# EFFECT OF WORKING CAPITAL MANAGEMENT PRACTICES ON FINANCIAL PERFORMANCE OF LISTED AGRICULTURAL FIRMS IN NAIROBI SECURITIES EXCHANGE. A MODERATING ROLE OF GOVERNMENT POLICIES

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**2022**
**International Academic Journal of Economics and Finance (IAJEF) | ISSN 2518-2366**

**Received:** 20th October 2022

**Published:** 5th November 2022

Full Length Research

**Available Online at:** https://iajournals.org/articles/iajef_v3_i8_1_25.pdf

**Citation:** Nyantika, R. B., Nyangau, A., Onwong'a, M. (2022). Effect of working capital management practices on financial performance of listed agricultural firms in Nairobi Securities Exchange. A moderating role of government policies. *International Academic Journal of Economics and Finance, 3(8), 1-25.*

## ABSTRACT

Working capital is a financial matrix that represents operating liquidity available to a business and has direct relationship with the performance and cash of a firms for a period not exceeding one year it's also referred as net working capital which simplifies the difference between company's current assets and liabilities in a short term period relating to the next one year period which is reversible. Financial performance of the Agricultural sector in 2018 was 6.1% where as in 2019 was 3.6%. This represented a decline in financial performance by 2.5%. The decrease in performance was associated with inefficient application of working capital management practices. The main objective was to examine the effect of account receivable management on financial performance of listed agricultural firm in Nairobi securities exchange. It was supported by operating cycle theory, transaction costs theory, agency theory and transaction cost economics theory. The study adopted descriptive research design. The target population of the study was 505 comprising of top management, accounting and finance department and procurements department of the listed agricultural firms at 31st Dec 2020 in NSE. The sample size for this study was 319 respondents selected through stratified random sampling. Primary data was obtained by closed questionnaires while secondary data was collected using a data collection sheet. Collected data was analyzed through descriptive (mean and minimum, maximum and standard deviation), and inferential statistics (correlation analysis and regression analysis). The study established that, accounts receivables had a strong but negatively correlated relationship with financial performance of listed agricultural firms in Kenya r=-.450(**), p=.000<0.01. The study concluded that, cash conversion cycles controls the ability of firms to spend outside their budget. Further, the study recommended that listed agricultural firms should have in place modern and technologically advanced inventory management systems. This system would be able increase efficiency and effectiveness reduces turnaround time and improves financial performance.


**Key Words:** Keywords: Working capital management, account receivables, financial performance,

## INTRODUCTION

Financial performance is an effective tool of determining position of cash management on the growth of an organization. Most of the enterprises lack proper cash management practices of their activities in United States. Lack of cash management practices and accounting skills was associated with lack of understanding and knowledge of cash control and planning procedures. Worse still exist in financial performance of professional institutions as they operate and drop their business in closing some branches as a cash managements activity. Majority of professional institutions are not concerned to assess the growth of their operations. Professional institutions entrepreneurs are noted to be associate growth of their enterprise by continuing improving financial performance (Wamae, 2008).

Financial performance is determined by availability of capital. Enough capital gives a firms strength weather down financial challenges as they arise and enhance its ability to generate more income in the short and long run. Adequate capital directly influences performance of a bank in expansion, funding high risk project with more income, manpower recruitment and investing in other business like subsidiaries (Moosa & Bhatti, 2010).

Financial performance of agricultural firms is affected greatly by financial regulations. Other factors like Participatory budgeting do not lead to significant changes in profitability. However, frequent involvement of stakeholders in budgeting may contribute enhanced performance with time. Proper usage of the budgeting process, makes it necessary for proper planning, promotes effective communication and coordination among various department of these firms. This makes necessary for agricultural firms to apply financial controls for effective performance of in Wakiso district in Uganda (Musoke & Nyonyintono, 2017).

Financial performance is affected by the nature of investment under taken by insurance firms in Kenya. Insurance companies invest their funds in real estate where funds in investments, deposits with other financial firms and investment in Government securities .Cash income generated from these activities enhances profitability of these firms in Kenya ( Njiiri, 2015).

Financial performance of commercial banks is contributed by key elements except for liquidity variable. Other macroeconomic factors also affects profitability but not the greater extent. Performance of banks is greatly contributed by the decisions made by the top brass (Ongore & Kusa, 2013).

History of working management goes back to 1900-1940 in the 20$^{th}$ century the old Yankee peddler loaded up his wagon and set off to peddle his wares. Working capital is the investment on current assets including investment in raw materials, finished goods, among others.

