WORKING CAPITAL MANAGEMENT PRACTICES IN GOVERNMENT AGENCIES: A CASE OF TANZANIA BUILDING AGENCY (TBA)

WORKING CAPITAL MANAGEMENT PRACTICES IN GOVERNMENT AGENCIES: A CASE OF TANZANIA BUILDING AGENCY (TBA)

By

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A Dissertation Submitted in Partial Fulfillment of the Requirements for Award of the Degree of Master of Science in Accounting and Finance (MSc. A & F) of Mzumbe University

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CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for acceptance by Mzumbe University, a Dissertation/Thesis entitled: **Working Capital Management Practices in Government Agencies: A case of Tanzania Building Agency (TBA)**, in partial/fulfillment of the requirements for award of Master's degree of Science in Accounting and Finance of Mzumbe University.

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I, **Frank Mgalilwa**, declare that this dissertation is my own original work and that it has not been presented and will not be presented to any other University on a similar or any other Degree Award.

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Date…………………………………….

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DEDICATION

This research is devoted to my family for their support, blessing, kindnesses, and love towards my academic pursuit. Special devotion goes to my late mother who was keen in encouraging me to deal in scholarly works without being discouraged.

ABSTRACT

Generally, the study intended to determine the working capital supervision performances in government agencies in Tanzania. The study used a descriptive case study design whereby a representation of 60 respondents was selected. Primary information was collected by using interviews and questionnaires instruments which were distributed to respondents.

Study findings identified that TBA has a tendency of piloting a routine captivating weekly and monthly with the aim of getting physical proof of the belongings possessed by an organisation with their particular values. The organisation uses mostly manual system method in controlling its stock while the electronic system is also used at a low extent. The organisation has no clearly written information about credit policy and there is no limit of time for debt collection. Lack of clear credit policy has affected the organisation accounts receivables in a negative way. TBA experiences financial problems in implementing the management of WCM and these problems include; failure to complete projects on time, delaying to settle its bills on time, delaying on paying salary to its employees and delaying in paying to its suppliers which all these problems are caused by poor management structure, poor infrastructures and lack of clear debit and credit policies, incompetent staff, the insufficient fund from the government and poor use of technology in record keeping.

The study concluded that government agencies funds in Tanzania are being embezzled and not managed and safeguarded as a result of poor supervision of working capital and usage of poor technology. The study recommended that proper internal control systems on working capital are the only way which can help to make the management of working capital effective. This is possible by the use of advanced technology i.e. computerized technology and having competent staff.

LIST OF ABBREVIATIONS

ACP	Average Collection Period
AP	Accounts payable
APP	Account Payables Period
AR	Accounts receivable
ARP	Account Receivables Period
CAG	Controller and Auditor General
CCC	Cash Conversion Cycle
COGS	Costs of Goods Sold
DOI	Days of Inventory
DPO	Days of Payables Outstanding
DRO	Days of Receivables Outstanding
EOQ	Economic Order Quantity
GDP	Gross Domestic Product
INP	Inventory Period
NHC	National Housing Corporation
NPV	Net Present Value
WCM	Working capital management

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CHAPTER ONE

INTRODUCTION, OBJECTIVES AND PROBLEM DEFINITION

1.1 Introduction

This section provides overviews of issues covered in the whole chapter. Issues that are covered in this chapter include; the study background, declaration of the problem, study goals, study questions important of the research and the extent of the research.

1.2 Background of the study

Tanzania Building Agency (TBA) is one of the public enterprises which have shown poor management of working capital. This has been evidenced by the Controller and Auditor General (CAG) the report in the financial year 2015/2016. Similarly, Mathuva (2013) reported that some of the public and personal companies had tight positions of cash glide which made it hard for the companies to function efficaciously. This condition resulted in a lack of clients to competition and worsened the cash drift role which led into illiquidity. It is therefore really worth investigating the effect of working capital management on the overall performance of the agency. Unfortunately, little studies concerning management of working capital have been documented in Tanzania according to Madishetti and Kibona (2013). Thus, the purpose of the study is to determine the working capital management practices in government agencies in Tanzania. Statement of the Problem

The World Bank report revealed that roughly 7.3% of worldwide GDP declined due to absence good management and controlling of working capital. Consequently, the economy of these states particularly less industrialized nations like Tanzania fail to develop in a rational and desirable proportion (Bank of Tanzania, 2014).

According to the yearly article of the Controller and Auditor General (CAG) on inspection of community sectors institutions and other organizations for commercial year 2015/2016 exposed that numerous flaws especially in cash management, record supervision were observed in relation to the management of working capital and these problems were encountered in more than five public agencies/authorities which include; Tanzania Building Agency (TBA), Tanzania Electricity Supply Company (TANESCO), Tanzania Petroleum Development Corporation (TPDC), National Housing Corporation(NHC) and Medical Stores Department (MSD). The report identified that approximately 11.5 billion were missing in Community Agencies which were principally funded by poor management of working capital in these agencies (Myowela and Alemanta, 2011). For instance, CAG reported on TBA identified that during the audit of sales of government houses and revenue accounts, it was observed that a total of 21,931,286 million was withdrawn without being approved by accounting officer. Also, during auditing, it was observed that cash payments amounting TZS 168,292,731 million was paid to one TBA officer at a different point in time using the personal name to meet construction material and labour costs contrary to Reg.164 (1) of the Public Procurement Regulations (PPR), 2013 which requires at least three quotations to be obtained from which the most competitive services provider or lowest bidder to be selected.

Therefore, this study examined as to why there have been several weaknesses in the management of working capital practices especially in government agencies by focusing on Tanzania Building Agency (TBA) Headquarters located in Dar es Salaam as a case study.

1.4 Objectives of the Study

The main objective of the study was to determine the working capital management practices in government agencies in Tanzania. Proper management of working capital results to success of organization's performance.

i. Determining the stability of cash conversion cycle at TBA.

ii. Assessment of cash management practices at TBA.

iii. To evaluate an inventory management practices at TBA

iv. Identifying accounts receivable management practices at TBA.

1.5 Research Questions

The research was guided with the following questions;

i. What are the stability of cash conversion cycle in government agencies in Tanzania?

ii. What are the practices of cash management at TBA?

iii. What are the practices of inventory management practices at TBA?

iv. What are the practices of accounts receivable management at TBA?

1.6 Significance of the Study

The output of this research the study will likely to be beneficial to the following groups;

The outcomes of this study will help in determining the reasons and causes of the poor performance of cash management in government agencies. Therefore, the findings of this study will enable government and private agencies to realize the weakness on these agencies on working capital and the importance of practising working capital management and its influence on performance and profitability.

The findings of this research will assist in covering authorities groups or organisation in determining the importance of working capital management. Organizations with right policies of operating capital management could be assured to keep the liquidity that's sufficient consequently enabling them to meet their quick term debt responsibilities as they develop. In opposite, those agencies missing effective running capital techniques may be viewed as a high threat by commercial creditors as their ability to honour their instantaneous obligations may in no way be measured.

In the end of this research, strategies makers within the states may be aware of the state of affairs taking location to authorities owned agency specifically at the issues related to cash and inventory management a good way to revise the present regulations if feasible as a way to include the suggestions and findings revealed from the research.

1.7 Scope of the Study

The revision on the working capital management practices in government agencies was conducted at Tanzania Building Agency (TBA) Headquarter in Dar es Salaam region. The targeted group was staff from Tanzania Building Agency. Different respondents from Member of Audit Committee, Finance Department, Internal Audit Department, Head of Departments and other staff were interviewed and provided with questionnaires to collect information relating to the study. A sample of sixty (60) respondents was used in conducting this study. This number of sample was chosen by the researcher because of the high degree of accuracy which was aimed and also to do away with very extreme situations.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This part comprises of hypothetical and logical perceptions linked to the topic. It describes ideas which are connected to the study, which assists in analyzing the findings. The chapter presented different concepts related to working capital management. This chapter pursues to give information on the important terms that were used in this study in addition to a detailed evaluation of interrelated literature of researchers, other authors, and also authorities.

