

**EFFECT OF WORKING CAPITAL POLICIES ON PROFITABILITY OF SACCOs IN
NAIROBI**

BY

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DECLARATION

STUDENT'S DECLARATION

I declare that this project is my original work and has not been presented for a degree in any other university.

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This project has been submitted with my approval as university supervisor

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DEDICATION

I dedicate this work to my family for their understanding and support during the study period.

ACKNOWLEDGEMENT

First of all, I would wish to thank my dear family for financial support and encouragement and for their understanding when I was not there for them during the project period; I wouldn't have made it this far without them.

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ABSTRACT

The effect of working capital financing policies on profitability of SACCOs, however, was still an unexplored area in the working capital financing literature. This study sought to bridge this knowledge gap by investigating how the working capital financing policies affect profitability among SACCOs in Nairobi. The objective of this study was to investigate the effect of working capital financing policies on profitability of SACCOs in Nairobi.

The research design was a cause-effect (causal) study aimed at investigating working capital financing policies among SACCOs in Nairobi. The population of this study was all the SACCOs in Nairobi. The population of interest of this study was selected using systemic random sampling method to come up with a sample size of thirty five (35) SACCOS. The questionnaires were administered using drop and pick method. The questionnaires were used because they allowed the respondents to give their responses in a free environment and help the researcher get information that would not have been given out had interviews been used.

The study found that working capital management is important because of its effects on the firm's profitability and risk, and consequently its value. The study sought to establish the extent of respondents' agreement with the various statements about working capital in the SACCOs. It was established that the SACCOs employ investing heavily in working capital as a strategy for net working capital management; SACCOs adopted working capital hedging policies designed to increase sales and used minimizing working capital investment. It was clear from the study that firms' that exhibit low degrees of financial constraints have pronounced counter-cyclical leverage, the ability of the firm to continuously operate in longer period is depends on how they deal with investment in working capital management, firms with high liquidity of working capital may have low risk then low profitability and cash conversion cycle is a key factor in working capital management. The study concludes that conservative policy reduces supply costs and protects against price fluctuations, conservative policy allows customers to check that the merchandise they receive is as agreed, conservative policy reduces the cost of possible interruptions in the production process, helps firms to strengthen long-term relationships with their customers and reduces loss of business due to the scarcity of products, while they disagreed that conservative policy ensures that the services contracted are carried out.

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CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Study

It is common knowledge that a firm's value cannot be maximized in the long run unless it survives the short run. Firms fail most often because they are unable to meet their working capital needs; consequently, sound working capital management is a requisite for firm survival (Deloof, 2003).

The crucial part in working capital financing is required in maintaining firm's liquidity in day-to-day operation to ensure its smooth running and to meet its obligation (Eljelly, 2004). Yet, this is not a simple task since managers must ensure that business operation is running in efficient and profitable manner. There are the possibilities of mismatch of current asset and current liability during this process. If this happens and firm's manager cannot manage it properly then it will affect firm's growth and profitability. This will further lead to financial distress and finally firms can go bankrupt.

In traditional view of relationship between cash conversion cycle (as measure of working capital management) and profitability *ceteris paribus*, the shorter the firm cash conversion cycle, the better for a firm's profitability. This shows less of time a dollar tied up in current asset and less external financing. While, longer cash conversion cycle will hurt firm's profitability. The reason is that, firm has low liquidity that would affect firm's risk. However, if firm has higher level of account receivable due to the generous trade credit policy it would result to longer cash conversion cycle. In this case, the longer cash conversion cycle will increase profitability. Thus, the traditional view cannot be applied to all circumstances (Wilner, 2000).

Working capital management is important because of its effects on the firm's profitability and risk, and consequently its value (Smith, 1980). Specifically, working capital investment involves a tradeoff between profitability and risk. Decisions that tend to increase profitability tend to increase risk, and, conversely, decisions that focus on risk reduction will tend to reduce potential profitability. Gitman (1994) argued that the cash conversion cycle was a key factor in working capital management. Actually, decisions about how much to invest in the customer and inventory

accounts, and how much credit to accept from suppliers, are reflected in the firm's cash conversion cycle, which represents the average number of days between the date when the firm must start paying its suppliers and the date when it begins to collect payments from its customers. Previous studies have used measures based on the cash conversion cycle to analyze whether shortening this cycle has positive or negative effects on the firm's profitability.

Empirical evidence relating working capital management and profitability in general supports the fact that aggressive working capital policies enhance profitability (Jose, Lancaster and Stevens, 1996; Shin and Soenen, 1998; for US companies; Deloof, 2003; for Belgian firms; Wang (2002) for Japanese and Taiwanese firms). This suggests that reducing working capital investment is likely to lead to higher profits.

In this context, working capital financing concerns how a firm finances its current assets. A second broader meaning of working capital is the company's overall non fixed asset investments (Elliehausen and Wolken 1993). Businesses often need to finance activities that do not involve assets measured on the balance sheet.

These previous studies have focused their analysis on larger firms. However, the management of current assets and liabilities is particularly important in the case of small and medium-sized companies. Most of these companies' assets are in the form of current assets. Also, current liabilities are one of their main sources of external finance because they encounter difficulties in obtaining funding in the long-term capital markets and the financing constraints that they face (Whited, 1992). In this respect, Danielson and Scott (2000) show that small and medium-sized US firms use vendor financing when they have run out of debt. Thus, efficient working capital management is particularly important for smaller companies (Peel and Wilson, 1996).

1.1.1 SACCO Societies in Kenya

A cooperative is an autonomous association of persons united voluntarily to meet their common economic cultural needs and aspirations through a jointly owned and democratically controlled enterprise .The key idea behind a co-operative society is to pool the scarce resources', eliminate the middlemen and to achieve a common goal or interest (Ministry of Cooperative Development and Marketing, 2007).

Co-operations has been practiced by people from time immemorial, people organised themselves to graze cattle communally, built houses, go hunting and even dig sambas together. Modern co-operative as a practice started in the year 1844 in Britain by Rochdale Pioneers and its principals are followed world wide (KLB, 2003). These principals are voluntary and open membership, democratic administration, limited interest on share capital, cooperation with other cooperatives, promotion of education and provision of dividends to members .

The first co-operative in Kenya was initiated by the European settlers in the Rift Valley in 1908. The cooperative was called Lubwa Farmers Cooperative Society. It was not until 1931 when the cooperative societies ordinance became law that these societies could formally be registered as cooperatives. The first society to be registered under the new Act was the Kenya Farmers Association (KFA) which started as a company in 1923. A new ordinance was then passed in 1945 and a commissioner of co-operative was appointed the following year. By independence time, there were over 600 primary co-operatives in Kenya. Kenya National Federation of Cooperatives (KNFC) was formed in 1964, and in 1966 a new Act was passed under cap 490 of the laws of Kenya (Maina, and Kibanga, 2004).

Primary cooperatives comprise groups of individuals who are either actual producers of products such as sugar, milk, tea, coffee or consumers who join up to save and obtain credit most conveniently (Njoroge, 2003). Most primary cooperatives operates at the village level, district level and a few at national levels. Secondary cooperatives societies also referred to as unions are generally composed of primary cooperatives as their members. All cooperative societies are affiliated to a national apex body called Kenya Union of Saving and Credit Cooperative society (KUSCO) (Ministry of Cooperative Development and Marketing, 2007).

There are 5,122 registered Saccos out of the total 12,000 registered co-operatives, which is about 44% of the total number of co-operatives in Kenya. Out of the 5,122 Saccos 150 are rural Saccos (commodity based) while the rest are Urban Saccos (employee based). All Saccos operate Back Office Service Activities and have been able to mobilize over Kshs 180 billion, which is about 31 percent of the national saving and granted loans to the tune of Kshs 120 billion (Ministry of Cooperative Development and Marketing, 2007).

Saccos have registered tremendous growth since mid 70s and have currently achieved an average growth rate of 25 percent per year in deposits and assets. Saccos have also created employment for Kenyans thus contributing to the government's efforts of achieving the goals of vision 2030. SACCOS have grown tremendously and currently have 3.7million members. The 200 Saccos with FOSAs have diversified into specialized bank like activities which include deposit taking, saving facilities, debit card business (ATM) and money transfers both local and international (Ministry of Cooperative Development and Marketing, 2007).

SACCOs play an important role of serving the financing requirements need of households, small and medium enterprises (SME'S).They encourage individuals to save thereby creating or accumulating capital which contribute to economic development of the country. A major issue in SACCOs is working capital financing and management policies and techniques. The major problem facing Saccos in the working capital financing in Kenya is the issue of debtor management which impact negatively on return on capital. This proposed study seeks to survey the working capital financing policies among the SACCOs and as an effort to design a working capital financing policies for SACCOs.

1.2 Statement of the Problem

Working capital management is important because of its effects on the firm's profitability and risk, and consequently its value (Smith, 1980).Working capital management is important part in firm financial management decision. An optimal working capital management is expected to contribute positively to the creation of firm value. Working capital is an important issue during financial decision making since its being a part of investment in asset that requires appropriate financing investment. It should be critical for to a firm to sustain their short term investment since it will ensure the ability of firm in longer period (Raheman & Nasr, 2007).

The optimal combination of the various working capital financing sources has been a controversial topic since its theoretical rise and the empirical investigations that have followed. Numerous studies have investigated the working capital financing policies of firms in various sectors of the economy; such as manufacturing firms, electric-utility companies, non-profit hospitals and agricultural firms (Jensen and Langemeier, 1996). One of the main conclusions of empirical studies is that industrial classification is an important determinant of working capital

financing. A continuing debate in corporate finance exists over the question of how firms make their working capital financing decisions, and the effect of these on the profitability of the organisation. Most studies on working capital financing policy have used data from American and European companies. However, research on the determinants of working capital financing of emerging and developing market such as nature of business, market and demand condition, credit policy, operating efficiency, conditions of supply firms has emerged as an extended new line of research because of the differences in levels of efficiency and institutional arrangements between developed markets and emerging markets (Eldomiaty, 2007).

