

**WORKING CAPITAL MANAGEMENT AND FINANCIAL VALUE OF
COMMERCIAL BANKS IN KENYA**

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DECLARATION

This thesis is my original work and has not been presented for any degree in any other University for a ward of a certificate.

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DEDICATION

I dedicate this thesis to my Wife and family members who have stood with me throughout the study period.

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I acknowledge the commitment and sacrifice of my supervisors Dr. Kiganda and Dr. Otsyulah May God bless them. In particular, I want to acknowledge the support of Dr. Atieno who pushed and encouraged me to work with timelines and has made me accomplish this target. I'm sincerely indebted to you. May God bless you. I also appreciate all my colleagues and fellow students who supported and encouraged me to complete this course. I owe you a lifetime.

ABSTRACT

The idea of firm value has drawn a lot of attention from stakeholders throughout the world, including shareholders, managers, potential investors, creditors, and others. This is due to the fact that it establishes a favorable public perception and measures the firm's value. Even with the use of various working capital management measures, commercial banks' overall performance is on the decline, which has a detrimental effect on their financial value. The main objective of the study was to establish the effects of working capital management on the financial value of commercial banks in Kenya. The specific objectives were, to assess the effects of cash management on the financial value of commercial banks in Kenya, to examine the effect of receivable management on the financial value of commercial banks in Kenya and to establish the effects of payable management on the financial value of commercial banks in Kenya. The study was guided by Cash conversion theory, transactions theory and contingency theory. In order to analyze the panel data gathered over a ten-year period, correlation research design was used. 38 commercial banks in Kenya made up the target population. A secondary data collection sheet was used to record data from audited financial statements that were downloaded from the websites of the Central Bank of Kenya and the Nairobi Stock Exchange. Shapiro-Wilk was used to establish normality. The Levin-Lin-Chu test was used to determine stationarity, and the findings suggest stationary properties. Since the variance inflation factors used to test for Multicollinearity were found to be less than 10, Multicollinearity was deemed to be absent in the independent variables. The Breach-Pagan test was used to evaluate heteroscedasticity. In order to confirm homoscedasticity, the probability of the Chi-square with 2 df was $0.21 > 0.05$ at the 5% level of significance. The Durbin-Watson test was employed to assess auto-correlation. The outcomes showed a value of 1.988, which indicates that there is no autocorrelation. Measures of mean, standard deviation, and variance formed the descriptive statistics. The overall descriptive statistics demonstrate significant heterogeneity among various commercial banks between the dependent and independent variables. Pearson's correlation analysis and the Random Effects Model were used in inferential statistics. The Pearson's correlation coefficient showed a coefficient of $r = 0.48$ with a p-value of 0.000 for financial value and cash management, $r = -0.15$ with a p-value of 0.0037 for financial value and payables management, and $r = 0.52$ with a p-value of 0.000 for financial value and receivables management. The cash management, receivables management, and payables management regression coefficients were established as 0.02, 4.34, and 2.08 with p-values 0.05, demonstrating that all the factors had a significant positive influence on the financial worth of commercial banks. Commercial banks were advised to increase their income generation and return on assets. Commercial banks should be majorly concerned with how effectively they use fixed assets. Commercial banks should properly manage short term liabilities, pending bills and accrued expenses should be minimal as this reduces liquidity of the firm and further reduces the value of the commercial banks as potential investors see a bank with so many liabilities as risky to invest in. All receivables particularly outstanding loans issued to customers should be closely monitored.

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ABBREVIATIONS AND ACRONYMS

CBK	Central Bank of Kenya
GNP	Gross National Product
IFRS	International Financial Reporting Standards
NPLs	Non-performing Loans
NSE	Nairobi securities exchange
WCM	Working Capital Management

DEFINITION OF TERMS

Cash Management	Choosing the best amounts of cash to retain while balancing the opportunity costs of maintaining both an excessive amount and a minimal amount (Ross, Westerfield, & Jordan, 2015).
Payables Management	The approaches employed by commercial banks to maintain an edge with their trade credit as compared to the costs involved with the credit e.g. the cost of late payment charges and withholding cash discounts (Kibet ,2017)
Receivables Management	Forging an equilibrium between liquidity, risk, and profitability to ensure that accounts receivable in a commercial bank are recovered as quickly as possible in order to optimize the value of the business (Muthoni, Kiprotich & Kipyego, 2020).
Financial Value	It is an assessment of a firm's economic worth. It represents an aggregate of all stockholder and creditor claims. (Njenga, Omagwa &Mithi, 2020)

Working Capital Management Entails regulating interrelatedness amongst a firm's short-term assets and obligations. It ensures that a company can continue operating and has enough money to pay both maturing short-term debt and approaching operational needs (Gitau, Onguso, Mugo &Kibet, 2016).

CHAPTER 1

INTRODUCTION

1.1 Background of the study

Any organization's financial performance and value are critically dependent on an effective regulation of working capital globally. Working capital management (WCM) makes sure a business has enough cash flow to cover its immediate debt payments and operating costs. The idea of evaluating a firm's value has drawn a lot of attention from stakeholders throughout the world, including shareholders, creditors, managers and potential investors. (Cyttonn, 2021).

The impact of free cash flow on the firm's value for shareholders is significant. Therefore, businesses are focusing on working capital, especially in the current challenging market environment, to lock in funds invested in the company and invest in areas with higher value-added gains. Profit growth at the expense of liquidity can cause major issues for the company; as a result, a corporation must establish a strategy that maintains a balance between these two goals. When comparing the profitability and liquidity of different businesses, working capital management is regarded as a very vital component (Cyttonn, 2021)

In order to foster much needed effectiveness, working capital management must ensure that investments in working capital components are not too minimal or excessive. The amount of available working capital committed and the funding of investments at any given production level are subject to a risk-return trade-off. In general, management and shareholders seek a bigger return on any investment in

working capital the higher the risk. Recent data on the Indian economy indicates that when working capital management is enhanced, there are potential cash opportunities worth 5.2 trillion Indian Rupee.

Companies in India have recently seen a significant rise in their cash-to-cash cycle. In light of this, many businesses have increased their payables to regulate working capital. Additionally, firms in India have tried to balance their needs for working capital by raising payables, offsetting rising inventory levels, and lowering collection. (Deloitte, 2021).

It is thought that Nigeria's financial repression, which was characterized by directed lending policies and interest rate caps, was the root of some flaws in the financial market's viability. Repressive policies like interest rate caps, strict reserve requirements on bank deposits, and mandated credit allocations, when combined with persistent price inflation, reduce the appeal of holding claims on the domestic banking system. Similarly, the broad money supply as a percentage of GDP declines. (Adekanye & Adedoyin, 2019).

The quality and amount of capital formation encounter the negative effects of the dispersion of the capital market brought on by financial repression. A decline in the flow of borrowings through the organized banking system, which forces potential investors to rely more on self-finance, as well as an arbitrarily different interest rate structure on the reduced flow of bank lending between classes of favored and disfavored borrowers are just two examples of these consequences. The impairment of the process of self-financing within businesses and households

primarily makes it difficult to accumulate liquid assets in advance of making discrete investments when the real yield on deposits is negative, making socially expensive inflation hedges more appealing as a source of internal finance (Adekanye & Adedoyin , 2019).

