**EFFECT OF WORKING CAPITAL MANAGEMENT PRACTICES ON SUSTAINABILITY OF NGOs IN NAIROBI COUNTY**

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**ABSTRACT**

The study sought to assess the effect of working capital management practices on the sustainability of NGOs in Nairobi County. It was guided by the operating cycle theory and anchored on the positivist paradigm philosophy. The study employed a descriptive research design. A sample of 285 out of a target population of 1000 senior program managers and chief executive officers was obtained using stratified random sampling. Primary data was collected from the sampled officers using structured questionnaires, while secondary data was obtained from the audited financial statements of the NGOs and publications by the NGO cordination board. A total of 172 questionnaires were collected and found to be satisfactorily complete for analysis yielding a 60.35% response rate. The data collected was analyzed using descriptive and inferential statistics procedures with respect to the study objective. Data summaries were presented in tables and charts. The descriptive statistics included frequencies, percentages, means and modes, while modelling and inferential statistics included Regression and Correlation analysis, Chi square tests and Analysis of Variance (ANOVA). Statistical Package for Social Scientists (SPSS) was used for data handling and analysis. The findings of the study indicated that working capital management practices within the NGOs have significant positive effects on the NGOs’ financial sustainability specifically current ratio and survival rate. The study recommends that NGO management in Nairobi County should focus on improvement of working capital management practices through improved grant receipt scheduling and liquidation of expenditure. Further, the management should improve compliance to the signed agreements in order to accelerate the release of tranches and effectively manage the cash flows to enable prompt settlement of the short-term obligations. Further studies are recommended to investigate the effect on the financial sustainability of NGOs by accounts receivable which is an important component of the working capital.

**Key Words:** *Working Capital Management and Sustainability.*

**INTRODUCTION**

Globally, Non-Governmental organizations have played an important role in advocacy and negotiations, humanitarian response and development programs. Through this great transformation, organizations have gained influence in various fronts including advocacy, human rights, peace initiatives, humanitarian response and development support. Tortajada (2016) on a study on the influence of global policy by the NGOs stated that there has been great contribution by NGOs on policy making of important matters, but there exist accountability and transparency concerns resulting to uncertainty in their performance and legitimacy. Despite the major role played by NGOs globally, little research has been done on their working capital management practices and their effects on the sustainability of these organizations.

Sustainability index for sub-Sahara Africa indicates that many sub- Saharan countries including Burundi, Rwanda, Ethiopia, South Sudan, Tanzania and Uganda have reported an alarming decline in sustainability of the NGOs. Saungweme (2014) observed that sound financial management practices influence the sustainability of NGOs. Financial management practices of an organization form a critical factor to consider in the enhancement of the sustainability of the organization.

Working capital management in a firm involves short term financing and is an important factor for any firm that plans to improve its operational effectiveness and long term survival. Prudent working capital management enables a firm to optimize the utilization of its current assets in the settlement of short-term obligations. NGOs transact large amounts of cash and cash equivalents and are required to settle their short term obligations within the life of the project. A report by the NGO Coordination Board (2019) stated that NGOs in Kenya spent Kenya shillings 78.8 billion on projects in various parts of the country. The financial accountability practices on these large amounts of funds is critical if the funds are to meet the planned objectives. This makes it critical for all the organizations to prioritize its working capital management practices which is an important component of financial management.

**General Objective:**

To assess the effect of working capital management practices on the sustainability of NGOs in Nairobi County

# Research Hypotheses

**H01**: Working capital management practices have no statistically significant effect on the sustainability of NGOs in Nairobi County

**LITERATURE REVIEW**

**Operating Cycle Theory**

The operating Cycle Theory was developed by Mann in 1918. The theory stated that the working capital is the amount equivalent to finance the company operations the money or money equivalent that is necessary to conduct the current business of a utility. In support to this theory, Gitman (2009) stated that the the working capital is the difference between the current assets and the current liabilities. The net working capital therefore is the amount to which the current assets exceed the current liabilities. The operating cycle theory informs this study in that the NGOs like other businesses need to effectively manage their working capital for their continued operational efficiency and long term survival. In this study effect of the current assets and current liabilities is examined, with specific attention given to the cash management, grant receipt scheduling and the accounts payables management.

