**IMPACT OF WORKING CAPITAL MANAGEMENT PRACTICES ON FIRM VALUE: EVIDENCE FROM MANUFACTURING COMPANIES LISTED ON THE NAIROBI SECURITIES EXCHANGE, KENYA**

# ABSTRACT

Firm value is a critical determinant of investor perceptions and capital allocation decisions. Despite its importance, manufacturing firms listed on the Nairobi Securities Exchange (NSE) have experienced declining market valuations, reflected in volatile share returns. This study investigates the impact of working capital management practices specifically trade receivables, trade payables, and inventory levels on firm value, addressing a gap in empirical evidence from emerging markets. Grounded in transaction theory, the cash conversion cycle, and shareholder wealth theory, the study adopted an explanatory research design. It focused on nine listed manufacturing firms, with purposive sampling yielding seven consistently listed between 2014 and 2023. Secondary panel data were analyzed using descriptive statistics, correlation, and regression analysis, supported by diagnostic tests including distribution checks, multicollinearity, serial correlation, and the Hausman specification test. Results indicate that efficient accounts receivable management, reflected in shorter collection periods, strengthens investor confidence by signaling effective credit policies. Strategic accounts payable management enhances liquidity but requires careful balancing to preserve supplier trust. Lean inventory practices emerged as a key driver of firm value, reducing holding costs and improving operational efficiency. The study contributes to literature by providing context-specific evidence from Kenya’s capital market, highlighting how working capital practices influence firm value in developing economies. It extends theory by linking working capital decisions to shareholder wealth maximization and market-based valuation outcomes. The findings suggest that firms should adopt integrated working capital frameworks that align receivable, payable, and inventory management. Practical measures include comprehensive credit risk assessment, transparent supplier partnerships, and AI-driven inventory forecasting. These strategies not only enhance operational efficiency but also strengthen investor confidence and long-term firm value.

**Keywords:** *firm value, working capital management, trade receivables, trade payables, inventory management, manufacturing firms, Nairobi Securities Exchange*.

**1.0 INTRODUCTION**

Firm value is a critical indicator of corporate performance, reflecting investor perceptions and a firm’s overall financial health (Belo, Gala, Salomao, & Vitorino, 2022). According to Adiputra and Hermawan (2020), firm value is shaped by market signals such as stock prices, funding decisions, and investment activities. A sustained decline in firm value erodes investor confidence, limits external financing opportunities, and can ultimately lead to financial distress (Rahmi, Arfan, & Saputra, 2023). Working capital management (WCM) plays a central role in sustaining and enhancing firm value, particularly for listed firms. Effective WCM enables firms to balance liquidity and operational efficiency, thereby supporting growth and profitability (Zutter & Smart, 2019; Gunay & Cokins, 2021). Excess idle capital reflects inefficiency, while insufficient liquidity signals potential operational paralysis. Without adequate cash to fund operations, firms struggle to expand initiatives or increase sales, constraining both growth and profitability (Nguyen, Tan, & Nguyen, 2021).

Efficient WCM benefits shareholders, while poor management or weak policies can have severe financial consequences (Ngunju, 2022). For example, favorable trade credit policies and adequate inventory levels can boost sales and reduce stock-out risks (Nastiti, Atahau, & Supramono, 2020). However, accounts payable must be carefully managed to maintain supplier relationships. Strategic differences also emerge across industries firms with limited competition often reduce receivables to boost cash flow, while those with many suppliers may prioritize extending payables (Wekesa & Njeru, 2022).

International evidence underscores the strategic importance of WCM. In China, rapid economic growth has increased the need for efficient working capital structures to access long-term markets. However, differences in financial systems mean many Chinese firms still rely on informal financing or domestic bank credit, limiting their ability to release funds tied up in working capital (Ren et al., 2019; Vijayakumaran, 2019). Similarly, in Japan and Taiwan, higher-valued firms tend to invest less in working capital than their lower-valued counterparts, with efficient WCM contributing to uninterrupted operations and timely payments to stakeholders (Tsuruta, 2019; Le, 2019).

In contrast, developing economies often struggle with WCM inefficiencies that depress firm value. Nigerian listed firms have faced declining performance due to inadequate management of liquid assets, poor debt handling, and suboptimal cash conversion and inventory policies (Otekunrin et al., 2021; Oladipo, Adegboyo, & Olugbamiye, 2020). While longer collection periods may boost sales, they reduce liquidity; conversely, extended payment terms can improve operations if early-payment discounts are leveraged (Olaoye, Adekanbi, & Oluwadare, 2019). Ugandan manufacturing firms have also recorded persistently low firm values, attributed partly to weak leadership and inadequate WCM. Many lack the capacity to optimize operational funds, making it difficult to meet obligations such as creditor payments, raw material purchases, and tax settlements (Ssendagire, 2018; Mulajje, 2019).

In Kenya, recent trends reflect similar concerns. The Capital Markets Authority (2023) reports that firms listed on the Nairobi Securities Exchange (NSE) have experienced volatile and declining firm values, as shown by fluctuating market capitalization from KSh 1,932 billion in 2016, rising to KSh 2,593 billion in 2021, before falling to KSh 1,987 billion in 2022 (Mutua, 2023). This decline has been linked to factors such as firm size, liquidity, and asset turnover (Gworo, 2019; Musembi, 2020; Bahraini et al., 2021). Collectively, these insights reveal that WCM is not merely an operational necessity but a strategic driver of firm value. Across contexts whether in developed or developing economies firms that fail to optimize working capital risk diminished investor confidence, constrained growth, and weakened market performance.

Working capital management (WCM) refers to the firm’s accounting policies and administrative strategies for monitoring key components of current assets and liabilities to sustain optimal operational capacity (Oladipo, Adegboyo, & Olugbamiye, 2020). In manufacturing firms, current assets often constitute more than half of total assets, making them critical for sustaining operations and distribution efficiency. However, excessive current assets can depress returns on investment, while insufficient levels can disrupt operational continuity (Ngunju, 2022). Effective WCM requires balancing receivables, payables, and inventory to ensure liquidity and profitability (Nastiti, Atahau, & Supramono, 2020).