2.2 Working capital concept

Working capital refers to the number of funds which is compulsory by organization/commercial to pay for the everyday process within the business (Ruichao, 2013). According to Ruichao (2013) working capital is an important and integral part of organizational performance, thus the importance often is attached to its management. Operative working capital management ensures the maintenance of optimal ranks of working capital at any point in time. The best level of working capital is that level which supports daily operations without compromising efficiency. It does not expose an organisation to losses associated with excess or inadequate working capital. Adequacy of working capital enhances the operational performance of an organisation thereby ensuring its continued existence while its inadequacy works in reverse. Vural (2012) identified that working capital contains vital items such as inventories, receivables, payables and cash that is needed for an organization’s daily operations. Abuzayed (2012) also noted that working capital management as the availability of ready funds essential for the daily operational activities of an organization. Raheman and Nasr (2007) argued that the optimal use of working capital components is an essential aspect of general commercial policy of an organisation aimed at creating shareholders wealth. They further explained that working capital management as an efficient combination of trade receivables and payables necessary to maximize profit for the organization.

Mathuva (2013) mentioned the important components of working capital management to include; supervision of trade receivables and payables, holding investible funds/cash and maintaining a certain level of inventories. He identified that optimization of these working capital components determine to a large extent the performance of an organization.

2.3 Working Capital Management Concept

Aravindan and Ramanathan (2013) cited that WCM deals with decisions concerning the alternate-off among liquidity and profitability. It revealed that WCM is the managing and planning of liquidity and profitability. Any corporation/organisation with terrible WCM may additionally run the risk of locking-up surplus amounts of capital (e.g. excess inventories) and however a shortage of operating capital can damage the go with the flow of operations. WCM normally put the focus on three important present-day assets: inventories, money account receivable (AR) and cash (and cash equivalents), while the primary contemporary legal responsibility is money account payable (AP). Managing current belongings is of significance for many businesses as it often bills for the foremost part of the organization's general belongings (Gill, 2010). however, the info of the way those belongings should be treated to achieve most excellent levels of working capital is depending on a number of factors which includes the character of commercial enterprise in addition to seasonal versions that would have an effect on product call for. Moreover, the price of capital in phrases of the possible value needs to be considered when relating to the most desirable degrees of operating capital.

2.3.1 Working Capital Management and Profitability

To be able to look at how operating capital control may affect the profitability of an enterprise, one wants to take into account the cash flow of an employer. Ponsian (2014) found out that, a longer cash conversion cycle may additionally imply that an organisation sales/output are growing and that the enterprise can compete by using having lax credit score regulations or high inventories. In opposite, a better cash conversion cycle can really have an effect on the enterprise performance or profitability through growing the time that money is tied to non-interest bearing account which includes account receivable. Hence, via shortening the cash conversion cycle, the corporation cash flows can have a higher net present cost (NPV) due to the fact that cash is acquired faster.

Raheman and Nasr (2007) were among the first to look at the tradeoff between the amount of liquidity and profitability in running capital management. They determined that liquidity and profitability have a negative effect on the choices of a corporation, as a shorter cash conversion cycle can make contributions to each a better liquidity and higher profitability. So instead of getting to a decision between liquidity and profitability, an agency wants to optimize the link between income and finance.

2.3.2 Conversion Cycle

Cash conversion cycle refers back to the range of days among actual cash outflows on an enterprise's buy of wanted productive assets and real cash inflows resulting from product income (Uyar, 2009). Uyar recognized that CCC is a measure of the way long cash is tied up in working capital. It quantifies the number of days it takes for an employer to transform cash outflows into cash inflows and as a consequence, the variety of days of funding required to pay present day obligations and live in business.

Walter (2014) identified that with a purpose to reap choicest stage amount of liquidity, the organisation want to pursue sturdy liquidity management, which in turn calls for strict and systematic economic planning of cash flows. Inadequate control of liquidity may cause intense complication and difficulties because of unfavourable short-term traits even for the corporation with fine lengthy-time period possibilities. In any enterprise, liquidity has to be controlled, controlled, and measured. In widespread, an enterprise wants to apply static and dynamic measures in assessing its liquidity. Uyar (2009) recognized that static measures are identified as static because they replicate the nature of the balance sheet shape, even as dynamic ones are linked to turnover metrics. The maximum not unusual static measure is the Current Ratio (CR) and its variations (as an instance. brief or acid ratio), while cash conversion cycle (CCC) shows the dynamic measure, which incorporates the detail of time in the attention of liquidity. The duration of the cash conversion cycle is based at the length of the stock conversion period, the exchange receivables series length, and the exchange payables deferral duration.

Cash conversion cycle consists of the main three elements which are; Days of inventory (DOI), Days of Receivables Outstanding (DRO) and Days of Payables Outstanding (DPO). The cash Conversion Cycle (CCC) is identical to the time taken to promote inventory and accumulate receivables much less the time taken to pay the enterprise's payables. DOI is the duration of the common time body that elapses from the purchase of materials from suppliers to the sale of corresponding gadgets to customers. As this metric is delivered up inside the calculation of CCC, it could be assumed that the decrease its miles, the better it's far for the agency.

Cutting stock within an organisation will carry a lower DOI, but too low a DOI may additionally mean that an organisation is compromising its carrier levels. The common quantity of inventory days is the same as the common inventory divided with the aid of the fee of products bought extended by using a general variety of days according to yr. Furthermore, DRO is calculated by dividing the number of days in 12 months by every year bills receivable turnover. Hence, DRO relates immediately to accounts receivable turnover. Accounts receivable turnover is calculated via dividing net income via average debts receivable in a given time frame. It indicates the wide variety of instances clients is invoiced and the payments acquired from them are recorded on the profits assertion at some point of the timeframe in question.

In other phrases, DRO is the average range of days that elapse from the issuance of bill to a customer up to the collection of the corresponding cash from that customer. DRO can be expressed as; 365 / every year bills Receivable Turnover = average bills Receivable /

(internet sales/365) or average wide variety of days accounts receivable = (average bills receivable/Net income) 365.

DPO is calculated by using dividing the number of days in 12 months by means of every year accounts payable turnover. for this reason, it has a direct connection to accounts payable turnover, which is calculated by way of dividing the cost of goods bought by using common money owed payable in a given time body. It measures the quantity of times a complete cycle of being billed by suppliers and making the corresponding payments to the one's providers are finished in a given time frame. Days Payable tremendous (DPO) = 365 /yearly accounts Payable Turnover = common money owed Payable /(COGS/365) or common number of days money owed payable is same to the common bills payable over the value of products offered increased by variety of days consistent with year.

2.3.2.1 Effects of Cash Conversion Cycle and Profitability

Cash conversion cycle refers back to the time span between the expenditure for the purchases of raw materials and the collection of sales of finished items (Tobias, 2014). The longer the time lags, the larger the investment in running capital. An extended cash conversion cycle might also improve profitability because it consequences to higher sales.

It is consequently recognized that, the closing aim inside an agency is having shorter cash conversion cycle. Cash conversion cycle may be shortened with the aid of lowering the inventory conversion period via processing and promoting goods greater rapid; or by using decreasing the receivables collection duration through rushing up collections; or by using lengthening the payables deferral length via slowing down payments to suppliers. This can boom the enterprise performance of inner operations and effects on better profitability (Mathuva, 2013).

In a observe carried out by means of Abuzayed (2012) who studied the impact of different variables of operating capital control which incorporates cash conversion cycle at the net running profitability of Kenya companies. The author picks out a pattern of one hundred

Kenya companies listed on Nairobi inventory exchange for a period of six years from 2000 - 2005 and weak correlation among variables of working capital management and profitability of the firm. It became discovered that as the cash conversion cycle increase, it consequences to decreasing profitability of the company and managers can create a wonderful value for the shareholders by using reducing the cash conversion cycle to a likely minimal level.

then again, Falope (2009) also revealed that making an investment more in cash conversion cycle might the result to multiplied profitability since maintaining excessive inventory levels is expected to increase sales, lessen supply costs, reduce the cost of viable interruption in production and protect in opposition to fee fluctuations. Therefore it can be concluded that only feasible way of making the cost of shareholders thru increasing profitability is by lowering the company's cash conversion cycle.