**Empirical Review**

The goal of working capital management is to ensure that the firms are able to manage their operational needs and also meet short term obligations by maintaining adequate cash flow that enable them to effectively achieve their objectives (Yakubu, Alhassan, and Fuseini 2017). Van, Hung, Van, and Xuan (2019) on the study on the management of working capital and corporate performance observed that if the managers failed to maintain optimal working capital, they risk incurring high costs when the working capital levels go below the required optimum levels and this could cause a negative effect on the performance of the business.

In agreement to these findings Odhiambo (2016) observed that prudence in the management of working capital resulted in higher profitability and improved operating efficiencies and ultimately resulted to improved liquidity in a business. Further, Kanga’ru & Tirimba (2018) argued that efficiency in the working capital management resulted to the achievement of their set goals and objectives by the firm.In agreement to this findings, Baghiyan (2013) observed that appropriate working management policies enabled the firm to gain comparative advantage over the other firms.

Prudent financial management practices require the managers set and implement effective cash and bank management practices. Nyamai, (2018) on the study of the financial planning and working capital management within the agriculture sector stated that many businesses do not observe regular cash management practices and some lack the necessary knowledge and training that would enable them to effectively manage the working capital within their businesses. In support of these findings, Ponsian, Chrispiana and Tago (2014), on the study of working capital management within manufacturing companies and observed that the firm should plan and set appropriate cash management controls and set cushion or safety net in order to manage the cash and the entire business more effectively. Strydom & Stephen (2014) stated that the NGOs need sufficient cash to enable them to operate effectively and sound cash flow management is critical if the NGO is to remain in active service delivery especially in periods of uncertainty.

Michalski and Merck (2012) observed that the liquidity investment strategy of an organization is a determinant by the capital providers. Njeri, Namusonge and Mugambi (2017) on the study of the ministry of fisheries in Kenya observed that the firms that manage the working capital efficiently realized their targets on the planned projects as they are able to effectively match their cash inflows and outflows, manage their inventory turnover, effectively manage the accounts receivables and make the required payments on the accounts payables in good time. Ponsian et al, (2014) observed that, proper management of the cash flow and maintaining sufficient cash levels enhance the smooth running of a company regardless of its nature of business. In support to these findings, Kabuye, Kato, Akugizibwe, Bugambiro (2019), stated that monitoring of cash flow is of great contributor to the improvement of the financial performance of a business. In addressing the need for effectively cash flow management in the NGOs, Matan and Hartnett (2012) cautioned that the NGOs that acknowledge the high and low economic tides stand a better chance of overcoming the cash flow difficulties but they need to overcome the challenge in their cash flow management.

Matan and Hartnett (2012) stated that the overall purpose of managing cash flow is to make sure that there is always enough cash to pay current bills, however the small and medium-size non-profits do not usually have well developed cash flow management infrastructures that could enable them to sufficiently maintain adequate cash balances. In agreement to this findings, Enow and Kamala (2016) recommended that for the firm to maximize on the possible benefits, the managers in small and medium organizations should evaluate their accounts payable management practices, effectively utilizing payables as a short term source of funding. Van et,al., (2019) observed that lack of prompt payment of current liabilities adversely affect the performance of the business.

Ponsian et al., (2014) recommended prompt payment of the creditors if the firm was to maintain profitability. In agreement to these findings, Mwangi, Makau, and Kosimbei, (2014) on the study of the management of working capital on the firms listed in the Nairobi stock exchange observed that businesses should use more current liabilities to finance their businesses as compared to the long-term financing because the use of current liabilities reduced the possible financing costs incurred by the firm.

The liquidation of expenditure is a prerequisite to the requisition and replenishment of of cash in many donor contracts. Krivelyova, Kakietek, Connolly, Bonnel, Manteuffel, Rodriguez-García and Agrawal (2013) observed that the donors require the organizations to account for their spending by submitting various reports. Ayene, Kumar, Asefa (2014) observed that delays in the report submission within the NGOs led to delay in the transfer of funds from the donors and have a direct effect on the project implementation. These gaps on timely financial reporting may adversely affect the timelines in the project implementation. Yakubu et al., (2017) on the study on the working capital management on the non-financial firms stated that these firms could enhance their performance by converting their resources to cash in the shortest time possible and cautioned that extended collection period impacts the firm negatively and also policies that advocate for minimal number of days in debt recovery are preferred.

