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ABSTRACT

The purpose of the study was to investigate the effect of cash management practices on financial performance of manufacturing firms in Mombasa County. The study used cross sectional research design. The study population consisted of 25 manufacturing firms in Mombasa County which were members of Kenya Association of Manufacturers. Stratified random sampling technique was used to select a sample size of 129 respondents with the help of Yamane formula. The study was quantitative in nature and primary data was collected by use of a structured questionnaire. Data analysis was done with the help of Statistical Package for Social Science (SPSS) version 25 tool. Descriptive statistics and inferential statistics formed the data analysis techniques used. The study findings revealed that inventory turnover period, accounts receivable cycle and cash conversion cycle have an inverse relationship with financial performance. Accounts payable cycle was found to have a positive effect on financial performance. Further, the study results indicated that there is periodic inventory planning exercise by the manufacturing firms. Also the manufacturing firms have in place effective inventory conversion policies and the firms continuously monitor inventory levels and take corrective actions when necessary. The firms had implemented inventory management systems. It was concluded that the manufacturing firms periodically reviewed their levels of bad debts before making decisions. The firms also set debt collection period which was realistic and realizable. The study concluded that debt management policies used in the firm are effective and that the firm offers discounts on the debtors who pays early. The suppliers credit period is extended to a reasonable time and that the credit management policies adopted by the manufacturing firms are sound. The study concluded that the creditors' payment was done by the firm at the last date due and that the firm entered into agreement with creditors to recoup their dues back to operations at an interest. The study recommended that the management of manufacturing firms should periodically carry out inventory planning exercise. This would solve the challenges of inventory costs. The study recommended that the management of manufacturing firms should periodically review their levels of bad debts before making decisions. This would make the management plan for accounts receivables effectively.

Key Words: *Inventory Conversion Period, Accounts Receivable, Cash Conversion Period, Accounts Payable*

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INTRODUCTION

In today's increasingly competitive business environment, companies need whatever edge they can get to improve free cash flow (Deloitte, 2019). In many industries, both debt and equity funding remain difficult to access. This creates a serious challenge for companies that require cash to remain competitive, maintain financial flexibility and pursue potential growth opportunities. While market trends change and customer preferences shift, one thing is immutable: cash remains king (Deloof, 2016). Companies primarily focused on accessing that financing externally, however, may be overlooking a large, hidden source of capital: their own balance sheets. A business might make profits but without sufficient cash to meet operational obligations it may be forced to close shop (Soaga, 2017).

According to Juan and Martinez-Solano (2016) cash is a vital element of a corporation's working capital as it forms the engine of the company. It is actually the aspect around which all matters financial center. Therefore, cash management is most vital for any enterprise's financial success. Katz and Green (2017) state that availability of current assets, especially cash determines whether a business will survive or wind up. The success of enterprises largely depends on a number of factors including sound cash management practices (Attom, 2018). The essence of cash management is to ensure positive cash flow for smooth business operation (Abioro, 2017). The Chartered Institute of Management Accountant (CIMA, 2018) observed that, cash management is imperative in every business organization as cash is said to be the life blood of any business. No business operation is isolative of cash management (Abioro, 2017).

Efficient management of cash is vital for all companies. Soaga (2017) points out that the aim of managing cash is to find optimal cash level for creating the highest level of performance for an entity. A large number of businesses fail due to the absence of cash rather than the absence of profits (Patel, 2016). Patel (2016) also indicated that cash management practices are vitally important for the business because it would assist in profitability, future planning and sustainability. The practice of basic concepts of cash management will assist businesses plan for the unforeseen eventualities that almost all businesses encounter. Cash management components, that is, cash, receivables, inventory and payables is a fundamental part of the overall corporate strategy to create value and is an important source of competitive advantage in businesses (Deloof, 2017)

Globally, advanced countries attach high importance to the opportunity cost of holding idle cash (Watson, 2017). The decline in global trade in goods and industrial activity in 2018 amid trade tension between the US and China has affected cash flow in many manufacturing firms around the world (World Bank, 2019). In United States, an investigation by Torfason (2016) revealed that Lehman Brothers exhibited a steady increase in profit growth from 2002 and a significant increase in revenue from 2001. For most of the year's operating cash flows were negative with a significant decline recorded in 2003. This raised no alarm unlike the case of non-financial firms where this could be a sign of impending bankruptcy. In a research done by Peavler (2016) it was noted that most failed businesses (up to 60%) were of the opinion that all or most of their failures were due to cash flow problems.

