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Effects of Receivables Management Practises on Financial Performance of Private TVET Institutions in Eldoret Town, Kenya

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Abstract: *Virtually all higher educational institutions are afflicted by poor financial performance due to the uniqueness in the management of working capital which involves more of accounts payables and receivables than any other working capital management practises. Due to prevailing economic conditions, these middle level institutions are financially weakened by the decline in admissions, a problem that is further compounded by lack of established working capital management policies which expose them to delinquency risks of slow fee payment and defaults which consequently affects their financial performance. Thus, the study sought to investigate the effects of receivable management practices on financial performance of private TVET institution in Eldoret town in Kenya. The study was informed by stakeholder and agency theories and guided by descriptive research design in that the method was best suited as it gave an exhaustive analysis of the situation while reporting the way things are with regard to the possible behaviour, attitude, values and characteristics. The study adopted the census technique because of the fewer numbers of middle level colleges and employed a random sampling technique to target the 86 respondents who held the position of financial managers/owner and the accountants from the 43 Middle level colleges registered by the ministry of education at Eldoret Town. The researcher used structured questionnaires and documentary analysis to collect primary data from the accountants and Managers of the Colleges. The data collected were analysed using descriptive and inferential statistics to determine and to estimate the causal relationships between the financial performance variable (dependent variable) and the Receivable management variable (independent variables). Results from the analysis showed that these institutions have focused on working capital management practises on accounts receivables. The operating margin significantly correlated accounts receivable(r = -0.522) while the margins are particularly influenced by cash conversion cycle and accounts receivables. The findings show that the institutions are able to efficiently handle working capital by improving on the cash management techniques and largely implementing efficient accounts receivable practises.*

Key words: *Receivables management, working capital management, TVET institutions in Kenya*

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I. Introduction

An efficient receivables management is always augmented by a shortened creditor's collection period, low levels of bad debts and a sound credit policy often improves the businesses' ability to attract new customers and accordingly increase the firm's financial performance (Subramony, 2009). Hence, the need for a sound credit policy that ensures value optimization in receivables because the costs of managing credit and credit collections constitute the carrying costs associated with granting a credit increases the number of receivables granted while lost sales resulting from not granting credit constitute the opportunity cost which decrease when the amounts of receivables are increased (Lazaridis & Dimitrios, 2005).

A good accounts receivable policy is expected to reduce the number of days for the accounts due (Michalski, 2012). Although accounts receivables are short-term in nature, the policy decisions on accounts receivables often have a long-term impact on the organization and its financial structure, because of the irreversibility of the policy is determined, it is difficult to come out of it except at the cost of adverse market reactions. Besides, credit policy decisions are part of an integrated approach, and interface actively with production, marketing and finance functions of an enterprise (Samiloglu & Dermigunes, 2008).

A study in The Manchester Metropolitan University website confirms that there are cases of non-payment of fees due to the university by students and that about 20 percent of the students every year experience difficulty in paying fees (Joyce, 2012). It is therefore critical, that the educational institution monitor their collection rates on net receivables, activities that include tuition receivable to membership fees in order to ensure an adequate cash flow and discourage delinquency.

In Europe and the US, entrepreneurship education is ranking high in policy decisions and agendas (Von Graevenitz et al., 2010) while in Kenya it is seen as an anchor to economic pillars of science, technology and innovation (Ngure, 2013). Thus, in many African government, Nigeria included have introduced mandatory and compulsory entrepreneurship education and training programmes in institutions of higher learning in order to improve the likelihoods of the graduates of pursuing entrepreneurship (Adekiya & Ibrahim, 2016). In Ethiopia, entrepreneurship education is offered by Technical and Vocational School (TVS) training (Mehari & Belay, 2017). In Kenya, the ministry of education, science and technology, initiated the teaching of entrepreneurship in tertiary institutions under the Technical Vocational and Entrepreneurship Training (TVET) programmes (Otuya, Kibas & Otuya, 2013).