From the various studies identified here above, it is evident that the studies identified focused on the profit making organizations and the public institutions. Important factors like the liquidation of expenditure and requisition of funds in tranches which are mandatory within the funded NGOs are not necessary within the profit making bodies, and therefore there is little study focusing on working capital practices that are unique to the NGOs. The NGOs receive and expend huge amounts of funds and their mode of operations differ from those in the public sector and in the profit making organizations, hence the need to examine the effect of the working capital management within the NGOs sector,

Conceptual Framework

**Working Capital Management Practices:**

-Cash Receipt Management

-Grant Receipt Scheduling

-Accounts Payable Management

-Grant Receipt Scheduling

-Accounts Payable Receipt Scheduling

-Accounts Payables Management

pt Management

-Grants Receipt Scheduling

-Accounts Payables Management

**Sustainability of NGOs**

-Current Ratio

-Donor-dependency level

- Survival Ratio

**Figure 1:** Conceptual Framework

**RESEARCH METHODOLOGY**

The study used adopted a descriptive research design and was anchored on a positivist paradigm research philosophy. Data collected was presented using frequency distributions and graphs. It was conducted in NGOs within Nairobi County which is the capital city of Kenya, a regional business hub and a host of numerous national, continental and global organization headquarters. The choice of Nairobi County as the area of study was informed by the need to access a diverse population coming from the various categories within the NGO sector namely; Health, Education, Wash and Livelihood, Orphanages and Rehabilitation and Environment protection and Human Rights.

The target population for the study was the Senior Program Managers and Chief Executive Officers from the 1000 registered and active NGOs in Nairobi County as per the NGO Coordination Board report (2018). The list of the 1000 registered NGOs in Nairobi County formed the study’s sampling frame. The study used stratified random sampling technique. The population was divided into homogeneous strata or subgroups and a proportional simple random sample drawn from each stratum (Arun*, et al.,* 2016). The basis of strata was the NGO categories. The preferred sampling technique helped in ensuring fair representation of all characteristics of the population of the Non-Governmental organizations in Nairobi County.

Based on the population of 1000 organizations, a sample size of 285 NGOs was determined using the Yamane (1967) sample size formula. :



Where: n = sample size

N = Population size

e = Standard error

Sample size = =285



To ensure proportionality, the sample elements were distributed across all sectors where the number of elements to be selected from stratum ***h*** was determined as;



Where;

*nh* = sample elements selected from stratum *h*

*Nh* = Total number of elements in stratum *h*

*N* = The population size where; *k* = the number of strata forming the population



*n* = The desired sample size (285) where,



Table 1: Sample Size

|  |  |  |
| --- | --- | --- |
| **NGO category**  **(stratum)** | **No. of Senior Program Managers or Chief Executive Officers** | **Sample size** |
| Health sector | 141 | 40 |
| WASH and Livelihood | 100 | 29 |
| Education | 166 | 47 |
| Orphanages and Rehabilitation | 99 | 28 |
| Environment protection and Human Rights | 494 | 141 |
| **Total** | **1000** | **285** |

A structured questionnaire was designed and tested for validity and reliability for the purposes of carrying out this study. The questionnaires were administered by direct delivery to the participants which presented an opportunity for the researcher for self-introduction and offering clarifications on questionnaire items where such clarifications were sought by the respondents. Trained research assistants were engaged to administer the questionnaires, track them and getting the feedback. Using the rule of the thumb, between 5% and 10% of the target sample should constitute the pilot test (Cooper & Schilder, 2011). As such, a pilot study was conducted on 15 (5% x 285) respondents who were selected from the senior program managers and executive officers of the NGOs within the Nairobi County who did not form part of the sample population. The questionnaires were tested for reliability using the Cronbach’s Alpha coefficient to check for duplication of the questions, ensure issues such as biased or inaccurate questions were eliminated and established the extent to which questions were consistent with what was being tested.