Banks appear to be seeing some stabilization following a decade of severe regulatory scrutiny on a national and international level. Stress testing, increased capital and liquidity standards, recovery and resolution strategy are likely to stay in place. Executive accountability and compliance standards are anticipated to remain high. In order to test the operational integrity of sophisticated institutions, particularly when under pressure, regulators are also expected to keep up proactive enforcement operations and request additional information from financial institutions.

After the interest rate cap was eliminated in Kenya through banking legislation, banks are constantly changing how they value credit to take particular borrowers' risks into account. The second pillar of the objective outlined in the Kenya Banking Sector Charter is risk-based loan pricing. As a result, lenders continue to use this pricing strategy. (Kenya Bankers Association, 2021)

In order to counteract the rising dangers of money laundering on a regional and international level, regulatory authorities have proceeded to impose stronger monitoring and reporting requirements. Banks must put in place efficient compliance and detection systems in order to comply with anti-money laundering legislation. This puts a burden on the bank's working capital and whatever other

resources it may have. Those who criticize banks contend that risk-based pricing disrupts their current loan programs and could lead to displeased clients. When a credit analyst refuses to offer a customer a reduced rate and finds it difficult to explain the reasoning behind the decision, problems could arise (CBK, 2021).

As businesses encountered a lapse in operations, banks in East Africa saw a decline in client transactions and funds in bank collection accounts. This results in a decrease in the quantity of money that banks have available to invest and lend. As a result, most institutions have extended their sources of income. Banks that supplied these services were better protected against big losses than banks that did not, even though all income streams showed a considerable reduction in the quantities of revenue earned in terms of commission.

The rise in the amount of non-performing loans (NPLs) is one major issue that banks are currently dealing with. Layoffs, pay reductions, poor demand, and low purchasing power make it difficult to sell of collateral like vehicles, which could ultimately prevent banks from being able to make up their losses in the case of a failure. Between 2018 and the first quarter of 2021, the Kenyan and Ugandan banking sectors' NPL ratio gradually increased. (Deloitte, 2021/2022).

The aggregate non-performing loans expressed as a fraction of total loans spiked in Kenya from 12.7% in June 2019 to 13.1% in June 2020. The categories with the largest growth in NPLs were financial services, building and construction, energy and water, and agriculture. During the financial year ended June 30, 2020, profitability fell by 17.2. Due to a rise in bad loans of 150.8 percent in J 2020, total

expenses grew by Kshs 404.1 billion. NPL growth causes cash inflow lags, which diminish working capital (CBK, Annual report and Financial Statements, 2020/2021)

As a result of the much higher precautionary requirement levels and elevated credit risk, loan growth in Q1 2021 was considerably slower than in Q1 2020, coming in at 11.0% as opposed to 14.1%. As of April 2021, the NPL ratio for the total banking industry was 14.2%, up from 14.1% in December 2020. Elevated levels of NPLs were seen in industries like trade, personal and home services, and manufacturing, which had risen in their NPL levels of 38.5%, 16.7%, and 9.6%, correspondingly. (Cyttonn, 2021)

1.2 Statement of Problem

Management of the organization's working capital plays a substantial role in growth, sustainability, profitability, liquidity, as well as overall value. In addition to being essential for determining a company's book value, firm value also increases industry value and the health of the economy. (Kipkirui, 2018). Despite implementation of various working capital management strategies, commercial banks general performance is still on a downward trend a situation that negatively impacts their financial value. The banking sector registered decline in performance in 2020 with earnings before tax decreasing with 29.5% from Sh.159.1 billion recorded during 2019 to Ksh.112.2 billion in 2020 (CBK, Annual report and Financial Statement, 2018/2019). The banks aggregate Non Performing Loans was on the rise by 12.6% from Kshs. 298.4 billion in June 2018 to Kshs. 335.9 billion in June 2019. In the period 2019/2020, profitability in the banking sector declined

by 17.2 percent while total expenses increased to KShs. 404.1 billion in June 2020 due to a 150.8% increase in bad debts (CBK, Annual report and Financial Statements, 2020/2021)). Decrease in profitability decreases firm's financial value and shareholders' wealth. Researches done have majorly concentrated on working capital and financial performance and aspects of a firm's value has been ignored yet it's a key factor especially for firms trading in the stock exchange as this will have an effect on market prices of shares and shareholders' wealth. Therefore, the need to establish the effect of payable management, receivables management and cash management on the value of commercial banks in Kenya.

1.3 Objectives

1.3.1 General objective

To establish the effect of working capital management on the financial value of commercial banks in Kenya

1.3.2 Specific objectives

- i.** To assess the effect of cash management on the financial value of commercial banks in Kenya.
- ii.** To evaluate the effect of payables management on the financial value of commercial banks in Kenya.
- iii.** To examine the effect of receivables management on the financial value of commercial banks in Kenya.

1.4 Research Hypothesis

- i.** Cash management has no significant effect on the financial value of commercial banks in Kenya.
- ii.** Payables management has no significant effect on the financial value of commercial banks in Kenya.
- iii.** Receivable management has no significant effect on the financial value of commercial banks Kenya.

1.5 Significance of the Study

The government of Kenya will be able to formulate and implement policies that would improve commercial banks' access to sustainable and affordable sources of working capital and help the government create more job opportunities, this study will provide public policymakers with information on how performance is affected by working capital management on performance. Managers of financial institutions will benefit from the study's exposure of the role that adequate working capital serves in performance.

This will make it possible for the financial analysts to come up with more reasonable policies and strategies to enhance working capital management as well as payables and cash flow management. As a consequence, this will boost the company's profitability and worth. The study will give new researchers access to literature on working capital management, which will make it easier for them to detect research gaps that this study may not have addressed. Furthermore, the research and will immensely enrich different areas of research and expertise

already in existence, serving as a resource for future scholars conducting research in the area.

1.6 Scope of the Study

The research was edged on commercial banks' accounting records for a ten-year financial year period from 2002 to 2021. The research only focused at the operating capital and monetary value of the 38 commercial banks in Kenya that it targeted. This time period was crucial since it is when many banks' profitability started to decline, certain institutions, like Chase Bank, were placed under receivership, and other banks failed.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

The section expounds on theoretical and empirical literature, research framework, a critique of literature, as well as gaps.

2.2 Theoretical Literature Review

This study was driven by the theories of cash conversion, transaction costs, and contingency.

2.2.1 Cash Conversion Theory

The concept was brought forward by Gitman (1974). The theory focuses on the cash inflows from the selling of finished goods and the intervals between the purchases of raw materials. The theory creates a measure with a temporal dimension, rendering it much more proactive as an indicator of liquidity management, by combining both balance sheet and income statement data. Nevertheless, each industry has a unique currency conversion process in terms of duration and complexity.

Therefore, comparing a given firm to the industry in which it competes is the more accurate way to acquire industry benchmarks. This exemplifies the revenue disparity between raw material's price and the revenue from finished goods. Daily tracking and monitoring of short-term assets and liabilities is critical to its success.

Padachi (2006) advocated that businesses should calculate working capital management using ongoing liquidity metrics. The theory was viewed as a mechanism for examining working capital management. Their understanding of the cycle concept states that there is a lag time between cash outlays made during quantity produced and revenues from sales and receivables.

According to Gerio and Wahome (2020), the duration taken for a corporation to convert its materials to revenue is referred to as its cash conversion cycle. It evaluates the rate at which a business maintains their working capital. Many at times, when a business buys inventory, it does so on credit, which results in accounts payable. The most significant component of WCM is the cash conversion cycle. They suggested using the cycle as a yardstick to look for improvement possibilities and a tool in bargaining with suppliers and customers in response to the increased need for assistance in monitoring the cash flow cycle. This theory was crucial for comprehending the working capital's cash management function. It assisted in understanding the credit and investment and the number of days between paying suppliers and receiving payments from its customers.

