EFFECT OF ACCOUNTS PAYABLE MANAGEMENT PRACTICES ON LIQUIDITY OF PUBLIC TECHNICAL TRAINING INSTITUTIONS IN RIFT VALLEY REGION, KENYA

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ABSTRACT

Technical training institutions in Kenya play a strategic role in providing highly skilled artisans, craftsmen, technicians and technologists with the expectation of bringing about economic growth. For a TVET institution to run well, it should have enough liquidity capabilities. However, there has been occurrence of the liquidity problem in TVET institution. This has led to none payment of suppliers on due date, shortage of practical materials used by students in workshops, shortage of food for boarding students, none payment of salaries to none teaching staff, delayed salaries for part time lecturers and early closure of TVET institution each term. Specifically, the study intended to determine the effect of accounts payable management practices on liquidity of public technical training institutions in Rift Valley Region, Kenya. This study was guided by transaction cost theory which is aligned to objective of the study. The study adopted census survey because the numbers of respondents were very few. Accessible population was 38 respondents comprising of 19 principals and 19 accountants. Questionnaires were self-administered. The pilot test was administered using five questionnaires to public technical training institutions in Nyanza region. The content of validity of the data collection instrument was determined through discussing the research instrument with the research supervisor. Cronbach's alpha coefficient above or equal to 0.70 was considered sufficient for reliability test. The data collected was analyzed, with respect to the study objectives, using both descriptive and inferential statistics. Descriptive statistics include frequencies, percentages, mean, standard deviation and variance. Inferential statistics included product moment correlation analysis and multiple regression. The study findings indicated that accounts payable management practices ($\beta = 0.428$; $\rho < 0.05$) was significant to liquidity of public Technical Training Institutions in Rift Valley Region. The study recommended that the principals and stakeholders of TVET institution should negotiate for better terms of credit with their suppliers, this elongates the accounts payable.

Key Words: *accounts payable management practices, liquidity*

INTRODUCTION

Liquidity is the available cash for the near future, after taking into account the financial obligations corresponding to that period. Liquidity is driven by accounts payable management (Priya, 2013). Liquidity is a significant aspect that conveys a good picture around the capacity of the institution to generate cash and repay liabilities as they fall due. Cash is the most liquid asset of all. In relations to accounting, liquidity can be well-defined as the ability to fulfil short-term obligation as they fall due (Award & Al-Ewesat, 2012). In terms of investment, it is the ability to quickly convert an investment portfolio to cash with little or no loss in value. A liquid institution is one that stores enough liquid assets and cash. It should also have the ability to generate funds easily from other source to facilitate it in meeting its maturing obligations in a timely manner. A liquid asset is one that trades in an active market can easily change into cash at the current market price (Mudida & Ngene, 2010).

Liquidity problem comes in if institutions do not have sufficient cash or liquid assets to fulfill its cash requirements (Singh & Shahid, 2016). For any institution to be stable in survival and put up with its activities as a going concern it must stay liquid and fulfill its commitments as and when they become due. Liquidity problem is the probability that an institution will not be in financial capability to settle down its current obligation on due date. It is a situation where an institution is unable to pay its liabilities without incurring any additional charges and penalties (Kesimli & Gunay, 2011). The liquidity problem has got major outcome on the institution's performance and is caused by poor accounts payable management practices. If the company fails to minimize its spending, the current liabilities will not be settled when they fall due, additional charges will be attached to the obligation hence reduce the institution's credit score to the fund providers and suppliers (Mathuva, 2010).

Accounts payable are the clients who are willing or have supplied materials and services to the institution on credit terms (Pandey, 2010). Grounded on the idea of accounts payables, strategies are adopted in the organizations to ensure that they maintain an effective level of credit and supervision of the accounts payable. This involves day to day obligation of credit analysis, credit classification, ratings and reporting to the decision making arm in the organization. Increasing reliance on suppliers may present buying institutions with problems such as delays in delivery, inferior quality levels and hence liquidity problem. However, many organizations feel that supplier evaluation does not have much influence on the buying decision since the buying decision is mostly determined by price and politics (Kavale & Mwikali, 2012). For other companies however, superior supplier performance may lead to superior quality and rapid integration of the latest technological breakthroughs into the buying institution's own products through early supplier involvement. This will improve on the liquidity capability of the buying institution (Grifith, 2012).