(Darun, Raudaki & Radford, 2015).
Working capital management have direct relation with the performance and cash of firms. Working capital management had a negative correlation with market to book ratio and financial hiccups. Firms whose debts are exorbitant, keep less working capital have no capability to afford financial costs of large working capital in USA (Hill, Kelly & Highfield, 2010).

Effective working capital improves profitability and firm's value. Firms in Pakistan enhance profitability and their value when they properly employ WCM techniques that reduces receivables and inventory stock, enhance sales volume that reduce inventory in Pakistan. Hence, Working capital management affects performance of firms significantly (Iftikhar & Ahtesham, 2018).

Working capital management enable firms increase their earning positively through enhancing manner-collecting cash. The time taken to sell inventory and time taken by firms to pay creditors also hugely and direct influence earnings for firms in India (Sharma & Kumar, 2011).

Working capital management affects the profitability of firm in the oil and gas sector. The profitability of firms is contributed by WCM elements like CCC, minimum daily debtors, minimum daily creditors, and minimum daily stock. The firm's determine the nature of WCM to apply. This in turn affects profitability of firms as well in Nigeria (Iyewumi, Remy & Omotayo, 2015).

Working capital management is a key element of an organization's corporate finance. It has a positive impact on liquidity, profitability, business growth and overall financial wellbeing of a company regardless of the size. The amount of money invested ratio to total assets employed increases tremendously making it easier for firms to enhance their performance. Working capital management allows for efficient management of short-term assets and long-term financial assets. This affects positively profitability, liquidity and total performance of the company in Kenya (Nyabwanga, 2011).

Elements of working capital management like average debtor day, stock turnover period and the cash conversion cycle affects profitability of firms greatly in Kenya. Most of the SMES in Kenya apply a conservative working capital control policy and modes of payment. Working capital management need skilled personnel for proper working and yield best results in the manufacturing sector in Kenya (Muchina & Kiano, 2011).

Accounts receivables management aims at optimizing the balance between every component of working capital management like cash, debtors, inventory and creditors are pertinent to broader strategy of an entity to create value hence, leads to competitive advantage in enterprises.

However too much of accounts receivable ratio on profitability can affect profitability negatively in the long term (Deloof, 2013).

Accounts receivable management is critical in corporate finance. This because, it positively influences liquidity and profitability of the company. Control of debtors help in dealing with old debtors, determining the ability of customers' capability to pay, financial soundness, collateral facilities and current economic status, identifying terms of loans, extremes, credit payment, analyzing default risk and financing of debtors up to payment by the buyer ( Schaum, 2011).

Accounts receivable affect performance when receivables are not paid, written off, with the amounts credited to accounts receivable and debited to allowance for doubtful accounts. In cash management upfront fees are implemented in many accounting firms they charge their clients upfront fees and structure payment plans. After firm receive an upfront fee, connect with the clients setting up a payment plan for the remaining balance, and stick to payment deadlines in Thailand (Ewa, & Udoayang, 2019).

Accounts receivable management is critical and strategic, as it affects the financial performance of a firm and its value. Handling Accounts receivable is key in a firm as it enhances earnings by cutting down the costs of funds during liquidity crisis. Meanwhile debtors management and inventory are balance sheet items which may not directly affect the company's income statement in Mauritius. Volatility on two current assets are recorded in the balance sheet and cash flow statement (Anderisa, 2012).

Account receivable management is ineffective when, measured in terms of account payables and account receivable turnover for firms. Expeditious collection of accounts receivables from customers should be improved. Assessment of customers' ability to pay the firm is critical as it ensures that credit extended to those who can afford to pay as per period stipulated by the company. This is would reduce accounts receivables and hence, enhance financial performance of firms in Rwanda (Mugarura, 2021).

Accounts receivables management affects financial performance of an organization significantly. This is facilitated by proper records on customers, loan amount and payment trends .This makes it easier for the firm to now make a follow up to recover unpaid funds. Increase in receivables increases net working capital and the costs of holding and controlling debtors hence, declined on profitability financial an organization (Odondi, Nteere & Njeru, 2015).

Account receivables have a direct correlation with financial performance of firms financed through government venture capitl in Kenya. Managers in the firms, maintains a good credit

policies that improve efficient and effective management of accounts receivable hence, enhancing financial performance (Mbula, Memba & Njeru, 2016).

Government policy plays a central role in business startups of a sustainable market factors. They support business activities though infrastructure development to support SMEs. Government plays a very key in the success of business by creating an enabling environment. Government 's monetary and fiscal policies play a key in the success of a firms. Friendlier policies like reduction on taxation, tax holidays, development of infrastructure creates a good environment for business to thrive (Uwaoma, & Ordu, 2015).

The government policy of establishes and implements various policies aimed at improving jobs, development of infrastructure and generating income through creating new Small and medium enterprises and upscaling the performance and competitiveness of those that are running Ondieki, 2012).

