

**EFFECT OF WORKING CAPITAL MANAGEMENT PRACTICES ON
SUSTAINABILITY OF NON-GOVERNMENTAL ORGANIZATIONS
IN NAIROBI COUNTY**

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ABSTRACT

This study aimed at establishing the effect of working capital management practices on Sustainability of Non-Governmental Organizations (NGOs) in Nairobi County. It was guided by the operating cycle theory, and the theory of economic regulation. It was anchored on a positivist paradigm philosophy. The study employed descriptive research design. A sample of 286 out of a target population of 1000 senior program managers and chief executive officers was obtained using stratified random sampling. A pilot study was conducted on 15 senior program managers and chief executive officers from NGOs within Nairobi County. Primary data was collected from sampled officers using structured questionnaires, while secondary data was obtained from the audited financial statements and publications by the NGO coordination board. A total of 172 questionnaires were found to be satisfactorily completed for analysis yielding a 60.14% response rate. The data was summarized and presented in tables and charts. Statistical Package for Social Scientists (SPSS) was used for data handling and analysis. Inferential statistics included hypothesis testing using Chi Square test for independence to test whether the rating was dependent on the age of the NGOs. Descriptive statistics that included frequencies, percentages, means, modes, standard deviations and inferential statistics were carried out. NGOs modelling was done using correlational and linear regression analysis and Analysis of Variance (ANOVA). On cash forecasting and planning 89.6% respondents indicated timely cash forecasts, 86% confirmed proper management of cash and bank account systems, while 61% of the respondents confirmed timely payment of creditors. The study however showed 63.8% delays in the reporting of expenditure, leading to delayed requisition and receipt of funds. This adversely affected the liquidity of the organizations. Working capital management practices were found to have significant effects on the NGO sustainability specifically current ratio and survival rate. The study recommended improvement of working capital management practices through improved grant receipt scheduling and liquidation of expenditure. Improvement of internal control practices would reduce the malpractice within the financial management function and enhance sustainability.

Keywords: *Working Capital Management and Sustainability*

INTRODUCTION

The working capital management in a firm involves its short-term financing and it is an important factor for any firm that plans to improve its operational effectiveness and long-term survival. It

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relates to the ability of the organization to use its current assets to pay the current obligations. Prudent working capital management enables the firm to optimize the utilization of its current assets in the settlement of short-term obligations. The Non-Governmental Organizations (NGOs) transact large amounts of cash and cash equivalents and are required to settle their short-term obligations within the life of the project. This makes it critical for all the organizations to prioritize its working capital management practices. The NGOs that acknowledge the proper working capital management practise stand a better chance of overcoming the cash flow difficulties, utilization funds available appropriately to meet the demands of the organization and reduce unnecessary costs, making savings whenever possible. The management of working capital becomes a critical factor to consider in the management of the NGOs.

Yakubu, Alhassan, and Fuseini (2017) study on the impact of the working capital management within the corporate performance observed that the goal of working capital management is to ensure that the firms can manage their operational expenses and meet short term obligations by maintaining adequate cash flow. Prasad et al. (2019) stated that a firm that is highly efficient in managing working capital is less exposed to liquidity risk and such a firm will also be less dependent on external financing. Proper management of working capital, ensures that an NGO has adequate liquidity levels that enable it to successfully sustain operations. The management should operate within the optimal levels of working capital to ensure efficiency and effectiveness.

Kenya is in the evolving level of sustainability, and it is continually becoming a great challenge to put it on a growth path (NGO Coordination Board, 2019). According to this report, the NGOs in Kenya raise only 4 percent of the total funding through the income generating project, and heavily relying on donor funding and the growing over-dependence on external funding and the fact that few of the registered NGOs can start income generating activities could imply that the NGO sector in Kenya is largely becoming unsustainable. Tortajada (2016) stated that, most of the NGOs are faced with sustainability challenges which are mainly attributed to the difficulties in the design, monitoring, and implementation of the project financing strategies and this could have a negative impact on the sustainability of such organizations.

