Research Journal of Finance and Accounting
ISSN 2222-1697 (Paper) ISSN 2222-2847 (Online)
Vol.13, No.8, 2022

Effect of Accounts Receivables Collection Period on Financial Performance of Tea Firms in Kenya

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Abstract
Corporate failure among companies in Kenya has often been associated with their financial management decisions. The objective of all financial management decisions is wealth maximization and the immediate way of measuring quality of such decisions is to examine its effect on the firm's financial performance. Accounts receivable collection period being one of such decisions is considered as fundamental in any business and has significant impact on the financial performance and overall value of a company. This study aimed to provide empirical evidence about the impact of Accounts receivable collection period on corporate financial Performance of tea firms in Kenya for the period 2014 to 2019. The study utilized panel data econometrics of 40 tea firms which are in Kericho, Bomet and Nandi Counties in Kenya. The results indicate that accounts receivables in days are significantly affecting the financial performance of the firms. The tea firms are in general facing problems with their collection policies. Similarly, the financial leverage, sales growth and firm size also have significant effect on the firm's profitability. The study also concludes that tea firms in Kenya are following conservative accounts receivables management policy and the firms are needed to concentrate and improve their collection and payment policy. The effective policies must be formulated for the individual components of accounts recivables. In addition, efficient Management and financing of accounts recivables can increase the operating profitability of tea firms. For efficient accounts receivable collection period, specialized persons in the fields of finance should be hired by the firms for expert advice on receivables management in the tea firms. This study will assist decisions makers to implement new set of policies regarding accounts receivable management in Kenya to ensure continuous economic growth. It will help to meet the need of management accountants, academia, and students who will be interested in this study. Other researchers on corporate governance will find useful information from this study, it will also add to the existing literature on the topic.
Keywords: Net Trade Cycle, Average Collection Period, Average Payment Period, Tea sector, Fixed Effect Model, Random Effect Model.
DOI: 10.7176/RJFA/13-8-01
Publication date: April 30th 2022

1. Introduction

Contextually, agriculture is the backbone of the Kenyan economy and contributes to employment and poverty reduction. It directly contributes 26% of the GDP and 60 % of the export earnings (Tanui & Kipsat, 2016). The sector also indirectly contributes a further 27% to the GDP through linkages with manufacturing, distribution and service related sectors. It accounts for 60% of total national employment, with women providing 75% of the labour force (Sharma & Kumar, 2015). Majority Kenyans (80%) live in rural areas and derive their livelihood from agriculture. With 51% of Kenyan population being food insecure, agriculture is critical in the country's economic development and alleviation of poverty (Gesimba *et al.,* 2018). In the Kenya Vision 2030 document, agriculture has been pinpointed as one of the six key pillars in Kenya's economy that are expected to contribute towards accelerated economic growth rate targeted to reach 10% annually. To achieve this, the government aims at promoting innovative, commercially oriented and a modern agricultural sector. Tea, the subject matter of this study is expected to play a major role towards achieving the growth target.

Over the years, poor management of accounts receivables has been the main reason for business insolvency, bankruptcy and the ultimate failure (Mathuva, 2014). Dong & Su (2014) depicts accounts receivables as a financial metric which represents operating liquidity available to a business, organization, or other entity, including governmental entity. accounts reeivables management refers to all management decisions and actions that ordinarily influence the size and effectiveness of the accounts receivables (Mbatha, 2016). It is a managerial accounting strategy which focuses on maintaining efficiency levels of current assets and current liabilities to ensure that a firm has sufficient cash flow in order to meet its short term obligations. accounts reeivables management is a crucial, fundamental and indispensable pillar of financial management and significantly contributes creation of wealth of a firm because it enhances directly the financial performance of an organization and its liquidity. Therefore, enhancing accounts reeivables management decisions is fundamental for corporate firms to combat and withstand the effects of economic turbulence (Rahm & Nasri, 2014; Nasrin et al., 2017).