## Statement of the problem

Working capital management is the investment on current assets and it has a direct relationship with financial performance. It is a tool that determines the position of cash management on the growth of an organization. Proper implementation of sound working capital management practices like accounts receivables as moderated by government polices leads to increased financial performance of listed agricultural in Kenya.

Financial performance of the Agricultural sector in 2018 was 6.1% (KNBS, 2020) whereas in 2019 was 3.6% (KNBS 2020). This represented a decline in financial performance by 2.5% (KNBS Economic Survey- 2020). The decrease in performance of Agricultural sector is associated with inefficient application of working capital management practices.

Waithaka (2012), studied the impact of working capital management practices and financial performance of agricultural companies listed at the Nairobi securities exchange. The independent variables were: average collection period, inventory collection period and average payables period. Mwangi, Muathe and kosimbei (2014), did a study on the effects of working capital management on performance of non- financial companies listed in Kenya, Kenya. The independent variables of the study were: gross domestic product, size of the company, total current assets and total current liabilities. These studies failed to look at account receivable management. It's on this basis this study sought to examine the effect of working capital management practices on financial performance of listed agricultural firms in Nairobi securities exchange. A moderating role of government policies.

## Objectives of the study

### General objective

The main objective of the study was to examine the effect of working capital management practices on financial performance of listed agricultural firms in Nairobi securities exchange. A moderating role of government policies

### Specific objectives

This study was guided by the following specific objectives:

i. To examine the effect of account receivable management on financial performance of listed agricultural in Nairobi Securities Exchange.

## LITERATURE REVIEW

### Theoretical review

### Operating Cycle Theory

The Operating Cycle theory was championed by Laughlin who introduced it in 1980. The theory deals with the policies and guidelines on managing working capital of an entity wisely. The theory further argues that the operation cycles starts when a firm acquires stock sell and get cash from buyers in return. According to operating cycle theory, the time an operating cycles of a firms takes depends on terms of payment given to customers and those given to the company suppliers. Hence, if a firm takes too much time to settle its obligations, then it can reduce the operating cycle by delaying initial cash. On the other hand if customers have more time before they pay, operating cycle of a firms is increased. This would make the firm wait for little bit more time to get cash. Reduced operating cycle means that a firm's cash is held up for a lesser time making it best for cash flow (Bhattacharya, 2014).

The theory assumes that static ratios are not enough in determining financial capability. The theory further assumes that static ratios give ambiguous result leading in to uncertainty in the determination of firms' financial position. Thirdly, the theory assumes that increased scrutiny of static balance sheet led to growth of cash flow concept. This determine ability of cash coverage that include measures of income statement arising from operational activities. Additionally, the study assumes that receivable and inventory turnover are best indicators of financial cash flow. This gives more understanding into WCM (Hill, 2013).

The theory is limited to indicators of solvency like current and acid taste ratio does not give clear outcome unlike when inventory turnover and accounts receivables are used in operating cycle. Additionally, the application of this they limited by the existence of credit policy which makes

difficult for the firm to determine its cash flows. Firms does not only use financial ratios to determine its financial position. (Bhattacharya, 2014).

Operating cycle theory is relevant to this study because it's used to explain relationship betwixt working management and financial performance of Kenyan listed agricultural firms. Agricultural firms obtain some of the raw material and other supplies from suppliers, which in turn they process, and sale to customer. Buying and selling of goods and services involve inflow and outflow of cash. Thus, prudent control of working capital ensures that the firms remain liquid all the time. Continuity in buying and selling of goods and services ensure that listed agricultural firms maximize their wealth.

## Empirical review

### Accounts receivables management and Financial

Jindal and Vartika, (2017) assessed the influenced management of account receivables and Profitability of Commercial Vehicle Industry in India. Debtors' turnover ratio, current ratio fixed Assets Turnover Ratio Firm growth firm size and fixed asset percentage were independent variables of the study. Unit of analysis was 6 firms. Obtained data was analyzed by descriptive statistics and regression analysis. It was discovered that debt payment and earning of the firm were linked directly and to the greater extent. Further, the study noted that growth of the firm and liquidity have no great effect on profitability. On the other hand, the study noted that increase in efficiency on the application of fixed assets, enhanced increases profitability of the firms. Additionally, the study discovered that a change on fixed assets makes firms to reap more profits. The study concluded that proper control of receivables is critical for the success of the industry.

