

**EFFECTS OF WORKING CAPITAL MANAGEMENT ON FINANCIAL
PERFORMANCE OF LEVEL THREE AND FOUR PUBLIC HOSPITALS IN
MERU COUNTY**

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DECLARATION AND RECOMMENDATION

Declaration

This thesis is my original work and has not been presented for a degree or any other award in any other University

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DEDICATION

I dedicate this research work to my Mum Evelyn Kimathi and my daughter Tiffah Wambui for the continuous support that they have given me throughout the entire process.

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Thanks to the Almighty God because His grace has been sufficient to keep me alive and get me this far. Moreover, my gratitude to my supervisors Susan Kambura and Dr. Nancy Rintari, PhD for their professional advice and guidance. I want to thank them sincerely for their kindness, support, and advice. Special thanks to my fellow students for their assistance and inspiration throughout this process. All the lecturers in my department for the knowledge they instilled in me, the Kenya Methodist university Librarian for his guidance and support in information retrieval and referencing, my colleagues at work and my entire organization for the support they accorded to me while writing this thesis. Since I cannot mention all by names may God the Almighty bless you abundantly.

ABSTRACT

Financial performance of Kenya's public hospitals is essential for the nation's economic development. The notion of hospital quality improvement is centered on measuring public hospital performance. A description of what hospitals actually accomplish can be made possible by measuring hospital financial performance. Level three and four hospitals in Kenya focus on the provision of health care activities and develop individual spending plans and budgetary needs based on recommendations from headquarters distributed throughout the counties. In addition to other issues, the MOH health care delivery system was plagued by diminishing resources, ineffective use of those that were still available, and unfair resource distribution by 2015. Public health institutions now have to manage their own internal resources more effectively as the government's power to save failing institutions of higher learning was severely undermined. The purpose of this study was to ascertain how working capital management techniques affected the level three and level four hospitals in Meru County in terms of their financial performance. The particular objectives were to determine the effect of cash management, inventory management, accounts receivable, and accounts payable on the financial performance of Meru County's Level three and Four Hospitals. The study was grounded on the theoretical premise of contingency, resource-based theory, liquidity preference theory and cash conversion cycle theory. The study's research design was descriptive survey, which allowed the researcher to explain the elements of interest with regard to their attributes. The study used a questionnaire for data collection purposes. The target population consisted of fifty-three senior managers from all the fifty-three public Level three and Four Hospitals in Meru County. These managers included Hospital administrator or finance manager where applicable. The investigation was conducted in Kenya's eastern Province, in the county of Meru. Data analysis was conducted using SPSS version 27. Utilizing both descriptive and inferential statistics, the examined data was displayed. Regressions, both linear and multilinear, were utilized to determine the association between the variables. The investigation's findings showed that the majority of respondents were female, Additionally, most of the participants were between 31-40 years of age. According to the data, undergraduates made up the majority of respondents with the highest level of education. The investigation concluded that working capital management techniques, which include inventory control, cash management, and cash payables and receivables management, significantly impact financial performance. The accounts payable results ultimately show a statistically significant correlation coefficients, thereby supporting the rejection of the all the null hypotheses. The study thus recommended that the head of finance in these hospitals should continuously communicate payment terms to the clients in a timely manner as this would ensure the payment terms adherence. Further, the study recommends that credit officers of these hospitals should time to time review accounts receivables age so as to facilitate continuous follow up on unpaid dues.

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ABBREVIATIONS AND ACRONYMS

| | |
|-------------|--------------------------------|
| GOK | Government of Kenya |
| MOH | Ministry of Health |
| NHIF | National Health Insurance Fund |
| NSE | Nairobi Securities Exchange |
| CMA | Capital Markets Authority |
| ROA | Return on Asset |

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Crucial factor in an enterprise's overall performance is its financial operations (Isanya&Atieno, 2023). Because it provides information of how financial assets and the corporate entity accomplished the financial result and how the profit from operations was gained, the evaluation of financial operations is particularly significant (Berikova et al., 2022).Every hospital must perform well financially in order to develop and survive, as money is the lifeblood of every business. Poor financial results or an insufficient amount of funding worsen financial strain, limiting the capacity of a hospital to survive and thrive (Tanko et al., 2021). The number of resources under the company's control changes depending on its financial performance, which can enhance subsequent performance. What exactly determines a company's financial performance is still a mystery, though. Due to the challenges businesses are facing in recent years in achieving the requisite financial performance due to intense competition, increased company efficiency, and pricing pressure (Blažková &Dvouletý, 2018).

1.1.1 Financial Performance

According to Marr (2012), financial performance is an assessment of an enterprise's holistic financial well-being over a certain duration of time as measured by its ability to meet both operational and financial goals. Moreover, Venanzi (2011) states that financial performance is a specific evaluation of the way effectively a corporation may utilize the resources from its main commercial strategy and produce profits. Financial performance is the assessment of an entity's activities and policies in terms of money. The Rate on

investment, Rate on assets, and Value added tax of the entity reflect these results. Therefore, measuring financial performance requires evaluating a company's activities and policies in terms of money (Robinson, 2020).

The following profitability ratios can be used to assess financial performance: When direct costs of sales are taken into account, the gross profit margin shows the amount of money made, or the impact. Operational expenditures margin that is determined by both gross and net profit. Because it includes all expenses, including all overhead costs, interest costs, and tax expenses in the computation of profit, net profit margin represents a significantly condensed appraisal of revenues. Net revenue is computed as a fraction of the whole capital invested in the company, or return on capital used. It shows how well the money invested in the company is doing in comparison to possible alternative investments, such as placing the money in the bank (Robinson, 2020).

Accounting ratios for assessing financial prudence comprise of liquidity that assesses the ability to pay short-term liabilities, solvency, which compares long-term liabilities to assets and equity to assess economic stability, and effectiveness, that assists stock turnover to assess the manner in which effectively the company is utilizing its resources (Schwarzbichler et al., 2018). Financial performance evaluation comprises a thorough examination of a company's profitability and financial stability by way of an analysis of its financial statements. The financial performance of an organization has an impact on several connected groups. The type of evaluation relies on the person involved concerns: Financial performance measurement is critical for: trade creditors concerned with the firm's liquidity (assessment of corporate's liquidity). Bondholders apprehensive regarding

the corporate's ability to create cash flow should consider the capital structure, principal sources, and money consumption of the organization (Marr, 2012).

Having a robust and stable organizational setup, appropriate subordinates, paperwork, and a sufficient method of checking the documentation are essential for efficient financial operations (Berikova et al., 2022). The financial activities carried out by a business entity led to the improvement of the entity's efficiency by promoting and confirming the correctness and dependability of accounting and operating information as well as data which serves as the basis for good business decisions (Triyonowati et al., 2023). The effectiveness of an enterprise's financial performance is employed to assess its potential for future growth. Considering the fact that there are numerous indicators for measuring financial performance, the selection of appropriate ratios is based on the characteristics of the examined items and the study objectives.

A hospital is viewed to be financially sound if it utilizes its core resources more efficiently than its peers or opponents (Morara & Sibindi, 2021). According to Al-Abass (2018), profitability is formed from the verses "profit" and "ability." Profit is a firm's overall income or return, while ability is the influence that the organization uses to achieve profit and the efficiency by which the management earns this profit by optimizing all accessible assets. One of the instruments at the disposal of a business for producing profits is good working capital management. The differential among costs and revenues which leads to profitability has a higher inner rate of return.

The ratio of net profit, in addition to other performance indicators, is used to analyze the strategic company efficiency of both soft and hard lean approaches (Sahoo, 2019). In a

similar way, the profitability measure is used. To assess one of the 3 factors of corporate performance (satisfaction of clients, profitability and market share), Shrafat and Ismail (2019) analyzed a company's degree of profitability using a variety of ratios that take into account its financial statements.

Financial solidity and the effectiveness of managing current assets are significantly impacted by working capital management. Adequate liquidity echelons are necessary to guarantee that businesses can cater for their short-term monetary requirements. Additionally, executives need to make sure that extra money isn't used for working capital (Akbar et al., 2021). The capacity of an enterprise in meeting its obligations in good timing can be described as liquidity. Consequently, it is the enterprise's capacity to transform its present wealth into liquid cash in order to pay current creditors on schedule. A corporation's ability to sustain liquidity impacts how long it can remain functioning.

1.1.2 Working Capital Management

Working capital management is a tactical approach that aims to keep a business's working capital levels adequate while reducing spending in this area (Zeidan, 2022). In this study, working capital management practices that were considered were cash management, inventory management, accounts receivable and accounts payable (Manos et al., 2023; Meyer, 2020; Sagner, 2014; Stepanian, 2021). Cash management is described as the flow computation that aims to quantify the duration it takes an enterprise to translate its establishment in assets such as inventories and other inputs into liquid money (Stepanian, 2021). Managing working capital is crucial since it got a big implication on an enterprise's profitability and choices, that in return affect its financial success.

Management of Working capital in the retailing industry must be adequate and effective. In order to sustainsteadinessas well as stay competitive, businesses should retain an equilibrium amongst their present assets and present obligations. Profit is the ultimate goal of any organization, but management must also keep working capital at a healthy level.

Inventory managementrefers to the costs related to keeping unsold merchandise in storage. These costs, along with ordering costs and shortage charges, make up the entire cost of keeping inventory (Meyer, 2020).In the words of Oseifuah and Gyekye (2017) good working capital management is essential for optimizing shareholder wealth. At the price of capital budgeting and capital structure choices, working capital management has received a lot of consideration in both theoretical and empirical research. Siraj et al. (2019) claim that one of the trickiest problems in corporate finance is working capital management. Because it effects return and profitability, it involves a series of challenging and crucial financial decisions for every particular organization's performance.

Working capital administration is difficult since it includes both present wealth and present debts. Working capital management's goal is to maintain an eye on a firm's present inventories and obligations in order to achieve an acceptable balance between profitability and hazard that boosts the firm's value. For businesses to function successfully and efficiently, they need to maintain a certain amount of working cash on hand. For example, if the company's operating capital is insufficient, it risks going bankrupt as well. Inadequate working capital jeopardizes corporate solvency, whereas excess working capital diminishes profitability (Aravind, 2016).Given that working capital management varies throughout states and industries, Louw et al. (2017) think it

might have been more beneficial to investigate the link amid profitability and management of working capital within a certain sector. There are three ways to approach financial and investment decisions: aggressively, conservatively, or moderately. For instance, a company with large sales volume needs more funding in current assets than one with modest sales volume does.

Accounts receivables are short-term sums owed to a seller by clients whom purchased products or services on credit from the seller and are required to pay it back (Sagner, 2014). Enterprises could opt for short-term debt has low rates of interest and can be utilized to support current assets. The risk connected to short-term debt, however, is higher than the risk connected to long-term obligations (Dhole et al., 2019). With persistent funding, all present holdings, both short-term and long-term, as well as some immovable inventories, are financed with short-term and non-spontaneous obligations, and the remaining fixed assets are financed with long-term debt.

Account payable is an accounting entry that shows a company's responsibility to settle a recent debt with creditors (Manos et al., 2023). Notably, a company may choose an aggressive approach if it keeps a small fraction of its overall inventories in the form of present holdings or utilizes a sizable amount of short-term obligation. This policy will therefore lead to higher profits and a higher danger of the business defaulting. A low current asset to current liability ratio is the goal of aggressive initiatives. Sales made on trade credit are targeted at regular clients who have little trust, which contributes to the high number of receivables (Zimon & Tarighi, 2021).

Globally, the hospital industry is experiencing shock waves due to rising health care prices and escalating competition. Americans spent \$2,700 on healthcare on average in 1990. Since the 1980s, this has increased by an average of 11% that is double the degree of inflation. By the year 2030, the average cost per person is anticipated to be \$6,000. According to Hampton (2014), hospital expenses now account for 40% of the entire health care budget, up from \$101 billion in 1980 to \$252 billion in 1990. Inadequately used resources at some rural hospitals, where vacancy rates have reached 80%, escalating human resource costs, increased use of modern technologies to extend livelihood, and severe rivalry are all factors contributing to these escalating prices. The persistent issues with uncompensated care (which may account for more than twenty percent of a hospital's total billing) and different government rate-set ring schemes go hand in hand with these rising expenses.

Regionally, hospitals in South Africa have long overlooked production economics in the field of public health. There was little need for cost-cutting, particularly in hospitals, but this has radically altered in recent years. A patient's actual costs, as well as the purchase prices and storage costs of the hospital's inventory, are of much greater relevance today. When we first began our investigation, we identified a variety of issues with logistics, including issues with organization, logistical processes, cost awareness, misplaced stocks, and the efficacy of stocks regulations. A hospital's inventories can be separated into local inventories, which are controlled locally, and global inventories, which are distributed around the many hospital departments and operating rooms and kept in a number of enormous warehouses. The main theme of this investigation was the controlling of the

world inventories at the Academic Hospital Rotterdam. This hospital's condition is considered typical for bigger facilities.

Locally, over 4,700 health institutions make up Kenya's nationwide network that delivers health services, with roughly 51% of them belonging to the public sector. The following medical facilities are included in the public health sector: dispensaries, district hospitals, state referral hospitals, province general hospitals, and health clinics. As one moves up the health care hierarchy, from the national to the provincial and district levels, health services become more integrated (RoK, 2011). Kenyatta National Hospital in Nairobi and Moi Referral and Teaching Hospital in Eldoret are the two national referral hospitals. Provincial hospitals act as referral hubs for their district hospitals. Between the districts and the national central level, the province level serves as a link. They organize and control all district-level health initiatives, maintain standards of quality, and supervise the district-level implementation of health policy (RoK, 2013). Based on directives from central office through the provinces, level four hospitals concentrate on providing healthcare services and develop their own spending strategies and financial needs. Many ambulatory health services are offered by level four hospitals and health centers.

In accordance with the Kenyan Constitution 2010, Vision 2030, Kenya Health Policy Framework 2011–2030, and the Big Four Agenda, the Kenyan government wishes to increase healthcare access and quality while striving to enhance the efficiency of public hospitals. The present NHIF coverage rate is 15.8%, implying that more than 80% of Kenya's total population has some form of health insurance (NHIF, 2017). Financial performance of Kenya's public hospitals has been a source of worry despite the high NHIF coverage (Barasa et al., 2018). In order to improve hospital performance in terms

of operational surplus/deficit, it is essential to guarantee that public funded healthcare programs are available, affordable, and adequately cover the population (Munge et al., 2019). The scope of performance in healthcare undoubtedly includes not just the patient's quality of care but also its impact on the family, community, and country.

1.1.3 Meru County

One of Kenya's 47 counties is Meru County. It shares boundaries with the counties of Isiolo to the north, Tharaka-Nithi to the east, Nyeri to the southwest, and Laikipia to the west. Meru County, where the Meru people reside, is home to 1.55 million people. Fifty-three level three and four hospitals are located in the county (CIDP 2018–2022) which have been affected by macroeconomic factors like slow growth, the national debt, and inflation, which frequently have an impact on health allocations, tax revenues are unreliable sources of health financing. The widespread absence of proper medications and pharmaceuticals, the lack of employees, and the inadequate upkeep of facilities, vehicles, and equipment are all symptoms of the health budget shortages. In order to close the funding disparity amid real budgets and the extent of assets required to pay activities in the public health sector, the GOK has followed a cost-sharing policy for the past 20 years.

1.2 Statement of the Problem

Financial performance of Kenya's public hospitals is essential for the nation's economic development given that it enhances Kenyans' quality of life and, consequently, helps economic growth by lowering poverty and boosting population health (Nguru & Ireri, 2022). The notion of hospital quality improvement is centered on measuring public

hospital performance (WHO & World Bank, 2021). A description of what hospitals actually accomplish can be made possible by measuring hospital financial performance.

In order to increase service coverage and financial security, health finance is a crucial component of health systems (WHO, 2023). Millions of individuals are presently unable to receive services due to the expensive cost. Many others receive subpar care despite the fact that they pay out of their own pocket. Appropriately organized and executed health funding approaches can help to overcome these difficulties. Despite significant worldwide progress toward UHC, the World Bank issued a warning in 2019 that, if present trends proceed, up to 5 million people may not have access to health care by the end of this decade. To achieve the health goals outlined in the Sustainable Development Goals, countries must escalate their expenditure on primary healthcare by at least one percent of their Gross Domestic Product (IMF, 2021).