The NGOs in the emerging economies are facing challenges on their sustainability mainly due to the changing aid patterns for development (Arhin, Kumi & Adam, 2018). The annual NGO sector report (NGO coordination board, 2019) showed a 7% increase in the number of NGOs between year 2016/2017 and 2018/2019. USAID report on the sustainability index for NGOs in Sub-Saharan Africa reported a decline in sustainability in NGOs in the region compared to the previous years with overwhelming concentration of the decline in East Africa (USAID, 2016). The report further disclosed that on a scale of 1 to 7, the financial sustainability score for Kenya was 4.7, a clear indication that it was still evolving. The NGO coordination board (2019) reported high dependence on donor funding with the country only raising 12% of the financial requirements from internal sources.

Financial management is a key determinant of the survival of a business. Important variables that would greatly contribute to the appropriate or inappropriate financial management within the NGOs are the cash receipt management, the grants receipt scheduling and accounts payables management. Despite the growth experienced in the NGOs and the increased funding reported over time, prudent financial management may not be a common practise. Lack of adherence to

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critical financial management practices has potential to diminish the growth and the long-term survival of the organization, lead to inefficiency and ineffectiveness in the assets management and potentially result in the collapse of an organization. This study sought to assess the effect of working capital management practices on the sustainability of the NGOs in Nairobi County, with the aim of providing recommendations that would be beneficial to counter the decline or collapse of those NGOs.

Lack of sustainability of NGOs would result in a substantial reduction in the provision of basic needs to communities, which in the long run could lead to drastic effects on the beneficiaries' quality of life. Biwott, Toroitich and Kiplel (2014) noted that, given the vital role played by NGOs in enhancing the financial sustainability of communities and their direct impact on livelihoods, the survival of these organizations is of critical importance to the government, the beneficiary communities, and the donors who fund their activities. Key variables that indicate an organization's level of sustainability include the current ratio, donor-dependency level, and survival ratio. Guided by this context, the present study seeks to assess the effect of working capital management practices on the sustainability of NGOs in Nairobi County. In line with this objective, the study formulates the null hypothesis (H_0) stating that *working capital management practices have no statistically significant effect on the sustainability of NGOs in Nairobi County.*

Theoretical Review

The study was guided by the Operating Cycle Theory which was developed by Mann in 1918. This theory stated that, working capital is the amount equivalent to finance the company operations and further it is money or money equivalent that is necessary to conduct the current business of a utility. In support to this theory, Gitman (2015) stated that the working capital is the difference between the current assets and the current liabilities. The net working capital therefore is the amount to which the current assets exceed the current liabilities.

The operating cycle theory informs this study in that the NGOs like other businesses need to effectively manage their working capital for their continued operations and long-term survival. This study focused on the effect of the current assets and current liabilities management, with specific attention given to the cash management, grant receipt scheduling and the accounts payables management. This theory however addressed the working capital and operational efficiency only and does not address other important practices that are crucial in the management of the resources that would enable the organization to remain relevant in the long- run.

Empirical Literature Review

In every going concern, working capital management is a very important aspect. The working capital components which include the current assets, and the current liabilities have a great affect the liquidity and profitability of the firm, hence there is need to monitor them for effectiveness and efficiency. The working capital also relates to the ability of the organization to use its current assets to pay the current obligations. It is important for the organization to successfully conduct its day to-day business. Yakubu, Alhassan, and Fuseini (2017) on the study on the impact of the working capital management within the corporate performance observed that the goal of working capital management is to ensure that the firms can manage their operational expenses and meet short term obligations by maintaining adequate cash flow.

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Ponsian et al. (2014), on the study of the effect of working capital management on profitability in the manufacturing companies observed that working capital management emphasizes on maintaining proper levels of the current assets and the current liabilities. It entails the planning, organizing and setting appropriate controls to ensure that the firm has available funds as a cushion or safety net that would be used to run the organization's operation in the short run and it has a great effect on the profitability of the organization (Jayarathne, 2014). In support of this, Sunday (2011), in the study of effective working capital management within the small and medium enterprises stated that the management must give adequate focus to the management of their working capital if the firm is to enjoy continuity, growth and solvency.

