

ACCOUNTS PAYABLE MANAGEMENT AND PROFITABILITY OF MANUFACTURING AND ALLIED COMPANIES LISTED AT THE NAIROBI SECURITIES EXCHANGE, KENYA

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ABSTRACT

This study examined the effect of accounts payable management, measured by the average payment period, on the profitability of manufacturing and allied companies listed at the Nairobi Securities Exchange (NSE), Kenya, where evidence on whether delaying supplier payments raises or erodes profitability is inconsistent. A positivist philosophy and an explanatory research design were adopted, and the study was anchored on Liquidity Theory, the Cash Conversion Cycle Theory and the Resource-Based View. A census of all nine listed manufacturing and allied firms was conducted for 2020–2025, and an unbalanced panel of 51 firm-year observations from audited annual reports was analysed. Model-selection tests supported a fixed-effects model with firm-clustered robust standard errors. The average payment period had a statistically significant negative effect on return on assets ($\beta = -0.031$, $p = 0.016$), and the sign and significance held under pooled OLS and random-effects estimation. The study concluded that longer supplier payment periods were associated with lower profitability, suggesting that the costs of delayed payment outweighed the financing benefit of trade credit. It recommends that manufacturers treat payables as a strategic decision coordinated between finance and procurement, negotiate credit terms rather than stretching payments, and that regulators encourage disclosure of supplier payment practices.

Keywords: Accounts payable management, average payment period, trade credit, profitability, return on assets, manufacturing firms, Nairobi Securities Exchange.

1.0 INTRODUCTION

Manufacturing contributes to employment creation, industrial growth and technological innovation, which makes the financial health of manufacturing firms a matter of wider economic interest (UNIDO, 2023). Profitability determines whether such firms can remain in operation, reward shareholders and invest in future growth (Gitman & Zutter, 2021). Because manufacturers tie up a large share of their assets in inventories, receivables and cash, the way they manage their short-term assets and obligations bears directly on the returns they earn (Brigham & Ehrhardt, 2017).

Working capital management comprises decisions on receivables, inventory, cash and payables (Brigham & Ehrhardt, 2017; Pandey, 2015). Decisions on accounts payable concern the timing and volume of payments to suppliers, and therefore the pattern of cash outflows and the state

of supplier relationships (Deloof, 2003; Afza & Nazir, 2007). A longer payment period allows a firm to finance purchases from supplier credit and conserve internal cash. The same choice carries costs, because it can strain supplier relationships and cause the firm to forgo discounts for early payment (Afza & Nazir, 2007). Whether the financing benefit or the cost dominates is an empirical question, and one that has produced conflicting answers.

In Kenya, manufacturing contributes approximately 7.2% of Gross Domestic Product (KNBS, 2023), yet the sector operates under considerable pressure. High energy costs, dependence on imported raw materials combined with depreciation of the Kenyan shilling, and competition from cheaper imported finished goods have squeezed margins and limited pricing power (KAM, 2023). In such an environment, the terms on which firms buy from suppliers are a potentially important determinant of financial performance.

The profitability of manufacturing and allied firms listed at the NSE has been unstable. Calculated from the firms' audited financial statements, average ROA rose from 0.81% in 2020 to 4.52% in 2021, declined to 1.57% in 2022, fell to -16.67% in 2023, improved to -5.61% in 2024 and reached 8.75% in 2025. Such swings raise concern about the sector's capacity to sustain investment and employment, and they point to the need to understand which internal financial decisions, including payables policy, influence returns.

Evidence on the payables–profitability link is mixed. Studies of Tanzanian manufacturers and of Kenyan listed firms have reported that longer payment periods accompany higher profitability (Mulenga & Mndeme, 2025; Wasonga, 2024; Wanzala, 2024), while a study of NSE-listed manufacturers found that a longer creditors' deferral period reduced profitability (Kimutai, 2023). Many of the Kenyan studies also pool firms from different sectors or rely on samples that end before the recent recovery period. This study therefore examined the effect of accounts payable management on the profitability of manufacturing and allied companies listed at the NSE over 2020–2025, using a panel estimator that accounts for differences between firms.

1.1 Research Objective

- To determine the effect of accounts payable management, measured by the average payment period, on the profitability of manufacturing and allied companies listed at the Nairobi Securities Exchange, Kenya.

1.2 Research Question

- What is the effect of accounts payable management decisions on the profitability of manufacturing and allied companies listed at the Nairobi Securities Exchange, Kenya?