For supplier evaluation to be an objective and transparent process, it needs to be conducted using set criteria so as to ensure standardization in the evaluation. The development of appropriate criteria that captures the interests of the bargain hunter is one of the indicators of procurement performance (Nair, Jayaram & Das, 2015). There is agreement that the choice of appropriate criteria in supplier evaluation and selection has a significant influence on liquidity of the institution. Traditionally, supplier evaluation criteria have been pegged on only three factors namely cost/price, quality and delivery. Relatively recent developments in supplier selection advocate the use of multiple criteria models in supplier evaluation (Murigi, 2014). Some of the supplier evaluation criteria include financial ability, quality, production facilities, environmental issues, supplier's organizational culture, cost factors production capacity and employee capabilities among others (Hald & Ellegaard, 2011).

STATEMENT OF THE PROBLEM

Technical training institutions in Kenya play a strategic role in providing highly skilled artisans, craftsmen, technicians and technologists with the expectation of bringing about economic growth. For these TVET institutions to run well they should have enough liquidity capabilities. The management of liquidity is critical for all institutions (Kungu, Njui & Kimani, 2014). However, most TVET institutions experience liquidity problems in carrying out their operations (Ng'ang'a & Kibati, 2016). This leads to none payment of suppliers on due date, shortage of practical materials used by students in workshops, shortage of food for boarding students, none payment of salaries to none teaching staff, delayed salaries for part-time lecturers and early closure of TVET institution each term (Musau, 2015). In the long run the objectives of TVET institutions will not be met. It can also lead to total closure of the institution (Yator, 2018).

OBJECTIVE OF THE STUDY

To evaluate the effect of accounts payable management practices on liquidity of public Technical Training Institutions in Rift Valley Region, Kenya.

RESEARCH HYPOTHESES

H_0: There is no significant relationship between accounts payable management practices and liquidity of public Technical Training Institutions in Rift Valley Region, Kenya.

THEORETICAL REVIEW

The Transaction Cost Theory was formulated by Commons (1934) and reinforced by Coase (1937), Arrow (1969) and Williamson (1985, 1988). According to Arrow (1969), transaction costs are the costs involved in running the economic system. Coase (1988) advocated that there are always costs for carrying out market transactions. This theory will be of importance in explaining the behavior of organization with regards to supplier-buyer relationship (Williamson, 1989). Based on this theory, the institutions should not invest much in the supplier-buyer relationships without having an evaluation as to whether the relationship created will be beneficial or not.

Assumptions of bounded rationality are based on the classical economics theory, it is assumed that humans have perfect rationality of their behaviors (Coase,1937). However, according to neurophysiological and language limits of individuals, there are the constraints of human abilities to receive, process and analyse information without any error. Therefore, bounded rationality is viewed as a source of transaction costs because all factors cannot be considered in the decision making process (Simon, 1957). The other assumption is opportunistic behaviour which states that it is expected that suppliers may deliver inferior goods if they know that their clients cannot detect the difference. This opportunistic behaviour leads to the cost of monitoring the outsourced production processes and the quality of delivered products. Although the institution may not discover any opportunistic behaviour of its suppliers, quality checking may still be necessary as long as the expectation of opportunistic behaviour still exists (Lui & Ngo, 2012).

Transaction cost theory is applicable in the determination of the levels that are leading to successes of any supply chain in a firm (Chotkowski, 2010). It is used in determining as to whether to select a certain supplier or not based on the major goal of cost saving in the organization. The assumption of bounded rationality has been criticized for reflecting persons' incapability to process bulky amounts of information and their trouble in allocating probability values to the happening of upcoming actions (Simon, 1961). It is worth noting that bounded rationality does not imply that individuals seek to be irrational. In fact, they seek to make rational decisions but within the limits of their imperfect cognitive abilities and in conditions of imperfect information. The assumption of opportunism has been criticized for paying no attention to the circumstantial foundation of human actions and therefore giving under socialized view of human motivation and over socialized view of institutional control. TCT is also criticized for failing to point out how opportunism is minimized through substitute governance structures (Wronska, 2012).

TVET institutions face a lot of uncertainties necessitating the need of applying this theory to shield them from extra supplier costs (Murigi, 2014). The study will utilize this theory because it will aid the institution to acquire dependable suppliers who will ensure that TVET institutions in Rift Valley Region get constant supply of inventory and services needed for running day to day activities. Accounts payable management practices affect procurement process of supplies in the public technical training institutions (PTTI) to a great extent (Galarza, 2011). Adequate controls should be put in place to reduce opportunities for corruption. Introduction of electronic data management software for managing records in liaison by both inside and outside stakeholders should be connected to the electronic data software for transparency and efficiency (Zbroinska, 2013).