2.2.2 Transaction Cost Theory

Ferris (1981), who borrows heavily from non-economic spheres, developed this theory. He described it as the price of offering a good or service through the market as opposed to offering it within the company. According to the transaction cost theory, people frequently incur expenditures without recognizing they are expenses.

Williamson (2013) neglected the idea of environmental influences because the nature of transactions interested him. He also added that a company must attain economic effectiveness by lowering costs in order to have the best organizational structure. The theory thus provides an adequate justification for why numerous independent enterprises coordinate to achieve higher market efficiency.

Transaction cost theory, according to Muthoni, Kiprotich, and Kipyego (2020), is crucial to corporate governance since it can help with governance mechanisms. In place of the agency theory, which is employed to describe corporate governance, it is seen as a substitute. It examines the reasons behind business growth. This theory holds that a firm needs to sign more contracts if it wants to gain more control. Company enters into new contracts, has to have more employees, contracts, and assets, and grows to be a large corporation. The link between transaction cost theory and corporate governance is demonstrated by the data.

This theory was applicable to the research since it will help managers of commercial banks strike the ideal balance between increasing firm profits and increasing owners' utility. It is a crucial component of corporate governance in relation to the activities of the businesses. It will make it easier to comprehend how much management is accountable for how decisions made affect the firm's net worth.

2.2.3 Contingency Theory

This supposition was brought forward by Saxberg (1979). Theoretically, working capital is most effective when the structure corresponds to the contingencies; hence, firms can only operate at optimal productivity when their working capital is

in harmony with the current state of affairs. The theory further notes that no working capital ratio has ever been asserted to be dependably ideal irrespective of type of industry.

Considering the dynamic state of the external factors, responsible parties like managers have to continuously alter the working capital management levels and strategies of their organizations to the varying conditions to ensure accuracy. Because of this, the contingency theory inherently views corporations as independently functioning entities, comprising of individual working capital components that can be changed and improved (Gerio & Wahome, 2020). The theory was pertinent to the study since it helps organizations decide on the amount or strategy of working capital management to take. These elements include economic environment, population changes, sociocultural trends, political/legal considerations, and market structures.

2.3 Conceptual Framework

Figure 2.1 shows the link between the dependent and independent variables.

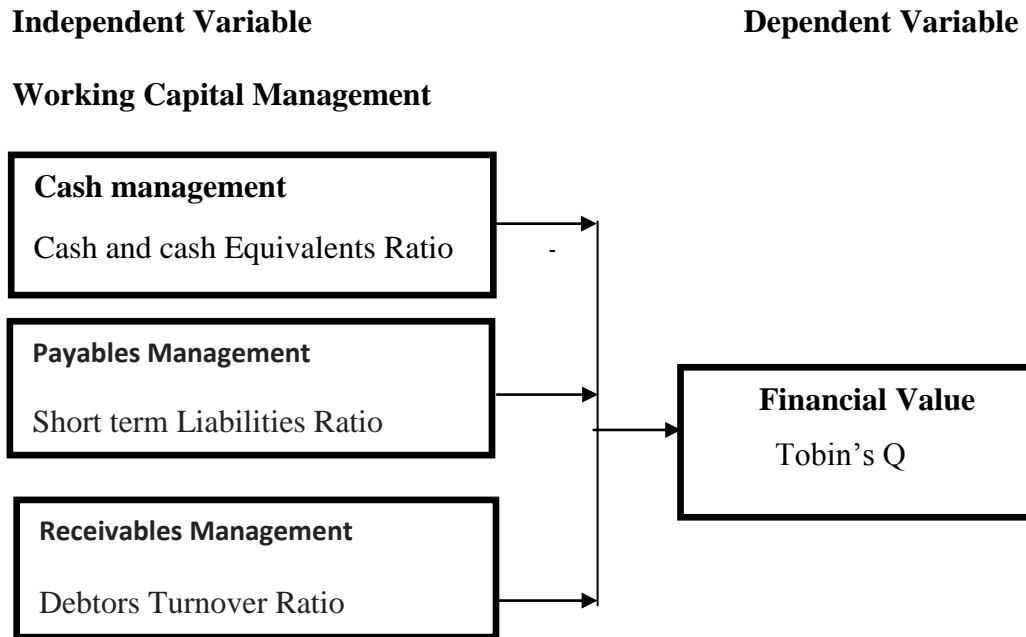


Figure 2.1 Conceptual Framework (Researcher, 2022)

2.3.1 Working capital management

Refers to how a corporation manages the relationships between its short-term assets and obligations. It comprises of controlling debts and assets. The handling of current assets and obligations, or working capital management, has a direct impact on the institution's profitability and cash flow. As a result, it is crucial for the business' continuous operations (Gerio & Wahome, 2020).

2.3.2 Cash management

This illustrates cash flow management and collection. According to cash management doctrine, the best use of cash is necessary to achieve the greatest possible liquidity and profitability (Gitau, Onguso, Karungu & Kirui,2016)

2.3.3 Payables Management

The term "payables management" describes the process of managing a company's unpaid obligations or liabilities to suppliers for the purchase of products and services provided on credit. It requires organizing, managing, and overseeing transactions stemming from accounts receivable (Kipkirui, 2018).

2.3.4 Receivables Management

Framework and managing debt due to the client on account of credit sales is referred to as receivable management. A company's assertion for repayment from its clients or prospects for items supplied and/or services given in fulfillment of the customer's request is known as accounts receivable. It usually appears on the balance sheet as a resource. Statement of financial position and is classified as a component of working capital for a business (Mwariri, 2020).

2.3.5 Financial Value

A measure of an enterprise's fair economic worth is called firm value. It represents the total of all stockholder and creditor obligations. The age of the company, leverage, annual growth, and liquidity can all affect the value of the company.

Sales revenue and managerial effectiveness are further elements that affect firm value (Njenga, Omagwa & Mithi, 2020)

2.4 Empirical Literature

2.4.1 Cash Management and Financial Value of Commercial Banks

Kangangi and Omagwa (2020) did a research study in small and medium-sized enterprises in Nyeri County, Kenya, in order to look into the effects of working capital management techniques on growth. The target demographic consisted of 841 SMEs that operated in Kenya's Nyeri County. The sample of 89 SMEs was selected through proportionate stratified random selection. The study discovered that cash management methods and debtors' management procedures both had positive and statistically significant effects on the growth of SMEs ($p=0.000$ and $p=0.000$, respectively). Furthermore, the management of creditors had a favorable but statistically insignificant impact on the expansion of SMEs ($p=0.196$), and the management of inventories had a favorable but statistically insignificant impact ($p= 0.263$).

Mwariri (2020) conducted a study to determine the relationship between working capital management techniques and financial distress of companies that are traded on the NSE. 67 publicly listed individuals in Kenya made up the study's entire population. Twenty-five businesses listed in the manufacturing and associated industries were chosen using a purposeful sample strategy. Through the use of inferential and descriptive statistics, the research was able to analyse collected data was examined.

Descriptives of Mean, max, min, skewness, kurtosis and standard deviation were among the descriptive statistics. Regression modeling and Pearson correlation were examples of inferential statistics. Stata 14 was used to analyze the data. Results depicted a negative correlation between conversion period and the financial difficulty of corporations listed on NSE.