Undoubtedly, what is the most essential and critical about accounts reeivables management is the fundamental aspect of liquidity management concerning daily activities of the organization and provides crucial insight into the state of a company's financial position. As a fundamental indicator of financial fitness, the availability of a company's accounts receivables is one of the first items a lender or investor will examine on a balance sheet (Financial Executives International Canada, 2017). Efficient accounts reeivables management decisions seek to improve the operating performance of business concern and it helps to meet the short term liquidity. Hence, the study of accounts reeivables management decisions is not only a critical fabric of financial management but also an overall management of a business concern (Paramasivan et al., 2013). This study sought to fill the gap in the literature by assessing the effect of accounts receivables collection period on financial performance of tea firms in Kenya.

2. Statement of the problem

A number of studies on accounts receivables have been undertaken around the globe, however, majorly of them in the first world or western nations, with lack of clarity as to how accounts reeivables management decisions affect financial performance among the tea firms particularly in the developing countries (Takiah et al., 2016). These comprises of companies domicile in countries in Africa, which face peculiar tests or challenges regarding their accomplishments given unstable political environment, inadequate financing and unsatisfactory/deficient advancement in technology among others (Global/World Economic Forum, 2016). Similarly, myriad of theories have been established on accounts reeivables management comprising the Miller- Orr model on cash management (1966), Baumol model on cash management (1952) and the model on inventory management. On contrary, researchers and scholars find these techniques used in making financial decision difficult to employ in actual/real application because of their assumptions that are not realistic regarding the obliviousness of ambiguity in operations of business and their intricateness in demonstrating to decision makers (Vahid & Mohsen, 2016). Studies on accounts reeivables management decisions on Kenyan firms and in particular, the tea industry which is the cornerstone to the economy of Kenya, are not explicit, thus the need of this study.

In a nutshell, while the remarkable performance of the tea sector in Kenya has been widely documented, the accounts reeivables management decisions and its contribution to the sector's financial performance remain largely unexplored (Gesimba et al., 2018). Numerous research studies regarding accounts reeivables management have been conducted in many economies around the globe; however, the understanding of accounts reeivables management decisions in the context of an organization has not been adequately documented and understood. Several management gurus and research scholars have largely concentrated on establishing complicated/sophisticated financial models, however, directors/managers requires simple and easy to use models (Gitman et al., 2015). In such events relating to changes in organizational context, it is argued that the failure of research studies on accounts reeivables management to show or reflect the features and challenges of contemporary organizational settings has result into a lack of understanding and therefore necessitate the need for a conceptual framework explaining current accounts reeivables management decisions. Suffice it to note that the exploration of this study's research problem should help shed light on these dilemmas particularly for the Kenyan tea industry and its financial performance. This study sought to fill the gap in the literature by assessing the effect of accounts reeivables management decisions variable on financial performance of tea firms in Kenya. In addition, the study explored moderating effect of ownership structure (multinational and KTDA managed tea firm) on the association between accounts receivables management decisions and financial performance, albeit within the context of tea firms Kenya.

3. Research Objectives

The specific objective of the study was to determine the effect of accounts receivables collection period on financial performance of tea firms in Kenya.

3.1 Research Hypothesis

The hypothesis of the study was identified as that there is no statistically significant effect of accounts receivables collection period on financial performance of tea firms in Kenya.

4. Justification of the Study

This study sheds light on matters regarding financial performance of a firm. It is expected that this study will help to create awareness on the impact of accounts reeivables management decisions and how it can enhance corporate financial performance. It will help managers of the firms under study to have better insights on how to maximize their firm's value. Further, it will guide investors to invest in the tea companies under study that are managing their accounts receivables well.

5. Scope of the Study

The study covered all multinationals and KTDA managed tea firms in Kericho, Bomet and Nandi Counties in

Kenya for the period 2014-2019, and comprise of 23 multinationals and 17 KTDA managed tea firms. These three counties are located in the west of rift in Kenya. The three counties were purposively selected because of two reasons. First, to represent west of rift as per the existing zoning of tea areas in Kenya which as per the statistics in appendix 10 was the most affected with its tea output dropping by 5.5% from 246.1 Million Kgs recorded in 2014 to 232.6 Million Kgs and Secondly, it is known to host many multinationals and KTDA managed tea firms in Kenya (TBK, 2013). Therefore, it was worth carrying out this study in Kericho, Bomet and Nandi Counties in order to unearth the reasons behind this significant decrease. The period was selected because it represents the time when the tea firms registered a drop in tea income and fluctuating productivity. Therefore, the study was restricted to the effect of accounts reeivables management decisions on financial performance of tea firms in Kenya. The study utilized secondary data.

