

**WORKING CAPITAL MANAGEMENT PRACTICES AND FINANCIAL
PERFORMANCES OF PRIVATE HOSPITALS IN NAKURU COUNTY,
KENYA**

OLGAR KEMUMA ONDIEKI

D53/NKU/OL/37991/2016

**A RESEARCH PROJECT SUBMITTED TO SCHOOL OF BUSINESS,
ECONOMICS AND TOURISM IN PARTIAL FULFILLMENT FOR THE
REQUIREMENTS OF THE AWARD OF MASTER OF BUSINESS
ADMINISTRATION (FINANCE OPTION) DEGREE OF KENYATTA
UNIVERSITY**

OCTOBER, 2024

DECLARATION

The project is my original work and has not been presented in any other institution for any award

Signature: **Date:**

Olgar Kemuma Ondieki

D53/NKU/OL/37991/2016

This research project is submitted with my approval as the University Supervisor.

Signature: **Date:**

Dr. Farida Abdul

Lecturer, Accounting and Finance Department

School of Economics, Business and Tourism

Kenyatta University.

DEDICATION

I dedicate this work to Kevin, Lyla, Kylie, and Leon. Their zeal, support, concern, and love motivated me to succeed.

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OPERATIONAL DEFINITION OF TERMS

Accounts Payable Practices	The time frame within which private hospitals are required to settle their debts with suppliers. Effective management of this period can help in maintaining supplier relationships and optimizing cash flow. In this study this was measured by management of suppliers' debt and management of cost of operation.
Accounts Receivables Management Practices	Methods adopted by private hospitals to manage credit sales, including the collection of outstanding payments from patients or insurers, to maintain a steady cash flow and reduce the risk of bad debts. In this study this was measured by management of patient medical bills and medical bill recovery mechanism.
Cash Management Practices	Strategies and procedures implemented by private hospitals to efficiently handle cash inflows and outflows, ensuring sufficient liquidity for daily operations and enhancing overall financial performance. In this study this was measured by cash flow analysis, efficient banking arrangements and cash forecasting.
Financial Performance	A measure of the financial health of private hospitals, evaluated through profitability, revenue growth, liquidity ratios, and cost management

efficiency. Effective working capital management practices contribute to improved financial outcomes. Financial performance was in this study was measured by return on assets.

**Inventory Management
Practices**

Techniques used by private hospitals to oversee and control their inventory levels, ensuring that medical supplies, pharmaceuticals, and other resources are available when needed while minimizing costs. In this study this was measured by stock-outs levels and over-stocking.

Private Hospitals

These refers to health facilities owned by individuals for profit making or non-profit organization which is meant for the community or being run by the community and are funded by cash paying patients; insurance companies, and governments through national health insurance program or by foreign investors.

Working Capital Management

The process of managing a hospital's short-term assets (such as cash, inventory, and accounts receivables) and liabilities (like accounts payable) to ensure efficient operations and financial stability. In this study this included cash management, inventory management and account receivable practices.

ABBREVIATION AND ACRONYMS

FIFO	First-In-First-Out
ICT	Information and Computer Technology
JIT	Just-In-Time
KEMSA	Kenya Medical Supplies Authority
KHF	Kenya Healthcare Federation
KIPPRA	Kenya Institute for Public Policy Research and Analysis
KNBS	Kenya National Bureau of Statistics
NACOSTI	National Commission for Science, Technology and Innovation.
NGOs	Non-Governmental Organizations
OLS	Ordinary Least Squares
PHS	Private Health Sector
ROA	Return on Assets
ROE	Return on Equity
SMEs	Small and Medium Enterprises
SPSS	Statistical Package for Social Sciences
VIF	Variance Inflation Factor
WCM	Working Capital Management

ABSTRACT

Private health sector plays very fundamental role in the health sector in Kenya because it complements service delivery by the public health service providers. Besides offering health services to the general public, these providers are business entities whose primary objectives is to maximize returns on investment and other facets of profitability. As such, they face the challenge of realizing the foregoing financial objective. Since private hospitals are profit oriented besides providing alternative health care from public hospitals, falsification of financial statements, exaggeration of revenue and misstatement of expenses occur in order to meet the shareholder interests and expectation. In Kenya it is noted that small scale private health providers with small primary health care facilities face financial challenges. It is observed that the entities struggle to remain financially viable and as such the quality of their services differ. The general study objective was to assess the working capital management practices' impact on private hospitals' financial performance in Nakuru County. Specifically, the study sought to establish the effect of cash management, inventory management practices, and accounts receivables management practices and accounts payable period on private hospitals' financial performance in Nakuru County. This study used the pecking order theory, transaction cost theory the Keynesian liquidity preference theory and agency theory. The unit of observation was 15 large private hospitals in Nakuru County while the unit of analysis was 52 employees from finance, store and procurement department in these hospitals. Data processing and analysis was done using SPSS software. Both descriptive statistics and inferential statistics was employed in data analysis. From the analysis the study found that taxes imposed on the purchases medicines and medical equipment's negatively affects firms' financial performance. The study also revealed that high salaries lowers the amount of cash to be invested which affects the firm's financial performance. The study concluded that there was a positive and statistically significant correlation between cash management practices on financial performance of private hospitals in Nakuru County ($r = 0.443$; $p < 0.05$). The study also concluded that there was a positive and statistically significant correlation between inventory management practices on financial performance of private hospitals in Nakuru County, ($r = 0.441$; $p < 0.05$). The study further concluded that there was a strong positive correlation existed between accounts receivables management practices and financial performance of private hospitals in Nakuru County ($r = 0.541$; $p < 0.05$). The study also revealed that there was a strong positive correlation existed between accounts payable period on financial performance of private hospitals in Nakuru County ($r = 0.641$; $p < 0.05$). The study recommends that the hospital should adopt contemporary cash management practices, because proper cash management helps the business to have the required cash to run the daily activities. By generating enough cash, the hospital can meet its everyday business needs and avoid taking on debt. The study further recommended that the hospital should manage their accounts receivable effectively because, quality healthcare accounts receivable management is the primary requirement to keep the monthly cash flow of the medical practice healthy.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Efficient working capital management is critical for maintaining the liquidity and profitability of organizations, particularly in the healthcare sector, where consistent cash flow is necessary to ensure smooth operations, (Barnes and O'Hanlon, 2020). Working capital management (WCM) encompasses various practices, including inventory management, receivables and payables management, and cash flow optimization. Private hospitals, unlike public health institutions, rely on effective working capital strategies to cover operational expenses, acquire medical supplies, and invest in technology, ultimately enhancing their financial performance. According to Chandra and Ramana (2020), hospitals with effective WCM practices can better manage their short-term financial obligations, leading to improved profitability and reduced financial distress.

Private hospitals face unique challenges in maintaining adequate levels of working capital. The costs associated with healthcare services, including procurement of drugs, surgical supplies, and salaries of healthcare professionals, require substantial financial resources, (Ricci & Vito, 2021). Ineffective WCM practices can lead to liquidity issues, increased borrowing costs, and even bankruptcy (Singh & Kumar, 2019). Additionally, delayed payments from insurers and other payers further exacerbate cash flow issues, making it imperative for private hospitals to adopt sound WCM practices. It is suggested that adopting practices like just-in-time (JIT) inventory systems, regular monitoring of accounts receivable, and efficient credit management can significantly contribute to the financial stability of these institutions (Amin & Asif, 2021).

Moreover, the ongoing global healthcare challenges have intensified the need for robust working capital strategies. The COVID-19 pandemic underscored the importance of maintaining liquidity, as hospitals had to navigate fluctuating patient volumes, supply chain disruptions, and increased operational costs. Research by Bui, Hussain, and Khan (2022) highlights those private hospitals that implemented efficient working capital practices, such as better inventory control and streamlined billing processes, showed resilience during the pandemic and managed to sustain operations without compromising on the quality of care. Therefore, this study aims to explore the relationship between WCM practices and the financial performance of private hospitals, providing insights into how effective management of working capital components can enhance profitability and ensure sustainability.

Working capital comprises of the items listed an organization's balance sheet as current or short-term assets, whereas current liabilities are excluded in net working capital. The measures are seen as important tools for gaining access to assets in order to meet current organizational operations. As a result, the relevance of maintenance of an appropriate working capital level and how it contributes to company endurance is a concept all organizations should know (Harris, 2020).

Inventory management techniques have a substantial impact on SMEs' success, since three predictors of inventory turnover, inventory investment and inventory shrinkage, have been discovered to considerably impact on SMEs' performance (Abimbola & Kolawole, 2019). Furthermore, trade credit management practices greatly influence SMEs' performance, with the three predictors of credit debt collection, credit granting decision and credit policy all having significant and favorable associations with SMEs' performance.

In developed countries like the United States and the United Kingdom, healthcare providers are increasingly adopting sophisticated WCM practices to enhance their financial performance. For instance, a study by Kahn et al. (2021) demonstrated that hospitals implementing effective inventory management and cash flow forecasting could achieve significant improvements in liquidity and profitability. In Europe, hospitals have focused on optimizing their accounts receivable processes to mitigate the impact of delayed payments from insurers (McCarthy et al., 2020). These practices have become vital as hospitals navigate complex regulatory environments and rising operational costs.

In developing countries, the challenges of WCM can differ significantly due to varying levels of access to financial resources and healthcare infrastructure. For example, hospitals in India have been reported to struggle with inefficient cash flow management due to high levels of outstanding receivables and poor billing practices, which ultimately affect their financial performance (Gupta & Sharma, 2022). Similarly, in Brazil, a lack of efficient WCM practices has led to cash flow issues for private healthcare providers, impacting their ability to invest in quality services and technology (Ribeiro & Ferreira, 2020). The global disparity in healthcare funding and resource allocation highlights the need for tailored WCM strategies to enhance the financial sustainability of private hospitals across different regions.

In Africa, the healthcare landscape presents unique challenges for private hospitals in terms of working capital management. Countries such as South Africa and Nigeria have witnessed a growing number of private hospitals that strive to adopt effective WCM practices to enhance financial performance. A study by Olawale et al. (2021) in Nigeria revealed that many private hospitals face liquidity challenges due to inefficient management of receivables and inadequate inventory control, which affect

their overall financial health. Conversely, South African private hospitals have increasingly embraced technology-driven solutions to streamline billing and inventory processes, leading to improved cash flow and profitability (Mabasa et al., 2022). The regional context underscores the importance of context-specific WCM strategies to navigate the diverse financial landscapes of African healthcare systems.

In Kenya, the private healthcare sector has experienced rapid growth, with an increasing number of private hospitals emerging to meet the rising demand for healthcare services. However, effective working capital management remains a critical issue. Research by Muriuki et al. (2020) indicated that many private hospitals in Kenya struggle with cash flow management due to delayed payments from insurance providers and the government. This situation often results in liquidity challenges, hampering their ability to procure medical supplies and pay staff. Furthermore, the high operational costs associated with healthcare delivery in Kenya necessitate robust WCM practices to enhance financial sustainability.

A significant proportion of private hospitals in Kenya have started adopting best practices in WCM, such as improving inventory management and enhancing credit control mechanisms. A study by Ndung'u et al. (2021) found that hospitals implementing structured cash management and receivables monitoring systems reported better financial performance. The Kenyan government has also initiated reforms aimed at improving the financial health of healthcare institutions, emphasizing the need for effective working capital practices. As such, understanding the relationship between WCM practices and the financial performance of private hospitals in Kenya is essential for informing policy and management strategies that can promote sustainable growth in the healthcare sector.

1.1.1 Financial Performance

Financial performance allows decision makers to evaluate business plans. It also defines the level to which the financial objectives have been met or are being met (Nyabuti & Alala, 2019). The topic of financial performance is extremely important to some members of a corporation, particularly shareholders, lenders, the government, and tax authorities. Individuals are able to get answers to their questions and clear their minds. That is why evaluating a company's financial performance, which involves the use of financial statements, is critical (Gitman, 2019). A collection of data organized based on a consistent and logical accounting procedure are described as financial Statements.

According to Bhat and Jain (2021), financial considerations such as operational costs and current asset efficiency have marginally improved the private hospitals' financial performance in India. Nonetheless, despite the fact that private hospitals are underutilized, the cost of obligation and the capacity to support the obligation threatens the financial tasks and performance of private hospitals. The unreasonableness of private hospitals is exacerbated by weaknesses such as the practicality and manageability of its financial activities, the noteworthiness of cost recovery mechanisms, and low profitability and low operating efficiency. As a result, the private sector must improve its financial health in order to maintain long-term viability and the provision of high-quality health care. Because the majority of private hospitals are profit-making enterprises, financial performance is measured using components of profitability such as ROA and ROE. The operational expense ratio and fixed asset proportions are two other financial performance indicators.