Local studies have been done on working capital: Ngaba (1990) did a research working capital management practices in Kenyan secondary schools using the case of Kikuyu Division, Kiambu District and found that most used conservative working capital policy; Nyakundi (2003) carried a survey of working capital management policies among public companies in Kenya and established that in most adopted aggressive working capital policy and hedging working capital policy; Jeremiah (2006) did a research project on relationship between working capital of firms listed in the NSE and economic activity in Kenya and found that there is no relationship between working capital of firms and economic activity, Kithii (2008) did a study on relationship between working capital management and profitability of listed companies in the Nairobi Stock Exchange and established that working capital management greatly affect their profitability with those having good practices performing better than others while Njogo (2008) did a survey of working capital financing policies among micro-finance institutions in Nairobi and established that most used aggressive policies. The effect of working capital financing policies on profitability of SACCOs, however, was still an unexplored area in the working capital financing literature. This study sought to bridge this knowledge gap by investigating how the working capital financing policies affect profitability among SACCOs in Nairobi.

1.3 Objective of the Study

The objective of this study was to investigate the effect of working capital financing policies on profitability of SACCOs in Nairobi.

1.4 Importance of the Study

This research aimed to investigate effect of working capital financing policies on profitability among Saccos in Nairobi. The study would be invaluable to the various stakeholders in cooperative movement in Kenya and beyond.

To Saccos management: the management would identify how working capital financing policies affect the operations of SACCO societies in Kenya as well as determine the extent to which this and other factors affect operations of other SACCOs. Identify the impediments that face SACCO societies in working capital financing policies.

To the Policy Makers: The policy makers would obtain knowledge of the cooperative movements dynamics and the responses that are appropriate; they would therefore obtain guidance from this study in designing appropriate policies that would regulate the Sacco societies participation.

To the Scholars: The study would provide information on effects of working capital financing policies in SACCO societies to potential and current scholars. This would expand their knowledge on strategic responses in financial institutions and identify areas of further study.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter summarizes the information from other researchers who have carried out their research in the same field of study. The specific areas covered here are working capital, theories on working capital, firm level characteristics affecting working capital financing policies, profitability, taxation, risk, size, control variables influencing working capital financing policies, firm growth, asset tangibility, optimal (or target) debt ratios, retention rate and financial flexibility.

2.2 Working Capital

Working capital, sometimes called gross working capital, simply refers to the firm's total current assets (the short-term ones), cash, marketable securities, accounts receivable, and inventory. While long-term financial analysis primarily concerns strategic planning, working capital management deals with day-to-day operations (Raheman & Nasr, 2007). By making sure that production lines do not stop due to lack of raw materials, that inventories do not build up because production continues unchanged when sales dip, that customers pay on time and that enough cash is on hand to make payments when they are due. Obviously without good working capital management, no firm can be efficient and profitable.

Statements about the flexibility, cost, and riskiness of short-term debt versus long-term debt depend, to a large extent, on the type of short-term credit that actually is used. Short-term credit is defined as any liability originally scheduled for payment within one year (Petersen and Rajan, 1997). There are numerous sources of short-term funds, such as accruals, accounts payable (trade credit), bank loans, and commercial paper. The major elements of current liabilities are trade creditors and bank overdrafts, and these are further analyzed.

2.3 Theories on Working Capital

2.3.1 Portfolio Theory

Portfolio theory is one of the most important and influential economic theories dealing with finance and investment (Soenen, 1993). MPT says that it is not enough to look at the expected risk and return of one particular stock. By investing in more than one stock, an investor can reap the benefits of diversification - chief among them, a reduction in the riskiness of the portfolio. MPT quantifies the benefits of diversification, also known as not putting all of your eggs in one basket. For most investors, the risk they take when they buy a stock is that the return will be lower than expected. In other words, it is the deviation from the average return. Each stock has its own standard deviation from the mean, which MPT calls "risk" (Emery, 1987).

The risk in a portfolio of diverse individual stocks will be less than the risk inherent in holding any one of the individual stocks (provided the risks of the various stocks are not directly related). Consider a portfolio that holds two risky stocks: one that pays off when it rains and another that pays off when it doesn't rain (Petersen and Rajan, 1997). A portfolio that contains both assets will always pay off, regardless of whether it rains or shines. Adding one risky asset to another can reduce the overall risk of an all-weather portfolio.

2.3.2 Theory of Risk and Return

Dilemma in working capital management is to achieve desired tradeoff between liquidity and profitability (Raheman & Nasr, 2007). Referring to theory of risk and return, investment with more risk will result to more return. Thus, firms with high liquidity of working capital may have low risk then low profitability. Conversely, firm that has low liquidity of working capital, facing high risk results to high profitability. The issue here is in managing working capital, firm must take into consideration all the items in both accounts and try to balance the risk and return.

The principle holds that potential return rises with an increase in risk. Low levels of uncertainty (low risk) are associated with low potential returns, whereas high levels of uncertainty (high risk) are associated with high potential returns. According to the risk-return tradeoff, invested money can render higher profits only if it is subject to the possibility of being lost (Soenen, 1993).

Because of the risk-return tradeoff, you must be aware of your personal risk tolerance when choosing investments for your portfolio (Harkbarth *et al.*, 2006). Taking on some risk is the price of achieving returns; therefore, if you want to make money, you can't cut out all risk. The goal instead is to find an appropriate balance - one that generates some profit, but still allows you to sleep at night.

2.4 Working Capital Financing

Several theories have emerged to explain the mix of security and financing sources of a firm. Indeed, the financing choice of firms is, perhaps, the most researched topic area in finance in the past decades following the seminal article of Modigliani and Miller (1958) raising the issue of the relationship between a firm's choice of finance and its value. Even though there is no universally accepted theory of the debt-equity choice, there are several theories that have emerged in the last couple of decades explaining firms' working capital structure. These theories have given consideration to especially firm level characteristics and controlled for macroeconomic factors. Among those theories, include the pecking order theory, the free cash flow theory, the capital signaling theory, the trade-off theory, agency theory, market timing theory (windows of opportunities) and the fact that working capital is voluntarily chosen by managers (Zwiebel, 1996). The trade-off theories of corporate financing are built around the concept of target working capital that balances various costs and benefits of debt and equity (Modigliani and Miller, 1963). Norvaisiene and Stankeviciene (2007) have noted that existing theoretical models cannot fully explain the selection of working capital of every company.

Furthermore, existing theory and evidence imply that better developed financial systems ease external financing constraints of firms (Levine, 2004). Levy (2000) noted that firms that exhibit low degrees of financial constraints have pronounced counter-cyclical leverage with much of the variation attributed to varying macroeconomic conditions. He further noted that firms that exhibit higher degree of financial constraints do not exhibit these high pronounced counter-cyclical leverage or debt issue patterns. This presupposes that financing choices vary systematically with macroeconomic conditions. Frank and Goyal (2003) have concluded that roughly 30 per cent of differences in the working capital inside the country could be explained by internal determinants. This presupposes that there are other factors affecting working capital

decisions not accounted for by internal determinants. If firms' cash flow patterns are sensitive to movements in the economy, the firm will either have to issue less debt overall (reduce interest payments) or add special features to the issue of the debt probably by way of variable interest rate.

The credit channel literature has given considerable attention to the link between firms' access to capital markets and macroeconomic development. This literature principally focuses on firms' reliance on debt financing and its related agency problems in assessing external financing. The link between security issues and macroeconomic factors has been analyzed in the empirical literature and theory rather more through the credit channel in economies (Levy, 2000). Korajczuk and Levy (2000) observed that, after correcting for the run-up in the equity market and the variation in the expected price reaction to an equity issue announcement, deviations from target leverage ratios that vary with macroeconomic conditions account for a significant amount of variation in issue choice (Myers and Majluf, 1984).

2.5 Working Capital Policies

2.5.1 Aggressive Working Capital Policy

Use short-term financing to finance permanent assets. A firm may adopt an aggressive working capital management policy with a low level of current assets as percentage of total assets or it may also be used for the financing decisions of the firm in the form of high level of current liabilities as percentage of total liabilities. Excessive levels of current assets may have a negative effect on the firm's profitability whereas a low level of current assets may lead to lower level of liquidity and stock outs resulting in difficulties in maintaining smooth operations (Van Horne and Wachowicz 2004).

The main objective of working capital management is to maintain an optimal balance between each of the working capital components. Business success heavily depends on the ability of financial executives to effectively manage receivables, inventory, and payables (Filbeck and Krueger 2005). Firms can reduce their financing costs and/or increase the funds available for expansion projects by minimizing the amount of investment tied up in current assets. Most of the financial managers' time and effort are allocated in bringing non-optimal levels of current assets

and liabilities back toward optimal levels (Lamberson 1995). An optimal level of working capital would be the one in which a balance is achieved between risk and efficiency. It requires continuous monitoring to maintain proper level in various components of working capital i.e. cash receivables, inventory and payables etc.

2.5.2 Conservative Working Capital Policy

Use permanent capital for permanent assets and temporary assets. However, Weinraub and Visscher (1998) have discussed the issue of aggressive and conservative working capital management policies by using quarterly data for a period of 1984 to 1993 of US firms. Their study looked at ten diverse industry groups to examine the relative relationship between their aggressive/conservative working capital policies. The authors have concluded that the industries had distinctive and significantly different working capital management policies. Moreover, the relative nature of the working capital management policies exhibited remarkable stability over the ten-year study period. The study also showed a high and significant negative correlation between industry asset and liability policies and found that when relatively aggressive working capital asset policies are followed they are balanced by relatively conservative working capital financial policies.