Kanga'ru & Tirimba (2018) argued that the firm's prudent management of the short-term assets have a direct effect on the profitability and the liquidity of the business and ultimate totally performance, and therefore there is a positive and significant relationship between working capital management and the financial performance on an organization. Prasad, Sivasankaran, Paul, and Kannadhasan (2019) stated that a firm that is highly efficient in managing working capital is less exposed to liquidity risk and such a firm will also be less dependent on external financing. In support of this, Ponsian et al. (2014) argued that the management of working capital is one of the most important financial decisions to a firm and sufficient of such levels should be present for smooth running of a company regardless of its nature of business.

The firm's level of cash and assets convertible to cash that is used to settle demands must be carefully monitored if sustainability is to be achieved. Kanga'ru and Tirimba (2018) argued that many organizations generate their funds externally and the management must put tight controls over the cash received and banked to safeguard their smooth operations. In agreement to these findings, Matan and Hartnett (2012) argued that the cash flow statements show how changes in the balance sheet accounts and the income affect the cash and cash equivalent. The appreciation of the fact that an organization need to maintain appropriate cash levels is critical to the survival of a business.

METHODOLOGY

Research Design

The study adopted a descriptive research design. This design attempts to describe a subject, often by creating a profile of a group of problem, people, or events, through collections of data and the tabulation of frequencies on research valuables and the research reveals who, what, when and where or how much (Cooper & Schindler, 2011). The methods used try to measure the types of activities, how often, when, where and by whom

Location of the Study

This study was conducted amongst NGOs within Nairobi County in Kenya. Nairobi is the capital city of Kenya, a regional business hub and a host of numerous national, continental, and global organization headquarters. The choice of Nairobi County as the area of study was informed by the need to access a diverse population coming from the various categories within the NGO sector namely, health, education, wash and livelihood, orphanages and rehabilitation and environment protection and human rights.

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Population of the Study

A population is a group of individual persons, objects or items from which samples are taken for statistical measurement. Arun, Jayne, and Luciana (2016) defined a population as the entire group of people or items to which a statistical investigation relates. Therefore, the target population for this study was the senior program managers or chief executive officers from the 1000 registered and active NGOs in Nairobi County as per the NGO Coordination Board report (2019). The list of the 1000 registered NGOs in Nairobi County formed the study's sampling frame.

Sampling Technique

Due to the heterogeneity of the population, the study used stratified random sampling technique. This sampling technique ensured a fair representation of all characteristics of the population of the non-Governmental organizations in Nairobi County. The sample size was determined using the Yamane (1967) sample size formula:

$$n = \frac{N}{1+N(e)^2}$$

Where: n = sample size

N = Population size

e = Standard error

$$\text{Thus, sample size} = n = \frac{1000}{1+1000(.05)^2} = 286$$

Instrumentation

A structured questionnaire was designed and tested for validity and reliability for the purposes of carrying out this study. The questionnaires were administered by the research assistants who also tracked and collected the complete questionnaires. A pilot study was conducted on 15 (5% x 286) respondents who were selected from the senior program managers and executive officers of the NGOs within the Nairobi County who did not form part of the sample population. The questionnaires were tested for reliability to check for duplication of the questions, ensure issues such as biased or inaccurate questions were eliminated and established the extent to which questions were consistent with what was being tested. The Cronbach's Alpha coefficient was used to assess the reliability of the questionnaires.

Validity of the instrument

Validity is the extent to which an instrument measures what it purports to measure. In this study, content validity was tested by using a panel of persons who judged positively the relevance of the contents and how well the measuring instrument met the standards.

Data Analysis and Presentation

The collected data was cleaned, edited, and organized for analysis and presentations. The data was also summarized and presented in tables and charts to provide visual representations of the data. The study employed both descriptive and inferential statistics techniques. The descriptive statistical techniques involved measures of central tendencies such as mean, frequencies, standard deviations, coefficients of skewness and kurtosis. The study also used inferential techniques such as correlation and regression analysis for assessment of causal and functional relationships among the study variables and assessing their goodness of fit.