2.3.3 Inventory management in Public sectors

The management of inventory is taken into consideration as a crucial element for the reduction, coping with and controlling of overall prices and development of the extent of carrier provided by way of the agencies (Gill, 2010). Stock management location plays an essential function in the average cost of operations and supply chain of any corporation. Inventory is used as a cushion in opposition to the supply and call for uncertainties. Abuzayed et al. (2012) also revealed that inventory is a double-edged weapon, due to the fact loss of stock results to poor overall performance, loss of productivity, whilst excess stock leads to loss of profitability. Consequently, Abuzayed claimed that control of inventory has a direct and giant effect on operational performance (overall performance) and organisation price range, consequently powerful stock management will usually supply an aggressive benefit to the corporation over its competitors.

The control of inventory aims at optimizing the funding thru retaining good enough and nice tiers of materials capable of meeting the wishes of clients (Gill, 2010). To meet this goal, managers want to locate the nice answer basing on two questions which are; "How a good deal to reserve?" and "when to order?” In answering these two questions, the alternate-off among the pursuits of cost minimization want to be considered, whilst seeking the delight of service degrees. Further to this alternate-off, with the growing wide variety of objects with different call for styles and characteristics, complexity increases in cloth management. Therefore, the government area wishes greener inventory controls.

Furthermore, right inventory control facilitates the authorities’ sectors/companies in mitigating its inventory fees as an instance; conserving costs, inventory out fees, lead time among others. Further, the sectors may be capable of enhancing its transport time leading to brief transport of goods and services. According to Water (2014) integration is one of the inventory management gear used to acquire performance.

Inventory performs the main role inside the boom and survival of an employer within the experience that ineffective and inefficient control of stock will imply that the company loses customers and also decline in its sales. Cautious control of stock helps in decreasing depreciation, pilferage, and wastages whilst ensuring the availability of the substances as at whilst required (Gill, 2010). Inventory management is critical to a corporation's fulfillment in these days’ aggressive and dynamic marketplace. This involves a discount within the value of maintaining shares by way of preserving just sufficient inventories, within the right vicinity and the right time and fee to make the proper amount of wished products. excessive levels of stock held in stock have an effect on adversely the procurement overall performance out of the capital being held which impacts cash glide leading to reduced performance, effectiveness and distorted capability.

In Tanzania, most of the general public sectors corporations did now not recognize how to manage their inventories which result to stock out for specific products due to the fact replenishment orders of these items aren't issued at the right time. This brought about the failure to determine which characteristics of product need to be taken into consideration in making this decision. Stock must be taken into consideration at every of the planning degrees and is, therefore, a part of production planning, master production scheduling, and cloth necessities planning. there's nevertheless a hassle of determining the replenishment amount (how a great deal of a product to reserve) and what technologies can be used correctly together with monetary Order quantity, coping with spare parts inventories, figuring out the proper buying whilst phased with several discount alternatives, and a checklist to provide new inventory objects from turning into dead inventory.

2.3.4 Accounts Receivable management in Tanzania Public sectors

Debts receivable control is a completely crucial element of company finance because it directly has an effect on the liquidity and profitability of the enterprise (Pandey, 2010). It is beneficial to consider the choice to grant credit score in terms of wearing expenses and possible charges. Wearing fees are the fees associated with granting credit score and making funding in bills receivable. It consists of the delay in receiving cash, the losses from horrific debts and the expenses of dealing with bills receivable. Possibility prices are the lost sales from refusing to offer credit score. Inside the sugar enterprise, this involves insufficient raw cloth as farmers have land however might not have the resources to broaden the cane (Rose, Westfield, Jeff and Jordan 2008). Finance manager can range the extent of accounts receivable in step with the exchange-offs between profitability and chance. Financial situations and the company's credit policies are the chief influences of the extent of accounts receivable to be maintained by using a company at any given time (Horn 2007).

In his look at Nyabwanga (2012) discovered that money owed receivables management requires controlling and handling the firm's inventory and receivables so that it will reap the balance between chance and returns and thereby make contributions definitely to the introduction of a firm cost. Immoderate funding in inventory and receivables lessen the number of earnings, while too little investment will increase the threat of no longer being capable of meet commitments.

It is diagnosed that during many agencies globally, liquidity function is, therefore, an essential problem which must be considered via organizational economic managers. The liquidity state of an organisation may be determined through their risk-return characteristics. Therefore, balancing each of the money owed receivables additives is the major goal of control of money owed receivables. Enterprise fulfilment closely is based at the capacity of the organisation financial managers to effectively manipulate receivables, inventory, and payables (Nyabwanga, 2012).

In Tanzania, many organisation do not manipulate its accounts receivables well, both by now not having credit score coverage and by now not following it, it ends in a tremendous effect at the entire group. Some of the consequences include; incapacity to meet the responsibilities and the fee of writing off the terrible debts (Tesha, 1998) and even a discount on the company's profitability. Control of accounts receivable in Tanzanian public zone assumes significance because of the number of finances blocked in them because it affects the liquidity of the arena that in flip affects the smooth operations of the corporations. Those operations consist of; revenue bills, payments bills (power and water), safety and other administrative charges.

2.3.5 Accounts Payable and performance of an Organization

Nwakaego (2014) found out that debt payable is the quantity of cash that is owned by a business to its providers that's offered as a liability on an enterprise's balance sheet. Nyabwanga et al., (2012) claimed that the essential goal of debts payable control is to pay lenders as slowly as possible without negative its credit score. Falope (2009) diagnosed that money owed payable is one of the important resources of secured quick-time period financing. Making use of the cost of dating with the payee is a higher goal which needs to be highlighted as crucial as having the most useful level of preventions. Because the impact strong alliance among corporation and its providers will strategically enhance manufacturing strains and support credit file for future enlargement. 2.4 Corporate Governance and Working Capital Management Efficiency

Company's governance is about installing location the shape, techniques and mechanism that ensures that the company is being directed and controlled in a way that complements long term percentage holder price thru responsibility of managers and improving organizational performance. Accurate company governance practices are critical in lowering risk for investors; attracting investment capital and enhancing the overall performance of companies (Kyereboah, 2007). According to Kyereboah, the corporate governance is considered as the manner, with the aid of which organizations are directed, managed, and held to account. This implies that corporate governance encompasses the authority, accountability, stewardship, management, route, and control exercised inside the technique of handling corporations.

Running capital is an important aspect and it's far taken into consideration as the issue that's affecting capital investment (Isshaq, 2009). Efficient running control in companies consists of the procedure of planning and controlling of present-day liabilities and belongings in a way it avoids excessive investments in modern belongings and prevents from working with few current properties in enough so one can fulfil the responsibilities. Cash conversion cycle is taken into consideration as a key degree to decide the efficiency in running capital control. Also, the cash conversion cycle for an organisation is the period during which it's far transited from cash to excellent and once more to money. In his take, a look at running capital control is an immediate mechanism of making sure the capability of the firm to fund the distinction between the fast term property and quick term liabilities. And also, it's been included by using the activities of the organisation associated with the providers, customers and products. Due to that, now an afternoon, running capital control has been considered as the principle imperative problems in economic management with the aid of the government/managers.

In many businesses, corporate governance practices are designed which will shield the issues of principals from their retailers. however, effective company governance now not only construct and maintain sound company subculture in which control is urged to act in this type of way that complements the shareholder’s wealth however it also ascertains that agency sources are controlled effectively (Isshaq, 2009). The choices regarding the efficient management of working capital are strategic by way of nature. For that reason, a sizeable characteristic of corporate governance is to enhance the overall performance of a firm through assuring powerful management of working capital.

According to Dittmar (2003) working capital control efficiency involves the control of brief-term financing requirements of a business enterprise. It encompasses keeping favourable stability of running capital factors which include inventory, payables, receivables and cash balances. Companies are obliged to make certain running capital management performance in order to make sure a tradeoff between liquidity and profitability, as a result, prevent an organisation from financial disaster. Therefore, working capital management is considered as one of the most crucial features of company control (Kyereboah, 2007). The control of working capital is the most important thing for keeping solvency, profitability, and liquidity of an organization. Therefore, businesses ought to take actions to gain the quality degree of performance in coping with operating capital thru company governance mechanisms.