Accidents, crises, disruptions in technology, changes in the environment, disasters, and diseases have had a negative impact on the economy, society, and environment in the modern world by generating an uncertain environment (Ewertowski, 2022). As a result, when uncertainty suddenly rises, a hospital's performance is impacted and failure is more likely (Amankwah-Amoah et al., 2021). Health is a devolved function in Kenya, since the promulgation of the constitution 2010 in Kenya, the health function was devolved to the county governments in the year 2013. Since then, the sector has suffered drawbacks as a result of poor working conditions in hospitals, persistent strikes by the health workers, delayed funding by the national government, lack of hospital supplies among others. All these drawbacks made level four public hospitals not be in a better position to serve the citizens in the county. Since the health sector was transferred to the counties, Kenya's

public hospitals have performed poorly due to inefficiencies that lead to subpar service delivery and low levels of patient care quality (Nguru & Ileri, 2022). Hence, this study therefore assessed the effects of working capital management on the financial performance of Level three and Four Hospitals in Meru County.

1.3 Purpose of the Study

To assess the effects of working capital management on the financial performance of Level three and Four Hospitals in Meru County.

1.4 Specific Objectives

- i. To determine the effect of cash management on financial performance of Level three and Four Hospitals in Meru County.
- ii. To evaluate the effect of inventory management on financial performance of Level three and Four Hospitals in Meru County.
- iii. To determine the effect of accounts receivable on financial performance of Level three and Four Hospitals in Meru County.
- iv. To determine the effect of accounts payable on financial performance of Level three and Four Hospitals in Meru County.

1.5 Research Hypothesis

H₀₁: Cash management has no statistically significant effect on financial performance of Level three and Four Hospitals in Meru County

H₀₂: Inventory management has no statistically significant effect on financial performance of Level three and Four Hospitals in Meru County

H₀₃: Accounts receivable management has no statistically significant effect on financial performance of Level three and Four Hospitals in Meru County

H₀₄: Accounts payable management has no statistically significant effect on financial performance of Level three and Four Hospitals in Meru County

1.6 Significance of the Study

The results of this investigation would be necessary to many stakeholders in the health industry. The results will be especially crucial for the management of level 3 &4 hospitals across the nation to understand the flaws that could result from bad working capital practices. The study will also highlight a number of advantages that can be attained through effective working capital management. As a result, this study will be helpful not only to the management and different stakeholders in the health care business, but also to policy makers who will utilize the study's findings to inform the creation and implementation of policies.

The outcomes of this enquiry would also help regulators and makers of decision to develop a new set of rules and guidelines for working capital management in the healthcare sector. The results will also aid in educating the main implementers at public hospitals on how to formulate policies, implement their strategies successfully, and intend to mitigate the issues it faces. In addition to the aforementioned, stakeholders, financiers, and investors will benefit from the study in developing and planning areas of intervention and assistance.

The study will also be significant to academics and scholars. This is due to the fact that it may enhance the existing body of knowledge on working capital and financial

performance of businesses, particularly in the healthcare sector. As a result, the study will serve as a valuable source of information on the aforementioned topics.

1.7 Scope of the Study

Finding out how working capital management strategies impact the financial performance of public Level 3 and Level 4 hospitals in Meru County was the primary objective of the research. With regard to the financial performance of Level three and Four Hospitals in Meru County, it specifically aimed to evaluate the effects of the four working capital components, including inventory management, cash management, account payables, and accounts receivables. The study restricted itself to all the 53 level three and four hospitals in the County. The investigation was conducted in Meru County which is located in Eastern province of Kenya and only focused on public hospitals.

1.8 Limitations of the Study

There was a problem getting critical data from respondents since they were afraid that critical information may leak to the general public, particularly to the lobby groups and opinion leaders. The researcher informed the participants that the data of information they provided was utilized solely for purposes of education and will be kept in strict confidence. Time for data collection and analysis was an issue, especially where some respondents were late in providing responses but the researcher kept calling them frequently to remind them.

To overcome the limitations, the researcher made suitable advance preparations with the respondents to make themselves available for the study off-time hours as well as encouraging them on the importance of the study to overcome the difficulty of the

respondents being busy and not having enough time to complete the questionnaires. Additionally, the surveys were administered to the respondent through dropping and picking later technique. In addition, respondents were offered assurances that the information they provided was to be kept confidential. Lastly, the researcher made every effort to lessen the effect of the lack of knowledge by collecting information from the most recent professional publications on the relevant topics from well-stocked libraries in the area and at the school.

In order to lessen the risk of victimization, the investigator reassured the participants that the data gathered would purely be for academic purpose and that it will not be shared with any other parties. The researcher also reassured the respondents that their responses would be handled anonymously, eliminating any possibility of victimization.

1.9 Assumptions of the Study

All level three and four hospitals in Meru County are expected to remain open for the duration of the project, especially during data collection. The study also made the assumption that the individuals involved would provide honest and open feedback to the queries. The study also assumed that the sample's specified inclusion criteria was adequate because this ensures that all of the participants have encountered the same or a closely related phenomenon. Another presumption of the study is that every participant would be completely impartial and have a genuine interest in taking part in it. The researcher also assumed that data all the respondents would read and interpret the research questions correctly and respond in a clear logical manner.

1.10 Operational Definition of Terms

Account Payable

This is a reference to an accounting entry that shows a company's responsibility to settle a recent debt with creditors.

Account Receivable

Accounts receivable are short-term sums owed to a seller by clients whom purchased products or services on credit from the seller and are required to pay it back.

Cash Conversion Cycle

It describes the cash flow computation that aims to quantify the duration it takes an enterprise to translate its establishment in assets such as inventories and other inputs into liquid cash.

Inventory Holding

Refers to the costs related to keeping unsold merchandise in storage. These costs, along with ordering costs and shortage charges, make up the entire cost of keeping inventory.

Working Capital

It is an entity's working capital, which is determined by reducing its present obligations from its present assets.

Working Capital Management

Working capital management is a tactical approach that aims to keep a business's working capital levels adequate while reducing spending in this area.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This section offers an examination of the literature as it has been provided by various authors and scholars in light of the study's objectives. The literature review explains the theoretical underpinnings of the variables being researched, as well as what prior investigation has been conducted and the way the results link to the issue at hand.

2.2 Theoretical Review

This section reviews the theories supporting and anchoring this study. These theories include liquidity preference theory, contingency theory and resource-based theory.

2.2.1 Liquidity Preference Theory

Keynes' liquidity preference theory describes the relationship among interest rates, liquidity preferences, and the quantity or supply of money. It makes the need for cash or liquidity and the need for requesting and getting high rates of interest on long-term financial assets clearer. John Maynard Keynes' *The General Principles of Money, Interest, and Employment* popularized this idea, the father of contemporary macroeconomics and the originator of Keynesian economics, in 1936. In it, he described the liquidity preference framework and examined how the supply and demand for money determine the equilibrium interest rate.

Keynes (1936) formulated the liquidity preference hypothesis in his study "The overall idea of concern, employment as well as money." He developed the idea to support the

impact of interest rates on both the money supply and demand. As a result, it is also known as the Keynesian Theory of Money. This hypothesis explains why businesses need to keep their cash on hand. According to the notion, holding onto cash might be done for transactional, preventative, or speculative reasons (Bergeron, 2017). Cash is kept on hand by businesses so they may conduct daily transactions. On the other side, the cautious motive occurs when businesses maintain liquid funds in order to deal with unforeseen emergencies, possibilities, and disasters. Businesses hold onto cash for speculative reasons so they can profit from changes in the price of bonds and securities.

A theory of money called the liquidity preference hypothesis of interest clarifies why an interest rate is monetary. Keynes highlighted that liquidity preference, not saving decisions, determines the interest rate. He held that in financial production systems, funds, or liquidity, is essential for economic activity as opposed to savings. The individual decides how much to spend today and save for the future based on their income. In addition, the economy's structure, psychological factors, and anxiety about the future all affect the portion allocated to expenditure. To save money for the future, people might either keep cash on hand or invest in interest-bearing securities. If there is a risk-taking tendency in the demand for cash balances, there will be an inverse relationship between the interest rate and the demand for cash balances. When interest rates are low, people prefer to keep cash on hand, and vice versa. Customers also choose longer-term assets with greater interest rates than shorter-term securities with lower interest rates. It also highlights the idea that paying interest is a price one must pay for sacrificing liquidity or the desire to hold cash.

In a recent clarification of the "horizontalism vs. structuralism" dispute, Asensio (2017) shown how Keynes's "verticalist" approach and endogenous money can complement each other analytically. According to Keynes' liquidity preference theory, the entire demand and supply for liquidity-money (stock) determines the market's rate of interest which in turn determines the banks markup, or spread. In contrast, the post-Keynesian unified framework asserts that, with the central bank refinancing interest rate. The banks' credit-money supply (a movement) is determined by the worthy of credit demand for loans.

In response to Asensio's contribution, Lavoie and Reissl (2019) tried to codify his theoretical approach into a stock-flow consistent (SFC) model. As a result, they claimed that Asensio's conclusions are not always applicable to a fully-specified SFC model (for example, it is unclear whether a crowding-out effect exists) and that because Asensio employs a non-SFC framework, he overlooks crucial mechanisms that could help explain interest rate behavior. The claim is contested in this note, which claims that their "fully-specified SFC model" actually represents a peculiar system with a highly problematic formal treatment that deviates significantly from the Keynes–Asensio conceptual framework. Furthermore, it is stated that while sophisticated models are useful in identifying mechanisms that are not represented by simpler models, they have significant limits that should be considered when weighing the advantages of both types of modeling.

In terms of consumable output, Hayes (2018) defines Keynes's liquidity as the extent to which an asset's value remains constant despite shifts in the long-term expectation. Hayes' definition makes a distinction between convertibility and capital risk, but it

ignores the significance of the self-liquidating or short-term attribute of cash-equivalent instruments.

According to Ricks (2016), liquidity preference indicates a propensity to steer clear of assets with capital uncertainty in favor of those that have a price-protection function rather than just being money-proper. Only money and liquid assets with price protection, such as near-money securities that are self-liquidating and have a short maturity date, are covered by Keynes's liquidity premium. Certain security buyback agreements would also fall under this category of liquid instruments in the current situation. We can reject the claim that Keynes used a simplifying assumption by implementing the two-asset model—that is, that bills, bonds, stocks, or other securities can be treated analytically as having the same relationship to money—despite the fact that this range of asset liquidity contrasts with the obvious division of liquid and illiquid assets in Keynes's model (Le Heron, 2020).

This theory holds that both the supply and demand for money, also known as liquidity preference, affect the interest rate. The interest rate will increase as the supply of money increases and the preference for liquidity increases. Additionally, if the liquidity preference is used, the lower the interest rate will be and vice versa the bigger the money supply will be (Odhiambo, 2022). This study largely refers to speculative liquidity preference. This hypothesis, though, has come under fire for just considering monetary forces when it comes to interest.

The assets, company procedures, abilities, company features, information, knowledge, etc. that an entity controls in order to comprehend and implement plans intended to

increase effectiveness and efficiency are referred to as resources in RBT, according to Barney (1991). Resources for a firm can come from many places, encompassing both outside and within the organization. Some instances of internal resources are provided by Kozlenkova et al. (2014): R&D capacities, low-cost procedures, logistics, and brand management are a few examples of internal resources; external resources include supplier participation, consumer demand, and technology breakthroughs (Lewis et al., 2010).

When categorizing business resources on RBT, in light of Molloy et al. (2011) the two separate categories of tangible and intangible assets can be further developed. All assets, including monetary profits and observable commercial contributions like goods and commodities, are considered tangible resources (Lyons & Brennan, 2018). As stated by Jalkala and Keränen (2013) all of an organization's assets that are linked to advantages for the organization, strategy, and society as well as access to information and capabilities are deemed intangible resources. The characteristics of tangible and intangible resources differ in terms of usage degradation, simultaneous utilization capacity, and immateriality, which are exclusive to intangible resources. Know-how about corporate processes and staff abilities are examples of intangible resources that are difficult to exchange, may be employed concurrently by various managers, and do not degrade with use.

RBT has been embraced and used in various business management disciplines other than strategic management, both qualitatively and quantitatively. Currently, RBT is being used in a number of business studies, including economics (Ahmed et al., 2014) information systems (Seddon, 2014), supply chain management (Zimmermann and Foerstl, 2014), marketing (Kozlenkova et al., 2014), operational management (Hitt et al., 2015), and

entrepreneurship (Molloy et al., 2011). The RBT framework has its roots in the widespread implementation of RBT and its significance in strategic management literature that emphasizes its resource basis. The idea has been used to alter contemporary developments in the business environment, like technology and innovation, in order to assess the competencies and resource plan of the firm. RBT has an impact on business and management studies, as evidenced by the use of big data analytics for marketing innovation (Wright et al., 2019) and performance evaluation of the company. A study by Akter et al. (2016) claims that big data analytics can be better aligned with company strategy through the application of the RBT model, which is founded on the socio-cultural entanglement method.

Utilizing the company's technology, management, and talent capabilities, business strategy alignment can leverage big data analytics capacity under the RBT paradigm to examine the performance of the organization. In marketing courses, market leadership is assessed by analyzing the resources required by the organization for big data application, and firm competency is assessed by utilizing big data technology for innovation as components of RBT (Wright et al., 2019). From a commercial standpoint, in order to maximize big data investment, a company's innovation capacity depends on four types of resources: knowledge and abilities, equipment availability, and innovation capacity. Having the appropriate IT expertise or system in place to oversee the adoption of big data is essential to the company's capacity for innovation. The business may position its capacity for big data technology innovation as an investment in sustained competitive advantage. Kozlenkova et al. (2014) state that the RBT strategy has been accepted to assist research on marketing innovation by employing a variety of market-based

resources, including technology and innovation, to recognize and react to changes in the business environment.

The theory disregards actual forces like capital productivity and frugality. Thus, in the theory, Keynes viewed interest as an incentive for releasing liquidity rather than as a reward for cost-cutting or saving. According to this notion, liquidity and financial performance are related. It implies that in order to satisfy the three needs, agricultural enterprises must maintain a specific amount of liquidity. This implies that in order to continue being profitable, an organization must maintain a degree of liquidity.

According to the liquidity preference theory, investors prefer cash or other assets that are highly liquid, as a result, they seek a greater rate of interest, or premium, on longer-term, riskier securities. It is simpler to auction an investment swiftly and for its holistic value if it is more liquid. According to the liquidity preference theory, interest rates on short-term assets are less because investors give up less liquidity when purchasing short-term securities over medium- or long-term securities (Dosenrode, 2016). In view of this theory, interest rates will change to balance the supply and demand for money.

According to this theory, Investors pay more for assets with longer maturity periods, which have higher risk, since they would rather store cash, which has lower risk (Dosenrode, 2016). As a result of this, the more liquidity a holding is, the easy it is to auction it for its holistic value in a short period of time. Because short-term rates of interest are more unpredictable, the price for short-term securities over medium-term collaterals will be higher than the price for medium-term equities over long-term assets, based on the theory (Blinder, 2012). In view of Keynes, individuals rate money for its

function in doing current business as well as as a way of storing wealth. As a result, individuals will sacrifice collecting interest on money they intend to spend immediately or keep on hand as a safety net; nevertheless, when interest rates rise, they will be ready to retain a smaller amount of money for these aims in a bid to ensure a profit (Inman & Rubinfeld, 2020).

The level at which a commercial establishment establishes interest rates on borrowed funds, particularly in the short term, is crucial for stimulating the plan for investment for the hospital, which is why this theory is relevant to the current study. Based on this theory, a hospital will require to hold more cash for investments. All hospitals are concerned with their working capital. Small hospitals should take this issue more seriously because they are susceptible to changes in working capital and cannot afford to run out of money.

2.2.2 Contingency Theory

In 1979, Saxberg proposed the contingency theory. In accordance with the contingency theory of working capital administration, working capital efficacy is greatest where the architecture fits the contingencies, so only enterprises that match their working capital with the current setting attain prime output. Thus, according to the theory, firms should consider advantageously weighty external attributes such as financial circumstances, trends of populations, trends of socio-cultural, political and legal elements as well as structure of the industry when determining the level or approach to working capital management to take (Freeman, 2010).

According to the notion, there is nothing such as a level of working capital, and it is always best in any particular firm. Managers, on the other hand, must constantly adapt their companies' working capital management levels and methods to changing circumstances (Otley, 2016). As a consequence, the contingency theory inherently views businesses as intricately connected aggregates with different elements of working capital that can be adjusted or enhanced.

