

THE EFFECTS OF WORKING CAPITAL MANAGEMENT PRACTICES ON THE FINANCIAL PERFORMANCE OF INSURANCE COMPANIES IN KENYA

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ABSTRACT

Working capital management affects the financial performance of organizations and therefore requires sound management to balance off the performance and risk of not meeting financial obligations as they fall due. This study sought to explore the effect of working capital management practices on the financial performance of insurance companies in Kenya. Its objectives were to establish the working capital management practices adopted by insurance companies, assess the relationship between working capital management practices and the financial performance of insurance companies, establish the impact of raising the minimum working capital on financial performance of insurance companies and establish the challenges faced by insurance companies in Kenya in working capital management. The study used the descriptive research design. It targeted 47 underwriting managers, chief accountants and finance managers from all the 47 insurance

companies in Kenya. Purposively sampling technique was used to select a sample size of 141 respondents. Data was collected using the questionnaire and analyzed using Statistical Package for Social Sciences. This study established that insurance companies used all the three working capital management approaches which are conservative, matching and aggressive practices. Further, it established that the choice of working capital management technique affected the performance of insurance companies. This study concluded that working capital management had positive effect on financial performance of insurance companies. It recommended that a review and adherence to proper recruitment principles to ensure recruitment of competent staff as a long-term strategy of ensuring employee efficiency in task execution.

Key Words: *working capital management practices, financial performance, insurance companies, Kenya*

INTRODUCTION

According to Jeffery (2009), working capital is defined using its formula: current assets less current liabilities where current asset refer to those assets that can be converted into cash in less than one year period. The author further added that such assets include cash and cash equivalent, accounts receivables, inventory, marketable securities and prepaid expenses. While current liabilities are the balance sheet items which equals all money owed by the company and is due within one year. Current liabilities are also called accounts payables or current debt. Zhou (2011) described working capital as the immediate financing for working expenses which are generated from the operation of business. Zhou added that this definition is limited in value thus defining it as net working capital is recommended. Net working capital is attained by deducting net fixed assets from long-term financing from continuous operational expenses of a business.

According to Weert (2011), the two primary objectives of capital management are capital optimization and performance optimization. These two objectives enables organizations promote financial stability by encouraging desirable investments and financing arrangements which enhance growth (Weert, 2011). Working capital therefore involves the relationship between a firm's short-term assets and its short-term liabilities. Ross, Westerfield, and Jordan (2013) argued that working capital management's main goal is to ensure continued operations of the organization with sufficient ability to satisfy both maturing short-term debt and upcoming operational expenses. This implies that working capital management of working capital involves managing inventories, accounts receivable and payable and cash (Ross et al., 2013).

Further, Ross et al. (2013) argued that working capital is an important asset of a commercial organization and to be successful, the organization should ensure that its use is optimized. This is critical to organization's proper functioning. Pine, Pepper, and Rogers (2010) explained that if an organization has adequate cash, it should be managed in order to guarantee best return. The author continued to explain that one way of managing cash is by utilizing methods like dynamic discounting.

On the contrary, Pine et al. (2010) observed that if the organization is in debt, avoidance of excessive interest charges is essential. In this regard, excess working capital to companies means operating inefficiencies. This implies that money that in form of inventory or owed by debtors cannot be used to settle any of the company's obligations (Pine et al., 2010). It was concluded that a company's operational efficiency is shown by increase in working capital. This can be seen by comparing the working capital from one period to another; slow collection may signal an underlying problem in the company's operations since the main goal of capital management is maintenance of optimum balance of each of the working capital components.

Hrishikes (2009) posited that working capital management includes making sure that funds are held as cash in bank deposits for as long as and in the largest amounts possible, thereby maximizing the interest earned. However, such cash may more appropriately be invested in other assets or in reducing other liabilities. Hrishikes (2009) further observed that in recent years, there has been an increased focus on dynamic discounting as a means of optimizing working capital. Zhou (2011) described dynamic discounting as a method which involves the early payment for goods and services bought in return for a discounted price. The author noted that if operated properly, dynamic discounting can give a significant return on working capital.