In South Africa, Foster (2016) indicated that, since the year 2008, business failures have risen by 30% in the past three years. Businesses with less than five employees were hit the hardest. 57% of those small businesses failed in a year. Businesses that had employed six to nineteen employees faced a 40% increase in bankruptcy. In Ethiopia, Combination of financing cash flows has made the manufacturing firms very volatile, less profitable, more competitive and marketing survivals very challenging. The intense competition and increased operating volatility have made the firm more vulnerable to fluctuations in demand in the view of cash flow information (Kifle, 2017).

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In Nigeria, a study by Uwuigbe, Uwalomwa and Egbide (2017) was done to investigate on cash management and corporate profitability in some selected listed manufacturing firms in Nigeria. Cash conversion cycle was used as the measure for cash management. The study suggested that managers could create positive value for the shareholders by reducing the cash conversion cycle to a possible minimum level and also accounts receivables should be kept at an optimal level.

In Kenya, manufacturing sector is the second biggest driver of the country's economy after agriculture. It serves both the local market and exports to the East and Central Africa region (Muchiri, 2016). Many manufacturing firms in Kenya are likely to have failed in financial performance mainly because of lack of knowledge or limited knowledge on cash management (Macharia, 2017). According to KNBS (2018) three out of five firms fail within the first three years of operation due to cash flow problems. For instance, Uchumi Supermarkets had a tight cash flow position and failed to maintain supplier relations and consistent supplies. This worsened the cash flow position which resulted in receivership. According to Irungu (2016) many bank failures in Kenya was as a result of corporate executive lending contributing to unhealthy loans that consequently resulted to liquidity issues.

Statement of the Problem

Cash management directly affects liquidity and profitability of any firm (Raheman & Nasr, 2017). Accounts receivable, accounts payable and inventory are all components of working capital that companies can streamline to access cash trapped on their balance sheets. When approached holistically, however, proper management of your accounts receivable, accounts payable and inventory will have significant and positive effect on financial performance of firms (Deloitte, 2019). In Mombasa, in every five manufacturing firms, nearly three firms have failed to grow within a period of three years due to cash management challenges (KNBS, 2018). Kenya Association of Manufacturers (2018) the number of manufacturing firms in Mombasa County has dropped by 30.2%, and nearly 39.7% of the manufacturing firms in the county change the trade name more often to remain in business and 42% have closed down in the past five years. Consequently, manufacturing firms have been experiencing longer inventory conversion periods since the Covid 19 pandemic was reported in the country. The accounts receivables cycle has been long since many other firms have also been affected by the pandemic which has also impaired the firm's ability to honor its current obligations as they fall due.

Furthermore, according to, the number of manufacturing firms in Mombasa County has dropped by 30.2%, also, 39.7% of the manufacturing firms in Mombasa County change the trade name more often to remain in business and 42% have closed down in the past five years, most of the small and medium manufacturing firms are under performing probably because of inadequate of capital, inadequate financial planning practice which is an integral part of running manufacturing sector.

Locally, various studies have been done on cash management and firm performance. Ndirangu (2017) did a study on the effect of cash management on financial performance of NSE listed firms in Kenya and found that cash conversion cycle had a positive effect on financial performance. Muthama (2016) did a study on the effect of cash management practices on operational performance of selected public hospitals in Kisii and established that cash budget has a significant effect on operational performance of public hospitals. However, the study focused on public hospitals. Nyambane (2018) did a study on cash management and profitability of cement industries in Kenya and found that firms use cash balances to meet their current obligations. The reviewed studies have mainly focused on public firms and institutions and gave a wide berth on small scale manufacturing firms in Mombasa County. This study sought to bridge the literature gap by holistically examining how inventory conversion period, accounts payable

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and receivable cycles and cash conversion cycle affect financial performance of manufacturing firms in Mombasa County.

Objectives of the Study

The general objective of this study was to investigate the effect of cash management on financial performance of manufacturing firms in Mombasa County. The specific objectives were;

- To determine the effect of inventory conversion period on financial performance of manufacturing firms in Mombasa County.
- To assess the effect of accounts receivable cycle on financial performance of manufacturing firms in Mombasa County.
- To examine the effect of cash conversion cycle on financial performance of manufacturing firms in Mombasa County.
- To establish the effect of accounts payable cycle on financial performance of manufacturing firms in Mombasa County.

The study was guided by the following research hypotheses;

- **$H_0$1:** Inventory conversion period has no significant effect on financial performance of manufacturing firms in Mombasa County.
- **$H_0$2:** Accounts receivable cycle has no significant effect on financial performance of manufacturing firms in Mombasa County.
- **$H_0$3:** Cash conversion cycle has no significant effect on financial performance of manufacturing firms in Mombasa County.
- **$H_0$4:** Accounts payable cycle has no significant effect on financial performance of manufacturing firms in Mombasa County.