1.3 Theoretical Review

The study was anchored on three complementary theories: Liquidity Theory, the Cash Conversion Cycle (CCC) Theory and the Resource-Based View (RBV). Liquidity Theory explains the need to maintain adequate liquid resources and the trade-off between liquidity and profitability. The CCC Theory states the impact of payment timing on the cash cycle and RBV explains the differences in the ability of firms to manage working capital effectively.

1.3.1 Liquidity Theory

Keynes (1936) liquidity theory suggests that firms hold liquid assets for transaction, precautionary and speculative motives. In corporate finance, the theory was developed to the liquidity–profitability trade-off: inadequate liquidity raises the risk of financial distress and reliance on external financing, while over liquidity carries the opportunity cost of letting the money sit idle instead of being productively invested (Brigham & Ehrhardt, 2017; Van Horne & Wachowicz, 2018; Gitman & Zutter, 2021).

Liquidity Theory is used as a supporting theory in this study because payment, collection and inventory periods have an impact on cash inflows and outflows and the Cash Ratio indicates the liquid resources of the firm. For accounts payable, having enough liquidity allows the firm to pay its suppliers on time, and at the same time, the firm could also obtain credit from suppliers for saving cash. The theory therefore helps to explain how the liquidity advantage of deferring the payment might be offset by the costs of compromising supplier relationships, forfeiting discounts and so on. Its limitation is that it gives less attention to the timing of operating cash flows and firm-specific managerial capabilities, which are addressed by the CCC Theory and RBV.

1.3.2 Cash Conversion Cycle Theory

Richards and Laughlin (1980) proposed the cash conversion cycle as a dynamic measure of liquidity to replace static ratios such as the current ratio. The theory holds that profitability is influenced by the speed with which cash moves through the firm's core activities of holding inventory, collecting receivables and paying suppliers. A shorter cycle reduces dependence on external finance, lowers financing and holding costs and improves operational efficiency (Deloof, 2003; Gitman & Zutter, 2021).

Accounts payable enter the theory as the offsetting element of the cycle. Supplier credit finances part of the firm's working capital requirement, so a longer payment period postpones cash outflows, shortens the cycle and frees liquidity for productive use (Richards & Laughlin, 1980). For manufacturers that must buy raw materials continuously, this is a potentially low-cost financing source. The theory, however, also allows for limits. Enqvist et al. (2014) noted that compressing the cycle too aggressively can damage relationships with suppliers and customers, which implies that the payment period that maximises profitability may lie between the extremes. The theory is silent on how firm-specific capabilities determine whether trade credit is used profitably, and the RBV addresses that gap.

1.3.3 Resource-Based View

The Resource-Based View, advanced by Barney (1991), locates the source of sustained superior performance inside the firm, in resources and capabilities that are valuable, rare, inimitable and non-substitutable. Applied to working capital, the management of payables, receivables, inventory and cash is treated as a managerial capability rather than a routine operating task. Firms that manage these items well can release internally generated funds, reduce financing costs and run operations more efficiently than their rivals (Aktas et al., 2015; Afrifa & Padachi, 2016).

In relation to this study, the ability to negotiate acceptable credit terms and pay suppliers on a schedule that preserves goodwill is a capability that can differ across firms. The RBV therefore also supports the use of ROA as the outcome variable, since ROA reflects how efficiently a firm's asset base converts into earnings (Barney, 1991; Gitman & Zutter, 2021). Its limitation is that it gives little weight to external conditions such as macroeconomic shocks, regulation and market competition, which is one reason it is paired here with the CCC Theory.

1.4 Empirical Review

1.4.1 Accounts Payable Management and Profitability

A large share of the reviewed literature reports a positive relationship between the payment period and profitability. Mulenga and Mndeme (2025) analysed eight manufacturing firms listed on the Dar es Salaam Stock Exchange over 2015–2023 using panel regression, with the average payment period as the measure of payables management and ROA as the measure of performance. They found a positive and significant relationship and concluded that firms that paid more slowly benefited from trade credit as a source of finance. Kumar and Olasiuk (2024) studied 500 Indian manufacturing firms over 2010–2022, measured payables by days payable outstanding, and likewise reported a positive and significant relationship with ROA, which they linked to the value of trade credit in markets with less developed capital markets. Their sample, however, aggregated manufacturing subsectors without separate analysis.