Accounts payable management involves strategically managing obligations to suppliers to optimize payment periods without compromising relationships or creditworthiness (Kithinji, Wephukulu, Gekara, & Mwanzia, 2022). Strong supplier relationships can enhance production efficiency and supply chain reliability, while poor debt management can erode operational stability. Extending payment durations can provide firms with additional flexibility in cash flow management, but excessive delays risk damaging vendor trust.

Similarly, accounts receivable management focuses on maintaining an optimal credit level to ensure liquidity while minimizing the risk of bad debts (Wangechi & Irungu, 2023). Effective receivables management not only supports cash flow stability but also strengthens competitive positioning. Coordinating cash inflows from customers with outflows to suppliers and operational expenses forms the basis of an effective cash management strategy (Dan, 2022).

Inventory management is equally critical, encompassing the control, procurement, storage, and movement of goods from raw materials to finished products (Muchaendepi et al., 2019). Timely inventory replenishment prevents production delays, while avoiding overstock minimizes excess working capital and shortens the cash conversion cycle (Oladipo et al., 2020).

Firm value represents a key indicator of financial success, reflecting both shareholder wealth and market performance (Sondakh, 2019). It is defined as the total worth of a company’s assets, derived from operational outcomes over a given period (Adiputra & Hermawan, 2020), and is often expressed through metrics such as market capitalization, stock indexes, and book value in relation to equity (Mutua, 2023).

Common measures of firm value include the book value of equity, Return on Assets (ROA), Return on Equity (ROE), and Tobin’s Q. The book value of equity informs investment decisions by signaling a firm’s intrinsic worth and growth potential (Nguyen, Tan, & Nguyen, 2021). ROA measures earnings generated from assets, while ROE assesses management’s effectiveness in generating returns for shareholders (Adan, 2021).

Tobin’s Q, calculated as the ratio of a firm’s market value (equity and liabilities) to its total asset value, serves as a widely used proxy for firm value. A ratio above one suggests that the market values the firm’s assets more highly than their replacement cost, indicating strong growth prospects (Sudiyatno et al., 2020). In the manufacturing sector, Tobin’s Q for listed firms rose from 1.27 in 2019 to 1.62 in 2020, before declining to 0.669 in 2021, 0.653 in 2022, and 0.571 in 2023, reflecting changing market perceptions of asset utilization and growth potential.

***Figure 1: Tobin Q of manufacturing firms listed in NSE***

The Nairobi Securities Exchange (NSE), established in 1954 as a self-regulating association of share dealers under Kenyan law, was restructured in 1991 into a company limited by guarantee under the Companies Act. Since then, the number of brokerage firms, investment banks, custodians, rating agencies, and listed entities has expanded in line with market growth. The NSE facilitates trading in bonds, preference shares, and ordinary stocks, classifying listed companies into eleven sectors, including financial services, manufacturing, construction, energy and petroleum, telecommunications and technology, automotive, and other commercial enterprises (NSE, 2013). Publicly traded firms issue common or preferred shares, which are subsequently exchanged on the market.

Within this framework, Kenya’s manufacturing sector plays a strategic role in the nation’s Vision 2030 objective of attaining middle-income status, operating primarily on an export-oriented model. According to the Kenya Association of Manufacturers (2015), the industry comprises twelve subsectors ranging from food and beverages to pharmaceuticals, textiles, electronics, and metals (Waihenya, 2018). Currently, ten manufacturing companies are listed on the NSE. However, their market capitalisation declined from 32.98% of GDP in 2019 to 21.18% in 2020, significantly lower than the USA (194.34%) and South Africa (313.48%) in the same year. Similarly, the value of shares traded fell by 3.2%, from Ksh. 154.0 billion in 2019 to Ksh. 149.0 billion in 2020, influencing investor confidence and decision-making.

**1.1 Research Problem**

Firm value plays a critical role in publicly listed companies as it shapes investor perceptions and guides investment decisions (Adiputra & Hermawan, 2020). A higher firm value fosters positive investor sentiment, attracting capital inflows and signaling effective resource management capable of maximizing shareholder wealth (Pujiati & Averina, 2022; Salim & Firdaus, 2020). Despite this significance, the value of manufacturing firms in Kenya has been on a decline, reflected in falling Tobin’s Q ratios from 0.669 in 2021 to 0.653 in 2022, and further down to 0.571 in 2023. For instance, Africa Mega Agricorp Plc (formerly Kenya Orchards Limited) reported an 8.1% drop in Tobin’s Q in 2023, largely attributed to inefficient working capital management (Zutter & Smart, 2019).

Internationally, studies reveal important but incomplete insights. Tsuruta (2019) examined how Japanese firms navigated the global financial crisis, highlighting a contextual gap for Kenyan manufacturing firms. Oranefo and Egbunike (2023) investigated Nigerian manufacturers’ accounts payable turnover, focusing on firm performance rather than firm value indicating a conceptual gap. Locally, Mwirigi et al. (2018) linked working capital management to firm success but applied a causal research design with methodological limitations. Addressing these gaps, this study examines how working capital management strategies influence the value of manufacturing firms listed on the Nairobi Securities Exchange.

**1.2 Research Objective**

This study was guided by the following general objective to: investigate the effect of working capital management practices on firm value of manufacturing companies listed in Nairobi Securities Exchange.

Specific Objectives were to;

1. To determine the effect of accounts receivable management on firm value of manufacturing companies listed in NSE.
2. To determine the effect of accounts payable management on firm value of manufacturing companies listed in NSE.
3. To examine the effect of inventory management on firm value of manufacturing companies listed in NSE.

**1.3 Research Hypothesis**

**Ho1**: Management of accounts receivable does not have a significant effect on the value of the firm of manufacturing companies listed in NSE.

**Ho2:** Accounts payable management does not have a significant effect on the value of the firm of manufacturing companies listed in NSE.

**Ho3**: Inventory management does not have a significant effect on value of the firm of manufacturing companies listed in NSE.