LITERATURE REVIEW

Theoretical Review

Free Cash Flow Theory

This is the main theory guiding the study. As Huseyin (2017) asserts, managers have an incentive to hoard cash to increase the amount of assets under their control and to gain discretionary power over the firm investment decision, (as cited in Jensen, 1986). Having cash available to invest, the manager does not need to raise external funds and to provide capital markets detailed information about the firm's investment projects (Huseyin, 2017). Hence, managers could undertake investments that have a negative impact on shareholders wealth.

Managers of firms with poor investment opportunities are expected to hold more cash to ensure the availability of funds to invest in growth projects, even if the NPV of these projects is negative (Huseyin, 2017). This would lead to destruction of shareholder value and, even if the firm has a large investment programme and a low market-to-book ratio. Thus, using the market-to-book ratio as a proxy, it is likely that the relation between investment opportunity set and cash holdings will be negative. This is critical in management of liquidity in the firm and ensuring there is a balance between meeting the current obligation to mitigate liquidity short fall and investing in the interest of shareholders wealth maximization (Huseyin, 2017).

Cash Management Theory

Cash management theory is concerned with the managing of cash flows into and out of the firm; cash flows within the firm and cash balances held by the firm at a point of time by financing deficit or investment surplus cash. Short-term management of corporate cash balances is a major concern of every firm (Aziz & Dar, 2016). According to a study done by Ward (2015) on why traditional cash flow is thought to be a strong predictor of financial distress study revealed that traditional cash flow significantly predicts financial distress. According to a study done by Davies (2016) on the role of cash flow information in predicting financial distress among commercial banks in Kenya found that financial variables which significantly influence the firm's financial distress are cash flow generated from operating activities, cash dividend coverage, interest coverage and the dividend payout ratio.

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cash flows within the firm and cash balances held by the firm at a point of time by financing deficit or investment surplus cash. Short term management of corporate cash balances is a major concern of every firm. This is so because it is difficult to predict cash flows accurately, particularly the inflows, and there is no perfect coincidence between cash outflows and inflows (Wang & Moines, 2017). During some periods cash outflows, will exceed cash inflows because payments for taxes, dividends or seasonal inventory will build up. At other times, cash inflow will be more than cash sales and debtors may realize in large amounts promptly (Goswami, Chandra, & Chouhan, 2015). An imbalance between cash inflows and outflows would mean failure of cash management function of the firm. Persistence of such an imbalance may cause financial distress to the firm and, hence, business failure (Jahur & Quadir, 2016). An imbalance between cash inflows and outflows would mean failure of cash management function of the firm. Persistence of such imbalance may cause financial distress to the firm hence, business failure (Aziz & Dar, 2016).

Operating Cycle Theory

The flow concept of liquidity can be developed by extending the static balance sheet analysis of potential liquidation value coverage to include income statement measures of a firm's operating activity. In particular, incorporating accounts receivable and inventory turnover measures into an operating cycle concept provides a more appropriate view of liquidity management than does reliance on the current and acid-test ratio indicators of solvency. These additional liquidity measures explicitly recognize that the life expectancies of some working capital components depend" upon the extent to which three basic activities- production, distribution (sales), and collection are non-instantaneous and un-synchronized (Weston & Eugene, 2015).

Accounts receivable turnover is an indicator of the frequency with which a firm's average receivables investment is converted into cash. Changes in credit and collection policy have a direct impact on the average outstanding accounts receivable balance maintained relative to a firm's annual sales. Granting more liberal terms to a firm's customers creates a larger, and potentially less liquid, current investment in receivables. Unless sales increase at least proportionately to the increase in receivables, this potential deterioration in liquidity will be reflected in a lower receivables turnover and a more extended receivables collection period. Decisions that commit a firm to maintaining larger average receivables investments over a longer time period will inevitably result in higher current and acid-test ratios (Richards & Laughlin, 2016).

The cumulative days per turnover for accounts receivable and inventory investments approximates the length of a firm's operating cycle. Incorporating these asset turnovers into an operating cycle concept of the current asset conversion period thereby provides a more realistic, although incomplete, indicator of a firm’s liquidity position. The operating cycle concept is deficient as a cash flow measure in that it fails to consider the liquidity requirements imposed on a firm by the time dimension of its current liability commitments. Integrating the time pattern of cash outflow requirements imposed by a firm's current liabilities is as important for liquidity analysis as evaluating the associated time pattern of cash inflows generated by the transformation of its current asset investments (Richards & Laughlin, 2016). This theory supports the current study in that incorporating accounts receivable and inventory turnover measures into an operating cycle concept provides a more appropriate view of liquidity management than does reliance on the current and acid-test ratio indicators of solvency. Hence the theory will assist in examining the effect of accounts receivable cycle on performance.