According to Cornwall, Vang, and Hartman (2011), working capital management takes place on two levels. These are; the use of ratio analysis to monitor overall trends in working capital and to identify areas requiring closer management, and the use of various techniques and strategies to manage individual components of working capital. Cornwall et al. (2011) pointed out that when considering techniques and strategies, companies need to recognize that each department has a unique mix of working capital components. Therefore, the emphasis that needs to be placed on

each component varies according to department. For example, some departments have significant inventory levels; others have little if any inventory. One of the strategies is capital management which is a managerial accounting strategy focusing on maintaining efficient levels of both components of working capital, current assets and current liabilities, in respect to each other (Cornwall et al., 2011). It ensures a company has sufficient cash flow in order to meet its short-term debt obligations and operating expenses.

STATEMENT OF THE PROBLEM

IRA (2012) indicated that insurers are susceptible to financial market risks from other players in the financial sector. Ostry, Ghosh, Chamon, and Qureshi (2012) argued that increasing insurance regulatory is one of the most popular remedies to reduce risk prevalence in the financial sector. In Kenya, the Insurance Regulatory Authority (IRA) increased minimum capital requirements in order to improve capital base and strengthen individual insurance companies' solvency (Standard Investment Bank, 2013). This was aimed at improving insurance companies' efficiency, flexibility and responsiveness to claim settlements to emerging business trends while reaping the benefits from global competition (IRA, 2013). The minimum capital was raised as follows: For insurers dealing with general insurance business, its paid up capital should be at least Kshs 300 million, for insurer's dealing in life insurance business its paid up capital should be at least Kshs 150 million and those companies dealing with the composite should have paid up capital of at least Kshs 450 million. The implementation of increased capital requirements regulation occurred after the observed slow growth in the insurance industry in Kenya which had led to the closure of some companies due to the inability of the insurance companies to meet their obligation and this formed basis for the regulation (Wangui, 2010). Such insurance companies included Blue shield and Lakestar which have since gone under. Nonetheless, sound working capital management practice is imperative for sustainable achievement of the objectives of increased capital requirement regulation. This is because on one part capital requirement regulation ensures that there is adequate capital needed to sustain the operations of insurance companies and meet the demand of the resulting liabilities, while on the other, sound working capital management practices promotes financial stability and desirable types of investment and financing arrangements while discouraging undesirable ones thereby resulting in financial stability (Epstein, Grabel, & Jomo, 2004). It is in this view that this study sought to explore the effects of working capital management practices on the financial performance of insurance companies in Kenya against the increased capital requirement by the regulator.

PURPOSE OF THE STUDY

The purpose of this study was to explore the effect of working capital management practices on the financial performance of insurance companies in Kenya.

OBJECTIVES OF THE STUDY

1. To establish the working capital management practices adopted by insurance companies in Kenya.
2. To assess the relationship between working capital management practices and the financial performance of insurance companies in Kenya.
3. To establish the effects of raising the minimum working capital on financial performance of insurance companies in Kenya.
4. To establish the challenges faced by insurance companies in Kenya in working capital management.

THEORETICAL FRAMEWORK

Modern Portfolio Theory

According to Elton, Gruber, Brown, and Goetzmann (2009), this theory states that the market portfolio offers that highest level of return per unit of market risk in a market that is price efficient. This means that the market portfolio will capture the efficiency of the market. Portfolio here refers to a set of financial assets (Elton et al., 2009). This implies that investing in a particular set of investments is as a result of the comparison of returns. In this lies the decision of how much of each of the portfolio and consequently how much capital to commit to each. This theory seeks to bring out the contribution of capital management as a practice in deciding how much money (capital) is committed to each type of capital by insurance companies. It brings out the different types of capital and the prioritization by insurance companies.

Capital Asset Pricing Model (CAPM)

Moles, Parrino, and Kidwell (2011) described CAPM as a model that explains the relationship between risk and expected return. The author argued that the theory basically indicates that investors need to be compensated in two ways. The first one is time value for money which considers the free risk securities such as the government bonds or treasury bills. These securities have some assurance of settlement as they are issued by the government. Similarly, Moles et al. (2011) explained that the second consideration is the premium which is the compensation expected by the investor for investments above the risk free rate otherwise if there is no premium then the investor would rather invest in the risk free rate securities. The CAPM theory states that the expected return of a security or a portfolio equals the rate on a risk -free security plus a risk premium. If the expected return does not meet or be above the expected return, then the investment should not be undertaken. This theory seeks to explain the various investments held by insurance companies. The choice of one investment of one set of business over the other is basically driven by the expected return from one chosen.