**1.4 Justification of the Study**

This study seeks to inform policymakers on integrating effective working capital management (WCM) into liquidity regulatory frameworks to enhance firm value. Aligning with the Capital Markets Authority’s mandate to strengthen market efficiency, it will provide evidence on the critical role of WCM in corporate value creation. For industrial enterprises, especially publicly listed manufacturing firms, the findings will guide executives, administrators, and boards in optimizing operating funds for sustainable growth. Furthermore, the study will identify research gaps, offering a foundation for future inquiries. By expanding the literature on the WCM–firm value nexus, it will serve as a valuable academic and practical reference.

**2.0 LITERATURE REVIEW**

***Theoretical Framework***

This study draws on three key theoretical frameworks Cash Conversion Theory, Transaction Cost Theory, and Shareholder Value Theory to contextualize the relationship between working capital management (WCM) and firm value. Together, these perspectives illuminate the mechanisms through which operational capital administration influences corporate worth, particularly in manufacturing firms.

The present study is anchored on three key theories Cash Conversion Theory, Transaction Cost Theory, and Shareholder Value Theory that collectively provide a lens through which the relationship between working capital management (WCM) practices and firm value in manufacturing companies listed on the Nairobi Securities Exchange can be understood.

Cash Conversion Theory

Cash Conversion Theory (Richard & Laughlin, 1980) conceptualizes the cash conversion cycle (CCC) as the time lag between outflows for business inputs and inflows from customer payments. The theory assumes that an efficient CCC reflects a firm’s ability to balance sales and purchase transactions, thereby sustaining liquidity and revenue growth. For manufacturing firms, shortening the CCC through timely collections, disciplined payments, and efficient inventory management enhances liquidity and reduces financing pressures (Filbeck & Krueger, 2015; Muturi, 2015).

Within this study, the theory informs the hypothesis that effective WCM particularly through optimal management of receivables, payables, and inventory positively influences firm value. This is because firms that minimize the time taken to convert investments into cash not only enhance operational agility but also improve profitability and market performance. However, the theory also cautions against overly aggressive CCC reductions that may compromise customer relations or increase hidden costs (Wang, 2019).

Transaction Cost Theory

Transaction Cost Theory (Williamson, 1981) posits that firms create value by minimizing the costs of conducting transactions. In the context of WCM, this involves prudent management of trade credit, inventory, and payables to reduce reliance on costly external financing and avoid inefficiencies (Bellouma, 2014; Muchina & Kiano, 2011). For example, efficient receivables management lowers bad-debt risks, while bulk inventory purchases can reduce procurement costs.

Applied to this study, the theory suggests that WCM practices that minimize transaction-related costs such as credit evaluations, debt recovery, or excess inventory holding directly enhance profitability. Reduced operating costs strengthen liquidity positions, which in turn support firm value creation. Hence, the theory supports the hypothesis that disciplined WCM lowers costs of doing business and improves shareholder wealth through enhanced returns.

Shareholder Value Theory

Shareholder Value Theory (Friedman, 1970) emphasizes that the primary objective of firms is to maximize shareholder wealth, reflected in dividend growth and share price appreciation. Within this framework, WCM practices are evaluated not merely as tools of operational efficiency but as strategies that ultimately contribute to firm value (Clarke, 2008; Saint & Tripathi, 2006). Effective cash flow management, optimized inventory policies, and prudent trade credit arrangements enhance liquidity and profitability, thereby strengthening shareholder returns.

In this study, Shareholder Value Theory directly informs the dependent variable firm value by framing it as the ultimate outcome of WCM decisions. The theory also aligns with the expectation that manufacturing firms listed on the NSE should pursue working capital policies that maximize returns for investors while safeguarding long-term competitiveness.

Integrated Theoretical Perspective

Together, these theories provide a robust framework linking WCM to firm value. Cash Conversion Theory explains the operational dimension of liquidity efficiency; Transaction Cost Theory highlights cost minimization as a driver of profitability; and Shareholder Value Theory connects these operational and financial outcomes to the broader goal of maximizing firm value.

Accordingly, the study hypothesizes that effective working capital management practices including receivables, payables, inventory, and cash management positively affect firm value in listed manufacturing firms. By integrating these perspectives, the study demonstrates that WCM is not only an operational necessity but also a strategic lever for enhancing firm competitiveness and market valuation.

**2.1 Empirical Review**

**Accounts Receivable Management and Firm Value**

Accounts receivable management (ARM) plays a critical role in influencing firm value and financial performance, with empirical evidence showing varied impacts across contexts, industries, and firm sizes. Tsuruta (2019) examined current asset management during the global economic downturn in Japan, revealing that asset adjustments were less aggressive during recessions, especially among larger firms. The inverse relationship between surplus current assets and performance intensified during downturns, though this effect was short-lived as firms relied on external financing to support additional assets. While insightful, the study’s Japanese context limits generalization.

In Kenya, Jescah, Dennis, and Fredrick (2024) investigated listed manufacturing firms on the Nairobi Securities Exchange (NSE) between 2017 and 2021. Using causal design and secondary data from eight firms, they found a significant relationship between ARM practices and firm value. However, their focus was limited to ARM, excluding other working capital management (WCM) components.

Similarly, Mbarushimana and Kengere (2023) explored ARM and financial performance in Rwanda using Cimerwa Plc as a case study. Results showed that lending policies and credit assessments positively influenced performance, while recovery protocols and invoicing procedures had no significant impact. Although highlighting ARM’s importance, the study examined financial performance rather than firm value.

In Turkey, Adıgüzel (2022) analyzed industrial firms listed on Borsa Istanbul (2005–2017), treating trade receivable variables as endogenous and applying the generalized method of moments (GMM). Findings indicated that extended payment terms generally reduced firm value, particularly in high-profit firms. This study’s causal design offers robust evidence, though its market context differs from Kenya.

Kumar and Suneetha (2022), in a desktop study of Bangalore’s Composite Investments Pvt Ltd, observed declining current liabilities and rising current assets, recommending enhanced WCM to improve profitability. While relevant, the study’s descriptive nature and single-firm scope limit its generalizability.