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Conceptual Framework

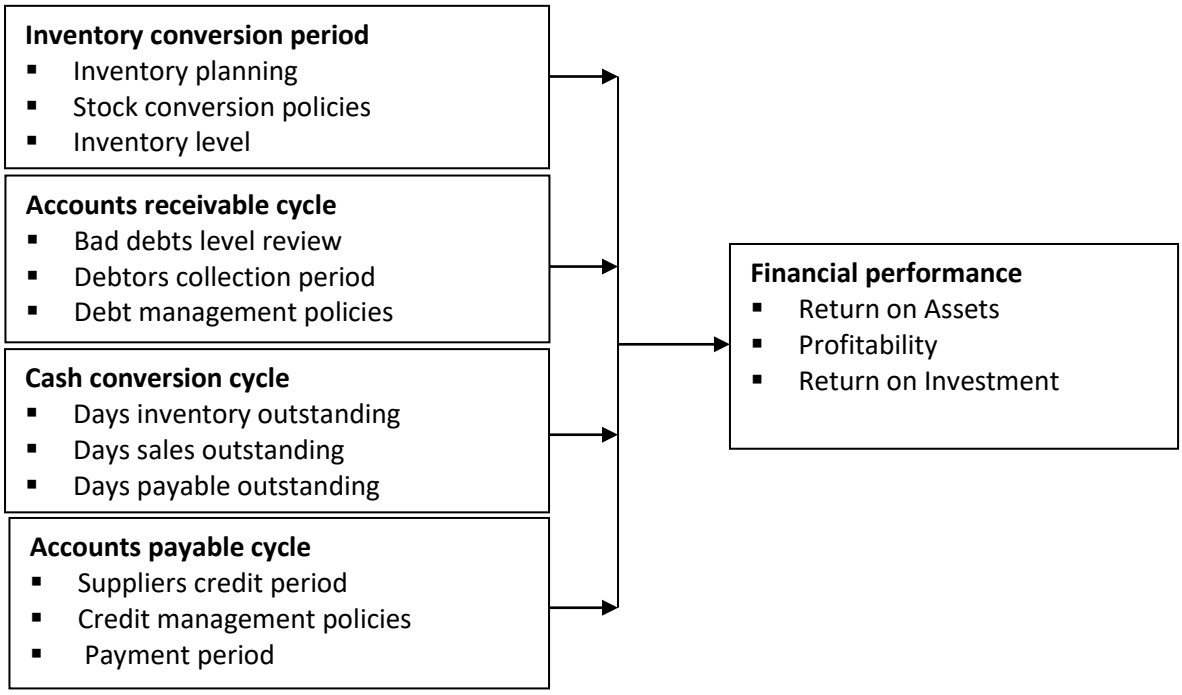

Figure 1: Conceptual Framework

Empirical Review

Bhutto, Abbas, Rehman and Shah (2017) conducted an investigation on the relationship between cash conversion cycle with firm size, working capital approaches and firm's profitability in Pakistan. Secondary data were collected from the financial statements of 157 non-financial companies comprising on 12 industrial groups listed on the Karachi Stock Exchange, Pakistan for the year 2009. The firms with negative equity and profitability were excluded from the study. Data analysis was carried out using Pearson correlation and Analysis of Variance (ANOVA). The result revealed that length of cash conversion cycle has negative relationship with sales revenue, return on equity (ROE) and financing policies of the firms and has positive relationship with total assets.

Weda (2015) did a study to investigate the influence of working capital management on financial performance of Small and Medium Manufacturing Enterprises in Nairobi County, Kenya. The study adopted descriptive survey design and targeted SMEs operating in Nairobi County. The data was analyzed quantitatively and the results established that proper working capital management in SMEs facilitates wealth creation.

Mwaura (2017) carried out a study on the effect of inventory turnover on the financial performance of medium and large retail supermarkets in Kenya. The study adopted descriptive cross-sectional research design. The data to be collected included sales, cost of goods, current assets and liabilities, total assets, total liabilities, profit before interest and tax, closing inventory balance and net profit for each year. The results were analyzed using stata software. The data collected covered the years 2012 - 2016. From the results of correlation analysis, there is a strong positive and statistically significant correlation between inventory turnover and financial performance of medium and large retail supermarkets in Kenya.

Jyoti and Uday (2017) did a study on the impact of account payables and account receivables on the financial performance the Indian telecom industry.

