Volume and Issues Obtainable at Center for Sustainability Research and Consultancy

Journal of Accounting and Finance in Emerging Economies
ISSN: 2519-0318 & ISSN (E): 2518-8488
Volume 10: Issue 3 September 2024
Journal homepage: www.publishing.globalcsrc.org/jafee

Effect of Accounts Receivable Practice on Value of Listed Manufacturing Firms at Nairobi Securities Exchange in Kenya

***Nanjendo Matini Jescah**, School of Business and Economics, Masinde Muliro University of Science and Technology, Kenya
Bulla Dennis, School of Business and Economics, Masinde Muliro University of Science and Technology, Kenya
Kiongera Fredrick, School of Business and Economics, Masinde Muliro University of Science and Technology, Kenya

*Corresponding author's email: matinijessica23@gmail.com

ARTICLE DETAILS
History
Revised format: Aug 2024
Available Online: Sep 2024
Keywords
Accounts Receivable, Management Practice, Firm Value, Manufacturing Firms, Nairobi Securities Exchange.
JEL Classification
M4, M41

ABSTRACT
Purpose: Effect of accounts receivable management practice on listed manufacturing firms value at NSE, Kenya
Design/Methodology/Approach: Causal design adopted on 8 manufacturing firms listed NSE. A five-year secondary data was hence attained for 2017 to 2021 years. Data presented through tables was inferentially computed.
Findings: Accounts receivable management practice had a significant association with value of listed NSE manufacturing companies Kenya
Implications/Originality/Value: The study recommends that credit sales and cash sales should be checked to ensure that accounts receivable management practice is effective.

OPEN ACCESS

© 2024, The authors, under a Creative Commons Attribution-NonCommercial 4.0

Recommended citation: Jescah, N. M., Dennis, B., and Fredrick, K. (2024). Effect of Accounts Receivable Practice on Value of Listed Manufacturing Firms at Nairobi Securities Exchange in Kenya. *Journal of Accounting and Finance in Emerging Economies, 10* (3), 353-360.
DOI: https://doi.org/10.26710/jafee.v10i3.3092

Background of the Study

Receivable accounts refer to financial obligation to a company for provision of goods or services that have been provided or utilized by customers, but have not yet been compensated for as firm value refers to the total number of all assets the firm has which is computed by return on asset. Muthoni, Kiprotich, Naibei, and Kipyego (2018) looked into how effective accounts receivable management correlates with the financial health of listed firms. The results showed a strong favorable relationship for accounts receivable management and manufacturing enterprises' bottom lines.

Pandey (2008) posits that enterprises offer trade credit as a protective measure to safeguard their sales from competitors and as a strategic approach to attract potential clients by providing them with favorable purchasing circumstances. Accounts receivables play a crucial role in a company's liquidity and are commonly disclosed as a current asset in the financial statements. Hence, one could deduce that the investment is owned by the company. Accounts receivable objective is to enhance efficient management by safeguarding shareholders investment of the balance between liquidity and the overall value of the firm.

Statement of the Problem

Tabulations faced by manufacturing sector in Kenya has been pegged to decline in performance as indicated by financial statements (GoK, 2020). A number of firms have failed, collapsed or even faced liquidation. Mumias sugar has been on knees and even deregister from Nairobi securities exchange due to accounts receivable and firm value inadequacies. Owing to past studies gaps (Munenes, 2018; Mutiso and Mwangi, 2019) the current examination ascertained accounts management receivable practice on value of listed manufacturing firms at NSE Kenya

Research Objective

Effect of accounts receivable management practice on value of manufacturing listed firms at NSE Kenya

Trade Off Theory

Propose through Kraus (1973) that the determination of the debt-to-equity financing ratio is based on a thorough evaluation of the expenses and gains involved. Selection of equity and debt is determined. The phrase “trade-off theory” is employed by multiple writers to refer to a set of interconnected theories. Under the theoretical framework presented, a decision-maker who holds the responsibility of managing a firm undertakes an evaluation of the various costs and benefits linked to distinct leverage techniques. Manufacturing businesses commonly place emphasis on assessing the costs associated with their operations to reach a state of balance. The attainment of balance between accounts receivable and accounts payable necessitates careful strategic planning. The exchange of goods in the form of inventories requires a cautious and judicious strategy. The possible benefits that may arise are dependent on the financial dimension. The trading process requires the careful monitoring of costs in comparison to benefits. When the costs incurred by a firm exceed the corresponding advantages, it leads to financial losses, so compromising the primary goal of achieving profitability, which is essential for any business. Pandey (2006) posits that debt possesses a potential advantage in safeguarding earnings from taxation.