2.5.3 Hedging Working Capital Policy

The term hedging can be said to refer to a process of matching maturities of debt with the maturities of financial needs. According to this approach, the maturity of the sources of funds should match the nature of the assets to be financed. For the purpose of analysis, the assets can be broadly classified into two classes: Those assets which are required in a certain amount for a given level of operation and hence do not vary over time and those assets which fluctuate over time (Al-Sakran, 2001).

The hedging approach suggests that the long-term funds should be used to finance the fixed portion of current assets requirements. Purely temporary requirements, i.e., the seasonal variations over and above the permanent financing needs should be appropriately financed with short-term funds (Myers 1984).

2.6 Firm Level Characteristics Affecting Working Capital Financing Policies

Since, the famous work of Modigliani and Miller (1958) appeared, researchers started to examine the MM propositions providing the literature number of factors that affect working capital financing decision using debt and/or equity.

2.6.1 Profitability

Corporate performance has been identified as a potential determinant of working capital financing policies. The tax trade-off models show that profitable firms will employ more debt since they are more likely to have a high tax burden and low bankruptcy risk (Ooi, 1999). However, Myers (1984) prescribes a negative relationship between debt and profitability on the basis that successful companies do not need to depend so much on external funding. They, instead, rely on their internal reserves accumulated from past profits. Barton *et al.* (1989), agree that firms with high profit rates, all things being equal, would maintain relatively lower debt ratio since they are able to generate such funds from internal sources. Empirical evidence from previous studies (Al-Sakran, 2001) appears to be consistent with the pecking order theory. Most studies found a negative relationship between profitability and debt financing.

2.6.2 Taxation

Different authors on working capital have given different interpretations of the impact of taxation on working capital financing decisions in the major industrial countries. Some are concerned directly with tax policy. For instance Auerbach (1985), studied the tax impact on working capital financing decisions. The studies provided evidence of substantial tax effect on the working capital financing effect on profitability. They concluded that changes in the marginal tax rate for any firm should affect financing decisions. A firm with a high tax shield is less likely to finance with debt. The reason is that tax shields lower the effective marginal tax rate on interest deduction. Graham (1996) on his part concluded that, in general, taxes do affect working capital financing decisions, but the extent of the effect is mostly not significant. Ashton (1991) confirms that any tax advantage to debt is likely to be small and thus have a weak relationship

between debt usage and tax burden of firms. De Angelo and Masulis (1980) on the other hand, show that depreciation, research and development expenses, investment deductions, etc. could be substitutes for the fiscal role of debt. Titman and Wessels (1988) provided that, empirically, the substitution effect has been difficult to measure as finding an accurate proxy for tax reduction that excludes the effect of economic depreciation and expenses is tedious.

2.6.3 Risk

Given agency and bankruptcy costs, there are incentives for the firm not to utilise the tax benefit of debt within the static framework model. As a firm is exposed to such costs, the greater is incentive to reduce its level of debt within its capital structure. One firm variable which impacts upon this exposure is firm operating risk, in that the more volatile a firm's earnings streams, the greater the chance of the firm defaulting and being exposed to such costs. Firms with relatively higher operating risk will have incentives to have lower leverage than more stable earnings firms. Empirical evidence suggests that there is a negative relationship between risk and leverage of small firms (Ooi, 1999; Titman and Wessels, 1988).

2.6.4 Size

Size plays an important role in determining the working capital financing policies of a firm. Researchers have taken the view that large firms are less susceptible to bankruptcy because they tend to be more diversified than smaller companies. Following the trade-off models of capital structure, large firms should accordingly employ more debt than smaller firms. According to Berryman (1982), lending to small businesses is riskier because of the strong negative correlation between the firm size and the probability of insolvency. Hall (1995) added that, this could partly be due to the limited portfolio management skills and partly due to the attitude of lenders. Marsh (1982) and Titman and Wessels (1988) report a contrary negative relationship between debt ratios and firm size. Marsh (1982) argues that small companies, due to their limited access to equity capital market tend to rely heavily on loans for their funding requirements. Titman and Wessels (1988) further posit that small firms rely less on equity issue because they face a higher per unit issue cost. The relationship between firm size and debt ratio is, therefore, a matter for empirical investigation

2.7 Control Variables Influencing Working Capital Financing Policies.

Two variables are used as proxies for the firm's requirement for debt financing. These are return on assets (profitability) and the ratio of dividends to capital (dividends). Profitability is included because several studies (Titman and Wessels, 1988; Barton *et al.*, 1989), have found an inverse relationship between profitability and leverage. In the context of the pecking order theory, profitable firms are able to generate enough internal finance and therefore will depend less on external sources of finance. Also, within the agency theory framework, if the market for corporate control is inefficient, managers of profitable firms will use more retained earnings in order to avoid the disciplinary role of external finance. These explanations point to a negative relationship between profitability and leverage. However, it is also possible that as a firm's profitability increases, the firm becomes the target of lenders, who tend to prefer borrowers with high current cash flows. Furthermore, in agency theory framework, if the market for corporate control is efficient, managers of profitable firms will seek debt because they regard it as a commitment to pay out cash in the future as in the context of Jensen (1986). These explanations also support a positive relationship between profitability and leverage (Yartey, 2006). The ratio of dividends to total capital is included because cash constrained firms are unlikely to pay out large dividends. According to Korajczyk and Levy (2003), a firm is financially constrained if it is unable to pay dividends.

2.7.1 Asset Tangibility

Asset tangibility is defined as the proportion of fixed assets in total assets. The corporate finance theory prescribes that a firm's optimal financing mix will depend on the owner's ability to engage in opportunistic behaviour at the expense of creditors and other parties. This, in turn, will depend partly on the composition of the firm's assets. Firms with high ratios of fixed assets to total assets are predicted to have high long-term debt. The trade-off theory predicts a positive relationship between tangibility and debt levels. In particular, tangible assets often reduce the costs of financial distress because they tend to have higher liquidation value. For this reason tangible assets normally provide high collateral value relative to intangible assets, which implies that these assets can support more debt. It is usually more difficult to alter the variance of the cash

flows generated from tangible rather than intangible assets. Thus, asset tangibility reduces the scope for risk shifting and consistent with agency theory, firms with tangible assets will support more debt (Yartey, 2006). However, Titman and Wessels (1988) provide an agency theory based argument for a negative relationship between the tangibility of the firm's assets and leverage. They argue that it is easier to monitor the use of tangible rather than intangible assets, which means that firms with intangible assets will tend to use more debt for monitoring purposes (Yartey, 2006).

Asset structure is an important determinant of the working capital financing policies of a new firm. The extent to which the firm's assets are tangible and generic would result in the firm having a greater liquidation value (Titman and Wessels, 1988). Studies have also revealed that leverage is positively associated with the firm's assets. This is consistent with Myers (1977) argument that tangible assets, such as fixed assets, can support a higher debt level as compared to intangible assets, such as growth opportunities. Assets can be redeployed at close to their intrinsic values because they are less specific. Thus, assets can be used to pledge as collateral to reduce the potential agency cost associated with debt usage (Smith, 1980). Marsh (1982) provide empirical evidence of a positive relationship between debt and fixed assets. The empirical evidence suggests a positive relation consistent with the theoretical arguments between asset structure and leverage for large firms (Michaelas *et al.*, 1999).

2.7.2 Firm Growth

Growth is defined in terms of market-to-book value ratio. In line with pecking order theory, growing firms that need funds prefer debt to external equity. Firms with high growth opportunities will require more external debt finance in order to finance the growth, thus, the relationship between growth opportunities and leverage is predicted to be positive. However, the agency cost theory postulates that rapidly growing firms are not able to use their growth potential as collateral asset with which loans can be secured. In line with agency theory of debt, conflicts between owners and lenders should lead to a negative relationship between growth and debt levels. These conflicts include two of the agency costs of debt, namely under investment and risk shifting. Considerations based on the trade-off theory also point to a negative correlation between growth and leverage (Yartey, 2006). For example, although growth opportunities add

value, the firm cannot use growth opportunities as security for lenders (Titman and Wessels, 1988). Myers (1977) supports the position that firms with growth opportunities will employ less debt because the conflicts of interest between debt and equity holders are especially serious for assets that give the firm the option to undertake such growth opportunities in the future.

Applying pecking order arguments, growing firms place a greater demand on their internally generated funds. Consequentially, firms with high growth will tend to look to external funds to finance the growth. Firms would therefore look to short-term, less secured debt then to longer-term more secured debt for their financing needs. Myers (1977) confirms this and concludes that firms with a higher proportion of their market value accounted for by growth opportunity will have debt capacity. Auerbach (1985) also argues that leverage is inversely related to growth rate because the tax deductibility of interest payments is less valuable to fast growing firms since they usually have non-debt tax shields. Michaelas *et al.* (1999) found future growth positively related to leverage and long-term debt, while Chittenden *et al.* (1996) found mixed evidence.

2.7.3 Optimal (or Target) Debt Ratios

Marsh (1982), and Auerbach (1985) argue that firms appear to try to maintain long-term target debt levels, although they may deviate from these in the short run in response to timing considerations and capital market imperfections. Nevertheless, Myers (1984) argues that the existence of adjustment costs prevents firms from adjusting to their target working capital structure. Graham and Harvey (2001) show that large firms are more likely to maintain target debt ratios.

2.7.4 Retention Rate and Financial Flexibility

Marsh (1982) argues that the expected retention rate affects the target debt/equity ratio. That is, a firm's stream of retentions will lead to a steady, semi-automatic reduction in the book debt ratio over time. Therefore, it is expected that firms with an expected high levels of retentions will be more likely changing its working capital by borrowing more debt. The literature indicates that retention rate provides financial flexibility to the firm. That is, financial flexibility is closely related to the basic premises of the pecking-order theory. Graham and Harvey's (2001) survey

shows that the desire for financial flexibility is not driven by factors behind the pecking-order theory.

