

WORKING CAPITAL MANAGEMENT AND PROFITABILITY OF ENERGY AND PETROLEUM FIRMS LISTED AT THE NAIROBI SECURITIES EXCHANGE, KENYA

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ABSTRACT

The profitability of the energy and petroleum corporations trading at the Nairobi Securities Exchange continues to decline and erratically fluctuate despite utilizing working capital management measures as demonstrated over a ten-year period from 2014 and ending in 2023. For the utilization of working capital management measures was intended to improve the profitability yet the profitability of energy corporations trading at the Nairobi Securities Exchange persists in being erratic. Consequently, it is uncertain if working capital management substantially influences the profitability of energy companies traded on the Nairobi Securities Exchange. Therefore, this exploration aimed to determine the influence of working capital management on profitability of energy corporations traded at the Nairobi Securities Exchange Nairobi Securities Exchange. The research's specific goal was to assess the influence of accounts payable management on profitability of energy and petroleum firms trading at the Nairobi Securities Exchange. Research hypotheses was tested at 0.05 significance level. This research was dictated by Contingency Theory and Agency Theory. The research adopted causal effect research approach. The intended audience was the four energy and petroleum firms traded at the Nairobi Securities Exchange as a unit of analysis and the audited financial statements as the

unit of observation with forty data point observations. Census was adopted since the population is small. The analysis encompasses a ten-year period from 2014 to 2023. Secondary data was acquired via a data abstraction tool. A panel regression model was employed. Descriptive statistics, including mean and standard deviation, alongside inferential statistics, was employed for data analysis. The diagnostic tests were steered prior to the definite analysis. The information was exhibited through tabular, graphs, and frequency distributions. The research complied with ethical guidelines properly. The research found that there is statistically significant and favourable influence of accounts payable management on profitability of energy and petroleum firms listed in the Nairobi Securities Exchange with P-value $0.010 < 0.05$. The study recommends that energy and petroleum firms traded at the NSE should ensure efficient management of accounts payables which is essential for any organization, involving tasks such as invoice processing, maintaining vendor interactions. Effective accounts payable management enhances cash flow, reduces costs, and nurtures robust supplier relationships.

Keywords: Cash Management, Inventory Management, Accounts Receivable Management, Accounts Payable Management, Profitability and Working Capital Management.

INTRODUCTION

In most companies, shareholders seek to maximize their wealth, which primarily relies on performance. Consequently, a firm's success is more accurately elucidated by its capacity to leverage resources (Graham, 2019), which subsequently yields greater economic advantages in the future. Almajali, Alamro, and Al-Soub (2022) assert that a firm's performance is influenced by both internal and external influences. Effective management is a pivotal

determinant of an entity's financial success. Working Capital Management involves many strategies to efficiently oversee the firm's current assets and liabilities. The key goal is to ensure continual operations and meet debt obligations in the designated timeframe (accounts payable, receivable, and inventory) to attain and maintain the optimal level of working capital. Effective management of working capital is essential due to its substantial impact on a corporation's operational efficiency and fiscal stability. Qurashi (2017) asserts that managers' implementation of an assertive strategy regarding working capital can result in increased earnings. It is essential to acknowledge that this technique correlates with persistently low liquidity levels inside their particular businesses. Conversely, managers employing a conservative working capital strategy restrict their capacity to increase and enhance profitability and liquidity for their organizations. This perspective corresponds with Hoang's (2015) research, which indicated that over 1,000 companies worldwide incur losses of almost \$2 billion annually owing to inadequate WCM. Consequently, working capital is the most critical metric for assessing a firm's financial position. The proficient and well-organized administration of working capital is vital and frequently obligatory for organizations, amongst other considerations.

Globally, as populations expand and low-income nations progress towards urbanization, the global demand for energy is perpetually rising. Notwithstanding a decline in 2020 caused by diminished economic activities during the COVID 19, global primary energy output has increased by 60 percent from the onset of the century. China constitutes the predominant force in global energy production and consumption, being one of the most populous nations (Global energy, 2024).