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Analysis of the Likert scale data

The questionnaire mainly comprised of Likert-items that measured the extent to which the respondents either agreed or disagreed with various statements on selected attributes of the study variables. The researcher assigned a numerical value to each answer ranging from 1-5 with 5 denoting “strongly agree”; 4 denoting “agree”; 3 for “neutral”; 2 for “disagree”; and 1 for “strongly disagree” for the various attributes assessed in the study. Further, the Likert scale allowed the respondents to choose the option they felt best described their opinions on the issues under each variable. The collected Likert data was analyzed using frequencies, percentages, and descriptive statistics such as the mean, median, mode, standard deviation, variance and coefficients of kurtosis and skewness. The frequencies and percentages helped in bringing out the actual distribution of the responses among the Likert scale items thus exposing the general skewness and tendency of the responses.

Hypothesis Testing

In analysing the inferential statistics, Chi Square test for independence was used to test whether the rating of the NGOs was dependent on the duration that the NGOs have been in existence (NGO age brackets). The test tested the hypotheses as follows

Null hypothesis: H_0 : The attributes are independent,

Against Alternative hypothesis: H_1 : The attributes are not independent.

Rejection of the null hypothesis implied that the rating of an NGO was dependent on the duration that the NGO has been in existence. Failure to reject the null hypothesis implied that there was independence. The computed Chi Square statistics were found to be less than the Critical Chi Square statistic and the P-Values greater than the significance level (0.05) for all aspects of working capital management practices. For these reasons, the null hypothesis of independence failed to be rejected implying that working capital management practices are statistically independent of NGO age bracket.

Correlation analysis was used to show the relationship between the study variables for each research question. Simple linear regression analysis using the Ordinary Least Squares (OLS) method was used to develop models and to test the statistical significance of the models. Tests for the assumptions of linear regression analysis such as tests for normality, linearity and heteroscedasticity were done to assess the statistical adequacy of the models. The structure of the simple linear regression model used to investigate the functional relationship between the dependent and independent variables of the study was as follows.

To assess the effect of working capital management practices on sustainability of NGOs, the simple linear regression model used was of the form.

$$y = \beta_0 + \beta_2 X_2 + \varepsilon$$

Where

y = Sustainability of NGOs

β_0 = Constant

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β_2 = Coefficient of working capital management

X_2 = Working capital management

ε = The error term

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

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Current ratio compares the Current assets which will become liquid in approximately twelve months with the current liabilities which will be due for payment in the same time period. It signifies the efficient management of resources by the organization.

Gitman and Zutter (2015) stated that a current ratio of 2:1 is acceptable and the higher the predictability a firm cash flows, the lower the acceptable current ratio.

$$\text{Donor-dependency Level} = \frac{\text{Total Donor Income}}{\text{Total Income}} \times 100$$

Donor dependency level shows the financing strategy of the firm and its dependence on the donor aid in a given period. It is used to enable the firm to set and monitor their financial targets that are set with the objective of long-term survival. Lewis (2016) asserted that the donor dependency ratio is an important measure that shows how financially sustainable an NGO is at a given point in time. He indicated that 100% ratio would indicate total dependence on donor funds and may pose a risk to the organization. The rate of dependency is guided by the financing strategy of the organization, where less dependency will indicate lower levels of donor funding and more dependency of other generated income.

$$\text{Survival Ratio} = \frac{\text{General reserves}}{\text{Total Income}} \times 52 \text{ weeks or } 365 \text{ days}$$

The survival ratio gives an indication of how long the Organization could survive in the coming year if the normal income dried up and levels of activity remain the same and the recommended a survival ratio of a minimum 30 days (Lewis, 2016). Saungweme (2014) stated that the survival ratio measures the number of days or months an NGO can survive based on its current general reserves, or unrestricted funds.

