Research Journal of Finance and Accounting
ISSN 2222-1697 (Paper) ISSN 2222-2847 (Online)
Vol.17, No.3, 2026

Accounts Receivables and Financial Performance of Listed firms at Nairobi Securities Exchange, Kenya.

Moses. A. Shimenga[1], Dennis Nyamasege[2], Andrew Nyangau[3].
School of Business & Economics, Kisii University, P.0 Box 408-40200 Kisii, Kenya
* E-mail of the corresponding author: mosesshimenga@gmail.com

Abstract
This study empirically investigated the effect of accounts receivable management on the financial performance of firms listed at the Nairobi Securities Exchange (NSE), Kenya. The study was motivated by the growing concern that ineffective management of accounts receivable exposes firms to liquidity challenges, bad debts, and reduced profitability despite receivables being a key source of operational financing. Guided by Agency Theory, Free Cash Flow Theory, and the Cash Conversion Cycle Theory, the study adopted a positivist research philosophy and employed descriptive and correlational research designs. The study utilized secondary panel data obtained from annual reports of listed firms over a specified period and applied panel regression analysis to examine the relationship between accounts receivable management and financial performance. Financial performance was proxied using Return on Assets (ROA), while accounts receivable management was measured using accounts receivable ratios that capture the efficiency of credit management and debt collection practices. The descriptive statistics revealed that Accounts Receivable Management (ARM) recorded an average value of 0.1239 with a standard deviation of 0.1183, indicating moderate variation in receivables management practices among the sampled firms. The observed minimum and maximum values of –0.2544 and 0.9820 further demonstrated substantial differences in the efficiency of customer credit and debt collection policies among listed firms. Correlation analysis showed that ARM had a strong positive and statistically significant relationship with financial performance ($r = 0.723$, $p < 0.01$), implying that firms that effectively managed and recovered trade receivables were more likely to achieve superior profitability. The regression results further established that accounts receivable management has a positive and statistically significant effect on the financial performance of listed firms at the Nairobi Securities Exchange, Kenya. The findings suggest that efficient receivables management accelerates cash inflows, reduces the incidence of bad debts, improves liquidity, and enhances firms' ability to meet short-term obligations, thereby increasing profitability. The study concludes that prudent accounts receivable management is a critical determinant of firm financial performance and recommends that listed firms strengthen their credit policies, enhance debt collection mechanisms, and continuously monitor receivables to improve liquidity and maximize shareholder value.

Key Words: Accounts receivable management, financial performance, return on assets, liquidity, listed firms, Nairobi Securities Exchange, credit policy, debt collection, panel regression analysis, Kenya.

DOI: 10.7176/RJFA/17-3-05

Publication date: July 30th 2026

1.Introduction

Accounts receivable are key sources of financing operations in a company. However, in situations where credit period is increased, it becomes counterproductive because it locks up huge financial resources and hence, makes businesses susceptible to the risk of default. Higher levels of AR are harmful to the company's valuation and hence, using AR best practices are fundamental as it contributes towards increased financial performance (Pakdel &Ashrafi, 2019).

Accounts receivable is key part of the working capital and thus, the best balance must be maintained for optimal financial output. Because both too much current assets and a scarcity of it can have huge effects financial performance, and cause untold perils in ensuring smooth operation, managing receivables is important part of financial management (Gartenberg, et al., 2019).

Accounts receivable management is hugely affected to the core by the credit policies and collection process of companies. The rate at which AR is collected is shown by accounts receivable. An excessive accounts receivable ratio negatively affects the ability of outfits to churn out profit. This is due to the inability of firms to meet its short-term obligation as at and when they fall due. Cash receivables, inventory, and payables management aims at achieving and maintaining an optimum balance between elements of AR as a core part firm's overall strategy to create value and a significant source of competitive advantage (Abubakar & Olowe, 2019).

Receivables management affects financial performance of commercial, and services firms registered at the NSE in Kenya. Receivables management is a matter with many fronts that requires a comprehensive assessment. Receivables play vital role towards improving financial performance, so firms need to put effective management

practices ahead of anything so that they can handsomely deal challenges of the Kenyan market successfully. Efficiency of receivables management and the financial performance of small-scale enterprises are positively correlated thus, improved managing receivables increases profitability (Lamptey, et al., 2023).

According to Tarurhor and Owolabi, (2022), the management of accounts receivable is a core element of financial management. Too much or less of current assets can adversely affect a firm's financial performance and make it harder to maintain smooth daily activities. The bottom line of accounts receivable is to balance between the different components' cash flow management. Proper management of accounts receivable and assessment of potential customers' ability to pay depends on integrity, financial stability, collateral facilities and the state of the economy are the bedrocks of accounts receivable management principles that firms need to take care on and hence increasing financial performance.

The management of receivables is a crucial part of financial management for businesses, including. Efficient receivables management plays a key role in maintaining healthy cash flow, optimizing working capital, and ensuring the financial stability and profitability of the organization (Adam & Caroline, 2018).
Accounts receivable form the main part of a firm's current assets, and mismanagement may invite liquidity problems, bad debts, and hence, a decline in financial performance. Any inefficient in credit policies, lack of proper debt collection strategies, and inadequate monitoring of receivables greatly affect financial performance of SMEs in Kenya. Besides, those SMEs in Kisii County that allow elongated credit period to customers without clearly established repayment timelines or lack risk evaluation, increase the chances of facing cash flow challenges due to delayed payments (Muthoni & Muturi 2022).