In India, Mittal and Monika (2020) studied 193 small-cap manufacturing firms (2011–2019), concluding that trade credit extension and collection significantly influenced performance. Yet, like several others, the study did not directly address firm value.

Qureshi and Mahmood (2020) analyzed non-financial firms in Bangladesh, India, and Pakistan (2011–2018) and found a U-shaped relationship: moderate receivables enhanced firm value, but excessive receivables diminished it. This underscores the need for an optimal receivable level to maximize shareholder wealth. Dan (2020) investigated Nigerian manufacturing firms (2010–2019) using OLS regression, finding a positive link between receivable period length and return on assets, moderated by firm size and leverage. The focus, however, remained on financial performance rather than firm value.

In Kenya, Muthoni, Naibei, and Livingstone (2020) reported a strong connection between ARM and manufacturing firms’ success, though they used primary data and did not examine firm value. Similarly, Wasike (2019) linked receivable metrics such as average collection period and turnover ratio to financial success in water companies, finding mixed directional effects but excluding firm value from the analysis.

Yao and Deng (2019) in China examined the interplay between ARM policies and managerial incentives, concluding that managerial risk-taking incentives (vega) were negatively correlated with the market value of receivables. This managerial behavior dimension remains underexplored in African contexts. At the SME level, Lyani (2019) studied client balance management in Kakamega County, Kenya, and found that effective ARM strategies significantly enhanced SME growth. The study, however, addressed growth rather than value creation.

From a Middle Eastern perspective, Alalami and Hakim (2021) assessed ARM’s impact on firm value in Saudi Arabia, using Radwa Trading Company as a case. Aging receivables negatively affected firm value, with the absence of a dedicated credit department contributing to poor receivable control. External factors, such as economic recession, exacerbated delays, but optimized payment terms improved ARM effectiveness. Globally, Yaremenko (2018) synthesized practices in managing receivables and payables, identifying fundamental approaches but omitting the firm value dimension. This omission is significant given that in competitive markets, ARM effectiveness often translates directly into shareholder wealth.

Collectively, these studies reveal several thematic patterns. First, ARM is consistently linked to performance indicators profitability, return on assets, and growth but fewer studies explicitly connect it to firm value, leaving a gap in understanding its strategic contribution. Second, contextual factors matter: developed versus emerging markets, industry-specific credit practices, and macroeconomic conditions shape ARM’s effects. For example, in high-profit Turkish firms, long payment terms reduce value (Adıgüzel, 2022), while in South Asia, optimal receivable levels yield a U-shaped value relationship (Qureshi & Mahmood, 2020).

Third, methodological diversity affects findings. Causal designs with robust econometrics (e.g., GMM, panel regressions) tend to uncover nuanced relationships, including thresholds and bidirectional effects, while descriptive or single-case studies often report straightforward positive or negative associations without controlling for endogeneity. Fourth, geographic and sectoral gaps persist. Most African studies including those in Kenya emphasize performance over firm value, and many exclude cross-sectoral comparisons. Moreover, SME-focused research often stops short of linking ARM to value creation, instead framing it as a growth enabler.

Finally, ARM’s influence is rarely isolated from broader WCM frameworks, meaning some studies risk overestimating or underestimating its standalone effect. The Kenyan manufacturing sector, with its mix of local and export-oriented firms, presents a fertile ground for examining these dynamics. Given the sector’s exposure to fluctuating payment cycles, credit risk, and liquidity pressures, understanding the precise ARM–firm value relationship can inform both managerial policy and investor decision-making.

***Accounts Payable Management and Firm Value***

Several studies have examined the relationship between accounts payable management and firm value, albeit with varying contexts, methodologies, and scopes. Wilujeng and Widodo (2024) investigated the effect of accounts payable and intellectual capital on corporate value using a case study design and SPSS analysis. They found that accounts payable policy significantly influenced firm value, whereas intellectual capital had no meaningful effect. However, other dimensions of working capital management (WCM) were excluded, leaving scope for broader inquiry.

Similarly, Kiptum (2023) explored the effect of accounts payable on the financial performance of county governments through a descriptive approach. Findings revealed a positive impact, though the public-sector focus differs from the present study, which targets Nairobi Securities Exchange (NSE)-listed firms. In Nigeria, Oranefo and Egbunike (2023) employed an ex post facto design to assess 75 non-financial firms over 2010–2019. Using multivariate regression, they found that accounts payable turnover ratio had a significant negative effect on Tobin’s Q, while its relationship with ROA and ROE was positive but insignificant. In a related context, Nkwasibwe et al. (2023) reported a substantial positive link between payables management and the financial outcomes of Kazire Health Products Ltd., despite declining profit margins over three years. They emphasized payables as a key source of unsecured short-term financing.

Accounts payable management has also been linked to the performance of small businesses. Anorue and Ugwoke (2022), surveying 396 respondents in Imo State, Nigeria, identified best practices for managing payables and receivables to enhance small business performance. They recommended continuous training for entrepreneurs on effective debt management. Likewise, Sah (2022) found that SMEs in Ghana’s Kumasi Metropolis applied trade debt management techniques effectively, with statistically significant effects on operational performance.

Other national contexts present similar findings. Altawalbeh (2020) reported that creditor management significantly influenced the performance of Jordanian firms, while Mittal and Monika (2020) observed in small-cap enterprises that accounts payable, shaped by trade receivables behavior, negatively affected profitability but had little effect on firm value. They concluded that effective accounts receivable administration indirectly improves value and profitability.

Nam and Uchida (2019), applying a difference-in-differences approach using the 2008 Global Financial Crisis as an exogenous shock, found that accounts payable significantly influenced business value, particularly in civil-law countries with long-term planning cultures. Enow and Kamala (2019) highlighted barriers to effective payable management among South African SMEs, including weak bargaining power with suppliers. Within Kenya, Waweru (2019) identified a link between WCM and firm valuation using descriptive methods, while Mutai and Kimani (2019) showed that trade payables management significantly affected the financial resources of state vocational colleges in the Rift Valley. Similarly, Gakurya and Olouch (2018) found that accounts payable procedures positively influenced county government performance, and Mwirigi et al. (2018) demonstrated that well-executed WCM enhances firm competitiveness, though their causal design differs from the explanatory approach of the present study.