This theory explains how businesses can develop strategic alignment that is in line with external uncertainties and the surroundings in a bid to attain the best competitive position, organizational growth performance, and long-term sustainability. This theory, according to Dentchev et al. (2018), is the critical theoretical lens through which the organization is observed. The main tenet of this theory's dichotomy is that firm effectiveness is derived from the use of firm elements like structures and circumstances that mirror the business's position (Bagnoli & Giachetti, 2014). According to McAdam et al. (2019), contingency plans include business size, environment, and strategy. Furthermore, according to Van Looy and Van den Bergh (2017), the best contingency of strategic choices leads to greater performance, which the firm wants to validate.

Hospitals are encouraged to avoid misalignment when contingency levels improve by adopting modern company features that fit new contingency levels. Contingency plans are transforming the company as a result of this, as they must be employed to prevent and mitigate productivity losses. Furthermore, according to Dobbs and Hamilton (2007), this theory includes the concept of match, which influences performance and, as a result, allows for interventions involving transformation and company growth sustainability.

According to Donaldson et al. (2017), the structural system is influenced by the environmental stability contingency. Furthermore, according to the idea, the firm's structure must be altered to accommodate three variables: strategy, size, and environment. This theory considers that novelty is certainly the level of originality or the capacity of novel goods allowed component of time aimed by managers strengthens the relationship among the commercial units related to ensuring novelty is possible (Best et al., 2019). In view of Bagnoli and Giachetti (2014), innovation's innovative problem-solving leads to the expected sharing of knowledge across operational sectors.

Maletič et al. (2018) discovered that it was advantageous to review sustainability and enterprise performance policies using a contingency lens. Therefore, Kartika et al. (2023) asserts that the most creative problem-solving way of life and interdependence that ultimately affects the supply of new products as well as satisfying the requirements of stakeholders, clients, the wider populace, social, economic, and environmental segments is employing a contingency approach to assist hospitals grow more sustainably financially.

The theory is paramount to this investigation since it examines the organizational elements that influence the firm's functioning in some way, hence affecting its long-term viability. Level four hospitals are self-contained entities whose longevity is influenced by a variety of circumstances. These aspects, on the other hand, cannot be neglected or undervalued because they have a variety of effects on the long-term financial performance of these hospitals. These contingencies should have a beneficial impact on the operations of these level four hospitals in order for them to be financially viable. Managers of these hospitals, in collaboration with regulators, should ensure that these

eventualities are managed in such a way that they do not work against, but rather aid, the hospitals' long-term financial performance. Accounts receivable, are specifically impacted by an organization's credit management policy, and the regularity with which these receivables are converted into cash varies by industry. For instance, a liberal lending strategy will boost a firm's profitability at the expense of liquidity, necessitating tight balancing.

2.2.3 Resource Based Theory

The idea was first put forth by Wernerfelt and Barney in the middle of the 1980s, and it has since grown to be one of the most popular methods now being used to examine persistent competitive advantage. This argument's proponents contend that businesses should hunt for competitive advantage within their own walls rather than outside in the competitive marketplace.

The resource-based view theory's basic thesis is that organizations engage on the foundation of their assets and abilities. Most resource-based approach investigators like to investigate inside the firm first, then move to industry circumstances that the enterprise has to cope with in order to discover certain potential determinants of sustainable competitive advantages while restricting all outside impacts (Helfat & Peteraf, 2003). An inward-looking strategy has been shown to be useful and practical for examining a wide range of strategic challenges, including the need for long-term competitive advantage and diversifying (Foss & Knudsen, 2003).

Businesses need to "capitalize on," or use, the strategic resources that are available to them, according to Barney (1991). However, his RBV formulation did not characterize

the nature of these actions, and the majority of the empirical research examining RBV's claims looks at potential direct relationships among performance and strategic resources (Nason & Wiklund, 2015). Crook et al., (2008) conducted a meta-analysis more than ten years ago that measured and confirmed this direct correlation, however, they also concluded that there is still a long way to go before theory can map out all of the various decisions and variables that affect how the resource-performance relationship is structured. As RBV theory has evolved, in fact, the emphasis on a direct resource possession–performance link has been rigorously scrutinized. Berseck and Zu Knyphausen-Aufseß (2018) combined knowledge of asset orchestration, based on dynamic capabilities (Bayón et al., 2021) with knowledge of resource management activities, based on the RBV heritage (Sirmon et al., 2007). In the process, they established the resource orchestration framework (RO) and outlined the orchestration actions such as structuring, bundling, and leveraging as crucial conduits for utilizing strategic resources in order to achieve the benefits of resource-based advantages in terms of performance.

Researchers looked into alternatives to the action–performance link proposed in RO, including institutional contexts (He et al., 2012) and action configurations (Riley et al., 2017). Research focused on how a firm's current resource stocks affect future decisions about investments (Speckbacher et al., 2014). This is due to the fact that asymmetries in the competition for new resources caused by existing resource stocks lead to small initial differences becoming larger over time (Wernerfelt, 2010). Researchers also looked at the issue of what influences the ex-ante evaluation of resource worth, or the assessment made before to decisions on acquisition or accumulation. They identified the significance of

complementarity with previous resources, knowledge, and managerial cognition (Schmidt & Keil, 2013).

According to resource-based theory, which focuses on the linkamid institutional assets and business achievement, a corporation must choose a strategy that best utilizes its core assets and competencies in order to provide above-average rates of return. Additionally, this strategy stresses the inner attributes that affect a corporation's development and effectiveness. It underscores the value of an enterprise's assets and personnel. They will develop a skill together that will give them an advantage over rivals. Resources come in two different categories: tangible and intangible. The firm's ability to use resources effectively has a big impact on how well it can set itself apart from rivals.

A corporation acquires a competitive edge when it has distinct products, niche markets, and cheaper cost structures (Hill et al., 2016). This theory contends that firms are collections of producing resources, and that different firms in varied competitive environments have unique collections of these resources (Kor & Mahoney, 2000). A corporation's current resources include things like in-house technological expertise, well-known brand names, and the recruitment of qualified people, machinery, trade associates, capital, and effective operations.

RBV is a commonly accepted concept in administration, marketing, and entrepreneurial literature that emphasizes the value of a company's inner resources and skills and shows how their optimal use boosts productivity and creates a sustainable competitive advantage (Jogaratnam, 2017). In order to increase performance and acquire a competitive edge, a business must make its resources unique and challenging to imitate

while also making sure they are utilized properly and efficiently (Eisenhardt & Martin, 2017).

In order to set itself apart from rivals, a business should develop capabilities based on creating path-dependent learning progressions (Teece, 2018). A business must also set the appropriate rates that rivals cannot match in order to secure future rentals and earn superior returns. It is believed that market domination, which comprises brand recognition, cost leadership, and technological conduct, can drive industries to gain a stronger competitive position. With their Retail Link, Wal-Mart has found success. Their low-cost offer was built on cost leadership and matched their Sustainable Competitive Advantage with a successful business strategy (Johnson et al., 2020).

The goal of this investigation is to evaluate the manner in which management of working capital strategies affect the financial performance of level 3 &4 hospitals in Meru County. According to this theory, hospitals must use their resources wisely if they are to provide value to all of their stakeholders. Strong financial management reform is essential for the hospitals to perform effectively, especially when it comes to achieving targeted financial objectives. Public hospitals should learn from the fact that even companies with excellent long-term prospects and a strong bottom line cannot be stable without sound financial management. Unfortunately, hospitals frequently seek expensive external trade financing in order to address their financial difficulties.

2.2.4 Cash Conversion Cycle Theory

One of the most important components of an organization's operational finance strategy is the Cash Conversion Cycle (CCC), sometimes referred to as the Net Operating Cycle. It examines how long it takes a company to turn cash flows from resource inputs. Gaining

a greater comprehension of this idea provides the basis for analyzing and enhancing a company's financial efficiency. The cash conversion cycle basically assesses how well a business uses its short-term resources. It measures the interval between a business's cash payment to suppliers of goods and its cash receipt from clients. Three essential company operations are involved in this cycle: sales of products or services, payment collection, and inventory purchase.

It assesses the efficiency with which a business handles its working capital. Generally speaking, accounts payable are incurred when a business purchases inventory. Additionally, a business might sell goods on credit, creating accounts receivable. Therefore, cash is not used until the company settles its debts—that is, when it pays its bills and collects its receivables. Thus, the cash conversion cycle measures the amount of time between the cash spend and cash recovery (Mawarni & Widodo, 2023).

Blinder and Maccini (1991) developed the cash conversion cycle theory, which describes how long it takes a company to turn its resource inputs into cash. It assesses how effectively a business can handle its working capital. Usually, a company takes out loans to purchase inventory, which leads to accounts payable. A company might also sell products that are financed, generating accounts receivable in the process. Therefore, there is no cash involved unless the company settles its accounts payable and receives its receivables. Accordingly, the duration between a cash outlay and a cash recovery is measured by the currency conversion cycle (Binti Mohamad & Mohd Saad, 2010).

A corporation is generally considered to be healthier when its cash conversion cycle is lower. By accelerating customer payments and delaying supplier payments, businesses

strive to shorten the cash conversion cycle. If a corporation has a dominant market position and can dictate the terms of its contracts with suppliers, it may be able to postpone payments, making the cash conversion cycle negative (Brennan, 2001). Standard ratios like the present ratio, the Quick acid test, and cash ratios, according to Richards and Laughlin (1980), cannot accurately represent the underlying condition of working capital. They insisted instead on using cash inflows and outflows as a result of long-term processes like purchasing, producing, selling, paying, and collecting.

As stated by Blinder and Maccini (1991), the cash conversion cycle is the most critical component of working capital management. It truly discusses the credit determinations made about consumers, supplies, and vendors, as well as the actual number of days after the company began paying vendors and when it first began getting revenues from its existing clients. Bianconi (2011) examined WCM trends and their impact on Mauritius's small manufacturers' financial performance. He claims that a firm's working capital needs differ over time depending on the rate at which money is made and that a significant inner investment in receivables and stocks leads to lower profitability.

Working capital management is the process of making short-term decisions that might or might not be carried over from one income period to the next. In order to minimize failure risk and optimize return on assets, working capital management entails keeping an eye on current assets and current liabilities (Sagner, 2014). Since the volume and day-to-day management have grown to be significant factors in determining profitability, working capital has become a key component in investment decisions (Prempeh & Peprah-Amankona, 2020). However, because it entails investments and financing in the

short term, working capital is not frequently given substantial weight when businesses make financial decisions. By reducing their investment in working capital, businesses frequently aim to retain liquidity and operational effectiveness (Melicher & Norton, 2019).

The working capital proportion, turnover of inventory, and payment ratio are the three most essential performance ratios in a working capital system of management. According to Demirgünes (2016), ratio analysis will assist management in identifying critical areas of emphasis, like handling inventories, managing cash, and account receivable and payable administration. Performance and the various working capital components have a bad connection, according to the findings of models with fixed and random factors. This indicates that in order to improve performance, commercial banks and other financial organizations that deal with financial matters can reduce their cash conversion cycle by lowering the number of days for receivables and payables. As a result, the hospitals are unable to fulfill their duties, including buying production-related raw materials and paying creditors on time. All of them could be the result of improper working capital management (Demirgünes, 2016).

How long it takes for a business to sell products, collect receivables, and settle debts minus suffering penalties as well as fines is considered in the Cash Conversion Cycle statistic (Abiahu et al., 2019). Since there is a time lag between purchasing inputs and getting payment from customers as a result of goods delivered, the bigger the Cash Conversion Cycle, the more working capital is needed (Ali, 2021). By lowering the amount of cash kept in present assets, such as inventories, items in supplies, and liabilities, amongst other items, the Cash Conversion Cycle can be greatly reduced.

One useful measure of the efficient flow of supply chain finance requirements is the Cash Conversion Cycle (Chand et al., 2020). To improve its financial results, the hospital should attempt to reduce the usual conversion period for inventories and the typical period of collection for receivables while raising the average days to pay due. This is due to the fact that a lengthier Cash Conversion Cycle period could raise the cost of external finance.

The CCC statistic takes into account how long it takes a business to sell products, collect receivables, and pay bills without incurring fines or penalties (MT & Jeroh, 2023). The greater the CCC, the greater the working capital requirement because it represents the difference in time between paying for raw materials and getting paid by customers for the goods provided (Ali, 2021). The CCC can be significantly reduced by retaining less cash in current assets, such as loans, inventory, and items in stock, amongst other things.

As established by Brigham and Ehrhardt (2019), because it calculates the time lag among spending for manufacturing supplies and receiving money from creditors, CCC is a valuable tool for evaluating a company's liquidity. According to Chand et al. (2020), one useful indication of the efficient flow of supply chain finance needs is the CCC. To improve the firm's financial performance, the company should try to shorten the CCC length by raising the average days to pay outstanding while lowering the average inventory conversion time and the average receivables collection period (Moss & Stine, 1993). This is due to the possibility of increased external financing costs with a longer CCC period.

Regardless of a company's size or organizational structure, effective liquidity management is essential to its ability to do daily business since it represents its ability to meet its financial obligations and cover its operating costs. Therefore, the company's financial performance could be significantly impacted by its liquidity management.

The previous research, which was primarily concerned with WCM, assessed a number of variables that impact a company's liquidity status and how that impacts performance. Earlier investigations on the subject of WCM assessed numerous studies of liquidity indicators and how they impact a business's bottom line. One of the greatest methods for examining the liquidity management of commercial enterprises has been employed by the CCC, and numerous empirical investigations demonstrate that the CCC is accountable for variations in the profitability of businesses. Using several proxies, it is determined that the CCC approach is one of the elements determining the firm's profitability (Raheem Anser, 2013).

Firmansyah et al. (2018) claim that shortening the receivables collection period can help businesses function better. Appropriate working capital management is essential to a company's success, as Lyroudi and Lazaradis found in 2000. They added that having a sufficient amount of liquidity is crucial since it has a significant impact on the company's overall financial performance. As Zhang argues, increasing inventory investments would result in a fall in inventory level and a decline in the firm's profitability, Thus, it is not a good idea to invest too much in current assets in order to maximize performance (Zhang, 2017). WCM and the company's performance have a notably good link (Naqi & Siddiqui, 2020).

When Kasozi (2017) looked at 69 manufacturing companies in South Africa between 2007 and 2016, she found that average payment and collection intervals had a strong negative association with profitability. Nonetheless, he did find a strong correlation among profitability and the duration of inventory conversion. Aryawan and Indriani (2020) used correlation and discretionary panel regression to study 164 manufacturing companies in Malaysia. They found that, as indicated by the return on equity (ROE), the average days of inventory and the duration of the accounts receivable period significantly improved profitability. Additionally, he has observed a bad correlation among profitability and the CCC.

According to Kartika et al. (2023), profitability and liquidity as reported by CCC have an inverse relationship. The company could postpone making payments to improve its financial performance. They claim that the return on investment (ROI) of the business and CCC have a strong correlation. Increasing the profitability of the company would come from managing a joint CCC with an average cost of capital. However, as discovered by Lee et al. (2021), the companies with the longest CCC must pay a higher cost of equity.

It has also been discovered that firm-specific variables, like asset turnover (ATO) and the level of leverage employed in the capital structure, have an impact on corporate profitability. While some have discovered a favorable link between them (Dalci, 2018) and Grau and Reig (2020) observed a negative relationship between profitability and financial leverage (LEV). Although Warrad and Omari (2015) did not discover any meaningful links between them, some studies such as NireshandVelnampy (2014)

reported a negative link amid the firm's ATO and firm profitability, while other studies like Azad et al. (2018) revealed a positive association.