2.8 Working Capital Financing Policies and Profitability

In intention to discover the relationship between efficient working capital management and firm's profitability (Shin & Soenen, 1998) used net-trade cycle (NTC) as a measure of working capital management. NTC is basically equal to the CCC whereby all three components are expressed as a percentage of sales. The reason for using NTC is that it can be an easy device to estimate for additional financing needs with regard to working capital expressed as a function of the projected sales growth. This relationship is examined using correlation and regression analysis, by industry and working capital intensity. Using a Compustat sample of 58,985 firm years covering the period 1975-1994, in all cases, they found, a strong negative relation between the length of the firm's net-trade cycle and its profitability. In addition, shorter NTC are associated with higher risk-adjusted stock returns. In other word, (Shin & Soenen, 1998) suggest that one possible way the firm to create shareholder value is by reducing firm's NTC.

The study of (Shin & Soenen, 1998) consistent with later study on the same objective that done by (Deloof, 2003) by using sample of 1009 large Belgian non-financial firms for the period of 1992-1996. However, (Deloof, 2003) used trade credit policy and inventory policy are measured by number of days accounts receivable, accounts payable and inventories, and the cash conversion cycle as a comprehensive measure of working capital management. He found a significant negative relation between gross operating income and the number of days accounts receivable, inventories and accounts payable. Thus, he suggests that managers can create value for their shareholders by reducing the number of days accounts receivable and inventories to a reasonable minimum. He also suggests that less profitable firms wait longer to pay their bills.

In another study, (Lyroudi & Lazaridis, 2000) use food industry Greek to examined the cash conversion cycle (CCC) as a liquidity indicator of the firms and tries to determine its relationship with the current and the quick ratios, with its component variables, and investigates the implications of the CCC in terms of profitability, indebtness and firm size. The results of their study indicate that there is a significant positive relationship between the cash conversion cycle and the traditional liquidity measures of current and quick ratios. The cash conversion cycle also

positively related to the return on assets and the net profit margin but had no linear relationship with the leverage ratios. Conversely, the current and quick ratios had negative relationship with the debt to equity ratio, and a positive one with the times interest earned ratio. Finally, there is no difference between the liquidity ratios of large and small firms.

2.9 Empirical Studies

The empirical results, which is in line with the study of Afza and Nazir (2007), found the negative relationship between working capital policies and profitability. Moreover, the present study validates the findings of Carpenter and Johnson (1983) that there is no relationship between the level of current assets and liabilities and risk of the firms.

Many researchers have studied financial ratios as a part of working capital management; however, very few of them have discussed the working capital policies in specific. Some earlier work by Gupta (1969) examined the differences in financial ratio averages between industries. The conclusion of both the studies was that differences do exist in mean profitability, activity, leverage and liquidity ratios amongst industry groups.

Johnson (1970) extended this work by finding cross-sectional stability of ratio groupings for both retailers and primary manufacturers. The study established that both used trade credit policy and inventory policy measured by number of days accounts receivable, accounts payable and inventories. Pinches et al. (1973) used factor analysis to develop seven classifications of ratios, and found that the classifications were stable over the 1951-1969 time periods. The study also found that the cash conversion cycle was used as a comprehensive measure of working capital management. The study also found that manager can create value for their shareholders by reducing the number of days accounts receivable and inventories to a reasonable minimum.

Chu et al. (1991) analyzed the hospital sectors to observe the differences of financial ratio groups between hospital sectors and industrial firms sectors. Their study concluded that financial ratio groups were significantly different from those of industrial firms' ratios. These ratios were relatively stable over the five years period. Sathyamoorthi (2002) focused on good corporate governance and in turn effective management of business assets. He observed that more emphasis is given to investment in fixed assets both in management area and research. He

analyzed selected Co-operatives in Botswana for a period of 1993-1997 and concluded that an aggressive approach has been followed by these firms during all the four years of study.

Filbeck and Krueger (2005) highlighted the importance of efficient working capital management by analyzing the working capital management policies of 32 non-financial industries in USA. According to their findings significant differences exist between industries in working capital practices over time. Moreover, these working capital practices, themselves, change significantly within industries over time. Similar studies are conducted by Long et al. (1993).

Pandey and Parera (1997) provided an empirical evidence of working capital management policies and practices of the private sector manufacturing companies in Sri Lanka. The information and data for the study were gathered through questionnaires and interviews with chief financial officers of a sample of manufacturing companies listed on the Colombo Stock Exchange. They found that most companies in Sri Lanka have informal working capital policy and company size has an influence on the overall working capital policy (formal or informal) and approach (conservative, moderate or aggressive). Moreover, company profitability has an influence on the methods of working capital planning and control.

There is a long debate on the risk/return tradeoff between different working capital policies (Gitman 2005). More aggressive working capital policies are associated with higher return and higher risk while conservative working capital policies are concerned with the lower risk and return. Working capital management is important because of its effects on the firm's profitability and risk, and consequently its value (Smith, 1980). Greater the investment in current assets, the lower the risk, but also the lower the profitability obtained. In contradiction, Carpenter & Johnson (1983) provided empirical evidence that there is no linear relationship between the level of current assets and revenue systematic risk of US firms; however, some indications of a possible non-linear relationship were found which were not highly statistically significant.

For the first time, Soenen (1993) investigated the relationship between the net trade cycle as a measure of working capital and return on investment in U.S firms. The results of chi-square test indicated a negative relationship between the length of net trade cycle and return on assets.

Furthermore, this inverse relationship between net trade cycle and return on assets was found different across industries depending on the type of industry.

A significance relationship for about half of industries studied indicated that results might vary from industry to industry. Another aspect of working capital management has been analyzed by Lamberson (1995) who studied how small firms respond to changes in economic activities by changing their working capital positions and level of current assets and liabilities. Current ratio, current assets to total assets ratio and inventory to total assets ratio were used as measure of working capital, while index of annual average coincident economic indicator was used as a measure of economic activity. Contrary to the expectations, the study found that there is very small relationship between changes in economic conditions and changes in working capital.

In order to validate the results found by Soenen (1993) on large sample and with longer time period, Jose et al. (1996) examined the relationship between aggressive working capital management and profitability of US firms using Cash Conversion Cycle (CCC) as a measure of working capital management where a shorter CCC represents the aggressiveness of working capital management. The results indicated a significant negative relationship between the cash conversion cycle and profitability indicating that more aggressive working capital management is associated with higher profitability.

Shin and Soenen (1998) concluded that reducing the level of current assets to a reasonable extent increases firms' profitability. Later on, Deloof (2003) analyzed a sample of large Belgian firms during the period 1992-1996 and the results confirmed that Belgian firms can improve their profitability by reducing the number of days accounts receivable are outstanding and reducing inventories. Teruel and Solano (2005) suggested that managers can create value by reducing their firm's number of days accounts receivable and inventories. Similarly, shortening the cash conversion cycle also improves the firm's profitability.

In the Pakistani context, Rehman (2006) investigated the impact of working capital management on the profitability of 94 Pakistani firms listed at Islamabad Stock Exchange (ISE) for a period of 1999-2004. He studied the impact of the different variables of working capital management including Average Collection Period, Inventory Turnover in Days, Average Payment Period and Cash Conversion Cycle on the Net Operating Profitability of firms. He concluded that there is a

strong negative relationship between above working capital ratios and profitability of firms. Furthermore, managers can create a positive value for the shareholders by reducing the cash conversion cycle up to an optimal level. Similar studies on working capital and profitability includes Smith and Begemann (1997).

Finally, Afza and Nazir (2007) investigated the relationship between the aggressive/conservative working capital policies for seventeen industrial groups and a large sample of 263 public limited companies listed at Karachi Stock Exchange for a period of 1998-2003. Using ANOVA and LSD test, the study found significant differences among their working capital investment and financing policies across different industries. Moreover, rank order correlation confirmed that these significant differences were remarkably stable over the period of six years of study. Finally, ordinary least regression analysis found a negative relationship between the profitability measures of firms and degree of aggressiveness of working capital investment and financing policies. The current study further investigates the impact of the degree of aggressiveness of working capital policies on market measures of profitability i.e. market rate of return and Tobin's q as well as the risk of firms.

2.10 Conclusions

Working capital management is a significant area of financial management, and the administration of working capital may have an important impact on the profitability and liquidity of the firm. Most empirical studies relating to working capital management and profitability support the fact that aggressive working capital policies enhance profitability. Working capital, sometimes called gross working capital, simply refers to the firm's total current assets (the short-term ones), cash, marketable securities, accounts receivable, and inventory. While long-term financial analysis primarily concerns strategic planning, working capital management deals with day-to-day operations.

The main objective of working capital management is to maintain an optimal balance between each of the working capital components. The hedging approach suggests that the long-term funds should be used to finance the fixed portion of current assets requirements. Corporate performance has been identified as a potential determinant of working capital financing policies. Different authors on working capital have given different interpretations of the impact of

taxation on working capital financing decisions in the major industrial countries. Some are concerned directly with tax policy. Size plays an important role in determining the working capital financing policies of a firm. Two variables are used as proxies for the firm's requirement for debt financing. These are return on assets (profitability) and the ratio of dividends to capital (dividends). A firm's stream of retentions will lead to a steady, semi-automatic reduction in the book debt ratio over time.

Most previous studies focus on developed market (Peel & Wilson, 1996; Shin & Soenon, 1998 and Deloof, 2003). Thus there exists a gap in literature on the effect of working capital financing policies on the profitability of the firm in developing countries. Thus investigating this issue could provide additional insights and perhaps different evidence on the working capital management in emerging capital market. This will surely enrich the finance literature on this issue. As a result, it will build up confidence in investor to invest in that firm.

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This chapter was an outline of the methodology that was used by the researcher to find answers to the research question. In this chapter the research methodology was presented in the following order, research design, target population, sampling procedure, data collection methods, instruments of data collection and finally the data analysis.