Mihajlov (2013), wanted to find out the effects of controlling accounts receivable on the profitability during the financial crisis: evidence from Serbia. The independent variables of the study were: receivables turnover ratio, accounts receivable to revenue ratio, size and liquidity. The sample size of the study was 108 firms. The study used data from financial statement from 20008-2011. Data was analysis was achieved through descriptive and inferential statistics. The study established that debtors had a direct but insignificant linkage with earnings as measured in terms of ROA and operating profit margin.

Adetunji, Adekoya and Kesinro (2019), studied the influence of Accounts Receivable Management on the Performance of Selected Business Organizations in Nigeria. The independent variable of the study we: Sales growth, Bad Debt and Account Receivable. The study adopted descriptive research design. The study used secondary data that was collected form annual statements for 12 years (2000-2011).The study utilized purposive sampling technique to get a sample size. Descriptive and influential statistical techniques were utilized to

analyze gathered data. The study found out that that sales growth and profit of the organization an inverse but significant association, hence, sales contributes very little to profitability. Further, the study noted that bad debt had an inverse and statistically insignificant effect on financial performance of firms in Nigeria. Similarly, the study established that Accounts receivable also had an inverse and insignificant relation statistically with profitability. The study concluded that an increase in sales increased profitability hence need for the implementation bets credit policy in the firms. The study recommended that introduction of credit collection policy clearly outlining the steps Practices is best suited for the firms to collect arrears of accounts receivable.

Mugarura (2021), studied influence of accounts receivable management on the financial performance of construction companies in Rwanda, a case of NPD Ltd. This study adopted analytical, quantitative research designs. Objectives of the study were: to examine how NPD Ltd is effectively manage account receivable and to find out the relation between accounts receivables and profitability. The study utilized stratified sampling and purposive sampling techniques to choose a sample size of 30. Questionnaires and interviews were utilized in gathering Primary data while secondary data was collected from books, biographies, journals, articles, related websites, magazines, publications. Data analysis was done by descriptive and correlation analytical techniques. It was noted that A/R management in NPD Ltd was not effective in terms of ACP and A/R turnover. Further, the study noted that good management of A/R starts when the firms decides to extend credit to its customers, determining customers to get and granting credit to them. Additionally, the study noted that customers takes too long to settle their credits making much of the accounts receivable to be outstanding for a considerable time. The recommended that the efforts of NPD in collection accounts Receivables should be improved. This would minimize slow payment by credit customers within the company.

Mutiso and Mwangi (2019), determined how receivables management on Performance of manufacturing SMs in Kiambu County. Independent variables were: credit selection, credit standard, credit terms, collection efforts and monitoring receivables. Profitability was measured in return of capital. A sample size of 16 SMEs was attained by purposive random sampling technique from manufacturing sector operating in Ruiru and Thika municipalities. Primary data used in the study was gathered through self-administered questionnaires. Data analysis was achieved by utilizing descriptive and inferential statistics. It was discovered that accountable receivable have a direct but weak correlation with credit standard, credit terms, and profitability. On the other hand, the study discovered that credit selection have a weak and inverse relation with profitability. In addition, the study identified that control and seamless collection of accounts directly and strongly affected the profitability of manufacturing firms. The study concluded that much of the firms' effort is directed towards post-delivery activities of receivables management. The study recommended that managers working for the firms studied ought be highly skilled, have credit managers who is available all the time to handle matters accounts receivables.

Munene (2018), investigated the effect of accounts receivable management and financial performance of Embu water and Sanitation Company limited, Embu County, Kenya. This study was guided by the following independent variables inventory turnover period, average payment period, cash conversion period and average collection period. ROE and ROI were utilized to measure financial performance. A descriptive research design was adopted by the study. The study utilized data from annual reports and fiancé department. Descriptive and inferential statistics were utilized to analyze gathered data. The study discovered that the days taken to sell inventory is inversely negative related with ROE. Hence, leading to the decline in profitability if stock turnover is increased and increase in profitability if inventory days is reduced. Further, the study noted that daily collection period and current ratio had a directly linked with ROA. The study recommended that EWASCO limited to enhance minimum time required for collection, selling and pattern of converting cash to enhance profitability. They study also concluded that volatility in productivity of inventory is applied in predicting stock returns.

Gitahi, Naibei, and Livingstone (2020), conduct a study on the management of accounts receivable and profitability of manufacturing firms listed in NSE .The study adopted descriptive research design. The variables of the study were Credit extension policy, financing receivables and receivable collection period. Financial performance was measured by reduced bad debts, liquidity and profitability. Primary data used in the study was gathered using questionnaires from a sample size of 147 made up of accounts and finance department of all listed manufacturing firms selected through census sampling technique. Data analysis was achieved by utilizing descriptive and regression analytical. It was discovered that Credit extension policies, financing receivables, receivable collection period and profitability had a significant and positive relation. Additionally, it was discovered that clear receivable collection policy and making Customers follow stipulated credit period, directly influence profitability firms. On the hand good collection policy of debt and management procedures is key in enhancing efficiency of controlling receivables. The study concluded that accounts receivable control and profitability of manufacturing companies were linked to the greater extent. The study recommended that clear cut policies that deal with handling of accounts receivables, like credit extension policy, financing receivable and receivable collection period is necessary for improved profitability.