The study used specific variables of return on assets, average collection period, average payment period and cash conversion cycle. The data analysis was carried out for eight telecom industry listed in National Stock Exchange of India. The study was based on secondary data and data taken for a period of five years in order to calculate all the variables. The research methodology used in the study was descriptive statistics, correlation analysis and ordinary square least regression analysis in order to know the impact of these variables on profitability. The result of correlation analysis shows the ROA has negative relationship with average collection period, cash conversion cycle while ROA has positive relationship with average payment period.

Mathuva (2015) studied the influence of working capital management components upon corporate profitability by using a sample of 30 companies listed on the Nairobi Stock Exchange (NSE). The findings of his study indicated that there is a highly significant negative relationship between accounts collection period and profitability. In regard to the relationship between profitability and the inventory conversion period or the average payment period, the results were positive and significant.

Ogundipe, Idowu and Ogundipe (2016) conducted a study to examine the impact of working capital management on the performance and market value of companies. The study used Tobin Q, ROA, EBIT, and ROI as the dependent variables while the independent variables were cash conversion cycle; current ratio; current asset to total asset ratio; current liabilities to total asset ratio; and debt to asset ratio. Using correlation and multiple regression analysis techniques, the study established that a significant negative relationship exists between cash conversion cycle and market valuation and a firm's performance. The study, however, only focused on short-term financing decisions.

METHODOLOGY

This study adopted a cross sectional research design. A target population is the specific population about which information is desired (Cooper & Schindler, 2013). According to Kenya Association of Manufacturers (2018) there were 25 manufacturing firms in Mombasa County registered with the association. The study population consisted of 25 manufacturing firms in Mombasa County which were members of Kenya Association of Manufacturers. The unit of analysis was management staff drawn from Finance, Accounting and Operations. The study employed stratified sampling technique. The study utilized primary data collection methods and secondary data where applicable.

The study primary data was collected using semi-structured questionnaire. Multiple regression analysis was specifically used because it provides estimates of net effects and explanatory power. The data analysis tool adopted was the statistical package for social sciences (SPSS) version 25.

The regression model used was as follows:

$$Y= \alpha +\beta_1 X_1 1+\beta_2 X_2+\beta_3 X_3+ \beta_4 X_4+\varepsilon$$

Where:

Y is financial performance
α is regression constant
β is regression coefficients
X_1 is inventory conversion period
X_2 is accounts receivable cycle
X_3 is cash conversion period
X_4 is accounts payable cycle
ε is error term

FINDINGS AND INTERPRETATION

Descriptive Results

Descriptive analysis was conducted on the study variables to check the mean and standard deviation. The results were presented in the following tables.

Inventory Conversion Period

The respondents were asked to rate their agreement or disagreement on the various aspects

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of inventory conversion period. They were required to do this on a 5 point Likert scale where 1 represented Strongly disagree while 5 represented Strongly agree. The results were presented in Table 1.

Table 1: Inventory Conversion Period

	N	Mean	Std. Deviation
Our firms carries out inventory planning on periodic basis	110	4.28	.697
The current stock conversion policies are effective	110	4.70	.219
The company continuously monitors inventory levels	110	3.94	.340
The firm has invested in inventory management systems which are effective	110	4.19	.498

From Table 1 it can be observed that respondents agreed to the statement that the manufacturing firms carries out inventory planning on periodic basis as indicated by a mean of 4.28 and standard deviation of 0.697. The respondents agreed to the statement that the current stock conversion policies are effective as shown by a mean of 4.70 and a standard deviation of 0.219. The respondents agreed to the statement that the company continuously monitors inventory levels and that the firm has invested in inventory management systems which are effective as indicated by a mean of 3.94 and a mean of 4.19 respectively. The findings disagreed with the results by Mathuva (2015) who investigated working capital management and performance and revealed that the relationship between profitability and the inventory conversion period or the average payment period results were positive and significant.

Accounts Receivable Cycle

The respondents were asked to rate their agreement or disagreement on the various aspects of accounts receivable cycle. They were required to do this on a 5 point Likert scale where 1 represented Strongly disagree while 5 represented Strongly agree. The results were presented in Table 2.

