International Journal of Economics, Commerce and Management
United Kingdom ISSN 2348 0386 Vol. VII, Issue 8, August 2019
http://ijecm.co.uk/

THE EFFECT OF RECEIVABLE MANAGEMENT ON PERFORMANCE OF SMALL AND MEDIUM SCALE MANUFACTURING FIRMS IN KIAMBU COUNTY, KENYA

Agnes Mutiso
Kirinyaga University, Kenya
agnes.mutiso2015@gmail.com

Patrick Mwangi
Kirinyaga University, Kenya

Abstract

The manufacturing sector has been identified as a key pillar in the achievement of the economic development of any country. The small scale manufacturing companies in particular have attracted the attention of the Kenyan government as a key source of employment and economic stability. Small scale companies are faced with particular problems due to their small sizes which threaten their success and survival. In this regard the government of Kenya has committed a lot of resources to facilitate the success of these entities but research provides evidence that they do not grow to become the middle or large scale companies as anticipated by the government. In line with these failures the current study sought to assess the effect of receivable management on performance of small scale manufacturing companies in Kiambu County in Kenya. Descriptive cross-sectional survey design using both quantitative and qualitative data was used to guide the study. Primary data was collected with the help of self-administered questionnaires from a sample of sixteen small and medium scale manufacturing firms which were randomly selected from both Ruiru and Thika municipalities. The study established a weak positive relationship between credit standard, credit terms, and profitability, while a weak negative relationship was identified between credit selection and profitability. Monitoring of receivables and collection efforts proved to have a fairly strong positive relationship with profitability. The study recommends that the firms should have a *qualified, full time credit manager who should be involved in all aspects of receivables management most especially monitoring which has shown to have a strong relationship with profitability.*

Keywords: Credit Standards, Collection efforts, Credit Monitoring, Profitability

INTRODUCTION

The performance of small and medium enterprises (SMEs) has been an issue of major concern both by the developed as well as developing countries due to their potential to contribute immensely towards economic development. Researchers have done considerable work in establishing the factors that hinder the performance of these SMEs which include among other inadequate working capital. Working capital is the operating capital that is available to a firm for the performance of its daily operations and for accomplishing its financial goals (Divya & Simran, 2017). Sound working capital management is crucial to the growth and survival of any organization (Njeru, Memba & Tirimba, 2017). Receivables form a significant component of the working capital of any organization thus its effective management may have a direct correlation with a firm's ability to realize its goals and objectives.

Accounts receivables represent extension of credit by the firm to its customers. For the average in a manufacturing firm, receivables represent 37% of the firms' current assets and about 16% of total assets (Pandey, 1997). According to Srivastava (2001) in India a typical manufacturing firm, 75% of the sales are credit sales. The extension of credit to customers in most manufacturing firms is a cost of doing business. By keeping its money tied up in receivables, the firm losses the time value of money and runs the risk of non-payment by its customers. In return for incurring these costs the firm can be competitive, attract and retain customers, improve and maintain sales hence achieve profitability goals. A study done in the United States of America concluded that the main objective of receivable management is to reach an optimal balance between the level of credit sales and the amount of receivables (Gill, Biggger & Atnur, 2010). Generally, the financial manager directly controls accounts receivables through involvement in establishment and management of credit policy. Gitau, Nyangweno, Mwencha and Onchagwa (2014) assert that the purpose of credit control is to ensure that trade debts are recovered early before they become uncollectible.

In Kenya the government has done commendable work in supporting SMEs, in particular improving the manufacturing sector with the aim of reducing the escalating unemployment rate in the country. In particular the government is keen on value addition of the agricultural products with the aim of boosting food production and the livelihood of the Kenyan farmers. Receivable management has been sighted as a cause of SMEs failure (Barad, 2010).Hence the purpose of this study which aims at assessing the effect of receivable management on the performance of small and medium scale manufacturing firms in Kenya.

Objectives of the Study

The purpose of the study was to establish the effect of receivables management on profitability of small and medium scale manufacturing firms in Kiambu County.