In the UK, it is accredited that numerous organizations fail as a result of inadequate WCM (Wilson, 2008). Delayed payments impact financial costs and the distribution of managerial resources necessary for collection efforts, thereby undermining profitability. This issue has persisted as a substantial challenge for numerous organizations, notwithstanding the diverse policies and legislation implemented by the UK administration. Empirical evidence (Banos et al., 2014) indicates that inadequate WCM has resulted in substantial financial losses for the UK economy and enterprises, amounting to billions of pounds, due to failures in meeting debt commitments and effectively managing inventory and delayed payments. As populations expand and low-income nations progress towards urbanization, the global need for energy is perpetually rising. Notwithstanding a decline in 2020 because to diminished economic activities during the COVID 19, global primary energy production has increased by 60 percent from the onset of the century. China constitutes the predominant force in global energy production and consumption, being one of the most populous nations.

China Petroleum & Chemical Corporation surpassed all other companies in the worldwide energy sector in revenue generation in the fiscal year 2023. The Chinese oil and gas refining conglomerate, referred to by its abbreviation Sinopec, announced revenues of 442 billion U.S. dollars. Saudi Arabian Oil Company, known as Saudi Aramco, secured the second position with a revenue of 441 billion U.S. dollars (World Bank, 2024). In 2023, international firms in the oil and gas sector were the preeminent entities in energy sales. Oil, natural gas, and coal

remain the predominant sources of primary energy consumption globally. In contrast, the income of the leading renewable energy firms globally was under 75 billion U.S. dollars. Their headquarters are primarily situated in the US and Europe. China possessed some of the greatest energy corporations globally and was the foremost nation in energy usage. Nevertheless, per capita energy consumption was elevated in the Middle Eastern nations of Qatar and the United Arab Emirates. Global energy consumption is anticipated to rise by 30 percent by 2050, following an 80 percent growth from 1990 to 2022 (Malgorzata, 2023).

In Europe, European energy firms have bounced back. The European corporations debunk misconceptions of the region and resemble a retrospective to the 20th century, when the energy and automotive sectors dominated the global economy (Greek Energy, 2024). The foremost position on the list is occupied by the British energy conglomerate Shell, which includes six energy firms and three automotive companies among the top ten. This contrasts sharply with the US list, which includes three Big Tech companies—Amazon, Apple, and Alphabet—in the top 10. The largest pure technology company in Europe is SAP, succeeded by Ericsson and Nokia. Twenty-five years prior, GM led the US rankings, with Ford and Chrysler closely following, while Exxon, Mobil, and to a lesser degree, GE, represented the energy industry among the top ten. The list of Europe's largest companies, based on revenue, includes four Greek energy companies, Motor Oil, Helleniq Energy, formerly Hellenic Petroleum (ELPE), power utility PPC and Mytilineos.

In the US, the earnings of corporations in the Energy sector have increased by 9.9% annually during the past three years. The revenues of these companies have increased by 2.8% annually. This indicates that these companies are generating increased sales overall, leading to a subsequent rise in their earnings (NYSE, 2024).

Regionally, since 2000, Africa has witnessed economic growth and a 45% increase in energy use. Nonetheless, the regional energy infrastructures remain inadequately developed and incapable of satisfying the population's demand (Mordor Intelligence, 2024). Despite an abundance of resources to satisfy residential need, access to contemporary energy services is still restricted. Africa is a continent abundant in energy resources yet deficient in energy provision. Despite approximately 130 million homes relying on alternative energy sources such as charcoal, kerosene, lanterns, candles, and fossil fuels, along with an additional 620 million lacking any access to electricity, it is evident that energy development is progressing, but insufficiently rapid. Sub-Saharan Africa has over 620 million individuals lacking reliable electricity access, presenting a significant energy challenge that necessitates a strong commitment to the expedited adoption of modern renewable energy sources and the enhancement of energy infrastructures currently reliant on outdated fossil fuel systems.

Most of people in Sub-Saharan Africa experience significant energy impoverishment, and the limited provision of energy services obstructs economic progress. The primary objectives of African nations are to satisfy the increasing energy demands of their populations and to guarantee universal access to modern energy services while considering environmental sustainability (Market Intelligence Report, 2023). The burgeoning population and economic

advancement have propelled energy demand to unprecedented levels. This necessitates a swift augmentation of supply on the continent, requiring all energy sources to participate in the future, alongside the pursuit of sustainable energy development as a foundation for enduring prosperity. Africa possesses abundant fossil and renewable energy resources; yet, persistent dependence on oil, gas, and traditional biomass combustion for energy imposes significant social, economic, and environmental limitations (World Bank, 2024). Countries such as Egypt, Ethiopia, Kenya, Morocco, and South Africa are spearheading this initiative, whilst some smaller African nations such as Cape Verde, Djibouti, Rwanda, and Swaziland have established ambitious renewable energy objectives.

