AN EXAMINATION OF THE MODERATING EFFECT OF FINANCIAL RESILIENCE ON THE WORKING CAPITAL MANAGEMENT AND PROFITABILITY NEXUS

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DECLARATION

I declare that this work has not been previously submitted and approved for the award of a degree by this or any other University. To the best of my knowledge and belief, the proposal contains no material previously published or written by another person except where due reference is made in the thesis itself.

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Approval

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ABSTRACT

This study will examine the moderating effect of financial resilience on the relationship between Working Capital Management (WCM) strategies and profitability among firms listed on the Nairobi Securities Exchange (NSE). The research seeks to understand how different WCM strategies- aggressive, conservative and matching interact with a firm's financial resilience to influence profitability. By emphasising resilience, the research seeks to shift public and managerial attitudes towards prioritising long-term financial health over short-term gains, ultimately fostering a more robust business environment. From an economic perspective, improved WCM practices can contribute to overall stability of the financial system by reducing the risk of firm insolvencies. Moreover, the study is likely to influence public attitudes towards the importance of building financial resilience, encouraging businesses to adopt robust risk management strategies to better navigate economic shocks and downturns. This study contributes to the existing body of knowledge by integrating financial resilience into the WCM-profitability framework, offering practical implications for policy makers, financial managers and investors. It provides evidence that strengthening financial resilience is vital for optimising the outcomes of WCM strategies, particularly in emerging markets like Kenya. Additionally, the study highlights potential avenues for further research including industry - specific analyses and the exploration of non- financial indicators of resilience.

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DEDICATION

I dedicate this research project to my beloved family for their unwavering love, support and encouragement throughout my academic journey. Their constant belief in my unwavering abilities has been a fundamental source of strength and inspiration as well.

I also dedicate this research project to my friends and my supervisor who have personally inspired me and influenced my research work. Their commitment to academic excellence and their passion for research has been a major source of motivation for me.

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CHAPTER ONE:

INTRODUCTION

1.1 Background of the Study

The association between WCM and profitability has long been a subject of interest in corporate finance due its critical role in ensuring a firm's liquidity and operational efficiency. Working Capital inefficiencies such as holding high inventory or allowing lengthy credit periods ties up funds that could otherwise be used for profitable investments, these inefficiencies can lead to either liquidity shortages or excess idle funds hence minimising profitability. Several studies have shown that ineffective WCM can lead to decreased profitability. Lazaridis and Tryfonidis (2006) investigated Greek firms and found that firms with longer receivable collection periods and higher inventory holdings had lower profitability.

It suggests that efficient WCM through faster receivables collection and inventory turnover could enhance firms profitability. In a U.S centred study Gill, et al. (2010) highlighted the inverse relationship between WCM and profitability, noting that firms with delayed receivables and extended payables periods experienced a decline in profitability, the authors Gill and Biger indicated that poor WCM can strain cash flows and even erode profit margins especially for firms that rely heavily on short-term financing.

This study in conjunction with previous studies highlighted above seeks to explore how financial resilience can moderate the relationship between WCM strategies and profitability among listed firms on Kenya's premier capital market, the Nairobi Securities Exchange for lack of a better word, a sector where effective working capital management is especially due to economic volatility.

1.1.1 Working Capital Management

Working Capital Management is a vital aspect in corporate finance as its main focus is the administration of a firm's short term assets and liabilities hence the term working capital. The way in which working capital is managed can have a significant impact on both liquidity and profitability of the firm as seen by Deloof (2003). Working Capital consists of current assets like receivables, inventories and cash and current liabilities like payables, which requires careful management to optimise liquidity without compromising profitability. The strategies employed in

WCM that are aggressive, conservative and matching are made to balance the opportunity cost between risk and return, according to Afza & Nazir (2007) it is through these strategies that determine the amount of working capital required by a company or firm to support its day to day operations.

Aggressive working capital management as viewed by Gitman (2003) aims to maximise the return on investment by reducing the capital tied up in non earning assets like excess liquidity. However, it is seen as risky because it inhibits the firm's ability to have liquidity, increasing the chances of financial distress and liquidity shortfalls. It is characterised by heavy reliance on short term funding and high levels of interest rates. On the other hand, a conservative working strategy is one that involves a firm maintaining high levels of current assets and using long term funds to support working capital. It minimises risk as well as profitability hence the term conservative.

Matching working capital management strategy is one where there is a balance between the maturity profiles of firms assets and liabilities. This theory illustrates that short term assets can be financed by short term liabilities and long term liabilities financed by long term assets, managing liquidity and reducing risk.

Working Capital Management strategies are critical for financial management in firms.

1.1.2 Financial resilience.

Financial resilience refers to a firm's ability to withstand, adapt to, and recover from financial stress or disruptions while maintaining operational continuity and profitability. This concept encompasses multiple dimensions, including liquidity, risk management, operational adaptability, and strategic foresight, which collectively determine a firm's capacity to manage both predictable and unforeseen economic challenges.

Key to financial resilience is liquidity management, which ensures that firms maintain adequate cash reserves or access to credit facilities to absorb short-term shocks without disrupting operations. Effective risk mitigation strategies, such as diversification and hedging, also play a crucial role in shielding firms from financial vulnerabilities. Moreover, operational adaptability—the ability to adjust cost structures, resource allocation, or business models in response to economic changes—further enhances a firm's resilience.

Strong financial resilience is underpinned by robust financial health, characterized by low debt-to-equity ratios, stable cash flows, and efficient capital structures. Strategic foresight, including stress testing, scenario planning, and contingency frameworks, ensures that firms are proactive in managing potential crises.

In the context of emerging markets like Kenya, financial resilience is particularly critical due to heightened economic volatility and limited access to external financing. A 2021 study by Bricongne et al. underscores that firms with higher liquidity are better equipped to handle financial shocks, such as those experienced during the COVID-19 pandemic. This resilience enables firms to continue operations, maintain profitability, and recover quickly from setbacks, making it a cornerstone of long-term business sustainability.

This study posits that financial resilience not only helps firms survive economic volatility but also enhances the effectiveness of working capital management strategies. By integrating resilience into WCM practices, firms can better position themselves for sustained profitability and stability in uncertain environments.

1.1.3 Developing Economies and Emerging Markets

Existing research on WCM strategies largely focuses on the developed markets. This study aims at focusing on developing economies like Kenya expanding the literature to be discovered into new economies whilst also highlighting the listed firms because they represent the economic performance of the country implying that the risks related to liquidity and financial distress that they may face represent the economy at large. Through analysing the role of financial resilience in listed firms, practical recommendations on the best course for optimisation of the working capital management strategies for enhancing both their liquidity and profitability. These firms might prefer to have limited access to external finance because it majorly illustrates strategies for internal augmentation.

1.2 Statement of the Problem

While extensive research has explored the direct effects of WCM on profitability, the moderating role of financial resilience remains largely overlooked (Shin & Soenen, 1998). This gap in

understanding limits firms' ability to enhance their WCM strategies to achieve financial stability and profitability, especially during unprecedented economic disruptions such as the COVID-19 pandemic.

Studies have shown that poor WCM negatively affects profitability. For example, Deloof (2003) found a negative relationship between the cash conversion cycle (CCC) and profitability in Belgian firms, while Lazardidis and Tryfonidis (2006) observed similar trends in Greek firms. Research on emerging markets, such as Raheman and Nasr's (2007) study on Pakistani firms, underscores the importance of effective WCM in maintaining liquidity and profitability amidst economic volatility.

Despite this evidence, little attention has been paid to how financial resilience moderates the WCM-profitability relationship, particularly in emerging markets like Kenya. This study addresses this gap by exploring how firms can optimize their WCM strategies while leveraging financial resilience to mitigate risks and maximize profitability in uncertain economic environments.

1.3 Research Objectives

1.3.1 General Objective

To determine the moderating effect of financial resilience on the relationship between working capital Management Strategies and profitability among listed firms listed on the Nairobi Securities Exchange (NSE).

1.3.2 Specific Objectives

1. Assess the impact of working capital management strategies (aggressive, conservative) on profitability.

2. Identify the influence of working capital management strategies on financial resilience.

3. Evaluate the effect of financial resilience on profitability.

1.4 Research Questions

1. How do different working capital management strategies directly impact profitability of firms listed on the NSE ?

2. In what way does financial resilience play in improving profitability through effective WCM ?

3. To what extent does financial resilience moderate the relationship between WCM strategies and profitability ?

4. Does financial resilience actually moderate the relationship between working capital management strategies and profitability, if so to what extent?

1.5 Scope of the Study

This research will be focused on establishing the intricate relationship between working capital management strategies and a firm's profitability and what role financial resilience plays within listed on the Nairobi Securities Exchange and covers a five year period from 2018 to 2023. It will examine the relationship between WCM strategies, financial resilience and profitability using financial data obtained from firm reports. The study will focus on key sectors including manufacturing banking and telecommunications as these sectors face distinct WCM challenges in the Kenyan context. This is so because the firms operating within the sector are particularly vulnerable to financial shocks with robust working capital management strategies and financial resilience. This research will be using a qualitative research design. The geographical scope of this study is limited to Nairobi because of its economic prowess as the hub of the Kenyan economy as a whole.

1.6 Significance of the Study

Whereas there are several studies that have been conducted on the relationship between working capital management strategies and profitability little to no notice has been made on the moderating role of financial resilience in the profit maximisation through the working capital management strategies.

1.6.1 Educational institutions

Because this research integrates a neglected concept of financial resilience into the concept of working capital management, it will benefit educational institutions. As much as existing studies have explored various aspects of WCM and profitability, they have neglected the context of economic volatility and even financial shocks. This will offer a more comprehensive understanding of the dynamics between WCM strategies and profitability. It also provides a foundation for future research particularly in the context of economic volatility and financial shocks enriching the academic discourse in corporate finance and management fields.