6. Literature Review

6.1 Theoretical Framework

6.1.1 Stewardship/Stakeholder Theory

An agency relationship could be defined as one, where one or more persons (being referred to as the principal(s)) engages another (the agent) to perform some tasks or service on their behalf which has to do with delegating some authority in terms of decision making (Jensen & Mecking, 1976). In a sum, it is easy to say that an agency relationship has arisen between the parties, when the first party designated as the agent is contracted to act for, or as a representative for the other, designated the principal, in a domain of decision problem (Ross, 1973).

Stewardship theory has been employed by several scholars in economics (For example, Spence & Zeckhauser, 1971), Accounting (Demski & Feltham, 1978), Finance (Fama, 1980), Marketing (Basu *et al.,* 1985), organizational behavior (Einsenhardt, 1985; Kosnik, 1987), political scientist (Mitnick, 1986) and Sociology (Eccles, 1985; White 1985). Although the theory enjoys wider applicability it is still surrounded by controversy. This controversy aroused as a result of the fact that interest of principals and that of agents diverge. Hence, the focal point of agency is that it should be a theory that looks at how to ensure agents (executives and managers) acts in the best interests of the principals (shareholders and owners) of an organization.

6.2 Empirical Literature Review

According to Raheman et al., (2012), accounts receivables collection period (ARCP) is the time period taken to collect cash from customers. Account receivables are customers who are yet to make payments for the goods/services that the company supplied to them. The principal objective of account receivables management is to reduce the time-lapse between completion of sales and receipt of payments. In order to significantly boost sales for the business enterprise, the customers should be offered policies on credit transaction. Similarly, the cash budget should show that credit sales create trenched cash flow otherwise it would create cash flow challenges if they delay the receipt of cash to meet its financial obligations (Zariyawati et al., 2012).

Ongore (2015) suggest that credit customers who either meet their obligations late or don't pay at all only escalate the problem. Therefore, it is critical for the financial director/manager or account receivables director/manager to provide good policies that manages the benefits of offering credit with the related costs. Raheman & Mohamed (2012) upholds the notion of credit policies offered to the credit customers should include; first, setting credit terms which comprises of the portion of the credit policies that is concerned with how long the business organization should offer credit and what type of discount should the business firm extend to encourage credit customers to make early payments. Secondly, is the credit standards that have been developed which give guidance on how should the business firm make decisions regarding which type of customers qualify for credit, what kind of credit data it needs and how stringent should the said standards be. Finally, design relevant and appropriate collection policies which is the component of collection policies that control how aggressive should the business firm be at collecting accounts that are long overdue, at what point of time does it becomes necessary to sue the credit customers who are making late payments of their accounts, or to turn over the outstanding accounts to collection firms/agencies and when it makes sense to work out compromises.

According to Mousavi and Jari (2016), receivables stand for the delay in the cash inflow which should be financed by the company. In other ways, if financing sales on credit is not necessary, companies could utilize these capitals in other purpose of operations of the business. This means that receivables are an opportunity cost to the business firms in economic sense. Gull et al., (2017) asserts that accounts receivable management comprises of selecting the good credit customers and fast-tracking the collections exercise from the customers. Business firms have to understand that keeping accounts receivable incurs the opportunity cost; meanwhile, the finance is tied up in account receivable instead of benefiting the firm by investing in other viable opportunities. Jayarathn (2018) remarked that the third largest and most fundamental item of assets in business firms is the accounts receivable besides the capital investment in stocks of inventory and plant and machinery. Dongam & Suu (2014) expounds that the time period between the business firms has sold its goods and before the customers pay off their bills, is accounts receivable collection period.