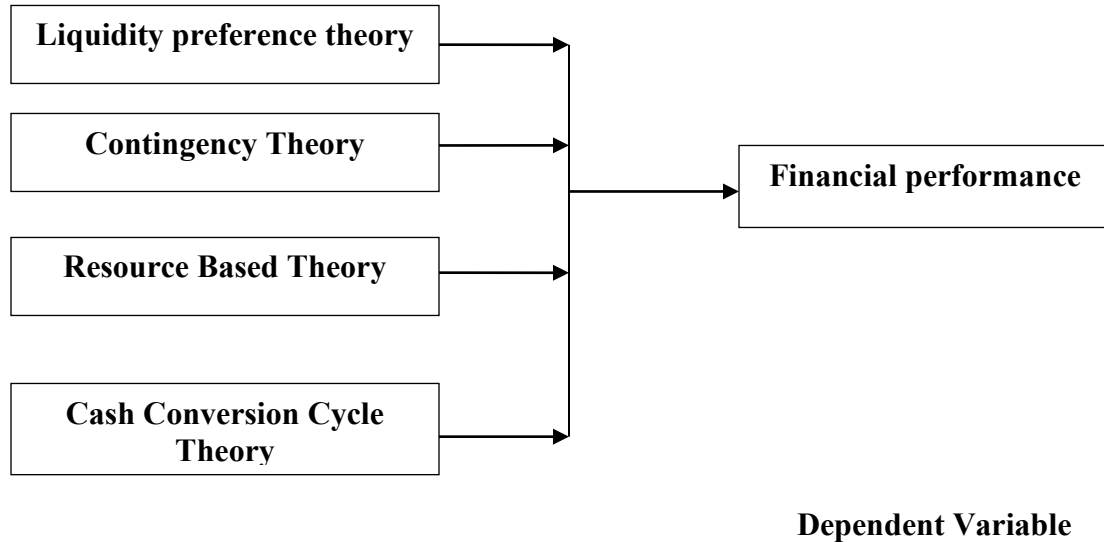
Moss and Stine (1993) reported a substantial link amid the CCC and the size of the firm. The larger company's CCC timetable is shorter. One finding of the research on retail firms was a substantial association between the CCC and the results of the acid-test and CR. The relationship between a firm's CCC and size is inverse; smaller enterprises may have longer CCCs, according to research by Vartak (2020). Supply chain finance (SCF), which is crucial for the seamless functioning of corporate operations, is strongly correlated with the firm's size (Ali, 2021).

This theory is significant to this investigation due to the fact that it addresses issues of inventory management in an organization. Since inventory makes up a critical section of a hospital's holdings, it is essential that effective inventory management procedures be implemented to ensure the hospital's expansion and profitability and the continuation of the hospital. This indicates that the necessary materials are in stock, are needed, and are accessible when needed. To prevent theft, waste, and client loss due to stock-outs, proper and routine checks on store inventory are carried out. Making the proper inventory orders (purchasing the stocks that consumers demand) all the time would encourage high turnover, hence raising the hospital's profit level and shortening the cash conversion cycle.

2.2.5 Theoretical Framework

Figure 2.1

Theoretical Framework



Theories

Dependent Variable

2.3 Influence of Cash Management on Financial Performance

Wanyoike and Kalundu (2022) looked into the manner in which methods of managing cash affected financial results of businesses in the Kenyan town of Nyeri. The registered SMEs in Nyeri town served as the study's target population. It used a descriptive research approach. Self-administrated semi-structured survey was employed to collect data from a representative sampled size of sixty-two Businesses functioning in Nyeri town and licensed with the business registrar's office in Nyeri County. Examination of data was done and inferential as well as descriptive statistics were generated utilizing the social sciences statistical program (SPSS). The investigation's findings showed that technology use and cash management practices had a big impact on the SMEs' financial stability in Nyeri.

Afrifa and Tingbani (2018) evaluated the link among the efficacy of SMEs and working capital management. Eight hundred and twenty-two British small and medium-sized businesses were listed on the Alternate Investment Market across 2004 and 2013, the investigation utilized a panel data regression analysis. The study's findings showed how crucial cash flow is to the health and profitability of SMEs. The results show that WCM has a considerable detrimental effect on SME financial results. The evidence also indicates that cash flow-constrained (unrestricted) SMEs may enhance their performance by lowering (raising) working capital investment.

Umukoro et al. (2021) looked into the link among cash flow and efficiency in the Nigerian banking system. For the investigation, four banks registered on the Nigeria securities were polled. The information was gathered from chosen banks' yearly filings and accounts. Utilizing the correlation technique, statistical analysis of the data was performed. Based on the outcomes of the investigation, operational cash flow has a significant and favorable link with efficiency in the Nigerian banking industry. However, the relationship between investing and lending cash flow was shown to be weak and negative.

Between 2001 and 2014, Osadune and Ibenta (2018) performed an investigation on a few chosen Nigerian enterprises. The investigation employed the unit root test, OLS, co-integration test, and Granger causality test at a 10% significance level for its empirical analysis. The study's findings demonstrated the long-term equilibrium connection among liquidity and business financial performance. There was, however, no relationship among the firms' financial success and liquidity. In India, the relationship between increased firm value and stock liquidity was investigated by Jawed and Kotha (2018). The study's

findings supported the presence of a direct causal relationship, resulting from higher operating performance, between stock liquidity and company value.

42 institutions in Kenya were the subject of Mishra (2019) study. The analysis employed secondary data extrapolated from the companies' yearly filings. The multiple linear regression approach, Karl Pearson correlation, and the Granger causality test were employed for the empirical analysis of the study. According to the regression estimates, liquidity had a minor impact on the profitability (financial performance) of the firms. In addition, there was no causal link amid liquidity and company profitability as measured by ROA. Dabiri et al. (2017) investigated the association among liquidity and profitability in 5 banks in the United Kingdom. Both liquidity and profitability were found to be long-term co-integrated. Nevertheless, there was no connection amid the firms' profitability and liquidity.

Kanwal (2020) studied the link amid firm performance and cash flow in the Tokyo Stock Exchange's electric appliances sector. The results showed a substantial negative connection amid cash flows and effectiveness of the firm. In Vietnam, the impact of banking relationships on corporate performance was studied by (Tam et al., 2020). The analysis made clear that assets had a negative link with return on assets while cash flow had a negative link with businesses and return on equity. Dakhllalh (2020) looked into the relationship between Iranian stock returns and several profits and cash flow measurements of performance of the firm. The findings revealed a weighty and unfavorable link amid cash flow and company efficiency; in addition, earnings-based metrics were more closely associated to stock returns and serve as a proxy for enterprise performance. The outcomes showed a critical and unfavorable link amid cash flow and

performance of the company. In addition, earning-based indicators were more closely linked to stock returns and more accurately represented performance of the company in some businesses with high accruals than cash flow measures.

Koech et al. (2021) examined the cash management procedures used by insurance companies, they discovered that they increased transparency and thus enhanced financial performance. Balagobei (2019) indicated that measures like anticipating future cash demand are essential for improving financial stability and performance. A study by Pandey (2020) that assessed the link amid management of cash and profitability of bank provided relevant results for an emerging economy like Uganda. It was demonstrated that the banks that had implemented cash management procedures to prevent fraud had high levels of profitability. Alabi (2019) showed evidence that inadequate cash management methods resulted in customer unhappiness, which negatively impacted performance, even when small and medium firms were taken into account in the same Ugandan setting.

2.4 Influence of Inventory Management on Financial Performance

Ionescu et al. (2018) attempted to discover elements linked to the appraisal of sold items' stocks and to assess the impact of stock valuation procedures used in Romania on the monetary situations and financial performance of the firms. The primary study hypothesis claims that asset valuing options have varying effects on the economic unit's financial condition and financial performance. This is based on an examination of the impact that stock valuation methodologies can have on financial condition and effectiveness as a method of assessing and contrasting those parameters. This was supported by a

theoretical investigation and empirical research, which established that the facility's financial position and financial performance are affected differently by the stock accounting options.

Alrjoub and Akram (2017) sought to throw further light on the impact of several inventory categories (raw material stock, in-process supplies, completed supplies, and total stock) on corporate performance, as well as the fact that the link is impacted by other elements, like capital cost, that hasn't been studied previously. The data collected for 48 companies during the study period (2010-2016) affirms the relatively low cost of capital in terms of the link amid inventory types and firm performance, indicating that stock management, incorporating into account their types, influences the company's long-term effectiveness. The study urged organizations to contemplate the capital cost when selecting types of inventories and to optimize control of inventory to any prospective alterations to their commercial setting. The connection among inventory management and corporate performance changes, but the link involving the capital cost and inventory kinds has a number of distinct ramifications.

Werner (2022) investigated the relationship among financial success and inventory management methods in Malaysia. The survey gauged managers' insights of inventory management and supply chain activities, as well as the sector's overall performance. Among the methods are lean inventory control approaches, technology, and strategic vendor alliances. They employed a systematic questionnaire designed to assess the firm based on the aforementioned principles. The sampled enterprises were chosen at random from non-food manufacturing organizations in Malaysia's Klang Valley with medium to

high levels of technology. Inventory management procedures are substantially connected with profitability and return on sales, according to the research.

Lee and Kim (2021) investigated how management of inventory affects the profitability of Turkish enterprises in the weaving, food, wholesale, and retail sectors. Research data includes profitability ratios and inventory turnover ratios that were computed using the balance sheets and income statements of businesses that traded on the Borsa Istanbul. The findings from the three industry departments included in the investigation were understood in comparison. Consequently, it is discovered that there is a positive correlation between profitability and inventory control in the food industry. However, it was found that in the wholesale and retail weaving industries, inventory control has no bearing on business success.

According to Mudimba and Nyawira (2019), manufacturing companies manage their inventory using a variety of approaches. The methods employed have a big impact on sales volume, profitability, and returns. When these techniques are applied correctly, the financial performance of a manufacturing company is outstanding. A study survey was conducted at each of the eight operational sugar production companies between 2002 and 2007. The results showed that inventory management and return on sales ($r = 0.740$) and return on equity ($r = 0.653$) had a positive association that was statistically noteworthy at the 5% level.

In view of Kartika et al. (2023), a firm's financial success is positively connected with its level of inventory reductions. According to the researcher, an enterprise with greater stock turnover, a lesser inventory-to-sales ratio, and less time necessary to turn inventory

to sales can achieve superior financial success. However, according to Obeidat (2021), inventory turnover is linked to performance of the firm and has a detrimental effect on company performance.

Kuzucu and Kuzucu (2023) found that an organization's management should keep an eye on and tweak its inventory systems to ensure consistency in output and boost efficiency and profitability. Furthermore, Karki's (2020) research demonstrates that excellent inventory management procedures improve a business's profitability in US industrial firms.

Nandan and Choubey (2019) reported that stock conversion period play part in the link between variable inventory turnover and financial success of a corporation to a limited extent. Their et al. (2022) on the other hand, indicate that inventory management has an effect on the economic health of a business and that the inventory turnover ratio used to define stock management is linked to the net profits of Indian steel manufacturing businesses. Additionally, Parmar and Shukla (2021) concluded that the inventory turnover ratio demonstrates how successfully a corporation manages its inventory. The findings go on to say that the industry-specific and economic circumstances of the host nation can alter the profitability that results from policies of the inventory.

Sunday and Joseph (2017) found a positive correlation amid an organization's profitability and its inventory turnover ratio, but unfavorable correlation among its profitability and its inventory conversion time. In contrast to the aforementioned conclusion, Karim et al. (2018) reported that inadequate inventory management has a

minor impact on a enterprise's financial results and has little to no impact on financial ratios.

2.5 Influence of Accounts Receivable on Financial Performance

In Mogadishu, Somalia, Adam and Caroline (2018) investigated the link among management of accounts receivable and financial results of small and medium-sized businesses. The investigation adopted a survey research technique that made it possible to obtain quantitative data. 102 small to medium-sized businesses made up the target population, and 81 businesses were found using a combination of chance and non-probability sampling strategies. The data acquired were analyzed using inferential and descriptive statistics, which compute correlation coefficients and Pearson correlations. According to the study, accounts receivable has a good overall impact on the financial health of SMEs in Mogadishu. This issue was addressed in the present investigation by evaluating accounts receivable across the average collection duration because the previous study failed to determine the precise metrics utilized to assess accounts receivable.

Ashrafi and Pakdel (2019) examined the financial performance of Embu Water and Sanitation Ltd. with respect to the effect of accounts receivable. Aspects related to the study were explained by the operational motive, currency conversion cycle, and transaction expenditures theories. Secondary data was gathered from the firm's fillings on finances, which were maintained on file by the accounting and finance departments. Through the use of inferential and descriptive statistics that were displayed as tables and figures, data was analyzed. Based on this the investigation's discovery that the median

gathering duration and present ratio had a strong positive influence on stocks, a beneficial modification in the debtor's repayment time resulted in an increase in the business's financial results.

Owuor et al. (2021) investigated how handling receivables influenced the financial results of Kenyan government investment enterprises. The 24 venture capital firms in Kenya that are sponsored by the government at large made up the target population for the census survey method. To collect first-hand information on the independent variables, a questionnaire was used, and a written inquiry instruction was utilized to collect secondary information on the dependent variable. To evaluate the association between the study variables, inferential and descriptive statistics including regression, ANOVA, and correlation coefficient were generated using the SPSS program. Accounts received and the financial results of Kenyan venture-capitalist businesses were shown to be significantly directly correlated, according to the study.

The selling of invoices whose payments have not yet been made is known as invoice discounting. This approach has liberated SMEs from conventional bank funding, aiding in the elimination of the liquidity issues that so frequently impede the expansion ambitions of small enterprises. Many banks are reluctant to grant loans to businesses, especially SMEs, as a result of the recent financial crisis that the majority of businesses have faced. Businesses must find different ways to raise money in order to operate (Ahkam et al., 2021). The second tactic, besides factoring, is invoice discounting. By borrowing against previously raised invoices, a company can enhance its cash flow with the help of a product called invoice discounting. The company does not have to wait for

the usual payment time in order to obtain the invoice's value. In fact, it can be highly discouraging for them to wait to get paid for their invoices.

Cash flow has an impact on the firm's capacity to achieve its daily economic requirements. If the firm receives numerous orders that it is impossible to complete because of inactive cash held in unpaid invoices, the situation may worsen. This is crucial for small and large businesses, both of which must finance growing numbers of borrowers. If a company is also using its accounts receivable as security for a loan, the funding organization will frequently exclude any previous due accounts from being utilized as backup reserves for the credit line (Jung et al., 2018). In his study of Italian businesses, Beschetnova and Vorobyeva (2022) came to the conclusion that alternate forms of funding are becoming more prevalent in both emerging and industrialized nations.

Mirzaev (2018) investigated the administration of accounts receivable by public enterprises listed on the Serbian regulated market. The sample consists of 108 companies. During the 2008-2011 financial crisis, the receivables policies are evaluated. The study reveals a positive but negligible link amid accounts receivable and 2 profitability dependent variables, return on overall assets and operating profit margin. This demonstrates that the effect of receivables on the profitability of an organization alters during a crisis. Receivables, according to Kartika et al. (2023), represent a delay in cash inflow that the business should fund. Companies may use their capitals in other ways if financing sales on credit was not required for business operations. As a result, receivables represent an economic potential cost for commercial organizations. As stated by Obafemi (2021), managing accounts receivable entails choosing consumers with strong credit and

moving quickly through the customer collection process. Businesses must realize that holding onto accounts receivable results in lost opportunities; money is tied up in accounts receivable rather than being invested in more profitable ventures.

According to Nurhidayat and Thamrin (2023), after capital investments in stockpiles of goods, equipment and machinery, and accounts receivable, the accounts receivable are the third largest and most essential piece of assets in company enterprises. Pramatha (2020) states that the accounts receivable collection period is the period after a commercial firm sells its items and before the client pays their invoices.

Corporations choose to sell for money instead of on credit, as reported by Simon et al. (2018) but severe competition pushes them to do so. Utilizing credit to pay for goods and services is now so widespread that it is often taken for granted. Accounts receivable are products or services sold with credit conditions. When customers ask for credit, business entities want credit in return from their suppliers to cover their investment in the credit given to customers. The word "trade-credit" refers to the extension of financing by a particular company to another company for the acquisition of goods and services. Accounts Receivable Administration Even while commercial banks offer a significant amount of the requirements for accounts receivables, trade credit stays the principal basis of financing for business firms, and the accounts receivable that come from providing trade credit serve as the primary investment of the business firm.

2.6 Influence of Accounts Payable on Financial Performance

In their investigation, Kerem and Sargon (2021) assessed the effect of receivables management on working capital and profitability. The data for research of a few Indian

cement businesses was gathered from the annual reports of those companies between 2001 and 2010. The ratios that show how well receivables management works were completed using the ANOVA statistical tool. These ratios include the working capital-to-profitability ratio, the ratio of current assets to total assets, the ratio of turnover to sales, the average collecting period, and the ratio of receivables to sales. Working capital management and profitability were the parameters that were taken into consideration as dependent. According to the analysis, the cement industry handles accounts receivable in an efficient manner that significantly impacts working capital and profitability.

Oranefo and Egbunike (2023) looked at the connection between performance businesses and accounts payable. 16 manufacturing enterprises that are listed on the NSE were the subject of a study during a five-year period between 2000 and 2013. At the NSE, statistics and journals provided secondary data. Accounts payable and performance have a clear, favorable association, according to multiple regression analysis. A lengthy link with vendors is advised by the study for financial executives and finance stewards of businesses in order to get trade financing more quickly and easily.

Khaled (2020) looked into the effect of accounts payable management on the monetary performance of Nigerian domestic and industrial manufacturing firms. Data from the companies' annual reports for the 12 years between 2000 and 2011 showed a positive and substantial link among the profitability ratio.