According to Salek (2019), there are two conflicting goals associated with account receivables that require the implementation of compromises in order to achieve efficient receivables management. In order to optimize sales performance, it is imperative to consider the relaxation of credit acceptance criteria. Nevertheless, this particular approach has the potential to result in a substantial rise in losses stemming from unpaid debts. Nonetheless, the implementation of more stringent measures would result in a reduction in accounts receivable and losses incurred from uncollectible debts, ultimately leading to a decrease in sales. It is recommended that companies prioritize the employment of internal capital for financing investments, followed by the utilization of secured debt, risky debt, and ultimately equity. It is advisable to employ strategic sequencing as a means of minimizing the possible transmission of adverse signals.

Empirical Review

Gakure, Cheluget, Onyango, and Keraro (2022) looked at liquidity management techniques at NSE. There were a total of 75 observations comprising firm-year data from 2006 through 2017 where 18 NSE-traded businesses were chosen at random. A regression analysis was conducted to learn more about the connection. The study's results show that the more liquid a company is, the less successful it is financially. The findings show a significant inverse relationship for study constructs. On the other hand, research has established a causal association for cash conversion cycle and value of market. While the overall model did show statistical significance, none of the independent variables, with the exception of the average payment time, showed any statistically significant impact.

Gakure, Chelugut, Onyango, and Keraro (2022) looked at the correlation between liquidity and performance for a group of 15 manufacturing firms at NSE for 2006 to 2017. A total of 75 businesses were studied in depth as a sample. A total of 18 businesses trading were tested using a regression analysis. The data showed that the average time it took to collect payments was significantly lower than the average time it took to make payments. Nevertheless, the whole model demonstrated statistical significance.

Nyabwanga, Ojera, Lumumba, Odondo, and Otieno (2022) looked into how different approaches to liquidity management affected the financial performance of Kisii SMEs. A total of 113 owner of SMEs business persons were included in analysis remainder being split evenly between commercial and industrial sectors. According to the results of the survey, many small and medium-sized businesses (SMEs) have used ineffective strategies to manage their cash flow. A significant fraction of these businesses got into this jam because they lacked set rules for efficiently managing liquidity. Additionally, it was noted that the small and medium-sized firms (SMEs) demonstrated below-average financial performance.

The data offered illustrate the anticipated payments that our clientele is likely to make in the immediate future. Trade receivables refer to a category of receivables that emerge as a result of the routine exchange of merchandise with clients. Proficient administration of trade receivables is of utmost importance for organizations in order to secure profitability and minimize the negative consequences on liquidity. The topic concerning the effectiveness of accounts carries substantial importance within the respective discipline. The proficient administration of accounts receivable holds substantial importance and entails strategic ramifications, since it directly impacts firm financial growth and overall value. The implementation of a cash flow management strategy, which involves effectively coordinating a company's cash inflows and outflows, is of paramount importance. The primary objective of effectively managing trade receivables is to optimize shareholder value. Accounts receivable represent a significant proportion of a company's current assets. The present study assesses the net present values associated with capital expenditures. The incorporation of trade receivables can serve as a means to facilitate sales, as it allows buyers the chance to evaluate the quality of goods and services prior to making payment. However, it is imperative to recognize that trade receivables are comprised of financial assets and should also be seen as a forgone alternative accompanied by accompanying expenses. The importance of risk, future events, and economic value within the framework of accounts receivables underscores the necessity of effectively managing trade receivables. Scholars within the academic community have devoted considerable attention to the analysis of trade receivables.

Gill (2017) posits that the primary objective of receivable management is to improve equilibrium in the administration of cashflow constituents. funds flow management is a fundamental area of concern within organizational operations, placing significant importance on strategic planning and effective oversight of the movement of funds into and out of the company. Moreover, it encompasses the execution of tactics aimed at maximizing the ideal quantity of liquid assets maintained by a firm at any one moment.