Hypothesis of the Study

The study tested the following null hypothesis:

There is no significant relationship between receivables management and profitability of small and medium scale manufacturing firms in Kiambu County.

Significance of the Study

This study is expected to contribute greatly on the issue of management of receivables by Small and medium scale manufacturing firms in Kenya. It is hoped that the research will contribute greatly to provide information to small scale businesses and most especially the Startups on how to manage their receivables and this may lead to reduced startup failures. It is also expected that the study will provide additional literature on receivable management to be relied upon by future researchers in their literature review. The managers and owners of these small scale firms will benefit by identifying better ways of managing their receivables as the study has provided an overall picture of receivable management practices among small scale firms.

Scope of the Study

The study examined receivables management and profitability of small and medium scale manufacturing firms in Kiambu County. The firms were randomly selected from Ruiru and Thika Constituencies which have majority of the Industries in Kiambu County. The study was basically concerned with how these firms manage their receivables. This included identification and examination of their credit policies as well as their collection policies and how these impact on the firm’s performance in terms of profitability. Data relating to the year 2017 was collected.

LITERATURE REVIEW

Theoretical Framework

DuPont System Theory

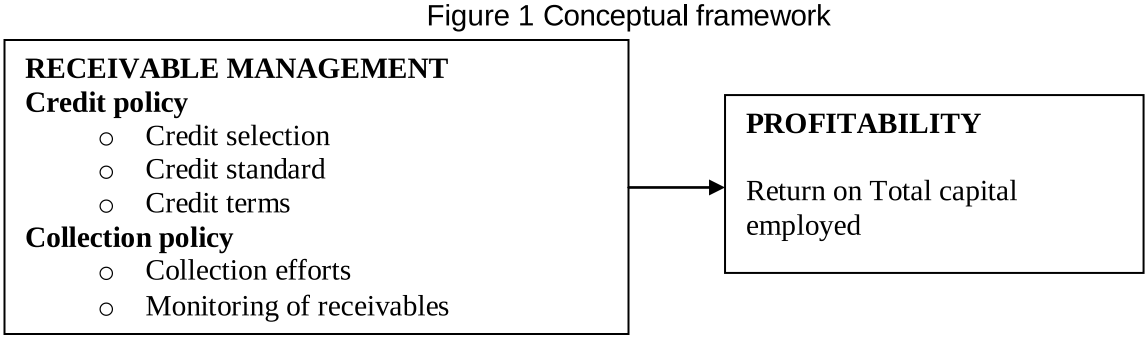
The DuPont model also known as the DuPont analysis is a model that is used for assessing a company's return on equity. It was created by the DuPont Corporation in the 1920s hence the name. It helps in assessing the part of the business that is under performing in terms of operational efficiency, asset use efficiency and financial leverage. Smith (1987) was among the first researchers to study the tradeoff between working capital management (WCM) and profitability based on the DuPont system theory and concluding that WCM affects profitability purely by definition. According to advocates of this theory by reducing the amount of capital invested in working capital, the company can effectively increase the asset turnover ratio which in turn will increase ROA which DuPont further shows that ROA will increase the return on Equity hence increase shareholder value (Rehn, 2012). It merges the income statement and the balance sheet into two summary measures of profitability: return on total assets and return on equity.

As indicated on the above model the management of the receivables is expected to influence the profitability of a firm. A tight credit policy is expected to be strict in selecting credit customers, to have tight credit standard as well as strict credit terms. These are expected to impact positively on profitability as they would lead to reduced costs of investment in receivables and low level of bad debt. A loose credit policy is expected to have the opposite effect on profitability.

Conceptual Framework

In the conceptual framework, the independent variables are covered under receivable management which involves credit policy (credit selection, credit standard, and credit terms) and collection policy (collection efforts and monitoring of receivables). The dependent variable, profitability is measured in terms of return on capital employed.