The data was cleaned, edited and organized for analysis and presentations. The study employed both descriptive and inferential statistical techniques. The descriptive statistical techniques involved computation of measures of central tendencies such as mean, frequencies, standard deviations, coefficients of skewness and kurtosis among others, while inferential techniques included Chi square tests, correlation and regression analysis for assessment of causal and functional relationships among the study variables and assessing their goodness of fit.

Chi Square test was used to test the independence between the rating of the NGOs and the duration that the NGOs have been in existence (NGO age brackets). The NGO age brackets were categorised in inclusive class intervals of width of 5 years from 0-5 years, 6-10 years, 11-15 years, 16-20 years and ≥21 years. Based on the sample size, the study adopted the Shapiro-Wilks test for normality carried out at 5% significance level. The procedure tests the null hypothesis that the response variable data is normally distributed, which is rejected when the P-value is less than the test’s significance level. Correlation analysis was used to assess the relationship between the independent variable and the indicators of the dependent variable. Simple linear regression analysis using the Ordinary Least Squares (OLS) method was used to develop models and to test the statistical significance of the models. Tests for the assumptions of linear regression analysis such as tests for normality, linearity and heteroscedasticity were done to assess the statistical adequacy of the models. The structure of the simple linear regression model used to investigate the functional relationship between the dependent and independent variables of the study was as follows;

To assess the effect of Working Capital Management practices on sustainability of NGOs, the simple linear regression model used was of the form;



Where

Sustainability of NGOs



Constant



Coefficient of budgetary practices



Budgetary practices



The error term



In assessing sustainability of NGOs, different ratios were computed. Lewis (2016) recommended that the financial sustainability of an NGO could be calculated using the following ratios:

Current ratio compares the Current assets which will become liquid in approximately twelve months with the current liabilities which will be due for payment in the same time period. A current ratio of 2:1 is acceptable and the lower the predictability a firm cash flows, the lower the acceptable current ratio.

Donor-dependency Level = x 100



Donor dependency level shows the financing strategy of the firm and its dependence on the donor aid in a given period. It is used to enable the firm to set and monitor their financial targets that are set with the objective of long term survival. The rate of dependency is guided by the financing strategy of the organization, where less dependency will indicate lower levels of donor funding and more dependency of other generated income.

Survival Ratio = x 52 weeks or 365 days



The survival ratio gives an indication of how long the organisation could survive in the coming year if the normal income dried up and levels of activity remain the same and the recommended a survival ratio of a minimum 30 days Lewis (2016).

**Results**

The following table shows the Likert scale summary statistics on NGO working capital management practices.

Table 2: Likert Scale Frequencies and Descriptive Statistics on NGO working capital management practices

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Variable Indicators** | **P/F** | **SD** | **D** | **N** | **A** | **SA** | **Mode** |
| 1. The organization has management systems for cash and Bank accounts | **P** | 0 | 0 | 14.0 | 51.7 | 34.3 | 4 |
| **F** | 0 | 0 | 24 | 89 | 59 |  |
| 1. The cash forecasts are prepared in good time | **P** | .6 | 1.7 | 8.1 | 59.9 | 29.7 | 4 |
| **F** | 1 | 3 | 14 | 103 | 51 |
| 1. Appropriate measures are set to govern utilization of cash | **P** | 0 | 0 | 10.5 | 59.9 | 29.7 | 4 |
| **F** | 0 | 0 | 18 | 103 | 51 |
| 1. To improve the process, NGO must liquidate such expenditure within a reasonable time going by the contract details | **P** | .6 | 2.9 | 35.5 | 42.4 | 18.6 | 4 |
| **F** | 1 | 5 | 61 | 73 | 32 |
| 1. There are no delays in remittance of tranches during implementation | **P** | .6 | 7.0 | 27.3 | 46.5 | 18.6 | 4 |
| **F** | 1 | 12 | 47 | 80 | 32 |
| 1. There is constant delay in reporting of expenditure | **P** | 5.8 | 16.9 | 23.3 | 43.6 | 10.5 | 4 |
| **F** | 10 | 29 | 40 | 75 | 18 |
| 1. The delays in the subsequent receipt of funds affect liquidity | **P** | 2.9 | 5.8 | 27.9 | 51.7 | 11.6 | 4 |
| **F** | 5 | 10 | 48 | 89 | 20 |
| 1. The creditors are paid within the stipulated time | **P** | 1.7 | 4.7 | 32.6 | 46.5 | 14.5 | 4 |
| **F** | 3 | 8 | 56 | 80 | 25 |
| \*P: Percent F: Frequency SD: Strongly Disagree D: Disagree N: Neutral A: Agree SA: Strongly Agree | | | | | | | |

