is very relevant for the current study as it underpins the balancing of working capital by not interfering with payment of current debt obligations and not holding too much working capital to maximize profitability and shareholder wealth.

The second theory is the Operating Cycle Theory. The theory holds that the flow of the working capital items and their optimal management is very paramount and more so the liquidity management must be systematically managed to operate optimally. This concept can be developed by extending the static balance sheet analysis of potential liquidation value coverage to include income statement measures of a firm's operating activity. In particular, incorporating accounts receivable and inventory turnover measures into an operating cycle concept provides a more appropriate view of liquidity management than does reliance on the current and acid test ratio indicators of solvency (Harris, 2005). For a firm to be well integrated in its operations it has to modify either the payment practices established with trade creditors or their access to short-term debt financing provided by non-creditors, decisions that create longer or less liquid holding periods will again be accompanied by a higher current ratio indicator of solvency (Weston and Eugene, 1979). The cumulative days per turnover for accounts receivable and inventory investments approximates the length of a firm's operating cycle. Incorporating these asset turnovers into an operating cycle concept of the current conversion period thereby provides a more realistic, although incomplete indicator of a firm's liquidity position. This theory has the relevance as it focuses on how the firm can utilize accounts receivable and inventory balances to enhance the firm's liquidity position.

Finally, the Financing Advantage Theory: In the business set up where a firm transacts with the suppliers and buyers to accentuate the level of working capital management and make it optimal, a supplier due to the relationship created in the transactions, may have advantage over traditional lenders in investigating the credit worthiness of his clients, as well as a better ability to monitor and force repayment of the credit (Joan, Vitorino and Moreira, 2011). This will give a number of several cost advantages over other financial institutions in offering credit to the buyer in several ways. The buyer has a huge chance of getting inside information as he is able to visit the premises of the buyers which gives him a very big discretionary assessment of the business. The buyer's inability to take advantage of early payments discounts may serve as a tripwire to alert the supplier of deterioration in the buyer's creditworthiness (Bias, Bruno and Viala, 1993). And while the financial institution may also collect similar information, the supplier may be able to get it faster and at lower cost because it is obtained in the normal course of business. The supplier has also another discretionary power of controlling the buyer by threatening reduced credit opportunities in future or withdrawing it altogether. This tight control will make the buyer pay up or switch to another seller with more friendly credit terms as he envisages. This threat may especially be credible if the buyer accounts for a small portion of the suppliers sales. But by contrast a financial institution may have more limited powers, as the threat to withdraw future finance may have little immediate effect on the borrowers operations as the buyer may have many choices for financing him for instance the banks (Garcia-Terueland Martinez – Solano, 2007).

A. Empirical Review:

Studies have been carried out globally and locally on the effect of working capital management on financial performance of companies. Samiloglo and Demirgunes (2008) also found a negative relationship between profitability and inventory

conversion. Mathuva (2010) studied a sample of 30 listed firms and examined the influence of working capital management on corporate profitability for the periods 1993-2008. Study used regression to analyse the resulting panel data. Researcher established that the inventory conversion period had a positive statistically significance to the profits of listed firms. This study was elaborate enough though its exclusion of service companies like financial and related institutions made it impossible to generalize the findings to such company. Makori and Jagongo (2013) also found that inventory conversion period among listed firms positively related to profitability. They found this result after studying a sample of 20 manufacturing and construction firms listed on the bourse. Nzioki *et al* (2013) found insignificant relationship between inventory conversion period and profitability among a sample of 6 listed manufacturing companies in Kenya. Cannon (2008) introduces contradictory perspective that inventory performance should not be measured as a robust indicator of overall performance. When the effects of time are taken into accounts, turnover improvement on average has a slightly negative effect on ROA. Additionally, turnover improvement exhibits a prominent random effect. Consistent with cannon (2008), Another Koliass *et al*, (2011) present that inventory turnover ratio is negatively correlated with gross margin. Moreover, there exists a negative relationship between gross margin and inventory turnover. This implies that retailers trade off gross margin for inventory turns to achieve similar return on inventory investment since, if inventory turnover ratio is lower than targeted given the level of gross margin, then the management must be alarmed with this inefficiency.