Figure 1 Conceptual framework



Source: modification of Dupont system theory

The conceptual framework is based on Dupont system theory which has been used for many years by financial managers as a structure for assessing the financial conditions of firms. It is aimed at finding key areas responsible for the firm's financial performance.

Empirical Review

Credit selection and profitability

Selection activity involves deciding whether to extend credit to a customer and how much credit to extend. If a firm sells to other businesses, giving credit is probably something it does without even thinking about it, it's a normal part of doing business (Periassamy, 2009). This doesn't mean however, that the firm should give credit automatically. Selling on credit, without checking the customer's ability to pay is a high risk strategy, and relying on the courts to get the money if the customer's gone bust is an equally costly and high risk strategy. This requires the firm to perform Credit checks which allows the manager to make informed decisions about which customers to extend credit to - and how much to let them have at any one time.

Credit standard and profitability

To find the best level of receivables the Finance Manager must review the firms' credit policy, any proposed changes and the incremental cash flow of each proposed policy. According to peel and Chittenden (1998) trade receivables represents up to 30-35% of the total firms assets. Firms which keep an eye on their credit policy, regularly reviewing it and reducing cash discount allowances do better in terms liquidity position and profitability (Ojeka, 2012). He adds that for small firms, supplying trade credit can be an important strategic or competitive tool that plays an important role in capturing new business, in building supplier-customer relationships, in signaling product quality, reputation and financial health. Thus determining the type of credit policy to adopt for the firm can have a big impact on its success. Changing credit standards can be expected to change the volume of sales, level of investment in receivables and the amount of bad debts. If the credit standards are tightened sales are expected to decrease, affecting profits negatively, while investments in receivables and the risk of bad debts are reduced this is expected to have a positive impact on profits. The opposite effects are likely to occur if credit standards are relaxed (Barad, 2010).

Credit terms and profitability

The firm should have 'terms of trade', also called conditions of sale or terms and conditions to protect the firm's rights as a seller. The terms of trade is a legal document and needs to be drawn up by someone with legal expertise. When a firm offers credit terms to the customers, it is extremely important to have a system in place to manage the accounts receivable (Waweru, 2013).

A firm's credit terms specify the repayment that it places on all its credit customers. The terms of credit specify the credit period and the use of cash discounts. Longer credit periods stimulates sales but the optimal credit period balances the marginal profits on increased sales against the cost of carrying the higher amount of accounts receivables. Similarly an optimal cash discount policy balances the benefits of increased sales and costs of discounts taken (Gallagher & Joseph, 1997). One of the reasons why debts remain unpaid is because of missing invoices and disputed orders. Invoices should be issued within 24 hours of goods delivery or service provision. They should contain all the necessary information and should be accurate. This avoids delays in payment while details are checked.

Collection Efforts and profitability

Most customers usually pay up their debts in full and on time, but unfortunately some won't. This could be a simple oversight, an administrative delay or perhaps they're waiting for payment themselves. Whatever the cause, the more actively the firm pursues the debt without getting aggressive the more chances of actually getting paid. Once an unpaid invoice is so many days overdue for about a week the debt recovery cycle should swing into action (Srivastava, 2001). This will normally include phone calls, emails, letters, faxes, and physical visits before it is referred to a solicitor or debt collection agency. This latter stage is costly and compromises goodwill so it should only be used as a last resort and only if it is cost effective (Megginson & Scott, 2008).

The efficiency of receivable collection is measured by the receivable turnover ratio, which is also a measure of the effectiveness of the credit policy (Deloof, 2003). He indicated that, for a firm to increase profitability it has to ensure that it reduces the number of receivable days. This would be achieved through accelerating the collection efficiency while trying to keep the collection costs and bad debts within limit. An effective collection system converts receivables to cash at the earliest agreed upon time. Peel and Chittenden (1998) argued that credit management is a neglected function in many small firms, with a focus on collection rather than front-end activities of negotiating, risk screening, using credit information and establishing clear credit policy which all have a positive impact on the efficiency of receivables management which in turn increases the profitability of the firm. Brigham (1992) indicates that a firm needs to continuously monitor and control its receivables to ensure success of the collection policies.