According to Gitahi, Naibei & Livingstone (2020), accounts receivable management is a pivotal in the financial analysis of any organization, whether profit or not-for-profit. Accounts receivable management show the organization's ability to meet the short-term obligations. Constant collection of these currents assets increases financial performance of firms. Further, Otieno (2018), affirmed that, in a public university AR encompasses HELB loans, student fees, and other fees like conference facility hiring charges. The ability of public universities to receive money from AR within shortest time possible has greatly affected their financial performance, because they are able to meet obligations timely.

A high level of accounts receivable inversely affects financial health of organizations. Inadequate investment in the collection of accounts receivable enhances the chances of stagnation due to poor receivable levels and accumulating debt. Additionally, poor management of accounts receivable leads liquidity problems (Minyoso, 2019).

Account receivable management comes with many like provision of a chance for both internal and external fraudulence, complexity in handling the number of customers and transaction growth, credit risk assessment, incorrect creditworthiness, elongated credit allowance to high-risk customer, customer relationship. Additionally, very stringent or lenient in collection effort may destroy good customer relationship and delayed payment, bad debt, risk customers defaulting negatively affect financial performance of a company (Owuor, et al. 2021). On the other hand, Muthoni, et al. (2020), opines that, accounts receivable management affects the financial performance of chartered public universities in Kenya to the great extent. The prevalence of financial constraints due to inefficiencies on AR contributes to decreased financial performance.

2. Literature review and hypotheses development

2.1 *Theoretical review*

2.1.1 Agency Theory

Agency Theory was developed by Jensen and Meckling (1976) to explain the relationship between principals (shareholders) and agents (managers) in an organization. The theory posits that shareholders delegate decision-making authority to managers to run the firm on their behalf, thereby creating an agency relationship. However, because managers and shareholders often pursue different objectives and possess different levels of information, conflicts of interest and information asymmetry arise (Solikhah et al., 2020). Managers may pursue personal interests such as empire building, excessive compensation, or investment in unprofitable projects, while shareholders seek to maximize firm value and profitability. Consequently, mechanisms that enhance efficient resource utilization and improve liquidity management become essential in minimizing agency conflicts and maximizing shareholders' wealth (Andrijasevic & Pasic, 2018).

The theory assumes that managers are self-interested, risk-averse, and may act opportunistically if left unchecked, while shareholders are rational investors seeking to maximize returns on their investments (Panda & Leepsa, 2017). Information asymmetry between managers and shareholders further increases the likelihood of managerial opportunism, particularly in financial decisions involving the management of working capital and accounts receivable. Effective management of receivables reduces information asymmetry and agency costs by ensuring that funds tied up in customer credit are efficiently collected and utilized for productive purposes.

Despite its widespread application, Agency Theory has been criticized for focusing primarily on the relationship between shareholders and managers while overlooking the interests of other stakeholders such as customers, suppliers, employees, and regulators who also influence organizational performance (Cuevas et al., 2012). Furthermore, the theory assumes that all managers are inherently self-serving, which may not always hold in practice, as some managers act in the best interests of shareholders and other stakeholders.

This theory is relevant to the present study because it explains the relationship between accounts receivable management and financial performance of listed firms at the Nairobi Securities Exchange (NSE), Kenya. Shareholders, as principals, expect managers to implement prudent receivables management policies that enhance liquidity, minimize bad debts, and improve profitability. Efficient management of accounts receivable ensures that firms collect debts promptly, maintain adequate cash flows, and meet their financial obligations on time, thereby increasing profitability and maximizing shareholders' wealth. Therefore, Agency Theory provides a suitable theoretical foundation for examining the effect of accounts receivable management on the financial performance of listed firms.

2.1.2 Free Cash Flow Theory

The Free Cash Flow Theory was advanced by Jensen (1986) and argues that firms should maximize the value of excess cash flows available after financing all projects with positive net present values. The theory posits that free cash flow can become a source of agency conflict because managers may invest excess funds in projects that maximize their personal interests rather than shareholder value (Poursoleyman et al., 2022). Consequently, efficient management of cash resources and receivables becomes necessary to ensure that excess funds are utilized in ways that maximize firm value and profitability.

The theory assumes that excess cash flows can encourage managerial overinvestment and inefficient allocation of resources. It further assumes that managers have considerable discretion over the utilization of free cash flows and may engage in opportunistic behaviors that do not necessarily align with shareholders' interests (Nasimiyu, 2024). In this regard, effective accounts receivable management becomes important because it determines the amount and timing of cash inflows available to the firm, thereby influencing the level of free cash flow.

Critics of the theory argue that free cash flows do not always result in agency conflicts since managers may reinvest excess funds in profitable projects that enhance firm value and long-term growth. Additionally, firms with substantial free cash flows may still experience poor performance if investments are not carefully evaluated and monitored (Onyango & Muchira, 2023).