The cash conversion cycle measures time (in days) that a company takes to convert resource input into cash flows. It is estimated that the lower the time the company to sell inventory, collect cash from the debtors the better for the firm since this makes the firm more liquid to re-invest in more cash generating investment to boost return on investment. Further, the use of cash conversion cycle can be useful in assessing the management efficiency (Deloof, 2003). Cash flow is important to all firm and maximization of inflows while minimizing outflows can increase a firm's profit. Appuhami and Ranjith (2008) provide that one of the most widely used method by firms to measure and evaluates risk and returns associated with liquidity management are cash flow cycles. Through cash flow cycles management industries, managers are able to identify the areas that require further improvement to enhance future cash flow. It also helps to identify short and long run cash inflow and outflows to sort out any cash shortage or excess in order to formulate a comprehensive investment strategy. Most companies improve their profitability by reducing their cash conversion cycle. This is achieved through decreasing variables such as receivables collection period while lengthening credit payment period (Anser and Malik, 2013). According to Bort (2004) cash is the lifeblood of the business and that key to successful cash management lies in tabulating realistic projections, monitoring collections and disbursements, establishing effective billing and collection measures and adhering to budgetary parameters because cash flow can be a problem to the business organization. The most obvious way of bringing forward cash inflows, would be to press debtors for earlier payment although this policy will result with the loss of goodwill and problems with customers. Kirkman (2006) arrived at the same idea by highlighting that as a component of implementing an effective cash management program, a cash flow statement called a cash budget may be prepared.

Accounts receivables are those customers who have not yet paid for goods or service which the firm has supplied. The accounts receivable is done to reduce the time laps between the time laps between completion of sales and receiving payment. It is calculated by dividing accounts receivable by the average credit sales per day. This ratio measures the length of time it takes to convert the average sales into cash. This measurement defines the relationship between accounts receivable and cash flow (Martinez and Solano, 2011). A longer debtors management period requires a higher investment in accounts receivable. A higher investment in accounts receivable means less cash available to cover cash outflows such as paying bills (Sharma and Kurma, 2011). Firms in their bid to be competitive and improve their profitability by reducing the number of days accounts receivables outstanding. This can be interpreted as the less the time it takes for customers to pay their bills, the more cash is available to replenish inventory hence the higher sales realized leading to high profitability of the firm. The negative relationship between debtors management and profitability suggests that an increase in the number of days accounts receivable by 1 day is associated with a decline in profitability. Through this, managers can improve profitability by reducing the credit period granted to their customers (Lazaridis and Tryfonidis, 2006). The study by Deloof (2003) suggested that managers can increase corporate profitability by reducing the debtors management period. The longer the number of days accounts receivables outstanding, the greater the chance that the firm may lose its profitability. Tirnigo (2013) examined the impact of working capital management on profitability of micro and small enterprises in Ethiopia for the case of Bahir Dar city administration and found that the number of days of accounts receivable had a significant negative impact on profitability. Padachi (2006) examined the trends in working capital management and its impact on firm's performance. The results proved that a high investment in inventories and

receivables is associated with lower profitability. Further, he showed that account receivables days correlated negatively with profitability.

Accounts payable is the management of creditors and represents the average length of time between the purchase of materials and labour and the payment of cash for them. It is calculated as the account payables divided by the average credit purchase per day (Harris, 2005). Account payables plays a critical role in managing working capital because delaying bill payments is one of the tools for management to have access to an inexpensive source of financing. However, the opportunity cost of keeping high accounts payables may hurt the business if an early payment discount is offered (Lu, 2013). Working capital management rules states that firms should strive to lag their payments to creditors as much as possible, taking care not to spoil their business relationship (Napompech, 2012). Through this Mathuva (2009) in the study on the influence of working capital management components on corporate profitability. The positive relationship suggests that an increase in the number of days accounts payable by one day is associated with an increase in profitability. Sharma and Kumar (2011) examined the effect of working capital management on firm profitability in India. The finding confirmed negative relation between debtors management with firm performance while the creditors management had positive relation with the firms performance. Ganesan (2007) selected telecommunication equipment industry to study the effectiveness of working capital management and profitability. The sample used in his study was 349 telecommunication equipment companies covering the period 2001-2007. The results showed that days of the average creditors positively affected the profitability of these firms. Accounts payable days relate to profits in a positive manner meaning that an increase in accounts payables induces a consequent increase in profits (Pindado and Bastos, 2012). Akoto et al, (2013) found that an increase in profits among companies in Ghana was caused by increased accounts payable days.