The significance to optimize wealth of shareholders needs company governance mechanisms to awareness on enhancing the monetary efficiency of an enterprise. Isshaq (2009) identified that governance shape of any enterprise influences its ability to deal with external elements and it has an effect on its financial overall performance. Finally, well-governed corporations were referred to as document higher overall performance; as a result, good corporate governance is middle in enhancing shareholders price. Dittmar (2003) argue that company governance practices are strategies which are formulated as a way to meet the short, medium, and longtime objectives of a company in addition to the ones of the shareholders. As an end result, working capital management efficiency turns into an essential mechanism for meeting the quick time period goals of an enterprise.

2.5 Determinant of Working Capital

Chion et al. (2006) recognized that there are various factors which influence the running capital wishes for companies. Those elements have an effect on organizations in many ways. The most commonplace elements encompass the subsequent;

Leverage is the various determinants of working capital. Its miles discovered that the value of fund invested in the cash conversion cycle is higher in groups with bigger leverage because they should pay a better danger premium. The running capital leverage displays the sensitivity of the return on capital hired to the changes in stage of cutting-edge assets. Leverage of operating capital would be less within the case of capital in depth devices, even though overall capital employed is the same. Working capital leverage expresses the relation of performance of working capital management with the profitability of the organization.

In his have a look at Kieshchich (2006) recognized that the boom of possibilities as the other the determinant of running capital. The author indicated that future sales increase has a positive have an effect on a company's cash conversion cycle and that groups would possibly increase inventories in anticipation of destiny sales boom.

Length and age of the corporation are also the determinants of running capital. It's far discovered that the scale of an enterprise is a great indicator of the relative power of its operating capital overall performance. Large organizations have a big base of assets which can be well controlled and controlled and that they tend to perform higher in comparison to smaller companies who have a smaller total asset base. Due to an excessive fixed fee, larger corporations have a tendency to maximize their production with a purpose to gain from economies of scale making them incur a decrease common value of production as compared to smaller companies. Smaller groups face greater financial constraints which pressure them to use extra credit compared to huge corporations. Older organizations get external financing greater effortlessly and beneath accurate conditions, as compared to new agencies

Capability to generate inner assets and go back similarly determines the running capital. ROA has a poor impact on working capital as corporations with higher performance get outdoor capital simpler. It is evidenced that businesses with better returns have higher operating capital control because of their marketplace dominance as they've higher bargaining power with their suppliers and customers. Additionally, tangible fixed belongings determine the working capital of an organization. Fixed investment competes for a budget with the tiers of operating capital when businesses have monetary constraints.

2.6 Measures of Working Capital Management

Exceptional studies conceptualized the WCM construct like the one together with account receivables period (ARP), inventory period (INP), account payables length (APP) and the cash conversion cycle (CCC). To improve agency overall performance, huge corporation managers should try for a bigger ARP, INP, and CCC, and a longer APP (Richard & Laughlin, 1980). However, the top-quality time period is depending on different factors that are both internal and outside of the agency.

Account receivable represents the full unpaid trade credits that and company presented to its customers (Horn, 2007). ARP is the share of common debts receivable to sales expanded by using 12 months and expresses the average variety of days companies assume to acquire splendid credit income returned from customers. While a shorter ARP indicates the ability of an organisation to acquire receivables fast, an extended ARP displays a gradual rate of collection of extraordinary income. Therefore, ARP and corporation overall performance have an inverse courting.

The second degree of WCM is INP that is the stock of physical items for eventual sale (Abuzayed, 2012). in keeping with green control of stock facilitates in making sure a stable operating capital, which in the long run will increase business enterprise overall performance and profitability. An average stock period (INP) is the percentage of shares to expenses of goods bought improved by twelve months (Tesha, 1998). An extended INP indicates that organizations keep stock in stock for an extended time at the same time as a shorter INP suggests a brief stock conversion. Inventory stage must neither be too small to impact manufacturing or sales nor too excessive to tie the finances unnecessarily. Big inventory compensates for inefficient management and it additionally limits the unfavourable results of rate fluctuations wherein excess inventory may also cause liquidity troubles due to high stock charges.

In line with Nwakaego (2014) bills payable is an immediate financing supply due to spontaneously arises from ordinary enterprise transactions. APP is expressed as the ratio of common debts payable to the value of goods offered multiplied through three hundred and sixty-five days. The APP is the average length of time a change credit score is great and suggests the common time the firm requires to satisfy quick-time period obligations. For instance; an extended APP permits small commercial enterprise leaders to overcome short-term financing constraints and provide available assets to other commitments (Falope, 2009). A delay of bills to suppliers enhances cash flows; late payments can convey the threat of paying penalties and lack of creditworthiness. Moreover, failure to fulfill quick-time period responsibilities will bypass a terrible signal to the marketplace. Falope (2009) argued that an extended APP will at once have an effect on the proportion rate and dating with lenders and suppliers.

The CCC is a composite measure of WCM and it offers a comprehensive reason behind inter-firm profit differentials (Ponsian, 2014). It is argued that longer CCC denotes that it takes extra time for a business enterprise to convert its cash outflows into cash inflows (Uyar, 2009). A shorter CCC may additionally enhance overall performance and profitability because groups turn their bills receivable and inventories quickly. Given the limited get entry to external capital to finance business operations, a shorter CCC plays an essential function in enhancing the profitability of small corporations. A shorter CCC is a trademark of the green utilization of the corporation working capital.

2.7 Theories of Working Capital Management

2.7.1 Trade-off Theory

This principle becomes advanced with the aid of Jensen and Meckling (1976) whereby they revealed that the principle predicts vulnerable organisation will depend totally on banks for debt at the same time as the ones worthwhile and financially stable enterprise will depend totally on funds generated internally in doing investment. It was recognized that within the trade of concept, there may be a debt pecking order with financial institution debt being preferred over marketplace debt due to the decrease implied bankruptcy expenses. The concept states that a business enterprise need to now not borrow up to a degree where the costs of debt become too high-priced for the enterprise to incur. The splendour of debt decreases with the quantity of money paid out as a hobby to financers. An employer will experience economic distress while it is unable to address its economic responsibility and is accordingly declared bankrupt prompting proceeding to get better the debt to be instituted that may result in the death of an agency.

Consistent with Dong (2010) the trade-off idea refers to the concept that any company chooses how a whole lot debt finance and what sort of equality finance to apply via balancing the cost. The classical version of the hypothesis goes back to Kraus and Lichtenberger (1973) who considered stability between the dead–weight. Cost of financial ruin and the serving benefit of debt. Frequently enterprise charges also are blanketed within the stability. The idea predicts that vulnerable businesses will depend closely on banks for debt while profitable and financially stable firms will rely on the internally generated budget for funding. In the alternate of the idea, there is a debt pecking order with bank debt being preferred over market debt because of the decrease implied financial disaster prices.

Alternate off concept is by and large set up as a competitor principle to the pecking order concept of capital structure. The crucial purpose of the concept is to explain the reality that employer are typically financed partially with debt and partly with equity. It states that there may be a bonus to financing with debt the tax advantages of debt and there's a price of financing with debt the prices of financing misery such as financial disaster cost as an instance; a team of workers leaving, providers demanding disadvantage fee phrases, bondholder/stockholder infighting, and many others the marginal advantages of the further boom in debt declines as debt increases even as the marginal value will increase, so that the company that is optimizing its average price will cognizance on this alternate–off when selecting how tons debt and equity to use for financing.

2.7.2 Pecking Order theory

Pecking order idea turned into first recommended by Donaldson in 1961 and it became modified through Stewart C. Myers and Nicolas Majluf in 1984. It states that businesses prioritize their assets of financing (from inner financing to fairness) in step with the cost of financing, preferring to raise equity as a financing method of the final hotel. Consequently, inner budget is used in the beginning and when this is depleted, debt is issued, and when it isn't always realistic to issue any greater debt, fairness is issued.