Due to rising financial pressures on their profitability, the management of private health institutions' liabilities and assets has enhanced the need of good WCM. Current

liabilities and assets' management with efficient working capital enables hospitals to lessen current assets' holdings; inventories and accounts receivable, that require short-term loan financing and produce no interest income. According to (Kaur, 2019), while a lack of working capital has been found to hinder the liquidity of private hospitals in Nakuru, such as St Mary's Hospital in Gilgil, ineffective WCM leads to a loss in financial performance. The hospital has an informal strategic relationship with The Aga-khan University Hospital to manage its liquidity. However, correct actual working capital requirements estimation is a tough issue for management as the working capital amount required varies over time dependent on resources availability, credit policy, production cycle, scale of operation and nature of business

The profit indicator for private hospitals displays the revenue generated by patient care activities. The extent to which an organization's financial and physical assets are used to generate profit is measured by profitability metrics. Tenat and Serrat (2019) define financial health as debt and liquidity, both of which affect profitability. Covid-19 led in a fall in public investment designed to support educational and healthcare demands, resulting in problems in the functioning of private hospitals, which are a vital pillar of society.

1.1.2 Private Hospitals

According to Harris (2021), Kenya's private health sector serves almost half of the country's population. Nonetheless, financial constraints have hampered the growth of the private health industry. The most significant impediment that private health care providers encounter is a lack of financial resources. In the country, only a small number of providers use formal credit institutions to support their daily financial activities (Akoto, 2020). As a result, it has been seen that improvements in access to finance and business procedures would assist private health care providers in

supporting private health facilities and, moreover, improve the financial tasks of the private health care providers.

In Kenya, low quality general health care benefits necessitated the establishment of a private health care framework. The operations of operators who are not regulated by the government are included in this sector. These are the persons who operate private health facilities and seek to profit from the health-care industry, such as centers and emergency clinics run entirely by private management, as well as those run by strict missions and non-legislative organizations (Lawson, 2019).

In terms of health administrations, private healthcare providers play a significant role. The assistance from the legislature is the method of reasoning behind the big growth in the Private Health Sector (PHS). The administration has created a favorable environment for private health-care investors (Apondi, 2020). The Kenyan private health sector is among the most dynamic and developed in Sub-Saharan Africa, (Lawson, 2021). In acknowledgment of the pivotal job the private sector plays in the nation, the government has in the recent past evolved methodologies to additionally build up the private health sector in its vision 2030 Agenda on health. Such systems incorporate social health insurance to snowball access to health care and advancing progressively public-private partnerships. The government's project comes at an appropriate time, as the World Bank and the International Finance Corporation have established s in Africa to improve health through government-private sector collaboration (Nelson, 2020). In Nakuru, private hospitals support government efforts by providing health-care services.

1.2 Problem Statement

The financial performance of private hospitals in Kenya is a pressing concern that has significant implications for healthcare delivery and patient outcomes. Despite the rapid growth of the private healthcare sector, many private hospitals are facing severe financial challenges, which hampers their ability to provide quality care. According to a report by the Kenya National Bureau of Statistics (KNBS, 2022), approximately 35% of private hospitals in Kenya operate at a loss, a situation that threatens their sustainability. This financial instability is often linked to inadequate working capital management practices, which exacerbate existing operational inefficiencies and lead to increased costs. One of the critical issues impacting the financial performance of private hospitals is the inefficient management of receivables. A survey conducted by the Kenya Healthcare Federation (KHF, 2021) revealed that private hospitals face an average accounts receivable turnover period of 90 days, which is significantly higher than the recommended period of 30 days. This delay in collecting payments from insurance companies and patients strains cash flow and limits hospitals' ability to meet their short-term financial obligations. As a result, many private hospitals are forced to rely on external financing options, often at high-interest rates, which further erodes their profit margins and overall financial health.

Additionally, inventory management practices in private hospitals have been found to be suboptimal, contributing to unnecessary costs and wastage. The Kenya Medical Supplies Authority (KEMSA) reported that private hospitals often hold excess inventory levels, leading to increased storage costs and the potential for expired medical supplies. This inefficiency can result in an average annual loss of up to 15% of total revenue due to waste and obsolescence (KEMSA, 2022). Furthermore, poor inventory management practices can compromise patient care by resulting in

stockouts of essential medical supplies, thereby affecting the quality of services provided. The challenges of working capital management in private hospitals are compounded by the broader economic environment in Kenya, which has seen increased operational costs due to inflation and currency depreciation. As reported by the Kenya Institute for Public Policy Research and Analysis (KIPPRA, 2021), the healthcare sector experienced an inflation rate of approximately 5.5% in 2021, leading to increased costs of medical supplies and services. This scenario puts additional pressure on private hospitals to effectively manage their working capital, as rising costs further squeeze profit margins. Without effective strategies in place to optimize working capital, private hospitals are at risk of financial insolvency, which ultimately compromises patient care.

Studies have been conducted on the working capital management and financial performance of hospitals. For instance, Oketch (2022) did a study on working capital management and financial performance of private health facilities in Homabay County. The panel data for 115 health facilities-year end observations were used. The study revealed that all private health facilities in Homabay County registered positive Return on Asset across the year 2016 to 2020. However, the study used panel data from 2016-2020 and was conducted in Homabay county as opposed to the current study which was conducted in Nakuru County and used a descriptive research design.

Cheluget (2022) did a study on working capital management and financial performance of medical insurance companies in Kenya. The study was guided by agency theory, stakeholders, and transaction cost theory. The study found that inventory management positively but insignificantly influenced the financial performance of medical insurance companies in Kenya. However, the study the study was guided by agency theory, stakeholders and transaction cost theory as opposed to

the current study which was guided by Keynesian liquidity preference and transaction cost theory. Rauscher and Wheeler, (2012), the importance of working capital management for hospital profitability: evidence from bond-issuing, not-for-profit U.S. hospitals. The study used panel data derived from audited financial statements for 1,397 bond-issuing, not-for-profit U.S. hospitals for 2000-2007 were analyzed using hospital-level fixed-effects regression analysis. The results showed a negative relationship between hospitals' average collection period and profitability. That is, hospitals that collected on their patient revenue faster reported higher profit margins than did hospitals that have larger balances of accounts receivable outstanding. However, the study was conducted in bond-issuing, not-for-profit U.S. hospitals as opposed to the current study which focused on working capital management practices and financial performances of private hospitals in Nakuru County, Kenya.

1.3 Objectives of the Study

1.3.1 General Objective

To assess the effects of working capital management practices on financial performance of private hospitals in Nakuru County.

1.3.2 Specific Objectives

- i.** To determine the effect of cash management practices on financial performance of private hospitals in Nakuru County
- ii.** To find out the effect of inventory management practices on financial performance of private hospitals in Nakuru County
- iii.** To assess the effect of accounts receivables management practices on financial performance of private hospitals in Nakuru County

- iv. To establish the effect of accounts payable period on financial performance of private hospitals in Nakuru County

1.4 Research Hypotheses

H0₁: Cash management has no significant impact on private hospitals' financial performance in Nakuru County.

H0₂: Inventory management practices have no significant impact on financial performance of private hospitals in Nakuru County

H0₃: Accounts receivables management practices have no significant impact on financial performance of private hospitals in Nakuru County

H0₄: Accounts payable period has no significant impact on financial performance of private hospitals in Nakuru County

1.5 Significance of the Study

Conducting this study on working capital management practices and the financial performance of private hospitals in Kenya holds significant value for various stakeholders, including hospital administrators, policymakers, healthcare professionals, and investors.

1.5.1 Policymakers

Policymakers play a vital role in shaping the healthcare landscape in Kenya. This study offers evidence-based recommendations that can inform policy decisions aimed at improving the financial health of private hospitals. By understanding the challenges associated with working capital management, policymakers can design supportive frameworks and regulations that promote efficient financial practices in the healthcare sector. This may include initiatives to streamline billing processes, improve

reimbursement rates from insurance providers, and enhance access to financial resources for private hospitals.

1.5.2 Hospital Administrators

For hospital administrators, the findings of this study provide critical insights into the financial management practices that directly impact the operational success of private hospitals. By identifying the key components of working capital management, such as inventory control and accounts receivable management, administrators can develop strategies to optimize cash flow and reduce operational costs. This, in turn, will enable them to allocate resources more efficiently, invest in advanced medical technologies, and enhance the quality of care provided to patients.

1.5.3 Healthcare Professionals

Healthcare professionals are directly impacted by the financial performance of the institutions they work for. This study highlights the importance of financial health in maintaining a stable work environment and ensuring job security. By understanding how working capital management practices influence financial outcomes, healthcare professionals can advocate for better resource allocation and management practices within their organizations.

1.5.4 Investors and Financial Institutions

For investors and financial institutions, the insights gained from this study can help assess the viability and profitability of investing in private hospitals. By analyzing the correlation between effective working capital management practices and financial performance, investors can make informed decisions about where to allocate resources in the healthcare sector.

1.6 Study Scope

The study focused on working capital management practices and financial performances of private hospitals, Nakuru County, Kenya. The independent variables of the study were cash management practices, inventory management practices, accounts receivables management practices and accounts payable period. The dependent variable was financial performance. The research was undertaken in Nakuru County, Kenya where private hospitals were considered. The study was conducted using a descriptive research design. The study targeted 105 finance officers from 75 private hospitals in Nakuru County. The finance officers were the most conversant with financial issues in the private hospitals. The study was conducted for a duration of fourteen (14) months with an estimated budget of Ksh 92, 300.

1.7 Limitation of the Study

The hospital executives were hesitant to give permission for data collection. This was handled by reassuring the management that the study's purpose was solely educational. Furthermore, in the context of possible respondents' indifference toward filling out surveys, the researcher addressed this apathy in a variety of methods, including receiving an official letter from the university stating that data gathering aims are scholarly in nature. A permission document detailing the respondents' voluntary involvement in the study was given to them.

1.8 Organization of Study

The study is organized into five chapters; chapter one, chapter two, chapter three, chapter four and chapter five. Chapter one covers the background of the study, statement of the problem, objective of the study, research questions, significance and scope of the study. Finally, limitation and organization of the study. Chapter two

covers literature review, the theoretical framework, the empirical review, summary and conceptual frame work of the study. Chapter three explains the step-by-step procedure that will be followed to carry out the research study. It discusses the research philosophy, research design, operational of variables, study population, sampling procedure, research instrument, validity and reliability of the data collection instruments, data collection procedure and lastly, data processing and analysis. Chapter four covers data analysis, results presentation and discussion of the findings. Lastly, chapter five provides a detailed summary of the major findings of the actual study; it then draws conclusions and discusses implications emanating from these findings. Chapter five also makes some recommendations and suggestions on areas of further study.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

The aim of the section is to define relevant theories and concepts used as the base of the study's analysis. The study examined the literature of the past.

2.2 Theoretical Review

Theories are formulated to explain, predict, and understand phenomena and, in many cases, to challenge and extend existing knowledge, within the limits of the critical bounding assumptions. The theoretical framework is the structure that can hold or support a theory of a research study. This study was anchored on the pecking order theory, Transaction Cost Theory and the Keynesian Liquidity Preference Theory.

2.2.1 Pecking Order Theory

The Pecking order theory, proposed by Myers and Majluf (1984), centers on how firms prioritize their sources of financing. The theory suggests that firms prefer internal financing (retained earnings) over external financing (debt and equity). According to the theory, if external funding is necessary, firms will choose debt over equity to avoid the costs associated with issuing new shares, such as loss of control and potential undervaluation. This hierarchical approach helps firms minimize transaction costs and maintain control, which is relevant in the context of private hospitals managing working capital to optimize financial performance.

Various scholars have expanded on the Pecking order theory. Frank and Goyal (2009) argued that firms follow a pecking order due to information asymmetry, where internal financing is less risky and cheaper than debt or equity. Chen et al. (2017) noted that the theory is particularly applicable in sectors where information asymmetry is high, as is the case with private healthcare facilities, which often

struggle to secure external funds without revealing sensitive information. Narayan and Brempong (2020) emphasized the need for efficient cash and accounts receivables management as part of capital management practices to ensure sufficient internal funds, thus avoiding the need for external borrowing. The assertions emphasize the relevance of this theory to private hospitals that prioritize internal funds to finance their operations.

The Pecking order theory provides a clear explanation of how firms prioritize financing sources based on cost-effectiveness and information asymmetry, offering a realistic view of decision-making processes in real-world scenarios. It is particularly useful for private hospitals that face uncertainties in cash flow due to delayed payments or insurance reimbursements, (Narayan & Brempong, 2020). By understanding this theory, hospitals can better plan their working capital management, prioritize internal funds, and maintain flexibility in financial planning. Additionally, the theory underscores the importance of cash flow efficiency and inventory management to ensure that internal resources are sufficient.

Despite its applicability, the Pecking Order Theory has faced criticism. Fama and French (2005) argued that the theory does not account for firms' behavior that actively seek equity financing despite having access to debt or internal funds, challenging the model's assumption of information asymmetry. Leary and Roberts (2010) criticized the theory for being overly simplistic, as it assumes all firms have similar priorities, ignoring variations in capital structures across industries. Additionally, firms in the healthcare sector may not always follow a strict pecking order, especially if they have strategic reasons to issue equity or take on debt to fund expansions. These critiques suggest that while the theory provides a useful framework, it may not comprehensively explain financing decisions in all scenarios.

The theory that underpins cash management practices is significant to this study because it clarifies how the cash conversion cycle affects an organization's financial performance. Managers should think about the seniority of claims on assets. Private hospitals that apply good capital management strategies were consider that hospital debt holders, as opposed to stockholders, require a lesser return because they have a more claim to assets (in a probability of bankruptcy). As a result, while examining financing options, private hospital executives should evaluate the cheapest options, such as retained earnings and debt, as well as the third option (equity).