Mukhoma (2014) assessed how control of accounts receivables affects profitability manufacturing firms in Nakuru County. The independent variables were: average collection period, Inventory turnover period, the average payment period, Cash conversion period, Current ratio and Debt ratio. The study applied judgment sampling to select the sample size of 25. Questionnaires were applied to gather Primary data while secondary data was obtained from Finance managers, credit controllers and accountants. Applying descriptive survey research design and descriptive and inferential statistical techniques to analyze collected data, it was established that inventory turnover period and ROE were negatively correlated. Further, the

study noted that ACP had significant and direct positive linkage with ROE hence, enhanced performance. Additionally, it was established that CCC and Net payment period had an inverse and significant linkage with financial performance as measured in ROE. The study recommended that best inventory management system is necessary to avoid overstocking leading to unnecessary losses.

## Conceptual framework

A conceptual framework is a pictorial representation organized step- wise ideals to give a focus, rationale and a tool for interpretation and integrate information (Njeru, 2015). The independent variables of this study was accounts receivables. The dependent variables is financial performance and it was measured in terms of return on Assets. Government policies like monetary and fiscal policies were the moderating variable.

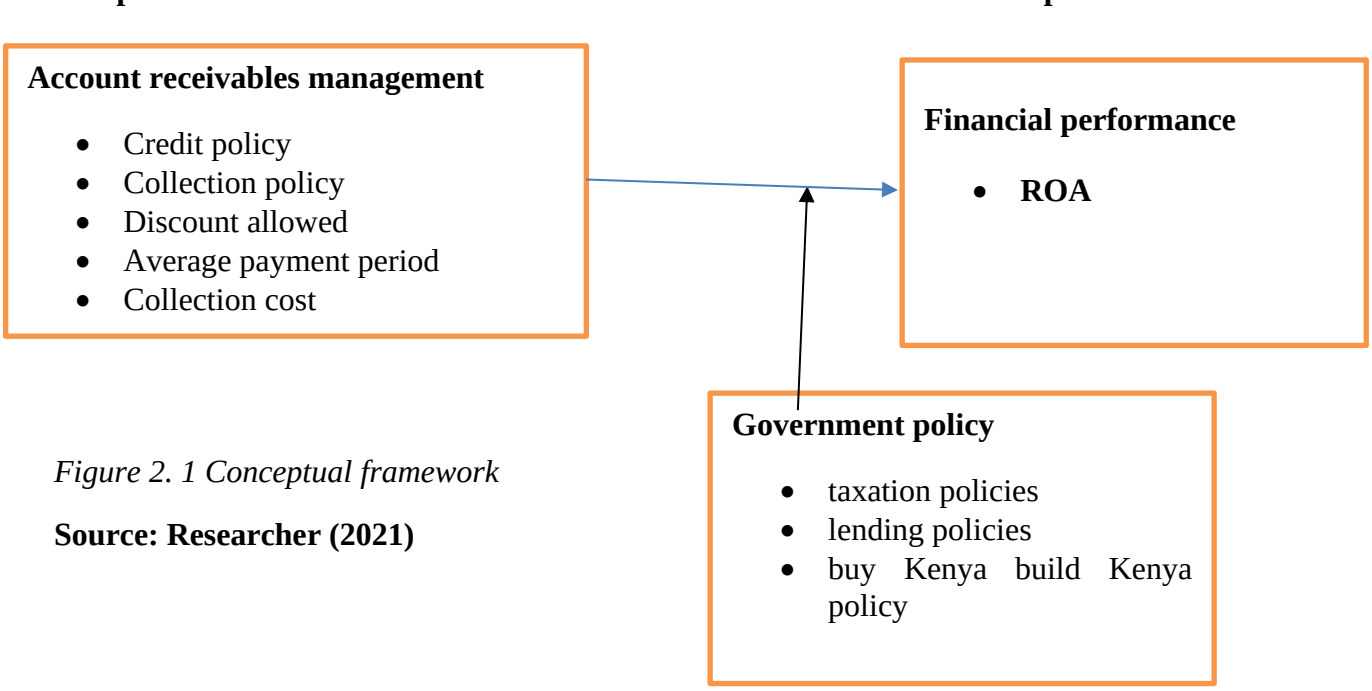


*Figure 2. 1 Conceptual framework*

**Source: Researcher (2021)**

## RESEARCH METHODOLOGY

The study adopted descriptive and correlation design research design. A descriptive design, allows for elaborative analysis of the data collected (Mugenda and Mugenda, 2003). According to Cooper et *al*., (2003), descriptive studies, observes, describes and explain the reasons for the status of a given element. According to Bari, Muturi and Samantar (2019), correlation design enabled the researcher to identify the nature of relationships between dependent and independent

variables applied by listed agricultural firms in Kenya. Descriptive research designs is assumed to be non-experimental hence; they describe an individual or group under study.

