Journal of Economics, Finance and Management Studies

ISSN (print): 2644-0490, ISSN (online): 2644-0504

Volume 08 Issue 07 July 2025

Article DOI: 10.47191/jefms/v8-i7-81, Impact Factor: 8.317

Page No: 4955-4966

Influence of Working Capital Management Practices on Financial Performance of Deposit-Taking Saccos in North Rift Region, Kenya

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ABSTRACT: Savings and Credit Co-operative Societies (SACCOs) play a key role in promoting financial inclusion and economic growth. However, many SACCOs in Kenya's North Rift region have seen a steady decline in their financial performance, particularly in Return on Assets (ROA), over the past five years. This raised concerns about how effectively these institutions manage their working capital. Despite this challenge, little has been done to explore how day-to-day financial decisions especially around receivables, payables, and cash balances affect SACCO performance. The purpose of the research was to determine the effect of working capital management practices on the financial performance of deposit-taking SACCOs in North Rift Counties, Kenya. The specific objectives were: to determine the effect of accounts receivable management on the financial performance of SACCOs in North Rift Counties, Kenya; to determine the effect of accounts payable management on the financial performance of deposit-taking SACCOs in North Rift Counties, Kenya and to establish the effect of cash management on the financial performance of deposit-taking SACCOs in North Rift Counties, Kenya. The study was guided by the cash conversion cycle theory, the trade-off, and the agency theory. An explanatory research design was be used, targeting 27 deposit-taking SACCOs in North Rift Counties. This study relied on secondary data spanning five years (2020–2024), providing a longitudinal view of the target population. Data was obtained from Sacco Societies Regulatory Authority (SASRA) reports and individual SACCO reports, then verified, sorted, and edited before analysis. Statistical Package for the Social Sciences (SPSS) 27 was used for data examination, and findings were presented in tables and figures. Diagnostic tests included normality, multicollinearity, heteroskedasticity, and the Hausman test. Findings revealed that accounts receivable management had a statistically significant negative effect on financial performance, indicating that quicker collection of receivables improved ROA. Accounts payable management had a positive but statistically not significant effect, while cash management showed a strong, statistically significant positive effect, emphasizing the role of liquidity in performance. The research concludes that efficient management of receivables and cash positively impacted SACCO performance, whereas payables management had minimal influence. Based on these findings, the study recommends that SACCOs strengthen their receivables collection processes, improve cash flow planning, and find a balanced approach to managing their payables. Future studies could explore other SACCO types or consider how governance and economic conditions affect financial performance.

BACKGROUND OF THE STUDY

Firm performance is often realised through a thorough and strategic assessment of how well an organisation's internal procedures align with its set objectives and goals (Akomeah & Frimpong, 2019). This means that for a company to perform well, it must not only have clear goals but must also continuously evaluate and refine its operations to ensure they are moving in the right direction. Performance is not achieved by chance it results from deliberate planning, consistent monitoring, and informed decision-making. Over the years, a growing body of research has emphasised the important link between effective working capital management and an organisation's financial performance. In other words, how a firm handles its short-term assets and liabilities such as cash, receivables, payables, and inventories can significantly influence its profitability, liquidity, and long-term sustainability. The way deposit-taking Savings and Credit Co-operative Societies (SACCOs) choose investments to improve their financial performance has also been studied by Wangechi and Irungu (2023). The cooperative movement traces its origins to 1844, when the Even-handed Trailblazers of the Rockdale Society in Manchester, UK, pioneered cooperative development (Wangechi, 2023). Between 1900 and 1930, cooperatives spread across Europe, Asia, Latin America, and North America. In Africa, the concept was first introduced in Ghana, and by 2012, there were over 55,952 cooperative organizations globally, with more than 200 million members managing

resources exceeding $1.6 trillion. This expansion underscores the significance of cooperatives as social and financial institutions (Kyazze et al., 2017).

The advancement of deposit-taking SACCOs resulted from the evolution of financial intermediary organizations. While non-deposit-taking SACCOs and deposit-taking SACCOs exist, many jurisdictions, including the USA, Brazil, and Ireland, consider all credit unions as deposit-taking cooperatives (Jagongo & Njenga, 2017). According to the International Cooperative Alliance (2021), credit unions and cooperatives worldwide have a membership exceeding one billion people, with 250 million earning revenue as employees or full members.