The theory is relevant to this study because accounts receivable constitute a significant source of cash inflows and determine the amount of free cash available to firms. Efficient collection of receivables improves liquidity and generates additional funds that can be invested in profitable opportunities or distributed to shareholders. Consequently, proper management of receivables contributes to improved financial performance and shareholder wealth maximization among firms listed at the Nairobi Securities Exchange.

2.1.3 Cash Conversion Cycle Theory

The Cash Conversion Cycle (CCC) Theory was introduced by Richards and Laughlin (1980) and explains the period taken by a firm to convert its investments in inventory and accounts receivable into cash. The theory emphasizes the importance of managing current assets and liabilities efficiently to ensure that firms maintain adequate liquidity and profitability. According to the theory, firms with shorter cash conversion cycles are better positioned to meet their financial obligations promptly and achieve superior financial performance compared to firms with longer cash conversion cycles (Owuor, Agusioma, & Wafula, 2019).

The theory assumes that firms can efficiently convert inventory into sales and subsequently collect receivables within a short period. It further assumes an inverse relationship between the duration of the cash conversion cycle and profitability, implying that shorter receivables collection periods lead to increased liquidity and improved financial performance (Oseifuah, 2016). Specifically, the theory posits that prolonged accounts receivable collection periods tie up financial resources, increase the risk of bad debts, and negatively affect profitability.

However, the theory has been criticized because not all firms can maintain shorter cash conversion cycles due to differences in industry characteristics, customer credit policies, and prevailing economic conditions.

Additionally, some firms may experience negative cash conversion cycles by receiving cash from customers before settling obligations with suppliers, suggesting that there is no universally optimal cash conversion period applicable to all firms (Shah, 2020).

The Cash Conversion Cycle Theory is particularly relevant to this study because it directly explains the relationship between accounts receivable management and financial performance of listed firms at the Nairobi Securities Exchange, Kenya. Accounts receivable represents funds tied up in customer credit, and the speed with which these receivables are converted into cash significantly affects a firm's liquidity and profitability. Firms that collect receivables promptly are able to finance their operations efficiently, meet short-term obligations, and improve financial performance. Consequently, the theory provides a strong theoretical basis for examining the effect of accounts receivable management on the financial performance of listed firms at the Nairobi Securities Exchange, Kenya.

2.2 Accounts Receivables and Financial Performance

Singh and Bhunia (2022) studied the effects of receivables management on profitability of selected housing finance companies in India using purposive sampling design. The variables of the study were: Size of receivables, receivables to turnover, receivables to net worth, receivables to total assets and receivables Secondary data were extracted from published annual reports of the respective HFCs report for a period of 8 years from 2011-2019 and it was analyzed through correlation statistics, panel regression analysis using a random effect. It was revealed that both size of receivables and receivables to turnover negatively and significantly were correlated with profitability but receivables to total assets are negatively and significantly related to profitability. Further, the study noted NPR had positive correlations with associated to current ratio, quick ratio, cash position ratio, net profit to receivables and operating profit to receivables of chosen home financing companies. It was concluded that, receivables management and profitability show that ROA strongly correlates favourably with financial performance It was recommended that, Managers can enhance profitability of Indian housing finance organizations through following strict credit criteria and processes while disbursing home loans, using suitable collection mechanism, enhance investments in liquid assets.
Aniksha et al. (2025), carried out a study to find out the how effective receivable management influence on company's financial performance, profitability, and liquidity. The variables of the study were: credit and collection procedures, short-term liquidity, earnings percentage, daily sales results, collect unpaid debts. The study used secondary that was extracted from annual reports for 5 years for one firm (Shree Pushpam Industry,) and it was analyzed through descriptive statistics. It was established that, the amount of debts as highest during 2020–2021, at 41.11%. Further, the study discovered that, the rate of accounts receivable outstanding was highest in 2019–2020, at 23.06%, and lowest in 2022–2023 at 6.39%. Additionally, the results indicated that, interest ratio rate was highest in 2021–2022.The study concluded that, debt collection period was highest in the years 2020–2021 and 2021–2022, and lowest in the years 2022–2024, It was recommended that, organization ought to deal with huge decrease in the debtors' rate by enhancing collection procedures and tighten credit control. Additionally, in order to keep a healthy current ratio, the company ought to increase current assets and optimize working capital management to improve liquidity.

Abhijith and Ashokan (2023), adopted descriptive research design to study receivables management with special reference to Indsys infotech services India Private Limited, Coimbatore. The goal of the study was to assess how effective management of receivables in of INDSYS Infotech Services India private limited is. The study collected secondary data from the financial reports between 2018-2019 and 2023. Extracted data was scrutinized through ratio analysis and trend analysis. The findings of the study indicated that, INDSYS Infotech Services India Private Limited's increased continuously for the past 5 years hence implying growth in profit. Further, the study highlighted that Debtor's turnover ratio decreased overtime showing that indication credit sales decreased. Further, the study noted that, average collection period increased in 2019-20 however, it plunged thereafter. It was concluded that accounts receivable management as practiced in VKS Fabrics was sufficient. The study Recommended that the company should put in place some restricted credit standards, credit terms and credit policy with regard to credit to all customers.