According to Bintii and Saad (2014), accounts receivable is a decision-making if a business firm decides to offer the trade credit terms to the customers. Accounts receivable is a trade-off between reducing the risk of granting the delaying payment from unreliable customers and attracting the new customers by more attractive/generous trade credit terms and policies. The firm's decision as to whether to extend the trade credit determines the degree and quality of account receivable. If business firms tie up excess funds in accounts receivable because of too attractive/generous trade credit policies, then this does increase the high opportunity cost to the business organization. In addition, probability of emergence of bad debts from risky customers becomes more costly to business firms, although the attractive/generous credit policies could boost the sales. However, the business firms should make decisions regarding the level of accounts receivable so that the benefits that accrues supersedes the expenses.

According to Ajibolade and Sankay (2017), business firms would rather choose to sell for cash rather than on credit, however, pressures from stiff competition force many business firms to grant credit. Currently, the utilization of credit in the purchase of goods and services is so common that in many instances it is taken for granted. Selling goods or providing services on credit terms amounts to accounts receivable. When consumers demands credit, business firms in return demands credit from their suppliers to match their investment in credit offered to consumers. The granting of credit from one company to another for purchase of goods and services is commonly referred to as trade credit. Management of accounts receivables though commercial banks offer a significant part of requirements for accounts receivables, trade credit continues to be the principal source of finance for business firms and accounts receivable that emerges from offering trade credit are main investment for the business firm.

Account receivables are assets representing resources owed to the business firm as a result of the sale of goods or services in the normal/ordinary course of business operations. Maradi et al., (2016) proposes that credit customers who pay late or don't pay at all only aggravate the problem. Therefore, it is vital for the financial director/manager or account receivables director/ manager to establish good decisions that manages the benefits of granting credit with the related costs. The business firm should establish its receivables policies after systematically/carefully putting into consideration both the advantages and associated costs of different policies (Mbatha, 2016). Therefore, the current study sought to investigate the effect of accounts receivables collection period on financial performance of tea firms in Kenya.

7.1 Research Methodology

The study employed correlational research design. Correlational research design has been used in similar past studies including Mousavi and Jari (2012); Kaddumi and Ramadan (2012) and Jari (2012), among others, to investigate the relationship between accounts reeivables management and corporate performance among different firm. The target population the study was all KTDA managed and multinationals in tea firms in Kericho, Bomet and Nandi Counties of Kenya for the years 2014-2019. Census approach is appropriate in this study because based on the statistics in appendix 10; West of Rift (Kericho, Bomet and Nandi Counties) was the most affected with its tea output dropping by 5.5% from 246.1 Million Kgs recorded in 2014 to 232.6 Million Kgs recorded in 2015, and therefore comprise of all tea firms in West of Rift that are required in order to analyze the problem. According to Lewis et al., (2013), a census approach enhances validity of the collected data by including certain information-rich for the study. To realize the objectives of the study, this research study adopted secondary data. Secondary data was obtained from statistics published by KTDA, TBK and TRFK for the tea factories in Kericho County, Kenya. This data was also collected from the websites of the various tea companies, journals and relevant texts. This data was used to compare the various financial performance measures of Multinational and KTDA managed tea firms in Kericho, Bomet and Nandi Counties of Kenya. The data is panel data which consisted of time series and cross-sections. The cross sectional data consisted of all multinationals and KTDA managed tea firms in Kericho, Bomet and Nandi Counties in Kenya, while the time series were the years 2014-2019. A combination of time series with cross-sections enhances the quality and quantity of data to levels that would otherwise be impossible to achieve with only one of the two dimensions (Gujarati, 2009). The data for all the variables in the study were extracted from annual audited reports and financial statements of the tea firms in Kericho, Bomet and Nandi Counties in Kenya which covered the years 2014 to 2019. The specific financial statements from which data were extracted included the income statement, statement of financial position, and notes to the accounts. The researcher used a document review guides and data abstraction tool to extract and compile the required data for analysis from the financial statements.

