IOSR Journal of Economics and Finance (IOSR-JEF)
e-ISSN: 2321-5933, p-ISSN: 2321-5925.Volume 14, Issue 2 Ser. IV (Mar. – Apr. 2023), PP 13-22
www.iosrjournals.org

Effect of Working Capital Management Practices on Financial Performance of Savings and Credit Cooperative Societies in Nairobi County, Kenya

Francisca Leruk[1], Dr. Joshua Wepukhulu[2], Dr. CPA Hesbon Otinga[3]
[1](MBA Finance Candidate, Jomo Kenyatta University of Agriculture and Technology, Kenya)
[2,3](Lecturer, Jomo Kenyatta University of Agriculture and Technology, Kenya)

Abstract:
The main aim of this study was to analyse the effect of working capital management practices on performance of deposit taking SACCOs in Nairobi County. The study was guided by the following objectives; to determine the effect of accounts payables on performance of deposit taking SACCOs and to to determine the effect of accounts receivables on performance of deposit taking SACCOs. The study adopted the theory of risk and return, the operating cycle theory and the cash conversion theory.Casual study research design was used. A census of the SACCOS in Nairobi County was used. This study used secondary data from the companies audited income statements and statement of financial position posted in their respective website. Use of data from audited financial statements gave an assurance on the validity and reliability of data collection method as well as the accuracy of data collected. This study used multiple linear regression analysis to determine the effect of the absolute level of working capital/ Total Asset the performance of a firm as measured by its Return on Asset. The results indicated that accounts payables and accounts receivables have significant effect on financial performance of savings and credit cooperatives in Nairobi County. The study concluded that working capital management practices have significant effect on financial performance of savings and credit cooperatives in Nairobi County. The study therefore recommended that the management to elongate the accounts payables by good name created with suppliers so as not to interrupt supplies to the firm which in turn leads to smooth operation during the year and ends up with improved financial performance. Savings and credit cooperatives in Nairobi County need effective credit management strategies, proper undertaking of credit analysis on the prospective borrowers, and making efforts to ensure that funds are not tied up in receivables for longer periods.

Key Words: *Working Capital Management, Account Payable, Account Receivable, Financial Performance, Savings And Credit Cooperative Societies.*

Date of Submission: 08-04-2023 Date of Acceptance: 22-04-2023

I. Introduction

Working capital management practices involves the relationship between the firm's short-term assets and its short-term liabilities (Opiyo, 2017). Working capital performance provides critical insight into the state of a company's financial position. As an important indicator of financial fitness, the availability of a company's working capital is one of the first items a lender or investor will examine on a balance sheet (Financial Executives International Canada, 2013). The management of working capital involves managing inventories, accounts receivable, accounts payable and cash. Working capital is a measure of both company's efficiency and its short-term financial health. Working capital is the difference between current assets and current liabilities. Efficient management of Working Capital (WC) is essential for SACCOs at all times; during the booming economic period, during recession and recovery and can be managed to improve competitive position and profitability, also improving WC is important for companies to withstand the impacts of economic turbulence (Garcia-Teruel, & Pedro, 2017).

Poor working capital and inadequate long-term financing is a cause of failure in business firms. The current assets should be large enough to cover its current liabilities in order to ensure a good margin of safety (Gul, Khan, Raheman, Khan, Khan, & Khan, 2013). Each of the current assets must be managed efficiently in order to maintain the liquidity of the firm while not keeping them at a high level. Liquidity measures the ability of the firm to meet financial obligations as they fall due, without disrupting the owner accounts receivables, using the market value of assets. Liquidity is measured using the current ratio which is the ratio of current assets to the current liabilities. Working capital presents a huge opportunity for companies to release cash from their balance sheets and operate more effectively. Actually, well-managed cash provides firms with growth without the need for additional funding (Frankfurt Business Media, 2012).

In Kenya, working capital management practices affects profitability of the company and if the firm can effectively manage its working capital, it can lead to increasing profitability (Gakure et al., 2012). Also, there is a strong negative relationship between average collection period, inventory holding period and cash conversion cycle. This is consistent with the view that the time lag between expenditure for purchases of raw material and the collection of sales of finished goods can be too long and that decreasing this time lag increases profitability. This suggests that managers can create value for their shareholders by reducing the number of days accounts receivable and inventories to a reasonable minimum (Gakure et al., 2012).

SACCOs in Kenya are required to adhere to regulations set out by the Sacco Societies Regulatory Authority (SASRA). The management has to present the capital adequacy return reports, liquidity statement reports, Statement of financial position and Statement of deposit return as well as Return on investments reports which compares fixed investments like land and other financial assets to the SACCO's total assets and its core capital. SACCOs play an increasingly important role in Kenya's financial sector, serving a growing number of both urban and rural poor households. An estimated 1.7 million Kenyans, 9% of the country's adult population, rely on SACCOs for financial services. In 2008, Kenya and South Africa became the first African nations to enact SACCOs specific regulations designed to strengthen the safety and improve performance of the country's deposit taking financial co-operatives. Of Kenya's more than 4,000 SACCOs, about 220 take withdrawable deposits in addition to share based savings. These SACCOs have 12 months from the time of their application to SASRA to gain licensure (Fujo & Ali, 2016).