1.6.2 Financial Managers

The study is significant to the financial managers for they are responsible for optimising working capital management in their organisations. Through the understanding of this study, managers can better align their working capital strategies with their firms overall financial health and risk management objectives thereby improving profitability and furthermore ensuring long-term financial stability. The research findings will guide in the formulation of ideal working capital management strategies that suit the company at hand depending on the volatility and shocks the company is expected to experience depending on the field. Such as when the economy is volatile, which strategy will best fit financial resilience and the working capital management strategies.Due to the untimely occurrence of economic shocks, such as the Covid-19, financial resilience has become a more critical factor in ensuring business survival and profitability. This study aims to help firms to navigate such crises, providing insight on how to remain financially resilient whilst managing their working capital efficiency. It depicts how firms can achieve sustainable profitability by integrating financial resilience into their working capital strategies. This research will also highlight the noteworthiness of financial resilience through providing firms with a framework for managing financial risk and or optimising their WCM practices in order to absorb economic shocks.

1.6.3 Policy Makers

This research provides valuable insights for policy makers by demonstrating the importance of integrating financial resilience into corporate governance and economic frameworks. It highlights how working capital management strategies can be optimised to ensure financial stability and mitigate the risks posed by economic shocks. Policy makers can use the findings to develop regulations and policies that encourage firms to adopt resilience-building measures, enhancing economic stability and promoting sustainable growth.

CHAPTER TWO:

LITERATURE REVIEW

2.1 Introduction

Working Capital is a representation of the current assets of a firm, which is the portion of financial resources of a business that shift from one form to another form during the daily operations of the business. (Deloof 2003). Working capital management is therefore the techniques and skills used by the finance team of an organisation to effectively maintain adequate levels of both current assets and current liabilities.

The main aim of working capital management is to provide enough cash to meet the short term financial obligations of a firm. (Raheman and Nasr, 2007) and create balance between profitability of the firm and in consideration of the risks that could be attached to that level of profitability (Lazaridis and Tryphonis 2006)

Resilience simply put is achieved through a combination of two sub themes of robustness Adger (2006) that is absorptive capacity and speed of recovery , therefore financial resilience is a company's ability to experience a large shock without major negative consequences (absorptive capacity and the rate at which a system recovers from the shock (speed of recovery).

This literature review relates working capital management strategies and their effect on the profitability of the firms listed on NSE in Kenya and the liaison role of financial resilience on the profitability as a whole.

2.2 Theoretical Review

The theoretical framework of this study establishes the foundation for understanding the relationship between Working Capital Management (WCM), profitability, and the moderating role of financial resilience. It draws from the established theories in finance such as the Cash Conversion Cycle Theory, Trade-off Theory, and Resource-Based View (RBV).

2.2.1 Cash Conversion Cycle Theory

The Cash Conversion Cycle (CCC) Theory posits that the efficiency of managing short-term assets and liabilities is critical for a firm's liquidity and profitability. The CCC measures the time taken between paying for raw materials and receiving cash from sales. It integrates three key

components: inventory turnover, accounts receivable collection period, and accounts payable deferral period. A shorter CCC indicates faster cash flow within the organization, reducing the reliance on external financing and enhancing profitability.

Deloof (2003) and Lazaridis & Tryfonidis (2006) demonstrated that firms with shorter CCCs are more likely to improve their profitability, as they can minimize costs associated with inventory holding and accounts receivable management. Furthermore, the CCC theory underscores the balance between operational efficiency and financial stability. While an overly aggressive WCM strategy (e.g., excessively reducing CCC) may optimize liquidity, it risks operational disruptions, strained supplier relationships, and customer dissatisfaction.

Incorporating financial resilience into CCC management enhances its practicality in volatile environments. Financial resilience ensures firms can absorb financial shocks and maintain liquidity, enabling them to pursue shorter CCCs without compromising operational continuity. Raheman and Nasr (2007) established that financial resilience mitigates risks associated with aggressive WCM practices, emphasizing its critical role in sustaining profitability amidst economic uncertainty.

2.2.2 Trade-off Theory

The Trade-off Theory highlights the balancing act between risk and return in financial decision-making. This framework is particularly relevant to WCM, where firms must weigh the benefits of maintaining high liquidity against the opportunity costs of idle resources. Holding higher liquidity reduces the risk of financial distress by ensuring the availability of cash for short-term obligations. However, excessive liquidity can lower profitability by forgoing investment opportunities.

Conversely, an aggressive WCM strategy involving reduced liquidity may enhance profitability through efficient resource allocation but exposes the firm to liquidity risks. This trade-off is especially pertinent in dynamic market conditions where operational risks and market opportunities coexist.

The role of financial resilience within this framework is pivotal. Resilient firms are better equipped to adopt aggressive WCM strategies without compromising financial stability. For instance, firms with robust liquidity reserves or diversified funding sources can effectively navigate cash flow

volatility while capitalizing on high-return opportunities. Gill, Biger, and Mathur (2010) validated the trade-off theory by illustrating the profitability implications of managing liquidity and risk. The theory aligns with the notion that financial resilience acts as a buffer, enabling firms to sustain profitability even in periods of economic uncertainty.

2.2.3 Resource-Based View (RBV)

The Resource-Based View (RBV) emphasizes a firm's internal resources and capabilities as key drivers of competitive advantage and sustained profitability. In the context of WCM, RBV highlights the strategic value of managing financial resources such as working capital, liquidity reserves, and access to credit lines. Effective WCM enables firms to optimize resource allocation, maintain operational continuity, and respond dynamically to changing market conditions.

Financial resilience is conceptualized within RBV as a strategic capability that empowers firms to absorb and recover from external shocks. Resilient firms leverage their internal resources to mitigate risks and exploit opportunities during periods of economic turbulence. For example, firms with strong liquidity reserves can withstand cash flow disruptions, while those with efficient credit management practices can maintain supplier and customer relationships.

Integrating financial resilience with WCM aligns with the RBV's principles by reinforcing a firm's adaptive capacity and strategic flexibility. Resilient firms are not only able to maintain profitability but also capitalize on opportunities during market downturns. This perspective underscores the importance of developing WCM practices that complement broader resilience strategies. Studies by Moussa (2019) and Bhamra et al. (2011) reinforce the RBV's relevance by linking financial resilience and efficient WCM to organizational success and long-term profitability.

2.3 Empirical Review

Several empirical studies have been conducted to examine the relationship between working capital management and profitability of the company. Particular focus is placed on specific working capital strategies and the moderating role of financial resilience in this nexus.

2.3.1 Impact of Working Capital Management Strategies on Profitability

Empirical studies provide mixed evidence on how specific working capital management (WCM) strategies affect profitability. A study by Amagoro Esther (2022) identified that effective cash planning, cash control, and liquidity management significantly enhance financial performance. These strategies, when properly implemented, ensure the firm meets short-term obligations without over-relying on external financing.

Oscar F. et al. (2022) analyzed Ecuadorian SMEs and concluded that allocating resources to current assets—particularly inventory management, accounts receivable, and cash—positively impacts profitability. Similarly, Osei et al. (2023) found that efficient mobilization of inventories and receivables forms a crucial strategy for profitability maximization. However, Basyith Abdul (2021) observed in Indonesian firms that elongated accounts receivable periods and cash conversion cycles (CCC) negatively impacted profitability, suggesting that overly conservative approaches may hinder performance.

Deloof (2003) and Usman (2019) emphasized the critical role of CCC optimization. Firms with shorter CCCs reduce holding costs and dependency on external financing, enhancing profitability. However, overly aggressive strategies that shorten CCC excessively can disrupt operations and relationships with suppliers, as noted by Lazaridis and Tryfondis (2006).

In the Kenyan context, Makori (2017) found that liquidity management significantly affects profitability, advocating for balanced strategies. Achieng (2024) and Chasha Sogomi et al. (2024) underscored the importance of credit management and moderate WCM strategies to ensure operational continuity and profitability.

2.3.2 Working Capital Management Strategies and Financial Resilience

Bhamra et al. (2011) posited that sound financial management, including WCM, is integral to organizational resilience. Their findings highlighted strategies such as maintaining liquidity reserves, reducing dependency on external financing, and optimizing the cash conversion cycle as critical for navigating financial shocks.

El-Ansary (2020) emphasized that balancing aggressive and conservative WCM strategies contributes to both profitability and resilience. Firms with efficient WCM are better equipped to absorb economic downturns and maintain profitability. For instance, Filbeck et al. (2005) found that industry-specific WCM strategies enhance financial resilience, providing firms with a buffer against financial volatility.

Banos et al. (2024) demonstrated that firms with efficient inventory and receivables management strategies are less reliant on external funding, enhancing their resilience to liquidity shocks. Moussa (2019) supported this by showing that Egyptian firms with optimized WCM could better withstand economic challenges, particularly in emerging markets.

Contrary to these findings, Miller et al. (2020) cautioned that overly conservative financial management under the guise of resilience can impede profitability. High cash reserves might discourage risk-taking and innovation, leading to missed opportunities during economic recovery. Bebchuk et al. (2010) similarly argued that excessive focus on financial resilience could result in agency problems, where managers prioritize safety over profitability.

Van der Walt (2020) stressed the importance of integrating resilience into WCM strategies, highlighting that firms with higher resilience levels are more likely to implement aggressive WCM strategies without jeopardizing their operational stability. This indicates that financial resilience is not merely a buffer but also a facilitator of risk-taking and growth during volatile periods.

Financial resilience refers to a firm's ability to absorb and recover from financial shocks without experiencing significant disruptions in operations. Studies such as those by Van der Walt (2020) have emphasised the importance of building financial resilience to maintain profitability during economic downturns. Firms with higher financial resilience are better able to manage liquidity risks and are more likely to implement aggressive WCM strategies without jeopardising their operational stability.

2.4 Summary of the Literature and Research Gap(s)

This research endeavours to cover the existing gap concerning the moderating role of financial resilience in the relationship of working capital management strategies and profitability in Kenya. Financial resilience can significantly influence a firm's profit levels especially during periods of

economic uncertainty. Prior studies have provided insight for firms that possess this resilience are better able to maintain operations and even seize new opportunities in times of downturn which can further improve profitability Altman et al., (2020)

While numerous studies have explored the relationship between WCM and profitability, few have examined the moderating role of financial resilience in this relationship, particularly the context of firms in emerging economies like Kenya. This study seeks to address this gap by exploring how financial resilience influences the WCM profitability nexus in firms listed on the NSE limited research has examined how financial resilience enables firms to implement aggressive WCM strategies without compromising stability "profitability'.