Kenyan studies point in the same direction. Wasonga (2024) analysed a balanced panel of manufacturing firms listed on the NSE from 2014 to 2023 and reported a strong positive relationship between the average payment period and ROA. The restriction to continuously listed firms may, however, introduce survivorship bias, and the period ends in 2023. Wanzala (2024) examined 52 NSE-listed firms across sectors over 2018–2022 and also found a significant positive relationship, although the pooling of sectors with different working capital dynamics limits its relevance to manufacturing. In a study of 150 small and medium-sized manufacturing enterprises over 2020–2023, Simiyu (2024) found that structured payables management was positively associated with financial sustainability, a relationship moderated by firm size and access to alternative financing. Mathuva (2010), studying Kenyan listed firms, similarly reported that firms that took longer to pay their creditors were more profitable.

Other studies report the opposite. Deloof (2003), in the study that established the modern empirical literature, found that firms with longer payment periods were less profitable, and he suggested that less profitable firms may simply wait longer to pay their bills, a possibility that raises the question of the direction of causation. Within the Kenyan manufacturing sector, Kimutai (2023) examined nine firms listed on the NSE over 2013–2022 and found that the creditors' deferral period had a significant adverse effect on profitability. Oketch (2022) and Chomba (2018) likewise reported inverse relationships between the accounts payable period and profitability.

Three observations follow from this review. First, the direction of the payables effect is unsettled, with evidence split between studies that emphasise the financing benefit of supplier credit and studies that emphasise its cost. Second, the Kenyan studies that report positive effects either pool firms from several sectors or study small enterprises, so evidence specific to

NSE-listed manufacturers is thin. Third, most studies end before or early in the post-COVID-19 recovery, so the 2020–2025 period is under-represented. On these grounds, and given the theoretical expectation that supplier credit relieves liquidity pressure, the study sought to answer the following research question: What is the effect of accounts payable management decisions on the profitability of manufacturing and allied companies listed at the Nairobi Securities Exchange, Kenya?

1.5 Conceptual Framework

The framework in Figure 1 presents accounts payable management, measured by the average payment period (APP), as the independent variable and profitability, measured by ROA, as the dependent variable. On the basis of the CCC Theory, a longer payment period was expected to raise ROA by providing interest-free supplier finance and reducing reliance on costlier external funding. Because payables decisions are made alongside decisions on receivables, inventory and cash, the average collection period (ACP), the inventory conversion period (ICP) and the cash ratio (CR) were included as control variables so that the estimated effect of APP was not confounded by them.

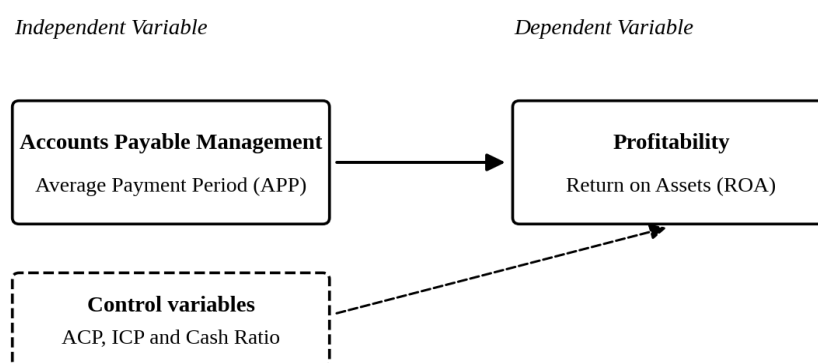


Figure 1: Conceptual Framework

2.0 MATERIALS AND METHODS

2.1 Research Design and Study Population

The study adopted a positivist research philosophy and explanatory research design as it sought to determine the effect of a measurable financial decision on a measurable outcome. The NSE has identified ten firms in the manufacturing and allied segment. Mumias Sugar Company Plc was excluded as its shares have been suspended from trading since 2019 when it was placed under receivership. As such, Mumias Sugar Company Plc was not listed and actively traded throughout 2020–2025 (Business Daily, 2026). Hence, the target population was all nine manufacturing and allied firms listed on the NSE for the period 2020–2025. Because the population was small, a census approach was adopted rather than a sampling approach. The unit of analysis was the firm-year, giving 54 potential observations (nine firms over six years). Data for three firm-years were unavailable (Eveready East Africa Plc and AMAC Plc for 2025, and Shri Krishana Overseas for 2020), so an unbalanced panel of 51 observations, equivalent to 94.4% coverage, was analysed.