Dabai et al. (2023), adopted a descriptive research design to study the effects of account receivable management and financial performance of listed consumer goods firms in Nigeria. Account receivables turnover, average collection period, Debt Asset ratio and current ratio were proxies of account receivable management. Financial performance was proxied by ROE. The study used a census sampling techniques sampling to select a sample size of 13 with complete secondary data extracted annual financial between 2013 and 2022. Collected data was analyzed through panel data regression and descriptive analyses. The study discovered that, average receivable turnover inversely and insignificantly affected financial performance. Likewise, the study noted that average

collection period, debt asset ratio, and current ratio had significant and negative effect on return on equity. On the other hand, the study noted that, return on equity had a negative, weak association with average receivable turnover, indirect substantial moderate linkage with average collection period, negative, insignificant and weak relation with debt asset ratio and positive insignificant weak association with current ratio. It was concluded that, account receivables management negatively and significantly affected financial performance of listed consumer goods firms in Nigeria. The study recommended that consumer goods firms listed ought to maintain low average collection period as high collection period might reduce financial performance development of suitable mechanism that promote payment by customers.

Tobazaa and Gatsi (2025), adopted a multivariate regression framework to study effects if Accounts Receivable Management and Financial Performance of Public Universities in Ghana. The variables of the study were: Accounts Receivable Turnover, Accounts Receivable Period and institution size while financial performance was measured through Return on Assets (ROA) as a measure of financial performance and the Current Ratio (CUR) as a measure of liquidity. The sample size of the study was 13 public universities from secondary data was collected over 5-year period from (2017–2021). Data was extracted from annual reports and analyzed through descriptive statistics, correlation analysis, and regression models to evaluate key financial metrics, including Return on Assets (ROA), Current Ratio (CUR), Accounts Receivable Turnover (ART), and Accounts Receivable Period (ARP). The study found out that there was a moderate positive correlation between ROA and CUR. Additionally, the study revealed that ROA had a strong positive correlation with ART, while there was a negative correlation between ARP and ROA. On the other hand, the study concluded that, unlike smaller ones, larger universities tend to have better financial performance, the study concluded that, university administrators and policymakers ought to enhance financial performance in Ghana's higher education sector.

Siro and Miroga (2025), carried out a study on the effects of accounts receivable management Practices and Financial Performance of Small and Medium Enterprises in Kisii County aided by Descriptive research design. It was based on accounts receivable collection practices, accounts receivable financing practices, accounts receivable risk assessment and accounts receivable extension practices as independent variable. It was hinged on Pecking order theory, modern portfolio theory, and portfolio theory. The study employed a simple random sampling technique to arrive at a sample size of 150 respondents from whom primary data was derived from using questionnaires. Data analysis was aided by both quantitative and qualitative techniques. The quantitative data from the questionnaire was processed through Descriptive Statistics and Regression analysis. The study found out that those SMEs that utilized effective collection strategies for instance, aging reports and regular follow-ups, formalized credit risk assessment processes, recorded better financial outcomes. In addition, the study noted that Financing practices such as factoring and using receivables as collateral increased financial performance. On the other hand, the study found out that practices like credit scoring models and internal rating systems enhanced profitability, though not to a great extent. Besides, the study identified that all independent variables had positive, strong and significant correlation with financial performance. It was concluded that all four practices significantly and substantially affected financial performance, with collection practices and risk assessment practices having the greatest effects. It is recommended that SMEs turn up heat on collection bids by frequently applying ageing schedules, making timely follow-ups with customers, and adopting professional collection agencies whenever needed.

Natukunda, et al. (2023), employed correlational research design to assess the effects of accounts receivable management on the financial performance of SACCOS in Sheema Municipality, Southwestern Uganda. The variable of the study was: was receivables management. The study used questionnaires to gather primary data from a sample of 145 respondents selected through purposive and simple random sampling techniques and it was processed by a regression analysis. The study highlighted that accounts receivable management had a significant effect on financial performance. Thus, the study concluded that, upping innovative programs Sacco's' financial performance greatly. It was recommended that adoption of innovative programs to improve Sacco's' financial performance, benefiting government policy makers, researchers, and management teams.

Wainaina, et al. (2024), wanted to find out how receivables management affects financial performance of commercial, and services firms registered at the Nairobi stock exchange in Kenya utilizing a quantitative approach. It was based on a receivable's management strategy as the independent variable while financial performance was measured through ROEC. The study utilized secondary collected from annual published financial reports 5 years (2016-2020). The sample size of the study was 10 firms listed at NSE selected through census approach. Collected data was analyzed through descriptive and inferential statistics. It was noted that receivables management and financial performance had a significant positive correlation. Additionally, it was revealed that increase or decrease in the usage of receivables leads to proportionate increase/ decrease

performance of commercial and service organizations. The study recommended that firms ought to increase receivables management practices so that they lead to better financial outcomes for firms, thereby underpinning the need for effective credit policies and timely collection strategies. It was concluded that receivables management, strategic financial planning and operational efficiency is at the center of those firms' flaying highly financially. It was recommended that firms ought to encourage debtors to pay in due time and reduce the risks of writing off goods sold as it enhances financial stability and liquidity, allowing them to make good investment decisions.