According to Wulansari and Maryanti (2023), research the monetary results of Nigerian firms that process drinks and food is impacted by the accounts payable ratio. Collected information from the yearly filings of the companies licensed on the Nigerian security markets for a 12-year period between 2000 and 2011. Regression with multiple steps.

Based on the investigation, the accounts payable ratio had a negative, considerable effect on the profitability ratio.

In their study, Mittal and Monika (2020) explored the influence of accounts payable processing on the financial outcomes of Nigerian industrial and home manufacturing enterprises. This study used an ex-post facto research approach as its methodology. It was used because it made use of prior years' worth of events. All of Nigeria's residential and industrial product manufacturing businesses constituted the investigation's targeted population. The readily accessible nature of the data determined the sample size. The investigation depended solely on secondary data from the yearly reports and statements of accounts of the firms being considered. The data for this investigation came from accounts payable, sales and turnover, long-term liabilities, and profit before tax. The investigation demonstrated a statistically positive significant link amid the ratio of accounts payable and profitability. The investigation also revealed that the profitability of the enterprises that were the subject of the study was significantly and positively impacted by both the debt ratio and the pace of sales growth. The study made use of secondary data that was already in the public domain and had been acquired. Unlike the main data, which is information obtained directly.

Wambui (2021) investigated account payables management in a few high-growth consumer goods industries. Each of the FMCG firms in India was considered. Five employees from FMCG companies were analyzed. The financial data sampling size was consisted of data from the previously mentioned five FMCG firms during a ten-year period. The judgment method of sampling, that is a non-probability sampling strategy, was used. Secondary information was obtained and examined. From April 1, 2007, to

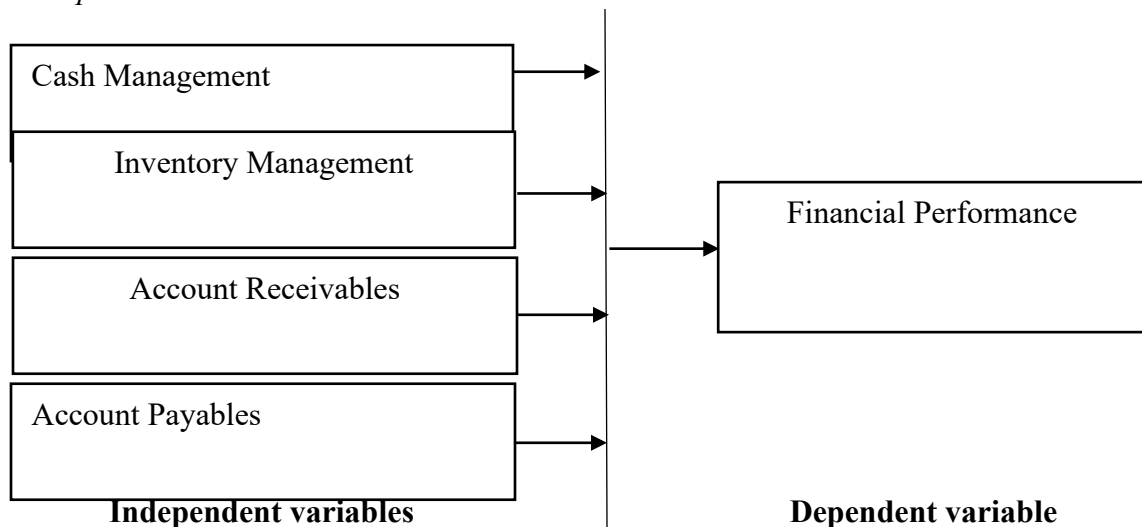
March 31, 2017, the websites of the aforementioned FMCG enterprises were utilized for gathering financial statement information. Britannia had a high percentage of money account payable turnover. Moreover, out of all the companies in the analysis, it had the greatest. If a bigger level of accounts payable turnover is also appropriate for a business organization, then a larger value of turnover indicates that the corporation can pay its short-term liabilities rapidly. The study's primary focus was not on the types of firms, production policies, or other factors that need to be taken into account when establishing the liquidity requirement.

2.7 Conceptual Framework

The conceptual framework of the study had both independent and the dependent variable. The independent variables comprised of cash management, inventory management, account receivables and account payables. On the right side, the financial performance was the dependent variable.

Figure 2.2

Conceptual Framework



The operation framework described in Figure 2.3 revealed that financial performance had indicators such as quality of health care service, customer satisfaction, liquidity, less pending bills and profit margin. The first independent variable which was cash management, had indicators such as mode of payment, banking practice, cash budget and surrender of imprest.

The second independent variable which was inventory management had indicators such as tracking of stock levels, compliance with regulatory requirements, stock control using bin cards, proper storage, and physical account of stocks. The third independent variable which was accounts receivables, had indicators such as credit period, tracking of payments, compliance of insurance claims, follow ups, tracking of invoice and credit history of pre-owned treatment. The fourth independent variable which was accounts payable had indicators such as credit limits, tracking of invoice, reconciling of accounts, payment terms, data review and follow up on payment

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines and discusses the approach that will be used in this investigation. The research design, investigation population size, sampling technique, data collection strategies, and data treatment and presentation methodologies will all be discussed.

3.2 Research Design

A design for investigation is a strategy for conducting a scientific project. It offers information about the study methodology, equipment, and procedures. It assists in identifying and resolving any issues that may arise during research and analysis (Creswell & Creswell, 2018). In this study, the research will use descriptive survey design.

Descriptive research is a quantitative research methodology that reveals a comprehensive knowledge of a phenomenon. Researchers from a range of fields employ descriptive research to accurately determine the population, market, or condition (Saunders et al., 2023). Descriptive survey research employs a blend of quantitative and qualitative data to provide you with accurate and relevant information. A descriptive survey design is a rapid research technique that engages the respondents who are the study's focus.

The variables to be employed in this study make the design appropriate and justified. The financial performance of Level three and Four Hospitals in Meru County is the dependent variable, and the following independent variables will be used to control it: inventory management, cash management, accounts receivable management, and accounts payable

management. The term "survey" refers to the process of gathering data from a group utilizing a representative sample of that population and questionnaires.

3.3 Target Population

The complete set of units for which conclusions from the study's data are to be drawn is referred to as the target population. The term "target population" refers to all participants who satisfy the requirements for a research study. As suggested by (Gall et al., 2003), a target population provides a solid basis and a beginning point for developing the study's validity and reliability. A target population needs to be suitably exclusive to avoid getting participants who both match the study's standards and wrongly depict the population of interest. Individuals of the population to be studied must also be described by the population of interest's borders, and the target population must constitute a full portion of the population that is of concern (Casteel & Bridier, 2021).

The targeted population of this study will consist of 53 officers from all the fifty-three level three and four hospitals in Meru County (Appendix iii list of hospitals). These officers will include Hospital administrator (level three) and finance officer (level four). The hospitals are deemed fit for this study since they have been in operation before devolution and after devolution. The said officers are fit for this study since they have the requisite knowledge and they are directly involved in running the affairs of these hospitals hence they are in a better placed to participate in this investigation.

3.4 Sampling Technique

In view of Leavy (2020) sampling is the act of picking a part of a population to use the study results from that subset to represent the entire population. A research's primary

objective is to describe variables, concepts, phenomena, and the features of a population, which is a group of people. The study used census method which included all the 53 officers in charge of managing hospital affairs because the survey will involve all fifty-three level three and four hospitals in Meru County and will therefore be a full census.

3.5 Data Collection Instruments

For this study, the researcher used questionnaires to gather data. Questionnaires were selected as the data collecting strategy for this study because they are the most effective way to obtain responses from a sizable sample (Urquhart, 2022). It is strongly advised to utilize questionnaires to collect data that is difficult to see but nonetheless valuable for descriptive, explanatory, and hypothesis-testing research. Comparatively speaking, questionnaires are less expensive than other methods of data collection. Surveys assist in eliminating bias. Structured questions with a Likert scale of 5 points will be used in this study.

3.6 Piloting of Research Instruments

To identify the design and instrument challenges and to provide stand-in data for data needed for probability choice of the sample, piloting was carried out. A pilot group of 10% of the target population made up of comparable respondents from level three and four hospitals in Tharaka Nithi County was employed by the investigator to assess the research methodology. The validity and reliability of the data gathering equipment had a significant impact on the correctness of the data that was gathered.

3.6.1 Reliability

A measure's dependability is increased when it consists of many similar items, a representative sample of people is evaluated, and consistent testing procedures are utilized. The researcher selected a pilot group of five people from the sampled population through a pilot study in a bid to assess the reliability of the study tools. Cronbach's Alpha and other internal consistency techniques were used to rate the reliability of the devices. Numbers with higher significance indicated greater reliability. The alpha value was between 0 and 1. A coefficient of 0.8 or more was considered to be excellent reliability, while a coefficient of 0.6 to 0.7 was considered to be sufficient dependability.

3.6.2 Validity

According to Somekh and Lewin (2011), the extent to which the picking of elements for test accurately portrays the test's content is known as validity. The content validity measure of the study evaluated how well data obtained through a given technology denotes the content of a specific area or idea. Experts were consulted for feedback on the questions' representativeness and practicality as well as for ideas on how to make the research instruments' architecture better. In a bid to ascertain the validity of the investigation instrument, the researcher consulted with subject-matter experts. The data that was obtained had a better content validity as a result. The research instrument's validity was increase because it was simpler to maintain and adjust as necessary.

3.7 Data Collection Procedure

The fifty-three officer's in-charge of the level three and four hospitals in Meru County were approached to take part in the study and provide data. Physical method was used to distribute questionnaires to respondents in each of the fifty-three level three and four

public hospitals. Before the surveys were gathered, respondents had enough time to complete them. There was a higher response rate as a result. During the data collection procedure, the researcher paid close attention to ethical norms including anonymity, confidentiality, and respect for respondents.

3.8 Data Analysis and Presentation

SPSS version 27 of the Statistical Package for Social Sciences was used to examine the data. All of the completed questionnaires were referred to, and the questionnaire items were coded, to facilitate data entry. Descriptive statistics and frequencies were computed for each variable after the data had been cleaned, which included checking for entry errors. To present the data, frequency tables and graphs was used. The researcher meaningfully characterized the spreading of scores or parameters by utilizing a restricted number of indices when employing descriptive statistics (Pallant, 2020). They gave the core properties of the variable's information as well as the framework for later data analysis. Variable aggregation was used to build indices for a range of variables to aid in future statistical research.

Regression analysis, multiple regression analysis, and the Pearson correlation coefficient was used in inferential data examination. Employing Pearson's Product-Moment Correlation Coefficient, the correlations amid the dependent variable and the independent variables were evaluated for both strength and direction. This was done for all of the fifty-three level three and four participating hospitals.

The obtained data was examined using a number of linear regressions to look for any correlations between different variables and financial performance. The four independent

variables of cash management, inventory management, cash receivables, and cash payables were regressed against the financial performance.

The regression model that was used is as follows:

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

Where:

Y = Financial performance; β_0 = constant while β_i is the coefficient of X_i ($i=1, 2, 3, 4$)

X_1 = Cash management

X_2 = Inventory management

X_3 = Cash receivables

X_4 = Cash Payables

ε = Error Term

The study also carried out various diagnostic tests such as normality, linearity and multicollinearity.

3.9 Ethical Considerations

Research involves several ethical considerations, which are crucial. These are the moral guidelines that researchers must follow when conducting their research. The researcher secured the approvals from the University, NACOSTI and the in-charge of the participating level three and four public hospitals in Meru County before starting the data collection. Participants were made aware that their involvement was entirely voluntary,

that there will not be any coercion utilized, and that they were to be guided by informed consent. The respondents' privacy and anonymity were be maintained.

CHAPTER FOUR

RESULTS AND DISCUSSION

4.1 Introduction

This part particularly contains the results and discussions of the feedback obtained from 53 officers from all the fifty-three level three and four hospitals in Meru County, Kenya. The investigation wanted to assess the effects of working capital management on the financial performance of Level three and Four Hospitals in Meru County, Kenya.

4.2 Response Rate, Reliability of Instruments and Characteristics

The investigation was carried out in Kenya, Meru County and concentrated on 53 level three and Four Hospitals in Meru County. Fifty-three (53) officers were the main respondents.

4.2.1 Response Rate

Regarding the response rate, the total numbers of respondents who successfully filled the questionnaires and returned were 41 from the targeted population of 53 participants. According to Leavy (2020), this indicated a 77.36% response rate, which was deemed suitable for analysis. Thus, based on these results, it can be inferred that the study's response rate was adequate, boosting confidence in the study's ability to generalize. It provided as the basis for the analysis and findings in this thesis as well.

4.2.2 Reliability of the Instruments

The reliability test was conducted using Cronbach's Alpha. A reliable indicator of data generalization that provides an estimate free of bias is Cronbach's Alpha (Somekh &

Lewin, 2020). The aim of this investigation was to evaluate the validity of the data that was gathered in Tharaka Nithi County in order to measure the different study variables. The research surveyed 10% (6 hospitals) of the targeted population of 53. A Cronbach Alpha score of more than 0.7 is considered appropriate for reliability assessment in a research project; the test results are shown in Table 4.1.

Table 4.1
Reliability Tests

| Variables | Number of items | Cronbach Alpha Values |
|----------------------------|-----------------|-----------------------|
| Cash management (CM) | 7 | 0.932 |
| Inventory management (IM) | 7 | 0.930 |
| Accounts receivables (AR) | 7 | 0.954 |
| Accounts payables (AP) | 8 | 0.953 |
| Financial performance (FP) | 5 | 0.866 |

All of the variables; cash management, inventory management, accounts receivable, accounts payable, and financial performance had Cronbach alpha values more than 0.7, as shown in Table 4.1. Based on the findings, it was determined that the assessed constructs possessed sufficient reliability for the ensuing analytical phases, as each Cronbach Alpha value exceeded 0.7.

4.2.3 Respondents' Demographics

In the Meru County, Kenya, level three and four hospitals, the study aimed to ascertain the features of the participants, including their age, gender, and educational attainment. The results of respondents' characteristics were displayed in Table 4.2.

Table 4.2*Respondents' Demographic Information*

| Demographic information | | Frequency (n) | Percentage (%) |
|--------------------------|---------------|---------------|----------------|
| Gender of the Respondent | Male | 18 | 43.9 |
| | Female | 23 | 56.1 |
| | Total | 41 | 100 |
| Age | 21-30 Years | 08 | 19.5 |
| | 31-40 Years | 24 | 58.5 |
| | 41 – 50 years | 09 | 22.0 |
| | Over 50 years | 00 | 00.0 |
| | Total | 41 | 100 |
| Level of Education | Bachelor | 16 | 39.0 |
| | Masters | 05 | 12.2 |
| | Others | 20 | 48.8 |
| | Total | 41 | 100 |

Findings in Table 4.2 indicate that most of the participants [n=23, (56.1%)] were female while male accounted for [n=18, (43.9%)]. According to this gender breakdown, there were more women than males employed in the health sector in Meru County, Kenya's level three and four hospitals. It also shows that this industry is more focused on women. The investigation also discovered that most of the participants (n=24, or 58.5%) were in the 31–40 age range. This indicates that the workforce of health officers in this industry is sufficiently developed and possesses the essential exposure and experience to lead the industry to new heights. The results also reveal that students made up the most of the participants with the greatest level of education, accounting for [n=16, (39.0%)]. Those with masters' and others accounted for [n=25, (61.0%)].

4.3 Effect of Working Capital Management on Financial Performance

The assessment of the effects of working capital management practices (cash management, inventory management, and cash receivables and cash payables) on the

financial performance of Level three and Four Hospitals in Meru County in Kenya was done using descriptive statistics.