Consistent with the pecking order idea, a firm's capital structure is driven by means of the company's the choice to finance with an internally generated budget rather than with external financing. If outside financing is required, debt is desired over equity. Myers (1984) recognized that the pecking order idea may be explained from the perspective of asymmetric information and the existence of transaction charges.

The pecking order principle suggests that inner sources of budget produce less risk of finance and proportion finance. In the model of Myers and Mailuf (1984), it is argued that once managers issue equity securities as opposed to reliable securities, the investors bargain the firm's inventory fee rationally. Therefore, managers want to avoid the issuance of equity finance due to the discount by means of external investors. according to Myers and Mailuf, the managers will want to observe the pecking order theory, that they like to search for inner finance first and then to external debt and inside the final issuance of fairness. If the firms are not always in a sturdy position then it likes to maintain a few parts of earnings to keep away from the external budget. In a nutshell, the pecking order idea states that a company's management favours inner financing to external finance (Padachi, 2006).

The pecking order concept assumes that inner resources of budget produce less risk of finance and percentage of finance. Inside the version of Myers and Mailuf (1984), it turned into discovered that once the manager's problem equity securities in preference to risk-free securities, the traders bargain the company's inventory fee rationally. This theory forms the middle basis for the look at as reinvestment of inner resources in capital intensive initiatives reduces the available reserves for running capital, as a result, persuaded with the aid of the pecking order assumptions, wherein inner fund is favoured over debt and fairness while financing investment tasks.

2.7.3 Agency Theory

Agency concept assumes that the day after day strolling of an employer is achieved by means of managers as the marketers who have been engaged by the proprietors of the corporation as principals who also are known as shareholders. This theory places emphasize on transaction expenses. Corporation price is one a few of the fundamental constraints, that's crucial for control, shareholders, personnel, and lenders. Basically, an agency hassle arises because of the divergences of the hobby of stakeholders e.g. managers, personnel and lenders with shareholders. For this reason, Jensen and Meckling (1976) provided the agency concept by way of focusing on management and shareholder.

In decisions of capital structure, business enterprise fee arises in 3 ways; one is free cash float, secondly is assets substitutions impact and 0.33 is the trouble of debt overhang. In assets substitutions effect, managers take a threat with the aid of investing in a few very volatile challenge. On the success of the challenge, all the profit is going to shareholders and in case of failure, all of the burden put on the shoulders of debt-holders.

Inside the problem of debt projection, debt is pricey and all the advantage from venture could be accrued by means of debt holder rather than shareholders. On this scenario, enterprise managers take delivery of the bad NPV task in place of fine NPV initiatives. Inside the case of unfastened cash glide, manager destroys employer value by making investment earnings into pointless initiatives (as an instance investing on unnecessary and unplanned tasks) in preference to giving lower back that loose cash drift to the enterprise. The principal argument of corporation idea is that funding selections are related and have a strong impact on capital structure selections (Jensen and Meckling, 1976).

2.8 Empirical Literature Review

2.8.1 Cash Conversion Cycle and Performance of Organization

AlHajjar et al. (2011) evaluated the contribution of CCC on the financial performance of a firm. The study was conducted in Japan using panel data with 24 observations from 1990. The study found CCC has an inverse relationship with the financial performance of a firm. As well, Anser & Malik (2013) conducted a similar study but they used data from the audited accounts with financial records of only 4 years from 2007, and they used econometric models. They came up with similar results which showed the cash conversion cycle had only an average effect on the profit of the firm which is different from AlHajjar and his co-authors.

Additionally, Ruichao (2013) examined practices of management working capital and its impact overall performance of 30 government corporations in Canada for the period of 2001-2004. The results show there is a weak relationship between cash conversion cycle and gross running profit

However, Nobanee (2009) made an assessment of CCC in relation to the financial performance of the firm. The author used secondary data of account receivables, account payables, and inventories of non-financial companies. Contrary to AlHajjar et al, (2011), Anser and Malik (2013), his results show an optimal level of cash conversion cycle has a positive effect on the profitability of the firm mainly when it shortened. The author states that accounts receivables, accounts payables, and inventories should all be all managed to the optimal level for the firm to make a profit. This was also aligned with the findings of Nwakaego (2004).

2.8.2 Inventory Holding period and performance on Public sector

Isshaq (2009) studied the relationship between cash holdings and the value of the firm in Ghana. The author employed econometric models in the analysis of secondary data. The study found that there is no significant relationship between additional units of cash holdings do and share price. Besides, the author recognized that there are a few other methods that can help ease stock control including order amount method and just-in-time inventories.

Furthermore, Falope (2009) examined both the influence of Working Capital Management on Corporate Profitability using both cross-sectional and panel survey data in Nigeria. As with Isshaq (2009) the study employed the econometric model. The study found an inverse association between financial performance and inventory holding period. Moreover, preserving a huge amount of stock often suggests inefficient and careless control practices and tactics. Instead, too little inventories may also result in the interruption of operation in production, growth the possibility of dropping sales and therefore lower the profitability of the companies.

Besides, the author found out that businesses with poor inventory control can motive serious issues which destroy the long-time period profitability and companies' survival chances. Also, businesses with properly-notion stock management can reduce the stock to a premier stage which has no negative impact on production and sales. The study also shows that the scale of inventory directly impacts the operating capital and its management.

Myowela (2011) examined the effectiveness of stock control machine in Tanzania public area. It was found out that the proper management and maintenance of inventory to any corporation is wanted a good way to make sure that manufacturing keeps without interruption. He points out matters to be considered for the effectiveness of inventory which encompasses training; accounting professional modifications as time is going on due to development of generation, as a result, there's the need for employees to wait for specific seminar and workshops on the way to couple with new modifications in technique. Then, the use of computerized utility; all accounting sports must be automated on the way to simplify the accounting obligations and attain the desired stage of accuracy. Also, improving security; it's far well worth to the general public sectors to introduce security device, which complements safeguarding the business enterprise stock.

2.8.3 Accounts Receivable Period and Performance on Public Sector

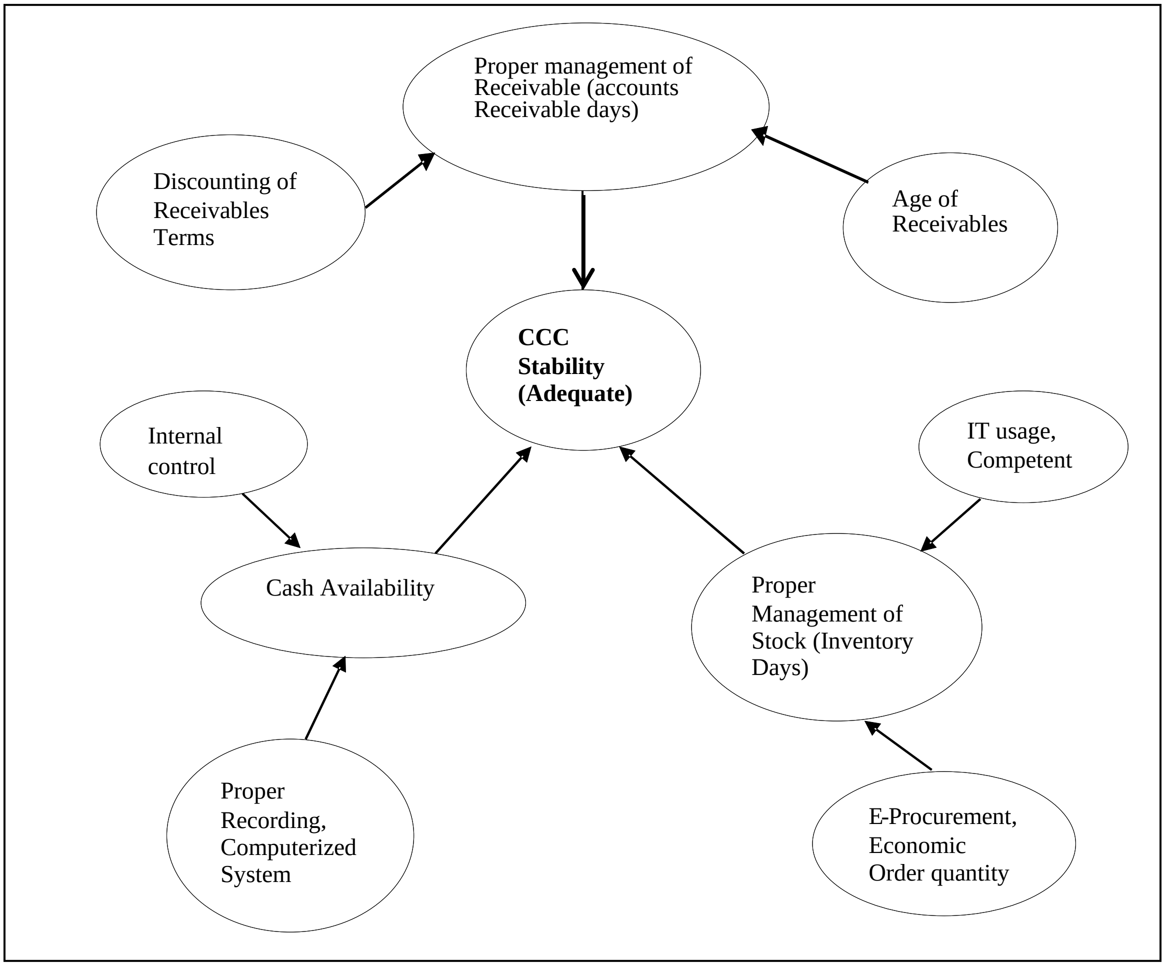
The availability of trade credit is in most cases utilized by many businesses as a marketing method to extend or preserve sales. efficient receivables control enlarged by way of a shortened creditor's series duration, low horrific money owed and right regulations on credit score often improve the agencies capability in assembly its dreams/method and consequently growth economic performance for this reason the want for a sound credit coverage in order to ensure that the agency's fee is optimized (Ponsian et al., 2014).