Owuor, et al. (2021), utilized descriptive and inferential research designs to assess the effect of accounts receivable management on financial performance of chartered public universities in Kenya. accounts receivable management was the predictor variable while This study was supported by Cash Conversion Cycle (CCC) theory. The study applied census sampling method to select a sample size of 31 chartered public universities in Kenya. Secondary panel used in the study was derived from each university's audited annual reports for 2017, 2018, and 2019. Extracted data was processed through descriptive and inferential statistics. The findings of the study indicated that, accounts receivable management inversely and significant affected financial performance of chartered public universities in Kenya. It was concluded that accounts receivable management markedly affected financial performance of chartered public universities in Kenya. It was recommended that in line with the IFRS 5 and IAS 1, managers of universities ought to optimize debts management frameworks in order to guide their financial management operations and realize sustainable financial performance.
HO3: accounts receivables has significant effect on Financial Performance.

3. Sample size and data

The target population comprises study subjects sharing similar characteristics from whom findings can be generalized (Orodho, 2005). Accordingly, this study targeted 67 firms listed on the Nairobi Securities Exchange (NSE) over 2020–2024. Firms were included only if they operated continuously throughout 2020–2024, had complete data, and did not undergo major restructurings such as mergers or acquisitions that could compromise data consistency. Firms with incomplete data or inconsistent operations were excluded and a final sample of 54 was used for analysis. The study used secondary data collected using a structured data collection schedule. Data collection involved gathering evidence to answer research questions or test hypotheses (Byers, 1995), and it was also described as a standardized process of gathering and analyzing accurate research data (Arun et al., 2022). Secondary data was considered more objective and reliable than primary data (Sekaran & Bougie, 2019; Vartanian, 2010). Audited annual reports was sourced from firms' websites, the Capital Markets Authority, and the African Financials database.

3.1 Measurement of variables

The following section presents the measurement of the variables of the study which are financial performance as the dependent variable and environmental disclosure, social disclosure and governance disclosure as independent variables.

Table 1: Measurement of variables

Variable	Measurement	Source
Financial performance	Return on assets	Umar et al., (2024), Pham et al., (2024)
Accounts Receivable Management	Efficiency in collecting trade receivables	Dabai et al. (2023)

Source: Authors computation

3.2 Regression models

Drawing on previous panel-data literature on account receivable management and firm performance, this study employed a panel regression framework for the period 2020–2024 to examine the direct effect of account

receivable management on financial performance. Because the data consist of repeated observations for NSE-listed firms over time, the study was estimated using fixed-effects models.

Model 1. Testing the effect of control variables on financial performance

$$FP_{it}=\beta_0+ \beta_1AR_{it} +\beta_2FA_{it}+\beta_3LEV_{it} + \alpha_i+u_{it}$$

Model 1. Testing the effect of account receivable management *on financial performance*

$$FP_{it}=\beta_0+ \beta_1AR_{it}+ +\beta_2FS_{it} +\beta_3AR*FS_{it} +\beta_4FA_{it}+\beta_5LEV_{it} + \alpha_i+u_{it}$$

4. Descriptive Statistics

As presented in Table 2.0, financial performance, measured using Return on Assets (ROA), recorded a mean of 0.0508, indicating that the sampled firms generated an average return of approximately 5.08 percent on their total assets during the study period. The standard deviation of 0.0314 suggests relatively moderate variation in profitability among the listed firms, while the minimum and maximum values of −0.0649 and 0.3194, respectively, demonstrate that although some firms experienced financial losses, others generated substantially higher returns. These findings suggest that the sampled firms differed considerably in their ability to utilize assets efficiently to generate profits. Similar differences in profitability among listed firms were reported by Manalo et al. (2025), who found that variations in firms' financial management practices significantly influence financial performance.

Table 2: Descriptive statistics results. Accounts Receivable Management (ARM) recorded an average value of 0.1239 with a standard deviation of 0.1183, indicating moderate variation in receivables management practices among the sampled firms. The observed minimum and maximum values of −0.2544 and 0.9820 further demonstrate that firms differed in the efficiency of their customer credit and debt collection policies. Efficient receivables management improves liquidity by accelerating cash inflows and reducing the likelihood of bad debts, thereby enhancing financial performance. These findings agree with Wainaina et al. (2024), who found that efficient accounts receivable management significantly improves the financial performance of listed firms in Kenya. A similar conclusion was reached by Siro and Miroga (2025), who observed that timely collection of trade receivables contributes positively to organizational profitability.

Table 2.0 Descriptive Statistics of the Study Variables

Variable Description	Obs.	Mean	Std. Dev.	Minimum	Maximum
Financial Performance (ROA)	270	0.0508	0.0314	-0.0649	0.3194
Accounts Receivable Management (ARM)	270	0.1239	0.1183	-0.2544	0.9820
Firm Size (ln_FS)	270	5.6637	0.5892	4.6941	8.7161
Firm Age (FA_Control Variable)	270	47.3333	12.6609	20	72
Leverage Winsorized (Lev_w Control Variable)	270	2.4424	3.1123	-9.4472	15.3749

Source: Authors computation

4.1 Correlation results

Accounts Receivable Management (ARM) recorded a strong positive and statistically significant relationship with ROA ($r = 0.723$, $p < 0.01$), suggesting that firms that efficiently managed and recovered trade receivables were more likely to achieve superior financial performance.