2.2.2 Transaction Cost Theory

The Transaction cost theory, initially formulated by Coase (1937) and later refined by Williamson (1985), focuses on the costs incurred during an economic exchange. The theory suggests that firms strive to minimize transaction costs by internalizing processes or engaging in contracts that reduce costs associated with negotiating, monitoring, and enforcing agreements. In the context of private hospitals, transaction cost theory is relevant to understanding how hospitals manage inventory, accounts receivables, and cash flows to minimize unnecessary expenditures and improve financial performance.

Williamson (1998) expanded on the theory by highlighting that firms choose between internal operations and market exchanges based on the cost-effectiveness of each option. Langlois and Foss (2018) argued that firms in industries like healthcare need to carefully assess their supplier agreements and cash management practices to ensure that they are minimizing transaction costs. Moreira and Madeira (2021) pointed out that inventory management is a critical aspect of this theory for hospitals because efficient stock control reduces ordering and holding costs, leading to better financial

outcomes. Scholars have generally asserted that reducing transaction costs is key to efficient working capital management.

The Transaction cost theory provides a framework for understanding why firms choose specific structures and contracts, helping to explain efficient supply chain and inventory management practices. For private hospitals, this theory offers insights into how to negotiate better terms with suppliers, streamline payment processes, and manage inventory more effectively to reduce costs, (Moreira & Madeira, 2021). By emphasizing the reduction of transaction costs, the theory supports strategies that lead to better financial performance, such as reducing the time accounts receivable are outstanding and maintaining optimal inventory levels.

Critics argue that Transaction cost theory is too focused on cost minimization and overlooks other strategic considerations firms might have, such as quality improvement and innovation (Geyskens et al., 2006). Ménard (2018) noted that the theory does not adequately address how firms manage complex, non-contractible elements of transactions, which are often present in healthcare settings where services are less standardized. Additionally, Granovetter (2017) criticized the theory for neglecting the social and relational aspects of business transactions, which can be important for long-term supplier relationships. Thus, while the theory is useful, it may not fully account for all aspects of hospital management.

Transaction cost theory suggests that organizations seek to minimize the costs associated with economic exchanges, including those related to managing accounts payable and accounts receivable. Efficient accounts payable policies reduce transaction costs by optimizing payment schedules, allowing organizations to take advantage of discounts and maintain good supplier relationships without incurring late

fees. Conversely, effective accounts receivable management minimizes costs related to debt collection, bad debts, and delays in cash inflows, thereby improving liquidity. By lowering these transaction costs, organizations can free up more resources for investment and operational activities, which positively impacts financial performance. Therefore, this theory suits the current study as it explains how both the accounts payable and accounts receivable policies affect the financial performance of the organization.

2.2.3 Keynesian Liquidity Preference Theory

The Keynesian Liquidity Preference Theory, introduced by Keynes (1936), posits that individuals and firms prefer to hold liquid assets to mitigate uncertainty and ensure flexibility. According to the theory, the demand for money is determined by three motives: transaction, precautionary, and speculative. In the context of private hospitals, this theory is particularly relevant as cash management is a crucial aspect of working capital management, ensuring that hospitals can meet their immediate financial obligations.

Keynes' theory was further elaborated by Tobin (1958), who introduced the concept of portfolio choice, suggesting that firms diversify their assets to balance returns and liquidity. Muller and Verschoor (2019) argued that liquidity management in hospitals is essential for maintaining daily operations, particularly in unpredictable situations like delayed payments from patients or insurers. Chen and Tan (2021) highlighted that efficient cash flow management aligns with Keynes' emphasis on the precautionary motive, as it allows hospitals to cover unexpected expenses, such as sudden surges in demand for medical supplies. These scholars affirm the relevance of the liquidity preference theory to the working capital management practices of hospitals.

One of the strengths of Keynesian liquidity preference theory is its ability to explain why firms maintain certain levels of cash reserves, linking this behavior to uncertainty and economic volatility. For private hospitals, the theory underlines the importance of liquidity to manage day-to-day operations, unexpected emergencies, and strategic investments, (Chen & Tan (2021). By addressing the three motives for holding cash, the theory provides a comprehensive view that helps hospitals prioritize cash flow management as part of their working capital strategy, which in turn contributes to better financial performance.

However, the theory has been critiqued for being overly simplistic in explaining the behavior of firms regarding liquidity. Friedman (1977) argued that the theory does not consider alternative motives for holding money, such as hedging against currency fluctuations or taking advantage of future investment opportunities. Moreover, Baumol and Tobin's (2012) critique noted that in modern economies, firms have more sophisticated ways of managing liquidity, such as credit facilities, which Keynes' original theory does not account for. Additionally, Opler, Pinkowitz, Stulz and Williamson, (2017) criticized the theory for its limited applicability in cases where firms can easily access external funds, reducing the need for large cash reserves.

Keynesian Liquidity preference emphasizes that organizations hold cash primarily for transactions, precautionary and speculative purposes. For effective inventory management, maintaining adequate cash reserves ensures that a hospital can purchase supplies and manage inventory levels without disruptions. This approach helps avoid stockouts, allowing continuous service delivery and minimizing the risk of overstocking, which ties up working capital. Proper cash management aligned with this theory enables hospitals to optimize financial performance by ensuring liquidity is available to meet inventory demands efficiently. Therefore, Keynesian Liquidity

preference theory suites the current study as it discusses how an organization has to manage cash for proper inventory management.

2.3 Empirical Review

2.3.1 Cash Management Practices and Financial Performance

Mwangi Otieno and Onyango (2021) conducted a study on the effect of cash management practices on the financial performance of supermarkets in Kisumu, Kenya. Using a descriptive research design, the study targeted 50 supermarkets in the city, employing a stratified random sampling technique to select 30 supermarkets. The findings revealed that supermarkets with effective cash management practices, such as cash budgeting and cash flow monitoring, showed improved liquidity and profitability. However, the study was limited by its focus on the retail sector, specifically supermarkets, and did not examine the effect of cash management practices in other industries. Additionally, the sample size was relatively small (30 supermarkets), which may have affected the generalizability of the findings. The current study addressed this gap by focusing on private hospitals in Nakuru County, an underexplored sector, thereby broadening the understanding of cash management practices across different industries.

Mutabazi and Uwamahoro (2021) conducted a study on the role of cash management in ensuring business continuity in the hospitality sector in Kigali, Rwanda. Using a case study research design, the study focused on 10 major hotels, and a sample of 5 was selected using convenience sampling. The findings revealed that hotels with stringent cash management practices, such as daily cash reconciliation and emergency cash reserves, were better able to weather financial downturns, such as those caused by seasonal fluctuations or unexpected crises. The study concluded that robust cash

management practices are critical for ensuring the long-term continuity of businesses in the hospitality industry. Despite its relevance, the study's findings were limited to the hospitality industry, which may have different financial management needs compared to other sectors. The current study addressed this by examining cash management practices in private hospitals, providing a clearer understanding of how these practices affect financial performance in healthcare settings.

Mwende and Wekesa (2021) conducted a study on the relationship between inventory management practices and financial performance in textile companies in Nairobi, Kenya. A correlational research design was used, with a target population of 100 textile companies, and 50 companies were selected through systematic sampling. The results showed a significant positive relationship between inventory optimization techniques, such as just-in-time and economic order quantity, and financial performance. The study concluded that efficient inventory management can reduce costs and improve the overall profitability of textile companies. Although they demonstrated a significant relationship between inventory optimization techniques and financial performance in textile companies, their study did not directly address cash management practices. The current study specifically targeted cash management practices in private hospitals, filling a gap by providing insights into how cash-related strategies directly affect financial performance.

Kibaki and Nyongesa (2022) performed a study on the effect of cash management on the operational performance of non-governmental organizations (NGOs) in Kisii County, Kenya. The study utilized a case study research design, focusing on 15 NGOs, and used purposive sampling to select finance managers as respondents. Findings showed that NGOs with robust cash flow monitoring and proper cash allocation systems had better program implementation success rates. The study

concluded that cash management practices are crucial for the sustainability and performance of NGOs. However, the study did not assess cash management practices in profit-oriented entities. Additionally, the case study design limited the ability to generalize the findings to other sectors. The current study expanded the scope by investigating private hospitals, which operate in a profit-driven context, thereby offering a broader perspective on how cash management practices impact financial performance.

Okello, Kato, and Nakato (2022) investigated the impact of cash management practices on the liquidity of SMEs in Kampala, Uganda. Using a cross-sectional research design, the study focused on 200 SMEs, with a sample of 100 selected using stratified sampling to ensure representation across various industries. The findings revealed that SMEs that implemented practices like cash flow forecasting, regular cash reconciliations, and emergency fund provisions had better liquidity levels. The study concluded that effective cash management is crucial for SMEs to maintain smooth operations and avoid liquidity crises. While the study provided valuable insights, it was geographically limited to Uganda and did not focus on the healthcare sector. The current study addressed these gaps by focusing on private hospitals in Nakuru County, Kenya, thereby offering region-specific insights into cash management in the healthcare industry.

Kariuki, Njeru, and Waithaka (2023) examined the effect of cash management practices on the operational efficiency of agricultural cooperatives in Kirinyaga County, Kenya. The study adopted a descriptive research design, targeting 30 cooperatives, and a sample of 20 was selected using quota sampling. The findings revealed that cooperatives practicing regular cash flow forecasting and budgetary controls exhibited higher operational efficiency. The study concluded that effective

cash management is key to ensuring the smooth operation of agricultural cooperatives. However, the study was limited by its narrow focus on cooperatives, which have unique financial structures that may not be applicable to other types of businesses. The current study addressed this by exploring private hospitals, which face different cash management challenges, thus providing a more comprehensive view of cash management practices across sectors.

2.3.2 Inventory Management Practices and Financial Performance

Amoah, Mensah, and Agyemang (2021) conducted a study on how inventory management practices influence cost efficiency in healthcare facilities in Accra, Ghana. The researchers employed a descriptive research design, targeting 60 healthcare facilities, and used convenience sampling to select a sample of 30. The findings showed that facilities with systematic inventory controls, such as automated inventory systems and stock rotation, achieved better cost efficiency, reducing wastage and lowering procurement costs. The study concluded that effective inventory management is essential for the financial health of healthcare facilities. However, this study focused solely on healthcare facilities in Ghana, which may not reflect the context or challenges faced by hospitals in Kenya. The current study addresses this gap by providing a localized analysis of inventory management practices in private hospitals in Nakuru County, offering insights into specific challenges and opportunities for improvement.

Mureithi, Kihara, and Wangui (2022) examined the relationship between inventory management practices and profitability in manufacturing firms in Mombasa, Kenya. The researchers used a cross-sectional research design, with a target population of 120 manufacturing firms, from which a sample of 60 was drawn using systematic sampling. The results showed a positive correlation between efficient inventory

control methods, such as just-in-time and demand forecasting, and firm profitability. The study concluded that strategic inventory management contributes significantly to cost reduction and revenue enhancement in manufacturing firms. However, the study primarily focused on manufacturing firms, thus limiting the applicability of its findings to other sectors. The current study addresses this gap by examining the impact of inventory management practices specifically within the context of private hospitals in Nakuru County, thereby broadening the understanding of how these practices influence financial performance in the healthcare sector.

Phiri and Banda (2022) explored how inventory management practices affect the operational efficiency of retail chains in Lusaka, Zambia. The study utilized a descriptive research design, targeting 50 retail chains, with a sample of 30 selected using random sampling. The results indicated that chains that implemented real-time inventory tracking and just-in-time stocking experienced fewer stockouts and reduced inventory holding costs, leading to higher operational efficiency. While the findings contributed to understanding inventory practices in retail, they do not address the healthcare sector's unique demands and constraints. The current study fills this gap by examining how inventory management practices specifically influence the financial performance of private hospitals, emphasizing the importance of these practices in the delivery of healthcare services.

Ochieng and Mwangi (2023) examined the relationship between inventory management practices and sales performance in food processing firms in Thika, Kenya. The study employed a descriptive research design, targeting 40 firms, with a sample of 25 selected using convenience sampling. Results indicated that firms practicing regular inventory audits and effective stock control systems experienced a boost in sales performance. The study concluded that proper inventory management

ensures product availability and customer satisfaction, which in turn enhances sales performance. Nonetheless, the study was limited to food processing firms, which may have unique operational challenges not faced by other industries. The current study mitigates this limitation by focusing on private hospitals, where effective inventory management is crucial for ensuring the availability of medical supplies, thereby linking inventory practices to overall financial performance.

Eze and Obasi (2023) conducted a study on how inventory management practices contribute to waste reduction in food manufacturing companies in Port Harcourt, Nigeria. The study employed a descriptive research design, targeting 30 companies, with a sample of 15 selected using systematic sampling. The findings showed that companies with effective inventory management practices, including FIFO (First-In-First-Out) methods and regular inventory audits, were able to significantly reduce waste, leading to lower production costs. The study concluded that proper inventory management is key to minimizing waste and maximizing cost-efficiency in food manufacturing. However, this study concentrated on the food manufacturing sector, which operates under different regulatory and operational frameworks compared to healthcare facilities. The current study addresses this gap by specifically analyzing the role of inventory management practices in private hospitals, where effective waste management is critical not only for cost control but also for patient safety and care quality.