Africa, with around 1.3 billion inhabitants, constitutes almost one-fifth of the global population, however it represents merely 3% of power use. The significant disparity between electricity supply and demand in Africa is widely recognized. Only a select few nations on the continent, like Egypt and Tunisia, can claim 100% power access, while others, such as Mauritius, Cape Verde, and Gabon, approach this benchmark (World Bank, 2024). Several larger economies, including South Africa and Ghana, supply electricity to the majority of their populations; but, they have not yet achieved full coverage, and power outages persist, especially in South Africa, where it has become a significant political concern. Numerous other nations exhibit even poorer records, especially in rural regions—electricity access in Mozambique, Malawi, Sierra Leone, Liberia, and several more countries is below 10% in rural areas. Electricity access in rural regions across the continent is below 27% (AfDB, 2024).

In East Africa, the East Africa energy sector has observed substantial advancement in recent years, driven by increasing exploration activities, government initiatives, and favorable investment conditions. The region has significant untapped reserves, attracting both local and international companies to invest in exploration and production projects. The market dynamics are influenced by factors such as regulatory frameworks, geopolitical stability, infrastructure gaps and political uncertainties, the East Africa oil and gas market holds great potential for investors and stakeholders (MarkWide Research, 2025). The East Africa Power market is ascetically consolidated, as a limited number of businesses possess a significant market share. The principal entities in this market comprise KENGEN PLC, Ethiopian Electric Power, Tanzania Electric Supply Company Ltd, KPLC PLC, and KETRACO (Mordor Intelligence, 2024)

Locally, the Energy corporations trading at the NSE have faced several challenges in recent years. The Auditor-General's report for the fiscal year of June 30, 2022 showed that the sector experienced a significant drop in revenue, with a 40% decrease in the 2020/2021 financial year. The report also highlighted issues with unvalued property, plant, and equipment, which affected the overall financial statements. Despite these challenges, the sector continues to play a vital part in the transportation and storage of petroleum products in Kenya and the East African region (EPRA, 2022). The sector has a strategic plan, sector Vision 2025, aimed at transforming it into Africa's premier oil and gas hub

Statement of the Problem

The performance of energy corporations trading on the NSE is crucial for the growth of Kenya's energy sector and, by extension, the overall economy, as it encourages savings and investment. Nonetheless, the economic contributions of energy corporations might be undermined by their erratic performance. In 2014, the ROA was 14.60%, which decreased to 14.35% in 2015 and further reduced to 11.67% in 2016. In 2017, it significantly dipped to 7.32%, rebounded to 14.09% in 2018, then fell to 11.47% in 2019, and further sank to 11.01% in 2020. In 2021, it decreased to 10.77% and then to 9.92% in 2022, before plummeting to 19.47% in 2023 (EPRA, 2023). Notwithstanding the WCM strategies, the profitability of energy companies persists in its decline and erratic fluctuations, as demonstrated over a decade from 2014 to 2023, raising concerns among all stakeholders, including shareholders, government entities, donors, and investment advisors. Consequently, it is uncertain if WCM substantially influences the profitability of energy companies.

Empirical research by Maad, Jitian, and Tingting (2022) researched the impact of WCM rules on the profitability of manufacturing firms traded on the Qatar Stock Exchange. The research suggested that firms with abbreviated receivables collection durations and cash conversion cycles exhibit greater profitability. Extended inventory turnover and accounts payable times correlate with increased profitability for firms. This research was conducted in Qatar on a stock market using a multiple regression model, so generating both contextual and methodological gaps that the present work aimed to fill. Barbara, Marco, Isabella, and Francesco (2021) examined the effects of WCM strategies on manufacturing SMEs in the Czech Republic. Empirical findings indicate that providing customers with extended extensions does not affect profitability. Moreover, the outcomes of the other variables indicated an inverse correlation with corporate profitability, implying that investment in stocks and procurement expansions from dealers incur extra expenditures that detrimentally influence profitability. This research was conducted in the Czech Republic among SMEs using a panel regression model, so establishing a contextual gap that the present study aimed to address. Temba (2024) researched the bearing of WCM on the financial success of SMEs in Kenya. A proficient WCM system is crucial for sustaining the financial stability of organizations, especially SMEs. Poor working capital management can lead to financial challenges and possible insolvency, whereas effective management can significantly improve financial efficiency. This study was conducted among SMEs in Kenya, highlighting a contextual gap that the current research aimed to fill. This research specifically aimed to evaluate the impact of WCM on the profitability of Kenyan energy firms.