A panel regression model was used in this study. According to Raheman *et al.,* (2014), panel data comprise of pooling of observations across section of units over several periods of time. This approach of panel data is more helpful than either time series data or cross-section alone. The regression model employed for this study is also in line with what was used in previous studies, with some modifications for the analysis (Hussain *et al*., 2016; Raheman *et al.,* 2014; Niresh, 2016). Descriptive statistics was used to summarize and profile the status of accounts recivable collection period of tea firms in Kericho, Bomet and Nandi Counties in Kenya. Feasible

Generalized Least Square estimation was performed after accounting for various violations of classical linear regression assumptions. To confirm parametric nature of the data, multicollinearity, heteroskedasticity, autocorrelation and normality of residuals were tested.

7. General Empirical Model

Consistent with previous studies (Nazir & Afza, 2013; Zariyawati et al., 2012; Samiloglu et al., 2012; and Garcia et al., 2012) the financial performance is modeled as a function of the four core accounts reeivables management measures in addition to other firm characteristics. For this purpose, we develop an empirical framework first used by Deloof (2009) and subsequent work of Padachi (2011). The effect of accounts reeivables management decisions on the firm's financial performance was modeled using OLS regression equations to obtain the estimates. The general empirical model to be used in this study was defined as follows:

$Y_{it} = \alpha + X'_{it}\,\beta_{I} + \varepsilon_{it}$ …………………………………………………… (Equation 1)

Where Y_{it} is the dependent variable denoting financial performance of company **i** at time **t**. **i** denotes the observation (company), **i = 1 , ...,40** while t is the time period **t = 2014, ... ,2019**; X_{it} denotes a vector of independent variables (Accounts Receivable Collection Period) β are coefficients to be estimated, α is a constant term, and ε_{it} is a composite error term.

8. Findings

The descriptive statistics are as under:

Table 1: Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
Returns on Assets	240	0.0810	0.0286	0.0085	0.1798
Accounts Receivables Collection Period	240	182.4715	47.7071	41.0259	472.4709

The results presented in Table 1 show the minimum return on assets of the multinationals and KTDA managed tea firms in Kericho, Bomet and Nandi Counties in Kenya for the period between 2014 and 2019 was 0.0085 with a maximum of 0.1798. The mean score of the return on assets was 0.0810. This implied most multinationals and KTDA managed tea firms in Kericho, Bomet and Nandi Counties had ROA of 0.0810 between 2014 and 2019. The study found the minimum accounts receivables collection period for the firms between 2014 and 2019 was 41.0259 days with a maximum of 472.4709 days. The average accounts receivables collection period in the same period of 2014 to 2019 was 182.4715 days. This signified that most of the firms had an accounts receivables collection period of 182.4715 days between 2014 and 2019.

The correlation analysis are as under:

Table 2: Correlation Analysis

Variable	ROA	ARCP
ROA	1.0000	
ARCP	-0.0061	1.0000

The results presented in Table 2 show that the accounts receivables collection period is negatively associated with return on asset (r = -0.0061).

The panel regression analysis is as under:

Table 3: Panel Regression Analysis

Return on Assets	Coef.	Robust Std. Err.	z	P>z
Accounts Receivables Collection Period	-0.1299	0.0541	2.4000	0.0160
_cons	0.0457	0.0408	1.1200	0.2630
R squared = 0.6529				

The model:

Y= 0.0457 - 0.1299AX…………………………………………………… (Equation 2)

The study sought to carry out panel regression analysis to establish the relationship between accounts receivables collection period and financial performance of tea firms in Kenya. The study illustrated that the accounts receivables collection period is negatively and significantly related to return on assets (β = -0.1299, p = 0.0160). This was supported by a calculated t-statistic of 2.4000 that is larger than the critical t-statistic of 1.96. This implied a decrease in the accounts receivables collection period by one unit would lead to a rise in the return on assets by 0.1299 units, while other factors are held constant. The results concur with the findings of Muscettola (2018), who established that the average receivables period had a significantly negative relationship with financial performance. Besides, Ksenija (2017) revealed that there is a negative relationship between accounts receivables and return on asset.

9. Hypothesis Testing

The study tested the following hypothesis.

H_{01}: There is no statistically significant effect of accounts receivables collection period on financial performance of tea firms in Kenya.