2.3.3 Accounts Receivables Management and Financial Performance

In today's corporate world, credit sales are an unavoidable necessity. Without selling things on credit, no business can exist. According to (Joshi, 2019), accounts receivables are the credit that a business extends to its clients when selling services or goods. This credit can be exchanging credit or shopper credit, specific customers

receiving from the company. The viability of an institution's credit dogmas can highly impact on its overall performance.

Receivables, according to Machiraju (2019), arise from provision of services or delivery of goods on credit. Claims against others for future cash, items, or services whose value is determined by the credit arrangements volume and the method used to collect such credits are receivables. Joshi (2020) shown that the primary goal of trade debtor investment is increasing profits through increasing sales for attracting new clients and keep existing ones. Through consistently raising its sales and benefits, a company births a larger specialization in the market and improves its standing amongst rivals. Meyer (2020) believes that an organization's financial administrators must evaluate numerous key controllable aspects to be utilized in changing the receivables' degree, such as credit gauges, terms, and assortment exertion, when deciding on an optimal credit augmentation plan.

According to a study by Lazaridis and Dimitrios (2020), companies who pursue appropriate upsurge in their accounts receivables boost their profitability as a result of higher market share and sales. value can be created by organizations by the minimization of the days that accounts receivable is outstanding (Juan & Martinez, 2021), asserting Deloof's (2020) results that firm performance is negatively impacted by the duration of the receivables collection period.

Kamau, Chege, and Mwende (2020) explored the impact of accounts receivables management on the financial stability of pharmaceutical companies in Nairobi. Employing a correlational research design, the study targeted 80 pharmaceutical companies, with a sample of 40 firms selected using simple random sampling. The findings indicated that companies with structured credit policies and effective debt

collection strategies experienced fewer cash flow issues and maintained better financial stability. The study concluded that accounts receivables management is vital in ensuring consistent cash inflows and reducing financial risks. However, the study was limited to the pharmaceutical sector, which may differ significantly from other industries. The current study addressed this by focusing on private hospitals, thus broadening the knowledge base on the relationship between accounts receivables management and financial performance across different sectors.

Lagat and Cherono (2021) explored the influence of accounts receivables management on the profitability of ICT firms in Eldoret, Kenya. A descriptive cross-sectional research design was used, targeting 60 ICT firms, and a sample of 35 firms was selected using random sampling. The findings demonstrated that firms that maintained shorter receivables collection periods were more profitable, as they experienced fewer issues with bad debts and cash flow disruptions. The study concluded that efficient management of accounts receivables is integral to maintaining profitability in ICT firms. While informative, the study was geographically and focusing solely on ICT firms. The current study filled this gap by targeting private hospitals in Nakuru County, thus offering insights into accounts receivables management in a different sector and geographical area.

Adebayo, Olayinka, and Ifeoma (2023) explored the relationship between accounts receivables management and the financial health of car dealerships in Lagos, Nigeria. The study used a correlational research design, with a target population of 150 dealerships, and a sample of 75 was selected using random sampling. The findings indicated that dealerships that had strict credit assessment policies and effective debt recovery processes experienced fewer issues with cash flow and bad debts. However, their focus on car dealerships meant that their findings might not be applicable to

industries with different sales cycles and financial structures. The current study addressed this by focusing on private hospitals, which deal with different payment terms and receivables challenges, thereby contributing to a more diverse understanding of accounts receivables management.

Tekle and Gebremariam (2023) studied the effect of accounts receivables management on the profitability of transport companies in Addis Ababa, Ethiopia. The research employed a cross-sectional design, with a target of 80 transport companies, and a sample of 40 selected using random sampling techniques. The findings showed that companies that maintained shorter credit periods and employed effective receivables collection strategies were more profitable due to reduced bad debts and quicker cash conversion cycles. The study concluded that efficient receivables management significantly enhances profitability in the transport sector. However, the study focused on the profitability of transport companies in Addis Ababa, Ethiopia. The current study bridged this gap by examining private hospitals, providing insights into how accounts receivables management practices affect financial performance in healthcare.

2.3.4 Accounts Payable Period and Financial Performance

According to Gitman (2019) the goal of accounts payable management paying creditors slowly without jeopardizing the company's credit rating. the two most common spontaneous liability short-term funding sources of a typical organization as well as the two most common unsecured sources of short-term financing for businesses are accruals and accounts Payable. They are the result of transactions involving the purchase of merchandise.

Mutua and Wambua (2020) conducted a study on the relationship between accounts payable and cash flow management in construction companies in Machakos, Kenya. Using a case study research design, the researchers focused on 20 large construction firms, using purposive sampling to select finance managers as respondents. The study found that companies that negotiated extended payment periods with suppliers were able to manage their cash flows more effectively. The study concluded that accounts payable management can serve as a strategic tool for improving cash flow in construction companies. Despite its valuable findings, the study's focus on construction limited its generalizability to other sectors. The current study filled this gap by investigating private hospitals, providing a clearer picture of how accounts payable practices affect financial performance in healthcare.

Mwinyi and Hassan (2020) examined the effect of accounts payable management on supplier relationships in manufacturing companies in Dar es Salaam, Tanzania. The study employed a descriptive research design, targeting 70 companies, from which 40 were selected using purposive sampling. The results showed that companies that managed their accounts payable well, including timely payments and clear communication with suppliers, maintained stronger and more reliable supplier relationships. However, the study's findings were sector-specific and may not translate directly to other industries. The current study addressed this by focusing on private hospitals, contributing insights into the broader implications of accounts payable management across different sectors.

Sakala and Mwansa (2021) examined the impact of accounts payable management on cost control in mining companies in Kitwe, Zambia. The study used a descriptive research design, focusing on 15 mining firms, with a sample of 8 selected using purposive sampling. Data was gathered via surveys and financial record analysis, and

analysis was conducted using descriptive statistics. The findings indicated that companies that managed their accounts payable by negotiating favorable payment terms and bulk discounts were able to achieve significant cost savings. While insightful, the study was industry-specific, focusing solely on mining companies. The current study addressed this gap by examining private hospitals, thus broadening the understanding of how strategic management of accounts payable affects financial performance in diverse sectors.

Ndungu, Wanjiku, and Kariuki (2023) investigated the effect of the accounts payable period on the liquidity of retail stores in Nakuru, Kenya. The study used a descriptive research design, targeting 100 retail stores, from which 50 were sampled using stratified random sampling. The results revealed that stores with longer accounts payable periods were able to maintain higher liquidity levels, suggesting that strategic negotiation of payment terms could improve cash flow management. However, the study was limited to retail, which may have different cash flow cycles compared to other sectors. The current study addressed this gap by focusing on private hospitals, offering insights into how accounts payable periods impact liquidity in a healthcare setting.

2.4 Summary of the Reviewed Literature

Table 2. 1: Summary of the Reviewed Literature

Author	Focus	Findings	Gaps and how the Current Study Address the Gaps
Mwangi Otieno and Onyango (2021)	Effect of cash management practices on the financial performance of supermarkets in Kisumu, Kenya.	The findings revealed that supermarkets with effective cash management practices, such as cash budgeting and cash flow monitoring, showed improved liquidity and profitability	However, the study was limited by its focus on the retail sector, specifically supermarkets, and did not examine the effect of cash management practices in other industries. The current study addressed this gap by focusing on private hospitals in Nakuru County, an underexplored sector, thereby broadening the understanding of cash management practices across different industries.
Mutabazi and Uwamahoro	Role of cash management in ensuring business continuity in	The findings revealed that hotels with stringent cash management	Despite its relevance, the study's findings were limited to the hospitality industry, which may have

(2021)	the hospitality sector in Kigali, Rwanda	practices, such as daily cash reconciliation and emergency cash reserves, were better able to weather financial downturns, such as those caused by seasonal fluctuations or unexpected crises.	different financial management needs compared to other sectors. The current study addressed this by examining cash management practices in private hospitals, providing a clearer understanding of how these practices affect financial performance in healthcare settings.
Amoah, Mensah, and Agyemang (2021)	How inventory management practices influence cost efficiency in healthcare facilities in Accra, Ghana	The findings showed that facilities with systematic inventory controls, such as automated inventory systems and stock rotation, achieved better cost efficiency, reducing wastage and lowering procurement costs. The study concluded that effective inventory	However, this study focused solely on healthcare facilities in Ghana, which may not reflect the context or challenges faced by hospitals in Kenya. The current study addresses this gap by providing a localized analysis of inventory management practices in private hospitals in Nakuru County, offering insights into specific challenges and opportunities for improvement.

		management is essential for the financial health of healthcare facilities	
Mureithi, Kihara, and Wangui (2022)	Examined the relationship between inventory management practices and profitability in manufacturing firms in Mombasa, Kenya	The results showed a positive correlation between efficient inventory control methods, such as just-in-time and demand forecasting, and firm profitability.	However, the study primarily focused on manufacturing firms, thus limiting the applicability of its findings to other sectors. The current study addresses this gap by examining the impact of inventory management practices specifically within the context of private hospitals in Nakuru County.
Kamau, Chege and Mwende (2020)	Explored the impact of accounts receivables management on the financial stability of pharmaceutical companies in Nairobi	The findings indicated that companies with structured credit policies and effective debt collection strategies experienced fewer cash flow issues and	However, the study was limited to the pharmaceutical sector, which may differ significantly from other industries. The current study addressed this by focusing on private hospitals, thus broadening the knowledge base on the relationship between accounts

		<p>maintained better financial stability.</p> <p>The study concluded that accounts receivables management is vital in ensuring consistent cash inflows and reducing financial risks.</p>	<p>receivables management and financial performance across different sectors.</p>
<p>Adebayo, Olayinka, and Ifeoma (2023)</p>	<p>Relationship between accounts receivables management and the financial health of car dealerships in Lagos, Nigeria</p>	<p>The findings indicated that dealerships that had strict credit assessment policies and effective debt recovery processes experienced fewer issues with cash flow and bad debts.</p>	<p>However, their focus on car dealerships meant that their findings might not be applicable to industries with different sales cycles and financial structures. The current study addressed this by focusing on private hospitals, which deal with different payment terms and receivables challenges, thereby contributing to a more diverse understanding of accounts receivables management.</p>

Source Different Authors (2020-2023)

2.5 Conceptual Framework

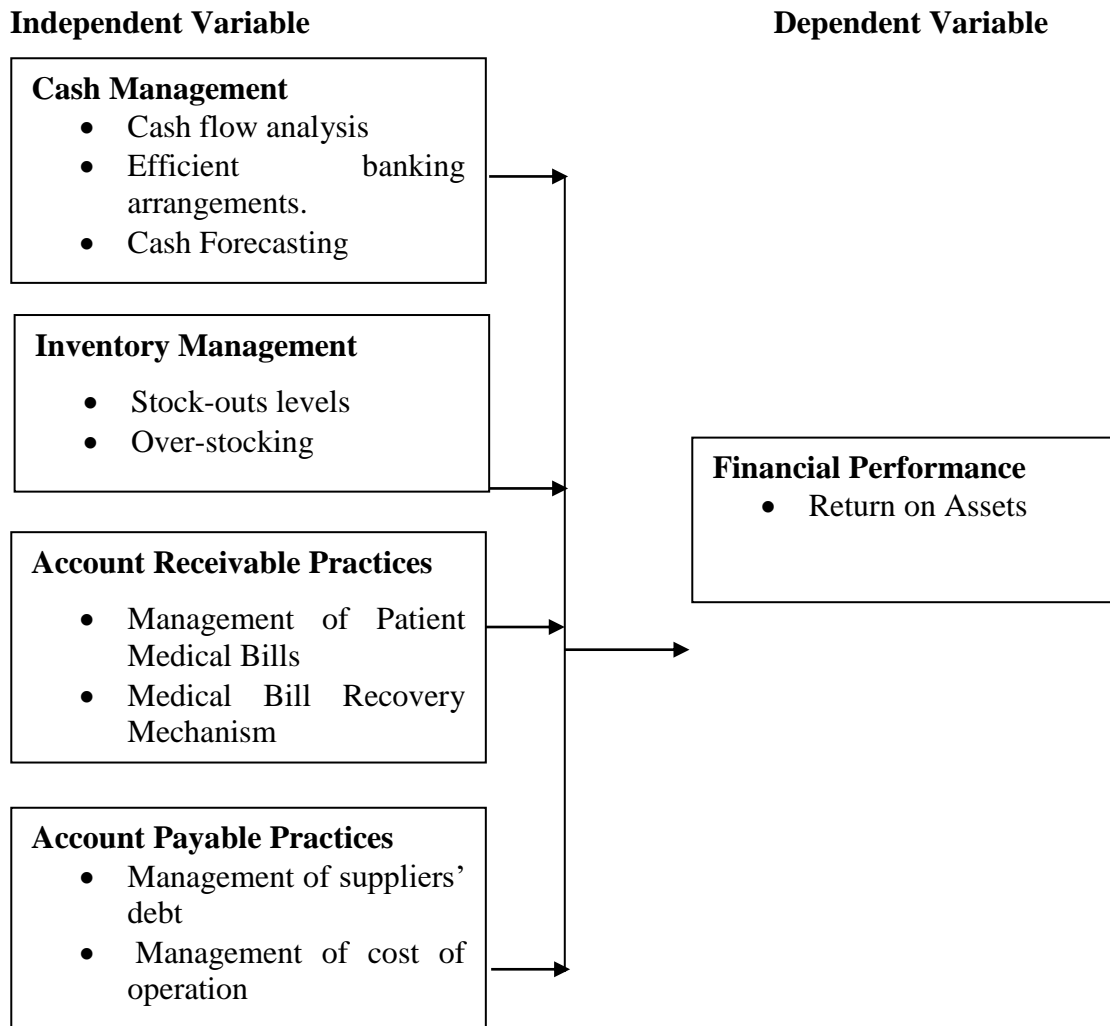


Figure 2. 1 Conceptual Framework

Source: Own Conceptualization (2024)

Cash management is collection, distribution, and administration of funds to sustain an organization's liquidity. The administration of expenses like as salaries, taxes, and rent utilities is referred to as cash management. Management of expenses such as payroll, taxes, and rent utilities, as well as purchases such as drugs and medical equipment, are all part of cash management in a hospital. Organizations with effective

cash management systems and planning have traditionally stood out as being better positioned to make the necessary investment decisions to improve their competitiveness. Rather than accounting rules, one of the primary parameters that financial statement consumers rely on when making financial and investment decisions is cash flow management. The amount of money spent on merchandise purchases, tax settlements, vendor payments, payroll payments, and other operational expenses is referred to as operating cash flow. An organization's cash flow and earnings are inextricably linked. The cash levels of a company demonstrate a healthy cash flow situation. When an entry maintains a profitable trend, it is assumed that it has a consistent cash flow and hence adequate capital to make investment selections. The hospital's economic performance suffers because of increased spending management.