In his have a look at Madishetti (2013) found out that growth within the degree of bills receivables inside organisation outcomes in increasing internetworking capital and additionally the prices of preserving and controlling debts receivables and all would possibly outcomes to a lower inside the fee of the overall performance of the organization. The study further observed that corporations which pursue extended levels of bills receivables to a most appropriate degree growth their overall performance because of increased sales and marketplace percentage. A take a look at via Gill (2010) found out that companies can create fee through lowering their range of days of bills receivable, as also showed through the findings of Abuzayed (2012) who installed that the duration of receivables collection length has a poor impact on a corporations' performance. The look at further stated that working towards proper credit score coverage helps in making sure proper debt series methods and is pivotal in improving efficiency in receivables management subsequently the overall performance of the firms. The study recommended that managers can create value via decreasing their firm's days of bills receivable and inventories. Besides, the following shows the conceptual diagram to indicate association between elements of working capital.

2.8.4 Qualitative Working Capital terms relationships

This sub-section establishes conceptual framework (Figure 2.1) to indicate the relationship between qualitative terms representing working capital. The diagram includes cash conversion stability as a function of several working capital terms including cash availability and proper management of stock with their respective proxies.

Figure 2.1: The diagrammatical representation qualitative working capital terms relationship



Source: Author Own Construct, (2019).

2.8.4.1 Internal Control and Proper Record Management on Cash Availability

Velnampy (2012) described cash as the percentage of currency that a company has in hand and that in its financial institution debts that allow the operations of a firm which acts as a medium of change. Cash is the most liquid asset of the various components of running capital and it displays at the capacity of a firm to settle payments as they fall due to specifically the quick time period responsibilities. Agencies keep cash as a way to cater all through incurring trade costs and receiving proceeds from the exchange, therefore, facilitate in procuring the everyday prices

The study assumed that internal control system within an organisation is important because it helps in minimizing loss of revenues, loss of resources and also unexpected costs. Internal control has the following advantages; financial reporting reliability, compliance with organisation related laws and regulations and also efficiency and effectiveness of organisation operations. Control activities such as record keeping, the use of the computerized system, verification, and proper reconciliation are important in proving the existence of asset and equity balances and revenues are well reported. These components help in proving the completeness of reported liabilities and expenses. For management, these activities help in ensuring that cash is only paid out for valid purchases and services.

2.8.4.2 IT Usage and E-procurement for Inventory days' efficiency

Nyabwanga (2012) described inventories as stocks of raw substances, components, resources, activities in procedure and finished goods that current an agency/company's manufacturing and additionally logistics channels. It is the stock of any object or uses the resource which is utilized in a company. In any organisation or business inventory is vital because it determines the extent of production, buying and advertising and marketing in a firm and managing stock strategically contributes to profitability and the overall performance of the firm as it determines the extent of sports.

The author assumed that the financial order quantity is vital in supplying the solution to troubles relating to inventory. It additionally enables in figuring out appropriate levels of retaining inventories. It similarly helps in facilitating the fixation of ordering collection and the quantities with the intention to reduce the total materials value. It changed into revealed that right manage and renovation of stock in any enterprise is wanted so one can make sure production continues with adequate cash. the usage of numerous laptop programs which entails all accounting activities need to be automatic with a view to simplify the accounting tasks and attain the favoured degree of accuracy, for this reason, proper management of stock.

2.8.4.3 Age of receivables and discounting of receivables to manage receivables days

Account receivable refers back to the unpaid claims from a company's customers at a given time, commonly due inside an especially quick period (at maximum 12 months) and indicates the company's supply of alternate credit score (Dong, 2010). Money owed receivable consist of the credit a commercial enterprise grants its clients whilst offering offerings or selling goods as according to the exchange coverage and quantity furnished. They're massive investments in the firm's asset, which are, like capital budgeting projects, measured in net gift values.

From the analytical, the framework above it was assumed that reduced supervision and regulation of accounts receivable frequently results in the disturbance of an organisation day to day operations which are caused problems of cash flow which leads to non-payment of suppliers of goods and services, non-payments of staff and incapability to encounter statutory obligations. Proper supervision of accounts receivables are important in giving an organisation an advantage on achieving high assets returns. Thus, an organisation with financial distresses is having a tradeoff whilst on controlling those receivables. Discounting of receivable terms and ageing of the receivables are important since they help in an organisation to select between liquidity and losing a market share and granting a cash discount, thus accepting lesser transaction profitability, or to sell more with a higher price and giving up its already distressed liquidity.

2.8.4.4 Cash Conversion Cycle Adequacy

As indicated on the qualitative diagram (figure 2.1), CCC adequacy is a function of proper management of account receivables (Accounts receivable days), cash availability and proper management of inventories (accounts of inventories days). This study documents opinions of respondents about cash conversion cycle adequacy as a measure of working capital using qualitative terms.

2.9 Research gap of understanding

While many studies about working capital management have been undertaken in the private sector mainly focusing on inexperienced firms as documented by Ponsian *et al.* (2014), Mtani *et al* (2018) others are focusing on foreign-based companies as shown in the studies of AlHajjar et al, (2011), Anser and Malik (2013), Ruichao (2013), Isshaq (2009) and Falope (2009).Besides, these studies have largely relied on positivism viewpoints in which quantitative analysis is mostly employed. However, positivism perspective fails to recognize the edging paradigm it has shaped and it cannot perceive that the position, on which it stands to structure its globe (Aliyu *et al*., 2014).

Following the fact that working capital management studies have little been done on government agencies and weakness of the positivist viewpoint as evidenced above, the researcher has therefore decided to conduct the study on growing government agency in Tanzania. Besides, the researcher has largely employed an alternative research paradigm which is an interpretivist viewpoint which involved qualitative analysis while a small part of it involved quantitative analysis of the audited accounts. Interpretive viewpoint is very important in understanding in-depth knowledge of the research phenomenon which can be socially being constructed (Erickson and Kovalainen, 2015). The researcher, therefore, sought opinions of the respondents about the practice of working capital management in the government agencies in Tanzania.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter described the methodology and the research design which was used in guiding this study. Research methodology refers to the way or steps in which the researcher arranges to collect information in carrying out the study. This chapter was organized under the following sub-sections; research design, study area, the population of the study, sampling and sampling instruments, research tools/instruments for collecting data and also data analysis techniques.