EMPIRICAL REVIEW

Duru and Okpe (2016) studied on management of accounts payable on the financial performance of industrial/ domestic manufacturing companies in Nigeria. The research design utilized in this research was Ex-post facto research design. It was utilized since it used events that took place during the previous years. The population of this research was all the companies in industrial and domestic products manufacturing companies in Nigeria. The sample size was reliant on data accessibility. The research used only secondary data taken out from yearly report and statement of accounts of the companies under research. The data for this research included, accounts payable, Sales /Turnover, long term debt, and profit before tax. The research showed that the association between accounts payable ratio and profitability was positive and statistically significant. The research also showed that equally debt ratio and sales growth rate had positive and significant consequence on profitability of the companies under research. The research utilized secondary data which had already been obtained and in the public domain. Unlike the primary data which is first-hand information.

Sharma (2017) examined account payables management in selected companies of fast moving consumable goods sector in India. FMCG companies in India were all consider in the population. Five individuals of FMCG companies were analyzed. Data for ten years of the above five FMCG companies formed the sampling size of the financial data. Judgment sampling technique (Non probability sampling technique) was utilized. Secondary data were collected and analyzed. The above FMCG companies' websites were utilized to gather data on financial statement from 1st April 2007 to 31st March 2017. The monetary values of account payable turnover ratio of Britannia were high. Furthermore, it had the highest among all the companies taken in the research. A bigger value of account payable turnover revealed that the firm is skillful in paying its short term liability quickly, if larger volume of accounts payable turnover ratio is satisfactory for business organization. The study did not focus on issues affecting the necessity of liquidity like nature of business, production policies which must be considered while estimating the need of liquidity.

Achode and Rotich (2016) studied on effect of accounts payable as source of financing on performance of listed manufacturing firms at the Nairobi Securities Exchange. A cross-sectional research design was adopted. That was because the research study used quantitative relationship between independent variables and dependent variables. Data was gathered at a single point in time. Census sampling technique was used. Secondary data was collected in that research, which was found from the companies' financial statements and journals at the Nairobi Securities Exchange. The descriptive analysis of the variables, critical analysis and advanced analysis of the data was carried out with the help of SPSS. A multiple regression model was applied to test the association between the accounts payable and firm performance. The outcomes from research showed that majority of the firms quoted at the NSE had a direct positive relationship between accounts payable and the dependent variable, Profitability and Liquidity. The research did not factor in discount offered and the consequence on liquidity.

RESEARCH METHODOLOGY

Research Design

Descriptive research design was used in this study. Descriptive research design involves collection of information from a large population and concentrates on the respondent's views in order to get relevant information on independent and dependent variables using questionnaires to achieve the research objectives. The major purpose of descriptive research is description of the state of affairs as it exists. Descriptive research includes survey method, observational method and case study method (Sekaran & Bougie 2010).

Target Population

Target population consists of all participants of a real or hypothetical set of persons, actions or matters from which an investigator needs to take a broad view on the results of their study (Newing, 2011). The target population was principals and accountants of PTTI institutions in Kenya as per TVETA list of August 2017. Accessible population was 38 respondents composed of 19 principals and 19 accountants of PTTI institutions in Rift Valley Region, Kenya as per TVETA list of August 2017.

Sampling Size and Sampling Technique

This study used census survey method. A census is a survey conducted on the full set of observation objects belonging to a given population or universe. The researcher interviewed all the 38 respondents composed of 19 principals and 19 accountants of PTTI institutions in Rift Valley Region, Kenya. This is as per the list of TVETA on August, 2017. The census approach is justified since the data gathered using census contributes towards gathering of unbiased data representing all individuals' opinions in the study population on a study problem (Musau, 2015).

Research Instruments

Both primary and secondary data was used in this research. Primary data is the one collected for the first time by the researcher hence can be said to be original. Primary data was collected from the principals and accountants of TVET institutions. Secondary data was collected from other previously conducted research or sources such as financial journals, published financial statements and documents (Emory, 2011). The Secondary data gathered was utilized to enhancement and endorse the primary data collected. Secondary data comprise all the information collected for purposes other than the completion of a research questionnaires and it was used to gain initial insight into the research problem (Oso & Onen, 2011).

Data Processing and Analysis

Before processing the responses each filled questionnaire was tallied for every response. The responses were edited, coded and cleaned in case of any irregularities. It was typed and later on uploaded into statistical package for social sciences (SPSS) version 20.0 (cooper & schindler, 2011). The data collected was analyzed using descriptive and inferential statistics. Descriptive statistics tools used included frequencies, percentages, mean, standard deviation and variance. Inferential statistics included use of product moment correlation analysis and multiple regression (Vance, 2011).

