

**EFFECTS OF WORKING CAPITAL MANAGEMENT PRACTICES ON
PROFITABILITY OF CONSTRUCTION FIRMS LISTED IN NAIROBI
SECURITIES EXCHANGE, KENYA**

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**A Research Project Submitted to the Board of Post Graduate Studies in Partial
Fulfillment of the Requirement for the Conferment of the Degree of Master of
Business Administration of Laikipia University**

November, 2017

ABSTRACT

The construction industry in Kenya being a key growth contributor besides providing job opportunities to a majority of skilled, semiskilled and unskilled in the Kenyan Economy. As the need to various infrastructure like roads, housing and rail network increase, the field has gone through immense, within a short span. The Government of Kenyan had registered and licensed at least 300 construction firms by the end of 2014(Kenya National Bureau of Statistics 2014). Having no previous study carried out to determine the effects of working capital management on profitability of construction firms listed in Nairobi Securities Exchange. The purpose of this study was to determine the effects of working capital management on the profitability of the construction firms. It was guided by the following objectives: to assess the degree to which cash management practices influence profitability of construction companies at Nairobi Securities Exchange, to analyze the degree to which accounts payable practices influence profitability of construction firms at Nairobi Securities Exchange, to measure the degree to which accounts receivable practices impact the profitability of construction companies listed on Nairobi Securities Exchange, and to determine the degree to which Inventory management influence profitability of construction companies listed on Nairobi Securities Exchange. Baumol, Miller-Orr, Just in Time and Economic Order Quantity Models guided the study. Target population was Five (5) Construction Firms listed in Nairobi Securities Exchange. Descriptive and correlational research designs were used in the research process. Since only five firms comprised the population, census sampling technique was used that involved all the population in the research study. The research tools were record survey sheet and questionnaire. Descriptive statistics of data relationship; Independent t-tests, tables, ANOVA and multiple regression analysis and presentations were generated using Statistical Package for Social Sciences Version 21. The study found the correlation coefficient between cash and return on assets was found to be significant ($r=0.49$, $p<0.05$, $\beta = 1.08$, $t=2.67$), Coefficient of determination ($r\text{-sq.}=0.24$) implies that cash in hand explains about 24 per cent of the variability observed in return in assets. Accounts payable practices and Return on Assets, ($r=0.34$, $p>0.05$, $\beta = 1.35$, $t=1.75$, $r\text{-sq.}=0.118$). This implies that there is a positive but insignificant linear relationship between accounts payable and return on assets. Accounts Receivable Practices and Return On Assets ($r=0.09$, $p>0.05$, $\beta=0.79$, $t=0.44$, $r\text{-sq}=0.009$), the accounts receivable do not have a significant effect on return on assets at five(5) level of significant, accounts receivable can only explain about 0.9 per cent of variability observed in return on assets. Inventory management practices and return on assets, ($r=0.30$, $p>0.05$, $\beta=4.85$, $t=2.10$, $r\text{-sq.}=0.09$), Inventory practices have a positive but insignificant linear relationship between inventory and return on assets. Inventory explains about Nine (9) per cent of the variability observed in return in assets. The study recommends that the finance managers should establish optimal cash targets, lower and upper cash limits in their firms. However, this study was not able to exhaust all working capital management components that have effects on profitability in construction firms. Therefore, effects of prepayments, accrued expenses, government regulations and policy, economic environment and culture on the profitability of construction firms need be established in future studies.