By definition, TVET includes technical education, vocational education, vocational training, on-the-job training, or apprenticeship training that is delivered both formally and non-formally (Hope, 2012) and is seen to impart more than general education or the development of human capital but also the technical and vocational education or the specific job-relevant skills (Dasmani, 2011). This system with over 600 public and private TVET institutions is managed by the Technical and Vocational Education and Training Authority (TVETA) a state corporation under the Technical and Vocational Education and Training (TVET) Act, 2013 (TVETA, 2017).

Though with significant differences in approach towards the TVET education and training, most TVET education systems are geared towards entrepreneurship development(Simiyu, 2010) which is achieved through two ways; the business management courses which teaches the learner aspects of management of a business and the human capital investment which induces the learner to create new ventures through the integration of experience, skills and knowledge to create and expand business (Wright & Plasterer, 2012).

II. Statement Of The Problem

However, with growing complexity, payment ambiguity and other factors that drive up costs in service delivery, the management of accounts receivable process continues to demand more attention (John, 2007). The primary goal of accounts receivables management is to maximize the value of the enterprise by striking a balance between liquidity, risk and profitability. A significant part of receivables management involves the proper selection of customers, because every credit sale involves the risk of delayed payment or non-payment of the value involved (Banos-Caballero, Garcia-Terual & Martinez-Solano, 2007).

The increase in number of institution of higher education together with additional and tougher accountability requirements, new societal demands on institutions, and rising costs of human resources form the majority of the sources for increased costs that these educational institutions are confronted with. Under stringent conditions of budgetary expenditures, the problem of financial sustainability and efficiency of higher education institutions is becoming urgent, thus the focus turns to the search for possibilities to develop educational establishments (Sazonov, 2015). In an effort to fill the gap of receivable management practises in Private TVET colleges, this study sought to investigate the effects of receivable management practices on the financial performance of private TVET institutions in Eldoret Town and to recommend the way forward towards prudent working capital management practices in enhancing the college's performance.

III. Theoretical Framework

The study was guided by both agency theory and the stakeholder theory. The main theory under consideration is agency theory by Jensen & Meckling (1986) and explains the relationship between the principle and the agent. An agency relationship is a contract under which one or more persons (the principal(s) engage another person to perform some service on their behalf. In order to reduce agency problems, the management of a firm may strive to minimize the time, it takes to receive cash from customers (Raheman and Nasr, 2007).

The stakeholder theory was advanced by Williamson (1984) and presents a model describing what the corporation as a constellation of cooperative and competitive interests possessing intrinsic value. It establishes a framework for examining the connections, if any, between the practice of stakeholder management and the achievement of various corporate performance goals (Donaldson & Preston, 1995). The stakeholder theory is intended both to explain and to guide the structure and operation of the established corporation. Toward that end, it views the corporation as an organizational entity through which numerous and diverse participants accomplish multiple, and not always entirely congruent, purposes. The stakeholder theory argues that managers should make decision so as to incorporate the interest of all stakeholders in a firm(including not only financial claimants, but also employers, employees, customers, communities, governmental official and under some interpretations the environment (Jensen, 2001).

The stakeholder theory highlights the relevance of the symbiotic association of firm and various stakeholders, the creditors for instance, provides source of finance to the firm and in exchange expects repayment of their loans on schedule. The stockholders supply the firm`s capital and in return expects a maximized risk-adjusted return from their investment. Employees and manager help firms with required skills,

time, as well as human capital requirements in exchange they anticipate good working condition, fair income and remunerations. Customers provide the source of revenue to the firms and in exchange expect to have value for money and satisfactory services. Suppliers are input providers to the firm, and hence expect fair prices and dependable buyers. Stakeholders normally differ with respect to their stake size in firms. The level of individual`s stake depends on the extent of his exchange of relationship and commitments with the firm which is based on specific asset investments (Williamson, 1984).