Table 3:0 Pearson Correlation Matrix

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)
(1) ROA	1.000						
(3) ARM	0.723***	0.540***	1.000				
	(0.000)	(0.000)					
(5) ln_FS	-0.236***	0.126**	-0.195***	-0.198***	1.000		
	(0.000)	(0.039)	(0.001)	(0.001)			
(6) FA_adj	-0.042	-0.039	-0.040	-0.018	0.079	1.000	
	(0.492)	(0.525)	(0.513)	(0.769)	(0.198)		
(7) Lev_w	-0.053	-0.066	-0.035	-0.019	-0.060	-0.132**	1.000
	(0.384)	(0.278)	(0.568)	(0.753)	(0.323)	(0.030)	

*** $p<0.01$, ** $p<0.05$, * $p<0.1$

Source: Authors computation

4.2 Regression analysis results

The corresponding null hypothesis stated that accounts receivable management has no statistically significant effect on the financial performance of listed firms at the Nairobi Securities Exchange in Kenya. Before estimating the regression model, the Hausman specification test was conducted to determine the appropriate panel estimation technique.

The Hausman specification test was employed to determine whether the Fixed Effects (FE) or Random Effects (RE) model was appropriate for estimating the relationship between accounts receivable management and financial performance. The null hypothesis states that the Random Effects estimator is appropriate because the individual-specific effects are uncorrelated with the explanatory variables, whereas the alternative hypothesis favours the Fixed Effects estimator.

Table 4: Hausman Specification Test for Objective Two

Test Statistic	**Value**
Chi-square (χ^2)	30.34
Degrees of Freedom	3
p-value	0.0000
Preferred Model	Fixed Effects

The Hausman specification test produced a Chi-square statistic of 30.34 with a probability value of 0.0000, which is less than the 5 percent level of significance. Consequently, the null hypothesis was rejected, implying that the Fixed Effects model was the most appropriate estimator for examining the effect of accounts receivable management on financial performance. Accordingly, the Fixed Effects model with robust standard errors was adopted to account for the heteroscedasticity identified during the diagnostic tests.

The Fixed Effects regression model with robust standard errors was estimated to determine the effect of accounts receivable management on financial performance while controlling for firm age and adjusted leverage. The regression results are presented in Table 5.

Table 5. Fixed Effects Regression Results for Accounts Receivables and Financial Performance

Fixed-effects (within) regression Number of obs = 270
Group variable: FirmID Number of groups = 54
R-sq:
within = 0.4134
between = 0.3795
overall = 0.3954
F(3,53) = 7.35
Prob > F = 0.0003
corr(u_i, Xb) = -0.0178 (Std. Err. adjusted for 54 clusters in FirmID)

ROA	Coef.	(Robust) Std. Err.	t	P>t	[95% Conf.	Interval]
ARM	.1412647	.0341599	4.14	0.000	.0727486	.2097808
Firm Age	-.0008241	.0008935	-0.92	0.361	-.0026162	.0009679
Leverage	-.0005065	.0004005	-1.26	0.212	-.0013099	.0002969
_cons	.0735253	.0397841	1.85	0.070	-.0062716	.1533221

sigma_u= .01813344
sigma_e= .01851203
rho= .4896698 (fraction of variance due to u_i)

Source: Authors computation

The regression results indicate that the overall model was statistically significant ($F(3,53) = 7.35$, $p = 0.0003$), suggesting that the explanatory variables jointly explain variations in the financial performance of firms listed on the Nairobi Securities Exchange. The model explained approximately 41.3 percent of the within-firm variation in financial performance (Within $R^2 = 0.4134$), indicating that accounts receivable management, together with the control variables, accounted for a substantial proportion of changes in profitability over time.

Accounts Receivable Management (ARM) exhibited a positive and statistically significant effect on financial performance ($\beta = 0.1413$, $t = 4.14$, $p < 0.05$). The positive coefficient implies that improvements in accounts receivable management are associated with increases in Return on Assets, holding firm age and leverage constant. This finding suggests that firms that effectively manage customer credit, accelerate debt collection, and reduce the incidence of overdue receivables are more likely to improve their profitability through enhanced liquidity and more efficient utilization of working capital resources.

The control variables did not have statistically significant effects on financial performance. Firm age recorded a negative but insignificant coefficient ($\beta = -0.000824$, $p = 0.361$), indicating that differences in organizational maturity did not significantly explain variations in profitability during the study period. Likewise, adjusted leverage exhibited a negative and statistically insignificant effect ($\beta = -0.000507$, $p = 0.212$), suggesting that firms' capital structure did not independently influence financial performance after accounting for accounts receivable management.