4.3.1 Cash management on Financial Performance

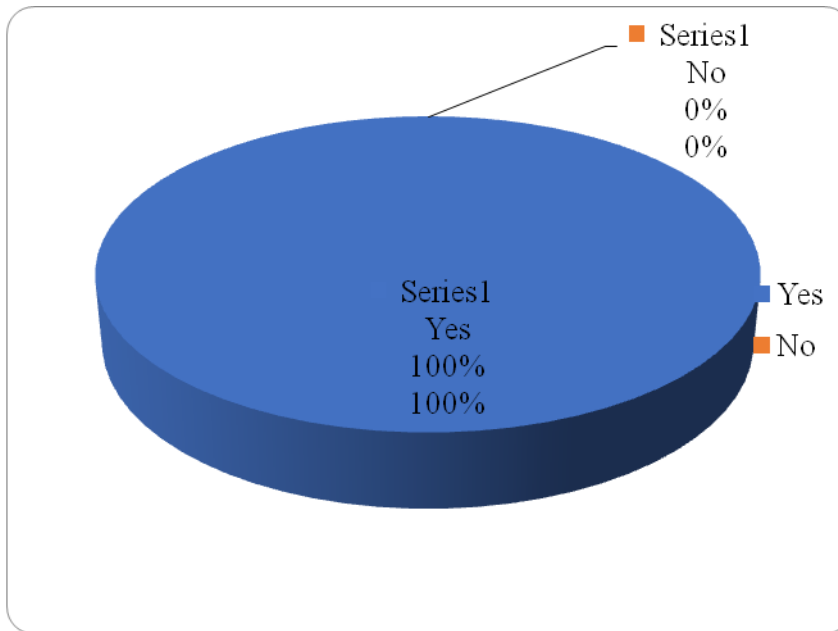
To assess the effect of cash management on financial performance of Level three and Four Hospitals in Meru County, the participants were requested to react on several attributes of Level three and Four Hospitals they represented. Figure 4.1 and Table 4.3 presents these analyzed results of data from the respondents indicating yes or no and the extent they think Cash management has an effect on financial performance in their hospitals.

4.3.1.1 Does cash Management Improve Financial Performance?

This study sought the respondents' opinion as to whether they think Cash management can improve their hospital's financial performance. According to the results shown in Figure 4.1 all [n=41, (100.0%)] indicated yes meaning that for improvement of hospitals' financial performance proper cash management is fundamental.

Figure 4.1

Does cash management improve financial performance?



4.3.1.2 Extent of Cash Management Effect on Financial Performance

This study wanted to assess the extent Cash management has an effect on financial performance in their hospital and as shown in table 4.3 [n=16, (39.0%)] of the respondent indicated very large extent, [n=16, (39.0%)] indicated large extent while [n=9, (22.0%)] indicated some extent meaning that proper cash management in the hospitals can help enhance financial performance.

Table 4.3*Extent of Cash Management Effect on Financial Performance*

| Extent | Frequency | Percentage % |
|-------------------|-----------|--------------|
| Not at all | 0 | 0.00 |
| Little extent | 0 | 00.0 |
| Some extent | 9 | 22.0 |
| Large extent | 16 | 39.0 |
| Very large extent | 16 | 39.0 |
| Total | 41 | 100.0 |

4.3.1.3: Effect of Cash Management on Financial Performance

To assess the influence of cash management on financial performance of Level three and Four Hospitals in Meru County, the researcher tested various aspect of cash management and as displayed in table 4.4 on average [mean=4.32, std. dev.=0.858], the respondents agreed that there is an influence of cash management on financial performance. Moreover, the aspect of cash management that was rated high [mean=4.61, std. dev.=0.494] was “Managers in this hospital adhere to cash budgets” implying that adherence and strictly restricting to the hospital budget can help improve financial performance.

This outcome agrees with results of Afrifa and Tingbani (2018) who assessed the association amongst working capital management and SMEs' effectiveness. From 2004 to 2013, a total of 802 British-listed small and medium-sized firms have been included on the Alternate Investment Market, the investigation used a panel data regression analysis. The study's findings showed how crucial cash flow is to the health and profitability of SMEs. The results indicate that WCM has a considerable detrimental impact on SME financial results. The evidence also indicates that cash flow-constrained (unrestricted) SMEs may enhance their performance by lowering (raising) working capital investment.

Similarly, between 2001 and 2014, Osadune and Ibenta (2018) performed an investigation on a few chosen Nigerian enterprises. The investigation employed the unit root test, OLS, co-integration test, and Granger causality test at a 10% significance level for its empirical analysis. The study's findings demonstrated the long-term equilibrium connection among liquidity and business financial performance. There was, however, no link among the firms' financial success and liquidity. In India, the relationship between increased firm value and stock liquidity was investigated by Jawed and Kotha (2018). The study's findings supported the presence of a direct causal relationship, resulting from higher operating performance, between stock liquidity and company value.

Table 4.4

Effect of Cash Management on Financial Performance

| Statements | N | Mean | Std.Dev |
|---|----|------|---------|
| There are various modes of payment in this hospital | 41 | 4.22 | .988 |
| The modes of payment used in this hospital are convenient to patients | 41 | 4.12 | 1.229 |
| There are proper banking practices in our hospital | 41 | 4.35 | .789 |
| Managers in this hospital adhere to cash budgets | 41 | 4.61 | .494 |
| There is timely surrender of imprest in this hospital | 41 | 4.32 | .789 |
| Average | 41 | 4.32 | .858 |

4.3.2 Inventory Management on Financial Performance

To assess the influence of inventory management on financial performance of Level three and Four Hospitals in Meru County, the respondents were requested to respond on various attributes of Level three and Four Hospitals they represented. Figure 4.2 and Table 4.5 contains these analyzed findings of data from the participants indicating yes or

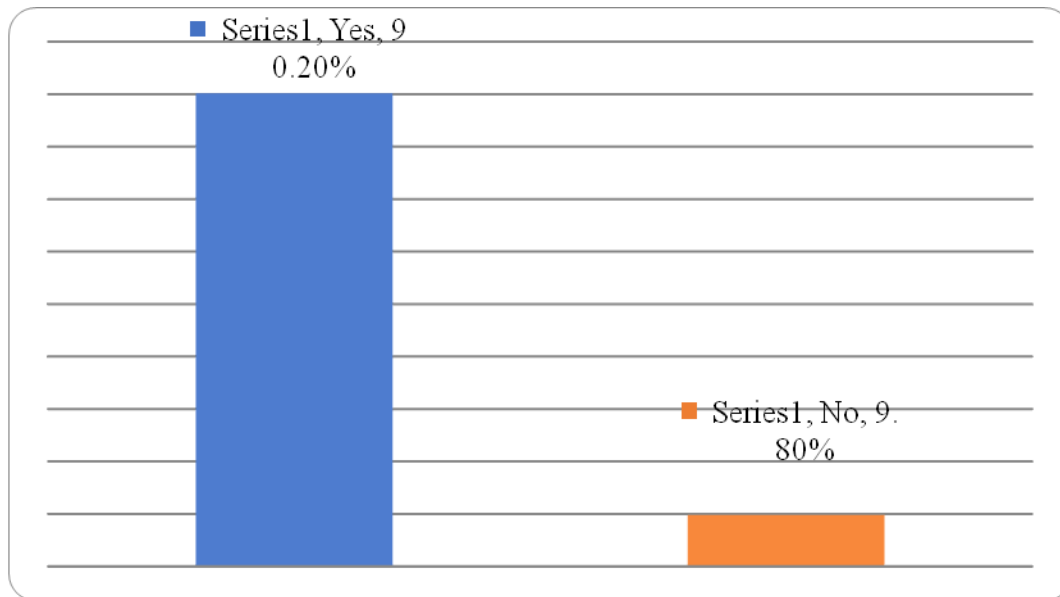
no and the extent they thought inventory management had an effect on financial performance in their hospitals.

4.3.2.1 Does Inventory Management Improve Financial Performance?

This study sought the respondents' opinion as to whether they think inventory management can improve their hospital's financial performance. According to the results shown in Figure 4.2 all [n=37, (90.2%)] indicated yes meaning that for improvement of hospitals' financial performance, effective and efficient inventory management is very crucial.

Figure 4.2

Does Inventory Management Have Effect on Financial Performance?



4.3.2.2 Extent of inventory management effect on financial performance

The investigation pursued to assess the extent inventory management has an effect on financial performance in their hospital and as shown in table 4.5 [n=21, (51.2%)] of the

respondent indicated very large extent, [n=12, (29.3%)] indicated large extent while [n=8, (19.5%)] indicated some extent meaning that focusing on inventory management in the hospitals can help improve financial performance.

Table 4.5

Extent of Inventory Management Effect on Financial Performance

| Extent | Frequency | Percentage % |
|-------------------|-----------|--------------|
| Not at all | 0 | 0.00 |
| Little extent | 0 | 00.0 |
| Some extent | 8 | 19.5 |
| Large extent | 12 | 29.3 |
| Very large extent | 21 | 51.2 |
| Total | 41 | 100.0 |

4.3.2.3 Effect of Inventory Management on Financial Performance

To determine the influence of inventory management on financial performance of Level three and Four Hospitals in Meru County, the researcher tested various aspect of inventory management and as shown in table 4.6 on average [mean=4.51, std. dev.=0.601], the respondents agreed that there is an effect of inventory management on financial performance. Meanwhile, the aspect of inventory management that was rated high [mean=4.80, std. dev. =0.401] was “In this hospital we carry out a physical count of hospital supplies “demonstrating that surprise and physical cash count is a procedure good for the improvement of financial performance.

This finding is in line with Ionescu et al. (2018) who attempted to discover elements linked to the appraisal of sold items' stocks and to assess the impact of stock valuation procedures used in Romania on the monetary situations and financial performance of the firms. The primary study hypothesis claims that asset valuing options have varying

effects on the economic unit's financial condition and financial performance. This is based on an examination of the impact that stock valuation methodologies can possess on financial condition and effectiveness as a method of assessing and contrasting those parameters. This was supported by a theoretical investigation and empirical research, which established that the facility's financial position and financial performance are affected differently by the stock accounting options.

Moreover, Alrjoub and Akram (2017) sought to throw further light on the impact of several inventory categories (raw material stock, in-process supplies, completed supplies, and total stock) on corporate performance, as well as the fact that the link is impacted by other elements, like capital cost, that hasn't been studied previously. The data collected for 48 companies during the study period (2010-2016) affirms the relatively low value of capital in terms of the association amid inventory types and firm performance, indicating that stock management, incorporating into account their types, influences the company's long-term effectiveness. In recommendation, the study urged organizations to contemplate the capital cost when selecting types of inventories and to optimize control of inventory to any prospective alterations to their commercial setting. The connection among inventory management and corporate performance changes, but the link involving the capital cost and inventory kinds has a number of distinct ramifications.

Table 4.6*Effect of Inventory Management on Financial Performance*

| Statements | N | Mean | Std.Dev |
|--|----|------|---------|
| There is accuracy tracking of stock levels in this hospital | 41 | 4.51 | .675 |
| There is compliance with regulatory requirements on inventory management | 41 | 4.22 | .759 |
| In this hospital stock control is done using bin cards | 41 | 4.41 | .675 |
| There is proper storage of hospital supplies in this hospital | 41 | 4.61 | .494 |
| In this hospital we carry out a physical count of hospital supplies | 41 | 4.80 | .401 |
| Average | 41 | 4.51 | .608 |

4.3.3 Effects of Accounts Receivables on Financial Performance

To assess the influence of accounts receivables on financial performance of Level three and Four Hospitals in Meru County, the respondents were requested to respond on various attributes of Level three and Four Hospitals they represented. Figure 4.2 and Table 4.5 displays these analyzed outcomes of data from the participants indicating yes or no and the extent they think accounts receivables has an effect on financial performance in their hospitals.

4.3.3.1 Extent of Accounts Receivables Effect on Financial Performance

The enquiry sought to assess the extent accounts receivables has an effect on financial performance in their hospital and as shown in table 4.7 [n=13, (31.7%)] of the respondent indicated large extent, [n=20, (48.8%)] indicated large extent while [n=8, (19.5%)] indicated little extent meaning that focusing on accounts receivable in the hospitals can help improve financial performance.

Table 4.7*Extent of Accounts Receivable Effect on Financial Performance*

| Extent | Frequency | Percentage % |
|--------------------|-----------|--------------|
| Not at all | 0 | 0.00 |
| Very little extent | 0 | 0.00 |
| Little extent | 8 | 19.5 |
| Some extent | 20 | 48.8 |
| Large extent | 13 | 31.7 |
| Very large extent | 0 | 0.00 |
| Total | 41 | 100.0 |

4.3.3.2 Effect of Accounts Receivables on Financial Performance

To assess the influence of cash receivables on financial performance of Level three and Four Hospitals in Meru County, the researcher tested various aspect of accounts receivables and as shown in table 4.8 on average [mean=4.32, std. dev.=0.853], the participants accepted that there existed an extent of accounts receivables on financial performance. Meanwhile, the aspect of accounts receivables that was rated high [mean=4.61, std. dev. =0.494] was “In this hospital there is a good follow up on un paid dues “implying that continuous follow up on un paid dues is one of the factors affecting the improvement of financial performance.

This outcome agrees with the one performed in Mogadishu, Somalia, where Adam and Caroline (2018) investigated the link among management of accounts receivable and financial results of small and medium-sized businesses. The investigation adopted a survey research technique that made it possible to obtain quantitative data. 102 small to medium-sized businesses made up the target population, and 81 businesses were found using a combination of chance and non-probability sampling strategies. The data acquired were scrutinized through inferential and descriptive statistics, which compute correlation

coefficients and Pearson correlations. According to the study, accounts receivable has a good overall impact on the financial health of SMEs in Mogadishu. This issue was addressed in the present investigation by evaluating accounts receivable across the average collection duration because the previous study failed to determine the precise metrics utilized to assess accounts receivable.

Additionally, Ashrafi and Pakdel (2019) examined the financial performance of Embu Water and Sanitation Ltd. in connection to the effect of accounts receivable. Aspects related to the study were explained by the operational motive, currency conversion cycle, and transaction expenditures theories. Secondary data was gathered from the firm's fillings on finances, which were maintained on file by the accounting and finance departments. Through the use of inferential and descriptive statistics that were displayed as tables and figures, data was analyzed. Based on this the investigation's discovery that the median gathering duration and present ratio had a strong positive influence on stocks, a beneficial modification in the debtor's repayment time resulted in an increase in the business 'financial results.

Table 4.8

Effect of Cash Receivable on Financial Performance

| Statements | N | Mean | Std.Dev |
|--|----|------|---------|
| The hospital gives a credit period to its debtors | 41 | 4.22 | .881 |
| In this hospital there is tracking of payments | 41 | 4.41 | .670 |
| There is good rate of compliance of insurance claims | 41 | 4.12 | .954 |
| In this hospital there is a good follow up on un paid dues | 41 | 4.61 | .494 |
| In this hospital there is good tracking of invoices | 41 | 4.51 | .925 |
| There is a record of credit history of pre-owned treatment | 41 | 4.02 | 1.193 |
| Total | 41 | 4.32 | .853 |

4.3.4 Effect of Accounts Payables on Financial Performance

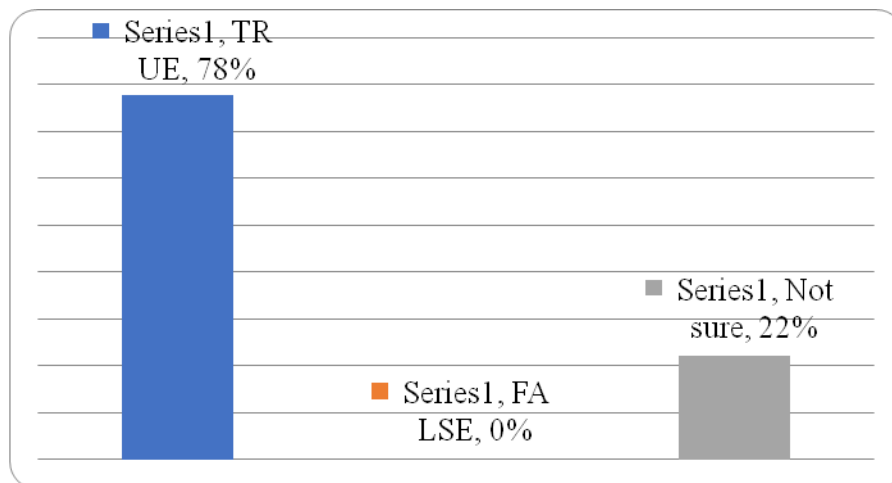
To determine the influence of accounts payables on financial performance of Level three and Four Hospitals in Meru County, the respondents were requested to respond on various attributes of Level three and Four Hospitals they represented. Figure 4.2 and Table 4.5 displays these analyzed outcomes of data from the participants indicating yes or no and the extent they think accounts payables has an influence on financial performance in their hospitals.

4.3.4.1 Does Accounts Payables have an Effect on Financial Performance?

This researcher sought the view of the respondents as to whether accounts payables have an influence on financial performance among level four hospitals in Meru County and as shown in figure 4.3 majority [n=32, (78%)] indicated true while [n=9, (22%)] indicated not sure.

Figure 4.3

Does Accounts Payables have an Effect on Financial Performance?