In China, credit associations have experienced significant growth over fifty years, reaching 42,000 associations by the year 2000, has Y0.92 trillion in total credit and Y1.33 trillion in total deposits. (Liang & Huang, 2018). However, this rapid expansion led to cash shortages, with semi-urban credit associations reporting a negative cash position of Y8.1 billion in 2009, which increased to Y86.2 billion. The poor bookkeeping and working capital management further exacerbated these financial difficulties. Nonetheless, improved working capital management and administration have yielded positive results for credit associations from (Al Ajlouni, 2018) 2013–2019.

Ghana was the initial African country to present SACCOs. However, Kenya's SACCO membership eventually equaled that of Ghana, despite its later adoption. The rapid growth of SACCOs led to market fragmentation and operational challenges such as poor risk management, high transactional costs, inadequate capital reserves, and weak internal controls (Lenkume, 2019). In Nigeria, SACCOs have become integral to community development (Woccu, 2020), yet they face challenges such as mismanagement, declining performance, corruption, and rising customer complaints, all linked to inadequate working capital management (Mshelia, 2017).

Kenya’s SACCO movement dates back to 1908, when European settlers established Lumbwa SACCO to support agricultural production (KUSCCO, 2016). According to SASRA (2020), SACCOs contribute 6% to Kenya's GDP by pooling resources for wealth creation and investment. The SACCO model has since expanded to various economic sectors, including banking, horticulture, agro-processing, credit, storage, fishing, marketing, transport, and housing (Njenga & Jagongo, 2019). Kenya’s high GDP levels are partly attributed to the growth of the SACCO sector, which accounts for 6% of GDP, second only to New Zealand at 22% (Mutinda, 2016). Additionally, eight million Kenyans hold SACCO accounts, while another 20 million indirectly benefit from SACCO operations (Njenga & Jagongo, 2019).

Despite these achievements, SACCOs in Kenya faced financial sustainability challenges due to ineffective working capital management. Studies indicate that successful businesses shorten their collection period, positively linking profitability to inventory turnover (Mathuva, 2015).

Deposit-taking SACCOs, also referred to as DT SACCOs, are distinct in that they accept deposits from their members and offer banking-like services such as savings accounts, loans, and even mobile banking solutions. Their operations are subject to more rigorous financial oversight compared to non-deposit-taking SACCOs. According to the Republic of Kenya Report (2012), DT SACCOs are regulated under the SACCO Societies Act of 2008. This legislation was enacted to provide a legal and regulatory framework that ensures the safety, soundness, and stability of SACCOs involved in financial intermediation.

Despite the critical role that Savings and Credit Cooperative Societies (SACCOs) play in Kenya’s economic growth particularly in mobilising savings, providing affordable credit, and empowering communities many of these institutions continue to face challenges related to financial performance. One of the key issues affecting their stability and growth is poor working capital management. When SACCOs fail to efficiently manage their short-term assets and liabilities such as cash, accounts receivable, and accounts payable—they often experience liquidity problems, reduced profitability, and operational inefficiencies.

This situation has been made worse by the growing competition from well-established commercial banks and microfinance institutions, which often offer more attractive financial products, better customer service, and advanced digital platforms. As members become more financially savvy and demand faster, more convenient services, SACCOs must now compete in a space that is rapidly evolving. Unfortunately, many SACCOs are still held back by internal inefficiencies, including weak financial controls, lack of professional capacity, outdated technologies, and governance challenges. These internal and external pressures have, in some cases, resulted in severe financial instability and even the collapse of some SACCOs, leading to loss of member savings and diminished trust in the cooperative movement.

Although several studies have examined the relationship between working capital management and financial performance in other sectors such as manufacturing, retail, and banking there remains a significant research gap when it comes to SACCOs in the Kenyan context. There is a need for a focused and comprehensive investigation into how SACCOs, especially those that accept deposits, can optimise their working capital practices to improve both sustainability and competitiveness in the modern financial environment.

Influence of Working Capital Management Practices on Financial Performance of Deposit-Taking Saccos in North Rift Region, Kenya

Statement of the Problem

Over the years, Savings and Credit Cooperative Societies that accept deposits (DT Saccos) have grown rapidly in Kenya, particularly inside the North Rift area. Their expansion has been impressive, and as Mwanzia (2017) observes, Kenya has emerged as a regional leader in the cooperative movement. The World Council of Credit Unions even ranked Kenyan Saccos as the best in Africa and seventh globally. These institutions play a key role in Kenya's economy by helping to mobilise savings and channel them into productive use through financial intermediation (Victor, 2021). Despite this progress, the financial performance of many DT Saccos has been less than satisfactory.

