ABSTRACT

Working capital management means the administration of current assets and current liabilities. Studies on effect of working capital management on profitability have revealed positive and negative relationships. Studies focusing on average collection period, inventories turnover in days, average payment period and cash conversion cycle on performance of construction and allied, energy and petroleum companies are missing. This study seeks to analyze working capital management on performance of construction and allied, energy and petroleum companies listed at Nairobi Securities Exchange, Kenya for a period of 2000-2016. Specific objectives are to determine; effect of average collection period on performance, effect of inventories turnover in days on performance, effect of average payment period on performance and effect of cash conversion cycle on performance of construction and allied, energy and petroleum companies. The study was anchored on the cash conversion cycle and risk-return trade-off theories. The study adopted diagnostic and descriptive research designs. Study was done in Kenya. Target populations are 9 firms, appendix I. Stratified sampling was used to sample 2 sectors. Census survey was used for 8 companies in the two sectors. Secondary data was used. Data sources were financial statements. Data was analyzed using regressions and correlations. Results were presented by tables. Regression and correlation analysis revealed a significant negative relationship between salesT and ACP (R=-0.297, p value=0.001<0.01), insignificant negative relationships between ROE and ACP (R=-0.163, p value= 0.078>0.05) implying that short ACP was applied for quick money collection. It established a significant negative relationship between salesT and ITP (R= -0.546, p value=0.000<0.01) implying firms took short period to convert inventories to sales, insignificant positive relationships between ROE and ITP (R=0.132, p value=0.154>0.05) implying firms held a lot of inventories for more production. It revealed a significant negative relationship between saleT and APP (R= -0.306, p value=0.001<0.01), insignificant negative relationship between ROE and APP (R= -0.134, p value=0.148>0.05) implying firms speeded up payments to benefit from prompt payments. It established a significant negative relationship between salesT and CCC (R=-0.180, p value=0.051≥0.05) implying firms applied short CCC to avoid funds tied up in working capital, insignificant positive relationship between ROE and CCC (R=103, p value=0.268>0.05) implying many inventories held. Multiple regression of independent variables on sales revealed 34.4% variations in sales turnover was explained by the model, multiple regression of independent variables on ROE revealed 6.6% variations in ROE was explained by the model. The study concludes that ACP has negative effects on sales turnover and ROE, ITP relates to sales turnover negatively and ROE positively, APP relates to sales turnover and ROE negatively and CCC affects sales turnover negatively and ROE positively. Study recommends shortening ACP, ITP, CCC and paying suppliers in time. Study suggests other sectors to be studied. Results were useful to scholars, company managers, investors, regulators and policy formulators.