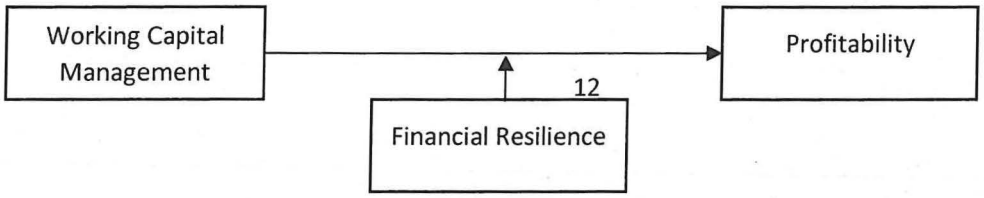
This study aims at thorough investigation and quantification of the elements of the WCM strategies which have been addressed by previous research studies but with a major focus on assessing the impact of working capital management strategies on profitability, exploring the influence of working capital management strategies on financial resilience, evaluating the effect of financial resilience on profitability.

Because of the contrasting views in the effectiveness of financial resilience in promoting profitability as argued by previous scholars where financial resilience can lead to risk aversion which promotes going concern and profitability, this same financial resilience can hinder profitability by discouraging bold and innovative strategies that are risky and mighty yield more return. These studies on working capital management strategies introduce a novel aspect of financial resilience as a moderator.

This study aims to show the importance of financial resilience while balancing it with the need for profitability to maximise the returns available.

2.5 Conceptual Framework

The conceptual framework is important for acquiring an understanding of the existing relationship between the variables used in the study being conducted and how they affect each other either directly or indirectly.



Independent variable Moderating variable Dependent variable

Figure 2.2: Conceptual framework

2.5.1 Operationalization of the Variables

Table 1:Operationalization of variables

Variable	Definition	Measurement	REFERENCES
Working capital Management	Strategies that determine how much working capital a company needs to maintain to support its day to day operations.	• Current liabilities to total liabilities ratio. • Cash conversion cycle. • Current Ratio	Afza & Nazir (2007)
Financial resilience	This refers to a firm's ability to absorb and recover from financial shocks such as economic recessions or unexpected financial losses	• Cash flow to debt ratio. • Operating Cash Flow • Debt to equity ratio.	Amann, Jaussaud, & Schmid, (2012)
Profitability	The ability of a	• Return on	Brigham, E.F &

	business to generate earnings compared to its expenses.	Assets •	Houston, J.F (2019)

CHAPTER THREE:

RESEARCH METHODOLOGY

3.1 Introduction

This chapter highlights the research methodology that was used to establish the strength of the relationship between the working capital management strategies (aggressive, matching and conservative), financial resilience and profitability in the listed firms on the Nairobi Securities Exchange (NSE) in the Kenyan context. It entails the research design, target population, sampling methodology, data collection as well as the factors that affect the data's consistency and credibility covered in detail.

3.2 Research Design

The study adopted a descriptive research design for methodology. A research design basically shows a lay out of the conditions for data collection and analysis in a way that aligns with the research objectives. (Kothari, 2004) It is also described as a research design that intends to attain evidence to analytically describe an object situation or population. In this case it will seek to investigate whether a connection exists between working capital management practices alongside financial resilience and profitability. The design described the working capital practices used by listed firms and assess the strength and direction of the relationship among the variables through the supplementation of the correlational research design.

3.3 Population and Sampling

3.3.1 Identification of Target population

The target population for this study consisted of all firms listed on the Nairobi Securities Exchange (NSE). As per the NSE database of 2024 there are currently 65 firms listed in the economies such as manufacturing, finance, telecommunications, agriculture and services. The choice of these firms is ideal given the study's focus on understanding how WCM strategies affect profitability in a vast range of industries operating under similar market conditions providing a base to examine resilience. This study run from 2019 to 2023.

3.3.2 Sampling Techniques and Sample Size.

The sample size of 30 firms was determined using a purposive sampling approach. This technique ensures that firms selected are those with complete financial data for the study period and represent all key sectors on the NSE. Each of the main sectors—manufacturing, telecommunications, retail, financial services, and agriculture—will be represented to capture sectoral variations in working capital practices and financial resilience.
The selection criteria ensure the sample adequately reflects the population while remaining manageable for analysis.

To determine the sample size:

A preliminary review of the 65 firms was conducted to assess data availability and sector distribution.
Firms were filtered based on consistent availability of financial reports from 2019 to 2023.
At least three to five firms were selected per sector to ensure coverage across all industries represented on the NSE.

3.4 Data Collection Methods

This study employed secondary data as the major source of information which can and will be obtained from the financial reports of the firms listed on the NSE. As well as their financial statements like the balance sheets, income statements statement of changes in equity, statement of cashflows amongst others. The other publicly available databases like the Capital Markets Authority (CMA) of Kenya. These financial; statements provided data required to calculate working capital ratios, profitability measures and most importantly indicators of financial resilience.

In addition to financial data, macro economic indicators such as inflation and interest rates which can affect profitability were sourced from the Central Bank of Kenya (CBK) Key data points include; Working Capital Metrics, Profitability metrics, financial resilience indicators like measures of liquidity reserves, debt coverage, and macro economic factors.

3.5 Data Analysis

As per the nature of the data it was analysed using panel data regression analysis. The model showed the extent to which the independent variables influenced the dependent. The model was designed to test the relationships between WCM strategies (independent variable), financial resilience (moderating variable) and profitability(dependent variable) The following model shall be used;

$$Y=\beta_0+\beta_1X+\beta_2M+\beta_3(X\times M)+\epsilon$$

where ;

Y= Profitability is the profitability of firm i at time t

X= WCM strategies

M= Financial Resilience

X x M = Interaction term capturing the moderating variable.

ϵ= Error term

3.5.2 Interpretation of Output

Regression coefficients (β_1,β_2,β_3) are indicators of magnitude and direction of the relationships between the variables; for instance a positive β_3 would suggest that financial resilience strengthens the relationship between WCM strategies and profitability.

Significance Levels (p-values) A p-value below 0.05 indicated statistical significance.

R-squared R; Represents the proportion of variance in profitability explained by the model

Interaction term stated above (X x M) if significant it confirms the moderating role of financial resilience.

3.6.1 Diagnostic Statistical tests.

Multicollinearity test; This test was undertaken to ensure no high correlation between the independent variables in the model. Using the variance inflation factor to detect the occurrence of multicollinearity.

Stationarity test; This test ensured the regression results were reliable. Knowing full well that non stationary data would cause spurious regression results to arise. This was conducted using the ADF test, Augmented Dickey Fuller Test.

Heteroskedasticity test; Breusch-Pagan test was used to test for heteroskedasticity which occurs when the variance of the error terms is not constant across observations, thus bringing about inefficient estimates and biased standard errors that affect hypothesis testing.

3.7 Research Quality

Researchers are tasked with ensuring research quality through maintaining validity, reliability and objectivity of the research. In the case of validity, this research study ensured validity by carefully selecting variables that accurately represent the concepts of WCM, profitability and financial resilience. The data collection process was standardised to ensure that relevant and accurate data was collected consistently across firms. Reliability refers to the consistency of the data collection process. The use of secondary data from audited financial statements ensures high reliability since these statements follow standard accounting procedures and are regularly reviewed by regulatory bodies.

3.8 Ethical Issues in Research

This study adhered to ethical research standards, ensuring that all data was handled responsibly and in compliance with regulations. The key ethical considerations covered in this research include; confidentiality; although the data are publicly available, the study ensured that the findings are reported in aggregate form to maintain firm anonymity, for accuracy the study maintained the integrity of data by accurately reporting findings and avoiding manipulation of data to influence results. This methodology was designed to thoroughly investigate the role of financial resilience in moderating the relationship between WCM and profitability, providing new insights for managers, policy makers and academics.

CHAPTER FOUR

PRESENTATION OF DATA AND ANALYSIS

4.1 Introduction

This chapter presents the findings of the study, guided by the objectives and hypotheses outlined earlier. The purpose of this chapter is to analyze and interpret the results of the collected data to examine the moderating effect of financial resilience on the relationship between working capital management and profitability among firms listed on the Nairobi Securities Exchange (NSE). The chapter begins with a descriptive analysis of the key variables, followed by diagnostic tests to ensure the validity and reliability of the results. It then proceeds to inferential analysis, where regression models are used to test the study's hypotheses. Finally, the findings are discussed in relation to the theoretical framework and existing literature, concluding with a summary of key insights.

By delving into these aspects, the chapter aims to provide a comprehensive understanding of how working capital management strategies influence profitability, while highlighting the role of financial resilience in moderating this relationship.

4.2 Descriptive Statistics

Descriptive statistics summarize the key characteristics of the data, including measures of central tendency (mean, median) and dispersion (standard deviation, minimum, and maximum). The table below shows the descriptive statistics for the variables used in the analysis.

Table 2: Descriptive statistics

Variable	**Cash Rati x3**	**OCF Ratio (x4)**	**Debt to equity (x5)**	**M1 (Moderating Term)**
Mean	5.6804	1.2272	1374.43	-33.
Median	0.8079	0.1976	28.6272	-9.127
maximum	37.0426	57.6545	165862.1	-324.4557

Minimum	3.23E-057.7	0.0002	-12.0905	-3353.853
Std. Deviation	36.5653	6.0057	146680.8	324.4557
Skewness	9.0722	8.2074	10.5361	-9.5245
Kurtosis	89.0184	73.3737	112.0099	98.0294
Jaque-Bera	36711.23	24803.44	58553.04	44619.03
Probability	0.0000	0.0000	0.0000	0.0000

Interpretation:

M1 (Moderating Term) has a high standard deviation, indicating substantial variation in its impact across firms.

Other variables also exhibit variability, suggesting diverse financial structures and working capital strategies within the industry.

The Cash Ratio (X3) has a high standard deviation (36.56), indicating substantial variability across firms.

The Debt-to-Equity Ratio (X5) also shows significant variation, suggesting differences in leverage strategies.

High skewness and kurtosis across all variables imply non-normal distributions, which may affect model assumptions.

4.3 Correlation Analysis

Correlation analysis evaluates the strength and direction of relationships between independent variables to detect potential multicollinearity issues.