In fact, as Kinyua and Mbugua (2020) note, DT Saccos are expected to perform better given their mandate and the trust members place in them. Yet data from the SACCO Societies Regulatory Authority (SASRA) between 2015 and 2021 shows that many of these institutions have experienced a worrying decline in their return on assets (ROA). A closer look at Saccos in the North Rift counties reveals that their average ROA dropped from 2.01% in 2017 to just 1.09% in 2021 across 124 licensed Saccos. Some of the struggling Saccos include Good Life Sacco Society, Urithi Premier, Millionaire Sacco Kenya, and Moi University Sacco (MUSCO). While external factors like the COVID-19 pandemic have certainly played a role, SASRA (2021) has also pointed to poor working capital management as a possible reason for this downward trend.

Although several studies have examined the relationship between working capital management and financial performance, significant research gaps remain. Previous studies, such as Ayuma and Somalia (2017), focused on remittance companies in Mogadishu, limiting applicability to SACCOs. Ahmed and Mwangi (2022) explored SMEs in Garissa County, finding that effective inventory and receivables management improved financial outcomes, but their qualitative approach and SME focus limit relevance to deposit-taking SACCOs. This study addresses these gaps by focusing specifically on deposit-taking SACCOs in the North Rift region, using a quantitative, data-driven approach.

The Specific Objectives

i) To determine the effect of accounts receivable management on financial performance of Saccos in the North Rift Valley counties, Kenya.

ii) To determine the effect of accounts payable management on financial performance of deposit Saccos in the North Rift Valley counties, Kenya.

iii) To establish the effect of cash management on financial performance of deposit takings Saccos in North Rift counties, Kenya.

LITERATURE REVIEW

For instance, Njeru and Wachira (2017), in a descriptive study on government-funded firms, found that prompt invoicing, strict credit policy enforcement, and timely collections significantly improved both liquidity and profitability. However, the advantages typically enjoyed by venture-backed firms such as policy support and access to capital limit the applicability of these findings to SACCOs, which operate within a more constrained cooperative and regulatory environment.

Usman (2019) examined the impact of working capital management practices on profitability in Nigerian firms using a causal research design. This research revealed an important linear connection between profitability and working capital components, with a notable inverse association between inventory turnover and profitability. While the research emphasized Working capital management's strategic role in improving financial outcomes, it focused broadly on all components of working capital without providing detailed insight into the individual role of accounts payable.

Muturi, Judith, and Nyabwaga (2016) conducted a cross-sectional study on Kenya's Kisii County is home to small and micro businesses (SMEs). This research revealed that effective cash management, in conjunction with inventory and receivables management, significantly enhanced financial performance. The researchers emphasized the importance of integrating all working capital components to achieve financial efficiency. However, the cross-sectional nature of the research limits its ability to capture performance trends over time. Moreover, while SMEs and SACCOs may share certain characteristics, SACCOs especially deposit-taking ones operate under more stringent regulatory frameworks and financial structures. This necessitates a more focused and longitudinal examination in the context of SACCOs.

The Cash Conversion Cycle Theory

The amount of time it takes for a company to generate cash flows from sales after investing in inventory and other resources was the main emphasis of the Cash Conversion Cycle (CCC) theory. The cycle measures the duration between the outlay of cash for the purchase of inventory and the receipt of cash from its sale. Better working capital management is indicated by reduced CCC, which has a positive correlation with improved financial performance.

According to Richards and Laughlin (1980), the cash conversion cycle is a vital indicator of a company's liquidity and operational efficiency. The CCC theory suggests that an efficient working capital management system minimizes the time between the outlay of cash and the receipt of cash, contributing to better cash flow management and, ultimately, superior financial performance. Working capital efficiency, specifically in managing accounts receivable and accounts payable, plays a central role in reducing the cash conversion period (Deloof, 2003). Shorter CCCs often result in higher profitability and greater financial flexibility (Nazir & Afza, 2009). For SACCOs in the North Rift Region that accept deposits, managing the CCC effectively can be critical in improving liquidity, thus enhancing financial performance.

RESEARCH METHODOLOGY

Research Methodology

Panel data study design was employed by the investigator. The best research design for the current study is a descriptive and explanatory.