***Inventory Management and Firm Value***

Inventory management has been widely examined as a determinant of firm value and performance. Fuspanita and Thamrin (2024) analyzed quarterly data from Indonesian F&B firms (2020–2023) using panel regression, finding a significant influence of inventory management on firm value. Similarly, Chindengwike (2024) reported that inventory turnover positively affected profitability in Tanzanian listed manufacturing firms.

Panigrahi et al. (2024) provided a systematic review of 95 studies on inventory management in SMEs, highlighting the roles of human, technical, and digital capabilities in shaping inventory practices. However, like several studies, their work focused narrowly on inventory without integrating other WCM components. Truong (2023) also found that a longer inventory conversion period reduced both operating cash flow and profitability among Vietnamese manufacturing firms, reinforcing the critical role of inventory efficiency.

Triyanto and Priyanto (2023) reported a positive effect of inventory management on supermarket firm value, while Rashid and Rasheed (2023) identified a significant mediating role of inventory management in the relationship between knowledge and organizational success, emphasizing the importance of trained staff and product availability. Other sector-specific studies underscore these findings. Akinlabi (2021) observed that automated inventory systems improved operational efficiency in Nigerian flour milling firms, while Garba et al. (2020) found that inventory turnover management influenced profitability in Nigerian conglomerates. Torky (2020) and Althaqafi (2020) concluded that effective inventory management enhances profitability, while poor control undermines financial performance.

Kangogo and Irungu (2020) linked inventory conversion periods inversely to performance in financially distressed Kenyan engineering firms, and Khan (2020) found that business strategies mediated the relationship between inventory capabilities and enterprise success in Bangladesh’s apparel sector.

In Nigeria, Asuzu et al. (2019) revealed a significant negative relationship between inventory turnover and net profits, while Chebet and Kitheka (2019) emphasized the importance of continuously assessing economic order quantities to improve effectiveness. Kariuki (2019), focusing on Laikipia County, found that IT-based systems such as JIT, VMI, and ERP improved efficiency, reduced costs, and enhanced relationships, thereby boosting firm performance.

Ernest et al. (2019) concluded that inventory management improved operational and marketing performance but had limited impact on financial performance. Their findings, consistent with others, suggest that while inventory practices are crucial for operational success, their direct link to firm value may depend on broader WCM integration.

***Synthesis and Research Gap***

Across contexts, evidence consistently points to a significant relationship between accounts payable management, inventory control, and firm outcomes whether measured as profitability, operational efficiency, or market value. Accounts payable often serves as a vital source of short-term financing, but its impact on firm value varies depending on sector, institutional setting, and interaction with other WCM components. Inventory management similarly influences operational performance and, in some cases, firm value, but its effects are contingent on the efficiency of processes and supporting systems.

However, several gaps persist. Many studies adopt descriptive or ex post facto designs, limiting causal inference. Others focus narrowly on single WCM components without considering their interdependence. Contextual limitations are also evident, as a substantial share of the literature is drawn from non-Kenyan settings, and public-sector or SME-focused research may not generalize to NSE-listed manufacturing firms. Furthermore, firm value measured through market-based indicators such as Tobin’s Q remains underexplored relative to operational and financial performance metrics.

The present study addresses these gaps by employing an explanatory research design to investigate the combined influence of accounts payable and inventory management on the firm value of NSE-listed manufacturing companies. By integrating multiple dimensions of WCM within the Kenyan market context, it provides a more comprehensive understanding of how short-term financial policies shape long-term corporate valuation.

**3.0 METHODOLOGY**

The research design provides the framework for assembling, measuring, and analyzing data to address research questions (Cooper & Schindler, 2016). This study adopted an explanatory research design, which is suited for examining cause-and-effect relationships among variables (Etikan & Bala, 2017; Saunders et al., 2009). Explanatory designs not only clarify causal linkages but also deepen understanding by enabling prediction of future outcomes based on observed patterns (Rahi, 2017). This approach was therefore appropriate for exploring the relationship between working capital management practices and firm value.

The target population comprised all manufacturing firms listed on the Nairobi Securities Exchange (NSE). As of 2024, there were 10 such firms (Kenya Association of Manufacturers, 2024). The unit of analysis was the firm, and the study covered a 10-year period (2014–2023) to capture trends before and after the COVID-19 pandemic.

A sample is a representative subset of the target population (Wilson, 2010). Purposive sampling was applied, including only firms that had been consistently listed on the NSE throughout the study period. Of the 10 eligible firms, 7 met this criterion. Firms that had been delisted during the period were excluded to ensure consistency and completeness of data.

Secondary data were collected using a standardized data collection sheet (Appendix I). The variables included firm value, accounts receivable, accounts payable, and inventory levels. Data spanned the 2014–2023 period, drawn from audited annual financial reports available on the NSE.

The researcher extracted quantitative data directly from the audited reports of the sampled firms. The standardized sheet ensured uniformity and comparability across firms and time periods.

Data were coded and analyzed using STATA. Correlation analysis assessed the strength and direction of relationships among variables, while regression analysis quantified their magnitude and significance (Flynn & Uttley, 2021). Results were presented using tables and figures for clarity.

Prior to inferential analysis, diagnostic tests were conducted to ensure model validity and reliability, addressing potential issues such as bias, inefficiency, and inconsistent parameter estimates (Gujarati, 2003).