Statement of the Problem

Kenya's national development blueprint, the Vision 2030 recognizes SACCO societies as important players in deepening financial access to mobilize savings for investments in enterprises and personal development, (SASRA Report, 2013). They are however experiencing challenges such as liquidity (Muriuki, 2014). Many SACCOs have collapsed in Kenya since 2006 due to increase in non-performing loans which have resulted from national economic downturn, failure by loan applicants to disclose vital information during loan processing and lack of an aggressive debt collection policy (Waweru & Kalani, 2019). Non- performing credits amplified from 5.12 percent in 2017 to 5.23 percent in 2019, indicating an increase in credit risk while the net profit after tax had a 3.99% change between 2015 and 2016 as opposed to the previous year which was 8.5%, showing a reduction in financial performance of the SACCOs (SASRA, 2016). Working capital management is important because of its effects on the firm's profitability and risk, and consequently its value (Smith, 2018).Working capital management is important part in firm financial management decision. An optimal working capital management is expected to contribute positively to the creation of firm value. Working capital is an important issue during financial decision making since its being a part of investment in asset that requires appropriate financing investment. It should be critical for to a firm to sustain their short term investment since it will ensure the ability of firm in longer period (Raheman & Nasr, 2017).

SACCOs plays a key part in assisting Kenyans save and acquire credit at relatively lower interest rates than the main stream banks (Irungu, 2017). They are however experiencing challenges such as liquidity due to unwillingness of members to regularly contribute shares or to repay loans advanced to them in that some SACCOS were unable to pay the member deposits on demand (Muriuki, 2014). Payment of unearned income leads to depletion of capital (Mwololo, 2017). As a result, these financial institutions struggle to pay their debts to reduce the cost of holding the debts but on the other hand there is laxity in collection of money lent out to their customers and this increases number of days that business cash stays in the hands of these customers which negatively affects profitability (Okundi, 2017). This calls for an efficient working capital management for the success of a SACCO (Njeru, 2015).

In spite of such great importance of working capital management, it is queer that so far it could not attract as much attention of the researchers in as it desires. Most studies on working capital financing policy have used data from American and European companies (Eldomiaty, 2017; Jensen & Langemeier, 2016). Raheman and Nasr (2017) researched on the determinants of working capital financing of emerging and developing studied effects of working capital management on SME profitability. The findings of the study demonstrated that by reducing inventories and the number of days in which their accounts remained outstanding, managers could create value. A firm's performance can be improved if management can reduce cash conversion cycle.

This study strives to answer the following question: is there a relationship between working capital management and financial performance of deposit taking SACCOs licensed by SASRA in Nairobi County? It is against this background and also lack of studies on the relationship between performance and working capital management practices of deposit taking SACCOs that a study should be carried out on effects of working capital management practices on performance of deposit taking SACCOs in Kenya.

Objectives of the Study

i) To determine the effect of accounts payables on performance of savings and credit cooperatives in Nairobi County.
ii) To determine the effect of accounts receivables on performance of savings and credit cooperatives in Nairobi County.

II. Literature Review

Theoretical Framework

Theory of Risk and Return

Dilemma in working capital management is to achieve desired tradeoff between liquidity and profitability (Raheman & Nasr, 2007). Referring to theory of risk and return, investment with more risk will result to more return. Thus, firms with high liquidity of working capital may have low risk then low profitability. Conversely, firm that has low liquidity of working capital, facing high risk results to high profitability. The issue here is in managing working capital, firm must take into consideration all the items in both accounts and try to balance the risk and return.

The principle holds that potential return rises with an increase in risk. Low levels of uncertainty (low risk) are associated with low potential returns, whereas high levels of uncertainty (high risk) are associated with high potential returns. According to the risk-return tradeoff, invested money can render higher profits only if it is subject to the possibility of being lost (Soenen, 1993). Because of the risk-return tradeoff, you must be aware of your personal risk tolerance when choosing investments for your portfolio (Harkbarth et al., 2006). Taking on some risk is the price of achieving returns; therefore, if you want to make money, you can't cut out all risk. The goal instead is to find an appropriate balance - one that generates some profit, but still allows you to sleep at night.

Operating Cycle Theory

Operating cycle theory was developed by Richard and Laughlin (1980). The operating cycle determines the duration it takes a company to turn purchases in form of stock into cash from its eventual sale. The three components of operating cycle include accounts receivable, inventory and payable days. When put together they form the whole measurement of operating cycle days (Dong & Su, 2010). Payable turnover days are the duration of time in which the institution monitors how fast they can settle their financial obligations to suppliers. Inventory turnover is the number of times the institution sells and renews their stock over time.

The accounts receivable turnover days are the duration in which the institution is assessed on how quick they can receive payments for their credit sales. When combined all of these elements, the operating cycle is complete. Credit collection policies directly affects accounts receivables either positively or negatively and the frequency of conversion of receivables into cash. In short-term financial management, giving the students relaxed credit policies will make a learning institution's liquidity to decrease in the short term but the liquidity will be increased in long run (Singhania, Sharma & Yagnesh, 2014).