Data Analysis

The collected data was cleaned, edited, and organized for analysis and presentations. The data was also summarized and presented in tables and charts to provide visual representations of the data. The study employed both descriptive and inferential statistics techniques. The descriptive statistical techniques involved computation of measures of central tendencies such as mean, frequencies, standard deviations, coefficients of skewness and kurtosis. The study also used inferential techniques such as correlation and regression analysis for assessment of causal and functional relationships among the study variables and assessing their goodness of fit.

Ethical Considerations

The researcher obtained clearance for the study from the National Commission for Science, Technology, and Innovation (NACOSTI) permit no. NACOSTI/P/19/36939/29835, in Nairobi, Kenya. The researcher also sought consent from the authorities in the NGOs as well as the other relevant stakeholders. The respondents were also assured that all the information collected in the study was for academic purposes only, was used to improve the financial sustainability within the NGOs and was not to be used to victimize them in any way. They were also assured of confidentiality of the information disclosed and the privacy of each respective respondents.

RESULTS

The working capital management was seen to be is closely related to the sustainable growth of an organization or institution and therefore an effective working capital management framework is a core component of the overall management and decision-making cadres of NGOs. Table 1 shows the Likert scale summary statistics on NGO working capital management practices.

Table 1:

Likert Scale Frequencies and Descriptive Statistics on NGO Working Capital Management Practices

Variable Indicators	P/F	SD	D	N	A	SA	Mode
a) The organization has management systems for cash and Bank accounts	P	0	0	14.0	51.7	34.3	4
	F	0	0	24	89	59	
b) The cash forecasts are prepared in good time	P	.6	1.7	8.1	59.9	29.7	4
	F	1	3	14	103	51	
c) Appropriate measures are set to govern utilization of cash	P	0	0	10.5	59.9	29.7	4
	F	0	0	18	103	51	
d) To improve the process, NGO must liquidate such expenditure within a reasonable time going by the contract details	P	.6	2.9	35.5	42.4	18.6	4
	F	1	5	61	73	32	
e) There are no delays in remittance of tranches during implementation	P	.6	7.0	27.3	46.5	18.6	4
	F	1	12	47	80	32	
f) There is constant delay in reporting of expenditure	P	5.8	16.9	23.3	43.6	10.5	4
	F	10	29	40	75	18	
g) The delays in the subsequent receipt of funds affect liquidity	P	2.9	5.8	27.9	51.7	11.6	4
	F	5	10	48	89	20	
h) The creditors are paid within the stipulated time	P	1.7	4.7	32.6	46.5	14.5	4
	F	3	8	56	80	25	
Standard Deviation				0.3857			
Mean				3.8738			

**P: Percent F: Frequency SD: Strongly Disagree D: Disagree N: Neutral A: Agree SA: Strongly Agree*

Cash and Bank accounts management

Cash and Bank accounts management is a critical aspect for every business. The management systems for cash and bank accounts are therefore critical components in promoting sustainability by ensuring optimal liquidity. Under this study, 148 respondents (86%) confirmed that cash and

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bank account management systems exist in their NGOs with 24 respondents (14%) remaining neutral on this aspect. The findings under this study points towards a very positive practice in as far as the management of cash and banking is concerned and therefore the NGOs under discussion are likely to maintain accuracy and effectiveness on their cash and bank balances, a practice that is highly recommended in financial management with any organization.

Timely and accurate cash forecasts are also very critical in ensuring optimal preparedness for future organizational financial needs. 154 respondents (89.6%) indicated that these cash forecasts are prepared in good time within the NGOs in which they serve. This is in line with the findings of Ahmed and Ali (2013) who suggested that cash flow forecasts have a great influence on the investor's decisions. The NGOs had set measures to ensure regulated utilization of cash. This is a good gesture as the NGO receives and disseminate huge amounts of cash during the project implementation, and lack of cash forecast could derail the implementation of the projects. Cash forecasts enabled the organization to prioritize the cash needs and efficiently employ the available cash to the most important activities at a given time.