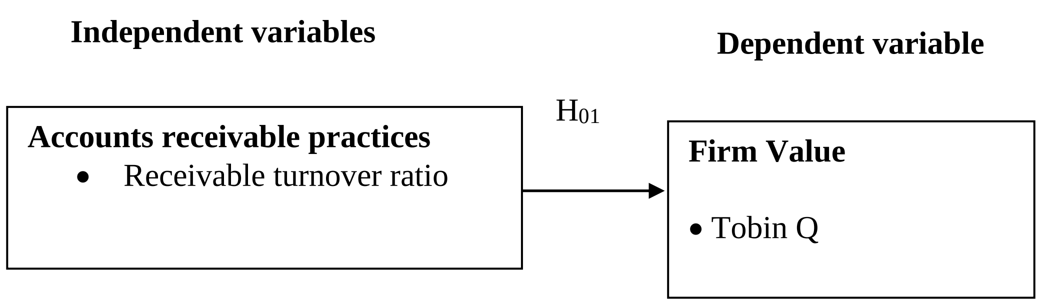
Jagongo and Makori (2023) investigated the relationship between working capital and the valuation of manufacturing and construction companies that were listed on the Nairobi Securities Exchange in Kenya. The study covered the time period from 2023 to 2022. The study employed Ordinary Least Square (OLS) regression models and Pearson's correlation analysis to examine the association between liquidity management approaches and corporate valuation. The research findings revealed a negative correlation between the worth of the firm and the time it takes to collect accounts receivable and convert them into cash, as well as the cash conversion cycle. On the other hand, a positive correlation was observed between the valuation of the company and the length of time for which goods were sold, as well as the length of time taken to make payments to suppliers. The assessment of a corporation's worth is influenced significantly by various factors, including financial leverage, sales growth, current ratios, and firm size. Based on the available empirical information, it is recommended that management adopts a strategic strategy of extending the payment period for accounts payable. The possible impact of extended payment intervals on the liquidity of enterprises with limited capital resources may have been disregarded in the study.

Muthoni, Kiprotich, Naibei, and Kipyego (2018) did a study to figure out how accounts debt management affects health of firms listed. To learn about the population's current state, researchers used a descriptive study strategy. Between April and October of 2016, specifically, 147 individuals working in finance and accounts. The research found strong evidence supporting a favourable relationship between credit granting policies. Explicit and precisely defined procedures for the management of accounts receivable are recommended for industrial enterprises in the present study. These regulations must include the elements of credit extension, receivables financing, and the length of receivables collection periods. According to the data, these factors have a major bearing on manufacturing firms' bottom lines.

Kyambi and Muturi (2018) sought to assess the impact of loan regulations on receivable within industrial firms in county, Kenya. The findings of the research suggest that the effective management of accounts receivable, specifically trade receivables, significantly influences the execution of liquidity management methods in manufacturing firms. Hence, the proficient administration of accounts receivable exerts a direct influence on the entire prosperity of an organization, particularly with regards to its liquidity and firm value.

Several case studies and empirical analyses have examined trade receivables and liquidity management practices in Kenya. Mathuva (2017) studied 30 companies that were traded on India's NSE (National Stock Exchange) between 1993 and 2008. The author makes a compelling case that the adoption of ART has a negative impact on the value of a business as a whole.

Conceptual Framework



Adopted from Gakure, Cheluget, Onyango & Keraro (2019)

Figure 1 Conceptual Framework

Methodology

Adopted causal study design for cause and effect relationship for accounts receivable and firm value. This was based on 8 firms listed manufacturing firms at NSE where all were adopted through census based on few firms concept. The study inferentially ascertained the firm value in relation to accounts receivable

Ethical considerations were sought; the study successfully acquired the requisite permits from the institution, NACOSTI, and the NSE in order to assure compliance with ethical standards during the investigation. The researcher ensured the highest level of privacy and confidentiality for all provided information, refraining from disclosing any data to external parties without explicit consent from the original source.

Table 1: Regression Random Effects of Accounts Receivable Management Practice on Firm value

Receivable turnover	.0999371	.0998678	1.00	0.017	.2956745	.0958002
_cons	2.207542	.3314305	6.66	0.000	2.857134	1.557951
	.31569823					
	.92669326					
	.10398862					

Findings obtained demonstrated that the accounts receivable management technique exhibited an overall R square value of 0.2703, indicating 27.03% of the variance observed in the valuation. The findings revealed 0.0317 p value. This found that the coefficient for the practice of managing accounts receivable was calculated to be 0.0999371. This indicates that a one percent increase in this behavior is linked to a similar increase of 0.0999371 in Tobin Q.