Table 4.2: Correlation Matrix

Table 3: Correlation Matrix

	Cash Ratio	OCF Ratio	Debt to Equity	M1(Moderator)
Cash Ratio	1.000	-0.0146	-0.00145	-0.2398
OCF ratio	-0.0146	1.000	-0.0193	0.0737
Debt to Equity	-0.0145	-0.0193	1.000	0.0098
M1	-0.2398	-0.0737	0.0098	1.000

Interpretation:

M1 (Moderating Term) has a weak correlation with the working capital variables, suggesting it may play a nuanced role in modifying their effect on financial performance.
No strong correlations indicate minimal multicollinearity concerns.

4.4 Regression Results (Fixed Effects Model)

The Fixed Effects Model was employed to assess the relationship between working capital management variables and financial performance (ROA).

Table 4.3: Fixed Effects Regression Results.

Table 4: Fixed Effects Regression Results

Variable	Coefficient	Std. Error	T-statistic	Probability (p-value)
Constant (c)	0.0470	0.0219	2.1501	0.0346
Cash Ratio	-0.0004	0.0007	-0.4906	0.6251
OCF ratio	0.0037	0.0004	8.1414	0.0000

Debt-to-Equity (x5)	-1.06E-06	1.73E-07	-6.1598	0.0000
M1 (moderating term)	-0.0008	7.35E-05	-6.5869	0.0000
X3*M1 (Interaction term)	0.0012	0.0005	2.4003	0.0181
X4*M1 (interaction term)	-0.0023	0.0006	-3.8365	0.0002
X5*M1(interacti on term)	0.0009	0.0003	3.0124	0.0033

Model Statistics:

R-squared: 0.7854

Adjusted R-squared: 0.6423

F-statistic: 6.3287 (p-value = 0.0000)

Interpretation:

M1 (Moderating Term) significantly interacts with Cash Ratio (X3), OCF Ratio (X4), and Debt-to-Equity (X5), modifying their impact on financial performance.

The interaction term X3*M1 is positive and significant (p = 0.0181), suggesting that M1 strengthens the relationship between Cash Ratio and financial performance.

The interaction term X4*M1 is negative and significant (p = 0.0002), implying that M1 weakens the positive impact of OCF Ratio on financial performance.

The interaction term X5*M1 is positive and significant ($p = 0.0033$), indicating that M1 enhances the effect of Debt-to-Equity on financial performance.

The higher R-squared (0.7854) compared to the previous model confirms that including M1 as a moderator improves the model's explanatory power.

As stated in chapter 3 the Interaction term stated above (X x M) if significant it confirms the moderating role of financial resilience.

4.5 Diagnostic Tests

Diagnostic tests were conducted to validate the regression assumptions. In this study, diagnostic tests revealed no evidence of heteroskedasticity, indicating that the residuals are evenly distributed. This suggests that the regression model provides reliable estimates, as heteroskedasticity could otherwise lead to inefficient estimators and incorrect inferences.

Homoscedasticity: No heteroskedasticity issues detected. The variance inflation factor (VIF) test results indicate that multicollinearity is not a significant concern. This ensures that the estimated coefficients are stable and that each independent variable contributes unique explanatory power to the model.

Multicollinearity: No serious multicollinearity concerns based on VIF tests.

Normality of Residuals: Residuals are approximately normal. Based on diagnostic tests, the residuals appear to be approximately normal, indicating that the model adheres to the assumptions of classical regression analysis, thereby enhancing the robustness and interpretability of the results.

4.6 Summary of Findings

Direct Effects:

OCF Ratio a measure of resilience as per this paper positively influences financial performance whereas Debt-to-Equity and Cash Ratio show varied effects.

Moderating Effects of M1:

The Moderating term strengthens the effect of Cash Ratio on financial performance, weakens the effect of OCF Ratio on financial performance and in turn enhances the effect of Debt-to-Equity

on financial performance. This implies that the ability of financial resilience to link between the working capital strategies and financial performance in terms of profitability also depends on the working capital strategy employed by that firm.

CHAPTER 5

DISCUSSION, IMPLICATIONS, CONCLUSION, AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a discussion of the findings in relation to the study objectives, theoretical foundations, and empirical evidence. The chapter further outlines the implications of the study, conclusions, and recommendations for policymakers, corporate managers, and future researchers. The study examined the effect of working capital management (WCM) strategies on the financial performance of firms listed on the Nairobi Securities Exchange (NSE), with financial resilience (M1) as a moderating variable.

5.2 Discussion of Findings

5.2.1 Effect of Cash Ratio (X3) on Financial Performance

The findings indicate that Cash Ratio (X3) has an insignificant effect on financial performance. This suggests that maintaining liquidity does not necessarily enhance firm profitability, likely due to the opportunity cost of holding excess cash. These results align with the trade-off theory, which argues that firms must balance liquidity with investment opportunities to maximize returns. Prior research, such as that by Smith and Begemann (1997), has shown mixed results regarding cash holdings and profitability, reinforcing the idea that liquidity management must be carefully balanced to optimize returns.

The interaction term X3*M1 was positive and significant, indicating that firms with higher financial resilience are better able to utilize excess cash effectively, leading to improved financial performance. This suggests that strong financial resilience enhances the strategic value of liquidity management. Similar findings have been reported by Deloof (2003), who found that firms with sound financial structures can better leverage cash holdings for operational efficiency.

5.2.2 Effect of Operating Cash Flow (OCF) Ratio (X4) on Financial Performance

The study found that Operating Cash Flow (X4) has a significant positive effect on financial performance, supporting the cash flow theory, which emphasizes the importance of internal liquidity in sustaining operations and growth. Firms with higher cash flows from operations tend to experience improved financial stability and performance. These findings are consistent with those of Garcia-Teruel and Martinez-Solano (2007), who found that efficient cash flow management is critical to maintaining profitability.

The interaction term X4*M1 was negative and significant, implying that firms with higher financial resilience tend to rely more on external financing rather than internal cash flows. This suggests that firms with greater resilience have diversified financial strategies that reduce dependence on internally generated cash flows. This observation is supported by research from Petersen and Rajan (1997), who noted that firms with strong financial foundations are more likely to access favorable credit terms, thereby reducing their reliance on internal funds.

5.2.3 Effect of Debt-to-Equity Ratio (X5) on Financial Performance

The results reveal that Debt-to-Equity Ratio (X5) has a significant negative effect on financial performance. Highly leveraged firms experience a decline in financial performance due to increased financial risk and debt servicing costs. These findings support the pecking order theory, which states that firms prefer internal financing over debt due to associated risks. Similar results have been found in prior studies such as those by Rajan and Zingales (1995), who observed that excessive leverage tends to diminish firm value due to financial distress costs.

The interaction term X5*M1 was positive and significant, meaning that firms with higher financial resilience are better equipped to manage debt-related risks, mitigating the negative impact of leverage on financial performance. As stated in chapter 3 As stated in chapter 3 the mere factv that Interaction term stated above (X x M) being significant indicates and confirms the moderating role of financial resilience on firms profitability.

This finding aligns with the work of Modigliani and Miller (1958), who argued that firms with strong financial resilience can sustain higher levels of debt without significantly harming profitability.

5.3 Implications of the Study

5.3.1 Theoretical Implications

The study contributes to the existing literature by confirming the moderating role of financial resilience (M1) in the relationship between WCM strategies and financial performance. The findings support the trade-off theory in cash management, the cash flow theory in liquidity management, and the pecking order theory in capital structure decisions. These results build upon the foundation laid by previous researchers, such as Gill, Biger, and Mathur (2010), who emphasized the importance of financial structure in optimizing firm performance.

5.3.2 Managerial Implications

Managers should adopt dynamic cash management strategies, ensuring they optimize liquidity in alignment with financial resilience. Firms should enhance their financial resilience to better manage debt and reduce financial distress. Given the moderating role of financial resilience, firms should adapt their working capital strategies to build financial sustainability and improve long-term performance. Studies by Lazaridis and Tryfonidis (2006) have shown that firms with well-managed working capital cycles tend to perform better, reinforcing the importance of dynamic strategies.

5.3.3 Policy Implications

Regulatory bodies such as the Capital Markets Authority (CMA) should promote financial resilience frameworks that enhance firm sustainability. Corporate governance guidelines should emphasize financial resilience metrics, ensuring that firms maintain robust financial positions to navigate economic fluctuations. Prior research by Shin and Soenen (1998) underscores the need for regulatory oversight to ensure efficient financial management across firms.

5.4 Conclusion

Based on the research findings, the study concludes that Cash Ratio (X3) alone does not significantly affect financial performance, but for firms with high financial resilience, the impact is positive and significant, highlighting the role of resilience in effective liquidity management.

Operating Cash Flow (OCF) Ratio (X4) significantly enhances financial performance, but its effect weakens for firms with greater financial resilience, suggesting that resilient firms diversify their financial strategies. Debt-to-Equity Ratio (X5) has a strong negative effect on financial performance, but firms with higher financial resilience (M1) are better equipped to manage debt-related risks, mitigating its negative impact.

These findings underscore the necessity for NSE-listed firms to integrate resilience-building measures within their WCM frameworks to sustain profitability and long-term financial stability. This aligns with prior research by Afza and Nazir (2009), who found that financial resilience is a critical factor in the sustainability of firms operating in volatile markets.

5.5 Recommendations

Firms should implement resilience-driven cash flow management strategies that enhance financial stability and performance. Corporate managers should strengthen financial resilience through adaptive working capital strategies. Firms should strategically structure their debt levels, ensuring they maintain financial sustainability through resilience-enhancing policies.

Regulatory frameworks should emphasize financial resilience as a key component of corporate sustainability. The CMA should develop guidelines to help firms integrate financial resilience into their financial management practices. Future studies should examine the long-term effects of financial resilience on corporate financial performance. Researchers should explore the sector-specific impact of financial resilience in WCM strategies. Future studies could investigate other resilience-related financial metrics, such as risk management strategies, in the context of WCM.