RESEARCH FINDINGS AND DISCUSSIONS

Descriptive Analysis of Effect of Accounts Payable Management Practices on Liquidity of Public Technical Training Institutions in Rift Valley Region, Kenya. The study sought to evaluate the effect of Accounts Payable Management (APM) practices on liquidity of Public Technical Training Institutions (PTTI) Institutions in Rift Valley Region, Kenya. The respondents were asked on how they agree with the statements. From the findings the respondents agreed (Mean =4.15; Std Dev =1.064) with the statement that adjustment on average payment period has effect on liquidity capabilities. The respondents agreed (Mean =3.97; Std Dev =1.212) that the relationship with suppliers affect the quality of items supplied. The findings further indicated with (Mean =4.21; Std Dev =0.960) that their suppliers offer discounts on purchases made by TVET institution. Further, findings indicated that (Mean =4.06; Std Dev =1.171) the institution carry out Supplier appraisal. The respondents also concurred (Mean =4.15; Std Dev =1.176) that there is established Supplier selection strategies in place and being obeyed. The respondents generally agreed on the statements pertaining to effect of accounts payable management practices on liquidity of public technical training institutions with an overall mean of 4.11. These findings to a large extent is in agreement with the findings of Achode and Rotich (2016) showed that majority of the manufacturing firms quoted at the NSE had a direct positive relationship between accounts payable and the dependent variable, Profitability and Liquidity. A grand mean of 4.11 showed that respondents agree to the statements. This imply that good account payable management practices will lead to improved liquidity in an institution.

Inferential Analysis

This section puts into viewpoint the relationship amongst the independent variables and the dependent variable. It also put into view the effect of the independent variable on the dependent variable. This part outlines the findings of both correlation and multiple regression analysis.

Table 1: Relationship between Accounts Payable Management and Liquidity

		Liquidity
Accounts Payable	Pearson Correlation	.812**
	Sig. (2-tailed)	.000

**. Correlation is significant at the 0.01 level (2-tailed).

These research findings showed that the relationship between accounts payable management (APM) practices and liquidity of PTTI institutions was positive and statistically significant ($r = .812$; $p< 0.05$). This implies accounts payable management practices positively and significantly influences liquidity of PTTI Institutions in Rift Valley Region. These findings concur to the study done by Achode and Rotich (2016) showed that most of the manufacturing firms listed at the NSE had a direct positive relationship between accounts payable and the dependent variable, Profitability and Liquidity.

Regression Analysis

The study sought to established the effect of accounts payable management practices on liquidity of Public Technical Training institutions in Rift Valley Region, Kenya.

Table 2: Multiple Regression Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate
.860[a]	.739	.712	.34425

a. Predictor: (Constant), Accounts Payables Management
b. Dependent Variable: Liquidity.

The findings indicate that the relationship between Accounts Payables Management practices focused on this study and liquidity of TVET institutions was positive (Adj R2=0.712). Findings indicated that 71.2% of the variation in liquidity of PTTI institutions is accounted for by APM practices. The 28.8 % of the liquidity of PTTI institutions resulted from other factors not investigated by the study.

Assessing the Fit of the Multiple Regression Model

Multiple regression analysis was conducted to test the influence of predictor variable on liquidity of PTTI institutions. The test results are shown in table 3.

Table 3: ANOVA Results

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	9.722	3	3.241	92.346	.000[b]
1	Residual	3.437	29	.119		
	Total	13.159	32			

a. Dependent Variable: Liquidity
b. Predictors: (Constant), Account Payables Management Practices

The findings of the study in Table 3 showed that there was a statistically significant relationship between the independent variable and the dependent variable ($F= 92.346$; $p< 0.05$). This therefore indicates that the multiple regression model was a good fit for the data.

CONCLUSIONS

APM practices are predictors for liquidity of PTTI institutions in Rift Valley Region. It was concluded that, adjustment on average payment period has effect on liquidity capabilities, suppliers offer discounts on purchases made by PTTI institution, institution carry out Supplier appraisal and there is established Supplier selection strategies in place and being obeyed. Lastly it was concluded that, PTTI institution adopts effective APM practices in improving its current ratio, increases its liquid assets so as to improve on quick ratio and adopts effective cash management techniques in improving cash ratio.

RECCOMENDATIONS

TVET institution should negotiate for better terms of credit with their suppliers, this elongates the accounts payment, and this ensures minimal interruption of supplies hence improved liquidity capability. APM practices affect liquidity of PTTI institutions in Rift Valley Region, therefore Transaction cost theory is applicable in the determination of the levels that are leading to successes of any supply chain in a firm. It is used in determining as to whether to select a certain supplier or not based on the major goal of cost saving in the organization.

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