Pecking Order Theory

According to the Frank and Goyal (2005), pecking order theory posits that firm is driven by information asymmetry and transactions costs to use internally generated capital first before turning to more expensive source. The authors further explained that pecking order hypothesis attempts to describe how firms raise capital. Once the internal sources are used optimally, then firms will use debt financing next and as a last resort use equity. The internal funds are preferred to external for several reasons including that of floatation costs and information asymmetry and that new issue of shares signals bad news to the market (Frank & Goyal, 2005). Also the management of the firm does not get diluted when the firm finances internally. In this study, this theory will help in explaining the varied levels of capital held by different insurance companies and act as the rationale for the need for balance between internal and external funds as sources of financing in insurance companies.

Residual Theory of Dividend

The residual theory of dividends states that a firms retained earnings should be used first to male all available investments to increase long term earnings only after considering the investments is when the dividends are paid (Rangarajan & Misra, 2005). The theory looks at retained earnings as a cheaper source of financing that a firm should opt for. This theory requires exploring all investments opportunities available to a firm before it declares and pays dividends to shareholders. This implies that various investments returns should be compared to the firms marginal cost of capital and if greater they should be considered before paying dividends. Rangarajan and Misra (2005) further stated that the advantage of residual theory to other methods of raising capital is that there is a long term earnings from cheaper capital as paying dividends currently is considered lost capital. Therefore, it explores policies which improve long term growth which will ultimately increase the net present value of future cash flows and increase of the firm's value. In this study, this theory seeks to explain the place of working capital policies that affect cash flows with an aim of increasing companies' sustainability.

EMPIRICAL LITERATURE REVIEW

An empirical study on the impact of working capital management on performance among 263 non-stock companies listed in Karachi Stock Exchange, Pakistan by Ahmed (2012) revealed that there is a negative relationship between return on assets and return on equity while current asset over total asset had a positive relationship with Return on assets, and return on equity. Debtor's turnover ratio was also found to have a positive relationship with current ratio which implied a positive relationship with profitability.

A study by Abuzayed (2012) which sought to examine the effect of working capital management on firms' performance in emerging market carried out in Amman Stock Exchange in Jordan found out that the use of robust estimation techniques cash conversion life cycle can affect

profitability. The study also revealed that companies that are more profitable are less motivated to manage their working capital. This could be explained by the fact that financial markets in Jordan failed to penalize managers for inefficient working capital management in emerging markets (Abuzayed, 2012).

Similarly, a study by Tauringana and Afrifa (2013) which aimed at investigating relative importance of working capital management, measured by the cash conversion cycle, and its components (inventory, accounts receivable and accounts payable) to the profitability carried out in 19 Small and Medium Enterprise found out that the management of accounts payable and accounts receivable is important for small and medium enterprise profitability. The study also revealed that accounts payable management is relatively more important than accounts receivable management. Further, inventory and cash conversion cycle management was found not to be important for SMEs profitability (Tauringana & Afrifa, 2013).

A study by García-Teruel and Martínez-Solano (2007) which sought to find out the effect of working capital management on the profitability of Spanish Small and Medium Sized companies revealed that managers can create value by reducing their inventories and the number of days for which their accounts are outstanding. Further, the study revealed that reduction of cash conversion cycle also improves the firm's profitability.

RESEARCH METHODOLOGY

Research Design

Stejskal (2010) explained that research uses two main approaches: qualitative and quantitative approaches. Qualitative research refers to the collection of data that cannot be reduced to numbers, while quantitative research refers to the collection of data that is suitable for statistical analysis. In this study both research approaches were used. A research design is a structure or plan for investigation or rather a method of executing the activities in a study with a view to reduce bias, distortion, and ensure high accuracy levels are attained (Hapner, Wampold, & Kivlighan, 2007). Cooper and Schindler (2006) gave five main types of research designs including experimental, case study, survey, comparative and longitudinal research designs. Gravetter and Forzano (2011) gave three types of descriptive research designs, namely observation, survey and case study designs. According to Gravetter and Forzano (2011), observation design is whereby a researcher observes and systematically records the behavior of individuals in order to explain their behavior. Stejskal (2010) pointed out that when using observation research design, observed behavior is usually in the natural environment. On the other hand, survey research design is a design which uses survey or questionnaire in the measurement or descriptions of particular group of individuals under investigation. This design is said to be advantageous because it yields accurate information since it promote anonymity and can be used in studies with large populations. Conversely, case study design is a type of research which involves in-depth study and detailed descriptions of a single individual or a very small

group. This design is commonly used when the study is interested in detailed description of a single population. The study used a descriptive research design. A descriptive research design attempts to describe or define a subject, often creating a profile of a group of problems, people or events through the collection of data and tabulation of the frequencies on the research variables or their interactions. Descriptive design method provided quantitative data from the respondents. The data collected answered questions concerning the current status of the subject under study (Cooper, 2006).