**Descriptive statistics**

|  |  |  |  |
| --- | --- | --- | --- |
| Mean | 3.8738 | Sample Variance | 0.1488 |
| Median | 4 | Kurtosis | 2.9601 |
| Mode | 4 | Skewness | 0.0132 |
| Standard Deviation | 0.3857 | Count | 172 |

Cash and Bank accounts management is a critical aspect for every business. Management systems for cash and bank accounts are therefore critical components in promoting sustainability by ensuring optimal liquidity. Impressively, 148 respondents (86%) confirmed that cash and bank account management systems exist in their NGOs with 24 respondents (14%) remaining neutral on this aspect. None of the respondents disagreed to the statement that these management systems exist in their organizations. Abioro (2013) Stated that a mere availability of cash without proper management does not necessarily translate to a favorable performance of an organization. Thus, cash management practices greatly influence the financial performance of a firm. The findings under this study points towards a very positive practice in as far as the management of cash and banking is concerned and therefore the NGOs under discussion are likely to maintain accuracy and effectiveness on their cash and bank balances, a practice that is highly recommended in financial management with any organization.

Timely and accurate cash forecasts are also very critical in ensuring optimal preparedness for future organizational financial needs. 154 respondents (89.6%) indicated that these cash forecasts are actually prepared in good time within the NGOs in which they serve, while a mere 4 respondents (2.3%) indicated that the forecasts are not prepared in good time. 14 respondents (8.1%) were neutral on this aspect. This is in line with the findings of Ahmed and Ali (2013) who suggested that cash flow forecasts have a great influence on the investor’s decisions.

Utilization of institutional or organizational funds should be ultimately well governed and regulated, lest misappropriation of funds creeps in resulting to unmet budgetary objectives and organizational goals. In regards to the application of appropriate measures to govern utilization of cash, and it was found that 154 respondents (89.6%) serve in NGOs that have set measures to ensure regulated utilization of cash. None of the respondents indicated that there are no such measures in their NGOs, though 18 respondents (10.4%) remained neutral on this aspect of the study.

In relation to the liquidation of expenditure during the project implementation, the finding in this study showed that 105 respondents (61%) agreed that expenses are liquidated in good time, 6 respondents (3.5%) felt that the expenses are not liquidated in good time, while a significant 61 respondents (35.5%) decided to remain neutral on this proposition. The liquidation of expenditure is critical if the organization is to maintain liquidity and be able to carry out its operations without interruptions.

Achievement of budgetary and general planning goals and objectives can only be realized if the funds to execute the targeted activities and transactions are received in good time. The study endeavored to determine whether approved grants are usually received by the respective NGOs in good time in relation to the signed agreements. The study revealed that 112 respondents (65.1%) work in NGOs where remittance of tranches during implementation are done in good time, 13 respondents (7.6%) stated that their NGO remittances delay during program implementation while the status for NGOs for 13 respondents (27.3%) could not be determined since the respondents were neutral on the statement.

A concern was raised where 93 respondents (54.1%) indicated that there are constant delays in reporting of expenditure in their NGOs and 40 respondents (23.3%) who decided to remain neutral on this proposition. Only 39 respondents (22.7%) indicated that reporting of expenditure is timely in the NGOs in which they serve.

Most programs and projects are usually implemented in joint phases. As such, funds are released in phases mostly guided by assessment, monitoring and evaluation reports. This implies that if the release of funds for subsequent phases is delayed, then the program’s liquidity is affected, resulting to overall project delay and increased overhead costs. 109 respondents (63.3%) confirmed that delays in subsequent receipt of funds is evident in their NGOs and this adversely affects liquidity. This raises concerns on effective implementation of programs. 15 respondents (8.7%) indicated that such delays do not occur, while 48 respondents (27.9%) remained neutral. Krivelyova et al. (2013) emphasised on the need for organizations to report their expenditure in good time to the funding institutions

Effective and efficient working capital management systems should be complete and all inclusive. This includes transactions relating to suppliers and creditors. Timely payment of creditors cultivates cordial and long-term business relationship that supports sustainability and organizational resilience during strains and financial down turns. This study revealed that, a total of 105 respondents (61%) confirmed that creditors are paid within the stipulated time, 11 respondents (6.4%) indicated that the creditors are not paid within the stipulated time while 56 respondents (32.6%) were neutral.