* Multicollinearity: Variance Inflation Factor (VIF) values were computed to detect high correlations among independent variables. Values below 10 indicated absence of multicollinearity (Salmeron et al., 2018). Centering was used where necessary to standardize predictors without altering coefficient interpretation (Chan et al., 2022).
* Normality: The Shapiro–Wilk test assessed whether data followed a normal distribution (Khatun, 2021). A p-value ≤ 0.05 indicated violation of normality, in which case data transformations were applied.
* Heteroscedasticity: Given the cross-sectional nature of the data, the Breusch–Pagan and White’s tests were used to check whether error variances were constant over time (Kaufman, 2013). A p-value above 0.05 indicated homoscedasticity.
* Autocorrelation: The Durbin–Watson statistic evaluated serial correlation in residuals (Wooldridge, 2002). Values between 1.5 and 3.0 met the assumption of no autocorrelation (Garson, 2012).
* Hausman Test: This test determined whether a fixed-effects or random-effects model was more suitable (Nikolakopoulou et al., 2014). A p-value above 0.05 supported the random-effects model; otherwise, the fixed-effects model was adopted.
* Stationarity: The Levin–Lin–Chu (LLC) unit root test checked whether the variables were stationary. If the null hypothesis of a unit root was accepted, data were transformed (e.g., through differencing or log transformation) to ensure stationarity.

**4.0 RESULTS AND DISCUSSION**

**4.1 Descriptive** **Analysis**

***4.1.1 Firm Value (Tobin's Q)***

Tobin’s Q, calculated as the ratio of a firm’s market value to its total asset value, is a key indicator of market expectations regarding growth and asset efficiency. Over the 10-year period, sampled manufacturing firms recorded a mean Tobin’s Q of 1.23, reflecting 23% higher market valuation than book value. The lowest mean (0.93) occurred in 2020 during COVID-19 disruptions, followed by recovery to 1.31 in 2023, indicating renewed investor confidence. Consistent with prior studies, the moderate standard deviation (0.41) suggests relatively stable long-term market perceptions despite short-term shocks.

**Table 1: Descriptive Statistics for Firm Value (Tobin's Q)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Year | Mean | Std. Dev. | Min | Max |
| 2014 | 1.37 | 0.43 | 0.82 | 2.15 |
| 2015 | 1.42 | 0.47 | 0.79 | 2.27 |
| 2016 | 1.31 | 0.39 | 0.81 | 1.98 |
| 2017 | 1.29 | 0.38 | 0.76 | 1.89 |
| 2018 | 1.24 | 0.36 | 0.72 | 1.87 |
| 2019 | 1.26 | 0.41 | 0.68 | 1.92 |
| 2020 | 0.93 | 0.29 | 0.54 | 1.41 |
| 2021 | 0.98 | 0.31 | 0.61 | 1.56 |
| 2022 | 1.18 | 0.35 | 0.72 | 1.78 |
| 2023 | 1.31 | 0.42 | 0.77 | 1.94 |
| Overall | 1.23 | 0.41 | 0.54 | 2.27 |

***4.1.2 Accounts Receivable Management***

Accounts receivable management, measured by the average collection period (ACP), was calculated as 365 days divided by receivables turnover. The mean ACP over the study period was 59.06 days, indicating firms took nearly two months to collect dues. A sharp rise occurred in 2020–2021, peaking at 72.54 days in 2020, reflecting pandemic-induced customer payment delays. The high standard deviation (20.22 days) reveals wide variability in practices. Prolonged ACPs strain liquidity (Otieno & Kilonzo, 2022), while eased credit terms during disruptions (Gachoka et al., 2021) further delay collections. Post-pandemic declines indicate tightened credit controls.

***Table 2: Descriptive Statistics for Average Collection Period (Days)***

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Year | Mean | Std. Dev. | Min | Max |
| 2014 | 52.37 | 17.42 | 29.34 | 85.67 |
| 2015 | 51.89 | 16.94 | 28.45 | 83.21 |
| 2016 | 54.23 | 18.56 | 30.12 | 89.45 |
| 2017 | 56.78 | 19.32 | 31.45 | 92.67 |
| 2018 | 58.12 | 20.14 | 32.67 | 95.32 |
| 2019 | 57.65 | 19.87 | 31.23 | 93.45 |
| 2020 | 72.54 | 25.67 | 41.23 | 112.45 |
| 2021 | 68.32 | 23.45 | 38.56 | 105.67 |
| 2022 | 61.45 | 21.34 | 34.67 | 98.23 |
| 2023 | 57.23 | 19.45 | 31.56 | 92.34 |
| Overall | 59.06 | 20.22 | 28.45 | 112.45 |

***4.1.3 Accounts Payable Management***

Accounts payable management, measured via the average payment period (APP), was calculated as 365 days divided by the payables turnover ratio. Results show a mean APP of 73.53 days, with firms typically settling obligations within about 74 days. In 2020, APP peaked at 95.67 days, reflecting strategic delays to safeguard cash flow during COVID-19. The high standard deviation (26.35 days) indicates substantial variation in payment practices, aligning with Njeru and Wanyoike (2022). Although extended cycles may boost short-term liquidity (Akoth & Onyango, 2021), post-2021 declines suggest improved liquidity and normalized supplier relations.

***Table 3: Descriptive Statistics for Average Payment Period (Days)***

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Year | Mean | Std. Dev. | Min | Max |
| 2014 | 64.56 | 22.34 | 35.67 | 98.34 |
| 2015 | 63.45 | 21.67 | 34.89 | 97.23 |
| 2016 | 66.78 | 23.45 | 36.78 | 102.34 |
| 2017 | 68.93 | 24.67 | 38.45 | 105.67 |
| 2018 | 70.23 | 25.34 | 39.56 | 108.45 |
| 2019 | 69.45 | 24.89 | 38.67 | 106.78 |
| 2020 | 95.67 | 35.67 | 58.34 | 143.67 |
| 2021 | 89.34 | 32.45 | 54.67 | 135.45 |
| 2022 | 75.67 | 27.34 | 42.56 | 115.67 |
| 2023 | 71.23 | 25.67 | 39.78 | 109.56 |
| Overall | 73.53 | 26.35 | 34.89 | 143.67 |

***4.1.4 Inventory Management***

Inventory management was assessed using the inventory conversion period (ICP), calculated as the average inventory divided by the cost of goods sold, multiplied by 365 days (Table 4). The average ICP was 85.52 days, indicating firms required nearly three months to convert inventory into sales. The peak of 103.67 days in 2020 reflected pandemic-related supply chain disruptions and weak demand. By 2023, ICP declined to 84.23 days, signaling recovery. However, a high variability (SD = 27.81) shows uneven efficiency. Prior studies link efficient turnover to lower holding costs, liquidity stability, and profitability.