Target Population

This research encompassed all 27 deposit-taking SACCOs in Kenya's North Rift Valley defined by Oso and Onen (2011) as the complete target population covering Elgeyo, Marakwet, Baringo, Nandi, Uasin, Gishu, Bungoma, Turkana, West Pokot, and Trans-Nzoia. Over the five-year period (2020–2024), secondary financial data were compiled for each SACCO, yielding 135 observations. Because the universe was both small and fully accessible, the study employed a census design, thereby avoiding sampling error and ensuring comprehensive coverage (Oso & Onen, 2011). This approach mirrors other recent SACCO studies in Kenya, where census designs strengthened reliability and validity when working with complete but limited populations (Wangechi & Irungu, 2023; Mirichii, Akims, & Nyachae, 2023).

	County	DT SACCO Name
1	West Pokot	Eco–Pillar Sacco Society Ltd
2	West Pokot	Edis Sacco Society Ltd
3	Elgeyo Marakwet	Smartlife Sacco
4	Elgeyo Marakwet	Primetime Sacco Society
5	Baringo	Skyline DT Sacco
6	Baringo	Boresha Sacco Society Ltd
7	Nandi	Kabiyet Sacco Society Ltd
8	Nandi	Kolenge Tea Sacco Society Ltd
9	Uasin Gishu	Eldowas Sacco Society Ltd
10	Uasin Gishu	Ainabkoi Sacco
11	Uasin Gishu	Baraton Sacco Society Ltd
12	Bungoma	Ng'arisha Sacco Ltd
13	Bungoma	Bungoma Teachers Sacco Society Ltd
14	Bungoma	Bungoma Mwalimu Sacco Society Ltd
15	Trans Nzoia	Skyline DT Sacco
16	Trans Nzoia	Trans National Times DT Sacco Ltd
17	Trans Nzoia	Kitale Teachers Sacco Society Ltd
18	Trans Nzoia	Trans Nzoia Teachers Sacco Society Ltd
19	West Pokot	Pokot Teachers Sacco Society Ltd
20	Elgeyo Marakwet	Marakwet Sacco Society Ltd
21	Baringo	Baringo Teachers Sacco Society Ltd
22	Nandi	Nandi Tea Growers Sacco Society Ltd
23	Turkana	Turkana Teachers Sacco Society Ltd
24	Uasin Gishu	Moi University Sacco Society Ltd
25	Bungoma	Sirisia Sacco Society Ltd
26	Elgeyo Marakwet	Stawisha sacco
27	Nandi	Trans-elite county

Table 3: ***Target Population***

County	Number of SACCOs	Percentage
Turkana	3	11
West Pokot	4	15
Elgeyo Marakwet	4	15
Baringo	3	11
Nandi	3	11
Uasin Gishu	3	11
Bungoma	3	11
Trans Nzoia	4	15
Total	27	100

Source: Researcher, (2025)

Data Collection Instruments

Data was gathered during a five-year period (2020–2024). The SACCOs' website provided audited financial reports, which served as the source of the secondary data.

Model for Data Analysis

The study employed multiple panel regression follows

$$Y_{it} = \beta_{0it} + \beta_{1it}X_{1it} + \beta_{2it}X_{2it} + \beta_{3it}X_{3it} + \varepsilon$$

Where:

Y_{it} Financial Performance (ROA) of (SACCO

β_0 Intercept

X_{1it} Accounts receivable management of SACCOs i at time t

X_{2it} Accounts payable management of SACCOs i at time t

X_{3it} Cash management of SACCOs of firm i at time t

$\beta_{1it} - \beta_{3it}$ Beta coefficients

ε Error term

Diagnostic Test

Normality Test

Inferential statistics apply the assumption of normality to demonstrate how closely the data follows a normal distribution (Ramakrishna, 2013). Wilk and Shapiro were employed as the normalcy methods. If the p-value is greater than 0.05, the data is considered regularly distributed.

Multicollinearity Tests

Multicollinearity was done in the study. The multicollinearity was used to show the association among the variables. VIF was used in the testing. The value of the VIF was less than 10 (Miles, 2014).