Monitoring receivables and profitability

Having a proper invoice does not necessarily mean that it will automatically be paid; in fact there is no use of giving an invoice if it will never be paid. It is sadly not just a matter of sitting back and waiting for the cheques to roll in (Pandey, 1997). Carefully monitoring invoices as they age and, for example, phoning a supplier to check they are on track to pay just before the due date, boosts the firms' chances of receiving prompt payment (Gallagher & Joseph, 1997). To do this efficiently the firm needs to produce an accounts receivable ageing report which tracks invoices until they are paid. Computerized bookkeeping software can be used for this purpose or one can create a manual version (Hill and Sartoris, 1992).The invoices can then be tracked, keeping an eye on what is due when, and phone major accounts before the due date to check that there are no problems with payment. It also makes it easier to see when invoices are overdue - and by how long - thus triggering the debt recovery process. The accounts receivable ageing report should be checked once a week and make sure it's up-to-date by noting down when payments were actually received. This gives the historical record for when to re-visit individual customer's payment histories or analyze the efficiency of the credit management policy. The final stage in the process is to tell employees what the policy is. Enforcing the credit limits and checks on over-enthusiastic sales staff can be a particular challenge. If you have a sales team you need to make it clear that their role is not just to sell, but to sell to clients who can and will pay.

Profitability of a firm

This study focuses on accounts receivable management with value of the firms in view. Many of the current asset management models that are found in financial management literature assume book profit maximization as the basic financial purpose. The small and medium enterprise value maximization strategy is executed with a focus on risk and uncertainty. An increase in the level of accounts receivables in a firm increases both net working capital and the costs of holding and managing accounts receivables. Both of these decrease the value of the firm, but a liberal policy in accounts receivable coupled with the portfolio management approach could increase the value (Mavutha, 2010).

Achieving excellent in managing receivables is critical to realizing and optimizing the profits and cash benefits from increased revenue. According to Salek (2005), there are three measures of receivable management which can unlock greater profitability these include; having a proper strategy of receivables management which supports the overall company strategy; having a fast and effective dispute resolution process which release money tied up in disputed invoice as fast as possible and lead to increased cash flow and accurate order fulfillment and invoicing. In addition to improving cash flow, accurate order fulfillment and invoicing enhances a company's image as a total quality supplier and improves productivity. Without profits, a firm cannot attract outside capital; moreover, present owners and creditors would become concerned about the company's future and attempt to recover their funds. Owners of the firm, creditors and management pay close attention to boosting profits due to the great importance placed on earnings in the market place (Owele & Makokeyo, 2015)

Summary of literature

Several studies have been undertaken on the area of receivable management all of which have emphasized on the importance of proper management of receivable as a factor to improve profitability. A firm's credit terms specify the repayment terms required of all its credit customers. Increase in cash discount and cash discount period will lead to increase in sales volume, increase in investment in receivables due to new comers and decrease in bad debts expenses. On the other hand increase in credit period is expected to lead to increase in sales volume, investment in receivables and bad debt expenses. Increase in sales is expected to have positive effect on profitability, while increase in investment in receivables and increase in bad debts are expected to have negative effect on profitability. Tight collection policy is expected to lead to reduced sales volume affecting profitability negatively while reduced investment in receivables as well as reduced bad debts will affect profitability positively (Srivastava, 2001).

Several studies have showed that the constraints to financial performance of small firms indicated that, small firms do not adopt the 'the best practice' models of financial management skills. In recent years more and more advice has been given to owner managers of small firms on financial management techniques. However, Ojeka (2012) claimed that there has been little improvement in the practices applied by small firms. Thus it is questionable whether the research methods adopted were able to elicit high quality information on the actual financial management practices worth of being applied by small firms hence the purpose of this study which was aimed at assessing the effect of receivable management on profitability of small and medium manufacturing firms to assess whether similar results would be established.