These findings are in line with the recommendations by Achode and Rotich (2016) that the priority of the senior management should be to manage their trade credit more prudently and so it is the responsibility of the financial officers and the managers to establish a long term relationship with their supplier so that the organization accesses credit more easily and faster as increased trade credit enhances the performance through improved liquidity and profitability as well as increase the competitiveness of the organization.

Generally, the working capital management practices yielded an overall mean of 3.8738 (approximately 4) which was accompanied by a median of 4 and a mode of 4. This indicates that the respondents generally agreed with the positive Likert statements about working capital management practices in their NGOs, which is a good rating. This rating was fairly varied across respondents with a low dispersion; standard deviation of 0.3857. The responses on this aspect of financial management practices was found to be mesokurtic with a coefficient of kurtosis of 2.9601 (approximately 3) and normally distributed with a coefficient of skewness of 0.0132 (approximately 0). The normality is ascertained by the equality of the three measures of central tendency; arithmetic mean, median and mode.

Chi Square Test

The computed Chi Square statistics were found to be less than the Critical Chi Square statistic (31.410) and the P-Values greater than the significance level (0.05) for all aspects of working capital management practices. For these reasons, the null hypothesis of independence failed to be rejected implying that working capital management practices are statistically independent of NGO age bracket. This led to the conclusion that an NGO does not need to be in existence for a long duration so as to ensure proper working capital management practices which contributes positively to the sustainability of the organization.

**Correlation Analysis**

The existence, nature and the degree of significant correlation between the explanatory variable and the response variable indicators were assessed using the Pearson’s Coefficient of Correlation (*r*). The working management practices was found to be strongly correlated to the current ratio and the survival ratio. The effects the working capital management practices on the respective indicator of NGO sustainability were analyzed, guided by the findings on the significance/strength of the relationship between each practice and NGO sustainability. Regression analysis was conducted for the cases where strong correlations existed between working capital management practices and indicators of NGO sustainability.

**Regression analysis: effect of working capital management practices on NGO sustainability**

Each indicator of the response variable (NGO sustainability) that was found to be strongly correlated with working capital management practices (X2) was regressed against the working capital management practices. These were the current ratio (Y1) and the survival ratio (Y3). The table here below shows the Ordinary Least Squares (OLS) linear regression outputs.

Table 3: OLS Linear Regression Output for Y1 and Y3 against Working Capital Management Practices

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| *Y1 Model parameters* | *Coefficients* | *Std. Error* | *t value* | *p value* | *t crit* |
| Intercept | -0.192 | 0.049 | -3.918 | 0.025 | 2.145 |
| X2 | 0.042 | 0.017 | 2.471 | 0.034 | 2.145 |
| *Regression Statistics* | |  |  |  |  |
| Adjusted R Square | 0.560 | F statistic | 14.201 | Durbin Watson | 1.922 |
| *Y3 Model parameters* | *Coefficients* | *Std. Error* | *t value* | *p value* | *t crit* |
| Intercept | 5.662 | 2.508 | 2.258 | 0.038 | 2.145 |
| X2 | 0.142 | 0.043 | 3.302 | 0.029 | 2.145 |
| *Regression Statistics* | |  |  |  |  |
| Adjusted R Square | 0.622 | F statistic | 15.001 | Durbin Watson | 2.005 |

The output shows that the current ratio (Y1) of an NGO that is not influenced by working capital management practices (X1) is -0.192. However, this ratio increases by 0.042 for every unit improvement in working capital practices. On the other hand, the survival ratio (Y3) of an NGO that is not influenced by working capital management practices is 5.662 with an increasing rate of 0.142 for every unit improvement in working capital management practices. The models yielded coefficients of determination (Adjusted R2) above 50% which indicate that the models are statistically good models. The F-test and t-test statistics also indicate that the models’ goodness of fit is statistically significant and the Durbin Watson values are approximately equal to 2 (*d ≈ 2)* indicating absence of autocorrelation.The organizations should identify and implement goals that are clear, specific and realistic in order to attain its mission and guarantee sustainability.