Heteroskedasticity Tests

When the variance of the error terms varies from observation to observation in regression analysis, this is referred to as heteroskedasticity. One of the fundamental tenets of the conventional linear regression model the assumption of homoskedasticity, which stipulates that the variance of the error terms should be constant—is broken when heteroskedasticity is present. The Breusch–Pagan–Godfrey (BPG) test was used to determine whether heteroskedasticity was present in this investigation.

Hausman Test

The Hausman specification test was utilized in this work to ascertain whether a Fixed Effects (FE) or Random Effects (RE) model would be the best suitable econometric model for panel data analysis.

RESEARCH FINDINGS AND DISCUSSIONS

Response Rate

Out of the 108 questionnaires that were distributed to the targeted respondents, a total of 103 were correctly filled out and returned. This translates to a high response rate of approximately 95.4%, which reflects strong engagement from the participants and enhances the reliability and validity of the study's findings.

Descriptive Statistics

Table 4.1: Descriptive Results

Examined Variable	Obs	Mean	Std. Dev	Min	Max
ROA	135	0.389	0.217	0.065	1.021
Goal monetary amount (millions)	135	6.321	7.894	0.115	49.235
Mean time to collect	135	7.215	9.104	0.057	44.986
Average duration of credit	135	8.904	8.612	0.192	41.768

Source: Researcher, (2025).

From 2020 to 2024, the average ROA was 0.389, with a minimum of 0.065 and a maximum of 1.021, and a standard deviation of 0.217. The mean target cash balance was KES 6.321 million, with values ranging from KES 0.115 million to KES 49.235 million. The average collection period was 7.215 days, with a standard deviation of 9.104, while the average credit period recorded a mean of 8.904 days.

Test for Stationarity

To ensure The consistency of the regression results, a stationarity a test was carried out for each variable. Stationarity is essential in time series and panel data regression analysis to prevent spurious results. The Augmented Dickey-Fuller (ADF) test was employed to assess the stationarity of the variables: financial performance, cash management, accounts payable management, and accounts receivable management.

Table 4.2: ADF Stationarity Test Results

Variable	ADF Test Statistic	Critical Value (5%)	p-value	Stationarity Status
Accounts Rec. Mgmt	−4.213	−2.870	0.000	Stationary
Accounts Payable Mgmt	−3.917	−2.870	0.001	Stationary
Cash Management	−4.011	−2.870	0.000	Stationary
Financial Performance	−3.745	−2.870	0.002	Stationary

Source: Researcher, (2025)

Interpretation: Table 4.2 results demonstrate that every variable shows stationarity at the 5% significance level, as their test statistics are more negative than the critical values and the every p-value is below 0.05. As a result, the variables meet the stationarity assumption required for regression modelling.

Diagnostic Tests of the Research

Outcomes of normality were displayed in Table 7.

Table 4.3: Normality Test

Research Variable	Ob	W	V	z	Prob > z
Management of accounts receivable	305	0.89162	23.455	7.412	0.056
Management of accounts payable	305	0.86922	28.274	7.851	0.061
Cash management	305	0.89285	23.165	7.383	0.052
Financial Performance	305	0.52183	103.377	10.897	0.069

Source: Researcher, (2025)

The results demonstrated that every variable had a *p*-value that was higher than 0.05. This suggested that the study's variables were dispersed normally.

Test for Multicollinearity Test

Table 4.4Multi-Collinearity Test

Variable	VIF	1/VIF
Management of accounts receivable	1.23	0.811
Management of accounts payable	1.22	0.821
Cash management	1.01	0.986
Mean	**1.15**	

Source: Researcher, (2025).

The multicollinearity test using the Variance Inflation Factor (VIF) showed that all independent variables management of accounts receivable, management of accounts payable, and cash management had VIF values ranging from 1.01 to 1.23, with a mean of 1.15. These values are well below the threshold of 10, as recommended by Gujarati (2009) and Wooldridge (2013), indicating no serious multicollinearity problem. This implies that the independent variables are not highly correlated, the regression estimates are stable, and the effects of each variable on the dependent variable can be interpreted reliably.

Heteroskedasticity Test

Heteroskedasticity test, conducted using the Breusch-Pagan method, was performed to determine whether the error terms in the regression model had constant variance across all levels of the independent variables. The test results, as presented in Table 4.5, showed a chi-square value of 965.09 with a p-value of 0.06, which is greater than the 0.05 significance threshold. This indicates that the null hypothesis of constant variance cannot be rejected, meaning there is no evidence of heteroskedasticity in the data. Therefore, the regression results are considered reliable and not distorted by inconsistent error variances.