III. RESEARCH METHODOLOGY

A. Research Design, Population and Collection:

In this study, the researcher used descriptive survey and empirical research design. According to Saunders, Lewis and Thornhill (2009), descriptive survey research design is meant to give an output of statistical information about an aspect of a study that is of interest to policy makers in a bid to aid them in making informed decisions. The study describes the relationship between working capital management and financial performance. A census of the listed 42 non-financial firms in the Nairobi securities exchange was conducted (NSE, 2015). This refers to the members of a real or hypothetical set of people to which the researcher wishes to generate the results of the research. The study was conducted among the employed staff of National Bank of Kenya. The target population comprised all the 42 listed non-finance companies in Kenya, The period of study was five years 2011, 2012, 2013, 2014 and 2015. Due to the nature of financial studies, the researcher used secondary data sources. Secondary data was sourced from audited financial statement of individual firms covering five years (2011-2015). The data extracted was recorded on data collection sheets. For the purpose of this study, data reliability and validity was ensured by collecting data from official sources such as annual audited accounts and corporate websites.

B. Data Analysis Techniques and Procedures:

Collected data was coded and analyzed using the statistical package for social sciences (SPSS) Version 21 which helped to generate tables, graphs and statistical parameter estimates. The descriptions of the dependent and independent variables were established and the test of normality of the dependent variable was done. Correlation analysis was used to test the relationship between the variables (Jackson, 2009). The following illustrated multiple linear regression was used under the assumption that the dependent variable evaluated were normally distribution;

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e$$

Where Y represents the financial performance (ROA) of the listed non-financial firms in Kenya, X₁ = Cash conversion cycle X₂ = Accounts payables, X₃ = Accounts receivables, X₄ = Inventory turnover ratio, e = is the error term and finally, β_1 , β_2 , β_3 , β_4 represents the coefficient of independent variables, β_0 = Intercept term

IV. RESEARCH FINDINGS AND DISCUSSION

A. Correlation Analysis:

The researcher carried out correlations to assist explains the relationship between working capital management and financial performance of listed non-financial firms in Kenya. The researcher used Bivariate Pearson Correlation to establish the relationship as shown in table 1

Table 1: Bivariate Pearson Correlation

		CCCP	ARP	APP	ITP	ROA
CCCP	Pearson Correlation	1	-.453**	.221	.257	-.435**
	Sig. (2-tailed)		.005	.188	.125	.007
ARP	Pearson Correlation	-.453**	1	-.216	-.299	-.418**
	Sig. (2-tailed)	.005		.199	.072	.000
APP	Pearson Correlation	.221	-.216	1	-.136	.072
	Sig. (2-tailed)	.188	.199		.422	.672
ITP	Pearson Correlation	.257	-.299	-.136	1	-.372**
	Sig. (2-tailed)	.125	.072	.422		.003
ROA	Pearson Correlation	-.435**	-.418**	.072	-.372**	1
	Sig. (2-tailed)	.007	.000	.672	.003	

****. Correlation is significant at the 0.01 level (2-tailed). Independent variables:** Cash conversion cycle period (CCC), Accounts Receivables Period (ARP), Accounts Payables Period (APP), Inventory Turnover Period (ITP) and **dependent variable:** Return on Assets (ROA).

Table 1 presents the following: **Cash Conversion Cycle and Financial Performance:** The researcher wanted to establish the relationship between cash conversion cycle and financial performance of listed non-financial firms in Kenya. Cash conversion cycle was measured by cash conversion cycle period in days. Bivariate Pearson correlation coefficient was calculated at 0.01 level of significance. Pearson's correlation (r) indicated that there was a statistically significant negative correlation between cash conversion cycle period and ROA ($r = -0.435$, $p = 0.007$ and $\alpha = 0.01$). With cash conversion cycle period being negatively correlated with ROA, This could be explained by the fact that when it takes a long time to receive cash from sale of goods and services, it becomes problematic to finance new purchases of finished goods and raw materials hence production and profitability suffers as a consequence. **Accounts Receivables and Financial Performance:** The researcher also wanted to establish the relationship between Accounts receivables and financial performance of listed non-financial companies in Kenya in terms of profitability measured by ROA. Accounts receivables was measured by Accounts receivables period. Pearson's correlation indicated that there was a statistically significant negative correlation between accounts receivables and Financial Performance ($r = -0.418$, $p = 0.000$ and $\alpha = 0.01$). This negative correlation could be explained by the fact that when it takes longer to collect cash from debtors a business suffers as most funds are tied in doubtful debts hence it may not make new orders and make meet at other obligations. **Accounts Payable and Financial Performance:** The researcher also correlated accounts payable and financial performance of listed non-financial firms in Kenya. The accounts receivables was measured by accounts receivables period in days. Pearson's correlation indicated that there was a weak positive insignificant correlation between accounts payable and ROA ($r = 0.072$, $p = 0.672$ and $\alpha = 0.01$). This positive correlation could be explained by the fact that by paying creditors as late as possible the business can invest the funds in other short term investment opportunities to generate revenues. Hence increased accounts payables period leads to increased revenue generation in terms of ROA. **Inventory Turnover and Financial Performance:** The researcher correlated inventory turnover and financial performance of listed non-financial companies in Kenya. The inventory turnover was measured by inventory turnover period in days. Pearson's correlation indicated that there was a statistically significant negative correlation between inventory turnover period and ROA ($r = -0.372$, $p = 0.003$ and $\alpha = 0.01$). The negative correlation could be explained by the fact when it takes it takes a longer time to turn inventory into sales, a lot of funds is tied in inventory hence the business cannot meet its debts obligation and invest into new stocks hence any increase in inventory turnover period leads to reduction in revenue in terms of ROA.