Operating cycle theorists assume that the money is first blocked-in raw materials, labor and other conversion costs come later, selling and distribution costs come in the end. Selling and distribution costs would-be blocked-in inventory and revenue would-be blocked-in accounts receivables (Richards & Laughlin, 1980). This theory has been criticized in that these components are managed in dissimilar means to maximize the profit or to increase the institution's value. Therefore, it requires various experts hence increasing cost to the institution (Anagnostopoulou, 2012). The theory is important to this study because receivables are directly affected by the operating cycle activities, for example they are influenced by the credit collection policy of the institution and the frequency of converting the outstanding amount into cash affects the accounts receivable management.

Cash conversion theory

Cash conversion theory was propounded by Blinder and Maccini (2017), The theory evaluates how effectively a firm is managing its working capital. In most cases, a company acquires inventory on credit, which results in accounts payables. A firm can also sell products on credits, which results in accounts receivables. Cash, therefore, is not involved until the firm pays the accounts payables and collects accounts receivables.

The implication of this theory is that firms need to reduce the cash conversion cycle practices in order to maximize on the working capital management practices benefits. Anser et al. (2013) identified that the shorter the cash conversion cycle practices period the fewer the financial resources required by a firm to finance its short-term cash requirements and vice versa with longer cash conversion cycle practices periods. Longer periods could mean increase in sales since most firms like financing from longer trade payable days but this could outweigh the benefits to an organization on its bottom line thus eroding returns to investors of capital.

The cash conversion cycle practices theory is relevant to this study as it will describe how quickly a company can convert its products into cash through sales.

Conceptual Review

This is a diagrammatic representation of the linear relationships between independent variable as illustrated in figure 1.0.

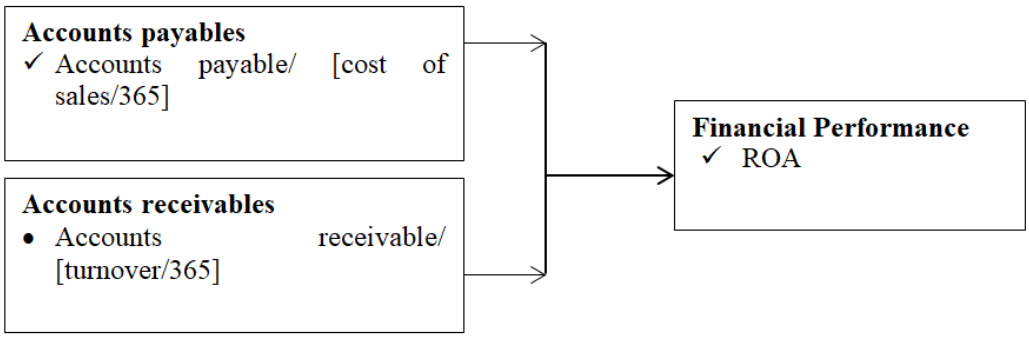

Figure 1.0: Conceptual Framework

Accounts payables is referred as the spark of life and nerve centre of any business (Deloof, 2017). Within the existing industrial world, Accounts payables refers to a components of short term funds essential for supporting the entire duration of the operating cycle of a business known as Accounting period. Therefore, it's a transaction capital that is not maintained in the business in an exceedingly explicit type for over a year (Gill et al., 2019). Accounts payables, which arise directly from the business's operations, represent a valuable source of internal spontaneous short term financing that is unsecured and flow of cash (Maness, 2018, Scherr, 2019). Accounts payable is the largest for cash outflow in many firms (Gallinger & Healey, 2017). They are also a notable source of interest free financing (Fraser, 2016). Accounts payable comes in due to the unsynchronized timing of allocation of goods and the services, to the extent that payment occurs after receiving goods and services, credit, which is a source of funds, has been created Asch and Kaye, 2019, Van Home, et al. (2015). Accounts payable is likely to fluctuate with changes in operating activities (Hill & Sartoris, 2018, Ross, et al. 2019, Richards & Laughlin, 2018).

As noted by Kontuš (2017), accounts receivable denotes the amount owed to a company and arising from past activities of sale of services or products on credit to its customers. Joy (2018) stated that when services and/or goods are sold to the customer by a company under an agreement allowing the former to make payments at a later date, then such an amount outstanding is recorded as accounts receivables. In other words, Joy expounded that receivables were the asset in accounts that represented the money owed to an entity and having risen from credit sale of services and products during the normal course of business. According to Maksimovic and Demirguc (2017) accounts receivable constitute 25% of working capital and therefore care should be taken in their management. Accounts receivable measures the unpaid claims a firm has over its customers at a given time, usually comes in the form of operating line of credit and is mainly due within a relatively short time period (up to one year). The volume of accounts receivable indicates firm's supply of trade credit (Bastos & Pindado, 2016). The study of accounts receivable during periods of financial crisis is an important topic, particularly when the global economy is going through a credit shock. During global financial crisis, characterized by high financial performancefaced by the banks, trade credits may increase, operating as a substitute for bank credits, or decrease - acting as their complement.