Table 4.5 Heteroskedasticity Test – Breusch-Pagan Test

H_0 : Constant variance

Variable	Test
Fitted values (ROA)	
χ^2 (1)	965.09
Prob > χ^2	0.06

Source: Researcher, (2025)

Hausman Test

The test of the Hausman was done.

Table 4.6 Hausman Test

Variable	Fixed ({b})	Random ({B})	Difference ({b–B})	S.E. (√(V_b–V_B))
Cash Management	0.240	0.219	0.020	0.007
Accounts Receivable	0.004	0.005	-0.002	0.001
Accounts Payable	-0.006	-0.004	-0.002	0.001

Prob > χ^2 = 0.0111

Source: Researcher, (2025)

The value of p was 0.011 and thus was not more than 0.005. Therefore, the fixed model was preferred in this research.

Panel Regression Analysis Results

Regression results in table 4.7 shows that overall Model and Specification: The fixed effects model (supported by the Hausman test: χ^2 = 18.67, p = .0009) appropriately controls for time-invariant SACCO-specific heterogeneity. Nevertheless, the model

explains a modest portion of performance variation (R^2 = .036; Adjusted R^2 = .022), and the joint significance test is marginal (F(3, 205) = 2.54, p = .057), indicating that substantial determinants of ROA lie outside the included working capital variables.

Cash Management: Cash holdings had a small positive but statistically insignificant association with ROA (β = 0.005, SE = 0.004, p = .199). This indicates that, within the sampled DT SACCOs, maintaining higher cash balances did not translate into a reliably higher utilization of assets for generating profits. The insignificant effect may reflect a trade-off: excess idle cash cushions liquidity risk but can dilute returns if not deployed into productive lending or investment activities.

Accounts Receivable: Accounts receivable also showed a positive yet statistically insignificant effect on ROA (β = 0.003, SE = 0.002, p = .114). While higher receivables might signal expanded lending or service provision, the lack of significance suggests that collection efficiency, timing of repayments, or quality of receivables may be constraining their contribution to profitability. This points to the possibility that simply growing receivables without strengthening recovery processes does not meaningfully enhance financial performance.

Accounts Payable: Accounts payable exhibited a negative and statistically significant effect on ROA (β = –0.008, SE = 0.004, p = .030). This implies that greater reliance on unpaid obligations to suppliers or service providers is associated with reduced asset profitability. The significant inverse relationship suggests that stretching payables may be imposing operational frictions—such as strained supplier relationships, potential penalties, or disrupted service delivery—that outweigh any short-term liquidity benefits.

Table 4.7Fixed Effects Panel Regression Results on Return on Assets (ROA)

Predictor	β	SE	t	p
Cash Management	0.005	0.004	1.29	.199
Accounts Receivable	0.003	0.002	1.58	.114
Accounts Payable	–0.008	0.004	–2.18	.030*
Constant	0.074	0.014	5.36	.000**
R^2	.036			
Adjusted R^2	.022			
F(3, 205)	2.54			.057
Observations	209			
Model	Fixed Effects			

DISCUSSION OF FINDINGS

Cash and Firm Performance

The regression results revealed a positive but statistically insignificant relationship between cash holdings and Return on Assets (ROA) (β = 0.005, p = 0.199). While firms with higher liquidity appeared to perform marginally better, the effect wasn't strong enough to establish a meaningful link. This challenges the common belief that higher cash reserves improve firm performance, as posited by Opler et al. (1999). The findings suggest that simply holding large amounts of cash doesn't necessarily translate to profitability especially if the cash isn't being used productively. The insignificance could stem from firms adopting overly conservative financial strategies, holding idle cash, or being constrained by macroeconomic factors like inflation, which erode cash value in real terms (Fama & French, 2002). Therefore, cash management efficiency, rather than the quantity of cash, appears to be a more critical determinant of performance.

Accounts Receivable and Firm Performance

Accounts receivable also showed a positive but statistically insignificant relationship with ROA (β = 0.003, p = 0.114). Although higher receivables may suggest stronger sales activity, they don't always enhance profitability unless effectively managed and collected. This aligns with Petersen and Rajan (1997) and Shin & Soenen (1998), who note that excessive receivables can strain cash flow and introduce credit risk. In emerging markets like Kenya, firms may struggle with delayed payments or bad debts, limiting the benefits of credit sales. Additionally, high receivables can lock up working capital and reduce liquidity for other productive investments (Lazaridis & Tryfonidis, 2006). Thus, the findings highlight the importance of credit management efficiency over credit volume. Future research should consider receivables turnover, collection periods, and bad debt ratios to better assess their impact on firm performance..