Inventory management includes features like stock-out levels and overstocking, as well as the warehousing and processing of such commodities. All business departments, specifically finance, accounting, marketing and operations benefit from stock management. Medical inventory might be mixed up due to a lack of appropriate inventory control techniques. When the wrong equipment is delivered to the wrong location, activities can go awry. Hospitals end up wasting significant resources in addition to misplacing assets. Hospitals frequently buy more equipment than they require. This occurs because existing medical tools in their inventory are difficult to locate. Poor equipment management procedures will inevitably have a negative impact on hospital finances and require additional space. Implementing regular maintenance schedules is among most crucial hospital inventory management best practices. You'll be able to deal with equipment malfunctions before they become

major roadblocks in your workflow if you do it this way. All of these issues negatively impact on hospitals' economic performance.

Accounts receivable management's overall purpose is to achieve the quickest feasible collection period. Revenues generated but not yet collected are referred to as accounts receivables, often known as patient accounts. Effective accounts receivable management improves the hospital's financial execution. A good accounts payable procedure ensures that there are no late fees, penalties, or outstanding charges. Streamlining accounts payable may assist health systems and hospitals in better managing their working capital and cash flow, improve financial performance, and create operational efficiencies and also improving supplier relationships.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter explains the step-by-step procedure that will be followed to carry out the research study. It discusses the research philosophy, research design, operational of variables, study population, sampling procedure, research instrument, validity and reliability of the data collection instruments, data collection procedure and lastly, data processing and analysis.

3.2 Research Design

Descriptive research design was adopted for the study of working capital management practices and financial performance of private hospitals in Nakuru County, Kenya, because it systematically describes and quantifies the characteristics and current practices within the target population without manipulating variables (Olsen, 2020). This approach allows for the collection of comprehensive data on financial performance indicators, enabling the identification of trends and patterns that inform stakeholders about the operational effectiveness of these hospitals.

3.3 Target Population

Target population are all members or subjects of a universe whose characteristics are similar, (Kombo & Tropm, 2015). The unit of observation was 15 large private hospitals in Nakuru County while the unit of analysis was 52 employees from finance, store and procurement department in these hospitals. The employees were suitable for the study because they are directly involved in cash management. The target group's distribution was indicated in appendix v.

3.4 Sampling Design

Since the target population was small census technique was adopted to incorporate the entire targeted population. The technique increases reliability since there was no point of sampling hence all the participants takes part in the study (Mugenda & Mugenda, 2019).

3.5 Research Instrument

A structured questionnaire was used to collect data from the respondents. The choice of this data collection tool is founded on the fact that it is the most appropriate instrument employed in collecting data where respondents are literate, (Mugenda & Mugenda, 2019).

3.6 Data Collection Procedure

During data collection the researcher first visited graduate school for the letter of introduction for fieldwork. The researcher then sought authorization from NACOSTI for data collection from the financial officers within the private hospitals in Nakuru, county. The study purpose and the researcher's name were outlined clearly on the research permit from NACOSTI and the introduction letter from the university. The researcher then went ahead and visited the management in charge of the private hospitals within Nakuru County for introduction. Drop-Off and Pick-Up method was deployed. The financial officers were given the questionnaires which were picked after two weeks, this allowed enough response time to the participants hence improving the rate of response as the sample size was small.

3.7 Pilot Study

A pilot study is a small-scale preliminary study conducted before the main study. A pilot study was done in 8 private hospitals in Nakuru County which were not used in the main study

3.7.1 Validity

Mugenda, (2019) describes validity as the level to which the phenomenon under study is represented truly by research findings analysis. Content as well as face validity test will carried out for the questionnaire. The content validity of this study was enhanced through pretesting which is to be done with a view of the questionnaire examining and any aspect hindering the real exercise of collecting data be addressed.

3.7.2 Reliability

Cronbach's Alpha coefficient was deployed in examining internal consistency. The definite connection extent of the items in group is indicated by the Cronbach's Alpha (Mugenda, 2019). For this study, a 0.8 Cronbach's Alpha coefficient minimum threshold was considered appropriate.

Table 3. 1: Reliability Analysis

Variable	No. of items	Cronbach alpha	Decision
Cash Management	5	0.806	Reliable
Inventory management Practices	5	0.838	Reliable
Accounts Receivables Management	6	0.782	Reliable
Accounts Payable Period	5	0.802	Reliable
Financial Performance	5	0.707	Reliable

Source: Researcher, (2024)

From the findings of all the 5 variables gave Cronbach's Alpha threshold values greater than 0.7.

3.8 Data Analysis

The data was analyzed using SPSS. This study's data was quantitative. The study used both inferential and descriptive statistics. Descriptive statistics comprised of means, standard deviations, frequencies and percentages. Inferential statistics includes regression and correlation analysis. The study findings were displayed using tables..

The following regression model guided the study.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where:

Y	represents	Financial Performance
B ₀	represents	Constant
X ₁	represents	Cash Management
X ₂	represents	Inventory Management
X ₃	represents	Accounts receivables
X ₄	represents	Accounts Payable
ε	represents	Error term
β ₁ , β ₂ , β ₃ β ₄	represent	Regression Coefficients of Independent Variables

Table 3. 2: Operationalization of Research Variables

Variable	Indicators	Measurements	Method of Analysis
Cash Management	Management of expenses such as salaries, taxes, rent and utilities Management of purchases such as medicines, and medical equipment's	Likert Scale Questionnaires	Percentages Frequencies
Inventory Management	Stock-outs levels Over-stocking	Likert Scale Questionnaires	Percentages Frequencies
Account Receivable Practices	Management of Patient Medical Bills Medical Bill Recovery Mechanism	Likert Scale Questionnaires	Percentages Frequencies
Account Payable Period	Management of suppliers' debt Management of cost of operation	Likert Scale Questionnaires	Percentages Frequencies
Financial Performance	Operating cost ratio Profit Levels Fixed assets proportion	Likert Scale Questionnaires	Percentages Frequencies

Source: Own Conceptualization (2024)

3.9 Diagnostic Test

The study undertook preliminary diagnostic tests to ensure suitability of correlation and multiple linear regressions. The preliminary diagnostic tests include multicollinearity test and Heteroscedasticity.

3.9.1 Multicollinearity Test

Multicollinearity occurs when two or more predictor variables in a multiple regression model are highly correlated, making it difficult to determine the individual effect of each predictor on the dependent variable. When multicollinearity exists, it can lead to inflated standard errors, which in turn affects the significance tests for the coefficients of the predictor variables. Variance Inflation Factor (VIF) was used to check the Multicollinearity of the data. VIF quantifies how much the variance of an estimated regression coefficient increases when your predictors are correlated.

3.9.2 Heteroscedasticity

Heteroscedasticity refers to a situation in regression analysis where the variability of the residuals (errors) is not constant across all levels of the independent variable(s). This contrasts with homoscedasticity, where the residuals are evenly distributed. Heteroscedasticity can distort the results of regression analysis by violating one of the key assumptions of ordinary least squares (OLS) regression. When heteroscedasticity is present, the ordinary least squares estimates remain unbiased, but they become inefficient. This inefficiency means that the standard errors of the estimates can be biased, leading to unreliable hypothesis tests and confidence intervals. If the residuals exhibit systematic patterns, it could suggest that the model is not correctly specified, prompting the need for transformation or the inclusion of additional variables.

3.10 Ethical Considerations

The researcher took comprehensive measures to uphold ethical standards and protect the rights and privacy of all participants involved. Prior to data collection, the researcher ensured that all interviewees provided informed consent, clearly outlining the purpose of the study, the nature of their participation, and their right to withdraw at any time without penalty. This process not only fosters transparency but also

empowers participants by keeping them informed about how their information will be used.

Furthermore, the researcher prioritized the confidentiality of participants' responses by implementing stringent data protection protocols. Identifiable information was anonymized, and all data collected was stored securely, accessible only to authorized personnel. The researcher also communicated to participants that the information gathered would be used exclusively for analytical purposes, emphasizing that individual responses would not be disclosed in any report or publication.

In addition, all relevant stakeholders and experts were kept informed throughout the research process, ensuring compliance with institutional and ethical guidelines. This communication included notifying participants about the potential implications of the study findings for the healthcare sector, thus reinforcing the commitment to ethical research practices.

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSION

Introduction

The chapter focuses on data analysis, results presentation and discussion of the findings. The general objective of this study was to assess the effects of working capital management practices on financial performance of private hospitals in Nakuru County. The research findings were presented in form of tables.

4.1 Response Rate

Response rate equals the number of people with whom questionnaires were properly completed divided by the total number of people in the entire sample. The study thus administered 58 questionnaires for data collection. However, 52 questionnaires were properly filled and returned. This represented 96% overall successful response rates. According to Babbie (2015) a response rate above 70% is considered good for analysis.

Table 4.1: Response Rate

Target No. of respondents	No. of Questionnaires Returned	Response Rate (%)
52	50	96%

Source: Researcher, (2024)

4.2 Descriptive and Quatitative Analysis of Study Variables

4.2.1 Cash Management Practices on Financial Performance

The respondents were asked to indicate the effect of cash management practices on financial performance of private hospitals in Nakuru County. The results were as shown in Table 4.2

Table 4. 2: Cash Management Practices on Financial Performance

Cash Management Practices	N	Mean	Std
High salaries lowers the amount of cash to be invested which affects the firm's financial performance.	50	4.40	0.314
Taxation reduces the organization savings potentiality which affects financial performance.	50	4.32	0.472
Tax inspects controls for the audit probabilities faced by the business which affects financial performance.	50	4.42	0.345
High cost of medical utilities leads more spending which affects firms profitability.	50	4.34	0.453
Taxes imposed on the purchases medicines and medical equipment's negatively affects firms' financial performance.	50	4.22	0.353
High salaries lowers the amount of cash to be invested which affects the firm's financial performance.	50	4.56	0.321

Source: Researcher, (2024)

The findings indicated that majority of the respondents agreed that high salaries lowers the amount of cash to be invested which affects the firm's financial performance with a mean 4.40 and standard deviation of 0.314. In addition majority of the respondents agreed that taxation reduces the organization savings potentiality which affects financial performance with of a mean of 4.32 and standard deviation = 0.472. Further majority of the respondents agreed that taxation reduces the organization savings potentiality which affects financial performance with of a mean of 4.42 and standard deviation = 0.345. The findings disagrees with the findings of Mwangi Otieno and Onyango (2021) who found that there is a positive effects of tax rate cuts on the size of the economy arise because lower tax rates raise the after-tax reward to working, saving, and investing. These higher after-tax rewards induce more work effort, saving, and investment through substitution effects.

It was also noted that majority of the respondents agreed that taxation reduces the organization savings potentiality which affects financial performance with a mean of 4.34 and standard deviation = 0.453. In addition majority of the respondents agreed that taxes imposed on the purchases medicines and medical equipment's negatively affects firms' financial performance. With a mean of 4.22 and standard deviation = 0.353. It was also noted that majority of the respondents agreed that high salaries lowers the amount of cash to be invested which affects the firm's financial performance with a mean of 4.56 and standard deviation = 0.321. According to, Mutabazi and Uwamahoro (2021) paying employees' salaries above the average ratio boosts the morale of the employees to be more productive. This increases the profitability of the company in terms of returns which stimulates more resources to be invested.