The hypothesis was tested by using panel regression and determined using the p-value. The acceptance/rejection criterion was that if the p-value is less than 0.05, we reject the null hypothesis (Ho), but if it is more than 0.05, the Ho is not rejected. Based on the results presented in Table 4.9 the p-value was 0.0160. The null hypothesis was rejected. Therefore, there is statistically significant effect of accounts receivables collection period on financial performance of tea firms in Kenya.

10. Discussion of the Findings

Based on the descriptive statistics, the average accounts receivables collection period of the firms between 2014 and 2019 was 182.4715 days. The correlation results showed that the accounts receivables collection period is negatively associated with return on asset ($r = -0.0617$). The study illustrated that the accounts receivables collection period is negatively and significantly related to return on assets ($\beta = -0.1299$, $p = 0.0160$). This was supported by a calculated t-statistic of 2.4000 that is larger than the critical t-statistic of 1.96. The results concur with the findings of Muscettola (2018), who established that the average receivables period had a significantly negative relationship with financial performance. Besides, Ksenija (2017) revealed a negative relationship between accounts receivables period and return on asset.

11. Summary of Findings

The first objective of the study was to determine the effect of the accounts receivables collection period on the financial performance of tea firms in Kenya. Based on the descriptive statistics, the average accounts receivables collection period of the firms between 2014 and 2019 was 182.4715 days. The correlation results showed that the accounts receivables collection period is negatively associated with return on asset ($r = -0.0617$). The regression results found that the accounts receivables collection period is negatively and significantly related to return on assets ($\beta = -0.1299$, $p = 0.0160$). This implied a decrease in the accounts receivables collection period by one unit would lead to a rise in the financial performance (return on assets) by 0.1299 units, while other factors are held constant.

12. Conclusions

The study concludes that the accounts receivables collection period is negatively and significantly related to financial performance (return on assets). The study showed that a unit decrease in the accounts receivables collection period by one unit would lead to a rise in the return on assets by 0.1299 units. The accounts receivables collection period is the time taken to collect cash from customers, therefore, the shorter the accounts receivables collection period and the higher the financial performance. Account receivables are part of the assets of the company and they are considered to be fundamental in improving the financial performance of the company. Companies use assets to generate revenue and account receivables are part of the assets of the company. Therefore, having a shorter accounts receivables collection period implies that more money is expected to be generated within the shortest time possible by the companies after debtors honor their obligations.

13. Recommendations

The study recommends the tea firms should significantly reduce the account receivables collection period by using incentives to encourage the debtors to pay on time. This will automatically increase the account receivables collection because more debtors are expected to honour their obligations on time to the business. Account receivables are part and parcel of the company's assets and are considered crucial in improving financial performance. The firms should not fear giving their products or services in credit since they will be paid promptly on time, which will boost financial performance. The shorter the accounts receivables collection period implies that debtors are motivated to meet their obligations on time; hence more money is expected to be generated by the companies after debtors honor their debts.

14. Policy Recommendation

This research study recommends that Kenyan government and the concerned authorities managing the tea sub-sector should enact policies and regulations in order for the country to optimize its earnings by overcoming the bottlenecks that have dogged the tea industry for decades. These policy recommendations will help close loopholes that have over time expose the Kenyan tea industry to exploitation by cartels, to the costly loss to tea farmers. This research study proposes the following policy recommendations:

- **Sale of tea through electronic auction:** Sale of tea to the export market should be done through an electronic auction process and all tea buyers shall pay in full for all teas they win at the auction before they take custody. This will curb escalating bad debts experienced by the tea sector, hence boosting accounts receivables.

15. Suggestions for Further Studies

The study looked at the effect of accounts receivables collection period on the financial performance of tea firms in Kenya. The study covered multinationals and KTDA managed tea firms in the western part of Kenya (Kericho, Bomet and Nandi Counties). Thus, it is suggested that another study can be conducted on other regions that practice tea farming in Kenya, such as Mt. Kenya, Aberdares, Nyambene hills, Kisii Highlands and Cherangani Hills. Besides, the study can use other variables to determine performance, such as leadership styles, leverage level, employee competency and government policy. This will be fundamental in making the comparison and developing a more comprehensive conclusion.

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