METHODOLOGY

Study Design

The study adopted a cross-sectional descriptive research design using both quantitative and qualitative data. The survey design was used because it provides quantitative and numeric descriptions of some part of the population (Kothari, 2007).

The Population

The population consisted of 52 small and medium scale manufacturing firms within Thika and Ruiru municipality which were registered by the year 2017. The researcher targeted respondents in accounting department in the positions of Assistant Accountants, Accountants, and Finance Managers to answer the questionnaire on behalf of the organization.

Sampling

The study was carried out on a sample of six (16) SMEs out of the target population of 52 firms. The sample size was determined by taking 30% of the target population (52) which was considered appropriate as advocated for by Oso&Onen (2005). The 16 firms were selected using purposive random sampling, where all the 52 firms which were registered by the year 2017 were given numbers in small papers, which were then folded and picked randomly giving each number an equal chance of being selected.

Data collection Method

Primary data was collected with the help of self-administered questionnaires. The questionnaire was composed of both closed and open ended questions. The questionnaire was used as a tool to collect data as it is appropriate to collect a lot of information over a short period of time (Kothari, 2007). The questionnaires were distributed by the researcher in one day and an arrangement was made with the respective firms on when to collect them back. Secondary data was collected by reviewing literature from the internet, journals, books and reports of previous researches done on the same area of the study.

Reliability and Validity of the instrument

Reliability refers to the degree of consistency and precision of the data collection instrument. Cronbach's Alpha (α) which is an instrument among others was used to determine the coefficient of reliability using Statistical Package for Social Science (SPSS).The questionnaire was considered reliable if the coefficient of reliability was 0.70 and above (Kothari, 2007). To test for validity of the instrument, a pre-test was done on two (2) firms which were not part of the sampled firms.

Data Processing, Analysis and Presentation

After data collection, all the filled questionnaires were given numbers 1-16 so as to enhance the quality of the data entry. The data was edited to ensure that all questions were properly filled. The data was tabulated and analyzed using SPSS. Descriptive statistics were used to analyse the variables under receivable management while Spearman correlation (r) was used to assess the relationship between receivables management and profitability within the firms and to test the null hypothesis. The collected data was analyzed at a significance level of (alpha) $\alpha = 0.05$.

FINDINGS AND DISCUSSION

Descriptive findings on receivable management

The study sought to establish whether the sampled firms had good receivable management practices based on six parameters. The average mean of each parameter and the overall mean with regard to management of receivables are shown on table 1 below.

Table 1 Receivable Management Practices

Parameters	**Average mean**
General Receivable Management	3.91
Credit Selection	3.76
Credit Standards	3.28
Credit Terms	3.64
Collection Efforts	3.67
Receivable Monitoring	3.83
Overall Mean	3.68

The findings of the study from the responses of the sampled firms regarding management of receivables revealed that the overall mean of receivable management parameters was found to be 3.91 meaning good credit management practices. With respect to credit selection the mean fell in the range of 3.76 meaning that these firms have good credit selection practices. On the setting of credit standard, the mean fell in the range of 3.28 meaning good credit standard practice. Regarding credit terms the mean score fell in the level of 3.64 meaning that the firms have good credit terms, while with regard to the collection efforts the mean fell in the range of 3.67 meaning good credit collection practices. The results show an overall mean of 3.83 with respect to receivables monitoring indicating that the firms have good receivable monitoring practices. In total the six statements achieved an overall mean of 3.68 which means that the firms have good receivable management practices. These findings indicate that these firms have been managing their receivables well.

Relationship between Receivable Management and Profitability

To examine and identify whether there is any significant relationship between management of receivables and profitability of the firms and test the hypothesis views were sought from the respondents concerning all the variables under receivables management and the variables under profitability. Spearman's correlation was used in analyzing this objective at (α= 0.05) level of significance.

Relationship between Credit Selection and Profitability

The study sought to assess the relationship between credit selection and profitability; the results are shown on table 2 below.

