

ABSTRACT

Manufacturing firms in Kenya have been a vital contributor to industrial growth and the achievement of Kenya's 2030 objective. Although the sector has made significant investment in working capital items like cash, inventories, account receivable and account payable. The goal of this research was to find out how the working capital cycle (WCC) affected the financial performance of manufacturing companies listed on the Nairobi Stock Exchange (NSE). The study's specific objectives were to examine the impact of inventory conversion period, debtors collecting period and creditor deferral period on manufacturing firms listed on the Nairobi Securities Exchange and the role of firm size in this relationship. Economic order quantity, transaction cost and the cash conversion cycle theories were the hypotheses that led this research. The study employed a descriptive cross-sectional design. The study conducted a census of the whole population of nine NSE-listed manufacturing firms from 2013 through 2022. A checklist was used to collect secondary data from corporate financial records and NSE manuals. The T-test was used to test hypotheses, and the F test was used to assess model significance at a level of 5%. With a regression coefficient of 0.117 and a p-value of $0.016 < 0.05$, the study discovered that inventory conversion period had a substantial beneficial influence on financial performance. Furthermore, with a regression, debtors collecting period showed a negative non-significant effect on financial performance, with a regression coefficient of -0.035 and a p-value of $0.214 > 0.05$. Furthermore, the creditors deferral period had a negative significant influence on financial performance, with a regression coefficient of -0.069 and a p-value of $0.000 < 0.05$. Finally, the relationship between the working capital cycle and financial performance was significantly moderated by firm size. The model coefficient for the interaction effect of working capital cycle and business size was -0.031, with a p-value of $0.046 < 0.05$. According to the study, managers should shorten creditors' deferral period days in order to improve firm performance. Managers should also cut the time it takes to process raw materials.