Empirical Review

Accounts Payables on Performance

Gakurya and Olouch (2018) conducted a study on the effect of accounts payable management on performance of Coastal County Government Ministries. The study found that accounts payable credit timelines, accounts payable procedures, accounts payable structure, and accounts payable controls, individually, have positive influence on financial performance of Coastal County governments' ministries. The study only shows the effect of accounts payable management on performance compared to the current study variables. Ikechukwu and Nwakaego (2015 conducted a study on the effect of accounts payable ratio on the financial performance of food and beverages manufacturing companies in Nigeria. The results show that accounts payable ratio had negative significant effect with the profitability ratio. The study revealed also that Debt ratio had positive but non-

significant effect on profitability, while sales growth rate also had positive and non-significant effect on the profitability ratio of these companies under study Food and Beverages companies in Nigeria. The effects of accounts payables on profitability of savings and credit cooperative societies however were not looked into by the study.

Towo (2015) did an investigation on the effectiveness of the accounts payables systems and its impact on cash flows in Zombabwe. The findings of the research revealed that the company had an accounts payables system in place but it was ineffective and resulted in high cash outflows. The study however looked only on the effects of accounts payables on cash flows compared to the current study on profitability of savings and credit cooperative societies. Likalama and Kirwa (2017) did an assessment on accounts payables management as a determinant of profitability on agro-firms in Eldoret Business Centre. The findings revealed a Cronbach's alpha coefficient of 0.716 and 0.781for Management of Accounts Payables and profitability, respectively. The data was analyzed using both descriptive and inferential statistics. The study established that, management of accounts payables is a predictor variable for profitability of agro firms. The study looked on the effects of accounts payables management as a determinant of profitability on agro-firms compared to my current study on savings and credit cooperative societies. Mutai and Kimani (2019) conducted a study on the effect of accounts payable management practices on liquidity of public technical training institutions in Rift Valley Region, Kenya. The study findings indicated that accounts payable management practices were significant to liquidity of public Technical Training Institutions in Rift Valley Region. The study however did not look into the effects of accounts payable on firm profitability of savings and credit cooperative societies.

Accounts Receivables on Performance

Nwude and Agbo (2018) conducted a study on the impact of accounts receivable period on the profitability of quoted insurance companies in Nigeria. The results show that accounts receivable period has negative and insignificant impact on profitability. Current ratio, fixed financial total asset ratio, debt asset ratio and growth have the expected positive relationship whereas the firm size indicates unexpected relationship with profitability. The study was however in Nigeria compared to the current study. Darko et al., (2016) did an examination on management of accounts receivables in utility companies in Ghana. The results show that Electricity Company of Ghana has an average accounts receivable days' sales outstanding of 158 days over the study period and unrealistic provision for bad debt of about 5%. The findings also show that the company is not very effective in its accounts receivable management. The effect of accounts receivables on profitability of savings and credit cooperative societies however was not shown on the study.

Kakeeto et al., (2016) did a study on accounts receivable management and organizational profitability as a function of employee perception in gumutindo coffee cooperative enterprise limited, Mbale District Uganda. The findings revealed that accounts receivable management positively affected organizational profitability. The study concluded that, accounts receivable management was adequate. The effects of accounts receivables on profitability of savings and credit cooperative societies were however not shown on the study. Munene and Tibbs (2018) did a study on accounts receivable management and financial performance of Embu Water and Sanitation Company Limited, Embu County, Kenya. The study established that accounts receivable in days has negative relationship with Return on Accounts receivables which means that company's financial performance can be increased by reducing inventory in days. Average collection period and current ratio was found to be significant positive association with Return on Equities, indicating that if time period of debtor's payment is increased then overall financial performance also improves. The effects of accounts receivables on profitability of savings and credit cooperative societies were however not shown on the study.

III. Material and Methods

The study employed a causal study research design. Miller (2016) stated that a causal study is an in-depth investigation of an individual group, institution or phenomenon whose purpose is to determine the relationship that has been caused by phenomenon of the study. The study target 46 licensed SACCO in Nairobi County (Appendix III). The licensed Saccos formed the unit of analysis. Therefore, the total target population was the 46 registered Saccos in Nairobi County (SASRA, 2021). Since a census approach was used, the sample size for the study was the 46 licensed Saccos in Nairobi County. The data collection instrument was a secondary data collection schedule that captured the various variables for a period of five years. The researcher collected data for each attribute from the financial reports of the 45 selected SACCOs for the five years between 2017 and 2021. This research employed both descriptive and inferential statistics to analyze the data collected. The relationship between the study variables was tested using regression models by aid of STATA 15.0

IV. Result and Discussion

Descriptive Analysis

The objective of the descriptive analysis was to describe the properties of the data and to identify any unusual observations that may cause problems during inferential analysis. Thus, initial exploration of the data using simple descriptive tools was provided to describe and summarize the data generated for the study. The descriptive statistics of interest included mean, standard deviation, minimum and maximum as presented in table 1.