**Analysis of Variance (ANOVA)**

An analysis of variance to examine whether the responses were dependent on the variable was conducted to test the hypothesis that all means are equal. A summary of the responses was developed by determining the average number of responses for each variable under each category; strongly disagree, disagree, neutral, agree and strongly disagree. It was found that the means are not equal across the response categories. This implies that the responses were dependent on the variables. It means that a respondent would evaluate a variable and its attributes and characteristics within or NGO and rate it accordingly. This is an aspect of the responses that enhanced the confidence of the researcher in the responses received, hence the findings of the study. (Equal means would imply that the respondents never evaluated and rated the variables appropriately and therefore would give the same rating or response for all variables).

**SUMMARY**

Efficiency in the management of working capital ensures profitability, liquidity and the much needed financial health for a business. The proper management of the various components of the working capital which are broadly categorised as the cash , the accounts receivables, the accounts payables and the inventory has a great impact on its operations and sustainability of any business or organization. The working capital therefore requires proper management on a day to day basis in order to achieve good results. Failure to effectively and closely manage any of the components of the working capital could lead to illiquidity or lack of profitability and compromise on the sustainability.

This study reported an impressive 86% of the respondents who confirmed that cash and bank account management systems exist in their NGOs and none of the respondents indicated a different opinion. Cash is the most liquid asset in a business and for the business to run effectively and efficiently, it must set strict measures or policies to safeguard this asset. These cash and bank accounts management systems include policies and procedures set on the bank reconciliations, the handling of liquid cash and, segregation of duties in the cash management function, safeguarding against theft and fraud and approval systems that are designed to ensure that the cash receipt and spending are properly approved by the designated managers or officers. Proper maintenance and management of bank and cash accounts enables the organization to effectively manage the money received and paid out and generate the relevant reports as may be required for the use by the management and the donors.

Also, 89.6% confirmed that cash forecasts are prepared in good time and only 2.2% indicating that the forecasts are not prepared in good time. This is a good gesture as the NGO receive and disseminate huge amounts of cash during the project implementation, and lack of cash forecast could derail the implementation of the projects. Timely preparation of cash forecasts enables the organization to prioritize the cash needs and efficiently employ the available cash to the most important activities at a given time. The response obtained in this study show that most of the NGOs within the scope of this study have a good practice of preparing cash forecasts to enable them utilize the available cash in the most efficient manner.

Regarding the regulations on the utilization of cash, 89.6% of the NGOs have set measures to ensure regulated utilization of cash and no respondent among the sampled indicated that there are no such measures in their NGOs. Regulations on cash utilization protect the firm from malpractices, cash mishandling, and other unethical practices. These findings show that the NGOs in Nairobi county have put in place good systems in their cash management that enable them to monitor and control the utilization of available funds. NGOs handle large amounts of cash during the implementation of the project and therefore effective measures that are set to regulate the utilization of cash are a great necessity to the stability and sustainability of the organizations.

60.7% of the respondents agreed that approved grants are usually received in good time and 3.7% felt that this is not the case. It is important that the approved grants are received within the time specified in the agreement because the planning on the utilization of cash would be done based on the planned receipt dates. Any delays would interfere with the cash flow of the form and may lead to illiquidity and disruption of the planned activities that were to be funded using such funds. From the findings in this study, the receipt of grants in the time stipulated is fair but there is room for further improvement.

The study further revealed that in 65.2% of the NGOs remittances of the tranches during implementation are done in good time, but in 7.4% of the NGOs the remittances delay during program implementation. Project that are implemented by the NGOs have strict timelines within which they must be completed and reports submitted to the funding bodies. Timely remittance of the tranches during the implementation of a project allows the smooth running and compliance to the agreements and the completion of the project within the agreed timelines.