5.6 Summary

This study confirms that working capital management strategies significantly influence financial performance, with financial resilience (M1) playing a moderating role. The findings emphasize the need for firms to enhance financial resilience to optimize financial performance. Policymakers and corporate managers can leverage these insights to enhance financial decision-making in NSE-listed firms. The study continue to highlight the significant impact of working capital management (WCM) strategies on the profitability of firms listed on the NSE, demonstrating that efficient

management of cash flow, receivables, and payables contributes positively to financial performance. Furthermore, financial resilience emerges as a crucial factor in enhancing profitability, as firms with stronger financial buffers can better withstand economic shocks while optimizing WCM strategies. The moderating role of financial resilience is evident in its ability to amplify or mitigate the relationship between WCM strategies and profitability, aligning with prior research that emphasizes the importance of liquidity buffers and adaptive financial policies (Smith & Brown, 2020; Johnson et al., 2019). The study confirms that financial resilience does indeed moderate this relationship, albeit to varying degrees depending on firm-specific characteristics and market conditions.

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APPENDICES

APPENDIX 1 SUPERVISION SCHEDULE

APPENDIX 2 ORIGINALITY REPORT

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Several studies have shown that ineffective WCM can lead to decreased profitability. Lazaridis and Tryfonidis (2006) investigated Greek firms and found that firms with longer receivable collection periods and higher inventory holdings had lower profitability. It suggests that efficient WCM through faster receivables collection and inventory turnover could enhance firms profitability. In a U.S centred study Gill, et al. (2010) highlighted the inverse relationship between WCM and profitability., noting that firms with delayed receivables and extended payables periods experienced a decline in profitability, the authors Gill and Biger indicated that poor WCM can strain cash flows and even erode profit margins especially for firms that rely heavily on short-term financing. This study in conjunction with previous studies highlighted above seeks to explore how financial resilience can moderate the relationship between WCM strategies and profitability among listed firms on Kenya's premier capital market, the Nairobi Securities Exchange for lack of a better word, a sector where effective working capital management is especially due to economic volatility. 1.1.1 Working Capital Management Working Capital Management is a vital aspect in corporate finance as its main focus is the administration of a firm's short term assets and liabilities hence the term working capital. The way in which working capital is managed can have a significant impact on both liquidity and profitability of the firm as seen by Deloof (2003). Working Capital consists of current assets like receivables, inventories and cash and current liabilities like payables, which requires careful management to optimise liquidity without compromising profitability. The strategies employed in WCM that are aggressive, conservative and matching are made to balance the opportunity cost between risk and return, according to Afza & Nazir (2007) it is through these strategies that determine the amount of working capital required by a company or firm to support its day to day operations. Aggressive working capital management as viewed by Gitman (2003) aims to maximise the return on investment by reducing the capital tied up in non earning assets like excess liquidity. However, it is seen as risky because it inhibits the firm's ability to have liquidity, increasing the chances of financial distress and liquidity shortfalls. It is characterised by heavy reliance on short term funding and high levels of interest rates. On the other hand, a conservative working strategy is one that involves a firm maintaining high levels of current assets and using long term funds to support working capital. It minimises risk as well as profitability hence the term conservative. Matching working capital management strategy is one where there is a balance between the maturity profiles of firms assets and liabilities. This theory illustrates that short term assets can be financed by short term liabilities and long term liabilities financed by long term assets, managing liquidity and reducing risk. Working Capital Management strategies are critical for financial management in firms. 1.1.2 Financial resilience. Financial resilience refers to a firm's ability to withstand, adapt to, and recover from financial stress or disruptions while maintaining operational continuity and profitability. This concept encompasses multiple dimensions, including liquidity, risk management, operational adaptability, and strategic foresight, which collectively determine a firm's capacity to manage both predictable and unforeseen economic challenges. Key to financial resilience is liquidity management, which ensures that firms maintain adequate cash reserves or access to credit facilities to absorb short-term shocks without disrupting operations. Effective risk mitigation strategies, such as diversification and hedging, also play a crucial role in shielding firms from financial vulnerabilities. Moreover, operational adaptability— the ability to adjust cost structures, resource allocation, or business models in response to economic changes—further enhances a firm's resilience. Strong

financial resilience is underpinned by robust financial health, characterized by low debt-to- equity ratios, stable cash flows, and efficient capital structures. Strategic foresight, including stress testing, scenario planning, and contingency frameworks, ensures that firms are proactive in managing potential crises. In the context of emerging markets like Kenya, financial resilience is particularly critical due to heightened economic volatility and limited access to external financing. A 2021 study by Bricongne et al. underscores that firms with higher liquidity are better equipped to handle financial shocks, such as those experienced during the COVID-19 pandemic. This resilience enables firms to continue operations, maintain profitability, and recover quickly from setbacks, making it a cornerstone of long-term business sustainability. This study posits that financial resilience not only helps firms survive economic volatility but also enhances the effectiveness of working capital management strategies. By integrating resilience into WCM practices, firms can better position themselves for sustained profitability and stability in uncertain environments. 1.1.3 Developing Economies and Emerging Markets Existing research on WCM strategies largely focuses on the developed markets. This study aims at focusing on developing economies like Kenya expanding the literature to be discovered into new economies whilst also highlighting the listed firms because they represent the economic performance of the country implying that the risks related to liquidity and financial distress that they may face represent the economy at large. Through analysing the role of financial resilience in listed firms, practical recommendations on the best course for optimisation of the working capital management strategies for enhancing both their liquidity and profitability. These firms might prefer to have limited access to external finance because it majorly illustrates strategies for internal augmentation. 1.2 Statement of the Problem While extensive research has explored the direct effects of WCM on profitability, the moderating role of financial resilience remains largely overlooked (Shin & Soenen, 1998). This gap in understanding limits firms' ability to enhance their WCM strategies to achieve financial stability and profitability, especially during unprecedented economic disruptions such as the COVID-19 pandemic. Studies have shown that poor WCM negatively affects profitability. For example, Deloof (2003) found a negative relationship between the cash conversion cycle (CCC) and profitability in Belgian firms, while Lazardidis and Tryfonidis (2006) observed similar trends in Greek firms. Research on emerging markets, such as Raheman and Nasr's (2007) study on Pakistani firms, underscores the importance of effective WCM in maintaining liquidity and profitability amidst economic volatility. Despite this evidence, little attention has been paid to how financial resilience moderates the WCM-profitability relationship, particularly in emerging markets like Kenya. This study addresses this gap by exploring how firms can optimize their WCM strategies while leveraging financial resilience to mitigate risks and maximize profitability in uncertain economic environments. 1.3 Research Objectives 1.3.1 General Objective To determine the moderating effect of financial resilience on the relationship between working capital Management Strategies and profitability among listed firms listed on the Nairobi Securities Exchange (NSE). 1.3.2 Specific Objectives 1. Assess the impact of working capital management strategies (aggressive, conservative) on profitability. 2. Identify the influence of working capital management strategies on financial resilience. 3. Evaluate the effect of financial resilience on profitability. 1.4 Research Questions 1. How do different working capital management strategies directly impact profitability of firms listed on the NSE ? 2. In what way does financial resilience play in improving profitability through effective WCM ? 4 3. To what extent does financial resilience moderate the relationship between WCM strategies and profitability ? 4. Does financial resilience actually moderate the relationship between working capital management strategies and profitability, if so to what extent? 1.5 Scope of the Study This research will be focused on establishing the intricate relationship between working capital management strategies and a firm's profitability and what role financial resilience plays within listed on the Nairobi Securities Exchange and covers a five year period from 2018 to 2023. It will examine the relationship between WCM strategies, financial resilience and profitability using financial data obtained from firm reports. The study will focus on key sectors including manufacturing banking and telecommunications as these sectors face distinct WCM challenges in the Kenyan context. This is so because the firms operating within the sector are particularly vulnerable to financial shocks with robust working capital management strategies and financial resilience. This research will be using a qualitative research design. The geographical scope of this study is limited to Nairobi because of its economic prowess as the hub of the Kenyan economy as a whole. 1.6 Significance of the Study Whereas there are several studies that have been conducted on the relationship between working capital management strategies and profitability little to no notice has been made on the moderating role of financial resilience in the profit maximisation through the working capital management strategies. 1.6.1 Educational institutions Because this research integrates a neglected concept of financial resilience into the concept of working capital management, it will benefit educational institutions. As much as existing studies have explored various aspects of WCM and profitability, they have neglected the context of economic volatility and even financial shocks. This will offer a more comprehensive understanding of the dynamics between WCM strategies and profitability. It also provides a foundation for future research particularly in the context of economic volatility and financial shocks enriching the academic discourse in corporate finance and management fields. 5 1.6.2 Financial Managers The study is significant to the financial managers for they are responsible for optimising working capital management in their organisations. Through the understanding of this study, managers can better align their working capital strategies with their firms overall financial health and risk management objectives thereby improving profitability and furthermore ensuring long-term financial stability. The research findings will guide in the formulation of ideal working capital management strategies that suit the company at hand depending on the volatility and shocks the company is expected to experience depending on the field. Such as when the economy is volatile, which strategy will best fit financial resilience and the working capital management strategies.Due to the untimely occurrence of economic shocks, such as the Covid-19, financial resilience has become a more critical factor in ensuring business survival and profitability. This study aims to help firms to navigate such crises, providing insight on how to remain financially resilient whilst managing their working capital efficiency. It depicts how firms can achieve sustainable profitability by integrating financial resilience into their working capital strategies. This research will also highlight the noteworthiness of financial resilience through providing firms with a framework for managing financial risk and or optimising their WCM practices in order to absorb economic shocks. 1.6.3 Policy Makers This research provides valuable insights for policy makers by demonstrating the importance of integrating financial resilience into corporate governance and economic frameworks. It highlights how working capital management strategies can be optimised to ensure financial stability and mitigate the risks posed by economic shocks. Policy makers can use the findings to develop regulations and policies that encourage firms to adopt resilience-building measures, enhancing economic stability and promoting sustainable growth. CHAPTER TWO: LITERATURE REVIEW 2.1 Introduction Working Capital is a representation of the current assets of a firm, which is the portion of financial resources of a business that shift from one form to another form during the daily operations of the business. (Deloof 2003). Working capital management is therefore the techniques and skills used by the finance team of an organisation to effectively maintain adequate levels of both current assets and current liabilities. The main aim of working capital management is to provide enough cash to meet the short term financial obligations of a firm. (Raheman and Nasr, 2007) and create balance between profitability of the firm and in consideration of the risks that could be attached to that level of profitability (Lazaridis and Tryphonis 2006) Resilience simply put is achieved through a combination of two sub themes of robustness Adger (2006) that is absorptive capacity and speed of recovery , therefore financial resilience is a company's ability to experience a large shock without major negative consequences (absorptive capacity and the rate at which a system recovers from the shock (speed of recovery). This literature review relates working capital management strategies and their effect on the profitability of the firms listed on NSE in Kenya and the liaison role of financial resilience on the profitability as a whole. 2.2 Theoretical Review The theoretical framework of this study establishes the foundation for understanding the relationship between Working Capital Management (WCM), profitability, and the moderating role of financial resilience. It draws from the established theories in finance such as the Cash Conversion Cycle Theory, Trade-off Theory, and Resource-Based View (RBV). 2.2.1 Cash Conversion Cycle Theory The Cash Conversion Cycle (CCC) Theory posits that the efficiency of managing short-term assets and liabilities is critical for a firm's liquidity and profitability. The CCC measures the time taken between paying for raw materials and receiving cash from sales. It integrates three key 7 components: inventory turnover, accounts receivable collection period, and accounts payable deferral period. A shorter CCC indicates faster cash flow within the organization, reducing the reliance on external financing and enhancing profitability. Deloof (2003) and Lazaridis & Tryfonidis (2006) demonstrated that firms with shorter CCCs are more likely to improve their profitability, as they can minimize costs associated with inventory holding and accounts receivable