3.2 Research Design

The research design was a cause-effect (causal) study aimed at investigating working capital financing policies among Saccos in Nairobi. A cause-effect research design (causal) was chosen because it enabled the researcher to generalize the findings to a larger population (Dooley 2007). This study was therefore able to generalize the findings to all the SACCOs in Nairobi. Causal research explores the effect of one thing on another and more specifically, the effect of one variable on another. Causal-comparative research attempts to identify a causative relationship between an independent variable and a dependent variable. This design was appropriate in investigating the working capital financing policies of Saccos in Nairobi and how they affect the performance of the Saccos.

3.3 Population of Study

The population of this study was all the SACCOs in Nairobi. There are 200 active SACCOs in Nairobi (Ministry of Co-operative Development and Marketing 2008).

3.4 Sample Population

The population of interest of this study was selected using systemic random sampling method to come up with a sample size of thirty five (35) SACCOs. Saunders et al (2000) notes that study units equal to or above 30 are acceptable for conclusive inferences about the investigation at hand.

The respondents included senior managers and other managers in different levels of management at the SACCOs in Nairobi. This was because they are the most conversant with working capital financing policies among the SACCOs. In this method from the sampling frame, a starting point is chosen at random, and thereafter at regular intervals. The method spreads the sample more evenly over the population and is easier to conduct than a simple random sample (Donald 2006).

3.3 Data Collection Procedures and Instruments

3.3.1 Data Instruments

The Researcher developed the instruments with which to collect the necessary information. Questionnaires were used to obtain important information about the population. The questionnaires contained the questions which were structured of closed-ended question and also a few open ended. These types of questions were accompanied by a list of possible alternatives from which respondents were required to select the answer that best describes their situation.

Kombo and Tromp (2006) indicate that the main advantage of close ended questions is that they are easier to analyse since they are in an immediate usable form. They are also easy to administer because each item is followed by an alternative answers and is economical to use in terms of time saving. Secondary data was collected from financial statements to support the data collected from the field.

3.3.2 Data Collection Procedure

The study collected both primary and secondary data. Primary data was the information the researcher obtained from the field. Primary data was collected using semi-structured questionnaires. The questionnaires were administered using drop and pick method. The questionnaires were used because they allowed the respondents to give their responses in a free environment and help the researcher get information that would not have been given out had interviews been used. The questionnaires were self-administered to some respondents while for other it were researcher administered. Secondary data refers to the information obtained from articles books, newspapers, internet and magazines. Thus secondary data was collected from the financial statements of the company and financial reports. This data was useful for generating additional information for the study from already documented data or available reports. Cooper

and Schindler (2003) further explain that secondary data is a useful quantitative technique for evaluating historical or contemporary confidential or public records, reports, government documents and opinions.

3.3.3 Data Validity and Reliability

The researchers carried out a pilot study to pretest and validate the questionnaire. To establish the validity of the research instrument the researcher sought opinions of experts in the field of study especially the researcher's supervisor and lecturers in the department of educational administration, planning and curriculum development. This facilitated the necessary revision and modification of the research instrument thereby enhancing validity. The researcher intended to select a pilot group of 10 individuals from the target population to test the reliability of the research instrument.

The pilot data was not included in the actual study. The pilot study allowed for pre-testing of the research instrument. The clarity of the instrument items to the respondents was established so as to enhance the instrument's validity and reliability. The pilot study enabled the researcher to be familiar with research and its administration procedure as well as identifying items that require modification (Mugenda, 2008). The result helped the researcher to correct inconsistencies arising from the instruments, which ensured that they measure what was intended.

3.4 Data Analysis

The researcher perused completed questionnaires and document analysis recording sheets. Quantitative data collected was analyzed by the use of descriptive statistics using SPSS and presented through percentages, means, standard deviations and frequencies. The information was displayed by use of bar charts, graphs and pie charts and in prose-form. This was done by tallying up responses, computing percentages of variations in response as well as describing and interpreting the data in line with the study objectives and assumptions through use of SPSS version 16.0. Mugenda and Mugenda (1999), explains that SPSS is a comprehensive, integrated collection of computer programme for managing, analyzing and displaying data. Content analysis was used to test data that is qualitative nature or aspect of the data collected from the open ended questions. A multivariate regression model was applied to determine the relative

importance of each of the three variables with respect to the status of effect of working capital policies on profitability.

The regression model was as follows:

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3$$

Where:

Y = Profitability

β_0 = Constant Term

β_1 = Beta coefficients

X_1 = Aggressive Policy

X_2 = Conservative Policy

X_3 = Hedging Policy

CHAPTER FOUR:

DATA ANALYSIS, INTERPRETATION AND PRESENTATION

4.1 Introduction

This chapter presents the data analysis, interpretation and presentation there-to on the study to investigate the effect of working capital financing policies on profitability of SACCOs in Nairobi Kenya. The data was gathered exclusively from questionnaire as the research instrument. The questionnaire was designed in line with the objectives of the study. To enhance quality of data obtained, Likert type questions were included whereby respondents indicated the extent to which the variables were practiced in a five point Likerts scale. The data has been presented in form of quantitative, qualitative followed by discussions of the data results. Data analysis was done through Statistical Package for Social Scientists (SPSS) version 16. Frequencies, percentages and mean were used to display the results which were presented in tables and graphs.

4.1.1 Response Rate

The study had targeted thirty five (35) respondents in collecting data with regard to the effects of working capital financing policies on profitability of SACCOs in Nairobi.

Table 4.1: Response Rate

Response	Frequency	Percentage
Responded	30	85.7
Not responded	5	14.3
Total	35	100.0

Source: Author, 2010

From the findings, 30 out of 35 target respondents filled in and returned the questionnaire contributing to 85.7%. This commendable response rate was made a reality after the researcher made personal calls and visits to remind the respondent to fill-in and return the questionnaires.

4.2 Working Capital Management

The study posed a statement that working capital management is important because of its effects on the firm's profitability and risk, and consequently its value and required the respondents indicate the extent to which they agreed with the statement.

Table 4.2: Agreement that Working Capital Management Affects Firm Profitability

Extent of agreement	Frequency	Percent
Strongly agree	1	4.9
Agree	9	29.4
Neutral	17	56.9
Disagree	3	8.8
Strongly disagree	0	0
Total	30	100.0

Majority of the respondents (56.9%) were neutral that working capital management is important because of its effects on the firm's profitability and risk, and consequently its value, 29.4% of the respondents indicated agreement that working capital management is important because of its effects on the firm's profitability and risk, and consequently its value, 8.8% of the respondents indicated disagreement that working capital management is important because of its effects on the firm's profitability and risk, and consequently its value while 4.9% of them strongly agreed that working capital management is important because of its effects on the firm's profitability and risk, and consequently its value.

4.2.1 Involvement in Making the Working Capital Decisions

The study sought to establish who were involved in making the working capital decisions in the SACCOs.

Table 4.3: Involvement in Making the Working Capital Decisions

Decision maker	Yes		No	
	Frequency	Percentage	Frequency	Percentage
Operational Manager	21	70	9	30
CEO	17	56.7	13	43.3
The Board	27	90	3	10
Any other	2	6.7	28	93.3

The table above shows that 90% of the respondents indicated that the board members were involved in making the working capital decisions in the SACCOs, 70% of the respondents indicated that the operational managers were involved in making the working capital decisions in the SACCOs, 56.7% of the respondents indicated that the CEOs were involved in making the working capital decisions in the SACCOs, while 6.7% of the respondents indicated that other stakeholders such as financial advisors and shareholders were involved in making the working capital decisions in the SACCOs.

4.2.2 Influence of Increasing Working Capital Investment on the Profitability

The study also sought to investigate the rate of influence of increasing working capital investment on the profitability of the SACCOs.

Table 4.4: Influence of Increasing Working Capital Investment on the Profitability

Influence	Frequency	Percent
Highly influence	1	1
Influence	18	60.8
Moderately influence	6	20.6
Low influence	5	17.6
Not at all	0	0
Total	30	100.0

From the table above, 60.8% of the respondents indicated that increasing working capital investment influences on the profitability of the SACCOs, 20.6% of the respondents indicated that increasing working capital investment moderately influences on the profitability of the SACCOs, 17.6% of the respondents indicated that increasing working capital investment influences on the profitability of the SACCOs to a low extent, while 1% of the respondents indicated that increasing working capital investment highly influences on the profitability of the SACCOs.

4.2.3 Reactions to Movements in the Economy

The study sought to investigate the extent to which the SACCOs reacted to movements in the economy and their effect on firms' cash flow patterns.

Table 4.5: Reactions to Movements in the Economy

Reaction to movements in the economy	Frequency	Percentage
Issue less debt overall (reduce interest payments)	20	66.7
Add special features to the issue of the debt by way of variable interest	10	33.3
Total	30	100.0

Majority of the respondents (66.7%) indicated that their SACCOs reacted to movements in the economy and their effect on firms' cash flow patterns through issue less debt overall (reduce interest payments), while 33.3% of them indicated that their SACCOs reacted to movements in the economy and their effect on firms' cash flow patterns through adding special features to the issue of the debt by way of variable interest.

4.3 Effects of Working Capital Financing Decisions on the Wealth of Organisations

The respondents were required to indicate the extent to which working capital financing decisions affect the wealth of the organizations.

Table 4.6: Influence of Working Capital Financing Decisions on the Wealth of Organizations

	Frequency	Percent
To a very great extent	1	1.0
To a great extent	18	60.8
To a moderate extent	5	17.6
To a little extent	6	20.6
Total	30	100.0

From the findings, 60.8% of the respondents indicated that working capital financing decisions affect the wealth of the organizations to a great extent, 20.6% of the respondents indicated that working capital financing decisions affect the wealth of the organizations to a little extent, 17.6% of the respondents indicated that working capital financing decisions affect the wealth of the

organizations to a moderate extent, while 1.0% of the respondents indicated that working capital financing decisions affect the wealth of the organizations to a very great extent.