Table 1: Descriptive Statistics

Statistic	Count	Mean	S.D	Minimum	Maximum
Accounts payables	230	7.22306	4.399096	0.463437	14.72176
Accounts receivables	230	12.3302	7.33619	0.277529	26.24936
Financial Performance	230	-2.55819	6.70786	-14.033	8.469

Accounts receivables was calculated by finding the ratio turnover/365. Accounts receivables ranged from 1 days to 26 between 2017 and 2021. The distribution had a mean 12 day and standard deviation of 7 days. Accounts payables was calculated by finding the ratio of cost of sales/365. Accounts payables ranged from 1 day to 15 days between 2017 and 2021. The distribution had a mean of 7 days and standard deviation of 4 days. In this study, financial performance was calculated by finding the ratio return on assets. Financial performance ranged from -14.0 to 8.5 between 2017 and 2021. The distribution had a mean of -2.56 and standard deviation of 6.70.

Correlation Analysis

To explore the effect of working capital management practices on financial performance, a correlation analysis was conducted. The results of the correlation between working capital management practices and financial performance pertinent results are summarized in Table 2.

Table 2: Pearson Correlation Analysis

		Financial Performance	AR	AP
AR: Accounts receivables	Pearson Correlation	-0.2942*	1	
	Sig. (2-tailed)	0.0354		
	N	40	40	
AP: Accounts payables	Pearson Correlation	0.3919*	-0.3167*	1
	Sig. (2-tailed)	0.000	0.0465	
	N	40	40	40

The results indicated that the account receivables have a significant negative weak effect on the performance of savings and credit cooperatives in Nairobi County (r = -0.2942, P=0.0354). The findings are in agreement with Bushuru et al. (2015) examined the impact of working capital management on performance in Kenya using data from listed firms on the Nairobi securities exchange for the period 2006-2013. Working capital management (in terms of accounts receivable collection period) related negatively to performance though statistically significant. Awunya (2017) examined how working capital management affects financial performance of firms listed at the Nairobi Securities Exchange both commercial and service. Wasiuzzaman (2015) provide that the effectiveness of management of accounts receivable have a significant impact on a financial performance. According to Panigrahi (2013), an increase in the level of accounts receivables in a firm increases both the net working capital and the cost of holding and managing accounts receivable and both lead to a decrease in the value of the firm

However, account payable has a positive and significant effect on the performance of savings and credit cooperatives in Nairobi County (r =0.3919, P=0.000). Mugo (2014) investigated the implications of working capital management on performance. The key finding from the study was accounts payable has significantly positive relationship with performance of quoted commercial banks in Kenya, this implies that the longer the bank takes to pay its creditors, the more liquid it is. Murega (2013) investigated the effects of working capital management on corporate profitability among firms listed in Nairobi securities exchange. The results of the study

revealed that accounts payables period of the firms has a positive effect on the firms' profitability, as measured by return on assets, return on equity and operating profit margin.

Linear Regression: |Effect of Accounts payables on Financial performance

The study sought to determine the effect of accounts payables on performance of savings and credit cooperatives in Nairobi County. The study adopted fixed effect model and the results are presented in Table 3.

Table 3: Regression Fixed Effect of Accounts payables on financial performance

ROA	Coef.	Std. Err.	T	P>t	[95% Conf. Interval]	
AP	0.72909	0.183385	3.98	0.000	0.30316	1.155074
_cons	0.852177	0.943124	0.9	0.373	-1.07134	2.775691
Weighted Statistics						
Rsq:				Number of obs =		130
within =		0.3377		Number of groups =		46
between =		0.0941		F(1,183) =		15.81
overall =		0.1536		Prob > chi2 =		0.0004

The analysis shows that the panels were strongly balanced for this bivariate analysis as shown by the number of observations per group. The result obtained from fixed effect model indicated that accounts payables accounted for 15.36% (Overall R square=0.1536) of the variation in performance of savings and credit cooperatives in Nairobi County. The ANOVA statistics measure the general significance of the model. The F-statistic to the model shows is 15.81 which is greater than 0 implying that the estimated parameters in the model are at least not equal to zero. This infers that account payable has an effect on performance of savings and credit cooperatives in Nairobi County. The influence is significant at $P<0.05$. The estimated coefficient of accounts payables is significantly not equal to zero ($\beta=0.72909$, $t=3.98$, p-value= 0.000). The P-value is less than 0.05 which implies that the estimated coefficient is significant at 5% significance level. The estimated coefficient of accounts payables here implies that a unit increase in accounts payable would cause the levels of financial performance to increase by 0.72909 units. The p-value of the constant is less than 0.05 which shows a significant constant term. The regression model is as shown below

Financial performance = 0.852177+0.72909AP

The study therefore rejected the null hypothesis that accounts payables has no significant effect performance of savings and credit cooperatives in Nairobi County and concluded that there is an effect of accounts payables on financial performance. This implies that increase in accounts payables would results to increase in performance of savings and credit cooperatives in Nairobi County. The results agree with Mugo (2014) who showed that accounts payables has significantly positive relationship with financial performance of quoted commercial banks in Kenya, this implies that the longer the bank takes to pay its creditors, the more liquid it is. Murega (2013) revealed that accounts payable period of the firms has a positive effect on the firms' profitability, as measured by return on assets, return on equity and operating profit margin. Makori and Jagongo, (2013) found a positive relationship between profitability and number of day's payable. Ashok (2013) and Jahur and Qvardir (2012) support that accounts payables should be optimally used by a firm as it is a major source of short-term financing but at the same time must be effectively managed and monitored through an efficient system to eliminate chances of financial performance problems occurring.