Table 2: Accounts Receivable Cycle

	N	Mean	Std. Deviation
The firm periodically reviews bad debts level to make decisions	110	4.77	.408
The firm sets debt collection period which is realistic	110	4.50	.750
The debt management policies used in the firm are effective	110	4.58	.617
The firm offers discounts on the debtors who pays early	110	4.89	.533

From the findings, respondents agreed to the statement that the firm periodically reviews bad debts level to make decisions as indicated by a mean of 4.77 and standard deviation of 0.408. The respondents agreed to the statement that the firm sets debt collection period which is realistic as shown by a mean of 4.50 and a standard deviation of 0.750. Further, the respondents agreed to the statement that the debt management policies used in the firm are effective (mean=4.58) and that the firm offers discounts on the debtors who pays early as indicated by a mean of 4.89 with a standard deviation of 0.533. The findings are corroborated by Mathuva (2015) whose research established that there is a highly significant negative relationship between accounts collection period and profitability.

Cash Conversion Cycle

The respondents were asked to rate their agreement or disagreement on the various aspects of cash conversion cycle. They were required to do this on a 5 point Likert scale where 1 represented Strongly disagree while 5 represented Strongly agree. The results are presented in Table 3.

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Table 3: Cash Conversion Cycle

	N	Mean	Std. Deviation
The company has proper control on liquidity levels	110	4.01	1.051
The inventory outstanding days are minimal	110	3.97	.945
The sales outstanding days are reduced	110	4.19	.511
The firm delays outstanding payables up to the due date	110	4.58	1.067

Table 3 showed that respondents agreed to the statement that the company has proper control on liquidity levels as indicated by a mean of 4.01 with a standard deviation of 1.051. Further respondents agreed to the statement that the inventory outstanding days are minimal as indicated by a mean of 3.97 with a standard deviation of 0.945. Respondents agreed to the statement that the sales outstanding days are reduced as indicated by a mean of 4.19 and standard deviation of 0.511. Finally, respondents agreed to the statement that the firm delays outstanding payables up to the due date as indicated by a mean of 4.58 and standard deviation of 1.067. The findings agree with Bhutto, Abbas, Rehman and Shah (2017) whose study on the relationship between cash conversion cycle with firm size, working capital approaches and firm's profitability in Pakistan revealed that the length of cash conversion cycle has negative relationship with sales revenue, return on equity (ROE) and financing policies of the firms and has positive relationship with total assets.

Accounts Payable Cycle

The respondents were asked to rate their agreement or disagreement on the various aspects of accounts payable cycle. They were required to do this on a 5 point Likert scale where 1 represented Strongly disagree while 5 represented Strongly agree. The results are presented in Table 4.

Table 4: Accounts Payable Cycle

	N	Mean	Std. Deviation
The suppliers credit period is extended to a reasonable time	110	3.84	1.004
The credit management policies adopted by the firm are effective	110	4.62	.670
The creditors' payment is done by the firm ate the last date due	110	4.02	.895
The firm enters in to agreement with creditors to recoup their dues back to operations at an interest	110	4.34	.929

Results in Table 4 showed that respondents agreed to the statement that the suppliers credit period is extended to a reasonable time as indicated by a mean of 3.84 and standard deviation of 1.004. Findings further showed that respondents agreed to the statement that the credit management policies adopted by the firm are effective as indicated by a mean of 4.62 and standard deviation of 0.670. The findings also showed that respondents agreed to the statement that the creditors' payment is done by the firm ate the last date due (mean = 4.02). The respondents agreed to the statement that the firm enters in to agreement with creditors to recoup their dues back to operations at an interest (mean = 4.34). The results agree with Raheman and Nasr (2017) who indicated that delaying payment of accounts payable to suppliers allows firms to access the quality of obtaining products and can be inexpensive and flexible source of financing.

Correlation Analysis

Pearson Product Moments correlation was used to test the association between key variables; inventory conversion period. accounts receivable cycle, cash conversion cycle leadership, accounts payable cycle and financial performance. Pearson's correlations analysis was conducted at 95% confidence interval and 5% 2-tailed significance level. The Table 5 indicated the correlation matrix between the study variables.

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Table 5: Correlation Matrix

		Inventory conversion period	Accounts receivable	Cash conversion	Accounts payable	Financial performance
Inventory conversion period	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	110				
Accounts receivable cycle	Pearson Correlation	.567**	1			
	Sig. (2-tailed)	.000				
	N	110	110			
Cash conversion cycle	Pearson Correlation	.393**	.640**	1		
	Sig. (2-tailed)	.003	.000			
	N	110	110	110		
Accounts payable cycle	Pearson Correlation	.555**	.380**	.501**	1	
	Sig. (2-tailed)	.000	.000	.000		
	N	110	110	110	110	
Financial performance	Pearson Correlation	-.271**	-.506**	-.433**	.387	1
	Sig. (2-tailed)	.000	.002	.000	.000	
	N	110	110	110	110	110