4.2.2 Inventory Management Practices on Financial Performance

The respondents were asked to effect of inventory management practices on financial performance of private hospitals in Nakuru County. The results were as shown in Table 4.3

Table 4.3: Inventory Management Practices on Financial Performance

Inventory Management Practices	N	Mean	Std
Higher levels of stock out leads to customer frustration which consequently affects financial performance	50	4.403	0.478
Stock out leads to low turnout of orders which negatively affects financial performance of the hospital	50	4.307	0.438
Stock out leads to loss of competitive edge which affects financial performance of the firm	50	4.145	0.307
Overstocking allows the organization to meet any unexpected order which positively affects the financial performance	50	4.387	0.469
Over stocking results in higher storage costs which negatively affects the firm's financial performance	50	4.489	0.456

Source: Researcher, (2024)

The findings indicated that majority of the respondents agreed that higher levels of stock out leads to customer frustration which consequently affects financial performance with a mean of 4.403 and standard deviation of 0.478. In addition

majority of the respondents agreed that stock out leads to low turnout of orders which negatively affects financial performance of the hospital with a mean of 4.307 and standard deviation = 0.438. According to Amoah, Mensah, and Agyemang (2021) the most obvious consequence of stock-outs is lost revenue. If a customer goes to place an order and the item is out of stock, the company lose the profit of that sale. Shoppers may opt for cheaper products. Or even worse, the company may lose a customer forever, which means less recurring sales in the future hence affecting the financial performance of the company negatively.

Further majority of the respondents agreed that stock out leads to loss of competitive edge which affects financial performance of the firm with of a mean of 4.145 and standard deviation = 0.307. It was also noted that majority of the respondents agreed that overstocking allows the organization to meet any unexpected order which positively affects the financial performance with of a mean of 4.387 and standard deviation = 0.469. In addition majority of the respondents agreed that the over stocking results in higher storage costs which negatively affects the firm's financial performance with a mean of 4.489 and standard deviation = 0.456. The study is in agreement with Mureithi, Kihara, and Wangui (2022) who found that over stocking creates losses due to obsolescence because not all products have the same shelf life due to expiration dates or seasonality. Products take space in the warehouse and use resources that might be channeled to other and more demanded products, which might result in shortages.

4.2.3. Accounts Receivables Management Practices on Financial Performance

The respondents were asked to indicate the effect of accounts receivables management practices on financial performance of private hospitals in Nakuru County. The results were as shown in Table 4.4

Table 4.4: Accounts Receivables Management Practices on Financial Performance

Accounts Receivables Management Practices	N	Mean	Std
Increase in patients' medical bills translates to positive financial performance	50	4.52	0.314
The hospital has a medical bill recovery system in place which consequently affects financial performance.	50	4.26	0.315
The hospitals detains customers with high medical bills	50	4.48	0.434
The hospitals requires that patients pay before services are rendered which positively affects financial performance	50	4.62	0.323

Source: Researcher, (2024)

The findings indicated that majority of the respondents agreed the increase in patients' medical bills translates to positive financial performance with a mean of 4.52 and standard deviation of 0.314. In addition majority of the respondents agreed that the hospital has a medical bill recovery system in place which consequently affects financial performance with of a mean of 4.62 and standard deviation = 0.315. Further majority of the respondents agreed that the hospitals detains customers with high

medical bills with a mean of 4.48 and standard deviation = 0.434. It was also noted that majority of the respondents agreed that the hospitals requires that patients pay before services are rendered which positively affects financial performance with of a mean of 4.62.32 and standard deviation = 0.323. According to Kamau, Chege, and Mwende (2020) for businesses, the main benefit of cash on delivery is that the payment period is shorter, and there is no delay in the receipt of cash. This protects businesses from the risk that a customer will not pay or pays late for goods and ensures reliable cash flow.

4.2.4 Accounts Payable Period on Financial Performance

The forth objective of the study sought to establish the effect of accounts payable period on financial performance of private hospitals in Nakuru County. The respondents were asked to indicate the effect of accounts payable period on financial performance of private hospitals in Nakuru County. The results were as shown in Table 4.5

Table 4.5: Accounts Payable Period on Financial Performance

Accounts Payable Period	N	Mean	Std.
The organization has a well structures credit policy to manage supplies debts which influences the profitability of the firm	50	4.32	0.406
The organization has a credit collection policy which improves financial performance	50	4.16	0.510
The business offer cash discounts on certain services which affects the firm's financial performance	50	4.38	0.413
The purchases products in bulk to lower the cost of operation which affects financial performance.	50	4.42	0.604

Source: Researcher, (2024)

The findings indicated that majority of the respondents agreed that the organization has a well structures credit policy to manage supplies debts which influences the profitability of the firm with a mean of 4.32 and standard deviation of 0.406. In addition majority of the respondents agreed that the organization has a credit collection policy which improves financial performance with a mean of 4.16 and standard deviation = 0.510. Mutua and Wambua (2020) noted that a credit policy determines which clients are eligible for credit from the company and outlines how the company will collect unpaid debts. Credit policies are important because they keep the clients accountable and boost their cash flow.

Further majority of the respondents agreed that the business offer cash discounts on certain services which affects the firm's financial performance with of a mean of 4.38 and standard deviation = 0.413. It was also noted that majority of the respondents agreed that the purchases products in bulk to lower the cost of operation which affects financial performance with of a mean of 4.42 and standard deviation = 0.604. The study findings conquers with those of Mwinyi and Hassan (2020) who found that buying products in bulk can provide benefits that justify the added costs, such as avoiding lost sales, generating purchasing discounts and keeping retail spaces looking fully stocked which affects financial performance of the firm.

4.3 Diagnostic Test

In order to justify the use of the regression model diagnostic tests were conducted. The diagnostic tests conducted in this case were Multicollinearity test, Normality test and Heteroscedasticity.

4.3.1 Test for Multicollinearity

A multicollinearity test was carried out to ensure that the independent variables did not have co-linearity amongst themselves. The variance inflation factors (VIF) and Tolerance were used to assess multicollinearity.

Table 4.6: Tolerance and VIF Test

Collinearity Statistics		
Model	Tolerance	VIF
<hr/>		
(Constant)		
Cash Management Practices	.162	6.172
Inventory Management Practices	.363	2.755
Accounts receivables management practices	.889	1.125
Accounts Payable Period	.775	1.290

a. Dependent Variable: Private hospitals' financial performance

Source: Researcher, (2024)

From the findings, the variable cash management practices had a tolerance of 0.162 and a VIF of 6.172, inventory management practices had a tolerance of 0.363 and a VIF of 2.755, duration of accounts receivables management practices had a tolerance of 0.889 and a VIF of 1.124, while accounts payable period had a tolerance of 0.775 and a VIF of 1.290. Since the tolerance for all the variables was more than 0.1 and the VIF was not more than 10 therefore there was no need of further investigations.

4.3.2 Heteroscedasticity

Heteroscedasticity means that the observations that are either small or large with respect to the other observations are present in the sample. The researcher sought to determine Heteroscedasticity using scatterplot diagram. The findings is indicated by the Scatter plot figure 4.1.

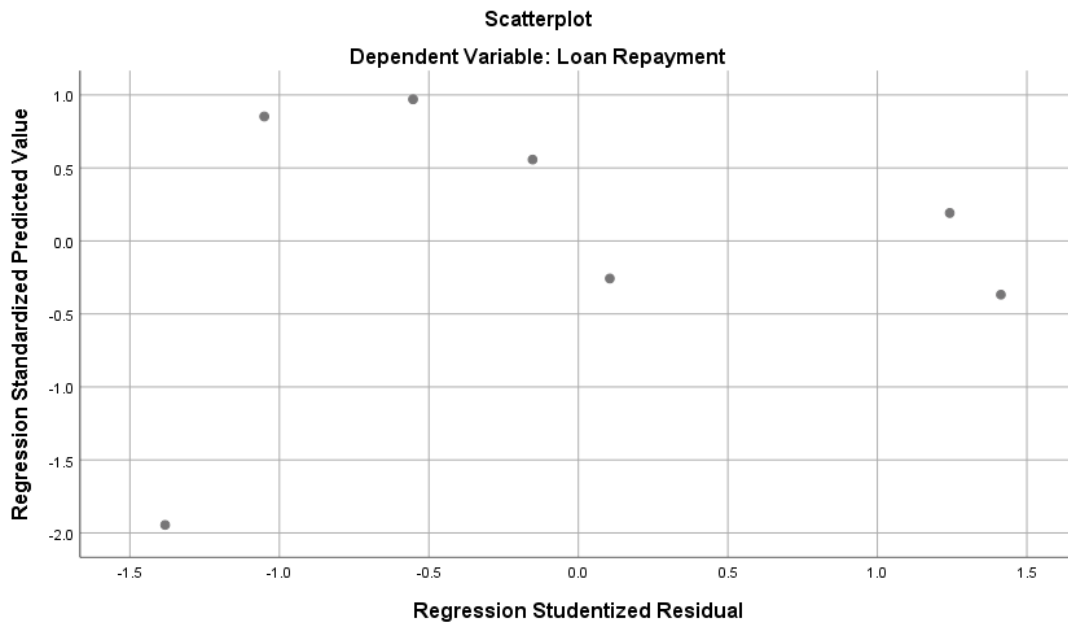


Figure 4. 1: Heteroscedasticity

Source: Researcher, (2024)

From the findings the spots are diffused and do not form a clear specific pattern therefore the regression model does not have heteroscedasticity problem.

4.4 Inferential Analysis

4.4.1 Correlation Analysis

Correlation is a technique for investigating the relationship between two quantitative, continuous variables. The study will adopt pearson correlation analysis. Pearson's

correlation coefficient (r) a measures the strength of the association between the two variables.

4.4.1.1 Cash Management Practices on Financial Performance

The study sought to establish the correlation between cash management practices on financial performance of private hospitals in Nakuru County. The findings are presented in Table 4.7

Table 4.7: Cash Management Practices on Financial Performance

		Financial Performance
Cash Management Practices	Pearson Correlation	.443*
	Sig. (2-tailed)	.000
	N	50

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

Source: Researcher, (2024)

As indicated in Table 4.7, the study indicates that there was a positive and statistically significant correlation between cash management practices on financial performance of private hospitals in Nakuru County ($r = 0.443$; $p < 0.05$). This implies that better cash management practices enhance financial performance of private hospitals in Nakuru County. The study findings conquer with those of Mwendu and Wekesa (2021) who found that cash management practices and financial performance has an affirmative relationship. Companies that have shorter cash management cycles are more profitable than those that have longer cash management cycles. An explanation for the conclusion is the that the firm may not require external funding when the cash

management cycle is relatively short, resulting in lower borrowing costs and interest expenditure, and hence increased profitability. Thus cash management practices have a positive relationship with the financial performance of the firm.

4.4.1.2 Inventory Management Practices on Financial Performance

In addition the study sought to establish the correlation between inventory management practices and financial performance of private hospitals in Nakuru County. The findings are presented in Table 4.8

Table 4.8: Inventory Management Practices on Financial Performance

		Financial Performance
Inventory Management Practices	Pearson Correlation	.441*
	Sig. (2-tailed)	.006
	N	50

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

Source: Researcher, (2024)

As indicated in Table 4.8, the study indicates that there was a positive and statistically significant correlation between inventory management practices on financial performance of private hospitals in Nakuru County, ($r = 0.441$; $p < 0.05$). This implies that better management of inventory management practices enhances financial performance of private hospitals in Nakuru County. The study finding is in line with Phiri and Banda (2022) who while examining the impact of inventory management practices on the financial performance of sugar manufacturing firms in Kenya, found that there exists a positive correlation between inventory management and return on Sales and also with return on equity which were found to be statistically significant.

4.4.1.3 Accounts Receivables Management Practices on Financial Performance

The study further examined the correlation between accounts receivables management practices and financial performance of private hospitals in Nakuru County. The findings are presented in Table 4.9.

Table 4.9: Accounts Receivables Management Practices on Financial Performance

		Financial Performance
Accounts Receivables Management Practices	Pearson Correlation	.541*
	Sig. (2-tailed)	.000
	N	50

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

Source: Researcher, (2024)

The study as shown in Table 4.9 established that there was a strong positive correlation existed between accounts receivables management practices and financial performance of private hospitals in Nakuru County ($r = 0.541$; $p < 0.05$). The results of the correlation analysis indicated that better accounts receivables management practices enhances financial performance of private hospitals in Nakuru County. The findings disagrees with the findings of Lagat and Cherono (2021) who while examining the effects of accounts receivables management practices and financial performance of tea processing firms in Kenya, found that accounts receivables management had a negative a negative and significant effect on the financial performance of tea processing firms.

4.4.1.4 Accounts Payable Period on Financial Performance of Private Hospitals

The study further examined the correlation between accounts payable period on financial performance of private hospitals in Nakuru County. The findings are presented in Table 4.10.