2.2 Data Collection

Secondary data were extracted from the firms' audited annual financial statements using a structured data collection sheet, and were checked against the original reports before analysis. The reports were obtained from company websites, NSE records and Capital Markets Authority databases. The extracted items were net income, total assets, sales revenue, cost of sales, inventory, trade receivables, trade payables, and cash and cash equivalents. To limit the influence of extreme values, all variables were winsorised at the 5th and 95th percentiles. Data collection began after obtaining a research permit from NACOSTI. The study used publicly available audited data and had no human participants, so there was no need for informed consent or anonymity.

2.3 Model Specification and Variable Measurement

The relationship was estimated with the panel regression model below:

$$ROA_{it} = \beta_0 + \beta_1 APP_{it} + \beta_2 ACP_{it} + \beta_3 ICP_{it} + \beta_4 CR_{it} + \varepsilon_{it}$$

where ROA is return on assets, calculated as net income divided by total assets and expressed as a percentage; APP is the average payment period, calculated as accounts payable divided by cost of sales multiplied by 365; ACP is the average collection period, calculated as accounts receivable divided by net sales multiplied by 365; ICP is the inventory conversion period, calculated as average inventory divided by cost of sales multiplied by 365; CR is the cash ratio, calculated as cash and cash equivalents divided by current liabilities; β_0 is the intercept; β_1 to β_4 are coefficients; ε_{it} is the error term; i denotes the firm; and t denotes the year. The coefficient of interest is β_1 .

2.4 Estimator Selection and Diagnostic Tests

Pooled OLS, fixed-effects (FE) and random-effects (RE) estimators were considered. The estimator was selected sequentially using the Breusch-Pagan Lagrange Multiplier test, the F-test for redundant fixed effects and the Hausman specification test (Baltagi, 2021; Hausman, 1978; Wooldridge, 2019). Before estimation, the data were subjected to diagnostic tests for multicollinearity (variance inflation factor), heteroscedasticity (Breusch-Pagan/Cook-Weisberg and White tests), first-order autocorrelation (Wooldridge test) and normality of residuals (Shapiro-Wilk test) (Gujarati & Porter, 2022). Where heteroscedasticity was detected, robust standard errors clustered at firm level were applied. As a robustness check, the model was re-estimated with pooled OLS and RE estimators, and consistency of sign and significance across estimators was taken as evidence of stability.

3.0 RESULTS

3.1 Descriptive Statistics

Table 1 summarises the study variables. Payment practice varied widely across firm-years. The average payment period was 132.91 days, with a standard deviation of 150.97 days that exceeded the mean, and ranged from 19.80 to 535.41 days. ROA averaged 2.41% but ranged

from −49.73% to 25.42%, reflecting the presence of both highly profitable and loss-making firms in the panel.

Table 1: Descriptive Statistics of Study Variables (N = 51)

Variable	Mean	Std. Dev.	Minimum	Maximum
Average Payment Period (days)	132.91	150.97	19.80	535.41
Average Collection Period (days)	113.36	136.84	11.59	501.94
Inventory Conversion Period (days)	102.69	68.08	41.64	323.56
Cash Ratio	0.36	0.49	0.00	1.85
Return on Assets (%)	2.41	17.06	−49.73	25.42

Note. Variables were winsorised at the 5th and 95th percentiles. N = 51 firm-year observations across nine firms, 2020–2025.

3.2 Diagnostic Tests

The diagnostic results are presented in Table 2. Multicollinearity was not a concern, as the VIF for APP was 2.84 and the mean VIF was 2.42, well below the threshold of 10. Both the Breusch-Pagan/Cook-Weisberg and White tests rejected constant error variance ($p < 0.001$), so robust standard errors clustered at firm level were used in the final estimation. The Wooldridge test found no significant first-order autocorrelation, and the Shapiro-Wilk test did not reject normality of the residuals.

Table 2: Diagnostic Test Results

Test	Statistic	p-value	Decision
Variance inflation factor (APP)	VIF = 2.84 (mean 2.42)	—	No multicollinearity
Breusch-Pagan / Cook-Weisberg	$\chi^2(1) = 32.09$	< 0.001	Heteroscedasticity present
White's test	$\chi^2(14) = 50.71$	< 0.001	Heteroscedasticity present
Wooldridge autocorrelation	$F(1, 8) = 1.36$	0.251	No autocorrelation
Shapiro-Wilk (residuals)	$W = 0.969$	0.203	Residuals normal

Note. Robust standard errors clustered at firm level were applied to address heteroscedasticity.