Wanjala (2015) employed a correlation research design with a target population of 62 firms listed on NSE for an eight-year period to evaluate the association between dividend payout ratio and working capital management of publicly trading firms between (2006-2013). A multiple regression approach and Pearson correlation analysis were used to analyse the data. To establish the level of significance, the independent t-test and ANOVA tests were both utilized at a 95% level of confidence. The study's conclusions showed that effective working capital management enhances the payout ratio. The conversion cycle showed a favorable correlation of a factor 0.022

Ogola (2021) conducted study on the financial performance and working capital management of deposit-taking microfinance institutions. 5 Microfinance Institutions in Mombasa County, Kenya were targeted and the researcher employed a descriptive design. While secondary data was extracted from audited annual reports, primary data was obtained from questionnaires. The examination of qualitative data used descriptive statistics. The Pearson product-moment correlation, regression, and Chi square inferential statistics were obtained. According to the study's findings, the association between Cash Turnover,

Accounts Payable and receivable turnover and Return on Assets was 0.516, 0.391, and -0.325, respectively, according to the Pearson Correlation test.

2.4.2 Payable management and Financial Value of Commercial Banks

Njenga, Omagwa, and Mithi (2020) investigated the connection between company value and financial attributes of commercial banks listed on Kenya's NSE. All 11 commercial banks were examined where audited financial statements for the years 2014 through 2018 served as the source of panel data. Data was examined with descriptive statistics, pearson's simple correlation and panel regression analysis. According to findings ($p = 0.462$), firm value was not significantli impacted by loan book value. Financial institutions listed on the NSE saw a considerable increase in company value as a result of return on investment ($p 0.05$).

A study was conducted by Gerio and Wahome (2020) with the aim of identifying the impact on performance by liquidity management in listed agricultural enterprises. The study method used was a descriptive survey. The study population consisted of a census of every one of the six businesses registered at the securities exchange within a period of 2014 to 2019. Each company's annual reports and reviewed financial records for five years between July 2014 and July 2019 were used as the study's secondary sources of data. SPSS, a statistical tool for social research, was utilized for the analysis. The Return on Investment (ROA) and liquidity management had a positive association.

Gitau, Onguso, Karungu, and Kirui (2016) studied working capital management and liquidity risk in the context of listed financial institutions in Kenya. They utilized a longitudinal research design since it required taking consistent measurements across time in order to compare returns over the various time periods. Secondary sources were used to gather the data; these were published accounting records that were made available in the Kenyan banking survey. The study's main conclusions were that debtors' collection period and conversion cycle portrayed a substantial negative association with the liquidity of listed commercial banks. The amount of time before creditors made payments also significantly improved the liquidity of Kenya's quoted commercial banks.

A descriptive research approach was employed in a study by Majakusi (2016) that aimed to comprehend the connection between performance and liquidity management of commercial banks. CBK provided secondary data that was acquired. Data analysis employed a regression modelling approach. The study discovered that the variables were positively correlated and by extension had a statistically significant association.

In another study, Namasake (2018) employed a descriptive research approach to assess how financial performance affected by WCM of energy and petroleum corporations that are listed. Every firm listed on the NSE was targeted. A census sampling technique was utilized enabling selection of every listed company. The SPSS software was used to examine the data where percentages, mean, and standard deviation were all included in descriptive statistics. According to

inferential statistics, the firms' return on equity and accounts payables are strongly positively correlated.

2.4.3 Receivable Management and Financial Value of Commercial Banks

Njoroge (2016) looked into the factors that affect Kenyan commercial banks' profitability. The research examined how parameters such as bank size, capital sufficiency, liquidity, credit risk, and operational effectiveness affected banks' profitability. The study's use of a descriptive approach enabled it to determine the variables that affect the Kenyan commercial banks' profitability. The study analyzed secondary data from 43 commercial banks that were registered as of December 31, 2015, spanning the years 2011 to 2015. Using the statistical software for social research, Pearson correlation showed a significant negative association between credit risk, capital sufficiency and banks' profitability as well as a significant negative relationship amongst bank size, operating efficiency, and profitability.

Adan and Wamuyo (2021) also investigated the association amongst performance and working capital management of SMEs in Garissa county, Kenya. 243 SMEs were targeted and randomly sampled 149 entities. A total of Quantitative techniques assisted in assessing secondary data and later presented via tables. Findings revealed that the impact of accounts receivable management on return on assets was relatively negligible. The financial performance of SMEs was significantly impacted by inventory management. The effectiveness of SMEs is significantly and favorably affected by cash management.

Kipkirui (2018) researched on accounts receivable turnover and collection period of KEWASCO. Primary data was sourced from questionnaires and secondary data was acquired from the Kenya National Audit Office for a period ranging from 2010 to 2014. The research targeted employees based in the accounting and finance section within Kericho and Bureti. Analysis of data

According to the findings, the extent of the region and turnover of inventory, which had coefficients of 0.2450 and 0.688 respectively were negatively and positively correlated and significantly impacted the ROE of KEWASCO's. Muthoni, Kiprotich, and Kipyego (2020) explored the link relating to financial performance and receivables management of industrial companies listed on the NSE. In order to determine the population's current state, the research was based on a descriptive design. The 147 finance and accounting personnel from the manufacturing companies formed the study's population. Self-administered questionnaires were used for collecting data, and both descriptive and inferential data necessitated the analysis. A significant association was discovered between credit extension practices and performance. Further, there was a significant impact on performance by collection rate and receivables. The outcome showed a value of $R^2=0.889$ portraying that the independent factors answer for a total of 88.9% of the dependent variable.

2.5 Critique and Research Gaps

Table 2.1: Critique and Research Gap

Author/Year	Topic/Area of Study	Methodology/Results	Results	Gap
Kangangi and Omagwa(2020)	Effect of working capital management practices on Growth of SMEs.	Proportionate stratified random sampling.	Cash management practices had positive effect on the growth of SMEs.	Study carried out in SMEs and only concentrated on cash management.
Mwariri(2020)	The association of WCM practices and financial distress of firms publicly listed at the (NSE).	Data was analyzed using Stata 14.	Cash conversion period had negative association with financial distress.	The study looked at financial distress and not firm value
Wanjala(2015)	The relationship between working capital management and dividend payout ratio of listed firms in NSE	Data collected was analyzed using a multiple regression model and Pearson correlation analysis	Cash conversion cycle has a positive relationship of with dividend payouts.	The study looked at WCM and dividend payout and not the value of the firm
Ogola (2021)	WCM and Financial performance of DTMI's in Mombasa County, Kenya'	Descriptive research design. Primary data collected using questionnaires. Secondary data sourced from audited accounting records. Inferential statistics of Pearson product-moment Correlation,	Positive relationship between working capital management and financial performance	The study looked at WCM and financial performance and also did not look at commercial banks
Kipkirui(2018)	Determinants of profitability of Kenyan commercial banks.	Descriptive design Secondary data from 43 registered commercial banks Pearson correlation	Significant negative relation between capital adequacy, credit risk and banks' profitability.	The study looked at general determinants instead of looking at the variables of study.
Adan and Wamuyo(2021)	The influence of working capital management on the financial performance of SMEs in Garissa county.	Primary data through questionnaires. Data analyzed using descriptive and inferential statistics	Receivable management had a minimal influence on return on assets. Inventory	The study looked at WCM in SMEs and not commercial banks