Table 4.10: Accounts Payable Period on Financial Performance

		Financial Performance
Accounts Payable Period	Pearson Correlation	.641*
	Sig. (2-tailed)	.000
	N	50

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

Source: Researcher, (2024)

The study as shown in Table 4.10 established that there was a strong positive correlation existed between accounts payable period on financial performance of private hospitals in Nakuru County ($r = 0.641$; $p < 0.05$). The results of the correlation analysis indicated that better accounts payable period enhances financial performance of private hospitals in Nakuru County. The findings is in agreement with Mwinyi and Hassan (2020) while examining the influence of accounts payable period on corporate profitability by using a sample of 30 firms listed on the Nairobi Stock Exchange for the periods 1993 to 2008 found that, there exists a highly significant positive relationship between the time it takes the firm to pay its creditors (average payment period) and profitability.

4.4.2 Bivariate Regression Analysis

Bivariate regression analysis was used to model the relationship between two variables. The study conducted a bivariate regression analysis to analyze the relationship between a single independent variable on each dependent variable.

4.4.2.1 Bivariate Regression on Cash Management Practices on Financial Performance

The study conducted a bivariate regression to assess the effect of cash management practices on financial performance of private hospitals in Nakuru County.

Table 4.11: Model Summary on Cash Management Practices

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.443 ^a	.196	.183	.370

a. predictors: (constant), Cash Management Practices

b. dependent variable: financial performance of private hospitals in Nakuru County

From the findings the R-squared was 0.196, indicating that cash management practices explain 19.6% of the variation in financial performance of private hospitals in Nakuru County.

Table 4.12: ANOVA on Cash Management Practices

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	9.236	1	9.236	11.7059	.000 ^b
	Residual	37.886	48	0.789		
	Total	47.122	49			

a. Predictors: (Constant), Cash Management Practices

b. Dependent Variable: Financial Performance of Private Hospitals in Nakuru County

From the findings, the F-Value of (11.7059) was found to be significant at (0.000) which shows that the model was fit in predicting the effect of cash management practices on financial performance of private hospitals in Nakuru County.

Table 4.13: Regression Coefficient on Cash Management Practices

Model	Unstandardized Coefficients		Standardized Coefficients		t	Sig.
	B	Std. Error	Beta			
(Constant)	2.026	.420			4.824	.000
Cash Management Practices	.596	.107	.548		5.570	.013

a. Predictors: (Constant), Cash Management Practices

b. Dependent Variable: Financial Performance of Private Hospitals in Nakuru County.

From Table 21 the beta coefficient for cash management practices was 0.596 which illustrate that, a unit change in cash management practice would result to 0.596 times change in financial performance of private hospitals in Nakuru County. The t-value for this beta was 5.570 while the p-value was less than 0.05. Since the p-value was less than 0.05, it means the beta coefficient for cash management practice is greater than zero and thus this variable has a statistically significant effect on financial performance of private hospitals in Nakuru County. From the findings the bivariate regression model is

$$Y = 2.026 + 0.596X_1$$

The study sought to test the hypothesis that: **H01:** Cash management has no significant impact on private hospitals' financial performance in Nakuru County. From the findings the p-value was 0.013 which was less the 0.05 significant level.

Therefore, based on the rule of significance, the study rejects the null hypothesis (H01) and concluded that cash management has significant effect on private hospitals' financial performance in Nakuru County.

4.4.2.2 Bivariate Regression on the Inventory Management Practices on Financial Performance

The study conducted a bivariate regression to assess the effect of inventory management practices on financial performance of private hospitals in Nakuru County.

Table 4.14: Model Summary on Inventory Management Practices

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.395 ^a	0.156	.141	.000

a. predictors: (constant), Inventory Management Practices

b. dependent variable: Financial Performance of Private Hospitals in Nakuru County

From the findings the R-squared was 0.156 indicating that inventory management practices explain 15.6% of the variation in financial performance of private hospitals in Nakuru County.

Table 4.15: ANOVA on Inventory Management Practices

ANOVA ^a						
Model	Sum of Squares	df	Mean Square	F	Sig.	
1	Regression	5.365	1	5.365	8.8721	.000 ^b
	Residual	29.026	48	.6047		
	Total	34.391	49			

a. Predictors: (Constant), Inventory Management Practice

b. Dependent Variable: Financial Performance of Private Hospitals in Nakuru County

From the findings, the F-Value of (8.8721) was found to be significant at (0.000) which shows that the model was fit in predicting the effect of inventory management practices on financial performance of private hospitals in Nakuru County.

Table 4.16: Regression Coefficient on Inventory Management Practices

Model	Unstandardized Coefficients		Standardized Coefficients		t	Sig.
	B	Std. Error	Beta			
(Constant)		2.026	.420		4.824	.000
Inventory Management Practices		.233	.081	.245	2.877	.006

a. Predictors: (Constant), Inventory Management Practices

b. Dependent Variable: Financial Performance of Private Hospitals in Nakuru County

From Table 4.16 the beta coefficient for inventory management practices was 0.233 which implies that a unit change in inventory management practices would result in

0.233 times change in p financial performance of private hospitals in Nakuru County.

From the findings the bivariate regression model is

$$Y = 2.026 + 0.233X_2$$

The study sought to test the hypothesis that: **H02:** Inventory management practices have no significant effect on financial performance of private hospitals in Nakuru County. From the findings the p-value was 0.006 which was less the 0.05 significant level. Therefore, based on the rule of significance, the study rejects the null hypothesis (H₀₂) and concluded that H02: inventory management practices have significant effect on financial performance of private hospitals in Nakuru County.

4.4.2.3 Bivariate Regression on Accounts Receivables Management Practices on Financial Performance

The study conducted a bivariate regression to assess the effect of accounts receivables management practices on financial performance of private hospitals in Nakuru County.

Table 4.17: Model Summary on Accounts Receivables Management Practices

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.441 ^a	.194	.180	.3376

a. Predictors: (Constant), Accounts Receivables Management Practices

b. Dependent Variable: Financial Performance of Private Hospitals in Nakuru County

From the findings the R-squared was 0.194 indicating that accounts receivables management practices explain 19.4% of the variation in financial performance of private hospitals in Nakuru County.

Table 4.18: ANOVA on Accounts Receivables Management Practices

ANOVA ^a						
Model	Sum of Squares	df	Mean Square	F	Sig.	
1	Regression	8.654	1	8.654	11.5540	.000 ^b
	Residual	35.954	48	.7490		
	Total	44.608	49			

a. Predictors: (Constant), Accounts Receivables Management Practices

b. Dependent Variable: Financial Performance of Private Hospitals in Nakuru County

From the findings, in table 26, the F-Value of (11.5540) was found to be significant at (0.000) which shows that the model was fit in predicting the effect of accounts receivables management practices on financial performance of private hospitals in Nakuru County.

Table 4.19: Regression Coefficients for Accounts Receivables Management Practices

Model	Unstandardized Coefficients		Standardized Coefficients		t	Sig.
	B	Std. Error	Beta			
(Constant)	2.026	.420			4.824	.000
accounts receivables management practices	.241	.147	.421		1.640	.022

a. Predictors: (Constant), Accounts Receivables Management Practices

b. Dependent Variable: financial performance of private hospitals in Nakuru County

From Table 4.19 the beta coefficient for accounts receivables management practices was 0.241 which implies that a unit change in accounts receivables management practices would result to 0.241 times change in financial performance of private hospitals in Nakuru County. From the findings the bivariate regression model is

$$Y = 2.026 + 0.241X_3$$

The study sought to test the hypothesis that: **H03**: Accounts receivables management practices have no significant effect on financial performance of private hospitals in Nakuru County.

From the findings the p-value was 0.022 which was less the 0.05 significant level. Therefore, based on the rule of significance, the study rejects the null hypothesis (H03) and concluded that **H03**: Accounts receivables management practices have no significant effect on financial performance of private hospitals in Nakuru County.

4.4.2.4 Bivariate Regression on Accounts Payable Period on Financial Performance

Table 4.20: Model Summary on Accounts Payable Period

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.754 ^a	.569	.48659	.000

a. Predictors: (Constant), Accounts Payable Period

b. Dependent Variable: Financial Performance of Private Hospitals in Nakuru County

From the findings the R-squared was 0.569 indicating that accounts payable period explains 56.9% of the variation in financial performance of private hospitals in Nakuru County.

Table 4.21: ANOVA on Accounts Payable Period

ANOVA ^a						
Model	Sum of Squares	df	Mean Square	F	Sig.	
1	Regression	7.564	1	7.564	10.0982	.000 ^b
	Residual	35.954	48	.7490		
	Total	44.608	49			

a. Predictors: (Constant), Accounts Payable Period

b. Dependent Variable: Financial Performance of Private Hospitals in Nakuru County

From the findings, the F-Value of (10.0982) was found to be significant at (0.000) which shows that the model was fit in predicting the accounts payable period on financial performance of private hospitals in Nakuru County.

Table 4.22: Regression Coefficients on Accounts Payable Period

Model	Unstandardized Coefficients		Standardized Coefficients		Sig.
	B	Std. Error	Beta	t	
(Constant)	2.291	.420		4.824	.000
Accounts Payable Period	.241	.147	.421	1.640	.022

a. Predictors: (Constant), Accounts Payable Period

b. Dependent Variable: Financial Performance of Private Hospitals in Nakuru County

From Table 4.22 the beta coefficient for accounts payable period was 0.241 which implies that a unit change in accounts payable period would result to 0.241 times

change in financial performance of private hospitals in Nakuru County. From the findings the bivariate regression model is

$$Y = 2.026 + 0.241X_3$$

The study sought to test the hypothesis that: **H04:** Accounts payable period has no significant effect on financial performance of private hospitals in Nakuru County. From the findings the p-value was 0.022 which was less the 0.05 significant level. Therefore, based on the rule of significance, the study rejects the null hypothesis (H₀₄) and concluded that accounts payable period has significant effect on financial performance of private hospitals in Nakuru County.

4.4.3 Overall Model Summary

The researcher sought to determine the value of R². The R-Squared is the proportion of variance in the dependent variable which can be explained by the independent variables.

Table 4.23: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Sig. F Change
1	.878 ^a	.770	.749	.3873	.000

Source: Researcher, (2024)

The R-squared in this study was 0.770, which shows that the four independent variables (cash management practices, inventory management practices, accounts receivables management practices, accounts payable period) can explain 77.0% of

financial performance of private hospitals in Nakuru County, while other factors explain 23.0%.

Table 4.24: Analysis of Variance

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	28.563	4	7.14075	37.662	.000 ^b
1	Residual	8.532	45	.1896		
	Total	37.095	49			

a. Dependent Variable: Financial Performance of Private Hospitals

b. Predictors: (Constant), cash management practices, inventory management practices, accounts receivables management practices, accounts payable period.

Source: Researcher, (2024)

From the findings, the p-value was 0.000 which is less than 0.05 and hence the model is good in predicting how the four independent variables (cash management practices, inventory management practices, accounts receivables management practices, accounts payable period) affect financial performance of private hospitals in Nakuru County. Further, the F-value was (37.662) which shows that the model was fit in predicting the influence of the independent variables on the dependent variable. The study findings are in line with those of Mutua and Wambua (2020) who found that there exists a highly significant negative relationship between the time it takes for firms to collect cash from their customers (accounts collection period) and profitability) there exists a highly significant positive relationship between the period

taken to convert inventories into sales (the inventory conversion period) and profitability and there exists a highly significant positive relationship between the time it takes the firm to pay its creditors (average payment period) and profitability.

Table 4.25: Regression Coefficients

Model	Unstandardized		Standardized	t	Sig.
	Coefficients		Coefficients		
	B	Std. Error	Beta		
(Constant)	.038	.145		.260	.796
Cash Management Practices	.596	.107	.548	5.578	.023
Inventory Management Practices	.233	.081	.245	2.877	.016
Accounts receivables management practices	.245	.104	.179	2.356	.022
Accounts Payable Period	.323	.106	.360	3.052	.003

Source: Researcher, (2024)

The interpretations of the findings indicated follow the following regression model.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon \dots \dots \dots \text{Equation 4.1}$$

Therefore,

$$Y = 0.038 + 0.596 X_1 + 0.233 X_2 + 0.245 X_3 + 0.323 X_4 \dots \dots \dots 4.2$$

According to the intercept (β_0), when the three independent variables are held constant, the value of financial performance of private hospitals in Nakuru County will be 0.038. In addition, holding all the other independent variables constant, a unit

increase in cash management practices would lead to a 0.596 improvement in financial performance of private hospitals in Nakuru County. Further, holding on the other independent variables constant, a unit increase in inventory management practices would lead to a 0.233 improvement in financial performance of private hospitals in Nakuru County.

In addition, holding all the other variables constant, a unit increase in accounts receivable would lead to a 0.245 improvement financial performance of private hospitals in Nakuru County. Finally holding all the other variables constant, a unit increase in accounts payable period would lead to a 0.323 improvement in financial performance of private hospitals in Nakuru County. From these findings we can infer that cash management practices is affecting financial performance of private hospitals in Nakuru County, most, followed accounts receivables management practices, of accounts payable period and inventory management practices.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter provides a detailed summary of the major findings of the actual study; it then draws conclusions and discusses implications emanating from these findings. Finally, it makes some recommendations and suggestions on areas of further study.