3.3 Correlation Analysis

The Pearson correlation between APP and ROA was negative and statistically significant ($r = -0.595$, $p < 0.01$), indicating that firm-years with longer payment periods tended to record

lower returns. APP was also positively correlated with ACP ($r = 0.764$, $p < 0.01$) and ICP ($r = 0.577$, $p < 0.01$), and negatively correlated with the cash ratio ($r = -0.375$, $p < 0.01$). These associations show that payment practice moves together with the other working capital components, which is why the multivariate model controls for them.

3.4 Panel Model Selection

The three selection tests in Table 3 all rejected their null hypotheses. The Breusch-Pagan LM test showed significant firm-specific effects, which ruled out pooled OLS. The F-test for redundant fixed effects confirmed that firm effects exist, and the Hausman test rejected the random-effects estimator because the firm effects were correlated with the regressors. The fixed-effects estimator with firm-clustered robust standard errors was therefore adopted as the main model. Its coefficients describe how changes in a firm's own payment period over time relate to changes in that firm's ROA.

Table 3: Panel Model Selection Tests

Test	Statistic	p-value	Decision
Breusch-Pagan Lagrange Multiplier	$\chi^2 = 46.64$	< 0.001	Panel model needed
F-test (redundant fixed effects)	$F(8, 38) = 35.38$	< 0.001	Firm effects exist
Hausman specification test	$\chi^2(4) = 25.80$	< 0.001	Fixed effects preferred

3.5 Effect of Accounts Payable Management on Profitability

Table 4 reports the fixed-effects estimate for APP. The coefficient was negative and statistically significant ($\beta = -0.0307$, robust SE = 0.0102, $t = -3.02$, $p = 0.016$), with a 95% confidence interval of -0.054 to -0.007 that excludes zero. Holding the other working capital components and firm-specific effects constant, each additional day in the payment period was associated with a decline of about 0.031 percentage points in ROA, or roughly 0.92 percentage points for a 30-day lengthening. This answers the research question: accounts payable management decisions have a statistically significant negative effect on the profitability of the listed manufacturing and allied companies. The model's within-firm R^2 was 0.249, meaning that about a quarter of the variation in each firm's ROA over time was accounted for by the working capital variables.

Table 4: Fixed-Effects Estimate of the Effect of Accounts Payable Management on Profitability

Element	Value
Variable	Average Payment Period (APP)
Coefficient (β)	-0.0307
Robust standard error	0.0102
t-statistic	-3.02

Element	Value
p-value	0.016 (significant at 5%)
95% confidence interval	[-0.054, -0.007]
Within R ²	0.249

Note. Dependent variable: ROA (%). ACP, ICP and cash ratio included as controls; firm-clustered robust standard errors; N = 51.

3.6 Robustness Checks

Table 5 shows that the negative and significant effect of APP did not depend on the estimator. Pooled OLS produced a larger coefficient ($\beta = -0.122$, $p < 0.01$) and the RE model a coefficient close to the FE estimate ($\beta = -0.037$, $p < 0.01$). The larger OLS magnitude is consistent with part of the pooled association reflecting differences between firms, which the FE estimator removes. Only the size, not the sign or significance, of the effect changed.

Table 5: Effect of Average Payment Period on ROA across Estimators

Estimator	Coefficient	Robust SE	p-value	Within R ²	Overall R ²
Fixed effects (FE)	-0.031	0.010	0.016	0.249	0.349
Pooled OLS	-0.122	0.023	< 0.01	-	0.513
Random effects (RE)	-0.037	0.012	< 0.01	0.245	0.421

Note. Dependent variable: ROA (%). All models include ACP, ICP and cash ratio as controls; N = 51.

4.0 DISCUSSION

The finding that a longer payment period reduced profitability does not necessarily contradict the CCC Theory. Instead, it elaborates the theory by demonstrating that payment timing can be context-dependent, as delayed payment may save liquidity and ease the reliance on external financing, but at the same time may be offset by lost discounts, credit terms, high input prices and disrupted supplier relations (Richards & Laughlin, 1980; Enqvist et al., 2014). For NSE-listed manufacturers, persistent late payment may also signal liquidity strain to suppliers and lenders, raising the firm's overall cost of finance and disrupting the supply of raw materials. In such a case, the expense of delaying payments may outweigh the benefit of having more cash.