Effect of Accounts receivables on financial performance

The study sought to determine the effect of accounts receivables on performance of savings and credit cooperatives in Nairobi County. The study adopted fixed effect model and the results are presented in Table 4.

Table 4: Regression Fixed Effect of Accounts receivables on financial performance

ROA	Coef.	Std. Err.	T	P>t	[95% Conf. Interval]	
AR	-0.517405	0.161797	-3.2	0.003	-0.84739	-0.18741
_cons	-1.78141	0.754964	-2.36	0.025	-3.32117	-0.24165
Weighted Statistics						
Rsq:				Number of obs =		230
within =		0.2481		Number of groups =		46
between =		0.0626		F(1,183) =		10.23

overall =	0.0866	Prob > chi2 =	0.0032

The R^2 is generally a measure of the variation of the dependent variable that is explained by the variation of the predictors in the model. The result obtained from fixed effect model indicated that accounts receivables accounted for 8.66% (Overall R square=0.0866 of the variation in performance of savings and credit cooperatives in Nairobi County. The ANOVA statistics measure the general significance of the model. The F-statistic to the model shows is 10.23 which is greater than 0 implying that the

estimated parameters in the model are at least not equal to zero. This infers that account receivable has an influence on performance of savings and credit cooperatives in Nairobi County. The estimated coefficient of accounts receivable is significantly not equal to zero (β=-0.517405, t= 3.200, p-value= 0.003). The P-value is less than 0.05 which implies that the estimated coefficient is significant at 5% significance level. The estimated coefficient of accounts receivables here implies that a unit increase in account receivable would cause the levels of financial performance to decrease by 0.517 units. The p-value of the constant is less than 0.05 which shows a significant constant term. The regression model is as shown below

Financial performance= -1.78141-0.517405AR

The study therefore rejected the null hypothesis that accounts receivable has no significant effect performance of savings and credit cooperatives in Nairobi County and concluded that there is significant influence of accounts receivable on financial performance. This implies that increase in accounts receivable would results to increase in performance of savings and credit cooperatives in Nairobi County. These findings are in concurrence with Mugo (2014) who established using correlation and regression tests a significant relationship between gross operating income and the number of day's accounts receivable. Hence an increase in the number of days for account receivable would decrease the financial performance level in the firm. These findings are in agreement with Kimani (2014) who studied financial performance in banks. This shows that as banks increase the length of time it takes to collect its debts, performance decreases and when the banks reduces the period of collecting its debts, performance increases.

.

V. Conclusion and Recommendation

The study concluded that account payable has significant positive effect on financial performance. An increase in account payable would results to significant increase in financial performance. Therefore, account payable has a significant positive effect on financial performance of savings and credit cooperatives in Nairobi County. The study concluded that increase in the length of time it takes to pay for their creditor; it reduces the burden on their financial performance and therefore gives them the opportunity to hold cash and cash equivalent. The study also concluded that account receivable has significant negative effect on financial performance. An increase in account receivable would results to significant decrease in financial performance. Therefore, the study concluded that savings and credit cooperatives in Nairobi County are able to increase their financial performance when they shorten their debtors' repayment period.

The study recommends that management of savings and credit cooperatives in Nairobi County should take longer to meet their maturing obligations. This is through increase in days of payables outstanding. Delaying payment to creditors would allow the savings and credit cooperatives in Nairobi County to fully utilize the funds since payables are sources of short-term finance. However, management should not take too long to meet the obligations as this can negatively affect their credit rating. The study also suggests that savings and credit cooperatives in Nairobi County should keep the account receivable period at minimum in order to enhance their financial performance position. To achieve this, savings and credit cooperatives in Nairobi County need effective credit management strategies, proper undertaking of credit analysis on the prospective borrowers, and making efforts to ensure that funds are not tied up in receivables for longer periods. However, despite all these techniques, the savings and credit cooperatives in Nairobi County has to adopt lenient mode of approaching borrowers for receivable collection. This is because a more stringent approach would scare away borrowers.