5.2 Summary of Findings

5.2.1 Cash Management Practices on Financial Performance

From the analysis the study revealed that high salaries lowers the amount of cash to be invested which affects the firm's financial performance. The study also revealed that taxation reduces the organization savings potentiality which affects financial performance. Moreover, the study also revealed that tax inspects controls for the audit probabilities faced by the business which affects financial performance. High cost of medical utilities leads more spending which affects firms profitability. Moreover, the study revealed that taxes imposed on the purchases medicines and medical equipment's negatively affects firms' financial performance. Further, the study revealed that high salaries lowers the amount of cash to be invested which affects the firm's financial performance. According to, Mutabazi and Uwamahoro (2021) paying employees' salaries above the average ratio boosts the morale of the employees to be more productive. This increases the profitability of the company in terms of returns which stimulates more resources to be invested.

5.2.2 Inventory Management Practices on Financial Performance

From the analysis the study found that higher levels of stock out leads to customer frustration which consequently affects financial performance. Moreover, the study

revealed that stock out leads to low turnout of orders which negatively affects financial performance of the hospital. The study also revealed that stock out leads to loss of competitive edge which affects financial performance of the firm. The study further revealed that overstocking allows the organization to meet any unexpected order which positively affects the financial performance. From the findings the study revealed that over stocking results in higher storage costs which negatively affects the firm's financial performance. The study is in agreement with Mureithi, Kihara, and Wangui (2022) who found that over stocking creates losses due to obsolescence because not all products have the same shelf life due to expiration dates or seasonality. Products take space in the warehouse and use resources that might be channeled to other and more demanded products, which might result in shortages.

5.2.3 Accounts Receivables Management Practices on Financial Performance

From the findings the study revealed that an increase in patients' medical bills translates to positive financial performance. The study further, revealed that the hospital has a medical bill recovery system in place which consequently affects financial performance. In addition, the study revealed that the hospitals detains, customers with high medical bills. The study further, revealed that the hospitals requires that patients pay before services are rendered which positively affects financial performance. According to Kamau, Chege, and Mwende (2020) for businesses, the main benefit of cash on delivery is that the payment period is shorter, and there is no delay in the receipt of cash. This protects businesses from the risk that a customer will not pay or pays late for goods and ensures reliable cash flow.

5.2.4 Accounts Payable Period on Financial Performance

From the findings the study revealed that the organization has a well structures credit policy to manage supplies debts which influences the profitability of the firm. The

study further revealed that the organization has a credit collection policy which improves financial performance. In addition, the study revealed that the business offer cash discounts on certain services which affects the firm's financial performance. From the findings the study revealed that the purchases products in bulk to lower the cost of operation which affects financial performance. The study findings conquers with those of Mwinyi and Hassan (2020) who found that buying products in bulk can provide benefits that justify the added costs, such as avoiding lost sales, generating purchasing discounts and keeping retail spaces looking fully stocked which affects financial performance of the firm.

5.3 Conclusions of the Study

5.3.1 Cash Management Practices on Financial Performance

From the analysis and the findings, the study concluded that taxes imposed on the purchases medicines and medical equipment's negatively affects firms' financial performance. The study also concluded that high salaries lower the amount of cash to be invested which affects the firm's financial performance. In addition, the study concluded that there was a positive and statistically significant correlation between cash management practices on financial performance of private hospitals in Nakuru County ($r = 0.443$; $p < 0.05$). This implies that better cash management practices enhance financial performance of private hospitals in Nakuru County. Moreover, the study concluded that cash management has a significant impact on private hospitals' financial performance in Nakuru County.

5.3.2 Inventory Management Practices on Financial Performance

From the findings the study concluded that overstocking allows the organization to meet any unexpected order which positively affects the financial performance. In

addition, the study concluded that over stocking results in higher storage costs which negatively affects the firm's financial performance. Moreover, the study concluded that there was a positive and statistically significant correlation between inventory management practices on financial performance of private hospitals in Nakuru County, ($r = 0.441$; $p < 0.05$). This implies that better management of inventory management practices enhances financial performance of private hospitals in Nakuru County. The study also concluded that inventory management practices have a significant impact on financial performance of private hospitals in Nakuru County.

5.3.3 Accounts Receivables Management Practices on Financial Performance

From the analysis and findings, the study concluded that the hospitals detain customers with high medical bills. The study also concluded that the hospitals requires that patients pay before services are rendered which positively affects financial performance. The study also concluded that there was a strong positive correlation existed between accounts receivables management practices and financial performance of private hospitals in Nakuru County ($r = 0.541$; $p < 0.05$). The results of the correlation analysis indicated that better accounts receivables management practices enhance financial performance of private hospitals in Nakuru County. The study further, concluded that accounts receivables management practices have no significant impact on financial performance of private hospitals in Nakuru County.

5.3.4 Accounts Payable Period on Financial Performance

Regarding accounts payable period, the study revealed that the business offer cash discounts on certain services which affects the firm's financial performance. The study further revealed that, the purchases products in bulk to lower the cost of operation which affects financial performance. The study also revealed that there was a strong positive correlation existed between accounts payable period on financial

performance of private hospitals in Nakuru County ($r = 0.641$; $p < 0.05$). The results of the correlation analysis indicated that better accounts payable period enhances financial performance of private hospitals in Nakuru County.

5.4 Recommendations of the Study

In the light of the foregoing findings, the study recommends that hospitals should adopt contemporary cash management practices, because proper cash management helps the business to have the required cash to run the daily activities. By generating enough cash, the hospital can meet its everyday business needs and avoid taking on debt. That way, the hospital has more control over its activities. In a situation in which a hospital has to take on debt to meet its expenses, it is likely that its debtors will have a say in how the hospital is management.

The study recommended that the hospital should adopt inventory management software. With the help of inventory management software, any hospital or medical store can keep precise and updated stock records. Especially for pharmaceuticals and surgical equipment. It is one of the most significant jobs for any hospital organization. As pharmaceuticals and surgical equipment are the most utilized items/things in a hospital, each hospital should consistently keep up a decent load of medicine stock. Managing hospital inventories effectively will lead to timely delivery of medical attention to patient which will in-turn ameliorate the performance of the hospital.

The study further recommended that the hospital should manage their accounts receivable effectively because, quality healthcare accounts receivable management is the primary requirement to keep the monthly cash flow of the medical practice healthy. Missing on managing the accounts receivable follow up can trigger revenue pitfalls and affect business continuity. Effective management of accounts receivable

on a daily basis to get the cleared to avoid accounts receivable aging claims older than 60 days helps keep up with the financial goals.

5.5 Suggestions for Further Studies

The researcher recommended that further studies should be conducted in a different sector such as the manufacturing firms and other private sectors like learning institutions for generalization of the study findings.

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APPENDICES

APPENDIX I: Research Instruments

Please fill in the blank spaces provided and tick where applicable.

For questions that require you to indicate your agreement level, use Key: 5= Strongly Agree, 4= Agree, 3= Undecided, 2= Disagree and 1= Strongly Disagreed

SEC. B. Respondent`s Details.

1. Gender.

a) Male []

b) Female []

2. Age bracket?

Above 40 years []

30 – 40 years []

25-30 Years []

Less than 25 years []

3. Duration of working in this organization?

a) Less than 1 year []

b) 1 – 5 years []

c) 5 and above years []

4. What is your highest level of education?

Diploma []

Degree level []

Masters level []

PhD Level []

In a scale of 1-5 where 1= Strongly Disagree, 2=Disagree, 3=Undecided, 4=Agree and 5=Strongly Agree indicate the level of agreement on the following statement

SECTION B: CASH MANAGEMENT

	5	4	3	2	1
High salaries lowers the amount of cash to be invested which affects the firm’s financial performance.					
Taxation reduces the organization savings potentiality which affects financial performance.					
Tax inspects controls for the audit probabilities faced by the business which affects financial performance.					
High cost of medical utilities leads more spending which affects firms profitability.					
Taxes imposed on the purchases medicines and medical equipment’s negatively affects firms’ financial performance.					

SECTION C: INVENTORY PRACTICE

	5	4	3	2	1
Higher levels of stock out leads to customer frustration which consequently affects financial performance					
Stock out leads to low turnout of orders which negatively affects financial performance of the hospital					
Stock out leads to loss of competitive edge which affects financial performance of the firm					
Overstocking allows the organization to meet any unexpected					

order which positively affects the financial performance					
Over stocking results in higher storage costs which negatively affects the firm's financial performance					

SECTION F: ACCOUNTS RECEIVABLES MANAGEMENT PRACTICES

	5	4	3	2	1
Increase in patients' medical bills translates to positive financial performance					
The hospital has a medical bill recovery system in place which consequently affects financial performance.					
The hospitals detains customers with high medical bills					
The hospitals requires that patients pay before services are rendered which positively affects financial performance					

SECTION D: ACCOUNT PAYABLE PERIOD

	5	4	3	2	1
The organization has a well structures credit policy to manage supplies debts which influences the profitability of the firm					
The organization has a credit collection policy which improves financial performance					
The business offer cash discounts on certain services which affects the firm’s financial performance					
The purchases products in bulk to lower the cost of operation which affects financial performance.					

APPENDIX II: List of Hospitals in Nakuru County

Name of Hospital
1. Algadir Medical Clinic
2. Baraka Maternity & Nursing Home
3. Evans Sunrise Medical Centre
4. Mercy Mission Hospital
5. Mediheal Group of Hospitals, Nakuru
6. Mother Kevin Dispensary (Catholic)
7. Nairobi Women's Hospital Nakuru Branch
8. Nakuru Nursing & Maternity Home
9. Nakuru War Memorial Hospital
10. Nakuru West (PCEA) Health Centre
11. Polyclinic Hospital
12. Rapha Maternity (Nakuru Central)
13. Valley Hospital
14. St Mary Medical Clinic (Nakuru North
15. The Karen Hospital
Total

Source: County Government of Nakuru Health Records (2024)

APPENDIX III: Research Approval



KENYATTA UNIVERSITY
GRADUATE SCHOOL

E-mail: dean-graduate@ku.ac.ke

Website: www.ku.ac.ke

P.O. Box 43844, 00100
NAIROBI, KENYA
Tel. 810901 Ext. 4150

Internal Memo

FROM: Dean, Graduate School

DATE: 29th August, 2022

TO: Olgar Kemuma Ondieki
C/o Accounting and Finance Dept.

REF: D53/NKU/OL/37991/2016

SUBJECT: APPROVAL OF RESEARCH PROJECT PROPOSAL

This is to inform you that Graduate School Board at its meeting of 17th August, 2022 approved your Research Project Proposal for the M.B.A Degree Entitled, "**Working Capital Management Practices and Financial Performances of Private Hospitals in Nakuru County, Kenya**".

You may now proceed with your Data Collection, Subject to Clearance with Director General, National Commission for Science, Technology and Innovation.

As you embark on your data collection, please note that you will be required to submit to Graduate School completed Supervision Tracking and progress report Forms per semester. The Forms are available at the University's Website under Graduate School webpage downloads.

Also, please ensure that you publish article(s) from your project before submitting it to Graduate School for examination as per the Commission for University Education and Kenyatta University guidelines.

Thank you.

ANNBELL MWANIKI
FOR: DEAN, GRADUATE SCHOOL

c.c. Chairman, Accounting and Finance.

Supervisors:

1. Dr. Farida Abdul
C/o Department of Accounting and Finance
Kenyatta University

AM/Inn

APPENDIX IV: Authorization



KENYATTA UNIVERSITY
GRADUATE SCHOOL

E-mail: dean-graduate@ku.ac.ke

P.O. Box 43844, 00100

NAIROBI, KENYA

Tel. 8710901 Ext. 57530

Website: www.ku.ac.ke

Our Ref: D53/NKU/OL/37991/2016

DATE: 29th August, 2022

Director General,
National Commission for Science, Technology
and Innovation
P.O. Box 30623-00100
NAIROBI

Dear Sir/Madam,

RE: RESEARCH AUTHORIZATION FOR OLGAR KEMUMA ONDIEKI – REG. NO. D53/NKU/OL/37991/2016.

I write to introduce Olgar Kemuma Ondieki who is a Postgraduate Student of this University. The student is registered for M.B.A degree programme in the Department of Accounting and Finance.

Olgar intends to conduct research for a M.B.A Project Proposal entitled, “**Working Capital Management Practices and Financial Performances of Private Hospitals in Nakuru County, Kenya**”.

Any assistance given will be highly appreciated.


Yours faithfully,


A blue ink signature of Prof. Elishiba Kimani, consisting of stylized initials and a surname.

PROF. ELISHIBA KIMANI
DEAN, GRADUATE SCHOOL

AM/lrm


APPENDIX V: Research Permit (NACOSTI)


REPUBLIC OF KENYA


NATIONAL COMMISSION FOR
SCIENCE, TECHNOLOGY & INNOVATION

Ref No: **541338** Date of Issue: **06/September/2022**

RESEARCH LICENSE




This is to Certify that Ms. OLGAR Kemuma ONDIEKI of Kenyatta University, has been licensed to conduct research in Nakuru on the topic: WORKING CAPITAL MANAGEMENT PRACTICES AND FINANCIAL PERFORMANCES OF PRIVATE HOSPITALS IN NAKURU COUNTY, KENYA for the period ending : 06/September/2023.

License No: **NACOSTI/P/22/20185**

541338
Applicant Identification Number

Walter Kimani
Director General
NATIONAL COMMISSION FOR
SCIENCE, TECHNOLOGY & INNOVATION

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