Objective of the Study

To ascertain the effect of working capital management on the profitability of energy and petroleum firms listed at the NSE Kenya.

Specific Objective

To ascertain effect of accounts payable management on profitability of energy and petroleum firms listed at the NSE Kenya.

THEORETICAL REVIEW

Agency Theory

This theory was hypothesized in 1976 by Meckling and Jensen to describe the connection between principals who are the owners or shareholders and agents who are the managers in organizations. It posits that managers, who are entrusted with decision-making authority, may not consistently act in the owners' best interests, leading to agency conflicts (Vitolla, Raimo & Rubino, 2020). These conflicts occur when managers prioritize personal objectives, such as job security, increased salary, or organizational expansion, over maximizing shareholder value. The discordance of interests leads to agency expenses, encompassing monitoring costs, bonding costs, and residual loss. Costs associated with monitoring are incurred from the activities aimed at overseeing managerial actions, whereas bonding costs originate from initiatives taken by managers to reassure owners of their commitment (Musa & Ibrahim, 2022). Residual loss refers to inefficiencies that persist despite monitoring. To mitigate these conflicts, firms employ mechanisms such as performance-based incentives, corporate governance structures, and financial reporting requirements, all aimed at aligning managerial decisions with shareholder objectives.

Agency theory operates under several key assumptions that explain the behavior of managers and owners in an organization. First, it assumes that agents (managers) are self-interested and might not always behave in the principals' best interests (owners or shareholders) (Vitolla *et al.*, 2020). This creates the potential for moral hazard and opportunistic behaviour. Second, The theory posits an unequal distribution of information, wherein managers possess a deeper comprehension of the firm's operations than shareholders, enabling them to make decisions that benefit themselves at the expense of the owners. Third, it assumes that principals and agents have different risk preferences; while shareholders may seek high returns by taking on more risk, managers may prefer safer strategies to secure their jobs and reputation (Vitolla, Raimo & Rubino, 2020). In addition, the theory presumes that conflicts can be mitigated through monitoring mechanisms, incentive structures, and contractual agreements, all of which aim to align managerial behaviour with the financial interests of shareholders.

Agency theory was used to explain how WCM influence the financial success of energy firms traded at the NSE. Alkausar, Kawakibi and Lasmana (2021) indicate that regarding cash management, misaligned incentives may lead managers to hoard excessive cash to secure their positions, rather than investing in income-generating activities. Alternatively, poor cash management can result in financial distress, limiting energy firms' ability to meet member withdrawals or operational expenses. Therefore, implementing strong governance structures, financial controls, and incentive mechanisms can help energy firms mitigate agency conflicts and optimize financial performance. Thus, the theory is linked to the dependent variable, profitability.

Contingency Theory

This theory was postulated by Saxberg in 1979. This theory of WCM posits that the efficacy of working capital is optimized when its structure aligns with specific circumstances; thus, only companies that synchronize their working capital with the prevailing environment attain

maximal output. The theory posits that in deciding the level and method of WCM, firms must take into account strategically essential external variables, including economic conditions, demographic trends, sociocultural trends, political/legal factors, and industry structure. The theory posits that there exists no definitive level of working capital, asserting that it is perpetually optimal throughout every given industry. Consequently, while external factors can fluctuate swiftly, managers must continuously adjust their businesses' levels and methodologies of WCM to align with the evolving circumstances to maintain effectiveness. This Theory implicitly regards organizations as loosely tied aggregates, where individual components of working capital can be modified or refined, hence connecting the theory to the variable of operational management.