Population of the Study

Mugenda and Mugenda (2003) defined population as the entire group of individuals, events or objects having a common observable characteristic. Grove (2009) described a population as the universe of events from which the sample is drawn, while target population is made up of the elements or individuals in the population with the desired characteristics which the researcher wants to observe or study. Population of this study consisted of all the 47 insurance companies. In this study, the target population was finance managers, chief accountants and underwriting managers. The choice of finance managers, chief accountants and underwriting managers was because these were the individuals in the insurance company that were involved in carrying out duties related to financial management, working capital management, and policy uptake and they are therefore knowledgeable on the subject matter.

Sample Size

Sample size is the number of observations that constitute the population generally referred to as representative of the population (Walpole, 2006). The sample size for this study was 141 respondents, consisting of 46 finance managers, 46 chief accountants and 46 underwriting managers.

Sampling Technique

Sample techniques are basically of two types including the probability and non-probability sampling (Mugenda & Mugenda, 2003). Kothari (2008) explained that probability sampling is based on the concept of random selection which ensures that each element is given equal chance of selection, while non probability sampling is where selection is subjective in that each element does not have equal chance of participation or selection. Non-probability sampling techniques include cluster sampling, judgmental sampling, quota sampling and purposive sampling (Kothari, 2008). The cluster sampling involves classifying population in clusters and then selecting a cluster rather than an individual element for inclusion in the sample (Kumar, 2010). In quota sampling, Kumar (2010) stated that the respondents are given quotas to be filled from the different strata with some restrictions on how they are to be filled. This means that the actual selection is left to the interviewer's discretion. The advantage of this method is that it is convenient and not expensive (Kumar, 2010). Kothari (2008) observes that some times the entire

population may be sufficiently small that warrants the researcher to include the entire population in the research study which is a census as data is gathered from all members under study. In this study, a census of the target population consisting of 46 finance managers, 46 chief accountants and 46 underwriting managers was done.

Type of Data

Salkind (2010) gave two types of data, namely primary and secondary data. Primary data refers to the information collected for particular use while secondary data refers to the information that already exists in a useable format and had been used for other purpose (Salkind, 2010). Secondary data is collected from scholarly materials such as books, periodicals, research reports and journals among others. In this study secondary data was used in literature review while primary data was collected using the questionnaire.

Data Collection Instruments

Krishnaswamy, Sivakumar, and Mathirajan (2009) gave three primary data collection methods, namely observation, interview and questionnaires. Observation method is the most direct method of data collection. It involves observation as events occur and recording. However, it is only useful if the data sought can be accessed through facial expression and body language related activities. Observation can either be participant or non-participant. Participant observation is whereby the observer takes part in the activities of the group of the observed individuals while in non-participant observation the observer observes and records observation and does not take part in the activities of the observed individuals (Wilson, 2010). On the contrary, interview method is a method of data collection by getting asking questions and getting responses orally (Wilson, 2010). It can be carried out face-to-face, on telephone between the interviewer and an interviewee or in focus group. Focus group according to Wilson (2010) are interviews carried out by an interviewer who asks questions and moderates a group of eight to twelve interviews in freely discussing the subject matter. Krishnaswamy et al. (2009) described a questionnaire as a list of questions for the respondents to fill. The author added that it is a less expensive and impersonal mode of data collection and is preferred for large samples. It yields information on facts, attitudes, motivation and knowledge. A questionnaire may contain open-ended or close-ended questions. Open-ended questions are those that give the respondents room to give responses while closed-ended questions are those which response choices are provided for the respondents to choose from (Wilson, 2010). In this study a questionnaire was used in the collection of primary data. It contained both open-ended and closed ended questions. The questions were divided into two sections. The first section collected information on respondents' characteristics while the second part collected information on the effects of working capital on the performance of insurance companies.