The positive influence of accounts receivable management supports the proposition that efficient credit management enhances firms' liquidity and operational efficiency by shortening the cash conversion cycle. The finding is consistent with Wainaina et al. (2024), who reported that effective receivables management significantly improves the financial performance of listed firms in Kenya. A similar conclusion was reached by Siro and Miroga (2025), who found that efficient debt collection practices contribute positively to organisational profitability through improved liquidity management.

The second null hypothesis (H_{02}) stated that accounts receivable management has no statistically significant effect on the financial performance of firms listed on the Nairobi Securities Exchange in Kenya. The regression results indicate that accounts receivable management had a positive and statistically significant effect on financial performance ($\beta = 0.1413$, $p < 0.05$). Since the probability value is less than the 5 percent level of significance, the null hypothesis is rejected. The study therefore concludes that accounts receivable management

has a positive and statistically significant effect on the financial performance of firms listed on the Nairobi Securities Exchange in Kenya. This finding implies that improving receivables management through efficient credit policies and timely debt collection enhances firms' profitability by strengthening liquidity and reducing the amount of capital tied up in outstanding receivables.

5.0 Conclusion and Recommendations

Conclusion

This study sought to examine the effect of accounts receivable management on the financial performance of firms listed at the Nairobi Securities Exchange, Kenya. Based on the findings, the study concludes that accounts receivable management has a positive and statistically significant effect on the financial performance of listed firms. Efficient management of accounts receivable enables firms to accelerate cash inflows, reduce the incidence of bad debts, improve liquidity positions, and enhance their ability to meet short-term financial obligations. Consequently, firms that effectively manage customer credit and debt collection processes are more likely to achieve higher profitability and improved financial performance.

The study further concludes that accounts receivable management is a critical component of working capital management and plays a fundamental role in enhancing shareholder value. Firms that maintain optimal receivables levels and implement sound credit management policies are better positioned to sustain operations, finance growth opportunities, and remain competitive in the market. Conversely, ineffective receivables management results in liquidity constraints, increased credit risk, and reduced profitability. The study also confirms the relevance of Agency Theory, Free Cash Flow Theory, and Cash Conversion Cycle Theory in explaining the relationship between accounts receivable management and financial performance among listed firms in Kenya.

Recommendations

Based on the study findings and conclusions, the study recommends that firms listed at the Nairobi Securities Exchange should strengthen their credit management policies by establishing clear credit terms, conducting regular assessments of customers' creditworthiness, and implementing effective debt collection procedures. Firms should also invest in modern receivables management systems and technologies that facilitate timely monitoring and collection of outstanding debts. Such measures will help reduce the risk of default, improve liquidity, and enhance profitability.

Further, management should formulate strategies aimed at shortening the accounts receivable collection period through continuous follow-up of debtors, provision of incentives for early payment, and enforcement of credit control mechanisms. Since efficient receivables management contributes significantly to financial performance, firms should treat accounts receivable as a strategic financial resource rather than merely an accounting item.

The study also recommends that regulatory bodies such as the Capital Markets Authority and the Nairobi Securities Exchange should encourage listed firms to adopt best practices in working capital management by developing guidelines and policies that promote prudent management of receivables and liquidity. Finally, future researchers should undertake similar studies in non-listed firms, small and medium-sized enterprises, and public sector institutions to establish whether the relationship between accounts receivable management and financial performance is consistent across different sectors and organizational settings. Additionally, future studies may incorporate other measures of financial performance and employ different methodological approaches to enrich the existing body of knowledge on accounts receivable management and firm performance.

References

Abhijith, S., & Ashokan, M. (2023). Receivables management with special reference to Indsys Infotech Services India Private Limited, Coimbatore. *International Journal of Creative Research Thoughts, 11*(7), 345–352.

Abubakar, M. Y., & Olowe, F. T. (2019). Working capital management and firm performance: Evidence from manufacturing firms. *International Journal of Economics and Financial Management, 4*(2), 45–56.

Adam, M., & Caroline, N. (2018). Accounts receivable management and financial performance of business organizations. *International Journal of Accounting and Finance, 3*(1), 67–80.

Andrijasevic, M., & Pasic, M. (2018). Agency theory and corporate governance mechanisms. *European Journal of Business and Management Research, 3*(5), 1–8.

Aniksha, R., Patel, P., & Sharma, K. (2025). A study on the impact of receivables management on company financial performance, profitability and liquidity. *International Journal of Research in Commerce and Management Studies, 7*(2), 101–112.

Arun, T. G., Bendig, D., & Arun, S. (2022). Research methods and data collection techniques in business studies. *Journal of Business Research Methods, 14*(3), 78–92.

Byers, P. Y. (1995). *Research methods in organizational communication*. Allyn & Bacon.

Cuevas, G., Gomez, M., & Wiseman, R. (2012). Has agency theory run its course?: Making the theory more flexible to inform the management of reward systems. *Corporate Ownership and Control, 9*(2), 30–38.

Dabai, P. M., Mohammed, A. U., & Ibrahim, S. A. (2023). Accounts receivable management and financial performance of listed consumer goods firms in Nigeria. *International Journal of Accounting and Finance Studies, 6*(2), 40–58.