Tobin Q=2.207542 +0.0999371ARMP

The research findings have refuted the null hypothesis. This finding implies that the adoption of enhanced strategies for managing accounts receivable is correlated with an increase in the market value. According to Muthoni, Kiprotich, Naibei, and Kipyego (2018), there is substantial evidence to suggest a strong and statistically significant beneficial relationship. This study offers an alternative viewpoint to the conclusions given by Kyambi and Muturi (2018), who found no significant influence. The study done by Kyambi and Muturi (2018) did not expressly focus on publicly traded companies, but instead centered on enterprises situated inside Nairobi County. Consequently, it is conceivable that the outcomes could vary in investigations that incorporate a more diverse array of firms.

Conclusion

Conclusively the study affirmed that receivable accounts management is a key component in value addition of NSE manufacturing firms in Kenya. The significant association avails that listed firms adopts receivable approach for profitability and safety purposes

Recommendation

The study recommends that credit sales and cash sales should be checked to ensure that accounts receivable management practice is effective. Credit sales should be safeguarded by providing provision for bad debts. This would avoid shortages from bad debts.

References

Achode, M, B & Rotich, G (2016) Effects of accounts Payable as Source of Financing on Performance of Listed Manufacturing Firms at the Nairobi Securities Exchange. *International Journal of Research Studies in Agricultural Sciences (IJRSAS) Volume 2, Issue 4, 2016, PP 24-32 ISSN 2454-6224 http://dx.doi.org/10.20431/2454-6224.0204003 www.arcjournals.org*

Ahmet, S. (2019). Effects of working capital management on firms performance. *International Journal of Economics and Financial Issues Vol. 2(4),* , 488-495.

Achode, M., B & Gladys R (2016), Effects of accounts Payable as Source of Financing on Performance of Listed Manufacturing Firms at the Nairobi Securities Exchange *International Journal of Research Studies in Agricultural Sciences* . 2016;2(4):24-32.

Almazari, M. O. (2023). *Loan Terms and Loan Default in Orient Bank Limited in Kampala Central Division Uganda* (Doctoral dissertation, Kampala International University.

Alshatti, O. (2024). Parametric Modeling of Probability of Bank Loan Default in Kenya. *Journal of Agriculture, Science and Technology*, *14*(1), 62-75.

Akinleye, G & Okunleye, A. (1970). The market for lemons: Quality uncertainty and the market mechanism. *The Quarterly Journal of Economics,* 84 (3), 488–500.

Amakom, M, B (2018) Effects of accounts Payable as Source of Financing on Performance of Listed Manufacturing Firms at the Nairobi Securities Exchange. *International Journal of Research Studies in Agricultural Sciences (IJRSAS) Volume 2, Issue 4, 2016, PP 24-32*

Agyemang, J, B & Kwame, R (2023), Effects of accounts Payable as Source of Financing on Performance of Listed Manufacturing Firms at the Nairobi Securities Exchange *International Journal of Research Studies in Agricultural Sciences*. 2016;2(4):24-32.

Bandara, P, M (2018) Effect of Credit Policies on Accounts Receivable among Manufacturing Companies in Nairobi County, Kenya. *International Journal of Social Sciences and Information Technology ISSN 2412-0294 Vol IV Issue V, May 2018*

Brennan, S. (2023). Effects of working capital management on firms performance. *International Journal of Economics and Financial Issues Vol. 2(4),* , 488-495.

Bryman.,S & Cramer.,P (2022). *Econometrics of event studies*. In Handbook of empirical corporate Finance (pp. 3-36). Elsevier.

Creswell, J. (2023). Research Design: *Qualitative, Quantitative and Mixed Method Analysis. SAGE Publications (4ed).*

Chibole, K. W., Maniagi, M. G., & Nelima, M. L. (2022). Influence of liquidity distress factor on performance of commercial banks in Kenya. *The Strategic Journal of Business & Change Management, 9 (4), 618 – 632*

Cooper, D. R., & Schindler, P.S. (2008). *Business research methods*. New York. McGraw Hill.

Cohen, W. M. (2017). Absorptive capacity: a new perspective on learning and innovation. *Administrative Science Quarterly, 35(1), 128-152.*

Cortes, Y. Demyanyk, L. Li, E. Loutskina, P.E. Strahan. Stress tests and small business lending. J. *Financ. Econ., 136 (1) (2020), pp. 260-279*

Delof, G. (2018). From Great Depression to Great Credit Crisis: Similarities, Differences and Lessons. *Economic Policy, 25, 219-265.*

Elorata, A.K., & Saleek, S. (2019). Effect of Working Capital Management on Firm Profitability: Empirical Evidence from India. *Global Business Review, 12(1), 159–173.*

Gakure, (2017). The Relationship between working capital management and profitability: Evidence from the United States. *Business and Economic Journal* , 1-10.