4.3.1 Type of Strategy for Net Working Capital Management

The study sought to establish the type of strategy for net working capital management employed by SACCOs.

Table 4.7: Type of Strategy for Net Working Capital Management

Strategy	Yes		No	
	Frequency	Percentage	Frequency	Percentage
Minimize working capital investment (aggressive policies)	18	60	12	40
Investing heavily in working capital (conservative policy)	21	70	9	30
Adopt working capital hedging policies designed to increase sales	20	67	10	33

From the table above, 70% of the respondents indicated that their SACCOs employ investing heavily in working capital (conservative policy) as a strategy for net working capital management, 67% of the respondents indicated that their SACCOs adopted working capital hedging policies designed to increase sales, while 60% of them indicated that their SACCOs used minimizing working capital investment (aggressive policies).

4.3.2 Factors Affect Working Capital Financing Decision

The study sought to investigate the extent to which various factors affect working capital financing decision using debt and/or equity.

Table 4.8: Factors Affect Working Capital Financing Decision

Factor	A very great extent	A Great Extent	Moderate Extent	A Low extent	Very low extent	Mean	Std Dev.

Profitability	37.5	58.3	2.1	2.1	0	3.6875	.6242
Taxation	29.2	43.8	8.3	8.3	10.4	2.2708	1.267
Risk	43.8	27.1	6.3	12.5	10.4	4.1875	1.393
Size	35.4	33.3	16.7	10.4	4.2	3.1458	1.148

The respondents indicated that risk factors affect working capital financing decision using debt and/or equity to a great extent as shown by a mean score of 4.1875 as well as profitability aspect as shown by a mean score of 3.6875. They also indicated that size factor affect working capital financing decision using debt and/or equity to a moderate extent as shown by a mean score of 3.1458 while taxation factors affect working capital financing decision using debt and/or equity to a little extent as shown by a mean score of 2.2708.

4.3.3 Influence of Control Variables on Working Capital Financing Policies

The respondents were required to rate the extent to which the following control variables influence working capital financing policies.

Table 4.9: Influence of Control Variables on Working Capital Financing Policies

Control Variables	A very great extent	A Great Extent	Moderate Extent	A Low extent	Very low extent	Mean	Std Dev.
Asset Tangibility	43.8	27.1	6.3	12.5	10.4	4.1875	1.39385
Firm Growth	35.4	33.3	16.7	10.4	4.2	3.1458	1.14835
Optimal (or Target) Debt Ratios	2.1	4.2	2.1	70.8	20.8	4.2421	.7707
Retention Rate and Financial Flexibility	10.4	29.2	6.3	39.6	14.6	3.1875	1.29904

Majority of the respondents indicated that optimal (or target) debt ratios influence working capital financing policies to a great extent as shown by a mean of 4.2421, asset tangibility influence working capital financing policies to a great extent as shown by a mean score of

4.1875, retention rate and financial flexibility influence working capital financing policies to a moderate extent as shown by a mean score of 3.1875 and that firm growth influence working capital financing policies to a moderate extent as shown by a mean score of 3.1458.

4.3.4 Conservative Policy Results in Higher Profitability

The study posed a statement that focusing on working capital (conservative policy) may result in higher profitability and requested the respondents to rate their level of agreement with the various as the benefits of maintaining high inventory levels at the SACCOs.

Table 4.10: Conservative Policy Results in Higher Profitability

Level of agreement	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	Mean	Std. Dev
Reduces the cost of possible interruptions in the production process	4.2	6.3	2.1	3.3	52.1	3.3125	7.4085
Reduces loss of business due to the scarcity of products	35.4	25	4.2	16.7	18.8	2.5833	1.5686
Reduces supply costs and protects against price fluctuations	4.2	4.2	6.3	35.4	50	4.2292	1.0365
Allows customers to check that the merchandise they receive is as agreed	2.1	27.1	16.7	10.4	43.8	3.6667	1.3422
Ensure that the services contracted are carried out	45.8	22.9	12.5	12.5	6.3	2.1042	1.2922
Helps firms to strengthen long-term relationships with their customers	10.4	41.7	10.4	16.7	20.8	2.9583	1.3677

Majority of the respondents indicated agreement that conservative policy reduces supply costs and protects against price fluctuations as shown by a mean score of 4.2292 and conservative policy allows customers to check that the merchandise they receive is as agreed as shown by a mean score of 3.6667. The respondents also indicated neutrality that conservative policy reduces the cost of possible interruptions in the production process as shown by a mean score of 3.3125, helps firms to strengthen long-term relationships with their customers as shown by a mean score of 2.9583 and reduces loss of business due to the scarcity of products as shown by a mean score of 2.5833, while they disagreed that conservative policy ensures that the services contracted are carried out as shown by a mean score of 2.1042.

4.3.5 Working Capital in the SACCOs

The study sought to establish the extent of respondents' agreement with the various statements about working capital in the SACCOs where a scale of 1-5 where 1= very great extent while 5= no extent at all was provided.

Table 4.11: Agreement to Statements about Working Capital in the SACCOs

Statements	A very great	A Great Extent	Moderate Extent	A Low extent	Very low extent	Mean	Std Dev.
Financing choices vary systematically with macroeconomic conditions	37.5	58.3	2.1	2.1	0	3.6875	.62420
Working capital Decisions that tend to increase profitability tend to increase risk	29.2	43.8	8.3	8.3	10.4	2.2708	1.26726
Cash conversion cycle is a key factor in working capital management	43.8	27.1	6.3	12.5	10.4	4.1875	1.39385
Aggressive working capital policies enhance profitability	35.4	33.3	16.7	10.4	4.2	3.1458	1.14835
Firms' that exhibit low degrees of financial constraints have pronounced counter-cyclical leverage	2.1	4.2	2.1	70.8	20.8	4.2421	.7707
Minimizing working capital investment (aggressive policies) positively affect the profitability of the firm	10.4	29.2	6.3	39.6	14.6	3.1875	1.29904

Less profitable firms wait longer to pay their bills	4.2	6.3	2.1	3.3	52.1	3.3125	7.4085
Reducing the net trade credit increases firms' profitability	35.4	25	4.2	16.7	18.8	2.5833	1.5686
The ability of the firm to continuously operate in longer period is depends on how they deal with investment in working capital management.	4.2	4.2	6.3	35.4	50	4.2292	1.0365
The SACCO can improve their profitability by reducing the number of days accounts receivable are outstanding and reducing inventories.	27.1	37.5	7.5	14.6	14.6	3.3083	27.143
Increasing supplier financing may result in losing discount for early payments	25	25	12.5	29.2	8.3	2.7083	2.542
Cash conversion cycles are significantly negative associated to the firm profitability.	37.5	58.3	2.1	2.1	0	3.6875	.6242
The optimal of working capital management is could be achieve by firm that manage the trade off between profitability and liquidity.	29.2	43.8	8.3	8.3	10.4	2.2708	1.267
Firms with high liquidity of working capital may have low risk then low profitability.	43.8	27.1	6.3	12.5	10.4	4.1875	1.393
Working capital act as a restrain in financial performance, since it does not contribute to return on equity	35.4	33.3	16.7	10.4	4.2	3.1458	1.148

Majority of the respondents indicated agreement that firms' that exhibit low degrees of financial constraints have pronounced counter-cyclical leverage to a great extent as shown by a mean score of 4.2421, the ability of the firm to continuously operate in longer period is depends on how they deal with investment in working capital management to a great extent as shown by a mean score of 4.2292, firms with high liquidity of working capital may have low risk then low profitability and cash conversion cycle is a key factor in working capital management to great extents as shown by mean scores of 4.1875 in each case, financing choices vary systematically with macroeconomic conditions to a great extent as shown by a mean score of 3.6875 and cash conversion cycles are significantly negative associated to the firm profitability to a great extent as shown by a mean score of 3.6875. The respondents also agreed that less profitable firms wait longer to pay their bills to a moderate extent as shown by a mean score of 3.3125, the SACCO

can improve their profitability by reducing the number of days accounts receivable are outstanding and reducing inventories to a moderate extent as shown by a mean score of 3.3083, minimizing working capital investment (aggressive policies) positively affect the profitability of the firm to a moderate extent as shown by a mean score of 3.1875, working capital act as a restrain in financial performance, since it does not contribute to return on equity to a moderate extent as shown by a mean score of 3.1458, aggressive working capital policies enhance profitability to a moderate extent as shown by a mean score of 3.1458, increasing supplier financing may result in losing discount for early payments to a moderate extent as shown by a mean score of 2.7083 and reducing the net trade credit increases firms' profitability to a moderate extent as shown by a mean score of 2.5833, while they indicated agreement that working capital decisions that tend to increase profitability tend to increase risk and optimal of working capital management is could be achieve by firm that manage the trade off between profitability and liquidity o a moderate extent as shown by a mean score of 2.2708 in each case.

4.3.6 Effects of Working Capital Financing on Various Profitability Aspects

The study sought to investigate the extent to which working capital financing affect the various aspects of the SACCO's profitability.

Table 4.12: Effects of Working Capital Financing on Various Profitability Aspects

Aspects of the SACCO's profitability	Very low extent	Low extent	Moderate extent	Great extent	Very great extent	Mean	Std Dev.
Leverage	37.5	58.3	2.1	2.1	0	3.6875	.6242
Current Ratio	29.2	43.8	8.3	8.3	10.4	2.2708	1.267
Sales Growth	43.8	27.1	6.3	12.5	10.4	4.1875	1.393
Debt Ratio	35.4	33.3	16.7	10.4	4.2	3.1458	1.148

The respondents indicated that working capital financing affect the sales growth to a great extent as shown by a mean score of 4.1875, working capital financing affect leverage to a great extent

as shown by a mean score of 3.6875, working capital financing affect debt ratio to a moderate extent as shown by a mean score of 3.1458, while it affects current ratio to a little extent as shown by a mean score of 2.2708.