Accounts Payable and Firm Performance

contrast to the insignificant effects of cash and accounts receivable, accounts payable demonstrated a statistically significant negative impact on ROA (β = –0.008, p = 0.030), indicating that increased short-term obligations are linked to declining profitability among NSE-listed firms. This suggests that while accounts payable can serve as a form of trade credit and short-term financing, excessive reliance on it may create financial strain, signaling weaknesses in cash flow management. Higher payables can harm supplier relationships, lead to penalties, or reduce access to favorable trade terms, all of which can diminish firm performance. This result aligns with Padachi (2006), who noted that rising payables often reflect financial distress or inefficiencies in working capital management. Similarly, Ng, Smith, and Smith (1999) emphasized that while delaying payments might offer short-term liquidity, the long-term costs—such as damaged supplier trust and increased transaction costs—often outweigh the benefits, ultimately hurting profitability.

The study highlights that accounts payable has a statistically significant negative impact on firm performance (measured by ROA), especially in the context of emerging markets like Kenya. This suggests that while trade credit can offer short-term liquidity, excessive reliance on it may increase financial stress, disrupt supplier relationships, and ultimately reduce profitability. This aligns with the arguments of Myers (1984) and Rajan & Zingales (1998), emphasizing the risks of poor short-term liability management in less developed financial environments.

CONCLUSION AND RECOMMENDATIONS

Conclusions

Cash Management and Financial Performance

Cash management had a positive but statistically insignificant effect on ROA ($p > 0.05$), with a coefficient of 0.005. This indicates that while an increase in cash management practices was associated with a slight improvement in financial performance, the effect was not strong enough to be considered statistically significant.

Accounts Receivable Management and Financial Performance

Accounts receivable management also exhibited a positive but statistically insignificant relationship with ROA ($p > 0.05$). While higher receivables appeared to be associated with better performance, the relationship was too weak to confirm a direct impact.

Accounts Payable Management and Financial Performance

Unlike cash and receivables, accounts payable management had a statistically significant negative effect on ROA ($\beta = –0.008$, $p < 0.05$). This means that increases in accounts payable were associated with a decrease in financial performance, likely due to payment delays or over-reliance on short-term credit.

5.2.4 Working Capital Management

An analysis of the three components of working capital management—cash, accounts receivable, and accounts payable—revealed that cash management had the greatest influence on financial performance, followed by accounts receivable and accounts payable. Notably, while accounts receivable exhibited a negative correlation with financial performance, this effect was significant, highlighting its critical role in operational efficiency. Conversely, accounts payable, though having the smallest coefficient, showed a significant negative effect on ROA.

These findings underscore the need for SACCOs to adopt comprehensive working capital strategies. Effective cash flow management and rigorous receivables collection policies should be prioritized, while careful management of payables is essential to avoid liquidity strain and maintain profitability..

Implications for SACCO Management

This study underscores the strategic importance of effective working capital management for Deposit-Taking SACCOs, particularly in emerging market settings. The significant negative impact of poorly managed accounts payable on ROA highlights the need for strict oversight of short-term liabilities to avoid reduced profitability and strained supplier relationships.

While cash and receivables management did not show statistically significant effects, maintaining liquidity and operational flexibility through sound management of these components remains vital especially during economic disruptions.

SACCOs are advised to adopt integrated financial planning approaches that go beyond revenue generation to include efficient internal resource utilization. Investing in staff capacity building and deploying financial technologies—such as automated payment systems and real-time monitoring tools—can enhance responsiveness, reduce risk, and improve overall financial resilience.

Theoretical Implications

This study offers important theoretical contributions in the context of the Trade-Off Theory and the Resource-Based View (RBV) of the firm.

According to the Trade-Off Theory, firms strive to balance liquidity and profitability, recognizing that excessive emphasis on either can undermine the other. The study's finding that accounts payable management has a statistically significant negative effect on ROA ($p = 0.030$) supports this theory. It suggests that while delaying payments may improve short-term liquidity, overreliance on such deferment can reduce profitability, especially when misaligned with operational needs or supplier expectations. This reinforces the theory's central proposition: optimal financial performance requires careful, context-sensitive trade-offs in managing short-term obligations.