Muthoni, Kiprotich and Kipyego(2020)	Management of accounts receivable and financial performance of manufacturing firms listed in NSE.	Descriptive research design Data was collected by use of self-administered questionnaires and analyzed using both descriptive and inferential data analysis.	Significant relationship between accounts receivable management and financial performance	Study carried out in manufacturing firms and ignored aspect of the value of the firm
Njenga, Omagwa & Mithi(2020)	Relationship between financial characteristics and firm value of commercial banks listed at NSE	Panel data was collected from published audited financial statements of the commercial banks. Data was Data analyzed via using Pearson's simple correlation, descriptive and panel regression analysis	The study found that loan book value had no significant effect on firm value of commercial banks	The study looked at financial characteristics and value of affirm and not WCM
Gitau, Onguso,Karungu, and Kirui(2016)	In a study titled "What Are the Implications of Working Capital Management on Liquidity Risk	Longitudinal research design Data was collected from secondary sources; these were published financial statements	Debtors' collection period and cash conversion cycle have significantly negative relationship with liquidity of quoted commercial banks	The study was geared towards WCM and liquidity risk
Gerio & Wahome (2020)	Influence of liquidity management on the financial performance of agricultural firms listed on NSE.	Census technique applied	The liquidity management has positive relationship with ROI.	The topic concentrated on liquidity management and financial performance and not firm value

CHAPTER 3

RESEARCH METHODOLOGY

3.1 Introduction

This section covers the target population, research methodology, research design, data gathering methods, data analysis, and presentation.

3.2 Research Philosophy

Research Philosophy refers to a paradigm phenomenon that deals with realism, cognition, and existence as they pertain to how the world functions. Researchers who use quantitative techniques and methodologies, such as counting and quantifying, are known as positivists. Positivism makes it possible to use statistical methods to test hypotheses and assess research data gathered through the use of quantitative research methodologies. Positivists contend that reality is stable and so amenable to observation from a distance (Leitch, Hill & Harison, 2010). Positivism formed the basis for this research. Positivism was useful for this study since the data needed to be quantitated. It made it easier to determine how the concepts of WCM and financial worth of financial institutions are connected.

3.3 Research Design

The research utilized correlation research design on the panel data. The design was ideal for establishing the quantitative link connecting WCM and Firms of banks (Saunders, Lewis & Thornhill, 2019).

3.4 Target Population

In line with the CBK 2022 report, 38 banks were registered and operating as commercial institutions. Thus, the research targeted the 38 financial entities and did not include any other banks that were in receivership or that had failed.

3.5 Sample Population

In order to be objective and draw conclusions that can be generalized to the entire nation, the 38 commercial banks were all employed in the study. This was all with a view of working towards the main and specific objectives of the study.

3.6 Research Instrument

A secondary data collection schedule was used to gather data from audited financial statements of the 38 financial entities under study. The research tool facilitated documenting of the necessary information.

3.7 Data Collection Procedure

Audited financial accounts were retrieved from the CBK website and the Nairobi Securities Exchange (NSE). Audited statements from F/Y ending December 2012 to 2021 were used to obtain the necessary data. This was subsequently summarized in a data collection schedule.

3.8 Data Analysis and Presentation

Gathered data was filtered and sorted before being exported to STATA to help with the analysis of the panel data's descriptive and inferential statistics. To determine whether the data were suitable, diagnostic tests were conducted.

Shapiro-Wilk was used to gauge normality. The test of Levin-Lin-Chu was used to determine stationarity. Variance inflation factors were used to examine Multicollinearity. The Breuch-Pagan test was used to determine heteroscedasticity. To examine the autocorrelation of error terms, the Durbin-Watson test was applied. Furthermore, standard deviation, variance and mean formed the descriptive statistics. The Hausman test for random effects and Pearson's correlation were applied for inferential statistics. Tables were utilized to present the data. The model below was used to test the hypothesis.

$$FV_{it} = \alpha + \beta_1 CM_{it} + \beta_2 PM_{it} + \beta_3 RM_{it} + \varepsilon_{it} \dots \dots \dots (3.1)$$

α = Regression constant

$\beta_1 - \beta_3$ = Panel regression coefficients

CM = Cash Management

PM = Payables Management

RM = Receivables Management

FV = Financial Value

i = 38 Commercial Banks

t = Time period from 2012-2021

ε = Error term

3.9 Ethical Consideration

Approval to collect data was sought from the university board of post graduate studies. The researcher further engaged the National Commission for Science, Technology, and Innovation (NACOSTI) to obtain approval and permission to conduct research. Utmost confidentiality was applied to all data. Additionally, to prevent unwanted access, all study-related data was securely archived. The data was only utilized for research purposes.

3.10 Measurement of Variables

Table 3.1 shows how the variables were evaluated in the study.

Table 3.1: Measurement of Variables

Variable	Nature	Formula
Cash Management	Independent	$\frac{\text{Total incomes}}{\text{Cash and cash equivalents}}$
Payables Management	Independent	$\frac{\text{Total short term liabilities}}{\text{Average short term liabilities}}$
Receivables Management	Independent	$\frac{\text{Total accounts receivables}}{\text{Average accounts Receivables}}$
Financial Value	Dependent	$\frac{\text{Equity Market Value} + \text{Debt Market Value}}{\text{Equity book Value} + \text{Debt Book value}}$

Source: Researchers Conceptualization (2022)

CHAPTER 4

RESEARCH FINDINGS AND DISCUSSION

4.1 Descriptive Statistics

To determine the dynamics of the independent and dependent variables, assessments of standard deviation, min, max and mean were conducted. Results were as shown in Table 4.1.

Table 4.1: Descriptive Statistics

Variable	Obs.	Mean	Std. Dev.	Min	Max
Financial Value	380	3.773456	3.228091	.15	13.82263
Cash Mgt	380	5.14771	14.16165	.0902711	121.2626
Payables Mgt	380	1.025019	.1497029	.2150603	1.571887
Receivables Mgt	380	1.164964	.6964435	.1675168	4.994888

Source: Research Data (2022)

The study period ran from 2012 to 2021 giving a 10-year span with 38 observations for each bank. This produced a panel total of 380 observations over the 10-year period. The standard deviation of financial value was established as 3.23. The mean was 3.77 with a minimum of 0.15 and a maximum of 13.82. the phenomenon implied that some of the banks had a very low financial value this may discourage investors as the bank is seen to be riskier to invest in thus share prices may drastically go down. Some banks however, some banks a higher financial value during the period. Such banks are likely to benefit from high investments and increase in share prices thus increasing shareholders' wealth. Generally, the financial value fluctuated over the ten years.

For cash management, the average was 5.15 while the standard deviation of 14.16 shows that there was a wider variation as evidenced by the min of 0.09 and max of 121.26. The variation means that, some of the banks has low cash flow which is a threat to effective operation, while others had higher cash flow which it indicates a greater frequency of cash replenishment through revenue that could be used in other investments.

For payables management, the mean was 1.025019 while standard deviation was 0.1497029 with a min of 0.2150603 and max of 1.571887. The average industry payables turnover seems to be above one which means many of these banks pay their debts promptly. The variables standard is less than the mean which implies less variability in the independent variable. Receivables management showed a mean of 1.16, minimum of 0.168, maximum value of 5.00 and standard deviation of 0.70. This an indication of wide variability in receivables management with some banks being very effective and efficient in debts while others do not effective use and manage the credit they extend to customers inform of loans hence a high credit risk.