4.4 Inferential Statistics

In addition, the researcher conducted a regression analysis to investigate the effect of working capital policies on profitability of SACCOs in Nairobi.

Regression Analysis

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
Aggressive policies	0.097	0.009	0.003	0.718
Conservative policy	0.257	0.066	0.060	0.697
Hedging policy	0.365	0.085	0.076	0.564

Source: Researcher, 2010

The above table presents the correlation and the coefficient of determination between profitability (dependent variable) and the independent variables (aggressive policy, conservative policy and hedging policy). From the findings, the study found that there was a positive relationship between the dependent variable and the independent variables.

Of all the three independent variables, aggressive policy had the highest relationship with the bank's profitability of 0.097 followed by hedging policy with 0.365, while conservative policy came third with a correlation value of 0.257.

As aforementioned, of all three working capital policies, aggressive policy had the highest coefficient of determination (strength of relationship between aggressive policy and the SACCOs profitability) of 0.097 while hedging and conservative policies had the value of 0.365 and 0.257 respectively.

Coefficient of Determination (R²)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.771(a)	.594	.172	.46316

Source: Researcher, 2010

Predictors: (Constant), aggressive, hedging and conservative policies

Coefficient of determination explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (profit) that is explained by all the three independent variables (aggressive, hedging and conservative policies).

The three independent variables that were studied, explain 59.4% of the SACCOs' profitability as represented by the R². This therefore means the three independent variables contribute about 59.4% to the SACCOs' profit while other factors not studied in this research contributes 40.6% of the SACCOs' profitability.

Therefore, further research should be conducted to investigate the other factors (40.6%) that contribute to the SACCOs' profitability.

Multiple Regression Analysis

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.334	.311		4.285	.000
	Aggressive	0.1981	.164	0.193	0.876	.387
	Conservative	0.0196	0.0481	0.0327	0.4069	0.6846
	Hedging	0.144	0.0714	0.2325	2.7736	0.0062

Source: Researcher, 2010

Dependent Variable: Working capital policies employed by the SACCOs lead to profitability

The researcher conducted a multiple regression analysis so as to determine the relationship between the SACCOS profitability and the three working capital policies. The regression equation ($Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3$) will be:

$$Y = 1.334 + 0.1981X_1 + 0.0196X_2 + 0.144X_3$$

Whereby Y = SACCOS profitability

X_1 = Aggressive

X_2 = Conservative

X_3 = Hedging policy

According to the regression equation established, taking all factors (aggressive, conservative and hedging policies) constant at zero, the profitability of the SACCOS as a result of working capital policies will be 1.334. The data findings analyzed also shows that taking all other independent variables at zero, a unit increase in aggressive working capital policies will lead to a 0.1981 increase in profitability. A unit increase in conservative policy will lead to a 0.0196 increase in profitability; while a unit increase in hedging policies will lead to a 0.144 increase in profitability. This infers that aggressive policy contributed more to the profitability of the SACCOS followed by hedging policies.

4.5 Summary of the Findings

The study found that working capital management is important because of its effects on the firm's profitability and risk, and consequently its value. It was established that the board members, operational managers, CEOs and other stakeholders such as financial advisors and shareholders were involved in making the working capital decisions in the SACCOS. On the influence of increasing working capital investment on the profitability of the SACCOS, the study found that increasing working capital investment influences on the profitability of the SACCOS and that the SACCOS reacted to movements in the economy and their effect on firms' cash flow patterns through issue of less debt overall (reduce interest payments) and through adding special features to the issue of the debt by way of variable interest. Working capital financing decisions was found to affect the wealth of the organisations to a great extent.

The study found that SACCOs employ investing heavily in working capital (conservative policy) as a strategy for net working capital management, SACCOs adopted working capital hedging policies designed to increase sales and used minimizing working capital investment (aggressive policies). The study also found that risk factors and profitability aspect affect working capital financing decision using debt and/or equity to a great extent, that size factor affect working capital financing decision using debt and/or equity to a moderate extent, while taxation factors affect working capital financing decision using debt and/or equity to a little extent. Majority of the respondents indicated that optimal (or target) debt ratios influence working capital financing policies to a great extent as shown by a mean of 4.2421, asset tangibility influence working capital financing policies to a great extent as shown by a mean score of 4.1875, retention rate and financial flexibility influence working capital financing policies to a moderate extent as shown by a mean score of 3.1875 and that, firm growth influence working capital financing policies to a moderate extent as shown by a mean score of 3.1458.

On the level of agreement with the various benefits of maintaining high inventory levels at the SACCOs, the study found that conservative policy reduces supply costs and protects against price fluctuations, conservative policy allows customers to check that the merchandise they receive is as agreed, conservative policy reduces the cost of possible interruptions in the production process, helps firms to strengthen long-term relationships with their customers and reduces loss of business due to the scarcity of products, while they disagreed that conservative policy ensures that the services contracted are carried out. Majority of the respondents indicated agreement that conservative policy reduces supply costs and protects against price fluctuations as shown by a mean score of 4.2292 and conservative policy allows customers to check that the merchandise they receive is as agreed as shown by a mean score of 3.6667. The respondents also indicated neutrality that conservative policy reduces the cost of possible interruptions in the production process as shown by a mean score of 3.3125, helps firms to strengthen long-term relationships with their customers as shown by a mean score of 2.9583 and reduces loss of business due to the scarcity of products as shown by a mean score of 2.5833, while they disagreed that conservative policy ensures that the services contracted are carried out as shown by a mean score of 2.1042.

The study sought to establish the extent of respondents' agreement with the various statements about working capital in the SACCOs. It was found that firms' that exhibit low degrees of financial constraints have pronounced counter-cyclical leverage to a great extent, the ability of the firm to continuously operate in longer period is dependent on how they deal with investment in working capital management to a great extent, firms with high liquidity of working capital may have low risk then low profitability and cash conversion cycle is a key factor in working capital management to great extents, financing choices vary systematically with macroeconomic conditions to a great extent, and cash conversion cycles are significantly negative associated to the firm profitability to a great extent, less profitable firms wait longer to pay their bills to a moderate extent, SACCOs can improve their profitability by reducing the number of days accounts receivable are outstanding and reducing inventories to a moderate extent, minimizing working capital investment (aggressive policies) positively affect the profitability of the firm to a moderate extent, working capital act as a restrain in financial performance, since it does not contribute to return on equity to a moderate extent, aggressive working capital policies enhance profitability to a moderate extent, increasing supplier financing may result in losing discount for early payments to a moderate extent, and reducing the net trade credit increases firms' profitability to a moderate extent, while working capital decisions that tend to increase profitability tend to increase risk and optimal of working capital management could be achieved by firms that manage the trade off between profitability and liquidity to a moderate extent. Working capital financing was also found to affect the sales growth to a great extent, working capital financing affect leverage to a great extent, working capital financing affect debt ratio to a moderate extent, while it affects current ratio to a little extent.

According to the regression equation established, taking all factors (aggressive, conservative and hedging policies) constant at zero, the profitability of the SACCOs as a result of working capital policies will be 1.334. The data findings analyzed also shows that taking all other independent variables at zero, a unit increase in aggressive working capital policies will lead to a 0.1981 increase in profitability. A unit increase in conservative policy will lead to a 0.0196 increase in profitability; while a unit increase in hedging policies will lead to a 0.144 increase in profitability. This infers that aggressive policy contributed more to the profitability of the SACCOs followed by hedging policies.

CHAPTER FIVE

5.0 SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

This chapter provides the summary of the findings from chapter four, and also it gives the conclusions and recommendations of the study based on the objectives of the study. The objective of this study was to investigate the effect of working capital financing policies on profitability of SACCOs in Nairobi.

The study utilised a cause-effect research design. A cause-effect research design (causal) was chosen because it enabled the researcher to generalize the findings to a larger population. This design was appropriate in investigating the working capital financing policies of Saccos in Nairobi and how they affect the performance of the Saccos. There are 200 active SACCOs in Nairobi (Ministry of Co-operative Development and Marketing 2008). Primary data was collected using semi-structured questionnaires. The information was displayed by use of bar charts, graphs and pie charts and in prose-form. This was done by tallying up responses, computing percentages of variations in response as well as describing and interpreting the data in line with the study objectives and assumptions through use of SPSS version 16.0.

5.2 Conclusions

The study concludes that working capital management is important because of its effects on the firm's profitability and risk, and consequently its value. The board members, operational managers, CEOs and other stakeholders such as financial advisors and shareholders are involved in making the working capital decisions in the SACCOs. On the influence of increasing working capital investment on the profitability of the SACCOs, the study concludes that increasing working capital investment influences on the profitability of the SACCOs and that the SACCOs reacted to movements in the economy and their effect on firms' cash flow patterns through issue of less debt overall (reduce interest payments) and through adding special features to the issue of the debt by way of variable interest.

It was established that the SACCOs employ investing heavily in working capital (conservative policy) as a strategy for net working capital management, SACCOs adopted working capital hedging policies designed to increase sales and used minimizing working capital investment (aggressive policies). The study also concludes that risk factors and profitability aspect affect working capital financing decision using debt and/or equity to a great extent, that size factor affect working capital financing decision using debt and/or equity to a moderate extent, while taxation factors affect working capital financing decision using debt and/or equity. Optimal (or target) debt ratios influence working capital financing policies, asset tangibility influence working capital financing policies retention rate and financial flexibility influence working capital financing policies and that firm growth influence working capital financing policies.