This study was done on listed agricultural firms in Nairobi securities exchange Kenya. Kenya is located in east Africa and it boarders Tanzania to the south, Ethiopia to the north, Somalia to west and Uganda to east.

Kothari, (2004) states that target population is all items or group of items, people that with alike features which a portion can be extracted to be used in research. According to (Mugenda, 2008), target population is collection of items, people with similar features located in diverse geographical. Target population was 505 from the top management, accounting and finance department and procurements department of 6 listed agricultural firms at 31st Dec 2020 in NSE.

The sample size was 319 participants consisting top management, accounting and finance department and procurement depart of listed agricultural firms in Kenya. Data analysis was done using descriptive and inferential statistics

The study used correlation, simple regression and multiple regression analytical techniques to analyze collected data.

## DATA ANALYSIS, PRESENTATIONS AND DISCUSSIONS

### Response Rate

The main objective was to examine the effect of working capital management practices on financial performance of listed agricultural firms in Nairobi Securities Exchange. A moderating role of government policies. The specific objectives of the study were: to examine the effect of account receivable management on financial performance of listed agricultural in Nairobi Securities Exchange. The study applied both primary and secondary data. Primary data was gathered using closed ended questionnaires whereas, secondary data was collected using data collection sheet form annual audited and published financial reports for 10 years (2011-2020).

The study issued 319 questionnaires out of which 223 were fully filled in and returned. The findings were represented below.

*Table 4. 1 Response rate*

| Target group | Number of questionnaires | Return rate % |
|---|---|---|
| Total Questionnaires issued | 319 | 100 |
| Questionnaire retuned | 245 | 76.8 |
| Questionnaires Duly filled | 223 | 70.0 |
| Questionnaires unused | 22 | 7.0 |

*Source: field data 2022*

It was noted that, 70.0% of the questionnaires distributed to respondents were filled in and returned. Accordingly, this response rate was enough for data analysis and generalization. Mugenda and Mugenda (2003) asserted that, a response rate of 50% is sufficient for data analysis and statistical reporting. They further suggested that, a response rate of 60% is good while a response rate of 70% and over is excellent for data analysis and generalization of the findings.

## Descriptive statistics

### Accounts receivables

This was the first independent variable of the study. The study wanted to find out how accounts receivables affect financial performance of listed agricultural firms in Kenya. The study distributed closed-ended questionnaires to respondents working in these at top management level, accountants, finance officers and procurement officers. Questionnaires were designed using a five point Likert scale. Respondents were required to indicate the extent to which agree or disagree with the statements provided. Collected data was analyzed and the findings are presented in the table below**:**

*Table 4. 2 Descriptive Statistics on accounts receivables*

| Statements | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| Credit requirements like collection period of listed agricultural firms increases accounts receivables | 223 | 1.00 | 5.00 | 1.5157 | .73428 |
| Companies' collection policies like increasing payment time determines receivables outstanding. | 223 | 1.00 | 5.00 | 2.0807 | .81800 |
| Discounts allowed encourage debtors to pay in time | 223 | 1.00 | 5.00 | 1.9641 | .89471 |
| Average payment period determine the extent of receivables. | 223 | 1.00 | 5.00 | 2.0000 | .80539 |
| The cost incurred in collecting receivables reduces collection frequencies | 223 | 1.00 | 5.00 | 2.2422 | 1.02431 |
| Valid N (list wise) | 223 | | | | |

*Source: Filed data 2022*

The study found out that, credit requirements like collection period of listed agricultural firms increases accounts receivables had mean value of 1.5157 with standard deviation of .73428, Companies' collection policies like increasing payment time determines receivables outstanding had mean value of 2.0807 with standard deviation of .81800. Further, the study noted that, Discounts allowed encourage debtors to pay in time had mean value of 1.9641with standard deviation of .89471, Average payment period determine the extent of receivables had mean value of 2.0000 with standard deviation of .80539, The cost incurred in collecting receivables reduces collection frequencies had mean value of 2.2422 with standard deviation of 1.02431. The study established that, The cost incurred in collecting receivables reduces collection frequencies had the highest mean of 2.2422 while Credit requirements like collection period of listed agricultural firms increases accounts receivables had the lowest mean of 1.5157. Thus, the cost incurred in collecting receivables reduces collection frequencies.This reduces income generated from receivables leading to a declined financial performance of listed agricultural firms.These findings agreed with Gitahi, Naibei, and Livingstone (2020), who established that, hand good collection policy of debt and management procedures is key in enhancing efficiency of controlling receivables. The study concluded that accounts receivable control and profitability of manufacturing companies were linked to the greater extent.