Data Collection Procedure

Data collection was commenced by seeking an introduction letter from Daystar University which was used in seeking authorization from insurance companies and research permit from the Kenya National Council of Science Technology and Innovation (NACOSTI). Questionnaires were then administered by the researcher and research assistant. The research assistant was trained before data collection started. Questionnaires were dropped and picked on a later date to allow time for the respondents to fill. Before collecting questionnaires, they were checked for completeness.

Data Analysis Plan

LeCompte and Schensul (2013) posited that data analysis occurs at the completion of data collection. The author continued to state that data analysis starts with data cleaning, where data is checked for consistency after which the data is coded and entered into a statistical software. When data has been entered the next step is data processing which involves carrying out different statistical tests in the pursuit of answers to the research questions. In this study Statistical Package Social for Social Sciences (SPSS) version 20 was used in the analysis of data. Descriptive statistics was used to analyze quantitative data. The results were presented in tables and figures, while qualitative data were analyzed thematically and presented in form of narratives.

RESEARCH RESULTS

Working Capital Management Practices Adopted

Study results revealed that insurance companies applied the following working capital management practices. Budgeting for cash, inventory review of cash receivables regular review of bad debts, inventory replacements, documentation of credit sales and investment of surplus cash. These findings points to the use of capital control by most insurance companies. Capital controls target particular inflow or outflow which influence portfolio investment depending on the perceived risks or opportunities (Epstein et al., 2003). These statements show that the policies targeted particular balance sheet items which imply the use of prudential working capital management technique. Fernando and Paula (2012) argued that prudential working management technique gives a guide to prudential mismatching of items in the balance sheet. Thus give ground for budgeting and the need to go by the budgets regardless of the prevailing circumstance. The study findings were contrary to this giving positive significance relationship on statements on regular review of bad debts, cash receivables, determination of cash balance, and frequent replacement of inventory show the use of dynamic working capital management technique. Investment of surplus cash (chi square 24.995, significance $0.000 < 0.05$ mean of 2.404) is at typical example on the use of dynamic technique. These are working capital management techniques which are changed in line with the prevailing circumstances (Fenando & Paula, 2012).

These findings further boil down to three sets of practices stemming from working capital management: cash, receivables and inventory management practices. The basis for the groupings are derived from the argument that cash management involves planning and ensuring optimal levels of cash flows whereas receivable management while inventory management gives a guide on how much to order and when to order (Reheman et al., 2010). On the other hand, receivables management results from companies' ability to expand and maintain sales (Misra, 2005).

Cash management practices included frequent budgeting of cash (chi square 21.598, significance $0.000 < 0.05$ mean of 1.677), avoiding cash deficits in the organizations (chi square 20.918, significance $0.000 < 0.05$ mean of 2.065), determining target cash balance from time to time in the organization (chi square 22.840, significance of $0.000 < 0.05$ mean of 1.938), and investment of surplus cash (chi square 24.995, significance $0.000 < 0.05$ mean of 2.404). regular review of bad debts (chi square 19.444, significance $0.000 < 0.05$ mean of 2.333), and procedures for credit sales were known and well documented (chi square 20.652, significance $0.000 < 0.05$ mean of 2.946). Inventory management practices included preparation of inventory budgets (chi square 21.706, significance $0.000 < 0.05$ mean of 2.188), and carrying out frequent inventory replacements (chi square 20.733, significance $0.000 < 0.05$ mean of 2.149).

Study results on the efficiency of working capital management practices revealed that showed that cash management (mean 1.863), receivables management (means 2.211) and inventory management (mean 2.116) were all found to be at least efficient. The rating scale used was 1= very efficient, 2= efficient, 3= average, 4= inefficient and 5=very inefficient. The findings on cash management practices' efficiency imply that most insurance companies maintained optimum levels of capital level (Edwards, 2008), while receivables management practices in most insurance companies had reduced credit collection periods, reduced bad debts, and sound credit policy resulting in increased customer base thus improving financial performance (Misra, 2005). Efficiency in inventory management implies ordering the right quantities when they are needed thus reducing ordering costs and carrying costs (Reheman et al., 2010). Therefore, most insurance companies observed optimal levels of inventory thereby avoiding shortage and carrying costs.