IV. Methodology

The study employed the explanatory research design in that the study sought to test the effect of receivable management practises on the financial performance of private TVET institutions. Explanatory design is more appropriate when the study is seeking to establish causal relationships between the variables (Saunders, Lewis & Thornhill, 2009) and goes beyond description and attempting to explain the reasons for the phenomenon being observed. The study utilized the survey as a data collection procedure. Surveys are perceived to be authoritative in general; and it can be used for exploratory and descriptive research and allows for the collection of a large amount of both qualitative and quantitative data from a sizeable population in a highly economical way. Furthermore, it is possible to generate findings that are representative of the whole population (Saunders et al., 2009).

The study censured all total of 43 private TVET institutions in Eldoret town. A census approach is a technique used when there are relatively few number of respondents (Saunders, Lewis and Thornhill, 2009). Further, the use of private TVET institutions are owned by private proprietors and therefore they are likely to have differences in objectives, operations and management structure, it inclusion provide the study with certain information-rich cases.

The study used a structured questionnaire as the tools for data collections. The instrument accorded the researcher the position to replicate results with the close-ended answers with the respondents being able to explain further their experiences in the case of open-ended questions. The instrument was piloted on selected two public TVET institutions; Rift Valley Technical Training Institute and Eldoret polytechnic in Eldoret town for pilot testing in order to pre-test the validity and reliability of data to be collected using the questionnaire.

This study used operating margins as a proxy for financial performance with the accounts Receivable Period (ARP) representing collection period policy (receivables management). The operating margin was derived from the ratio of net income over net turnover

$\text{Operating margin} = \frac{\text{Net income}}{\text{Net sales}}$ while the accounts receivables was arrived

$$\text{ARP} = \frac{\text{Accounts Receivable}}{Sales\ revenue}\ X\ 365$$

Data preparation was carried out in several significant steps which include data editing, coding and entry, before the data is analysed. The data collected were checked for errors before being sorted, classified and coded into a statistical analysis software, SPPS version 20.0. After these data was then be analysed through descriptive and inferential statistics. After which the information obtained was presented in tabular format.

A linear regression model, $\mathbf{Y = \beta_{0i} + \beta_i X_i + \varepsilon}$, **w**here, β_{0i} is the overall effect of the independent variable on Y; $\beta_{0i,}$ is the intercept for the linear equation and ε is the corresponding residuals in the equation(Fairchild & Mackinnon 2009). Y represented the operating margin, while X_1 represented Account receivable period (ARP).

V. Results And Discussion

A total of 74 questionnaires were returned representing 86 per cent response rate. The high rate of response helps in validating the study. The demographic information helps the researcher understand the general view of the respondents and composed of the individual and organizational components. The entire respondent's demographic information is presented in Tables 1

The table 4.1 show the primary demographic information of the respondents touching on their gender, age distribution and education level.

Demographic Characteristics

Table 1 Demographic Characteristics of respondents

Variable	Category	Frequency	Percentage
Gender	Female	40	54.1
	Male	34	45.9
	Total	**74**	**100.0**
Age	25 to 29 Years	13	17.6
	30 to 34 Years	17	23.0
	35 to 39 Years	22	29.7
	40 to 44 Years	19	25.7
	Over 45 years	3	4.1
	Total	74	100.0
Level of education	Diploma	31	41.9
	Degree	32	43.2
	Masters	11	14.9
	Total	74	100.0
Years of experience	Less than a year	4	5.4
	2 to 5 Years	24	32.4
	5 to 9 Years	27	36.5
	Over 10 Years	19	25.7
	Total	74	100.0

Source: Field Data (2017)

The gender distribution in the Table 1 shows that there are more male respondents than there were females ones. As can be seen 54 per cent of the respondents were male with the remaining 46 per cent being female. This shows that the study captured more male respondents than the female ones indicating that the institutions hire more male individuals as compared to female compatriots.