4.3.4.2 Extent of Accounts Payables Effect on Financial Performance

The investigation wanted to assess the extent accounts payables has an effect on financial performance in their hospital and as shown in table 4.9 [n=4, (9.8%)] of the respondent indicated large extent, [n=5, (12.2%)] indicated some extent while [n=24, (58.5%)] indicated little extent meaning that proper management of accounts payable in the hospitals can help improve financial performance.

Table 4.9

Extent of Accounts Payable Effect on Financial Performance

| Extent | Frequency | Percentage % |
|--------------------|-----------|--------------|
| Not at all | 0 | 0.00 |
| Very little extent | 8 | 19.5 |
| Little extent | 24 | 58.5 |
| Some extent | 5 | 12.2 |
| Large extent | 4 | 9.8 |
| Very large extent | 0 | 0.00 |
| Total | 41 | 100.0 |

4.3.4.2 Effect of Accounts Payables on Financial Performance

To determine the influence of accounts payables on financial performance of Level three and Four Hospitals in Meru County, the researcher tested various aspect of accounts payables and as shown in table 4.10 on average [mean=4.27, std. dev.=0.841], the participants accepted that there is an effect of accounts payables on financial performance. Moreover, the aspect of accounts payables that was rated high [mean=4.64, std. dev. =0.494] was “Patients in this hospital adhere to payments terms “implying that the clients of these hospitals are quality customers and this has improved the facility financial performance.

This investigation is in agreement with the investigation of Kerem and Sargon (2021) who assessed the effect of receivables management on working capital and profitability.

The data for research of a few Indian cement businesses was gathered from the annual reports of those companies between 2001 and 2010. The ANOVA statistical tool was used to complete the ratios that demonstrate the effectiveness of receivables management, comprising the working capital-to-profitability ratio, the ratio of current assets to total assets, the ratio of receivables to sales, the ratio of receivables to turnover, the average collecting period, and the ratio of receivables to sales. Working capital management and profitability were the parameters that were taken into consideration as dependent. According to the analysis, the cement industry handles accounts receivable in an efficient manner that significantly impacts working capital and profitability.

Moreover, Oranefo and Egbunike (2023) studied the connection between performance businesses and accounts payable where 16 manufacturing companies that are listed on the NSE were the subject of a study during a five-year period between 2000 and 2013. At the NSE, statistics and journals provided secondary data. Accounts payable and performance have a clear, favorable association, according to multiple regression analysis. A lengthy link with vendors is advised by the study for financial executives and finance stewards of businesses in order to get trade financing more quickly and easily.

In the same context, Khaled (2020) investigated the impact of accounts payable management on the monetary results of Nigerian domestic and industrial manufacturing firms. Data from the companies' annual reports for the 12 years between 2000 and 2011 demonstrated a substantial and positive correlation between the profitability ratios.

Furthermore, according to Wulansari and Maryanti (2023) research, the monetary results of Nigerian firms that process drinks and food is impacted by the accounts payable ratio. Collected information from the yearly filings of the companies licensed on the Nigerian

security markets for a 12-year period between 2000 and 2011. Regression with multiple steps. Based on the investigation, the accounts payable ratio had a negative, considerable effect on the profitability ratio.

Table 4.10

Effect of Accounts Payable on Financial Performance

| Statements | N | Mean | Std.Dev |
|--|----|------|---------|
| There is reasonable credit limit to all creditors in this hospital | 41 | 3.73 | 1.205 |
| Managers in this hospital track invoices | 41 | 4.32 | .907 |
| There is reconciling of accounts in this hospital | 41 | 4.22 | .881 |
| Patients in this hospital adhere to payments terms | 41 | 4.64 | .494 |
| Managers are keen on data review on creditors | 41 | 4.21 | .881 |
| There is proper follow up on payment in our hospital. | 41 | 4.51 | .675 |
| Average | 41 | 4.27 | .841 |

4.3.5: Effect of Working Capital Management on Financial Performance

To evaluate the effects of working capital management practices on the financial performance of Level three and Four Hospitals in Meru County, the researcher tested various aspect of working capital management practices and as shown in table 4.11 on average [mean=4.34, std. dev. =0.859], the respondents agreed that there is an effect of working capital management practices on financial performance. Moreover, the aspect of working capital management practices that was rated high [mean=4.34, std. dev. =0.859] was “There is customer satisfaction in this hospital “demonstrating that the customers of these facilities are served to their satisfactory and this has financial seen performance improved.

Table 4.11*Effect of Working Capital Management on Financial Performance*

| Statements | N | Mean | Std.Dev |
|---|----|------|---------|
| There is enhanced quality of health care service in this hospital | 41 | 4.22 | .988 |
| There is customer satisfaction in this hospital | 41 | 4.88 | .400 |
| There is good liquidity in my hospital | 41 | 4.32 | .907 |
| In this hospital there are less pending bills | 41 | 4.24 | .988 |
| There is reasonable profit margin in this hospital | 41 | 4.02 | 1.012 |
| Total | 41 | 4.34 | .859 |

4.4 Effect of Working Capital Management on Financial Performance

After descriptive analysis of data on the variables was successfully analyzed, to determine how working capital management affects financial performance, correlation analysis was done. Table 4.12 present bivariate correlation results between working capital management variables (cash management, inventory management, accounts receivables, accounts payables) and financial performance of Level three and Four Hospitals in Meru County, Kenya.

Table 4.12

Correlations Coefficient

| Variables | | Financial Performance | Cash Management | Inventory Management | Cash Receivable | Cash Payable |
|------------------------------|---------------------|------------------------------|------------------------|-----------------------------|------------------------|---------------------|
| Financial Performance | Pearson Correlation | 1 | | | | |
| | Sig. (2-tailed) | | | | | |
| | N | 41 | | | | |
| Cash Management | Pearson Correlation | .820** | 1 | | | |
| | Sig. (2-tailed) | .000 | | | | |
| | N | 41 | 41 | | | |
| Inventory Management | Pearson Correlation | .626** | .323* | 1 | | |
| | Sig. (2-tailed) | .000 | .040 | | | |
| | N | 41 | 41 | 41 | | |
| Cash Receivable | Pearson Correlation | .890** | .758** | .454** | 1 | |
| | Sig. (2-tailed) | .000 | .000 | .003 | | |
| | N | 41 | 41 | 41 | 41 | 41 |
| Cash Payable | Pearson Correlation | .620** | .487** | .386* | .395* | 1 |
| | Sig. (2-tailed) | .000 | .001 | .013 | .011 | |
| | N | 41 | 41 | 41 | 41 | 41 |

4.4.1 Testing of Hypothesis One

To determine the effect of cash management on financial performance of Level three and Four Hospitals in Meru County, a null hypothesis was tested.

The null hypothesis of cash management has no significant effect on financial performance of Level three and Four Hospitals in Meru County.

The following was the null hypotheses used:

H₀₁: Cash management has no significant effect on financial performance of Level three and Four Hospitals in Meru County

A statistically significant ($p < 0.05$) strong positive correlation coefficient of 0.820 is displayed in Table 4.12's data. As a result, the alternate hypothesis—that cash management techniques significantly impact the financial performance of Meru County's Level Three and Four Hospitals—is accepted and the null hypothesis is rejected. This means that on overall, cash management practices is positively related to financial performance of Level three and Four Hospitals in Meru County. This finding agrees with the findings of Koech et al. (2021) who examined the cash management procedures used by insurance companies, they discovered that they increased transparency and thus enhanced financial performance.

H₀₂: Inventory management has no significant effect on financial performance of Level three and Four Hospitals in Meru County.

A statistically significant ($p < 0.05$) strong positive correlation coefficient of 0.626 is displayed in Table 4.12's data. As a result, the alternate hypothesis—that inventory management techniques significantly impact the financial performance of Meru County's Level Three and Four Hospitals—is accepted and the null hypothesis is rejected. This means that on overall, inventory management practices is positively related to financial performance of Level three and Four Hospitals in Meru County. This finding agrees with the findings of Ionescu et al. (2018) who attempted to discover elements related to the appraisal of sold items' stocks and to determine the impact of stock valuation procedures used in Romania on the monetary situations and financial performance of the firms. The

primary study hypothesis claims that asset valuing options have varying effects on the economic unit's financial condition and financial performance.

H₀₃: Accounts receivables has no significant effect on financial performance of Level three and Four Hospitals in Meru County.

A statistically significant ($p < 0.05$) strong positive correlation coefficient of 0.890 is displayed in Table 4.12's data. As a result, the alternate hypothesis—that accounts receivable have a major impact on the financial performance of Level Three and Four Hospitals in Meru County—is accepted and the null hypothesis is rejected. This means that on overall, accounts receivables practices is positively related to financial performance of Level three and Four Hospitals in Meru County. This finding agrees with the findings of Somalia, Adam and Caroline (2018) who investigated the link among management of accounts receivable and financial results of small and medium-sized businesses. According to the study, accounts receivable has a good overall impact on the financial health of SMEs in Mogadishu.

H₀₄: Accounts payables has no significant effect on financial performance of Level three and Four Hospitals in Meru County.

A statistically significant ($p < 0.05$) high positive correlation coefficient of 0.620 is displayed in Table 4.12's data. As a result, the alternate hypothesis—that accounts payable procedures significantly impact the financial performance of Meru County's Level 3 and Level 4 Hospitals—is accepted and the null hypothesis is rejected. This means that on overall, accounts payables practices is positively related to financial performance of Level three and Four Hospitals in Meru County. This finding agrees with the findings of Kerem and Sargon (2021) who assessed the effect of receivables

management on working capital and profitability. The ANOVA statistical tool was used to complete the ratios that demonstrate the effectiveness of receivables management, comprising the working capital-to-profitability ratio, the present asset-to-total-asset ratio, the receivables-to-sales ratio, the receivables-to-turnover ratio, the average collecting duration, and the receivables-to-sales ratio. The investigation indicates that the handling of accounts receivable in the cement business is efficient and has a significant effect on working capital and profitability.

4.5 Diagnostic Test

The study carried out various diagnostic tests such as normality, linearity and multicollinearity.

4.5.1 Normality Test

The study conducted normality test to assess the accuracy of data as in Table 4.13.

Table 4.13

Normality Test

| | | Cash managem nt | Inventory managem ent | Account receivabl es | Account payables | Financial performa nce |
|-------------------------------------|-------------------|-----------------------|-----------------------------|----------------------------|---------------------|------------------------------|
| N | | 41 | 41 | 41 | 41 | 41 |
| Normal Parameters ^{a,b} | Mean | 14.2149 | 14.2436 | 14.4741 | 14.1063 | 14.9799 |
| | Std. Deviation | 2.99467 | 3.10834 | 2.86827 | 3.26057 | 3.87108 |
| | Absolute | .103 | .079 | .120 | .079 | .100 |
| Most Extreme Differences | Positive | .103 | .079 | .120 | .059 | .100 |
| | Negative | -.073 | -.055 | -.078 | -.079 | -.072 |
| Kolmogorov-Smirnov Z | | 1.917 | 1.467 | 2.243 | 1.473 | 1.874 |
| Asymp. Sig. (2-tailed) | | .262 | .127 | .085 | .068 | .320 |

Table 4.13 indicates that Asymp/Significance value for cash management was 0.262, inventory management was 0.127, account receivables was 0.085, account payables was 0.068 and financial performance was 0.320. Since the significance value was higher than 0.05, the data was thus considered normal. Based on the results, it can be concluded that the respondents' responses were spread evenly, with no instances of over-representation of either agreement or disagreement.

4.5.2 Linearity Test

The study conducted a linearity test to examine the effect of working capital management on the financial performance. Table 4.14 provides the results.

Table 4.14*Linearity Test*

| | | | Sum of Squares | Df | Mean Square | F | Sig. |
|---|----------------|--------------------------|----------------|----|-------------|-------|------|
| Financial Performance * Cash management | Between Groups | (Combined) | 383.383 | 14 | 27.385 | 1.893 | .026 |
| | | Linearity | 2.566 | 1 | 2.566 | .177 | .674 |
| | Within Groups | Deviation from Linearity | 380.817 | 13 | 29.294 | 2.025 | .081 |
| | | Total | 4831.476 | 27 | 14.465 | | |
| | | | 5214.860 | 41 | | | |
| Inventory management | Between Groups | (Combined) | 330.538 | 16 | 20.659 | 1.404 | .137 |
| | | Linearity | 6.022 | 1 | 6.022 | .409 | .523 |
| | Within Groups | Deviation from Linearity | 324.516 | 15 | 21.634 | 1.471 | .114 |
| | | Total | 4884.322 | 25 | 14.712 | | |
| | | | 5214.860 | 41 | | | |
| Account receivables | Between Groups | (Combined) | 186.628 | 15 | 12.442 | .824 | .651 |
| | | Linearity | 2.001 | 1 | 2.001 | .133 | .716 |
| | Within Groups | Deviation from Linearity | 184.627 | 14 | 13.188 | .874 | .588 |
| | | Total | 5012.346 | 26 | 15.097 | | |
| | | | 5198.974 | 41 | | | |
| Account payables | Between Groups | (Combined) | 424.550 | 17 | 24.974 | 1.726 | .037 |
| | | Linearity | 83.292 | 1 | 83.292 | 5.757 | .017 |
| | Within Groups | Deviation from Linearity | 341.258 | 16 | 21.329 | 1.474 | .107 |
| | | Total | 4774.424 | 24 | 14.468 | | |
| | | | 5198.974 | 41 | | | |

Table 4.14 indicates that significance value for cash management was 0.081, inventory management was 0.114, account receivables was 0.588 and account payables was 0.107.

Therefore, the result shows that there was a linear relationship between working capital management and financial performance.

4.5.3 Multicollinearity

The study conducted multicollinearity to ascertain the unique characteristics of each working capital management variables each other. Table 4.15 provides the results

Table 4.15

Multicollinearity Test

| Model | Collinearity Statistics | |
|----------------------|-------------------------|-------|
| | Tolerance | VIF |
| Cash Management | .845 | 2.325 |
| Inventory Management | .903 | 1.407 |
| Account Receivables | .766 | 3.172 |
| Account Payables | .921 | 1.049 |

Table 4.15 indicates that cash management had a tolerance value of 0.845 and VIF of 2.325, inventory management had a tolerance value of 0.903 and a VIF of 1.407, account receivables had a tolerance value of 0.766 and VIF of 3.172 and account payables had a tolerance value of 0.921 and a VIF of 1.049.

This means that religious practices variables were distinct from each other, as evidenced by the fact that all of the variables had tolerance values of greater than 0.2 and VIF values of less than 5. This also implied that they were different from one another, which would have increased the degree of contact.

4.6 Multiple Regression Analysis

Working capital management practices variables (cash management, inventory management, accounts receivables, accounts payables) and financial performance of Level three and Four Hospitals in Meru County, Kenya. The main objective of this study was to evaluate how the different independent variables—cash management, inventory management, accounts payable, and receivables—affected the dependent variable, which was financial performance. In order to do this, the casual correlations between variables were tested and explained using a multiple linear regression analysis.

The obtained data was examined using linear regression to look for any correlations between different variables and financial performance. The four independent variables of cash management, inventory management, accounts receivables, and accounts payables were regressed against the financial performance.

Table 4.16*Multiple Regression Results*

| Model Summary | | | | | | |
|---------------------------------|----------------------|------------------------------------|--------------------------|----------------------------------|-----------------------------------|-------------------|
| Model | R | R Square | Adjusted R Square | | Std. Error of the Estimate | |
| 1 | .968 ^a | .937 | .930 | | .269 | |
| ANOVA^a | | | | | | |
| Model | | Sum of Squares | df | Mean Square | F | Sig. |
| 1 | Regression | 38.377 | 4 | 9.594 | 132.940 | .000 ^b |
| | Residual | 2.598 | 36 | .072 | | |
| | Total | 40.976 | 40 | | | |
| Coefficients^a | | | | | | |
| Model | | Unstandardized Coefficients | | Standardized Coefficients | | |
| | | B | Std. Error | Beta | t | Sig. |
| | (Constant) | 3.300 | .526 | | 6.274 | .000 |
| | Cash Management | .270 | .070 | .263 | 3.851 | .000 |
| | Inventory Management | .590 | .124 | .233 | 4.747 | .000 |
| | Accounts Receivable | .564 | .076 | .506 | 7.381 | .000 |
| | Accounts Payable | .207 | .051 | .202 | 4.029 | .000 |

The findings displayed in Table 4.16 demonstrate a significant correlation (R=0.968, P=0.000) between the financial performance of Level 3 and Level 4 hospitals in Meru County, Kenya, and working capital management (cash management, inventory management, accounts receivable, and accounts payable). This means that when working capital management (cash management, inventory management, accounts receivables, accounts payables) are Level three and Four Hospitals in Meru County in Kenya, its relationship with financial performance improves by 96.8%.