Similarly, working capital management practices point to market inefficiency which according to modern portfolio theory. The combination of investments of a given insurance companies is based on comparison in returns and thus the decision to commit capital (Elton et al., 2009). This brings for the role of working capital management in cash, receivables and inventory management practices.

The Relationship between Working Capital Management Practices and Financial Performance

Findings on the effect of working capital management on performance showed that growth in asset base (21.970, p value 0.000, mean 2.000), improved financial performance (21.585, p value

0.000, mean 2.105), increase in policy uptake (25.401, p value 0.000, mean 2.568), increased income (23.809, p value 0.000, mean 2.253, increased return on investment (25.060, p value 0.000, mean 2.453), and increased market share (22.502, p value 0.000, mean 1.863). The rating scale used was 1 to 5. 1 = very large extent, 2 = large extent, 3 = average, 4 = little extent and 5 = very little extent.

Further, logistical regression analysis was carried out between improved financial performance and working capital management practices. Improved working capital which used the scale of 1 to 5 where 1 = very large extent, 2 = large extent, 3 = average, 4 = little extent and 5 = very little extent was the dependent variable while cash management practices efficiency using the scale of 1 to 5 with 1=very efficient, 2=efficient, 3=average, 4= inefficient and 5=very inefficient were the independent variables. Study results revealed that all working capital management practices: cash management, credit management and inventory management practices had a positive effect on performance. This is shown by chi square values of 258.030, 233.864 and 208.910. All the three categories collectively had significant effect on financial performance shown by p values of 0.000. Cash management practices recorded positive chi square values (0.507, 0.026, 0.058 and 0.7440 indicative of the positive relationship cash management practices' efficiency had on the financial performance of insurance companies. However, the relationship was not significant show by p values greater than 0.05 (0.476, 0.872, 0.810 and 0.388). On the other hand, findings on the relationship between credit management efficiency and working capital management practices was positive shown by chi square values of 4.506, 4.251 and 5.571 at very efficiency, efficient and average levels respectively. The resulting p values were 0.034, 0.039 and 0.018 respectively which are less than 0.05 indicative of the significant effect credit management practices had on the financial performance of insurance companies.

The positive relationship between working capital management practices and financial performance are in line with the findings by Pakistan Ahmed (2012). Their study revealed that revealed a positive relationship between working capital management and Return on assets, return on equity and ultimately improved financial performance.

The findings further show that there was a relationship between financial performance and aggressive working capital management practice with a chi square of 0.03 whereas both marching and conservative working capital management practices showed no relationship. This confirms the discussions by Pakistan Ahmed (2012) that aggressiveness in working capital management has a direct relationship with financial performance.

These findings bring to light the role of CAPM theory. The efficiency in working capital management implies that the fact that the returns expected by insurance companies as a result of capital investment was satisfactory to insurance companies. This implies that capital committed to different activities yielded positive results. This then means that insurance companies should continue making their current investments while seeking better options that meet their

expectations. This is based on the CAPM's argument that if the expected return does not meet or be above the expected return, then the investment should not be undertaken (Moles et al., 2011).

The Impact of Raising the Minimum Working Capital on Financial Performance

It was found that raising working capital led to development of better credit management policies (mean 1.660), increased receivable (mean 2.043, reduction of payables (mean 2.333), reduced bad debts (mean 2.564), and improved ability of insurance companies to meet obligations (mean 1.730). The rating scale used was strongly agree=1, agree=2, neutral =3, disagree=4 and strongly disagree=5. This means that working capital raise met its objective of ensuring that there was adequate capital needed to sustain the operations of insurance companies and meet the demand of the resulting liabilities the sound working capital management practices promotes financial stability and desirable types of investment and financing arrangements while discouraging undesirable ones thereby resulting in financial stability (Epstein et al., 2004). This also implies that it helped promote working capital management among insurance companies whose aim is to deal with the problems that arise in attempting to manage the current assets, the current liabilities and the interrelationship that exists between them (Palachinamy, 2010).

Furthermore, the goal of working capital management is to manage the firm's current assets and liabilities in such a way that a satisfactory level of working capital is maintained. The effects of working capital raise sort to balance off balance sheet items by increasing assets and capital proportionately. These findings further elude similarity with García-Teruel and Martínez-Solano's (2007) findings which revealed that managers can create value by reducing their inventories and the number of days for which their accounts are outstanding through working capital management. This result in improved profitability through reduction of cash conversion cycle also improves the firm's profitability (García-Teruel & Martínez-Solano, 2007).