4.2 Diagnostic tests

Preliminary tests were done to establish whether the data set was fit for analysis.

This are discussed below.

4.2.1 Normality Test

The requirement for a normal distribution applies to the residuals in multiple regression. The residuals in a regression model represent the error in the

association surrounding independent variables and a dependent variable. When determining whether to employ parametric or non-parametric tests for time series, the research is directed by the Normality Test for the Residuals. Parametric tests are recommended if the parameters are normally dispersed; alternatively, non-parametric tests should be performed (Khatun, 2021). Normality was examined using the Shapiro-Wilk test. The null hypothesis for the test states that parameters are normally distributed. When derived the P-value<0.05 at the 95% confidence level, the research fails to reject the hypothesis. Results of the test are displayed in Table 4.2.

Table 4.2: Shapiro Wilk Normality test

Variables	Obs	W	v	z	Prob>z
Cash Mgt	380	0.97996	1.376	0.699	0.24224
Payables Mgt	380	0.97385	1.795	1.282	0.09993
Receivables Mgt	380	0.97489	1.724	1.193	0.11648
Financial Value	380	0.97094	1.995	1.513	0.06517

Source: Research Data (2022)

Table 4.2 demonstrates that, at a 95% level of confidence, all of the variables' p-values>0.05, indicating that the hypothesis was not rejected, indicating that cash management, payables management, receivables management, and financial value were distributed normally.

4.2.2 Stationarity Test

The statistical characteristics of a variable are said to be stationary if they remain stable throughout time. Even though two variables are completely unrelated, a regression may depict an extreme R^2 when the parameters are not stationary and are changing through time. The conventional assertions for asymptotic analysis

will be invalid. Therefore, we cannot properly conduct hypothesis tests about the regression parameters since the common "t-ratios" will not follow a t-distribution (Breitung & Das, 2015) The Levin-Lin-Chu test was used for a stationary test to affirm validity and reliability of the results. The assumption underpinning this test is that the parameters are not stationary. Table 4.3 shows the outcome of the Levin-Lin-Chu stationarity test.

Table 4.3: Levin-Lin-Chu unit-root Test

Variable	Panels	Periods	Test Statistic	P-value
Cash Mgt	13	10	-2.6015	0.0046
Payables Mgt	13	10	-10.3393	0.0000
Receivables Mgt	13	10	-3.9155	0.0000
Financial Value	13	10	-5.1006	0.000

Source: Research Data (2022)

The research rejected the null hypothesis pointing towards parameters not being stationary at 5% significant level as shown in Table 4.3 above because the p-values were below 0.05 at the 95% confidence level and the t statistics were less than the -1.966 t-critical value.

4.2.3 Multicollinearity Test

In a multivariate regression model, Multicollinearity occurs when more than two explanatory variables are strongly correlated linearly. A value of 1 indicates perfect Multicollinearity. When two independent variables are highly correlated, it is impossible to maintain one constant since it will vary when the other variable changes, resulting in indefinite beta estimates and unbounded standard errors. Due to the dataset's increased sensitivity to even little changes, the results are skewed and inaccurate.

Large variances and covariances in the OLS estimators will make estimation problematic. Because the confidence intervals are substantially wider, it causes a Type 2 error building up to the rejection the null hypothesis even when it is misleading (Tomaschek, Hendrix and Baayen, 2018). For each independent variable, the variance inflation factors (VIFs) and reciprocals were computed to estimate Multicollinearity (tolerances). The VIF level shouldn't exceed 10. Variables are said to be linearly related in the same model if the $VIF > 10$, which implies strong Multicollinearity. Results of the test were as displayed below.

Table 4.4 Variance Inflation Factors

Variable	VIF	1/VIF
Cash Mgt	1.01	0.990902
Payables Mgt	1.64	0.610321
Receivables Mgt	1.64	0.610404
Mean VIF	1.43	

Source: Research Data (2022)

Table 4.3 demonstrates no evidence of Multicollinearity in model, given VIF of all variables were less than 10 and the $1/VIF > 0.1$. The variables can thus be utilized in consonance with one another.

4.2.4 Test of Heteroscedasticity

When compared to homoscedasticity, heteroscedasticity denotes variance that is not constant. A variable's empirical summation is contrasted with a certain theoretical cumulative distribution function to determine homoscedasticity.

Because parametric statistical tests are sensitive to any variances, this is a crucial premise. Samples with uneven variances produce inaccurate and skewed test findings, which reduces the precision of your coefficients (Ginker and Lieberman,

2017). In order to ensure that the residuals of the model fitted do not display heteroscedasticity, a Breuch-Pagan test was performed. the test. It helped determine whether the data distribution was homoscedastic given the 95% confidence level null hypothesis that variables were constant. Results were as exhibited in Table 4.5.

Table 4.5: Breusch-Pagan / Cook-Weisberg test for heteroscedasticity

H ₀ : Constant variance
Variables: fitting values of firm value
chi2 (1) = 1.60
Prob > chi2 = 0.2057

Source: Research Data (2022)

The Breusch-Pagan-Godfrey test is a k-degrees-of-freedom Chi-Squared test statistic. The probability of the Chi-square with three degrees of freedom is 0.2057 > 0.05 at a 95% confidence level. As a result, the study was unable to prove that variables were not constant.

4.2.5 Test of Auto-Correlation

The linear regression model implicitly assumes independent error terms. This indicates that one observation's error term is unmodified by another observation's error term. If not, it is referred to as autocorrelation. The computed standard errors frequently fall short of the actual standard error because of autocorrelation. P value resulting from this is lower. This leads to the notion that a parameter is significant even when that's not the case. The Durbin-Watson test was used to determine the impartiality of the error terms (DW). Its statistic is between 0 and 4. No autocorrelation is present when the value is between 1.8 and 2.2. Positive

autocorrelation is indicated by a number under 1.8, whereas negative autocorrelation is indicated by a value over 2.2 (Klapetek, 2018).

The test ensures that the model residuals are not automatically correlated. Its statistic is between 0 and 4. The ratio ranges from 1.5 to 2.5. H0 states that there is no incidence of autocorrelation, while H1 states that there is indication of autocorrelation. It will be justified to employ the regression model if the statistics are within the permitted ranges. The following Table 4.6 displays the test results.

Table 4.6 Durbin- Watson Test

F-statistic	10.14271	Prob. F (3,493)	0.0000
Obs * R-squared	19.79990	Prob. Chi-Square (3)	0.0001
Variable	Coefficient	Std. Error	t-Statistic
Cash Mgt	-0.000300	0.000645	-0.465306
Payables Mgt	-0.000333	0.000612	-0.543839
Receivables Mgt	-0.000344	0.000519	-0.663996
Financial value	0.000679	0.000724	0.937431
R-squared	0.039507	Mean dependent variance	0.000912
Adjusted R-squared	0.025869	S.D. dependent variance	0.243237
S.E. of regression	0.240070	Akaike info criterion	6.57E-05
Sum squared residual	28.41334	Schwarz criterion	0.067397
Log likelihood	7.983548	Hannan-Quinn criterion.	0.026484
Durbin-Watson stat	1.998048		

Source: Research Data (2022)

From Table 4.6, the value for Durbin-Watson of 1.998 confirms no autocorrelation.

4.3 Inferential statistics

Inferential statistics included correlation analysis and random effects model.

4.3.1 Correlation Analysis

The connection between the variables was examined using Pearson correlation.