Grants receipt scheduling

Achievement of budgetary and general planning goals and objectives can only be realized if the funds to execute the targeted activities and transactions are received in good time. This study revealed that 112 respondents (65.1%) work in NGOs where remittance of tranches during implementation are done in good time. There was however a great concern on the reporting of the expenditure to the donors per the set agreements. It was reported that is raised on the 54.1% respondents had constant delays in reporting expenditure in their NGO. Regarding the liquidation of expenditure during the project implementation, 61% respondents agreed that expenses are liquidated in good time, while a significant 35.5% decided to remain neutral on this proposition. The liquidation of expenditure is critical if the organization is to maintain liquidity and be able to carry out its operations without interruptions.

Accounts Payables Management

Timely payment of creditors cultivates cordial and long-term business relationships that support sustainability and organizational resilience during strains and financial downturns. The study also showed that 61% of the creditors are paid within the stipulated time.

The indicator of the response variable (NGO sustainability) that was found to be strongly correlated with working capital management practices was regressed against the working capital management practices. These were the current ratio and the survival ratio. Table 2 shows the Ordinary Least Squares (OLS) linear regression outputs.

Table 2:

OLS Linear Regression Output for Current ratio and Survival ratio against Working Capital Management Practices

Current ratio Model parameters	Coefficients	Std. Error	t value	p value	t crit
Intercept	-0.192	0.049	-3.918	0.025	2.145
Working capital practices	0.042	0.017	2.471	0.034	2.145

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Regression Statistics					
Adjusted R Square	0.560	F statistic	14.201	Durbin Watson	1.922
Survival ratio Model parameters					
	Coefficients	Std. Error	t value	p value	t crit
Intercept	5.662	2.508	2.258	0.038	2.145
Working capital management practices	0.142	0.043	3.302	0.029	2.145
Regression Statistics					
Adjusted R Square	0.622	F statistic	15.001	Durbin Watson	2.005

The output shows that the current ratio of an NGO that is not influenced by working capital management practices is -0.192. However, this ratio increases by 0.042 for every unit improvement in working capital practices. On the other hand, the survival ratio of an NGO that is not influenced by working capital management practices is 5.662 with an increasing rate of 0.142 for every unit improvement in working capital management practices. The models yielded coefficients of determination (Adjusted R²) above 50% which indicates that the models are statistically good models. The F-test and t-test statistics also indicate that the models' goodness of fit is statistically significant, and the Durbin Watson values are approximately equal to 2 ($d \approx 2$) indicating absence of autocorrelation. The indicators of the response variable (NGO sustainability); current ratio and internal controls were regressed against working capital management practices, NGO regulation as the moderating variable and their interaction. Table 3 shows the regression analysis with interaction outputs.

Table 3:

Regression with Interaction Output for Current ratio and Survival ratio against Working capital Management Practices, NGO Regulation and their Interaction

Current ratio Model parameters					
	Coefficients	Std. Error	t value	p value	t crit
Intercept	-32.936	9.843	-3.346	0.016	2.179
Working capital management practices	0.609	0.191	3.188	0.018	2.179
NGO regulation	1.828	0.731	2.501	0.039	2.179
Interaction	-0.032	0.013	-2.462	0.039	2.179
Regression Statistics					
Adjusted R Square	0.524	F statistic	9.130	Durbin Watson	1.939
Survival ratio Model parameters					
	Coefficients	Std. Error	t value	p value	t crit
Intercept	-281.239	48.574	-5.790	0.019	2.179

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Working capital management practices	4.596	1.965	2.339	0.043	2.179
NGO regulation	16.611	6.419	2.588	0.038	2.179
Interaction	-0.263	0.059	-	0.027	2.179
			4.450		
<hr/> Regression Statistics <hr/>					
Adjusted R Square	0.504	F statistic	6.983	Durbin Watson	2.006

The Current Ratio

The current ratio that is not due to working capital practices, NGO regulation and their interaction was found to be -32.936. However, this ratio changes by 0.609 – 0.032 (NGO regulation) for every unit change in the rating of working capital management practices. If the effect of the working capital management practices is eliminated, the effect of NGO regulations on the current ratio would be an increase of 1.828 for every unit increase in the rating of the regulations.