Table 2 Credit Selection and Profitability Correlations

			Credit selection	Profitability
Spearman's rho	Credit selection	Correlation Coefficient	1.000	-.312*
		Sig. (2-tailed)		.104
		N	16	16

*Correlation is significant at the 0.05 level (2-tailed).

Regarding the relationship between credit selection practices and profitability, the results show also a weak negative relationship (r =-0.312) which was not significant (p= 0.104) at P=0.05).This implies that the tight the selection practices, the lower the profitability of the firms while the relaxed the credit selection practices the higher the profitability because relaxed terms lead to increased sales. These findings are in line with the words of Megginson and Scott (2008) who indicated that when a firm has strict credit selection policies it negatively affects profitability as it reduces sales which have a direct impact on profitability.

Relationship between credit standards and profitability

The results on the relationship between credit standards and profitability are shown on below.

Table 3 Credit Standards and Profitability Correlations

			Credit standards	Profitability
Spearman's rho	Credit Standards	Correlation Coefficient	1.000	.341*
		Sig. (2-tailed)		.083
		N	16	16

*Correlation is significant at the 0.05 level (2-tailed).

Between credit standard and profitability the results shows (r=0.341) a weak positive relationship. The results show that the (p) value on credit standards is p=0.083 which is also greater than the critical value (α=0.05) meaning that the relationship is not significant between credit standard and profitability. This implies that strict credit standards lead to an insignificant increase in profitability.

These findings were supported by Waweru (2013) when he advised that firms should have tight credit standards to be able to reduce cost of investment in receivables and lower the level of bad debts which could result into higher profits.

Relationship between Credit Terms and Profitability

The results (Table 4) below show the relationship between credit terms and profitability of the sampled firms,

Table 4 Credit Terms and Profitability Correlations

			Credit Term	Profitability
Spearman's rho	Credit Term	Correlation Coefficient	1.000	.334*
		Sig. (2-tailed)		.088
		N	16	16

*Correlation is significant at the 0.05 level (2-tailed).

Regarding credit terms and profitability, the results show r=0.334. Indicating a fairly weak positive relationship with a significant level p=0.088 which is greater than the critical value (α=0.05) meaning that the relationship is not significant. This implies that a firm with good credit terms leads to higher profitability.

According to Deloof (2003), longer credit periods stimulates sales but the optimal credit period balances the marginal profits on increased sales against the cost of carrying the higher amount of accounts receivables. Similarly an optimal cash discount policy balances the benefits of increased sales and costs of discounts taken when managed properly optimal credit terms have a positive impact on profitability.

Relationship between Collection Efforts and Profitability

The study sought to assess the relationship between receivable collection efforts and profitability of the sampled firms. The results are depicted on table 5 below.

Table 5 Collection Efforts and Profitability Correlations

			Collection Efforts	Profitability
Spearman's rho	Collection Efforts	Correlation Coefficient	1.000	.704*
		Sig.(2-tailed)		.004
		N	16	16

*Correlation is significant at the 0.05 level (2-tailed).

To establish the relationship between collection efforts and profitability the results show r=0.704 which is also a strong positive relationship with a significant level p=0.040 which is less than the critical value (α=0.05). This means that the relationship is significant. This implies that the better the collection efforts, the higher the profitability at almost the same proportion. According to Mavutha (2010) an effective collection system converts receivables to cash at the earliest agreed upon time. This enhances the liquidity levels of the organization which in turn translates into profitability. The results of this study were supported by Deloof (2003) who indicated that, for a firm to increase profitability it has to ensure that it reduces the number of receivable days. This would be achieved through accelerating the collection efficiency while trying to keep the collection costs and bad debts within limit.

Relationship between Receivables Monitoring and Profitability

The study sought to assess the relationship between monitoring of receivables and profitability of the sampled firms as shown on table 6 below.

Table 4.6 Receivables Monitoring and Profitability Correlations

			Receivable management	Profitability
Spearman's rho	Receivables Monitoring	Correlation Coefficient	1.000	.781*
		Sig. (2-tailed)		.001
		N	16	16

*Correlation is significant at the 0.05 level (2-tailed).