The technique derives coefficients which vary from -1 to 1 owing to the normal distribution of the data. Positive association between the variables is represented by derived + values and vice-versa. Table 4.7 illustrates this.

Table 4.7: Pearson Correlation Coefficients

Variable	Financial Value	Cash Management	Payables Management	Receivables Management
Financial Value	1.0000			
Cash Management	0.4761* (0.0000)	1.0000		
Payables Management	0.1487* (0.0037)	-0.0407 (0.4286)	1.0000	
Receivables Management	0.5168* (0.0000)	0.6206* (0.0000)	0.0424 (0.4103)	1.0000

Source: Research Data (2022)

The connection between the dependent variable and independent variables for financial value and cash management was determined to be $r = 0.4761$ with a p-value of 0.0000. This was an indication that cash management bears a significant strong positive association with financial value. Financial value and payables management have correlation coefficients of $r = 0.1487$ and p-values of 0.0037 and $r = 0.5168$ and p-values of 0.0000, respectively, indicating that payables management has a significant positive association with financial value and receivables cash management has a positive association with financial value.

4.3.2 Fixed Effect Model

In fixed effect models, it is assumed that the link between the causal and predicted values is fixed or consistent over all occurrences. When the model's inputs are constants or non-random variables, the model is referred to as a fixed effects model. In panel data, fixed effects show the relevant averages when the same item has longitudinal occurrences. The Fixed Effects model is utilized in a panel data set to analyze the influence of each item's unique characteristics. Even if these factors are not readily observable or measured, it is nonetheless important to evaluate their effects because if they are not taken into account, a regression model cannot be tested to its maximum capacity.

Table 4.8: Fixed Effect Model

FV	Coef.	Std. Error.	T	$p > t$	Prob > f	R-squared
Cash Mgt	.0222451	.0195445	1.14	0.256	0.0000	0.3049
PayMgt	4.335171	.7640512	5.67	0.000		
RecMgt	2.083986	.1935402	10.77	0.000		
Constant	-3.212459	.8283435	-3.88	0.000		

Source: Research Data (2022)

4.3.3 Random Effect Model

A variance elements model, also known as a random effects model, is a statistical technique in which the parameter estimates are random variables. It is a form of patriarchal linear model in which the data being analyzed is assumed to emanate from a network of several demographics, each of whose peculiarities are tied to the structure. In a random-effects model, the connection between the causative variables and the reacting variable is assumed to be consistent within all data, however it may vary from one observation to the next.

Random effect models can aid in the control of hidden variability when it is predictable over time and indifferent to individual parameters. If the random effects assumption is valid, the random effects estimator surpasses the fixed effects model (Gomes, 2022). The outcomes are displayed in the table 4.9 below.

Table 4.9 Random effect model

FV	Coef.	Std. Error.	Z	<i>p</i>> z 	Prob > chi2	R-squared
Cash Mgt	.0222451	.0195445	2.05	0.041	0.0000	0.3143
PayMgt	4.335171	.7640512	5.59	0.000		
RecMgt	2.083986	.1935402	10.77	0.000		
Constant	-3.075487	.8729562	-3.52	0.000		

Source: Research Data (2022)

4.3.4 Hausman's Test

The Hausman's formulation test is a statistical technique used to analyze an estimate's continuity when compared to another, less accurate estimator that was initially identified to be coherent. It helps assess how well a statistical model fits the data. Hausman's test was used to explore a suitable model between fixed effect and random effect.

In this situation, Random effects are preferable under the null hypothesis because they are more effective, whereas Fixed effects are at least as accurate and are therefore chosen under the alternative. The fixed effect model formed the alternative hypothesis while the Hausman's test constituted a null hypothesis that the random effect model was suitable (Yacine, A. and Dacheng X., 2019).

Table 4.10 Hausman Test Results

FV	(b) <i>fe</i>	(B) <i>re</i>	S.E.	$p > Chi^2 $
Cash Mgt	.0222451	.0222451	-.0105504	0.2872
PayMgt	4.335171	4.335171	.1475551	
RecMgt	2.083986	2.083986	.0343666	

Source: Research Data (2022)

Hausman tests indicate that the probability value is 0.2872, larger than 0.05, and thus insignificant. Thus the study was unable to reject the assumption that the random effect model is appropriate. Equation 4 thus presented the regression model.

$$FV_{it} = -3.212459 + 0.0222451 CM_{it} + 4.335171PM_{it} + 2.083986RM_{it} \dots \dots \dots (4.1)$$

Where;

FV= Financial Value

CM= Cash Management

PM= Payables Management

RM= Receivables Management

i = 38 Commercial Banks

t = Time period from 2012-2021

Cash management, receivables management, and payables management had significant positive influences on the financial value of commercial banks in Kenya. The finding is evidenced by the regression coefficients of 0.0222, 4.3352, and 2.0840 with p-values 0.000 0.05 respectively.

4.4 Discussion

The regression results are discussed in-line with the study objectives as shown below.

4.4.1 Working Capital Management and Financial Value of Commercial Banks in Kenya

The main objective was to establish how working capital management affected the financial value of Kenyan commercial banks. With respect derived overall regression results, which had a R - squared value of 0.3049, working capital factors account for 31.43% of variations in financial value of Kenyan commercial banks. $C=-3.212459$ indicates that financial value would fall by 3.212 in the absence of working capital management.

4.4.2 Cash Management and Financial Value of Commercial Banks in Kenya

The first objective aimed to assess how cash management practices affected the financial value of Kenya's commercial banks. The objective investigated a null hypothesis that no significant effects exists between cash management financial worth of Kenyan commercial banks. The results revealed a significant positive association between financial value and cash management, with a Pearson correlation coefficient of $r = 0.4761$ and a p-value of 0.0000.

Cash management significantly increases the financial value of commercial banks, as shown by the random effect results with a coefficient of 0.0222 and a P value of 0.041 0.05. This suggests that an improvement in cash management causes a 2.22% enhancement in financial worth of banks. This implies that if commercial banks increase their ability to generate income and return on assets, their financial

value will increase significantly. Consequently, the null hypothesis was rejected and proved that cash management has significant financial impact on Kenya's commercial banks. The results are consistent with those of Kangangi and Omagwa (2020), Mwariri (2020), Wanjala (2015), and Ogola (2021), all of whom found a strong and positive association between cash management and the financial worth of Kenyan commercial banks. The positive association between cash management and financial value are in line with the cash conversion theory which posits that the faster a business is able to convert its current assets into liquid cash the better will be the liquidity this will enhance profitability and hence high financial value.

4.4.3 Payables Management and Financial Value of Commercial Banks in Kenya

The second objective was to determine how payables management affected the financial value of Kenyan commercial banks. The null hypothesis affirmed an insignificant relationship between payables management and the financial value of Kenyan commercial banks. Financial value and payables management showed a Pearson correlation coefficient of $r = 0.1487$ and a p-value of 0.0037, indicating a strong positive relationship. According to the random effect results, payables management significantly improves the financial value of commercial banks, as evidenced by the regression coefficient of 4.3352 and P-value of $0.000 < 0.05$. This suggests that an increase in payables management will boost commercial banks' financial value by 4.3352 units. This implies that the financial value of commercial banks will significantly increase if they are able to handle the short-term liabilities well. Subsequently, the null hypothesis was rejected and attested that payables management significantly impacted performance of Kenya's commercial banks.