Empirical literature Review

Accounts Payable Management and Profitability

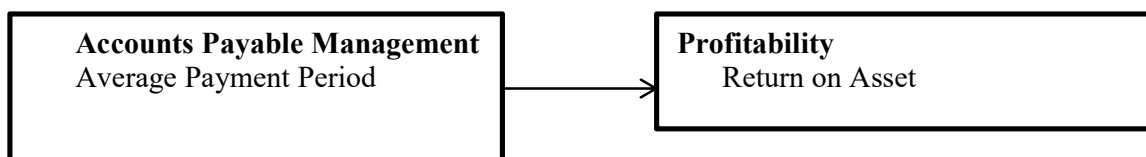
Arinaitwe and Kazara (2024) studied the impact of payables/creditors management on financial success of Ntaka manufacturing industry in Europe utilizing financial statements for the past 5 years longitudinally where crucial metrics. Supplementary to this quantitative phase, in-depth one-on-one interviews were also conducted with top leadership, accounts personnel as well as major suppliers using semi-structured questionnaires to garner deeper insights into prevailing vendor payment policies, challenges experienced in disbursing payment obligations on time, credit terms negotiation strategies and opportunities for improvement. From the findings, the analysis found a robust favourable correlation between creditors' management and financial success. This suggests financial success was heavily influenced by creditors' management practices. The statistical analysis revealed a remarkably robust favourable correlation between creditors' management practices and overall financial success. This research was done in the manufacturing sector in Europe utilizing mixed approach creating both contextual and methodological gaps that the current research filled by being done in the energy sector in Kenya and utilizing panel regression approach.

Gakurya et al (2018) explored the success of coastal county administration agencies was influenced by accounts payable administration. The payables had remarkable bearing on firms' accomplishment. The design of this research was finalized at the hotel. Merchants who completed the feedback form were then interviewed. The research utilizes survey-based quantitative descriptive data analysis, including mean and median computation methods. It was determined that accounts payable influenced hotel success. This study was done among government ministries creating a contextual gap that the current study filled by being done in the energy sector in Kenya.

Figure 1: Conceptual Framework

INDEPENDENT VARIABLE

DEPENDENT



Source: Researcher (2025)

Research Design

The study adopted the causal effect research design. Rageb and Arisha, (2018) aver that causal effect research design examines the cause-and-effect amongst two or more variables under the study thus it is applicable since it describes the cause-and-effect connection between the study variables.

Target Population

Kombo and Tromp (2019) posit that a study population is explicitly stated collective of entities, including personalities, groups, and households, that are the subject of examination. Target audience is the cohort of persons under investigation is sometimes (Kothari, 2014). Kothari (2014) contend that it is important to establish a clear definition of the target population based on discernible attributes, which enables the researcher to make generalizations. The unit of analysis constituted the four energy firms traded at the Nairobi Securities Exchange with forty data point observations while unit of observation entailed the return on asset ratio to be obtained from financial reports.

Data Collection Instruments.

Secondary data utilized was the audited financial reports from energy firms traded at the NSE. The research's period ranged from 2014 to 2023 and the data to be used was yearly from each firm. This period is chosen because it's the period the company experienced volatile performance levels. The researcher utilized the use of the secondary data abstraction tool to collect the required data from the audited financial reports.

Data Collection Procedure

The researcher applied for NACOSTI research license for permission to carry out the research through an introductory letter signed by Kenyatta University. With the research license the researcher then visited the energy firms listed at the NSE websites to gather the pertinent information needed for the research.

Data Analysis and presentation

The research employed STATA Version 14 as a data analysis tool. The research utilizes descriptive statistics, notably metrics of central tendency (mean) and dispersion parameters (standard deviation), for analysis. Moreover, inferential statistics was employed. The enquiry employed a multivariate regression method to examine the linking amongst the variables. The choice of regression method is determined by its capacity to assess the impact of individual independent variables on the dependent variable under investigation. A panel regression model was employed to evaluate the cumulative impact of four predictor factors on a response variable. The panel regression model was:

$$Y_{it} = \beta_0 + \beta_1 X_{1it} + \varepsilon$$

Whereby:

Y_{it} =Profitability over time

β_0 =Constant term

β_1 =Beta coefficient

X_1 = Accounts payable management

ε = Error term

RESEARCH FINDINGS AND DISCUSSIONS

Table 1: Descriptive Statistics

Variable	Obs.	Mean	Std. Dev.	Min	Max
Return on Assets	40	12.6625	13.00927	.21	51.67
Accounts Payable Management	40	55.738	64.69973	2.32	363.91

Source: Field Study (2025)

The above findings imply that ROA mean= 12.6625 and the standard deviation=13.00927 with a minimum value= 0.21 and the maximum value=51.67. This demonstrates high volatility performance even with though with average level over the course of the research period. Accounts payable management had an average of 55.738 and a variation of 64.69973 with a lowest value of 2.32 and a highest value of 363.91 reflecting a high volatility result throughout. This finding are congruent to those of Arinaitwe and Kazara (2024) who found a high volatility with accounts payables

Correlation Analysis

Correlations analysis was tested to establish the association between the independent variables (cash management, inventory management, accounts receivable management and accounts payable management) and the dependent variable (return on assets) with their corresponding p-values as exhibited in Table 2.