The results show that monitoring receivables has a fairly strong positive relationship with profitability with r=0.671 with a (p) value of p=0.001 which is also less than the critical value (α=0.05) which indicates that there is a significant positive relationship. This implies that monitoring of receivables has more than proportionate positive effect on profitability. Barad (2010) indicates that a firm needs to continuously monitor and control its receivables to ensure success of the collection policies which determines the rate at which the credit sales are turned into cash. These findings were also supported by Ojeka (2012) where he empirically found out that there was a statistically significance between profitability and receivable management of Pakistan firms and concluded that managers can create profits for their firms by correctly handling the cash conversion cycle and keeping the accounts receivables at an optimal level.

General Receivable Management and Profitability

The study assessed the relationship between general receivable management and profitability of the firms; the results are shown on table 7 below.

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Table 7 General Receivable Management and Profitability Correlations

			Receivable management	Profitability
Spearman's rho	Receivable management	Correlation Coefficient	1.000	.445*
		Sig. (2-tailed)		.023
		N	16	16

*Correlation is significant at the 0.05 level (2-tailed).

The results of the Spearman's correlation (r) value in respect to identifying the relationship between general receivable management and profitability was r = 0.445 which indicates that there is a strong positive relationship. But, the (p=0.023) level of significance which is less than the critical value (α=0.05) indicating that the relationship is significant. Thus, the null hypothesis that "there is no significant relationship between receivable management and profitability" was not accepted. This implies that proper general management of receivables does lead to improved profitability of the sampled firms. These findings are in line with the work of Brigham (1992) who indicated that even though the firms adopt the best practices of receivable management it does not mean they will remain profitable due to the high costs associated with receivables. Hence his conclusion that these firms should ensure that they perform cost benefit analysis between the cost of managing receivables and the benefits derived from such a practice. Srivastava (2001) noted that the benefit of giving credit should be weighed against the opportunity cost foregone to determine whether to tie up the cash in receivables or to invest it else were where it can yield better returns.

SUMMARY

The study was aimed at finding out whether proper management of receivables can improve the profitability levels of the small and medium scale manufacturing firms in Kiambu County. Receivables management was measurement in terms of credit selection, credit standards, credit terms, collection efforts and receivables monitoring. The descriptive findings of the study revealed that sampled firms had good receivable management practices with regard to Credit selection, credit standard, credit terms, collection efforts and receivable monitoring practices. In total the six statements achieved an overall mean of 3.68 which means that the firms have good receivable management practices. These findings indicate that these firms have been managing their receivables well.

The findings revealed that there was a weak insignificant negative relationship between credit selection and profitability. A weak insignificant positive relationship was established between credit standard, credit terms and profitability. While a significant positive relationship was established between receivable collection efforts, monitoring of receivables and profitability at 5% (α=0.05) level of significance.

The spearman correlations (r) findings established a general strong relationship(r=0.671 with a (p) value of p=0.001) between receivable management and profitability of the sampled firms which was significant at α=0.05. Based on these findings the Null Hypothesis that, there is no significant relationship between receivable management and profitability of the sampled firms was rejected.

CONCLUSIONS AND RECOMMENDATIONS

From the above findings, the sampled firms in Kiambu County were found to have good receivables management practices. In particular there was no significant relationship between credit selection, credit standard, credit terms and profitability while there was a statistically significant relationship between, collection efforts, monitoring of receivables and profitability. Thus it can be concluded that firms which aggressively manage the post-delivery activities of receivables management enhance the profitability of their firms.

From the above findings and conclusions, the manufacturing firms should devote the receivable management efforts and resources towards post-delivery activities which include monitoring of receivables and collection efforts so as to earnest the positive contribution towards their bottom line. This will ensure faster collection of cash from receivables which enhances the liquidity level of the firm as it has proved to have a strong relationship with profitability.

The study recommends further studies to be carried out investigating the push factors for small scale manufacturing firms to adopt good working capital practices.

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