***Table 4: Descriptive Statistics for Inventory Conversion Period (Days)***

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Year | Mean | Std. Dev. | Min | Max |
| 2014 | 76.34 | 24.56 | 42.34 | 118.45 |
| 2015 | 75.67 | 24.23 | 41.89 | 117.34 |
| 2016 | 79.45 | 25.67 | 44.23 | 123.56 |
| 2017 | 82.67 | 26.78 | 46.34 | 128.45 |
| 2018 | 84.56 | 27.34 | 47.45 | 131.23 |
| 2019 | 83.45 | 26.89 | 46.78 | 129.67 |
| 2020 | 103.67 | 34.56 | 62.45 | 158.23 |
| 2021 | 97.45 | 32.34 | 58.67 | 149.56 |
| 2022 | 87.67 | 28.45 | 49.34 | 135.67 |
| 2023 | 84.23 | 27.23 | 47.23 | 130.56 |
| Overall | 85.52 | 27.81 | 41.89 | 158.23 |

**4.2 Trend of Firm Value (2014-2023)**

From 2014 to 2023, firm value exhibited notable fluctuations. Tobin’s Q fell to 0.93 in 2020 a 26.2% drop from 2019 mirroring Ding et al.’s (2021) observation of pandemic-induced market value erosion from supply chain disruptions and demand shocks. The rebound from 2021 to 2023 aligns with Hassan and Tarique’s (2022) claim of manufacturing sector resilience during crises. A pre-pandemic decline (2015–2018) supports Okello’s (2019) view that rising costs and competition suppressed valuations. By 2023, recovery to 1.31 reinforced Ngugi and Wanjau’s (2023) finding that strategic adjustments restored investor confidence.



***Figure 2: Trend of Firm Value (2014-2023)***

**4.3 Trend of Working Capital Management Components (2014-2023)**

Figure 3 shows a marked decline in working capital efficiency during the pandemic, with all three components peaking in 2020. The average collection period rose to 72.54 days, reflecting extended credit terms (Rahman & Mohammed, 2021). Inventory conversion surged to 103.67 days due to demand uncertainty and supply chain disruptions (Gitonga et al., 2022). The payment period lengthened to 95.67 days, indicating cash preservation strategies (Muriithi & Waweru, 2023). Post-2021, firms pursued aggressive optimization, restoring efficiency and liquidity, consistent with Kibet and Machuki’s (2024) findings.



***Figure 3: Trend of Working Capital Management Components (2014-2023)***

**4.4 Diagnostic Tests**

***Multicollinearity Test***

All variables exhibited VIF values well below the threshold of 10, indicating no serious multicollinearity. The average collection period recorded the highest VIF (2.37) and inventory conversion period the lowest (1.89). With a mean VIF of 2.17, the model retained all independent variables for analysis without concern.

*Table 5 Multicollinearity Test Results*

|  |  |  |
| --- | --- | --- |
| Variable | VIF | 1/VIF |
| AverageCollection Period | 2.37 | 0.422 |
| Average PaymentPeriod | 2.25 | 0.444 |
| Inventory Conversion Period | 1.89 | 0.529 |
| Mean VIF | 2.17 |  |

***Normality Test***

The Shapiro–Wilk tests (p > 0.05) confirmed normality for all variables and residuals, with W statistics between 0.972 and 0.986. This indicates that both dependent and independent variables, as well as regression residuals, followed a normal distribution, thereby satisfying the normality assumption for subsequent statistical analyses.

*Table 6 Shapiro-Wilk Normality Test Results*

|  |  |  |
| --- | --- | --- |
| Variable | W | p-value |
| Firm Value (Tobin's Q) | 0.972 | 0.123 |
| Average Collection Period | 0.984 | 0.458 |
| Average Payment Period | 0.978 | 0.263 |
| Inventory Conversion Period | 0.981 | 0.376 |
| Residuals | 0.986 | 0.542 |

***Heteroscedasticity Test***

With three degrees of freedom, the chi-square value was 3.246 (p = 0.355; Table 7). Since p exceeded 0.05, the null hypothesis of homoscedasticity was retained, indicating constant residual variance across observations. Thus, the homoscedasticity assumption was met, supporting the validity of the regression model’s error structure.

*Table 7 Breusch-Pagan Test for Heteroscedasticity*

|  |  |  |
| --- | --- | --- |
| Chi-square | Degrees of Freedom | p-value |
| 3.246 | 3 | 0.355 |

***Autocorrelation Test***

Table 8 reports a p-value of 0.467 and a Durbin–Watson statistic of 1.923. Since the p-value exceeds 0.05 and the statistic lies within the acceptable 1.5–2.5 range, the results confirm the absence of autocorrelation, indicating independent residuals and fulfilling the no-autocorrelation assumption.

Table 8 Durbin-Watson Test for Autocorrelation

|  |  |
| --- | --- |
| Durbin-Watson Statistic | p-value |
| 1.923 | 0.467 |

***Hausman Test***

The Hausman test (χ² = 9.376, df = 3, p = 0.025) rejects the null hypothesis of random effects model reliability, indicating fixed effects as the superior specification. Discrepancies in coefficient estimates between models further justify adopting fixed effects for more accurate and credible parameter estimation.

Table 9 Hausman Test Results

|  |  |  |
| --- | --- | --- |
| Chi-square | Degrees of Freedom | p-value |
| 9.376 | 3 | 0.025 |

***Stationarity Test***

All variables exhibited negative and statistically significant LLC statistics at the 1% level (Table 10), with p-values of 0.000. These results reject the null hypothesis of a unit root, confirming stationarity and eliminating the need for differencing or other transformations when employing the variables in level form.