A point of concern is observed where 54.1% of the respondents indicated that there are constant delays in reporting of expenditure in their NGOs with only 22.9% indicating that reporting of expenditure is timely in the NGOs. The experienced delays in liquidating the expenditure is a negative aspect as the subsequent release of funds is greatly tied to the ability of the organization to utilize, record and report the expenditure within the shortest time possible, according to the signed agreement. The expenditure liquidation delays reported in this study could be associated with many things such as lack of compliance to the set parameters or slow spending on the projects thereby reporting the expenditures later than normal. Such delays adversely affect the organization and are likely to causes major challenges in the release of the subsequent tranches thereby adversely affecting the liquidity of the firm. The findings under this study show that on average there are delays on the liquidation of the expenditure, and this is a challenge which would cause a further delay in the release of further funding from the donor, an action that would lead to negative cash flow effects.

Under this study, 63.8% of the NGOs experience delays in receipt of funds, a practice that has great potential to adversely affect the liquidity of the organizations. Only 8.2% of the respondents indicated that such delays do not occur. The delays in the liquidation of the expenditure causes major challenges in the release of the subsequent amounts and that adversely affect the liquidity of the firm. Donor organizations believe in the accountability reporting and where there is delay experienced in such reporting, the subsequent tranches could be withheld until such a time when all the requirements have been me. The receipt of funds also demand that the organization has clear guidelines on the remittance process to be followed, the necessary banking address are clearly defined and both the sender and the recipient are in constant correspondence among other requirements. Illiquidity caused by the delays in the release of the tranches would affect the ongoing operations and to the worst affect the daily operations and subsequently lead to closure.

Accounts payable is one of the most important component as far as working capital of an organization is concerned. In this study, 61.5% confirmed that creditors are paid within the stipulated time while 5.9% indicated that the creditors are not paid within the stipulated time. The settlement of credit within a reasonable time is a positive gesture that not only create a good image of the organization, but also improves the credibility of the organization. The working capital management practices are independent of the NGOs age bracket and therefore do not improve or deteriorate with time.

Prudent working capital management requires that an organization negotiate a reasonable period in settling the creditor’s payments without compromising on the relationships argument. The payment of the short term obligations should therefore be a major concern to organizations that desire to survive in the long-run. It is therefore critical that working capital aspect becomes a major concern in organizations that desire to continue in operation for a long period of time.

Working capital management practices was found to influence NGO sustainability to a significant extent. It was established that improved working capital management practices would result to increased current ratio, and increased survival ratio.

**CONCLUSION**

The working management practices on the sustainability of NGOs in Nairobi county, the practices were found to be satisfactory with some areas of improvement recommended. The cash management was found to be within good limits with the cash and bank accounts well managed, cash forecasts prepared in good time to aid in successful implementation and appropriate measures are set to govern the utilization of cash. The study showed that NGOs have established functional cash and bank account management systems and also facilitates timely cash forecasts that effectively guide the organization during the implementation of the projects. They also set measures, to govern the utilization of cash and the cash withdrawal approvals and management is also done. The scheduling of the grants receipts was found to be well planned and implemented, as the approved grants were received in good time and, there were no delays in remittance of the planned tranches. The accounts payables were also satisfactorily managed, as the creditors were paid within the stipulated time.

Great concerns were however noted regarding the constant delays in reporting of expenditure, which translated to delays in subsequent receipt of funds, a lapse that would potentially adversely affect the liquidity of the organization. The effect of the delay in the liquidation of the expenditure could result to illiquidity in the organizations and alter the operations, thereby threatening sustainability of the organization.These working capital management practices were not influenced by the duration of an NGOs existence and therefore do not improve or deteriorate with time. The study concluded that working capital management practices significantly influence NGO sustainability where improved working capital management practices would result to improved current ratio, and increased survival ratio.

**Recommendations**

The study sought to assess the effect of working capital management practices on the sustainability of NGOs in Nairobi County. Based on the findings on this study, it was recommended that the senior management should set stringent measures on the liquidation of expenditure in order to reduces the time taken to requisition for the subsequent tranches to enable the organization to maintain appropriate liquidity levels and improved cash flows. The board within the organization should also set policies and procedures that will guide the organization towards improved compliance to the signed agreements in order to eliminate delays in reporting and future release of funding. In the management of the accounts payable, the management should monitor more closely the settlement of the short term obligations by the organization to ensure efficiency in the settlement of the accounts payables at any given time.

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