Gartenberg, C., Prat, A., & Serafeim, G. (2019). Corporate purpose and financial performance. *Organization Science, 30*(1), 1–18. https://doi.org/10.1287/orsc.2018.1230

Gitahi, J., Naibei, I. K., & Livingstone, M. (2020). Accounts receivable management and financial performance of organizations in Kenya. *International Journal of Finance and Accounting, 5*(3), 62–74.

Jensen, M. C. (1986). Agency costs of free cash flow, corporate finance, and takeovers. *The American Economic Review, 76*(2), 323–329.

Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics, 3*(4), 305–360. https://doi.org/10.1016/0304-405X(76)90026-X

Lamptey, E., Kwarteng, A., & Frimpong, K. (2023). Receivables management and financial performance of small-scale enterprises. *African Journal of Business Management, 17*(4), 85–96.

Manalo, A. P., Reyes, J. M., & Santos, R. D. (2025). Financial management practices and firm profitability among publicly listed companies. *Journal of Financial Management and Analysis, 38*(1), 45–61.

Minyoso, J. O. (2019). Effect of accounts receivable management on financial health of organizations in Kenya. *International Journal of Finance and Accounting, 4*(2), 32–45.

Muthoni, J., & Muturi, W. (2022). Credit management practices and financial performance of small and medium enterprises in Kenya. *International Journal of Economics, Commerce and Management, 10*(6), 114–129.

Muthoni, J., Wanjohi, P., & Muturi, W. (2020). Accounts receivable management and financial performance of chartered public universities in Kenya. *International Journal of Finance and Accounting, 5*(1), 22–36.

Nasimiyu, M. (2024). Free cash flow management and firm performance: A theoretical perspective. *International Journal of Finance and Economics, 9*(1), 52–66.

Orodho, J. A. (2005). *Elements of education and social science research methods* (2nd ed.). Masola Publishers.

Oseifuah, E. K. (2016). Working capital management and profitability of firms. *Journal of Economics and Behavioral Studies, 8*(4), 112–122.

Otieno, C. O. (2018). Accounts receivable management and financial performance of public universities in Kenya. *International Journal of Economics and Finance, 3*(2), 44–57.

Owuor, M. O., Agusioma, N. L., & Wafula, M. K. (2019). Cash conversion cycle and financial performance of organizations. *International Journal of Accounting and Financial Reporting, 9*(3), 145–160.

Owuor, M. O., Agusioma, N. L., & Wafula, M. K. (2021). Accounts receivable management and financial performance of chartered public universities in Kenya. *International Journal of Economics and Financial Issues, 11*(4), 123–132.

Onyango, P., & Muchira, J. (2023). Free cash flow and firm value: An empirical review. *African Journal of Accounting and Finance, 8*(2), 75–88.

Pakdel, M., & Ashrafi, A. (2019). The relationship between accounts receivable management and financial performance. *International Journal of Business and Management Studies, 11*(2), 35–48.

Panda, B., & Leepsa, N. M. (2017). Agency theory: Review of theory and evidence on problems and perspectives. *Indian Journal of Corporate Governance, 10*(1), 74–95. https://doi.org/10.1177/0974686217701467

Poursoleyman, A., Mansourfar, G., Homayoun, S., & Rezaee, Z. (2022). Free cash flow and managerial opportunism: A review of theoretical perspectives. *Journal of Accounting Literature, 48*, 1–15.

Richards, V. D., & Laughlin, E. J. (1980). A cash conversion cycle approach to liquidity analysis. *Financial Management, 9*(1), 32–38. https://doi.org/10.2307/3665310

Sekaran, U., & Bougie, R. (2019). *Research methods for business: A skill-building approach* (8th ed.). John Wiley & Sons.

Shah, S. (2020). Cash conversion cycle and firm profitability: A critical review. *International Journal of Financial Studies, 8*(4), 1–15.

Singh, P., & Bhunia, A. (2022). Effects of receivables management on profitability of selected housing finance companies in India. *Indian Journal of Finance, 16*(4), 35–51.

Siro, C. K., & Miroga, J. B. (2025). Accounts receivable management practices and financial performance of small and medium enterprises in Kisii County, Kenya. *African Journal of Business and Economics, 10*(2), 67–84.

Solikhah, B., Wahyudin, A., & Rahmayanti, D. (2020). Corporate governance and agency theory perspectives. *Journal of Asian Finance, Economics and Business, 7*(11), 885–894.

Tarurhor, E. M., & Owolabi, S. A. (2022). Accounts receivable management and organizational financial performance. *International Journal of Accounting Research, 10*(1), 15–27.

Tobazaa, S., & Gatsi, J. G. (2025). Accounts receivable management and financial performance of public universities in Ghana. *Journal of Accounting and Finance in Emerging Economies, 11*(1), 95–112.

Vartanian, T. P. (2010). *Secondary data analysis*. Oxford University Press.

Wainaina, J. M., Mungai, J. N., & Njoroge, P. K. (2024). Receivables management and financial performance of commercial and service firms listed at the Nairobi Securities Exchange, Kenya. *International Journal of Finance and Accounting, 9*(2), 54–69*.