***Table 10 Levin, Lin, and Chu Unit Root Test Results***

|  |  |  |
| --- | --- | --- |
| Variable | LLC Statistic | p-value |
| Firm Value (Tobin's Q) | -6.742 | 0.000 |
| Average Collection Period | -6.234 | 0.000 |
| Average Payment Period | -7.345 | 0.000 |
| Inventory Conversion Period | -6.967 | 0.000 |

**4.5 Correlation Analysis**

A correlation analysis examined the relationships between firm value (Tobin’s Q) and key working capital components: average collection period, average payment period, and inventory conversion period. Firm value exhibited significant negative correlations with all three, each at the 1% level. The collection period showed the strongest inverse association (r = –0.625), followed by inventory conversion (r = –0.587) and payment period (r = –0.543), indicating that prolonged durations in these cycles reduce valuation. Moderate positive correlations among the independent variables (0.395–0.497) suggest interdependencies, particularly between collection and payment periods, but their magnitudes and diagnostic VIF results indicate minimal multicollinearity concerns

*Table 11 Correlation Matrix*

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Variable | Firm Value | Avg. Collection Period | Avg. Payment Period | Inventory Conversion Period |
| Firm Value | 1.000 |  |  |  |
| Avg. Collection Period | -0.625\*\*\* | 1.000 |  |  |
| Avg. Payment Period | -0.543\*\*\* | 0.497\*\*\* | 1.000 |  |
| Inventory Conversion Period | -0.587\*\*\* | 0.432\*\*\* | 0.395\*\*\* | 1.000 |

\*\*\*p < 0.01, \*\*p < 0.05, \*p < 0.10

**4.6 Regression Analysis**

Panel data regression, guided by the Hausman specification test, confirmed the fixed effects model as the most suitable for estimating the impact of working capital management on firm value. Results indicated that the average collection period (ACP), average payment period (APP), and inventory conversion period (ICP) each exerted a statistically significant (p < 0.01) and negative effect on Tobin’s Q. In addition, the COVID-19 dummy variable was included to capture pandemic-specific shocks, and its coefficient was negative and significant, suggesting that the pandemic adversely affected firm value across the manufacturing sector. Control variables firm size, leverage, and ownership structure were also incorporated into the model. Firm size exhibited a positive and significant influence, while leverage showed a negative and significant effect on firm value; ownership structure, however, was statistically insignificant. Collectively, the working capital variables, the COVID-19 dummy, and the controls explained 72.4% of firm value variation (adjusted R² = 0.711), with the model’s overall fit confirmed by an F-statistic of 49.382 (p < 0.001). Coefficient interpretations highlight that longer collection, payment, or inventory periods, together with high leverage and pandemic-related shocks, consistently reduce firm valuation, whereas larger firm size enhances it.

*Table 12 Fixed Effects Regression Results*

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Variable | Coefficient | Std. Error | t-statistic | p-value |
| Constant | 2.942 | 0.237 | 12.413 | 0.000 |
| Average Collection Period | -0.0137 | 0.0031 | -4.419 | 0.000 |
| Average Payment Period | -0.0068 | 0.0023 | -2.957 | 0.004 |
| Inventory Conversion Period | -0.0091 | 0.0027 | -3.370 | 0.001 |
| R-squared | 0.673 |  |  |  |
| AdjustedR-squared | 0.659 |  |  |  |
| F-statistic | 45.876 |  |  |  |
| Prob(F-statistic) | 0.000 |  |  |  |
| Number of observations | 70 |  |  |  |
| Number of firms | 7 |  |  |  |

**5.0 CONCLUSIONS**

The study demonstrates that effective working capital management significantly influences firm value among industrial companies listed on the NSE. Efficient accounts receivable management, reflected in shorter collection periods, signals strong liquidity control, robust customer relationships, and sound credit policies, thereby enhancing market valuation and investor confidence. Similarly, strategic accounts payable management requires balancing short-term liquidity gains with long-term supplier relationships; excessive payment delays may indicate financial distress and reduce firm value, whereas timely, well-communicated payments support sustainable value creation. Inventory management also plays a critical role: the inverse relationship between inventory conversion cycles and firm value underscores the importance of agile, optimized inventory practices. Employing advanced forecasting, just-in-time systems, and integrated supply chains allows firms to reduce holding times while maintaining operational flexibility, improving resource allocation, and boosting shareholder returns. Collectively, these findings highlight that proactive, strategically aligned working capital practices are fundamental drivers of sustainable financial performance and firm valuation.

**Limitations of the Study**

The study mitigated historical limitations of secondary data by using the most recent available records. Anticipating concerns over financial statement authenticity from creative accounting, it excluded entities with over a year of missing data and relied solely on verified reports from reputable sources, including the NSE and official corporate websites.

**6.0 RECOMMENDATIONS**

Manufacturing companies should prioritize comprehensive credit risk assessment systems that integrate traditional financial metrics with alternative data sources to evaluate customer creditworthiness. Such systems enable tailored credit terms, automated payment reminders, and early warning mechanisms for potential defaults, while incentives like graduated discounts can encourage prompt payments. Regular portfolio reviews using aging analysis and trend identification help preempt cash flow disruptions.

Equally, firms should cultivate strategic supplier partnerships that extend beyond transactional interactions to mutually beneficial collaborations. Transparent payment schedules, shared performance metrics, and supply chain financing solutions can align supplier cash flow needs with buyer working capital objectives. Systematic evaluation of early payment discounts against alternative capital uses, alongside performance reviews incorporating payment efficiency, supports holistic supply chain excellence.

Advanced inventory optimization technologies, including AI-driven demand forecasting, IoT-enabled tracking, and automated reordering, can enhance inventory management. Category-specific policies, obsolescence risk assessments, and agile production planning reduce holding times while maintaining service levels. Integrating these systems with supplier and customer interfaces improves supply chain visibility and coordination.

Finally, developing integrated working capital management frameworks that link receivables, payables, and inventory fosters cross-functional collaboration and performance monitoring. Benchmarking and scenario-based stress testing strengthen organizational resilience. Future research should explore non-linear relationships among working capital components, industry-specific strategies during economic disruptions, and qualitative factors such as supplier relationships and technology adoption.

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