## Government policy

The objective of the study which found out the role of government policies on the relationship between working capital management on financial performance of listed agricultural firms in Nairobi Securities Exchange. Closed-ended questionnaires were issued to respondents working in these firms at top management level, accountants, finance officers and procurement officers. Questionnaires were designed using a five point Likert scale. Respondents were required to indicate the extent to which agree or disagree with the statements provided. Collected data was analyzed descriptively and the findings presented in the table below:

The study identified that Taxation requirements determine success of listed agricultural firms had mean value of 1.7534 with standard deviation of .92375; Friendlier lending policies created by the government encourages new agricultural based start-ups had mean value of 1.8341 with standard deviation of .77941. Finally, the study noted that, the buy Kenya build Kenya policy has made listed agricultural firm’s sales more of their products had mean value of 2.0807 with standard deviation 1.10801.

The study discovered that The buy Kenya build Kenya policy has made listed agricultural firms sales more of their products had the highest mean of 2.0807 while Taxation requirements determine success of listed agricultural firms had the lowest mean. Thus, buy Kenya build Kenya policy enabled listed agricultural firms to increase their sales volume leading increased financial performance.

### Financial performance

Financial performance was the dependent variable of the study. It was measured using return on assets. The study collected secondary data form published annual reports using a data collection sheet. Collected data was analyzed descriptive statistics. The findings of the study were presented in the table below.

*Table 4. 3 Descriptive Statistics on financial performance*

| Firms | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| Eaagads Ltd Ord | 10 | .03 | .64 | .1827 | .24582 |
| Kakuzi Plc Ord. | 10 | .02 | .13 | .0855 | .03627 |
| Kapchorua Tea Co. Ltd Ord Ord | 10 | .01 | .67 | .1263 | .19826 |
| Limuru Tea Co. Plc | 10 | .01 | .32 | .0829 | .10372 |
| Sasini Plc Ord | 10 | .02 | .05 | .0125 | .01432 |
| Williamson Tea Kenya Ltd Ord | 10 | .03 | .15 | .0633 | .04881 |
| Valid N (listwise) | 10 | | | | |

*Source field data 2022*

The study found out that, Eaagads Ltd Ord 1.25 had mean value of .1827 with standard deviation of .24582 while Kakuzi Plc Ord.5.00 had mean value of .0855 with standard deviation of .03627. Further, the study established that, Kapchorua Tea Co. Ltd Ord Ord 5.00 had mean value of .1263 with standard deviation of .19826, Limuru Tea Co. Plc Ord 20.00, had mean value of .0829 with standard deviation of .10372, Sasini Plc Ord 1.00 had mean value of .0125 with standard deviation of .01432. finally, Williamson Tea Kenya Ltd Ord 5.00 had mean value of .0633 with standard deviation of .04881. The study found out that Eaagads Ltd Ord 1.25 had the highest mean of .1827 while Sasini Plc Ord 1.00 had the lowest mean of .0125. This meant that, Eaagads Ltd Ord 1.25 recorded the highest financial performance as measured by return on Assets while Sasin registered the lowest financial performance during the period under study.

### Correlation analysis.

The conducted a correlational analysis to find out the nature of relationship between independent variable (account receivables) and dependent variable (Financial performance). The findings of the study were presented below:

*Table 4. 4 Correlations*

| | | account receivables | financial performance |
|---|---|---|---|
| account receivable | Pearson Correlation | 1 | .450(**) |
| | Sig. (2-tailed) | | .000 |
| | N | 60 | 60 |
| Financial performance | Pearson Correlation | .450(**) | 1 |
| | Sig. (2-tailed) | .000 | |
| | N | 60 | 60 |

*Source: Field data 2022*

** Correlation is significant at the 0.01 level (2-tailed).

The study established that accounts receivables had a strong but positively correlated relationship with financial performance of listed agricultural firms in Kenya r=.450(**),p=.000<0.01. Accordingly, change in accounts receivables led to a significant decrease in financial performance of listed agricultural firms in Kenya. These findings disagreed with Mutiso and Mwangi (2019), who found out that, accountable receivable have a direct but weak correlation with credit standard, credit terms, and profitability. On the other hand, the study discovered that credit selection have a weak and inverse relation with profitability.