Gakere, B, & Tucker, C. E. (2020). Economic fairness and logarithmic bias. J*ournal of Economic Perspectives, 5(11), 41-65*

Garson, P.S. (2022). *Business research methods*. New York. McGraw Hill.

Government of Kenya(2020) *Annual report for Listed firms at Nairobi Securities Kenya 2019/2021 financial year*.

GOK (2024). Does Firm Size Affect The Firm Profitability? Evidence from Turkey. *Research Journal of Finance and Accounting, 53-59.*

Gill, (2017) The Relationship between working capital management and profitability: Evidence from the United States. *Business and Economic Journal* , 1-10.

Iraya C, N., & Musyoki, L. (2023). Performance of socially screened portfolio at the Nairobi Securities Exchange. *International journal of humanities and social science Vol. 3 (6).*

Jensen, M. C., & Meckling, W. H. (1976). Theory of the Firm: Managerial Behavior,. *Journal of Financial Economics* , 305-360.

James Ndirangu Kung'u (2017). Effect of Liquidity Management Practices on Profitability of Manufacturing Industry in Kenya. *IOSR Journal of Economics and Finance (IOSR-JEF) e-ISSN: 2321-5933, p-ISSN: 2321-5925.Volume 8, Issue 1 Ver. III (Jan-Feb. 2017), PP 84-89 www.iosrjournals.org*

Jayarathne, S (2018) Risk Management and Corporate Governance mechanisms with bank: *Journal of Commerce and Accounting Research, 9*(4), 88.

KAM (2021) The Kenya Association of Manufacturers. *Manufacturers sector constraints and opportunities priority agenda. Nairobi, Kenya.*

KAM (2017). The impact of credit risk management on profitability of public sector commercial banks in India. *Journal of Commerce and Accounting Research, 8*(2), 86.

KAM (2024). Corporate Governance and Credit Risk in the Banking Sector. *Review of Economics and Finance, 19, 347-350*.

Khalifa, S. A & Shafii, R. (2023). The impact of firm characteristics on corporate financial performance in emerging markets: evidence from Egypt. *International Journal of Customer Relationship Marketing and Management (IJCRMM), 11*(4), 70-89.

KNBS (2019) *Kenya National Bureu of Statistics Kenyan firms annual statistics and financial data.* Nairobi, Kenya.

Kemei, K.M. (2022). *Determining Impairment Management Practices: A case study of SACCOs in Nakuru district*.Unpublished MBA project.Egerton University

Kilonzo, J. M., Memba, S. F. & Njeru, A. (2016). Effect of accounts receivable on financial performance of firms funded by government venture capital in Kenya. *Journal of Economics and Finance, 7 (1), 62 –69.*

Kinyua, F. W., Fredrick, W. (2022). Liquidity risk and financial performance of manufacturing firms listed at Nairobi Securities Exchange. *International Academic Journal of Economics and Finance, 3(8), 1-24.*

Kisii, H, Colak, M. S., & Şenol, A. (2022). Bank ownership and lending dynamics: Evidence from Turkish banking sector. *International Review of Economics & Finance, 72, 583-605*.

Kothari,S.P (2017). *Econometrics of event studies*. In Handbook of empirical corporate Finance (pp. 3-36). Elsevier.

Kyambi, P, M & Muturi, W (2018) Effect of Credit Policies on Accounts Receivable among Manufacturing Companies in Nairobi County, Kenya. *International Journal of Social Sciences and Information Technology ISSN 2412-0294 Vol IV Issue V, May 2018*

Kubai, F. (2016). The effect of capital structure on the financial performance of manufacturing firms in Kenya. *Unpublished MBA thesis, University of Nairobi.*

Kung'u, J (2017). Effect of Liquidity Management Practices on Profitability of Manufacturing Industry in Kenya. *IOSR Journal of Economics and Finance (IOSR-JEF) e-ISSN: 2321-5933, p-ISSN: 2321-5925.Volume 8, Issue 1 Ver. III (Jan-Feb. 2017), PP 84-89 www.iosrjournals.org*

Mariana D, (2019).The Influence of Working Capital Management Components on Corporate Profitability: A Survey on Kenyan Listed Firms. *Research Journal of Business Management*, 3: 1-11.