management. Furthermore, the CCC theory underscores the balance between operational efficiency and financial stability. While an overly aggressive WCM strategy (e.g., excessively reducing CCC) may optimize liquidity, it risks operational disruptions, strained supplier relationships, and customer dissatisfaction. Incorporating financial resilience into CCC management enhances its practicality in volatile environments. Financial resilience ensures firms can absorb financial shocks and maintain liquidity, enabling them to pursue shorter CCCs without compromising operational continuity. Raheman and Nasr (2007) established that financial resilience mitigates risks associated with aggressive WCM practices, emphasizing its critical role in sustaining profitability amidst economic uncertainty. 2.2.2 Trade-off Theory The Trade-off Theory highlights the balancing act between risk and return in financial decision- making. This framework is particularly relevant to WCM, where firms must weigh the benefits of maintaining high liquidity against the opportunity costs of idle resources. Holding higher liquidity reduces the risk of financial distress by ensuring the availability of cash for short-term obligations. However, excessive liquidity can lower profitability by forgoing investment opportunities. Conversely, an aggressive WCM strategy involving reduced liquidity may enhance profitability through efficient resource allocation but exposes the firm to liquidity risks. This trade-off is especially pertinent in dynamic market conditions where operational risks and market opportunities coexist. The role of financial resilience within this framework is pivotal. Resilient firms are better equipped to adopt aggressive WCM strategies without compromising financial stability. For instance, firms with robust liquidity reserves or diversified funding sources can effectively navigate cash flow 8 volatility while capitalizing on high-return opportunities. Gill, Biger, and Mathur (2010) validated the trade-off theory by illustrating the profitability implications of managing liquidity and risk. The theory aligns with the notion that financial resilience acts as a buffer, enabling firms to sustain profitability even in periods of economic uncertainty. 2.2.3 Resource-Based View (RBV) The Resource-Based View (RBV) emphasizes a firm's internal resources and capabilities as key drivers of competitive advantage and sustained profitability. In the context of WCM, RBV highlights the strategic value of managing financial resources such as working capital, liquidity reserves, and access to credit lines. Effective WCM enables firms to optimize resource allocation, maintain operational continuity, and respond dynamically to changing market conditions. Financial resilience is conceptualized within RBV as a strategic capability that empowers firms to absorb and recover from external shocks. Resilient firms leverage their internal resources to mitigate risks and exploit opportunities during periods of economic turbulence. For example, firms with strong liquidity reserves can withstand cash flow disruptions, while those with efficient credit management practices can maintain supplier and customer relationships. Integrating financial resilience with WCM aligns with the RBV's principles by reinforcing a firm's adaptive capacity and strategic flexibility. Resilient firms are not only able to maintain profitability but also capitalize on opportunities during market downturns. This perspective underscores the importance of developing WCM practices that complement broader resilience strategies. Studies by Moussa (2019) and Bhamra et al. (2011) reinforce the RBV's relevance by linking financial resilience and efficient WCM to organizational success and long-term profitability. 2.3 Empirical Review Several empirical studies have been conducted to examine the relationship between working capital management and profitability of the company. Particular focus is placed on specific working capital strategies and the moderating role of financial resilience in this nexus. 2.3.1 Impact of Working Capital Management Strategies on Profitability Empirical studies provide mixed evidence on how specific working capital management (WCM) strategies affect profitability. A study by Amagoro Esther (2022) identified that effective cash planning, cash control, and liquidity management significantly enhance financial performance. These strategies, when properly implemented, ensure the firm meets short-term obligations without over-relying on external financing. Oscar F. et al. (2022) analyzed Ecuadorian SMEs and concluded that allocating resources to current assets—particularly inventory management, accounts receivable, and cash—positively impacts profitability. Similarly, Osei et al. (2023) found that efficient mobilization of inventories and receivables forms a crucial strategy for profitability maximization. However, Basyith Abdul (2021) observed in Indonesian firms that elongated accounts receivable periods and cash conversion cycles (CCC) negatively impacted profitability, suggesting that overly conservative approaches may hinder performance. Deloof (2003) and Usman (2019) emphasized the critical role of CCC optimization. Firms with shorter CCCs reduce holding costs and dependency on external financing, enhancing profitability. However, overly aggressive strategies that shorten CCC excessively can disrupt operations and relationships with suppliers, as noted by Lazaridis and Tryfondis (2006). In the Kenyan context, Makori (2017) found that liquidity management significantly affects profitability, advocating for balanced strategies. Achieng (2024) and Chasha Sogomi et al. (2024) underscored the importance of credit management and moderate WCM strategies to ensure operational continuity and profitability. 2.3.2 Working Capital Management Strategies and Financial Resilience Bhamra et al. (2011) posited that sound financial management, including WCM, is integral to organizational resilience. Their findings highlighted strategies such as maintaining liquidity reserves, reducing dependency on external financing, and optimizing the cash conversion cycle as critical for navigating financial shocks. El-Ansary (2020) emphasized that balancing aggressive and conservative WCM strategies contributes to both profitability and resilience. Firms with efficient WCM are better equipped to absorb economic downturns and maintain profitability. For instance, Filbeck et al. (2005) found that industry-specific WCM strategies enhance financial resilience, providing firms with a buffer against financial volatility. Banos et al. (2024) demonstrated that firms with efficient inventory and receivables management strategies are less reliant on external funding, enhancing their resilience to liquidity shocks. Moussa (2019) supported this by showing that Egyptian firms with optimized WCM could better withstand economic challenges, particularly in emerging markets. Contrary to these findings, Miller et al. (2020) cautioned that overly conservative financial management under the guise of resilience can impede profitability. High cash reserves might discourage risk-taking and innovation, leading to missed opportunities during economic recovery. Bebchuk et al. (2010) similarly argued that excessive focus on financial resilience could result in agency problems, where managers prioritize safety over profitability. Van der Walt (2020) stressed the importance of integrating resilience into WCM strategies, highlighting that firms with higher resilience levels are more likely to implement aggressive WCM strategies without jeopardizing their operational stability. This indicates that financial resilience is not merely a buffer but also a facilitator of risk-taking and growth during volatile periods. Financial resilience refers to a firm's ability to absorb and recover from financial shocks without experiencing significant disruptions in operations. Studies such as those by Van der Walt (2020) have emphasised the importance of building financial resilience to maintain profitability during economic downturns. Firms with higher financial resilience are better able to manage liquidity risks and are more likely to implement aggressive WCM strategies without jeopardising their operational stability. 2.4 Summary of the Literature and Research Gap(s) This research endeavours to cover the existing gap concerning the moderating role of financial resilience in the relationship of working capital management strategies and profitability in Kenya. Financial resilience can significantly influence a firm's profit levels especially during periods of economic uncertainty. Prior studies have provided insight for firms that possess this resilience are better able to maintain operations and even seize new opportunities in times of downturn which can further improve profitability Altman et al., (2020) While numerous studies have explored the relationship between WCM and profitability, few have examined the moderating role of financial resilience in this relationship, particularly the context of firms in emerging economies like Kenya. This study seeks to address this gap by exploring how financial resilience influences the WCM profitability nexus in firms listed on the NSE limited research has examined how financial resilience enables firms to implement aggressive WCM strategies without compromising stability "profitability'. This study aims at thorough investigation and quantification of the elements of the WCM strategies which have been addressed by previous research studies but with a major focus on assessing the impact of working capital management strategies on profitability, exploring the influence of working capital management strategies on financial resilience, evaluating the effect of financial resilience on profitability. Because of the contrasting views in the effectiveness of financial resilience in promoting profitability as argued by previous scholars where financial resilience can lead to risk aversion which promotes going concern and profitability, this same financial resilience can hinder profitability by discouraging bold and innovative strategies that are risky and mighty yield more return. These studies on working capital management strategies introduce a novel aspect of financial resilience as a moderator. This study aims to show the importance of financial resilience while balancing it with the need for profitability to maximise the returns available. 2.5 Conceptual Framework The conceptual framework is important for acquiring an understanding of the existing relationship between the variables used in the study being conducted and how they affect each other either directly or indirectly. Working Capital Profitability Management Financial Resilience Independent variable Moderating variable Dependent variable Figure 2.2: Conceptual framework 2.5.1 Operationalization