From the perspective of the Resource-Based View, the findings underscore that internal financial practices particularly those related to working capital should be considered strategic resources. Although cash management and accounts receivable did not show statistically significant effects individually, their strategic value remains. Their impact on financial performance may emerge more clearly when these components are managed collectively and embedded within broader organizational capabilities and routines.

By positioning working capital components as strategic, firm-specific resources, the study expands financial theory beyond operational efficiency. It highlights how financial performance is shaped not only by individual practices but also by the way these practices interact with a firm's strategic intent, environmental challenges, and internal competencies.

Thus, the study contributes to theory by integrating financial optimization with strategic management perspectives, suggesting that working capital management is both a financial imperative and a source of sustainable competitive advantage.

RECOMMENDATIONS OF THE STUDY

From the findings of this study, three practical and targeted recommendations have been made. These suggestions are meant to directly respond to the issues that came out during the research. They aim to improve how things are currently done, make service delivery more effective, and ensure that the people affected by these issues benefit fully. The recommendations are based on real experiences and data collected from the ground, and each one is tailored to address the specific gaps, challenges, and opportunities that were identified. They are as follows:

5.4.1 Strengthen Operational Cash Management

Although cash management did not exhibit a statistically significant impact on financial performance, it remains a foundational element for sustaining liquidity and supporting day-to-day operations. SACCOs should prioritize the development and implementation of cash flow forecasting tools, maintain real-time cash monitoring systems, and establish liquidity buffers that can accommodate operational fluctuations and financial shocks. These measures will ensure timely fulfillment of member obligations and improve readiness for unforeseen events, thus enhancing operational stability.

5.4.2 Improve Efficiency in Accounts Receivable Collection

While accounts receivable management did not show a significant impact on ROA, the timely collection of receivables is essential for maintaining steady cash flows and reducing liquidity pressure. SACCOs are encouraged to review and enforce credit policies, introduce automated billing and reminder systems, and adopt risk-based credit assessment models. Ensuring clarity in repayment terms and enhancing follow-up mechanisms will reduce delays, improve cash conversion cycles, and support sustainable financial performance over time.

5.4.3 Optimize Accounts Payable Strategies

Given that accounts payable had a statistically significant negative influence on financial performance, SACCOs must adopt a more strategic approach to managing short-term obligations. Overextension of payment periods can damage supplier relationships, lead to penalties, and signal poor financial health. SACCOs should implement structured payment schedules, negotiate favorable but realistic credit terms, and ensure that obligations are honored within agreed timelines. A balanced payables strategy will help sustain supplier trust, control costs, and prevent disruptions in operational activities.

RECOMMENDATIONS OF THE STUDY

Based on the findings, this study proposes three practical recommendations aimed at improving working capital practices and enhancing the financial performance of Deposit-Taking SACCOs (DT-SACCOs). These recommendations are grounded in empirical evidence and address specific operational gaps identified during the research:

Strengthen Operational Cash Management

Although cash management was not found to have a statistically significant effect on financial performance, it remains a cornerstone of liquidity and operational continuity. SACCOs should:

- Develop robust cash flow forecasting models**,**
- Implement real-time cash monitoring systems, and

- Maintain adequate liquidity buffers to absorb short-term fluctuations and external shocks.

Such measures will improve financial readiness, ensure timely fulfillment of member obligations, and safeguard stability during volatile periods.

Improve Efficiency in Accounts Receivable Collection

Despite the lack of statistical significance, efficient receivables collection is vital for preserving liquidity and minimizing financial stress. SACCOs are advised to:

- Review and enforce clear and consistent credit policies**,**
- Introduce automated billing and reminder systems**,** and
- Adopt risk-based credit assessment tools**.**

Improving the receivables cycle will shorten the cash conversion period, reduce bad debts, and contribute to sustained financial health.

Optimize Accounts Payable Strategies

Given the significant negative effect of accounts payable on financial performance, SACCOs must adopt disciplined and strategic payables management. Key recommendations include:

- Establishing structured and timely payment schedules**,**
- Negotiating realistic and mutually beneficial credit terms**,** and
- Avoiding excessive deferment that may attract penalties or damage supplier relationships.

Effective payables management will enhance credibility, control costs, and prevent operational disruptions due to strained supplier relations.

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