Challenges Faced by Insurance Companies in Working Capital Management

The main challenge reported by the majority of the respondents was increasing bad debts (20.8%, 20), fraudulent claims (12.5%, 12), cost of financing (10.4%, 10), poor investment plans (9.4%, 9), and lack of proper policies (9.4%, 9). Moreover, poor governance, product pricing, and internal control systems were each reported by 6(6.3%) of the respondents as existing challenges in insurance companies. On the other hand inflation, increasing expenses, and liquidity challenges were each reported by 5(5.2%) of the respondents. Other challenges include poor use of information technology, poor tendering, poor record keeping, uncertainty and increasing risks, interference by IRA and AKI, inaccurate information provided by customers, taxation, poor planning and forecasting, employee malpractice, overworking employees and lack of management support each reported by at least 1(1.0%) respondent.

Further, study results on the proposed solutions claims review (12.5%,5), policy development (8.3%,8), employee training (12.5%,5), strengthening of internal controls (12.5%,5) and coming

up with competitive investment plans (9.4%, 9) and proper planning and forecasting (5.2%, 5). Review of claims and employee training will equip them with the required skills and competencies required to carry out their job thus ensuring proper policy development, and fraud detection which were reported as the main challenges. Improved use of internal controls and information technology will also help improve employee efficiency while aiding in fraud control and detection. These interventions may not achieve much if employees do not adhere to the rules and regulations and policies. Therefore, proper policies must be put in place to guide working capital management practices.

Furthermore, seeking alternative financing (3, 3.1%) would help resolve the challenge of cost of financing. Similarly, mixing equity and credit financing will also be ideal (2.1%, 2). The findings on the existence of challenges echo International Business Monitor's (2013) argument that unethical practices to lure customers, low premium ratings, poor management coupled with staff incompetence loomed in the insurance industry. Dishonesty by the public and fraud were among the main challenges faced by insurance companies (Maina, 2010).

Challenges relating to costs and expenses are in line with pecking order theory. Frank and Goyal (2005) explained that pecking order theory posits that firm is driven by information asymmetry and transactions costs to use internally generated capital first before turning to more expensive source. This gives ground for the use of equity as opposed to credit financing which this study found to be costly. Similarly, residual theory of dividend supports the same finding, giving room for seeking alternative cheaper financing by insurance companies while seeking to develop appropriate investment plans. This means that insurance companies should explore different investments opportunities available to a firm before it declares and pays dividends to shareholders. This implies that various investments returns should be compared to the firms marginal cost of capital and if greater they should be considered before paying dividends (Rangarajan & Misra, 2005). This will then result in coming up with policies which ensure long-term sustainability of businesses by managing cash inflows and outflows in the organization.

CONCLUSIONS

1. Insurance companies in Kenya used all the three working capital management techniques. These are the conservative approach, matching or moderate approach and aggressive approach.
2. Cash, receivables and inventory working capital management practices were all efficiently adopted by insurance companies.
3. Working capital management had positive effect on financial performance of insurance companies.
4. Capital raise requirement helped in the development of better credit management policies, increased receivable, reduction of payables, reduce bad debts, and improved the ability of insurance companies to meet obligations.

5. Among the main challenges faced by insurance companies are: increasing bad debts, increasing expenses, fraud, lack of policies, poor investment plans and liquidity.

RECOMMENDATIONS

1. The insurance companies should review the working capital management policy. This recommendation is supported by the majority response who cited increased bad debts by insurance companies as a challenge faced.
2. The study recommends a review or recruitment and adherence to proper recruitment principles to ensure recruitment of competent staff as a long-term strategy of ensuring employee efficiency in task execution. Similarly, this study recommends training of current employees to ensure they attain the required skills and competencies. This will save the organizations costs associated with incompetence such as poor investment plans, fraud among others.
3. Supervision by IRA to ensure adherence to working capital raise. This is because capital raise has positive effect on the management of working capital in insurance companies led to development of better credit management policies, increased receivable, and reduction of payables, reduce bad debts, and improved the ability of insurance companies to meet obligations which ultimately improved the financial performance of insurance companies.
4. Adoption of appropriate investment plans while promoting cost cutting strategies. This will help cut down increasing expenses while promoting cash inflows thus enabling organizations to cope with increasing costs of operations.

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