The distribution of the educational level showed that 43.2 per cent of the respondents had a bachelor's degree, while 41.9 per cent had a diploma level with the remaining 14.9 per cent having master's level of education. Since the majority of individuals working at the institutions had a diploma or degree level of education, the implications are that the owners of these institutions preferably hire persons with degree or diploma levels of education.

The respondents were distributed as per the following age groups; 29.7 per cent fell in the age group 35 to 39 years, 25.7 per cent were aged between 40 t0 44 years, with a further 23 per cent were aged between 30 to 34 years with the remaining percentage being 45 years. The age distribution indicates that these institutions have employed moderately young individuals a fact that may be associated with the age distribution of the general working Kenyan population.

Furthermore, the distribution shows that majority of the respondents, 36.5 per cent had worked for 5 to 9 years, 32.4 per cent had 2 to 5-year experience while a quarter of them had worked for over 10 years. The distribution could be attributable to the nature of employment systems within the educational institutions. Individuals who have worked in the same institution for longer periods of time tend to advance their managerial skills and thus the distribution indicates that majority have gained a prerequisite skill that enables them to effectively manage the working capital of their institutions.

Descriptive Statistics

Accounts receivables relates to the cash and cash equivalents that the institution acquires from its customers or debtors in exchange for the firm's product offerings. The respondents reported that tuition fees form the largest source of receivables at 67 per cent, with a further 18 per cent being return of investments and 15 per cent coming from loans and interest from financial institutions. For instances, Belgian non-financial firms have invested large amounts of cash invested in working capital in accounts receivables and inventories (Deloof, 2003).

The receivable policy highlights the approach used by the institution to manage the debtor accounts. The distribution showed over 70 per cent of the colleges have a receivable policy of 31 days and over, with a further 20.3 per cent having a receivable policy of 16 to 30 days while 9.5 per cent having a receivable policy of less than 15 days. A receivable policy is set by the financial managers and as such it tends to vary, however, it is also influence by the prevailing business conditions and ongoing practises, however, as the number as the accounts receivables level increases, the level of cash flows that can be accessed by the organization decreases (Michalski, 2012).

Accounts receivable management incorporates all the various ways that the institutions use to ensure that customers pay their invoices. Good receivables management helps prevent overdue payment or non-payment and therefore a quick and effective way to strengthen the company's financial or liquidity position.

Table 2 Accounts Receivable Management

		Never	Rare	Sometimes	Often	Very often	Mean	Std. Dev.
Payment insistence	F	1	12	7	32	22	3.837	1.073
	%	1.4	16.2	9.5	43.2	29.7		
Credit guidelines	F	4	11	7	37	15	3.648	1.127
	%	5.4	14.9	9.5	50.0	20.3		
Prompt invoicing	F	7	1	6	37	23	3.918	1.143
	%	9.5	1.4	8.1	50.0	31.1		
Receivables review	F	3	21	16	26	8	3.203	1.097
	%	4.1	28.4	21.6	35.1	10.8		
Bad debt review	F	10	5	9	38	12	3.500	1.241
	%	13.5	6.8	12.2	51.4	16.2		
Overdue notices	F	0	6	13	31	24	3.986	0.914
	%	0	8.1	17.6	41.9	32.4		

Source: Research Data (2017)

The data information in table 2 shows the distribution of perceptions concerning accounts receivables. The colleges are insisting on payment as affirmed by 73 per cent of the respondents. Insistence on payment is one of ways in which the firms can manage accounts receivables. With the aid of credit guidelines, a firm will be able to reduce the accounts receivable to an optimum level which is conducive to the business. Majority (81.1%) of the respondents affirmed that many colleges practise prompt invoicing as ways to aid in the management of receivables. On the issue concerning, the aspect of receivables review is not done in many colleges since the views were divided. Since most educational institutions are concerned with their cash balance because they can survive only as long as they have sufficient cash to sustain their services, therefore they need to monitor collection rates on their net receivables in order to ensure an adequate cash flow (Chabotar, 2009).