### Simple Regression analysis

The study carried out simple regression analyses and multiple regression analysis between independent variables and dependent variables. The results of the study were presented in the tables below.

### Simple regression analysis between accounts receivable and financial performance

The study conducted simple regression analysis between accounts receivables and financial performance of listed agricultural firms in Kenya. The revelations of the study were presented below;

*Table 4. 5 Model Summary*

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .550(a) | .503 | .469 | .05370 |

*Source: Filed data 2022*

14. Predictors: (Constant), account receivables

The findings of the study indicated that, R was =.550. Hence, account receivables had a positive correlation with financial performance of listed agricultural firms in Kenya. Additionally, the identified that, the model had an R square of .503. Therefore, changes account receivables led to 50.3% fluctuation in financial performance of listed agricultural firms in Kenya.

*Table 4. 6 ANOVA (b)*

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | .043 | 1 | .043 | 14.757 | .000(a) |
| | Residual | .167 | 58 | .003 | | |
| | Total | .210 | 59 | | | |

*Source: Filed data 2022*

a. Predictors: (Constant), account receivables

b. Dependent Variable: financial performance

The study identified that, F test was 14.757, P=. 000<0.05. Therefore, the overall regression model was fit for the study. In addition, the findings showed that indicated that account receivables had a significant on financial performance of listed agricultural firms in Kenya.

*Table 4. 7 Coefficients (a)*

| Model | | Unstandardized Coefficients | | Standardized Coefficients | T | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | B | Std. Error |
| 1 | (Constant) | .172 | .021 | | 8.311 | .000 |
| | account receivables | -.041 | .011 | -.450 | -3.842 | .000 |

*Source: Filed data 2022*

a. Dependent Variable: financial performance

The study revealed that account receivables had a negative but, significant effect on financial performance of listed agricultural firms in Kenya. B= -.041, t=.-3.842, P=.000< 0.05. Taking other factors to be constant at zero, accounts receivables led to 17.2 % change in financial performance of listed agricultural firms in Kenya. In addition, it was established that an increase in accounts receivables led to 4.1% decrease in financial performance Kenya. Hence, a variation in accounts receivables would lead to significant decline in financial performance listed agricultural firms in Kenya. This finings disagreed with Mihajlov (2013), who found out that that debtors had a direct but insignificant linkage with earnings as measured in terms of ROA and operating profit margin. Similarly, Adetunji, Adekoya and Kesinro (2019), opined that, bad debt had an inverse and statistically insignificant effect on financial performance of firms in Nigeria

$Y = \beta_0+\beta_1X_1 +Ɛ$
$Y=.172+ -.041X + Ɛ$

The Hypotheses **$Ho_1$- $Ho_4$** of the study was tested based on the findings in table 4.30 above.
**$Ho_1$:** Account receivable management has no statistically significant effect on financial performance of listed agricultural firms in Nairobi securities exchange.
The study found out that, account receivables had an inverse and significant effect on financial performance of listed agricultural firms in Kenya. B= -.034, t=-4.036, P=.000< 0.05. Thus, change in accounts receivables would lead to a significant decline in financial performance of listed agricultural firms in Kenya. The null hypothesis was rejected.

## CONCLUSION AND RECOMMENDATIONS

The objective of the study to examine the effect of account receivable management on financial performance of listed agricultural in Nairobi Securities Exchange. The study concluded that, the cost incurred in collecting receivables reduces collection frequencies. Thus, higher cost incurred in collecting receivables reduces collection frequencies, which in return reduces income generated from receivables leading to a declined financial performance of listed agricultural firms.

Additionally, the study concluded that accounts receivables had a strong but negatively correlated relationship with financial performance of listed agricultural firms in Kenya. Accordingly, change in accounts receivables led to a significant decrease in financial performance of listed agricultural firms in Kenya. On the other hand, the study concluded, that, account receivables had an inverse and significant effect on financial performance of listed agricultural firms in Kenya. Thus, change in accounts receivables would lead to a significant decline in financial performance of listed agricultural firms in Kenya. Hence, the null hypothesis was rejected.

The study recommended that, the Credit requirements like collection period, which increases accounts, receivables should be flexible to allow firms collect receivables seamless at a minimal collection cost. This, in return would reduce expenses on receivables leading to an increased financial performance of listed agricultural firms.

Additionally, the study recommended that listed agricultural in Nairobi should reduce amount of Accounts receivables through periodic collection, allowing allowances to encourage early payment. This would increase their financial performance of listed agricultural firms.
More studies should be done on the effects of cash conversion cycles on financial performance of non-listed agricultural firms in Kenya.

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