Marozva, H (2015). Rethinking SME default prediction: A systematic literature review and future perspectives. Scientometrics 126:2141–2188.

Moeljadi, D. (2024). *Determinants of non-performance loan: the case of Ethopia banks* (Doctorial dissertation, St. Mary's University)

Musyoki, L. (2023). Performance of socially screened portfolio at the Nairobi Securities Exchange. *International journal of humanities and social science Vol. 3 (6)* .

Mutiso, I & Mwangi, M (2019) Management of accounts receivable and financial performance of manufacturing firms listed in Nairobi Stock Exchange, Kenya. *International Journal of Scientific and Research Publications, Volume X, Issue X, Month 2018 ISSN 2250-3153*

Mathenge K. M. (2016). Effect of trade receivables on the profitability of manufacturing firms listed at the NSE. *Unpublished MBA research project. University of Nairobi.*

Mathuva D, (2019).The Influence of Working Capital Management Components on Corporate Profitability: A Survey on Kenyan Listed Firms. *Research Journal of Business Management,* 3: 1-11.

Maheswari, A. (2015). The effect of credit risk management on financial performance of the Jordanian commercial banks. Investment Management and Financial Innovations, 12(2), 338-345.

Myers, S. C., & Majluf, N. S. (1984). Corporate Financing and Investment Decisions When Firms Have InformationThat Investors Do Not Have. *Journal of Financial Economics, Vol. 13, No. 2,* , 187-221.

Moeljadi, S. B. (2024). The moderating effect of firm size on relational capital and firm performance: evidence from Europe. *Journal of Intellectual Capital*. 136 (1) (2020), pp. 260-279

Muthoni, J, Kiprotich, I, Naibei, N & Kipyego, M (2018) Management of accounts receivable and financial performance of manufacturing firms listed in Nairobi Stock Exchange, Kenya. *International Journal of Scientific and Research Publications, Volume X, Issue X, Month 2018 ISSN 2250-3153*

Mugenda & Mugenda. (2023). *Research methods quantitative and qualitative approaches*. Nairobi, Kenya: African Center for Technology Studies.

Owalabi, D, Musyoki, R & Nyabwanga K. M. (2021). Effect of trade receivables on the profitability of manufacturing firms listed at the NSE. *Unpublished MBA research project. University of Nairobi.*

Njoroge S. C. (2022). Corporate Financing and Investment Decisions When Firms Have Information That Investors Do Not Have. *Journal of Financial Economics, Vol. 13, No. 2,* , 187-221.

Patjoshi, P. K. (2016). A Study on Liquidity Management and Financial Performance Of Selected Steel Companies in India. *International Journal of Advanced Information Science and Technology*, *51*(7), *108–117. https://doi.org/10.15693/ijaist/2016.v5i7.108-117*

Padachi, G. (2016). From Great Depression to Great Credit Crisis: Similarities, Differences and Lessons. *Economic Policy, 25, 219-265.*

Richards, M. C., & Laughlins, W. H. (1980). Theory of the Firm: Managerial Behavior,. *Journal of Financial Economics* , 305-360.

Rissa, A. F. (2024). *Novel information in estimating loss given default in Brazil* (Doctoral thesis, The University of Edinburgh).

Ross, S. A. (1973). The Principal's Problem. *The Economic Theory of Agency , 63,134-139.*

Rotich, A & Namusonge, A (2016). Effect of credit risk on management on financial performance of the Jordan commercial banks. *Journal of Investment Management and Financial Innovations*, *12* (1), 338-346

Sharma, A.K., & Kumar, S. (2021). Effect of Working Capital Management on Firm Profitability: Empirical Evidence from India. *Global Business Review*, 12(1), 159–173.

Siddiquee, W, Khan. H & Shaem, M. (2019). Absorptive capacity: a new perspective on learning and innovation. *Administrative Science Quarterly, 35(1), 128-152.*

Waweru, K.M. (2023). *Determining Impairment Management Practices: A case study of SACCOs in Nakuru district*. Unpublished MBA project. Egerton University

World Bank (2016). Kenya economic update (11th ed.). *Retrieved on July 13, 2016 from http://www.rich.co.ke/rcfrbs/docs/*

Yamen I., Gabriele, Sabato & Nicholas Wilson. (2019). The value of non-financial information in small and medium-sized enterprise risk management. *The Journal of Credit Risk 6: 95–127*.