**. Correlation is significant at the 0.01 level (2-tailed).

The bivariate correlation results revealed that there was a moderate negative correlation between inventory conversion period and financial performance and the correlation was significant (r=-0.506, p=0.000). The results further indicate that accounts receivable cycle and financial performance had a negative correlation which was significant (r=-0.271, p=0.002). Bivariate correlation between cash conversion cycle and financial performance had a negative significant correlation coefficient of -0.433. The findings agree with Bhutto, Abbas, Rehman and Shah (2017) whose study on the relationship between cash conversion cycle with firm size, working capital approaches and firm's profitability in Pakistan revealed that the length of cash conversion cycle has negative relationship with sales revenue, return on equity (ROE) and financing policies of the firms and has positive relationship with total assets. It was further established that accounts payable cycle and financial performance had a moderate positive correlation which was significant at (r=0.387, p=0.000).

Multiple Regression Analysis

Financial performance was regressed inventory conversion period, accounts receivable cycle, cash conversion cycle, and accounts payable cycle. The results of regression analysis are presented as follows.

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Table 6: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.865[a]	.749	.710	.411326	1.019

a. Predictors: (Constant), Inventory conversion period, Accounts receivable cycle, Cash conversion cycle, Accounts payable cycle
b. Dependent Variable: Financial performance

From Table 6, the correlation coefficient (R) for cash management practices and financial performance of manufacturing firms is 0.865 indicating that there is a positive correlation. The coefficient of determination (R^2) is 0.749 indicates that 74.9% of the variation in financial performance is explained by the variation in cash management practices.

Table 7: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	18.014	4	4.504	155.310	.000[b]
	Residual	3.019	105	.029		
	Total	24.033	109			

a. Dependent Variable: Financial performance
b. Predictors: (Constant), Inventory conversion period, Accounts receivable cycle, Cash conversion cycle, Accounts payable cycle

According to analysis of variance results in Table 7, the predicted relationship under the model is statistically significant at p–value of 0.000 is less than the significance level of 0.05. This shows that the model between cash management practices and financial performance is statistically significant. The model coefficient is shown in Table 8.

Table 8: Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.210	.127		1.653	.000
	Inventory conversion period	-.287	.132	-.301	-2.174	.020
	Accounts receivable cycle	-.549	.207	-.684	-2.652	.000
	Cash conversion cycle	-.321	.136	-.366	-2.360	.018
	Accounts payable cycle	.211	.092	.173	2.293	.004

a. Dependent Variable: Financial Performance

From Table 8, the model would appear as follows:

$$\mathbf{Y = 0.210 - 0.287X_1 - 0.549X_2 - 0.321X_3 + 0.211X_4}$$

The regression model indicates that financial performance would increase by 0.210, given that all the other factors are held constant at zero. Further in the regression model it shows that a unit increase in inventory conversion period would lead to a decrease in financial performance by 0.287. A unit increase in accounts receivable cycle would lead to a negative increase in financial performance by 0.549. A unit increase in cash conversion cycle would lead to a negative increase in financial performance by 0.321 and a unit increase in accounts payable cycle would lead to an increase in financial performance by 0.211. The predictors had significance level of 0.05 and below hence significant.

Discussion of Key Findings and Hypotheses Testing

Regression analysis formed a basis for realizing the research objectives adopted in this study. The first research objective was to investigate the effect of inventory conversion period on financial performance. At 5 percent level of significance and 95 percent confidence level, regression analysis conducted proved that there is a negative significant effect of inventory conversion period on financial performance as indicated by the beta values $\beta_1 = -0.287$, $p<0.05$. The study concludes that an increase in the period of inventory conversion by one unit on average would lead to a corresponding decrease in financial performance by 0.287 units. Since the p-value is less than 0.05, the null hypothesis that inventory conversion period has no significant effect on financial performance of manufacturing firms is rejected. The findings disagreed with the results by Mathuva (2015) who investigated working capital management and performance and revealed that the relationship between profitability and the inventory conversion period or the average payment period results were positive and significant.

The second research objective sought to establish the effect of accounts receivable cycle on financial performance. Regression analysis result showed a negative significant effect as indicated by the beta values $\beta_2 = -0.549$, $p<0.05$. The study concludes that an increase in accounts receivable cycle by one unit, on average would lead to a corresponding decrease on financial performance by 0.549 units. Since the p-value is less than 0.05, the null hypothesis that accounts receivable cycle has no significant effect on financial performance of manufacturing firms is rejected. The findings are corroborated by Mathuva (2015) whose research established that there is a highly significant negative relationship between accounts collection period and profitability.