Table 2: Correlation Analysis Result

	Return on Asset	Accounts Payable Management
Return on Asset	1.0000 40	
Accounts Payable Management	0.5084* 40 0.0008	1.0000 40

Source: Field Data (2025)

It was also established that there was a moderate favourable association amongst return on asset and accounts payable management with a link of 0.5084 which was substantial at a p-value of 0.0008. This implies accounts payable management by firms contributes positively to an increased performance firms. These findings agree with those findings by Arinaitwe and Kazara (2024) who found a remarkably robust favourable correlation between creditors' management practices and overall financial performance.

Regression Analysis

The empirical model served as the basis for the panel regression, and the discoveries are exhibited in Table 3.

Table 3: Panel Regression Coefficient

Fixed-effects (within) regression		Number of obs =		40		
Group variable: id		Number of groups =		4		
R-sq: within = 0.3343		Obs per group: min =		10		
between = 0.9093		avg =		10.0		
overall = 0.4359		max =		10		
		F(4,32) =		4.02		
corr(u_i, Xb) = 0.3767		Prob > F =		0.0094		
Return on asset	Coef.	Std. Err.	z	P>z	[95% Conf.	Interval]
APM	.0541788	.0278407	1.95	0.010	-.0025309	.1108884
_cons	6.377661	2.903553	2.20	0.035	.4633165	12.29201
sigma_u	6.1641312					
sigma_e	9.2618471					
rho	.30697227 (fraction of variance due to u_i)					
F test that all u_i=0: F(3, 32) =3.46 Prob > F = 0.0275						

Source: Field Study (2025)

The equation obtained was:

$$ROA_{it} = 6.377661 + 0.0541788 APM_{it}$$

According to the results, an inclusive R^2 of 0.4359 was gotten which infers that the predictor variable (accounts payable management) explain 43.59 % of the change in the ROA of the energy corporations publicly traded in the NSE. There was 56.41% of the ROA result that couldn't be justified by the model's variables and could only be the consequence of other external influences besides purview of the study. This result was statistically significant, as demonstrated by the ANOVA p-value of $0.0094 < 0.05$.

The ROA of energy and petroleum firms traded in the NSE increased by 6.377661 when the explanatory variable is not taken into consideration. The p-value of 0.035 indicates the rise is significant.

H_{01} Accounts Payable management has insignificant effect on the profitability of energy corporations trading at the NSE in Kenya

A unit increment in accounts payable management of energy and petroleum firms traded at the NSE leads to an increment in the ROA by .0541788. A p-value of 0.010 infers that the increase is substantial. These findings are congruent to those of Arinaitwe and Kazara (2024) who studied the impact of payables/creditors management on financial success of Ntake manufacturing industry in Europe utilizing financial statements for the past 5 years longitudinally where crucial metrics and found a robust favourable correlation between creditors' management and financial success that revealed a remarkably robust favourable

correlation between creditors' management practices and overall financial success. It also corresponds with Kithinji *et al.* (2022) who studied the bearing of account payable administration on Kenya's public universities' fiscal success and found a correlation between accounts payable management and the success of public universities.

Conclusion

The specific objective determined the effect of accounts payable management on profitability of energy corporations traded in the NSE. The study observed that there is statistically significant and favourable effect of accounts payable management on profitability of energy corporations listed in the NSE. This is ascribed to the notion that efficient accounts payable practices assist firms in managing their cash flow by reducing costs arising from insufficient funds, such as penalties, interest charges, forfeited discounts for prompt payments, and disbursements to creditors before receiving payments from debtors.

Recommendations

The study also observed that the influence of accounts payable management on profitability is both favourable and statistically significant and consequently, petroleum and energy firms traded on the NSE must ensure the proper management of accounts payables, which is crucial for any corporation and encompasses responsibilities such as invoice processing and managing vendor relationships. Efficient management of accounts payable improves cash flow, minimizes expenses, and cultivates robust supplier relationships.

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