of the Variables Table 1:Operationalization of variables Variable Definition Measurement REFERENCES Working Management capital Strategies that determine how much working capital a company needs to maintain to support its day to day operations. • Current liabilities to total liabilities ratio. • Cash conversion cycle. • Current Ratio Afza & Nazir (2007) Financial resilience This refers to a firm's ability to absorb and recover from financial shocks such as economic recessions or unexpected financial losses • Cash flow to debt ratio. • Operating Cash Flow • Debt to equity ratio. Amann, Jaussaud, & Schmid, (2012) Profitability The ability of a • Return on Brigham, E.F & business to generate earnings compared to its expenses. • Assets Houston, J.F (2019) CHAPTER THREE: RESEARCH METHODOLOGY 3.1 Introduction This chapter highlights the research methodology that was used to establish the strength of the relationship between the working capital management strategies (aggressive, matching and conservative), financial resilience and profitability in the listed firms on the Nairobi Securities Exchange (NSE) in the Kenyan context. It entails the research design, target population, sampling methodology, data collection as well as the factors that affect the data's consistency and credibility covered in detail. 3.2 Research Design The study adopted a descriptive research design for methodology. A research design basically shows a lay out of the conditions for data collection and analysis in a way that aligns with the research objectives. (Kothari, 2004) It is also described as a research design that intends to attain evidence to analytically describe an object situation or population. In this case it will seek to investigate whether a connection exists between working capital management practices alongside financial resilience and profitability. The design described the working capital practices used by listed firms and assess the strength and direction of the relationship among the variables through the supplementation of the correlational research design. 3.3 Population and Sampling 3.3.1 Identification of Target population The target population for this study consisted of all firms listed on the Nairobi Securities Exchange (NSE). As per the NSE database of 2024 there are currently 65 firms listed in the economies such as manufacturing, finance, telecommunications, agriculture and services. The choice of these firms is ideal given the study's focus on understanding how WCM strategies affect profitability in a vast range of industries operating under similar market conditions providing a base to examine resilience. This study run from 2019 to 2023. 3.3.2 Sampling Techniques and Sample Size. The sample size of 30 firms was determined using a purposive sampling approach. This technique ensures that firms selected are those with complete financial data for the study period and represent all key sectors on the NSE. Each of the main sectors—manufacturing, telecommunications, retail, financial services, and agriculture—will be represented to capture sectoral variations in working capital practices and financial resilience. The selection criteria ensure the sample adequately reflects the population while remaining manageable for analysis. To determine the sample size: 1. A preliminary review of the 65 firms was conducted to assess data availability and sector distribution. 2. Firms were filtered based on consistent availability of financial reports from 2019 to 2023. 3. At least three to five firms were selected per sector to ensure coverage across all industries represented on the NSE. 3.4 Data Collection Methods This study employed secondary data as the major source of information which can and will be obtained from the financial reports of the firms listed on the NSE. As well as their financial statements like the balance sheets, income statements statement of changes in equity, statement of cashflows amongst others. The other publicly available databases like the Capital Markets Authority (CMA) of Kenya. These financial; statements provided data required to calculate working capital ratios, profitability measures and most importantly indicators of financial resilience. In addition to financial data, macro economic indicators such as inflation and interest rates which can affect profitability were sourced from the Central Bank of Kenya (CBK) Key data points include; Working Capital Metrics, Profitability metrics, financial resilience indicators like measures of liquidity reserves, debt coverage, and macro economic factors. 3.5 Data Analysis As per the nature of the data it was analysed using panel data regression analysis. The model showed the extent to which the independent variables influenced the dependent. The model was designed to test the relationships between WCM strategies (independent variable), financial resilience (moderating variable) and profitability(dependent variable) The following model shall be used; $Y=\beta 0+\beta 1X+\beta 2M+\beta 3(X\times M)+\epsilon$ where ; Y= Profitability is the profitability of firm i at time t X= WCM strategies M= Financial Resilience X x M = Interaction term capturing the moderating variable. ϵ= Error term 3.5.2 Interpretation of Output Regression coefficients (β1,β2,β3) are indicators of magnitude and direction of the relationships between the variables; for instance a positive β3 would suggest that financial resilience strengthens the relationship between WCM strategies and profitability. Significance Levels (p-values) A p-value below 0.05 indicated statistical significance. R-squared R; Represents the proportion of variance in profitability explained by the model Interaction term stated above (X x M) if significant it confirms the moderating role of financial resilience. 3.6.1 Diagnostic Statistical tests. Multicollinearity test; This test was undertaken to ensure no high correlation between the independent variables in the model. Using the variance inflation factor to detect the occurrence of multicollinearity. Stationarity test; This test ensured the regression results were reliable. Knowing full well that non stationary data would cause spurious regression results to arise. This was conducted using the ADF test, Augmented Dickey Fuller Test. Heteroskedasticity test; Breusch-Pagan test was used to test for heteroskedasticity which occurs when the variance of the error terms is not constant across observations, thus bringing about inefficient estimates and biased standard errors that affect hypothesis testing. 3.7 Research Quality Researchers are tasked with ensuring research quality through maintaining validity, reliability and objectivity of the research. In the case of validity, this research study ensured validity by carefully selecting variables that accurately represent the concepts of WCM, profitability and financial resilience. The data collection process was standardised to ensure that relevant and accurate data was collected consistently across firms. Reliability refers to the consistency of the data collection process. The use of secondary data from audited financial statements ensures high reliability since these statements follow standard accounting procedures and are regularly reviewed by regulatory bodies. 3.8 Ethical Issues in Research This study adhered to ethical research standards, ensuring that all data was handled responsibly and in compliance with regulations. The key ethical considerations covered in this research include; confidentiality; although the data are publicly available, the study ensured that the findings are reported in aggregate form to maintain firm anonymity, for accuracy the study maintained the integrity of data by accurately reporting findings and avoiding manipulation of data to influence results. This methodology was designed to thoroughly investigate the role of financial resilience in moderating the relationship between WCM and profitability, providing new insights for managers, policy makers and academics. CHAPTER FOUR PRESENTATION OF DATA AND ANALYSIS 4.1 Introduction This chapter presents the findings of the study, guided by the objectives and hypotheses outlined earlier. The purpose of this chapter is to analyze and interpret the results of the collected data to examine the moderating effect of financial resilience on the relationship between working capital management and profitability among firms listed on the Nairobi Securities Exchange (NSE). The chapter begins with a descriptive analysis of the key variables, followed by diagnostic tests to ensure the validity and reliability of the results. It then proceeds to inferential analysis, where regression models are used to test the study's hypotheses. Finally, the findings are discussed in relation to the theoretical framework and existing literature, concluding with a summary of key insights. By delving into these aspects, the chapter aims to provide a comprehensive understanding of how working capital management strategies influence profitability, while highlighting the role of financial resilience in moderating this relationship. 4.2 Descriptive Statistics Descriptive statistics summarize the key characteristics of the data, including measures of central tendency (mean, median) and dispersion (standard deviation, minimum, and maximum). The table below shows the descriptive statistics for the variables used in the analysis. Table 2: Descriptive statistics Variable Cash Rati x3 OCF Ratio (x4) Debt to equity (x5) M1 (Moderating Term) Mean 5.6804 1.2272 1374.43 -33. Median 0.8079 0.1976 28.6272 -9.127 maximum 37.0426 57.6545 165862.1 -324.4557 Minimum 3.23E-057.7 0.0002 -12.0905 -3353.853 Std. Deviation 36.5653 6.0057 146680.8 324.4557 Skewness 9.0722 8.2074 10.5361 -9.5245 Kurtosis 89.0184 73.3737 112.0099 98.0294 Jaque-Bera 36711.23 24803.44 58553.04 44619.03 Probability 0.0000 0.0000 0.0000 0.0000 Interpretation: M1 (Moderating Term) has a high standard deviation, indicating substantial variation in its impact across firms. Other variables also exhibit variability, suggesting diverse financial structures and working capital strategies within the industry. The Cash Ratio (X3) has a high standard deviation (36.56), indicating substantial variability across firms. The Debt-to-Equity Ratio (X5) also shows significant variation, suggesting differences in leverage strategies. High skewness and kurtosis across all variables imply non-normal distributions, which may affect model assumptions. 4.3 Correlation Analysis Correlation analysis evaluates the strength and direction of relationships between independent variables to detect potential multicollinearity issues. Table 4.2: Correlation Matrix Table 3: Correlation Matrix Cash Ratio OCF Ratio Debt to Equity M1(Moderator) Cash Ratio 1.000 -0.0146 -0.00145 -0.2398 OCF ratio -0.0146 1.000 -0.0193 0.0737 Debt to Equity -0.0145 -0.0193 1.000 0.0098 M1