The Survival Ratio

The NGO survival ratio (Y_3) that is not influenced by working capital, NGO regulation and their interaction was determined as -281.239. However, this ratio changes by 4.596 – 0.263 (NGO regulation) for every unit change in the rating of working capital management practices. With the elimination of the effect working capital practices on survival ratio, it is observed that the effect of NGO regulation on the survival ratio is an increase of 16.611 for every unit increase in the rating of the NGO regulation. It was determined that the explanatory power of both models was good (Adjusted $R^2 > 50\%$), and the models were statistically significant, and void of auto correlation based on the adjusted coefficients of determination, F-statistics and Durbin Watson statistics ($d \approx 2$). Efficiency in the management of working capital ensures profitability, liquidity and the much-needed financial health for a business. The proper management of the various components of the working capital has a great impact on its operations and sustainability of any business or organization.

DISCUSSION

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

The study revealed good practice in the preparing cash forecasts, a practice which would enable organizations to utilize the available cash in the most efficient manner. The evidence of proper regulations on cash utilization, was a good practice that would protect the firm from malpractices,

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cash mishandling, and other unethical practices. 60.7% of the respondents agreed that approved grants are usually received in good time. The importance of prompt receipt of approved grants was that it would aid in planning and proper utilization of cash to meet the set timelines.

The study further revealed that in 65.2% of the NGOs remittances of the tranches are received in the planned time. This allowed the smooth running and compliance to the agreements and the completion of the project within the agreed timelines. The study however revealed delays in liquidation of expenditure leading to delays in subsequent release of funds. Such delays adversely affect the organization and are likely to cause major challenges in the release of the subsequent tranches thereby adversely affecting the liquidity of the firm. Consequently, 63.8% of the NGOs experienced delays in receipt of funds, a practice that has great potential to adversely affect the liquidity of the organizations.

Working capital management practices was found to influence NGO sustainability to a significant extent. It was established that improved working capital management practices would result to increased current ratio, and increased survival ratio. Donor dependency level was identified as an important factor to the sustainability of an NGO. The Study recommended that the NGOs need a policy addressing an allowable level of dependency, and the NGOs should be discouraged from having a 100% donor dependency which could lead them to immediate closure when the donors either withdraws or reduces funding

CONCLUSION

Based on this study on working capital management practices on the sustainability of NGOs in Nairobi County, the practices were found to be satisfactory with some areas of improvement recommended. The study shows that NGOs have established functional cash and bank account management systems and also facilitate timely cash forecasts that effectively guide the organization during the implementation of the projects. NGOs also set measures to govern the utilization of cash, and the cash withdrawal approvals and management is also done. There were no delays in remittance of the planned tranches and the planned remittances were done in good time. The accounts payable were also satisfactorily managed, as the creditors are paid within the stipulated time.

Great concerns were, however, noted regarding the constant delays in reporting expenditure, which translated to delays in subsequent requisition of funds, a lapse that would potentially adversely affect the liquidity of the organization. The effect of the delay in the liquidation of the expenditure could result to illiquidity in the organizations and alter the operations, thereby threatening sustainability of the organization. The study concluded that working capital management practices significantly influence NGO sustainability where improved working capital management practices would result to improved current ratio, and increased survival ratio.

RECOMMENDATIONS

From the findings in this study on the effect of Working Capital Management Practices on the sustainability of the NGOs in Nairobi County, the senior management should set stringent

measures on the liquidation of expenditure to reduce the time taken to requisition for the subsequent tranches to enable the organization to maintain appropriate liquidity levels and improved cash flows. The management should monitor the accounts payable more closely and the settlement of the short- term obligations by the organization to ensure efficiency in the settlement of the accounts payable at any given time. Further, the governing boards should set policies and procedures that will guide the organization towards improved compliance to the signed agreements to eliminate delays in reporting and future release of funding.

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