The results are consistent with those of Njenga, Omagwa, and Mithi (2020), Gerio and Wahome (2020), Gitau, Onguso, Karungu, and Kirui (2016), all of whom discovered a strong positive correlation between payables management and the financial value of Kenyan commercial banks. The positive association between payables ratio and financial value are in line with the contingency theory which posits that an organization has strategize on how to improve working capital management through management of account payables. By minimizing and paying accrued bills in time working capital would improve would in turn positively impact on profitability and hence high financial value.

4.4.4 Receivables Management and Financial Value of Commercial Banks in Kenya

The third objective was to establish how receivables management affected the financial value of Kenyan commercial banks. The null hypothesis was that the financial worth of Kenya's commercial banks is not significantly impacted by receivables management. Financial value and receivables management exhibited a correlation coefficient of $r = 0.5168$ with a p-value of $0.00000.05$, indicating a positive relationship. Receivables management depicted a positive significant impact on the financial value of commercial banks, as shown by the random effect results with a regression coefficient of 2.0840 and P value of $0.000 0.05$.

This shows that an increase in the management of receivables will result in a 2.0840 increase in the commercial banks' financial value. This suggests that the financial value of commercial banks will significantly increase if they are able to manage accounts receivable, including debts and other receivables.

Given the results, the null hypothesis was rejected and asserted that receivables management significantly impacted performance of Kenya's commercial banks. The results are in line with the transaction cost theory which suggests that management must be accountable for how decisions made affect the firm's net worth. Further, a firm which is able to effectively manage its debtors'/account receivables will be able to achieve higher market efficiency hence higher financial value.

CHAPTER 5

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This section entails an overview of the study; findings, conclusions, and recommendations.

5.2 Summary

The primary purpose of the research was to establish the effect of working capital management on the financial value of commercial banks in Kenya. Specific objectives were; to assess the effect of cash management on the financial value of commercial banks in Kenya, to establish the effect of payable management on the financial value of commercial banks in Kenya and to examine the effect of receivable management on the financial value of commercial banks in Kenya. All the 38 commercial banks were used in the study and financial statement from 2012 to 2021 was analyzed.

The overall regression results show an R^2 of 0.3049 which imply that working capital components explain 30.49% of the variations in the financial value of commercial banks in Kenya. The other 69.51% of the variations in financial value of commercial banks in Kenya is not explained by the model but other factors that are not included in the model. The regression coefficients 0.0222, 4.3352 and 2.0840 with p-values $0.000 < 0.05$ for all the three independent variables cash management, receivables management and payables management show that all the variables had a significant positive influence on financial value of commercial Banks.

5.3 Conclusions

5.3.1 Cash Management and Financial Value of Commercial Banks in Kenya

Given the positive Pearson's correlation and regression coefficients, it is evident that improving cash management by a certain percentage will enhance the financial value of commercial banks. This implies that if commercial banks increase their ability to generate income and return on assets, their financial value will increase significantly.

5.3.2 Payables Management and Financial Value of Commercial Banks in Kenya

According to the financial value and payables management Pearson's correlation and regression coefficients, there exists a positive significant association between the variables. It implies that the financial value of commercial banks will significantly increase if they are able to handle the short-term liabilities efficiently.

5.3.3 Receivables Management and Financial Value of Commercial Banks in Kenya

The Pearson's correlation coefficient and regression coefficient for financial value and receivables management showed a positive association amongst the two variables. This implies that the financial value of commercial banks will significantly increase if they are able to manage accounts receivable, including loans and other debtors, appropriately.

5.4 Recommendations

5.4.1 Cash Management and Financial Value of Commercial Banks in Kenya

Given that cash management significantly increases the financial value of commercial banks. Commercial banks are encouraged to enhance their revenue collection and return on assets. Efficiency in using fixed assets should be a key concern to commercial banks. Expenses particularly should be minimized and only incurred if necessary, so as to increase net income for each period. Cash and cash equivalents should be maintained at optimal levels as any excess may hold too much current assets which could have been invested elsewhere.

5.4.2 Payables Management and Financial Value of Commercial Banks in Kenya

Since managing payables significantly increases the financial worth of commercial banks. These institutions are advised to handle short-term liabilities diligently. Pending bills and accrued expenses should be minimal as this reduces liquidity of the firm and further reduces the value of the commercial banks. Potential investors see a bank with so many liabilities as risky to invest in due to increased risk of financial obligations that can lead to financial distress.

5.4.3 Receivables Management and Financial Value of Commercial Banks in Kenya

Given that receivables management significantly increases the financial value of commercial banks. To increase their financial viability, it is suggested that commercial banks should manage their receivables adequately. All receivables particularly outstanding loans issued to customers should be closely monitored. Measures should be in place to effectively and efficiently manage credit risk. This

will greatly avail more funds to be invested in profitable ventures and thus increase future cash flows.

5.5 Areas of Further study

- i. A study may be carried out to establish the other factors affecting the financial value of commercial banks apart from working capital management since working capital was established to account only for 30.49% of the financial value of commercial banks.
- ii. Further, a research can focus on working capital management and the financial value of non-bank financial institutions since this study only concentrated on commercial banks.

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APPENDICES

Appendix I: Secondary Data Sheet

Financial Statement Item	Period									
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Incomes										
Total cash and cash Equivalents										
Market value of Equity										
Total accounts Payables										
Total opening accounts Payables										
Total closing accounts Payables										
Short term Liabilities										
Total opening Short term Liabilities										
Total closing Short term Liabilities										
Book value of Equity										
Market value of Equity										
Book value of Debt										
Market value of Debt										

Appendix II: List of Commercial Banks in Kenya

SN.	Bank	Category
1.	African Banking Corporation Limited	Small
2.	Bank of Africa Kenya Limited	Medium
3.	Bank of Baroda (K) Limited	Medium
4.	Bank of India	Medium
5.	Barclays Bank of Kenya Limited	Large
6.	Citibank N.A Kenya	Medium
7.	Commercial Bank of Africa Limited	Large
8.	Co-operative Bank of Kenya Limited	Small
9.	Credit Bank Limited	Large
10.	Development Bank of Kenya Limited	Small

11. Diamond Trust Bank Kenya Limited	Medium
12. DIB Bank Kenya Limited	Small
13. Ecobank Kenya Limited	Medium
14. Equity Bank Kenya Limited	Large
15. Family Bank Limited	Medium
16. First Community Bank Limited	Small
17. Guaranty Trust Bank (K) Ltd	Medium
18. Guardian Bank Limited	Small
19. Gulf African Bank Limited	Small
20. Habib Bank A.G Zurich	Small
21. I & M Bank Limited	Medium
22. Jamii Bora Bank Limited	Small

23. KCB Bank Kenya Limited	Large
24. Mayfair Bank Limited	Small
25. Middle East Bank (K) Limited	Small
26. M-Oriental Bank Limited	Small
27. National Bank of Kenya Limited	Medium
28. NIC Bank Kenya Plc.	Medium
29. Paramount Bank Limited	Small
30. Prime Bank Limited	Medium
31. SBM Bank Kenya Limited	Small
32. Sidian Bank Limited	Small
33. Spire Bank Ltd	Small
34. Stanbic Bank Kenya Limited	Medium

35. Standard Chartered Bank Kenya Limited	Large
36. Trans-National Bank Limited	Small
37. UBA Kenya Bank Limited	Small
38. Victoria Commercial Bank Limited	Small

Source: (CBK Website 2022)

Appendix III: NACOSTI Research Permit



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