B. Regression Analysis:

Regression analysis was multiple in natures as there were four independent variables. The independent variables were cash conversion cycle, accounts receivables, accounts payables, and inventory turnover. The dependent variable was financial performance measured by ROA. Multiple regression analysis involved calculation of coefficient of determination, Analysis of Variances (ANOVA) and regression coefficients

Table 2. Coefficient of Determination

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.477 ^a	.227	.176	2.206

a. Predictors: (Constant), CCCP, ARP, APP and ITP

Table 2 shows the overall correlation coefficient (R) between independent variable working capital management and dependent variable financial performance (ROA) value was 0.477. This means that there is a moderate positive relationship between working capital management and financial performance (ROA). Furthermore, table 2 indicates that the model explains only 22.7% of the variations in financial performance (ROA) as shown by the coefficient of determination (R²) value of 0.227 hence 77.2% Variations in Financial performance (ROA) is explained by other factors not included in the model. It is therefore clear that working capital explains only 22.7% variations in profitability.

Table 3: ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	0.9744	3	.3248	6.43	.020 ^b
	Residual	1.8188	36	.0505		
	Total	2.7932	39			

a. Dependent Variable: ROA , b. Predictors: (Constant), CCCP, ARP, APP and ITP

According to table 3 the overall significance of the model 1 was 0.02 with an F value of 6.43. The level of significance was lower than 0.05 and this means that working capital management do show statistically significant effect on financial performance (ROA).

Table 4: Coefficients of Independent Variables

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.08881	.01225		7.247	.000
	CCCP	-.018927	.00477	-.00157	-3.968	.012
	ARP	-.036713	.00762	.00661	-4.818	.021
	APP	.00907	.00844	.00249	1.1074	.053
	ITP	-.00195	.00477	-.0021	-.409	.065

a. Dependent Variable: ROA

Table 4 further shows the coefficients of independent variables (cash conversion cycle ,accounts payable, accounts receivables and inventory turnover) and the values of p and values of t. The model was thus estimated as

$$ROA_{it} = 0.08881 - 0.018927X_{1it} + 0.00907X_{2it} - 0.036713 X_{3it} - 0.00195 X_{4it} + \epsilon_i$$

The estimated model above shows the causal effect relationship between the independent variable working capital management and dependent variable financial performance of listed non finance firms in Kenya. The estimated intercept term 0.08881 shows the level of financial performance in terms of ROA when the independent variables are held constant. The coefficients estimates of the model are explained in details in the following discussion.

Effect of Cash Conversion Cycle on Financial performance : The researcher wanted to test the null hypothesis Cash that cash conversion cycle has no significant effect on financial performance of listed non-financial firms in Kenya using regression analysis, it was established that cash conversion cycle period had a statistically significant effect on financial performance measured by ROA ($\beta_1 = -.018927$, $t = -3.968$, $p = .012$ and $\alpha = 0.05$). Hence null hypothesis was rejected. The value β_1 was negative showing that cash conversion cycle has a negative effect on financial performance of listed

non-financial companies in Kenya hence when cash conversion cycle period changes by one unit, profitability changes by 0.018927 units in the opposite direction.

Effect of Accounts Receivables on Financial Performance: The researcher tested the null hypothesis that accounts receivables has no significant effect on financial performance of listed non-financial firms in Kenya. Study established that accounts receivables period had a statistically significant effect on financial performance measured by ROA ($\beta_2 = -0.036713$, $t = -4.818$, $p = 0.021$ and $\alpha = 0.05$). The null hypothesis was thus rejected since the value of p was less than 0.05 level of significance. The value β_2 was negative showing that accounts receivables has a negative effect on financial performance of listed non finance companies in Kenya hence when accounts receivables changes by one unit, profitability changes by 0.036713 units in the opposite direction.