References

[1]. Akoto, R. K., Awunyo-Vitor, D., & Angmor, P. L. (2013). Working capital management practices and profitability: Evidence from Ghanaian savings and credit cooperatives in Nairobi County. Journal of economics and international finance, 5(9), 373-379.
[2]. Anagnostopoulou, S. C. (2012). Working capital management practices and Savings and credit cooperatives in Nairobi County Listing Status. Multinational Finance Journal, 16(3), 261-301.
[3]. Anser, R., & Malik, Q. A. (2013). Cash conversion cycle practices and savings and credit cooperatives in Nairobi County' profitability–A study of listed manufacturing companies of Pakistan. IOSR Journal of Business and Management, 8(2), 83-87.
[4]. Barine, M. N. (2012). Working capital management practices efficiency and corporate profitability: Evidences from quoted savings and credit cooperatives in Nairobi County in Nigeria. Journal of applied finance and banking, 2(2), 215.
[5]. Bhalla, V. K. (2014). Working capital management. S. Chand Publishing.
[6]. Bolt, W., De Haan, L., Hoeberichts, M., Van Oordt, M. R., & Swank, J. (2012). Bank profitability during recessions. Journal of Banking & Finance, 36(9), 2552-2564.

[7]. Brown, K., & Moles, P. (2014). Credit risk management. K. Brown & P. Moles, Credit Risk Management, 16.
[8]. Blinder, A. S. & Maccini, L.J. (2017). The resurgence of inventory research: what have we learned? Journal of Economic Survey, 5(4), 291-328.
[9]. Chittenden, F., Hall, G. & Hutchinson, P. (2016). Small savings and credit cooperatives in Nairobi County growth, access to interest on corporate capital structure, Journal of Finance, Vol. 43 pp.271-81.
[10]. Coleman, S., Cole, R. (2019). "„Small Savings and credit cooperatives in Nairobi County‟ use of financial leverage: evidence from the 2003 National Survey of Small Business Finances", University of Hartford, Hartford, CT, working paper
[11]. Darko, E. A., Adarkwah, S., Donkor, F., & Kyei, E. (2016). Management of accounts receivables in utility companies: A focus on Electricity Company of Ghana (ECG). International Journal of Academic Research in Business and Social Sciences, 6(11), 486-518.
[12]. Dinku, T. (2013). Impact of working capital management practices on profitability of micro and small enterprises in Ethiopia: The case of Bahir Dar City administration. International Journal of Accounting and Taxation, 1(1), 15-24.
[13]. Dong, H. P., & Su, J. T. (2010). The Relationship Between Working capital management practices and Profitability: A Vietnam Case. International Research Journal of Finance and Economics, 49(1), 59-67.
[14]. Enqvist, J., Graham, M., & Nikkinen, J. (2014). The impact of working capital management practices on savings and credit cooperatives in Nairobi County profitability in different business cycles: Evidence from Finland. Research in International Business and Finance, 32, 36-49.
[15]. Financial Executives International Canada (2013). Corporate Financial Policy and the Value of Cash. forthcoming in the Journal of Finance
[16]. Fujo, K. G., & Ali, A. I. (2016). Factors affecting financial performance of savings and credit societies in Kilifi County-A case study of Imarika Sacco. The International Journal of Business & Management, 4(2), 448.
[17]. Gakure, R., Cheluget, J., Onyango, J. A., & Keraro, V. (2012). Working capital management practices and profitability of savings and credit cooperatives in Nairobi County listed at the Nairobi stock exchange. Prime journal of business administration and management (BAM), 2(9), 680-686.
[18]. Gakurya, C. F., & Olouch, J. (2018). Effect of Accounts Payable Management on Performance of Coastal County Government Ministries. International Journal of Business and Processes (ISSN 2616-3209), 4(2), 12-12.
[19]. Garcia-Teruel, P. J. & Pedro, M.N. (2017). Effects of Working Capital Management on SME Profitability, International Journal of Managerial Finance, 3(2), 164-177
[20]. Gentry, J. A., R. Vaidyanathan, Hei Wee Lee (2019). "A Weighted Cash Conversion Cycle", Financial Management, Spring, 90-99.
[21]. Gul, A., Khan J. Raheman, J., Khan, D. Khan, J.W. & Khan, D.E. (2013). Financial Management: Principles and Applications 10th Edition (p. 646). New Jersey: Pearson Prentice Hall.
[22]. Ikechukwu, O. I., & Nwakaego, D. A. (2015). The Effect of Accounts Payable Ratio on the Financial Performance of Food and Beverages Manufacturing Companies in Nigeria. Journal of Research in Business and Management, 3(9), 15-21.
[23]. Kakeeto, F., Timbirimu, M., Kiizah, P., & Olutayo, K. O. (2016). Accounts Receivable Management and Organizational Profitability as a Function of Employee Perception in Gumutindo Coffee Cooperative Enterprise Limited (GCCE), Mbale District Uganda. International Academic Journal of Economics and Finance, 3(3), 1-17
[24]. Kontuš, E. (2013). Management of accounts receivable in a company. Ekonomska misao i praksa, (1), 21-38.
[25]. Kostopoulos, K., Papalexandris, A., Papachroni, M., & Ioannou, G. (2011). Absorptive capacity, innovation, and financial performance. Journal of Business Research, 64(12), 1335-1343.
[26]. Kothari, C. R. (2004). Research methodology: Methods and techniques. New Age International
[27]. Kumar, R. (2016). Economic Order Quantity (EOQ) Model. Global Journal of Finance and Economic Management, 5(1), 1-5
[28]. Lack, J. H. (2013). How to Manage Accounts Payables Better. In Plan to Turn Your Company Around in 90 Days (pp. 21-30). Apress, Berkeley, CA.
[29]. Likalama, A., & Kirwa, O. O. T. (2017). Assessing Accounts Payables Management as a Determinant of Profitability on Agro-Savings and credit cooperatives in Nairobi County in Eldoret Business Centre. In Proceedings of Kibabii University 2nd Interdisciplinary International Scientific Conference; June (Vol. 14, p. 15).
[30]. Mansoori, D. E., & Muhammad, D. (2012). The effect of working capital management practices on savings and credit cooperatives in Nairobi County's profitability: Evidence from Singapore. Interdisciplinary Journal of Contemporary Research in Business, 4(5).
[31]. Mathuva, D. M. (2014). An empirical analysis of the determinants of the cash conversion cycle practices in Kenyan listed non-financial savings and credit cooperatives in Nairobi County. Journal of Accounting in Emerging Economies. 4(2), 3-7.
[32]. Milicevic, N., Davidovic, M. & Stefanovic, M. (2012). Financial Effects of Inventory Management in Trading Companies - EOQ Model. Economics and Organization, 9(4), 507 - 519
[33]. Mugenda, O. &Mugenda A. (2003). Research methods: quantitative and qualitative approaches
[34]. Mugenda, O. and Mugenda, A. (1999). Research Methods: Quantitative and Qualitative Approaches. Act Press.
[35]. Munene, F., & Tibbs, C. Y. (2018). Accounts receivable management and financial performance of Embu Water and Sanitation Company Limited, Embu County, Kenya. International Academic Journal of Economics and Finance, 2(13), 54-56
[36]. Muriuki, D. M., Nganga, S. I., & Kyalo, T. N. (2014). Analysis of factors influencing investment decisions of SACCO funds in Kenya. The International Journal of Business & Management, 1(2), 8.
[37]. Mutai, A. K. & Kimani, E. M. (2019). Effect of accounts payable management practices on financial performance of public technical training institutions in Rift Valley Region, Kenya. International Academic Journal of Economics and Finance, 3(3), 174-186
[38]. Ngugi, S. (2014). Determinants of accounts receivables management in the hotel industry in Kenya. International Academic Journal of Economics and Finance, 1(3), 4-6
[39]. Njeru Mugambi Duncan, D., Njeru, A., Member, F., & Tirimba, O. I. (2015). Effect of Cash Management on Financial Performance of Deposit Taking SACCOs in Mount Kenya Region. International Journal of Scientific and Research Publications, 5(2), 1-6.
[40]. Nwude, E. C., & Agbo, E. I. (2018). Impact of Accounts Receivable Period on the Profitability of Quoted Insurance Companies in Nigeria. Transylvanian Review, 26(25), 6649-6658.
[41]. Nwude, E. C., Agbo, E. I., & Ibe, C. (2018). Effect of cash conversion cycle practices on the profitability of public listed insurance companies. International Journal of Economics and Financial Issues, 8(1), 111.
[42]. Opiyo, J. (2017). The Relationship between Financial Performance and Corporate Governance: Evidence from Savings and Credit Co-operatives based in Nairobi, Unpublished MBA Project, University of Nairobi.
[43]. Pais, M. A., & Gama, P. M. (2015). Working capital management practices and SMEs profitability: Portuguese evidence. International journal of managerial finance. 2(1), 9-17.
[44]. Ponsian, N., Chrispina, K., Tago, G., & Mkiibi, H. (2014). The effect of working capital management practices on profitability. International Journal of Economics, Finance and Management Sciences, 2(6), 347-355.