The discovery also has ramifications for Liquidity Theory. In fact, the negative APP coefficient indicates that holding cash for a longer period of time with the suppliers did not lead to a higher profitability in the sampled companies. This indicates that the liquidity benefit of delaying payments may have been offset by the costs associated with supplier relationships, financing conditions and operating continuity. The result supports the liquidity–profitability trade-off by suggesting that firms should seek an optimal liquidity position rather than maximize liquidity through extended payment delays. From the RBV perspective, the result suggests that the

capability that matters is the ability to manage supplier commitments without eroding goodwill. Firms with that capability can negotiate suitable terms and pay on a predictable schedule, whereas firms without it may be pushed into late payment by cash-flow difficulties, which further weakens supplier relationships and profitability. Payment period may therefore partly reflect the quality of the underlying capability, and not only a free choice about timing.

The result agrees with Kimutai (2023), who found an adverse effect of the creditors' deferral period among NSE-listed manufacturers, with Deloof (2003), and with Oketch (2022) and Chomba (2018). It differs from the positive relationships reported by Mulenga and Mndeme (2025), Wasonga (2024), Wanzala (2024), Kumar and Olasiuk (2024) and Simiyu (2024). Several features of this study may account for the divergence. It concentrates on manufacturers rather than pooling sectors, it covers a period that includes the COVID-19 disruption and recovery, and it uses a fixed-effects estimator that controls for stable differences between firms. The difference between the pooled OLS and FE coefficients in Table 5 illustrates that estimator choice can materially change the size of the estimated effect.

Two qualifications apply. First, the fixed-effects design removes stable differences between firms but does not by itself settle the direction of causation. Following Deloof (2003), a firm whose profitability is falling may delay supplier payments because it is short of cash, in which case part of the negative association would reflect low profitability leading to longer payment periods and not the reverse. Second, the model imposes a linear relationship and rests on nine firms, so it cannot identify whether a moderate payment period is beneficial while an excessive one is harmful. The results should be read as evidence that, on average and within these firms, longer payment periods coincided with lower ROA.

5.0 CONCLUSION AND RECOMMENDATIONS

The study concluded that accounts payable management has a statistically significant negative effect on the profitability of manufacturing and allied companies listed at the NSE. Longer average payment periods were associated with lower ROA in the fixed-effects, pooled OLS and random-effects models alike, which indicates that among the sampled firms the costs of delayed supplier payment outweighed the financing benefit of trade credit. The study extends the CCC Theory by showing that the effect of the payment period is context-dependent and need not follow the positive direction predicted from the cycle alone. It also supports the Liquidity Theory view that the benefits of conserving liquid resources must be weighed against the opportunity and operating costs associated with the way liquidity is managed, while supporting the RBV view that supplier management is a firm-level capability.

The study recommends that manufacturing firms should not treat a longer payment period as automatically beneficial. Payment timing should be set through a deliberate payables policy that weighs the value of trade credit against forgone discounts, possible price premiums and the risk to supplier relationships, and that is coordinated between the finance and procurement functions. Firms should negotiate credit terms with suppliers, and not simply stretch payments beyond agreed dates, and should keep open communication with suppliers on payment schedules. Streamlining payables through automation and a clear payment approval chain can help firms pay on schedule and avoid unplanned delays.

The study further recommends that regulators, including the Capital Markets Authority, encourage listed firms to disclose their working capital position and supplier payment practices. Such disclosure would give investors and analysts a clearer view of how firms use trade credit, and would discourage reliance on late payment as a substitute for sound liquidity management. The mandatory sustainability reporting under IFRS S1 and S2, coming into effect in January 2027, presents an opportunity to include working capital efficiency and supplier payment practices in governance and risk disclosures. The Capital Markets Authority should continue to enforce listing requirements that highlight adequate working capital and solvency.

Further research should test for a non-linear relationship between the payment period and profitability in order to identify an optimal range. It should also use dynamic panel methods to address the direction of causation, and extend the analysis to a larger set of manufacturers, including unlisted firms. Studies could use alternative profitability measures such as return on equity or gross profit margin, examine moderating factors such as firm size, supplier concentration and macroeconomic conditions, and complement financial data with qualitative evidence on supplier relationships and payment decisions.

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