As confirmed by 66.6 per cent of the respondents, review of bad debts takes place regularly. Management of receivables also calls for the review of bad debts in order to identify and delineate into good and bad debts. Notices for overdue debts are put up and circulated with the intention of calling for the settlement of account receivables. Instances of asset attachment are rare if not few in the colleges because of the nature of revenue collection. Further, Banos-Caballero et al.,(2007) assert that organizations can create value by reducing the number of days of account receivables as this will optimize the balance of receivables that the organization has(Lwiki et al., 2013)

Table 3: Inferential Statistics

ARP	Days	Correlation with Operating margin	R^2	F	Standardized coefficient	t
Mean	31.03	- 0.522**	0.272	F(1, 73) = 12.72	-0.297	t = 3.059
SD	15.51			(p = 0.0208)		(p = 0.0484)
Max	93.59					
Min	10.99					

Source: Research Data (2017)

The institutions had an average accounts receivable period of 36 days with a SD of 15.51. The range lied between 11 to 94 days The operating margin has a significant negative association with accounts receivable(r = -0.522). This negative association indicated that an increase in ARP is associated with a reduction in operating margin. Banos-Caballero et al., (2007) found a significant negative correlation between the return on assets and the number of days accounts receivable, days of inventory and days accounts payable as well as cash conversion cycle.

The statistic, $F(1, 73) = 12.72$, $p< 0.05$ indicates that the ARP explain the variation in the operating margin. The linear regression model shows positive $R^2= 0.272$ which means that 27.2 % change of operating margin is explained by ARP. However, the test on the beta coefficients of the resulting model shows that, the ARP ($\beta_1= -0.297$, $p < 0.05$). Thus, operating margin = -0.297 APP. This implies that, a unit increase in ARP reduces the operating margin by 0.2973.

In an educational sector where the business relies on subscription like revenues, low on capital intensive projects, the management of receivables is much easier as it calls for definite receivables over certain periods of time. The major sources of receivables in an education institution is the tuition fees, thus, the challenge to the institution is how it is able to tap into its revenue base regularly. Due to the nature of the business, the organizations face fewer business risks with the exception of economic shocks which are contingent on all economic sectors.

Tuition fees forms the majority of accounts and thus it is prone to business risk posed by the economic fluctuations. However, the institutions can overcome such risk by instituting strategies that may increase capacity utilization. There is also need for a accounts receivable policy that will provide guidelines on how due accounts can translate into working capital. A number of account receivable practices are being used by the institutions, thus the colleges can be said to be applying acceptable standards in its management of working capital.

The receivables correlate negatively with the operating margins therefore any variations in revenue bases has a resultant risk on the financial performance, however, the institutions can mitigate the same risk by employing various forms of resource utilization. Thus, a well designed and implemented working capital management is expected to contribute positively to the creation of a firm's value.

Implications

Most of these institutions have developed efficient systems with which the receivables are converted into working capital. The results suggest that there is efficiency with which the firms collect receivables and as such the management of receivables in the sector has the highest amounts of receivables when compared to other sectors.

The study findings revealed that the practises of working capital management in the education sector depend on more or less similar sources of revenues which fluctuate wildly according to economic fundamentals (Michalski, 2012). Thus, a well designed and implemented working capital management is expected to contribute positively to the creation of a firm's value.

The uniqueness of the revenue sources imply that these institutions have distinct working capital management practises which have potential risks to the sustainability of the institutions in the long run. Due to these, the study recommends that the institutions introduce new models of working capital management practises that would help mitigate the risk inherent in their revenue sources.

The sustainability of these institutions is pegged on the ability of the management to efficiently manage their revenue streams. Due to these, the study recommends a study that will focus on their financial sustainability.

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