The third research objective investigated the effect of cash conversion cycle on financial performance. Regression analysis conducted showed that there was negative significant effect between the variables as indicated by the unstandardized beta values $\beta_3 = -0.321$, $p<0.05$. Therefore, study concludes that, an increase in cash conversion cycle by one unit, on average would lead to a corresponding decrease financial performance by 0.321 units. Since the p-value is less than 0.05, the null hypothesis that cash conversion cycle has no significant effect on financial performance of manufacturing firms is rejected. The findings agree with Bhutto, Abbas, Rehman and Shah (2017) whose study on the relationship between cash conversion cycle with firm size, working capital approaches and firm's profitability in Pakistan revealed that the length of cash conversion cycle has negative relationship with sales revenue, return on equity (ROE) and financing policies of the firms and has positive relationship with total assets.

The fourth research objective sought to establish the effect of accounts payable cycle on financial performance. Regression analysis result showed a positively significant effect of accounts payable cycle on financial performance as indicated by the beta values $\beta_4 = 0.211$, $p<0.05$. The study concludes that an increase in accounts payable cycle by one unit, on average would lead to a corresponding increase on financial performance by 0.211 units. Since the p-value is less than 0.05, the null hypothesis that accounts payable cycle has no significant effect on financial performance of manufacturing firms is rejected. The results agree with Raheman and Nasr (2017) who indicated that delaying payment of accounts payable to suppliers allows firms to access the quality of obtaining products and can be inexpensive and flexible source of financing.

CONCLUSIONS AND RECOMMENDATIONS

The study concluded that inventory turnover period has an inverse relationship with financial performance. This implies that when the turnover period of inventory increases, the financial performance decreases and vice versa. Further, the study concludes that there is periodic inventory planning exercise by the manufacturing firms. Also the manufacturing firms have in place effective inventory conversion policies and the firms

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continuously monitor inventory levels and take corrective actions when necessary. It is concluded that the firms have implemented inventory management systems.

The study concluded that the accounts receivable cycle has an inverse effect on financial performance. It is concluded that the manufacturing firms periodically review their levels of bad debts before making decisions. The firms also set debt collection period which is realistic and realizable. The study concludes that debt management policies used in the firm are effective and that the firm offers discounts on the debtors who pays early.

The study concluded that the cash conversion cycle has a negative effect on financial performance. It is concluded that the manufactruing firms have proper control on liquidity levels. Also it is concluded that the inventory outstanding days are minimal and that the sales outstanding days are reduced. The manufacturing firms reported to delay paying accounts payables until it is due time for payment.

The study concluded that accounts payable cycle has a positive effect on financial performance. The suppliers credit period is extended to a reasonable time and that the credit management policies adopted by the manufacturing firms are sound. The study concludes that the creditors' payment is done by the firm ate the last date due and that the firm enters in to agreement with creditors to recoup their dues back to operations at an interest.

Recommendations of the Study

The study recommended that the management of manufacturing firms should periodically carry out inventory planning exercise. This will solve the challenges of inventory costs. The manufacturing firms should design effective and dynamic inventory conversion policies which would guide managerial decision making in regard to stock management. The manufacturing firms' management should continuously monitor inventory levels and this could be made possible by installing systems of inventory management.

The study recommends that the management of manufacturing firms should periodically review their levels of bad debts before making decisions. This would make the management plan for accounts receivables effectively. Further, it is recommended that the firms set debt collection period which is realistic and realizable. This would play a huge part in minimizing defaults hence improve financial performance. The management should also design debt management policies which are effective and consider offering early payment discounts to the debtors.

The study recommends that the management of manufacturing firms develop a mechanism to control liquidity levels of the firms. This could be made possible by shortening the cycle of cash conversion. Also since it was revealed that the inventory outstanding days are minimal, the firms should come up with a dynamic policy which further reduces the inventory outstanding days and the firms should consider delaying honoring of accounts payables due so as to utilize the funds in value adding activities.

The study recommends that the period of credit for suppliers should be reasonably extended through mutual agreement with suppliers so as to maintain trust between the suppliers and the buyer. The management of the firms should develop credit management policies which should be sound and effective and the creditors' payment should be done by the firm at the last date due. The management should consider negotiating with the creditors and suppliers to recoup their dues back to operations at an interest.

Suggestions for Further Research

The study was limited to investigating the cash management practices and financial performance in the context of manufacturing firms. However, cash management practices constructs considered were limited to inventory conversion period, accounts receivable cycle, cash conversion cycle and

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accounts payable cycle which accounted for 74.9% change in financial performance of manufacturing firms. The future researchers should consider other cash management practices that have the potential to affect financial performance of not only manufacturing firms but also extent the study to cover other industries like hospitality industry in Kenya.

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