The study concludes that conservative policy reduces supply costs and protects against price fluctuations, conservative policy allows customers to check that the merchandise they receive is as agreed, conservative policy reduces the cost of possible interruptions in the production process, helps firms to strengthen long-term relationships with their customers and reduces loss of business due to the scarcity of products, while they disagreed that conservative policy ensures that the services contracted are carried out.

It was clear from the study that firms' that exhibit low degrees of financial constraints have pronounced counter-cyclical leverage, the ability of the firm to continuously operate in longer period is dependent on how they deal with investment in working capital management, firms with high liquidity of working capital may have low risk then low profitability and cash conversion cycle is a key factor in working capital management, financing choices vary systematically with macroeconomic conditions, and cash conversion cycles are significantly negative associated to the firm profitability, less profitable firms wait longer to pay their bills, SACCOs can improve their profitability by reducing the number of days accounts receivable are outstanding and reducing inventories, minimizing working capital investment (aggressive policies) positively affect the profitability of the firm to a moderate extent, working capital act as a restrain in financial performance, since it does not contribute to return on equity, aggressive working capital policies enhance profitability, increasing supplier financing may result in losing discount for early payments, and reducing the net trade credit increases firms' profitability to a moderate extent, while working capital decisions that tend to increase profitability tend to

increase risk and optimal of working capital management could be achieved by firms that manage the trade off between profitability and liquidity. Working capital financing was also found to affect the sales growth, working capital financing affect leverage to a great extent, working capital financing affect debt ratio and it also affects current ratio.

5.3 Policy Recommendations

From the study findings and conclusions, working capital management is important because of its effects on the firm's profitability and risk, and consequently its value. This study therefore recommends that organizations should enhance their working capital management to influence firm's profitability and risk, and consequently its value. The increasing working capital investment would influence the profitability of the SACCOs and that the SACCOs should react to movements in the economy and their effect on firms' cash flow patterns through issue of less debt overall (reduce interest payments) and through adding special features to the issue of the debt by way of variable interest.

The study found that SACCOs employ investing heavily in working capital (conservative policy) as a strategy for net working capital management, SACCOs adopted working capital hedging policies designed to increase sales and used minimizing working capital investment (aggressive policies). It is therefore recommended that the SACCOs should reinforce the working capital policies to influence risk factors and profitability, size factor as well as taxation factors that affect working capital financing decision using debt and/or equity.

Since conservative policy reduces supply costs, protects against price fluctuations, allows customers to check that the merchandise they receive is as agreed, reduces the cost of possible interruptions in the production process, helps firms to strengthen long-term relationships with their customers and reduces loss of business due to the scarcity of products, the study recommends that the SACCOs should apply the conservative policies to realize the results of it in their working capital management. This would generally affect the financial performance of the SACCOs.

The study further recommends that since firms' that exhibit low degrees of financial constraints have pronounced counter-cyclical leverage, the ability of the firm to continuously operate in

longer period is dependent on how they deal with investment in working capital management, firms with high liquidity of working capital may have low risk then low profitability and cash conversion cycle is a key factor in working capital management, then there is need to relook at the various financial aspects of the SACCOs that are related to working capital financing to enable success of the SACCOs since financing choices vary systematically with macroeconomic conditions, and cash conversion cycles are significantly negative associated to the firm profitability, less profitable firms wait longer to pay their bills. The SACCOs can improve their profitability by reducing the number of days accounts receivable are outstanding and reducing inventories, minimizing working capital investment (aggressive policies) positively affect the profitability of the firm to a moderate extent, working capital act as a restrain in financial performance, since it does not contribute to return on equity, aggressive working capital policies enhance profitability, increasing supplier financing may result in losing discount for early payments, and reducing the net trade credit increases firms' profitability.

5.4 Recommendations for Further Studies

The study has explored the effect of working capital financing policies on profitability of SACCOs in Nairobi and established that working capital financing polices are the main factors influencing profitability of the SACCOs. The financial sector in Kenya however is comprised of various other financial institutions which make use of working capital financing policies to influence their profitability. These institutions differ in their way of management and have different settings all together. This warrants the need for another study which would ensure generalization of the study findings for all the financial institutions in Kenya and hence pave way for new policies. The study therefore recommends another study be done with an aim to investigate the effect of working capital financing policies on profitability of financial institutions in Kenya, with a main focus on commercial banks in Kenya since they are the main players in the financial sector in Kenya.

The study found that the factors investigated contributed 59.4% of the SACCOs profitability. There is therefore need to carry out another research to investigate the other factors not investigated in this study that contribute to 40.6% of the SACCOs profitability.

Another study needs to be carried out to investigate the effectiveness of the working capital policies in influencing other aspects of the financial institutions such as growth.

5.5 Limitations of the Study

The researcher encountered various limitations that tended to hinder access to information sought by the study. These included:

The researcher encountered problems of time as the research was being undertaken in a short period which limited time for doing a wider research. The respondents were reluctant in giving information fearing that the information sought would be used to intimidate them or print a negative image about the firm. The researcher handled the problem by carrying with him an introduction letter from the University and assured them that the information they gave would be treated confidentially and it was to be used purely for academic purposes.

The researcher also encountered problems in eliciting information from the respondents as the information required was subject to areas of feelings, emotions, attitudes and perceptions, which could not be accurately quantified and/or verified objectively. The researcher encouraged the respondents to participate without holding back the information they had as the research instruments did not bear their names.

Lack of sufficient funds limited the researcher from accessing all the SACCOs in Kenya to collect data for study. The researcher however limited himself to the SACCOs in Nairobi due to inadequacy of funds.

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Appendix 1: Questionnaire

The information provided here will be used solely for academic purposes and will be treated with maximum confidentiality.

PART A: DEMOGRAPHIC INFORMATION

1. Name of SACCO.....
2. Name of the respondent (optional).....
3. Position in the organisation.....
4. No of years you have been in the SACCO (Tick)

Below 2 years	<input type="checkbox"/>
3-5 Years	<input type="checkbox"/>
Above 5 years	<input type="checkbox"/>
5. No of years you have been in your position (Tick)

Below 2 years	<input type="checkbox"/>
3-5 Years	<input type="checkbox"/>
Above 5 years	<input type="checkbox"/>

PART B: SPECIFIC INFORMATION

1. “Working capital management is important because of its effects on the firm's profitability and risk, and consequently its value” To what extent do you agree with the statement?

Strongly agree	<input type="checkbox"/>
Agree	<input type="checkbox"/>

Neutral

Disagree

Strongly disagree

2. Who are involved in making the working capital decisions in your SACCO?

Operational Manager

CEO

The Board

Any other

3. What are the main internal determinants of the working capital financing decisions at your SACCO?

.....
.....
.....

4. What is the rate of influence of increasing working capital investment on the profitability of the SACCO?

Highly influence

Influence

Moderately influence

Low influence

No influence at all

5. What are the main sources of external finance for your SACCO?

.....

.....
.....
.....

6. To what extent does your SACCO react to movements in the economy and their effect on firms' cash flow patterns?

Issue less debt overall (reduce interest payments)

Add special features to the issue of the debt by way of variable interest

7. To what extent do working capital financing decisions affect the wealth of the organisation?

Very low extent

Low extent

Moderate extent

Very great extent

Great extent

8. What type of strategy for net working capital management does your Sacco employ?

Minimize working capital investment (aggressive policies)

Investing heavily in working capital (conservative policy)

Adopt working capital hedging policies designed to increase sales

9. To what extent do the following factors that affect working capital financing decision using debt and/or equity?

Factor	Very low extent	Low extent	Moderate extent	Great extent	Very great extent
Profitability					
Taxation					
Risk					
Size					

10. Rate the extent to which the following Control Variables Influence Working Capital Financing Policies.

Control Variables	Very low extent	Low extent	Moderate extent	Great extent	Very great extent
Asset Tangibility					
Firm Growth					
Optimal (or Target) Debt Ratios					
Retention Rate and Financial Flexibility					

11. “Focusing on working capital (conservative policy) may result in higher profitability.”
 To what extent do you agree with the following as the benefits of maintaining high inventory levels at your SACCO?

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
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Reduces the cost of possible interruptions in the production process					
Reduces loss of business due to the scarcity of products					
Reduces supply costs and protects against price fluctuations					
Allows customers to check that the merchandise they receive is as agreed					
Ensure that the services contracted are carried out					
Helps firms to strengthen long-term relationships with their customers					

12. To what extent do you agree with the following statements? Use a scale of 1-5 where 1= very great extent while 5= no extent at all.

	1	2	3	4	5
Financing choices vary systematically with macroeconomic conditions					
Working capital Decisions that tend to increase profitability tend to increase risk					
Cash conversion cycle is a key factor in working capital management					
Aggressive working capital policies enhance profitability					
Firms' that exhibit low degrees of financial constraints have pronounced counter-cyclical leverage					
Minimizing working capital investment (aggressive policies) positively affect the profitability of the firm					
Less profitable firms wait longer to pay their bills					
Reducing the net trade credit increases firms' profitability					
The ability of the firm to continuously operate in longer period is depends on how they deal with investment in working capital management.					
The SACCO can improve their profitability by reducing the number of					

days accounts receivable are outstanding and reducing inventories.					
Investing heavily in working capital (conservative policy) may result in higher profitability.					
Increasing supplier financing may result in losing discount for early payments					
Cash conversion cycles are significantly negative associated to the firm profitability.					
The optimal of working capital management is could be achieve by firm that manage the trade off between profitability and liquidity.					
Firms with high liquidity of working capital may have low risk then low profitability.					
Working capital act as a restrain in financial performance, since it does not contribute to return on equity					

13. To what extent does working capital financing affect the following aspects of the SACCO's profitability?

	Very low extent	Low extent	Moderate extent	Great extent	Very great extent
Leverage					
Current Ratio					
Sales Growth					
Debt Ratio					

14. Which are the difficulties encountered in obtaining funding for financing working capital at your SACCO?

.....

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.....

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Thank You!