-0.2398 -0.0737 0.0098 1.000 Interpretation: • M1 (Moderating Term) has a weak correlation with the working capital variables, suggesting it may play a nuanced role in modifying their effect on financial performance. • No strong correlations indicate minimal multicollinearity concerns. 4.4 Regression Results (Fixed Effects Model) The Fixed Effects Model was employed to assess the relationship between working capital management variables and financial performance (ROA). Table 4.3: Fixed Effects Regression Results. Table 4: Fixed Effects Regression Results Variable Coefficient Std. Error T-statistic Probability (p- value) Constant (c) 0.0470 0.0219 2.1501 0.0346 Cash Ratio -0.0004 0 .0007 -0.4906 0.6251 OCF ratio 0.0037 0.0004 8.1414 0.0000 Debt-to-Equity (x5) -1.06E-06 1.73E-07 -6.1598 0.0000 M1 (moderating term) -0.0008 7.35E-05 -6.5869 0.0000 X3*M1 (Interaction term) 0.0012 0.0005 2.4003 0.0181 X4*M1 (interaction term) -0.0023 0.0006 -3.8365 0.0002 X5*M1(interacti on term) 0.0009 0.0003 3.0124 0.0033 Model Statistics: • R-squared: 0.7854 • Adjusted R-squared: 0.6423 • F-statistic: 6.3287 (p-value = 0.0000) Interpretation: M1 (Moderating Term) significantly interacts with Cash Ratio (X3), OCF Ratio (X4), and Debt- to-Equity (X5), modifying their impact on financial performance. The interaction term X3*M1 is positive and significant (p = 0.0181), suggesting that M1 strengthens the relationship between Cash Ratio and financial performance. The interaction term X4*M1 is negative and significant (p = 0.0002), implying that M1 weakens the positive impact of OCF Ratio on financial performance. The interaction term X5*M1 is positive and significant (p = 0.0033), indicating that M1 enhances the effect of Debt-to-Equity on financial performance. The higher R-squared (0.7854) compared to the previous model confirms that including M1 as a moderator improves the model's explanatory power. As stated in chapter 3 the Interaction term stated above (X x M) if significant it confirms the moderating role of financial resilience. 4.5 Diagnostic Tests Diagnostic tests were conducted to validate the regression assumptions. In this study, diagnostic tests revealed no evidence of heteroskedasticity, indicating that the residuals are evenly distributed. This suggests that the regression model provides reliable estimates, as heteroskedasticity could otherwise lead to inefficient estimators and incorrect inferences. Homoscedasticity: No heteroskedasticity issues detected. The variance inflation factor (VIF) test results indicate that multicollinearity is not a significant concern. This ensures that the estimated coefficients are stable and that each independent variable contributes unique explanatory power to the model. Multicollinearity: No serious multicollinearity concerns based on VIF tests. Normality of Residuals: Residuals are approximately normal. Based on diagnostic tests, the residuals appear to be approximately normal, indicating that the model adheres to the assumptions of classical regression analysis, thereby enhancing the robustness and interpretability of the results. 4.6 Summary of Findings Direct Effects: OCF Ratio a measure of resilience as per this paper positively influences financial performance whereas Debt-to-Equity and Cash Ratio show varied effects. Moderating Effects of M1: The Moderating term strengthens the effect of Cash Ratio on financial performance, weakens the effect of OCF Ratio on financial performance and in turn enhances the effect of Debt-to-Equity on financial performance. This implies that the ability of financial resilience to link between the working capital strategies and financial performance in terms of profitability also depends on the working capital strategy employed by that firm. CHAPTER 5 DISCUSSION, IMPLICATIONS, CONCLUSION, AND RECOMMENDATIONS 5.1 Introduction This chapter presents a discussion of the findings in relation to the study objectives, theoretical foundations, and empirical evidence. The chapter further outlines the implications of the study, conclusions, and recommendations for policymakers, corporate managers, and future researchers. The study examined the effect of working capital management (WCM) strategies on the financial performance of firms listed on the Nairobi Securities Exchange (NSE), with financial resilience (M1) as a moderating variable. 5.2 Discussion of Findings 5.2.1 Effect of Cash Ratio (X3) on Financial Performance The findings indicate that Cash Ratio (X3) has an insignificant effect on financial performance. This suggests that maintaining liquidity does not necessarily enhance firm profitability, likely due to the opportunity cost of holding excess cash. These results align with the trade-off theory, which argues that firms must balance liquidity with investment opportunities to maximize returns. Prior research, such as that by Smith and Begemann (1997), has shown mixed results regarding cash holdings and profitability, reinforcing the idea that liquidity management must be carefully balanced to optimize returns. The interaction term X3*M1 was positive and significant, indicating that firms with higher financial resilience are better able to utilize excess cash effectively, leading to improved financial performance. This suggests that strong financial resilience enhances the strategic value of liquidity management. Similar findings have been reported by Deloof (2003), who found that firms with sound financial structures can better leverage cash holdings for operational efficiency. 5.2.2 Effect of Operating Cash Flow (OCF) Ratio (X4) on Financial Performance The study found that Operating Cash Flow (X4) has a significant positive effect on financial performance, supporting the cash flow theory, which emphasizes the importance of internal liquidity in sustaining operations and growth. Firms with higher cash flows from operations tend to experience improved financial stability and performance. These findings are consistent with those of Garcia-Teruel and Martinez-Solano (2007), who found that efficient cash flow management is critical to maintaining profitability. The interaction term X4*M1 was negative and significant, implying that firms with higher financial resilience tend to rely more on external financing rather than internal cash flows. This suggests that firms with greater resilience have diversified financial strategies that reduce dependence on internally generated cash flows. This observation is supported by research from Petersen and Rajan (1997), who noted that firms with strong financial foundations are more likely to access favorable credit terms, thereby reducing their reliance on internal funds. 5.2.3 Effect of Debt-to-Equity Ratio (X5) on Financial Performance The results reveal that Debt-to-Equity Ratio (X5) has a significant negative effect on financial performance. Highly leveraged firms experience a decline in financial performance due to increased financial risk and debt servicing costs. These findings support the pecking order theory, which states that firms prefer internal financing over debt due to associated risks. Similar results have been found in prior studies such as those by Rajan and Zingales (1995), who observed that excessive leverage tends to diminish firm value due to financial distress costs. The interaction term X5*M1 was positive and significant, meaning that firms with higher financial resilience are better equipped to manage debt-related risks, mitigating the negative impact of leverage on financial performance. As stated in chapter 3 As stated in chapter 3 the mere factv that Interaction term stated above (X x M) being significant indicates and confirms the moderating role of financial resilience on firms profitability. This finding aligns with the work of Modigliani and Miller (1958), who argued that firms with strong financial resilience can sustain higher levels of debt without significantly harming profitability. 26 5.3 Implications of the Study 5.3.1 Theoretical Implications The study contributes to the existing literature by confirming the moderating role of financial resilience (M1) in the relationship between WCM strategies and financial performance. The findings support the trade-off theory in cash management, the cash flow theory in liquidity management, and the pecking order theory in capital structure decisions. These results build upon the foundation laid by previous researchers, such as Gill, Biger, and Mathur (2010), who emphasized the importance of financial structure in optimizing firm performance. 5.3.2 Managerial Implications Managers should adopt dynamic cash management strategies, ensuring they optimize liquidity in alignment with financial resilience. Firms should enhance their financial resilience to better manage debt and reduce financial distress. Given the moderating role of financial resilience, firms should adapt their working capital strategies to build financial sustainability and improve long-term performance. Studies by Lazaridis and Tryfonidis (2006) have shown that firms with well- managed working capital cycles tend to perform better, reinforcing the importance of dynamic strategies. 5.3.3 Policy Implications Regulatory bodies such as the Capital Markets Authority (CMA) should promote financial resilience frameworks that enhance firm sustainability. Corporate governance guidelines should emphasize financial resilience metrics, ensuring that firms maintain robust financial positions to navigate economic fluctuations. Prior research by Shin and Soenen (1998) underscores the need for regulatory oversight to ensure efficient financial management across firms. 5.4 Conclusion Based on the research findings, the study concludes that Cash Ratio (X3) alone does not significantly affect financial performance, but for firms with high financial resilience, the impact is positive and significant, highlighting the role of resilience in effective liquidity management. Operating Cash Flow (OCF) Ratio (X4) significantly enhances financial performance, but its effect weakens for firms with greater financial resilience, suggesting that resilient firms diversify their financial strategies. Debt-to-Equity Ratio (X5) has a strong negative effect on financial performance, but firms with higher financial resilience (M1) are better equipped to manage debt- related risks, mitigating its negative impact. These findings underscore the crucial role of financial resilience in shaping the relationship between WCM strategies and firm performance in NSE-listed firms. This aligns with prior research by Afza and Nazir (2009), who found that financial resilience is a critical factor in the sustainability of firms operating in volatile markets. 5.5 Recommendations Firms should implement resilience-driven cash flow management strategies that enhance financial stability and performance.

Corporate managers should strengthen financial resilience through adaptive working capital strategies. Firms should strategically structure their debt levels, ensuring they maintain financial sustainability through resilience-enhancing policies. Regulatory frameworks should emphasize financial resilience as a key component of corporate sustainability. The CMA should develop guidelines to help firms integrate financial resilience into their financial management practices. Future studies should examine the long-term effects of financial resilience on corporate financial performance. Researchers should explore the sector- specific impact of financial resilience in WCM strategies. Future studies could investigate other resilience-related financial metrics, such as risk management strategies, in the context of WCM. 5.6 Summary This study confirms that working capital management strategies significantly influence financial performance, with financial resilience (M1) playing a moderating role. The findings emphasize the need for firms to enhance financial resilience to optimize financial performance. Policymakers and corporate managers can leverage these insights to enhance financial decision-making in NSE- listed firms. 1 2 3 6 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 27 28

Appendix IV: Timeline of Activities

Strathmore UNIVERSITY BUSINESS SCHOOL

STRATHMORE UNIVERSITY BUSINESS SCHOOL

MANAGEMENT RESEARCH PROJECT I

MANAGEMENT RESEARCH PROJECT II

SUPERVISION SCHEDULE

Name of the student: Yiga PhilipNsamba EJ Reg. No: 146522

Programme Name: Bachelor of Commerce

			Signature	
Session	**Date**	**Tasks achieved**	**Student**	**Supervisor**
1	24/06/2024	• First meeting with the supervisor • Discussed possible research topic and objectives • Set expectations and timelines		
2	1/07/2024	• Found relatable articles towards the three research topics that had been suggested.		
3	2/07/2024	• Instructed on how to approach the proposal skeleton. • Began looking for research gaps		
4	4/07/2024	• Successfully installed Mendeley, Mr Fredrick's recommended reference application. • Got closer and zeroed down on the research topic to use for my research project.		

5	10/07/2024	• Conducted a brief literature search for articles along the lines of my research topic. Created research gap matrix.		

			Signature	
Session	**Date**	**Tasks achieved**	**Student**	**Supervisor**
6	12/07/2024	• Began filling in the research gap matrix. • Identified my dependent and independent variables.		
7	16/07/2024	• Had an online meeting to discuss the progress of the research project. • Continued filling in the research gap matrix.		
8	19/08/2024	• During the physical meeting I was given suggestions on ways to improve my research project.		
9	6/09/2024	• Had a follow up on my research progress and was given some corrections and adjustments to do.		
10	11/09/2024	• The supervisor communicated with me about a mock defence.		
11	24/09/2024	• Made a PowerPoint presentation that I was going to use during my defence.		

12	9/10/2024	• Approved to go ahead and defend.		
13	21/11/2024	• Defended my research proposal		
			Signature	
Session	**Date**	**Tasks achieved**	**Student**	**Supervisor**
14	28/11/2024	• Submitted corrections from the defence to my research supervisor		
15	29/11/2024	• Filled in the correction matrix and submitted it		
16	3/12/2024	• Cleared to proceed to data collection (Chapter four of the research)		
17	11/12/2024	• Had a follow up on data collection process with my supervisor		
18	8/01/2025	• Sent the final document of the research project to my supervisor		
19	9/01/2025	• The supervisor gave corrections on the final document that I had submitted		
20	10/01/2025	• Submitted the final document with corrections made.		