3.2 Research Design

Adam et al. (2008) well-defined study design as a logic plan which is used to identify how the research will be conducted. There are different kinds of study design such as expressive design (case study design), cross-sectional, survey, experimental and correlational design. Adam identified that research design is a strategy in which the investigator scientifically gathered and examined the information which is wanted to respond to study questions, therefore it is the cohort of proof that is well-matched to both to a definite set of principles and to the study question in which the analysis is concerned.

This research used the descriptive design (case study design). A descriptive study is a method of gathering information so as to respond to the questions regarding the existing status of the topics in the research. In addition, the research involved collection both primary and secondary data. This study, therefore, adopted a case study since it has substantial capability to make responses to the research questions ‘why?’ as well as the ‘what?’ and ‘how’ questions which are the central purpose of this study (Saunders et al 2003).

3.3 Areaof Study

The research was piloted at Tanzania Building Agency. The Tanzania Buildings Agency (TBA) is an agency under the Ministry of Works. It was established by the Executive Agency Act No. 30 of 1997 as amended by the Executive Act No. 13 of 2009, through G.N 24 of 14th February 2003. Initially, the organisation was named the Department of Buildings under the Ministry of Works, but since the department can operate on its own, the government set up an act of parliament called Act number 30/1997, by which the Department of Buildings was transformed into an agency in 2002. Under the Act, the Agency is accountable for running of quality and environmentally approachable accommodation to the Government and Public employers over well-organized and actual Business as well as Consultancy amenities and Real Estate Management. TBA functions in the system of realtor meaning that the agency can build houses sell houses and the money from that are used to build more houses.

3.4 Data Collection Strategy

There are two kinds of information which are used in collecting information namely; primary and secondary data. In conducting this study, the investigator used primary and secondary information. According to Saunders (2003) primary information are those which are gathered afresh and for the first time, therefore, ensure to be original in character. The secondary data are processed data from the primary data.

3.4.1 Techniques of Data Collection

3.4.1.1 Interview

Cresswell (2008) defined interview is a procedure of communication or interaction in which the subject or interviewee gives the needed information verbally in a face-to-face situation. The researcher set dialogue in relation to the research topic and objectives of the study. An initial one-on-one, face-to-face interview with a particular subset of staff was conducted to obtain an overview of the working capital practices at TBA. In a descriptive study, interview ambitions at acquiring uninterrupted description wherein by using the topics describe as exactly as possible what they enjoy and sense, and the way they act. The approach became favoured for this have a look at because of its nature of being bendy, wherein the interviewer re-adjusted questions to probe for an in-intensity response from the interviewee. In conducting this study the researcher used both non-direct and semi-structured interview. In non-direct interview the respondents were given most freedom to reply in the bounds of subjects of the hobby to the interviewer. The fulfillment relied on setting up a comfy and sympathetic relationship, the capability to probe a good way to clarify and intricate on hobby responses. In semi-dependent or centred individual interview, the interviewer attempted to cover a selected list of topics or sub-areas. This type of interview was effective especially for busy executives, technical experts and thought leaders. Data obtained through interview guide questions were used to complement data obtained through observation, and documentary analysis.

3.4.1.2Questionnaire

Adam and Kamuzora (2008) defined questionnaires as the list of questions which respondents answer concerning a certain study. The questionnaires had been designed in one of this manner that they helped to reduce open-ended questions as a way to get well-structured responses. This approach helped in taking pictures of facts and final reading of the identical. The questionnaires method is straightforward to use in comparison to interviewing and observation. The approach is likewise unfastened from the bias of interviewer, much less costly and does now not actual tons strain on the respondents, therefore, make them be more secure. It is on this basis that the researcher decided to use this method.

3.4.1.3 Documentary review

The researcher used secondary data which was collected from financial records using audited accounts of TBA between 2007/2008 and 2015/2016. These data were employed in the analysis of working capital by using both the cash conversion cycle and ratio analysis of current assets and liabilities of the agency.

3.5 Sampling Procedure and Sampling Size

3.5.1 Sampling Procedure

The sampling approach is the process of selecting elements of the sample a good way to make it consultant of the complete populace. The respondents who were selected in general constituted to what is known as a sample and universal system of choosing is referred to as the sampling method. There are two types of sampling namely; Probability and non-probability sampling. Probability sampling is based totally at the fact that every member of a population has a recognized and same situation of being selected on. Non-probability sampling is that approach which does not say any basis for estimating the probability that each object in the population has a chance of being selected inside the pattern. It allows the researcher to make a preference of instances which in step with his/her very own view/opinion or the judgment that provides information that is in keeping with objectives said (Saunders, 2003).

The researcher uses judgmental/purposive sampling technique with the intention to reap deep detail analysis of the study. Purposive sampling is a form of non-probability sampling based totally at the researcher's judgment and purpose of the study. It is a sampling technique which factors or unit in a given populace are selected purposively to fulfill the requirements of the look at. That is a non-possibility sampling approach from which the researcher used beyond know-how to purposively choose records from respondents for the sample. This method changed into also used due to the fact some of the TBA respondents had been not available at some point of the procedure of facts series and different respondents had been assigned out of the office responsibilities.

In conducting this study the researcher was interested in respondents who have wide and more detailed knowledge in policies of working capital of TBA and as a result the researcher the selected particular subset of staff within the organisation whose duties and responsibilities are closely related to the management of working capital practices of the organization.

3.5.2 Sample Size

A sample discusses a section of the populace from which the investigator is interested in obtaining data or data and portrayal his conclusions (Saunders at el, 2003). Sample size refers to the number of substances to be nominated from the population of research to contribute a representative. The researcher acquired a complete of about 60 respondents as the sample size of the research; as illustrated in Table 4.1

Table 4. 1: Distribution of Sample Size

Department	**Interview**	**Questionnaires**
Head of Departments	3	5
Finance Department	4	21
Internal Audit Department	2	5
Members of Audit Committee	2	8
Administrative Staff	3	7
Total	**14**	**46**

Source: Researcher Construct, (2017).

3.6 Data Analysis Strategy

Data analysis is defined as a practice in which raw information is ordered and organized in order that useful facts may be extracted from it (Creswell, 2008). The method of organizing and thinking about information is key in know-how what the records do and does not include. The researcher employed descriptive statistics mainly frequency and per cent for primary data which aimed to get and analyze the opinion of the respondents about working capital and challenges. Additionally, the cash conversion cycle and ratio analysis were also used to analyze the working capital of the agency. Cash conversion cycle and working capital ratio formula are given are in equation (i) and (ii) $CCC_{tba} = DOI_{tba} + DRO_{tba} - DPO_{tba}$…………………………..(i)

Where, CCC= Cash Conversional Cycle, DOI = Days of Inventory, DRO=Days of Receivables Outstanding and DPO = Days of Payable Outstanding

$$WCR_{tba} = \frac{CA_{tba}}{CL_{tba}} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\text{(ii)}$$

Where, WCR=Working Capital Ratio, CA=Current Assets, CL=Current Liabilities, Script, TBA represents Tanzania Building Agency.

3.7 Data Reliability and Validity

According to Adam et al., (2008) reliability refers back to the capacity of obtaining the same results via measuring an object or assemble with unbiased but additionally through comparable measures. In this have a look at reliability turned into determined as in measurement procedures, to positive whether or not the nice of a tool to supply the equal results while hired beneath the identical conditions is attained.

Adam also defined validity because of the capability of the researcher study or devices which is used to measure what intends to measure. with a purpose to ensure validity within the research, the researcher measuring device which includes questionnaires have been measures so as to process it and make certain that respondents do not encore issues in responding to diverse questions asked by using researcher. Validity enables in ensuring to a sure degree the questions validity and statistics reliability to be composed in the course of the study.