[45]. Sharma, A. K., & Kumar, S. (2011). Effect of working capital management practices on savings and credit cooperatives in Nairobi County profitability: Empirical evidence from India. Global business review, 12(1), 159-173.
[46]. Singhania, M., & Mehta, P. (2017). Working capital management practices and savings and credit cooperatives in Nairobi County' profitability: evidence from emerging Asian countries. South Asian Journal of Business Studies. 4(1), 19-27.
[47]. Singhania, M., Sharma, N., & Yagnesh, J. (2014). Working capital management practices and Profitability: Evidence from Indian Manufacturing Companies. Springer Link, 41(3), 313-326
[48]. Towo, T. (2015). An investigation on the effectiveness of the accounts payables systems and its impact on cash flows-a case of Sino Zimbabwe Cement Company 2012-2014. Journal of Research in Business and Management, 8(9), 5-10.
[49]. Ukaegbu, B. (2014). The significance of working capital management practices in determining savings and credit cooperatives in Nairobi County profitability: Evidence from developing economies in Africa. Research in International Business and Finance, 31, 1-16.
[50]. Wanyoike, W. (2013). Effect of compliance to Sasra Regulations on financial performance of Savings and Credit Co-Operatives in Kenya. Journal of finance, 63(3), 119-136.

Francisca Leruk. "Effect of Working Capital Management Practices on Financial Performance of Savings and Credit Cooperative Societies in Nairobi County, Kenya ." *IOSR Journal of Economics and Finance (IOSR-JEF)*, 14(2), 2023, pp. 13-22.