Effect Accounts Payables on Financial Performance :The researcher also tested the null hypothesis that accounts payables has no significant effect on financial performance of listed nonfinancial companies in Kenya. Study established that accounts payables period had a statistically insignificant effect on financial performance measured by ROA ($\beta_3 = 0.00907$, $t = 1.1074$, $p = 0.053$ and $\alpha = 0.05$).The null hypothesis was thus accepted since the value of p was more than 0.05. The value β_3 was positive showing that accounts payables period has a positive effect on financial performance of listed non-financial firms in Kenya hence when accounts payable period changes by one unit, profitability changes by 0.00907 in the same direction.

Effect of Inventory Turnover on Financial Performance: The research also sought to test the null hypothesis that inventory turnover has no significant effect on financial performance of listed non-financial firms in Kenya. It was established that Inventory turnover period had a statistically insignificant effect on financial performance measured by ROA ($\beta_4 = -0.00195$, $t = -0.409$, $p = 0.065$ and $\alpha = 0.05$).The null hypothesis was thus accepted. The value β_4 was negative showing that inventory turnover period has a negative effect on financial performance of listed non-financial firms in Kenya hence when inventory turnover period changes by one unit, profitability changes by 0.00195 units in the opposite direction.

Table 5: Summary of Hypotheses Testing

Hypotheses	t	P	Level of significance	Decision
H0 ₁	-3.968	0.012	0.05	P < 0.05 ,Reject null hypothesis
H0 ₂ :	-4.818	0.021	0.05	P < 0.05, Reject null hypothesis
H0 ₃	1.1074	0.053	0.05	P > 0.05, accept null hypothesis
H0 ₄	-.409	0.065	0.05	P > 0.05, accept null hypothesis

The table 5 shows the summary of hypothesis tests where the first two null hypotheses were rejected that is Cash conversion cycle, Accounts Receivables Period had statistically significant effect on financial performance of listed non finance firms in Kenya. However, accounts payable and inventory turnover had statistically insignificant effect on financial performance of listed non-financial firms in Kenya. Generally working capital management has a significant effect on financial performance of listed non-financial firms in Kenya as shown by ANOVA.

V. CONCLUSION

The study was carried out to establish the effect of working capital management on financial performance of listed non-financial firm in Kenya. The results of the study were as follows: Cash conversion cycle and accounts receivables had a statistically significant effect on financial performance of listed non finance firms in Kenya. However the effect accounts payables and inventory turnover has statistically insignificant effect on financial performance of listed non-financial firms in Kenya. From the findings, the study makes a number of recommendations: Firstly, The study recommends that management of listed non finance companies in Kenya should strive to minimise as much as possible the cash conversion cycle period since longer cash conversion cycles affects financial performance of companies. Companies should put in place strategies that ensures they reduce cash conversion cycle period such that they can collect cash earlier. The cash management officer should eliminate all processes that increase cash conversion cycle period as much as possible. Secondly, management of listed nonfinancial companies in Kenya to reduce accounts receivables period as much as possible. They should find ways of collecting cash from debtors as early as it is practically possible. The top management

of the companies should instruct credit management department to come up with a credit policy that ensures that the firm is able to collect cash from debtors on time. They should also reduce the value of bad debts as much as possible. Thirdly, management of the companies to delay payment of creditors in as much as possible as long as it does not affect their credit worthiness negatively. The management through the credit management and cash management office should negotiate with suppliers to lengthen the accounts payable period as much as possible. The company should even forego discounts received if the cash can be invested in some short term investment opportunities to generate more income to the company. Finally, management of the listed non finance companies should continuously work on ways minimising the inventory turnover period by coming up with relevant policies. The top management through the inventory management department should come up with the most efficient inventory management and control techniques like JIT and ABC to ensure efficient inventory management. The current was exhaustive in analyzing the effect of working capital management on financial performance of listed non-finance companies in Kenya. The study was thus successfully carried out however some limitations were observed. The current study was limited to using secondary data from audited financial statements of the companies. Another study should be carried out that looks at effect of working capital management on financial performance of listed non fiancé firms in Kenya using both secondary and primary methods of data collection to see if results hold. Other researcher can also carry out the same study using long term data covering ten years and above since some variables can be best observed in a long period of time.

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