According to the validity model, the model is valid ($F=132.940$, $P=0.000$), suggesting that it can be applied to predictions. At a 95% confidence level, there is a significant difference in cash management techniques ($B=0.270$, $P=0.000$), inventory management practices ($B=0.590$, $P=0.000$), accounts receivable ($B=0.564$, $P=0.000$), and accounts payable ($B=0.207$, $P=0.000$). This implies that for every unit increase of cash management practices financial performance improves by 27.0% ($B=0.270$), a unit increase in inventory management financial performance improves by 59.0% ($B=0.590$), a unit increase in accounts receivable financial performance improves by 56.4% ($B=0.564$), and a unit increase in accounts payable financial performance improves by 20.7% ($B=0.207$). Meanwhile all independent variables (cash management, inventory management, accounts receivables, accounts payables) remaining constant financial performance remains at constant (330.0%, $B=3.300$).

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter provides an overview of the research done to determine how working capital management strategies affect the financial performance of Level 3 and Level 4 hospitals in Meru County, Kenya. This chapter also includes the study's conclusion, recommendations, and suggestions for other research topics.

5.2 Summary of Results

The overall objective of the study was to assess the effects of working capital management practices on the financial performance of Level three and Four Hospitals in Meru County. The specific objectives of this study were to determine the effect of cash management on financial performance of Level three and Four Hospitals in Meru County, to evaluate the effect of inventory management on financial performance of Level three and Four Hospitals in Meru County, to determine the effect of accounts receivable on financial performance of Level three and Four Hospitals in Meru County and to determine the effect of accounts payable on financial performance of Level three and Four Hospitals in Meru County. The results of the study indicated that majority of the respondents [n=23, (56.1%)] were female while male accounted for [n=18, (43.9%)]. Further, the study found that, majority of the respondents [n=24, (58.5%)] were between 31-40 years of age. The results further indicated that most respondents' highest Level of Education was undergraduates accounted by [n=16, (39.0%)]. Those with masters' and others accounted for [n=25, (61.0%)].

5.3 Conclusions of the Study

Four goals served as the basis for this investigation. Data analysis revealed that working capital management techniques, including inventory control, cash management, and cash receivables and payables, significantly impact the financial performance of Level 3 and Level 4 hospitals in Kenya's Meru County.

5.3.1 Cash Management and Financial Performance

A robust positive correlation coefficient of 0.820 is observed in the effect of cash management methods on financial performance, and this connection is statistically significant ($p < 0.05$). As a result, the alternate hypothesis—that cash management techniques significantly impact the financial performance of Meru County's Level Three and Four Hospitals—was accepted and the null hypothesis was rejected. This indicates that the financial success of Meru County's Level Three and Four Hospitals is often positively correlated with cash management methods.

5.3.2 Inventory Management and Financial Performance

Comparably, the results of the impact of inventory management techniques on financial performance show a strong positive correlation value of 0.626, which is statistically significant ($p < 0.05$). Consequently, the null hypothesis was rejected and the alternate hypothesis—that inventory management strategies have a major financial impact on Meru County's Level Three and Four Hospitals—was accepted. This indicates that the financial success of Meru County's Level Three and Four Hospitals is often positively correlated with inventory management methods.

5.3.3 Accounts Receivables and Financial Performance

Furthermore, the outcomes of the implications of accounts receivable procedures on financial performance show a strong positive correlation value of 0.890 that is statistically significant ($p < 0.05$). Consequently, the null hypothesis is rejected and the alternate hypothesis, which holds that accounts receivable practices significantly affect the financial performance of Level Three and Four Hospitals in Meru County, is accepted. This indicates that, generally, the financial success of Meru County's Level Three and Four Hospitals is strongly correlated with their accounts receivable processes.

5.3.4 Accounts Payables and Financial Performance

Ultimately, the effect of accounts payable results reveals a statistically significant ($p < 0.05$) strong positive correlation coefficient of 0.620, supporting the alternate hypothesis that accounts payable practices have a major impact on the financial performance of Meru County's Level 3 and 4 hospitals. This finding leads to the rejection of the null hypothesis. This means that on overall, accounts payables is positively related to financial performance of Level three and Four Hospitals in Meru County.

5.4 Recommendations of the Study

The respondents agreed that there was an effect of accounts payables on financial performance with the aspect of accounts payables being rated high was “Patients in this hospital adhere to payments terms. Based on this finding of this account payable aspect, it is recommended that the head of finance in these hospitals should continuously communicate payment terms to the clients in a timely manner as this will ensure the payment terms adherence.

Further, the study further established that the respondents agreed that there is an effect of accounts receivables on financial performance. One of the aspect of accounts receivable which was rated high [mean=4.61, std. dev. =0.494] was “In this hospital there is a good follow up on un paid dues “. Based on this outcome this study recommends that credit officers of these hospitals should time to time review accounts receivables age so as to facilitate continuous follow up on un paid dues.

5.5 Suggestions for Further Research

Future research endeavors may build upon the findings of this study to further our comprehension of the effects of working capital management techniques on the financial performance of Meru County, Kenya. This study was limited to Level three and Four Hospitals in Meru County. Further research can therefore be conducted in other Counties involving other levels of the hospitals.

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APPENDICES

Appendix I: Introductory Letter

Kimathi Doreen Kanana

P.O Box 95-60202

NKUBU

Dear Sir/Madam

RE: PERMISSION TO CARRY OUT RESEARCH

I am a student undertaking a course in Master of Business Administration at Kenya Methodist University (KEMU). As part of my course work, I am undertaking a study on the effects of workingcapital management on financial performance of level three and four public hospitals in Meru County.

The data and information you give will be kept in strict confidence and used only for academic purposes.

Your assistance will be much valued.

Yours sincerely,

Kimathi Doreen Kanana

Appendix II: Questionnaire

(I would like to share the findings of this survey) YES [] NO []

General Instructions: The Purpose of this Questionnaire is to collect data on “**Effects of working capital management on financial performance of level three and four public hospitals in Meru County**”. The questionnaire consists of six sections. Kindly respond to every statement.

SECTION A: GENERAL QUESTIONS

1. Name of the Hospital(optional): -----

2. What is your gender: Male [] Female []

3. What is your age bracket: Less than 20[], 21-30 [], 31-40 [], 41-50 [] over 50[]

4. Level of education [], Bachelors [], Masters [], PhD [], other [] Specify

SECTION B: Cash Management

5. In your opinion, do you think Cash management can improve your hospital’s financial performance?
[] Yes [] No

6. To what extent do you think Cash management has an effect on financial performance in your hospital?
[] Very large extent [] Large extent [] some extent [] little extent [] Not at all

In a scale of 1-5 rate the extent of the relationship between Cash management and financial performance among level four hospitals in Meru County. Where 5-very large extent, 4-large extent, 3-some extent, 2-little extent, 1-no extent.

| | Statements | 1 | 2 | 3 | 4 | 5 |
|-----|---|---|---|---|---|---|
| 7. | There are various modes of payment in this hospital | | | | | |
| 8. | The modes of payment used in this hospital are convenient to patients | | | | | |
| 9. | There are proper banking practices in our hospital | | | | | |
| 10. | Managers in this hospital adhere to cash budgets | | | | | |
| 11. | There is timely surrender of imprest in this hospital | | | | | |

SECTION C: Inventory Management

12. In your opinion, do you think Inventory management has an effect on financial performance among level three and four public hospitals in Meru County?

Yes

No

13. If yes, to what extent do you think Inventory management affect financial performance among level four hospitals in Meru County?

Very large extent Large extent some extent little extent Not at

all

In a scale of 1-5 rate the extent of the relationship between Inventory management and financial performance among level three and four public hospitals in Meru County?

Where 5-very large extent, 4-large extent, 3-some extent, 2-little extent, 1-no extent.

| | Statements | 1 | 2 | 3 | 4 | 5 |
|-----|--|---|---|---|---|---|
| 14. | There is accuracy tracking of stock levels in this hospital | | | | | |
| 15. | There is compliance with regulatory requirements on inventory management | | | | | |
| 16. | In this hospital stock control is done using bin cards | | | | | |
| 17. | There is proper storage of hospital supplies in this hospital | | | | | |
| 18. | In this hospital we carry out a physical count of hospital supplies | | | | | |

SECTION D: Cash Receivables

19. To what extent in your own view, do you think Cash receivables has an effect on financial performance among level three and four public hospitals in Meru County?

Very large extent Large extent some extent little extent Not at all

In a scale of 1-5 rate the relationship between cash receivables and financial performance among level three and four public hospitals in Meru County. Where 5-very large extent, 4-large extent, 3-some extent, 2-little extent, 1-no extent.

| | Statements | 1 | 2 | 3 | 4 | 5 |
|-----|--|---|---|---|---|---|
| 20. | The hospital gives a credit period to its debtors | | | | | |
| 21. | In this hospital there is tracking of payments | | | | | |
| 22. | There is good rate of compliance of insurance claims | | | | | |
| 23. | In this hospital there is a good follow up on un paid dues | | | | | |
| 24. | In this hospital there is good tracking of invoices | | | | | |
| 25. | There is a record of credit history of pre-owned treatment | | | | | |

SECTION E: CASH PAYABLES

26. In your view, Cash payables has an effect on financial performance among level four hospitals in Meru County?

True False Not sure

27. To what extent, in your view do you think cash payables has an effect on financial performance among level three and four public hospitals in Meru County?

Very large extent Large extent some extent little extent Not at all

In a scale of 1-5 rate the relationship between cash payables and financial performance among level three and four hospitals in Meru County. Where 5-very large extent, 4-large extent, 3-some extent, 2-little extent, 1-no extent.

| | Statements | 1 | 2 | 3 | 4 | 5 |
|----|--|---|---|---|---|---|
| 28 | There is reasonable credit limit to all creditors in this hospital | | | | | |
| 29 | Managers in this hospital track invoices | | | | | |
| 30 | There is reconciling of accounts in this hospital | | | | | |
| 31 | Patients in this hospital adhere to payments terms | | | | | |
| 32 | Managers are keen on data review on creditors | | | | | |
| 33 | There is proper follow up on payment in our hospital. | | | | | |

SECTION E: FINANCIAL PERFORMANCE

In a scale of 1-5 rate the extent of financial performance among level three and four hospitals in Meru County as a result of working capital management practices. Where 5-very large extent, 4-large extent, 3-some extent, 2-little extent, 1-no extent.

| | Statements | 1 | 2 | 3 | 4 | 5 |
|----|---|---|---|---|---|---|
| 33 | There is enhanced quality of health care service in this hospital | | | | | |
| 34 | There is customer satisfaction in this hospital | | | | | |
| 35 | There is good liquidity in my hospital | | | | | |
| 36 | In this hospital there are less pending bills | | | | | |
| 37 | There is reasonable profit margin in this hospital | | | | | |

Thank you for participating

Appendix III: List of Level Three and Four Hospitals

| S/No | Name of Hospital | Level |
|------|-----------------------------------|-------|
| 1. | Timau Level Four Hospital | 4 |
| 2. | Kibirichia Level Four Hospital | 4 |
| 3. | Githongo Level Four Hospital | 4 |
| 4. | Kinoro Level Four Hospital | 4 |
| 5. | Mikumbune Level Four Hospital | 4 |
| 6. | Kanyakine Level Four Hospital | 4 |
| 7. | Mutuati Level Four Hospital | 4 |
| 8. | Nyambene Level Four Hospital | 4 |
| 9. | Muthara Level Four Hospital | 4 |
| 10. | Mikinduri Level Four Hospital | 4 |
| 11. | Mbeu Level Four Hospital | 4 |
| 12. | Miathene District Hospital | 4 |
| 13. | Kangeta Level Four Hospital | 4 |
| 14. | Giaki Level Four Hospital | 4 |
| 15. | Naari Level Four Hospital | 4 |
| 16. | Kiarago Level Three Hospital | 3 |
| 17. | Mitunguu Level Three Hospital | 3 |
| 18. | Muutiokiamia Level Three Hospital | 3 |
| 19. | Uruku Level Three Hospital | 3 |
| 20. | Kionyo Level Three Hospital | 3 |
| 21. | Mboroga Level Three Hospital | 3 |
| 22. | Kiirua Level Three Hospital | 3 |
| 23. | Ruiri Level Three Hospital | 3 |
| 24. | Ontulili Level Three Hospital | 3 |
| 25. | Kaongo Level Three Hospital | 3 |
| 26. | Gatimbi Level Three Hospital | 3 |
| 27. | Igane Level Three Hospital | 3 |
| 28. | Kiburine Level Three Hospital | 3 |
| 29. | Kinoru Level Three Hospital | 3 |
| 30. | Uringu Level Three Hospital | 3 |
| 31. | Mutionjuri Level Three Hospital | 3 |
| 32. | Mituntuu Level Three Hospital | 3 |
| 33. | Kunene Level Three Hospital | 3 |
| 34. | Kunati Level Three Hospital | 3 |
| 35. | Akachiu Level Three Hospital | 3 |
| 36. | Kiegoi Level Three Hospital | 3 |
| 37. | Kathigu Level Three Hospital | 3 |
| 38. | Amugaa Level Three Hospital | 3 |
| 39. | Karama Level Three Hospital | 3 |
| 40. | Mweronkanga level Three Hospital | 3 |
| 41. | There level Three Hospital | 3 |
| | | |

Appendix V: Introduction Letter from KeMU



KENYA METHODIST UNIVERSITY

P. O. Box 267 Meru - 60200, Kenya
Tel: 254-064-30301/31229/30367/31171

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DIRECTORATE OF POSTGRADUATE STUDIES

November 21, 2023

Commission Secretary
National Commission for Science, Technology and Innovations
P.O. Box 30623-00100
NAIROBI

Dear Sir/Madam,

RE: KIMATHI DOREEN KANANA (REG. NO. BUS-3-6700-3/2014)

This is to confirm that the above named is a bona fide student of Kenya Methodist University, in the Department of Business Administration, undertaking Master of Business Administration Degree. She is conducting research on: "Effects of Working Capital Management on Financial Performance of Level Three and Four Public Hospitals in Meru County".

We confirm that her research proposal has been defended and approved by the University.

In this regard, we are requesting your office to issue a research license to enable her collect data.

Any assistance accorded to her will be highly appreciated.

Yours sincerely,


Dr. John M. Muchiri (PhD)
Dean, Postgraduate Studies

Cc: Dean, KeMU Business School
CoD, Business Administration
Postgraduate Coordinator
Supervisors

Appendix VI: Ethical Clearance Letter from SERC



KENYA METHODIST UNIVERSITY

P. O. BOX 267 MERU - 60200, KENYA
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EMAIL: info@kemu.ac.ke

November 21, 2023

KeMU/ISERC/BUS/12/2023

KIMATHI DOREEN KANANA
BUS-3-6700-3/2014

Dear Doreen,

SUBJECT: EFFECT OF WORKING CAPITAL MANAGEMENT ON FINANCIAL PERFORMANCE OF LEVEL THREE AND FOUR PUBLIC HOSPITALS IN MERU COUNTY

This is to inform you that Kenya Methodist University Institutional Scientific Ethics and Review Committee has reviewed and approved your research proposal. Your application approval number is KeMU/ISERC/BUS/12/2023. The approval period is 21st November, 2023 – 21st November, 2024.

This approval is subject to compliance with the following requirements:-

- I. Only approved documents including (informed consents, study instruments, MTA) will be used.
- II. All changes including (amendments, deviations, and violations) are submitted for review and approval by Kenya Methodist University Institutional Scientific Ethics and Review Committee.
- III. Death and life-threatening problems and serious adverse events or unexpected adverse events whether related or unrelated to the study must be reported to KeMU ISERC within 72 hours of notification.
- IV. Any changes, anticipated or otherwise that may increase the risks or affected safety or welfare of study participants and others or affect the integrity of the research must be reported to KeMU ISERC within 72 hours.

- V. Clearance for export of biological specimens must be obtained from relevant institutions.
- VI. Submission of a request for renewal of approval at least 60 days prior to expiry of the approval period. Attach a comprehensive progress report to support the renewal.
- VII. Submission of an executive summary report within 90 days upon completion of the study to KeMU IsERC.

Prior to commencing your study, you will be expected to obtain a research license from National Commission for Science, Technology and Innovation (NACOSTI) <https://oris.nacosti.go.ke> and also obtain other clearances needed.