3.8 Ethical consideration

The researcher informed respondents on the goals of the study. Consequently, respondents have been required to take part in the study voluntarily. The records which were furnished by respondents from questionnaires and interview had been handled exclusive and had been used in particular for academic purpose.

CHAPTER FOUR

DATA ANALYSIS AND DISCUSSION OF THE FINDINGS

4.1 Introduction

This section defines and examines information collected throughout the process of collecting information. The analysis covers findings from the study interrogations, structured, unstructured dialogues, and questionnaires with TBA workforce. The key objective in this study was to determine the working capital management practices in government agencies in Tanzania.

4.2 Demographic Profile of Respondents

Demographic profile of respondents explains previous characteristics of respondents used in this research. This sub-section expresses the respondent's variability on their profiles relying on the questions asked by the researcher to respondents. This sub-section further aimed at looking composition of respondents' presented in term of their gender, age distribution, and education level attained by respondents and also working experience respectively.

4.2.1 Age of respondents

The study investigated the age groups of the respondents so as to determine the capability of the respondents. Therefore, respondents revealed they have different age groups. Study finding indicated that 48.3% of the respondents had the age group of 25 to 35 years, as demonstrated in Table 4.1.

Table 4. 1: Age distribution of the respondents

Option		Frequency	Percent
Valid	18-24	4	6.7
	25-35	29	48.3
	36-45	18	30.0
	46-55	7	11.6
	Above 55	2	3.4
	Total	**60**	**100.0**

Source: Field Data, (2018).

In the survey, the respondents were asked to state the age category they were in. Out of the 60 respondents 4 (6.7%) of the respondents were between 18-24 years of age, 29 (48.3%) of the respondents were between 25-35 years of age, 18 (30%) of the respondents were between 36-45 years of age, 7 (11.6%) of the respondents were between 46-55 years of age, and only 2 (3.4%) of the respondents were above 55 years of age. These findings indicate that all age groups participated in the study, meaning that they were fit mentality hence were capable to urge and reasoning in determining the working capital management practices in government agencies in Tanzania and identifying the challenges facing cash, inventory and accounts receivables management. It also implies that respondents' opinions, suggestions and their views concerning the study objectives were highly recognized.

4.2.2 Gender of respondents

The researcher was interested in identifying the gender of respondents. The researcher tried to make contact with both male and female in order to overcome biases. During the process of collecting data, the study found that most of the respondents who involved in the study were males constituting to 39 (65%) of all 60 respondents as presented in Table 4.2

Table 4.2: Gender of the respondents

Option		Frequency	Percent
Valid	Male	39	65.0
	Female	21	35.0
	Total	**60**	**100.0**

Source: Field Data, (2018).

In terms of gender, though the respondents were fairly distributed, more males, 39 (65%) took part in this study, while females respondents were 21 (35%). From the findings, it can be revealed that despite the majority of the respondents were male (55.6%) there was a fair balance of gender at TBA. Therefore, genders bias was overcome.

4.2.3 Education level of respondents

Moreover, respondents were asked to indicate their education level in order to determine whether they understood working capital management practices and how these practices contributed to performance in government agencies in Tanzania. The study findings are illustrated in Table 4.3 below;

Table 4. 3: Education level of respondents

Option		Frequency	Percent
Valid	Certificate	3	5.0
	Diploma	19	31.7
	First degree	27	45.0
	Masters/PhD	11	18.3
	Total	**60**	**100.0**

Source: Field Data, (2018).

From the findings presented above in Table 5.3, 19(31.7%) of the respondents had diplomas, 27(45%) of the respondents were holders of the first degree, 11(18.3%) of the respondents attained masters degrees while 3(5%) of the respondents were certificates holders. This finding implies that the majority of respondents were educated, knowledgeable and have attained basic education, therefore they can participate in the study. Thus, their suggestion and recommendations were highly considered on determining working capital management practices and how these practices contributed to performance in government agencies.

4.2.4 Working experience

The study was interested in determining the working experience of respondents. This was intended to determine whether the respondents had relevant working experience and knowledge in the field of working capital management practices. The study found that the majority of respondents 31(51.7%) had working experience between 5 to 10 years while 17(28.3%) were having the working experience above 10 years. The study also found that the average number of respondents 7(11.7%) were having experience between 3 to 5 years; as demonstrated in Table 4.4.

Table 4. 4: Working experience

Option		Frequency	Percent
Valid	1 – 3 years	5	8.3
	3 – 5 years	7	11.7
	5 – 10 years	31	51.7
	Above 10 years	17	28.3
	Total	**60**	**100.0**

Source: Field Data, (2018).

From Table 4.4 the study further found that few respondents 5(8.3%) had working experience between 1 to 3 years. This implies that majority of the respondents have been in operation with TBA for a long period of time which shows a high level of loyalty and it's an indication that they understand working capital management practices and concepts well and hence their suggestions and recommendations contributed much to the study validity. Thus, any recommendation given was accurate and they can be relied on.

4.3 Cash conversion cycle stability at TBA

4.3.1 Adequate of CCC

The study was interested in determining the stability of CCC at TBA. During the interview, the study found that stability of CCC is determined by inventory, accounts receivable management and the cash management. Respondents revealed that inventory management is weak whereby there exists scarce of inventory and delaying of projects completed on time due to lack of timely availability of resources. Moreover, on accounts receivable, the study found that the collection of debt from debtors is not as forecast. Hence, all these results to lack of liquidity and poor performance of the organization.

4.3.2 Cash Held by TBA

The study was interested in determining how TBA holds its generated cash on a daily basis. Respondent were required to identify how does the cash collect being held, in their reply majority of respondents indicated that the majority of respondents (51.7%) indicated that cash held is kept in the office, (45%) indicated that cash is kept in banks, while few respondents revealed that it is spent on other proceeds; as presented in Table 4.5

Table 4. 5: Cash held by TBA

Option		**Frequency**	**Percent**
Valid	Keep it in office	31	51.7
	Keep in bank	27	45.0
	Spend the proceeds	2	3.3
	Total	**60**	**100.0**

Source: Field Data, (2018).

The researcher revealed that in any organization, a predetermined appropriate amount of cash is mostly preferred. It was evidenced that too little or too much cash may have additional costs to an organization. By holding too little cash an organisation may have liquidity problem or it might not be in a position to take advantage of unexpected opportunities while holding the excess amount of cash an organisation forego the opportunity of earning interest.

4.3.3 Preparation of Cash Budget

Respondents were requested to indicate whether TBA always prepares cash budgets. In their reply, the study found that the majority of respondents (88.3%) indicated that TBA prepares cash budget as presented in Table 4.6 below

Table 4. 6: Cash budget preparation

Option		Frequency	Percent
Valid	Yes	53	88.3
	No	7	11.7
	Total	**60**	**100.0**

Source: Field Data, (2018).

The study found that a significant majority (88.3%) indicated that the organisation prepares cash budgets while the rest (11.7%) indicated that the organisation does not prepare cash budgets. This implies that TBA prepares cash budgets. Respondents especially finance officers revealed that the use of the cash budget enables them to determine their future cash needs, planning for the financing of these needs and also exercise control over cash and liquidity.

4.3.4 Analysis of Cash Conversion Cycle from the audited accounts

The researcher conducted analysis of Cash Conversion Cycles using data from the audited accounts of 9 financial years (FY) of TBA (2006/2007 to 2015/2016). In order to arrive to CCC, the researcher calculated Days of Inventories Outstanding, Days of Revenue Outstanding, and Days of Payment Outstanding as indicated in table 4.7

Table 4.7: Output of Cash Conversion Cycle from the audited accounts

FY	DOI	DRO	DPO	CCC (DOI+DRO-DPO)
2015/2016	26.56	2,581.69	76.32	2,531.93
2014/2015	32.53	3,913.12	60.16	3,885.49
2012/2013	65.92	289.38	-	355.30
2011/2012	95.37	316.05	-	411.43
2010/2011	476.57	185.09	57.98	603.67
2009/2010	439.34	148.39	103.67	484.06
2008/2009	407.56	64.11	42.65	429.02
2007/2008	994.97	37.68	1.10	1,031.54
2006/2007	196.89	93.40	49.54	240.74

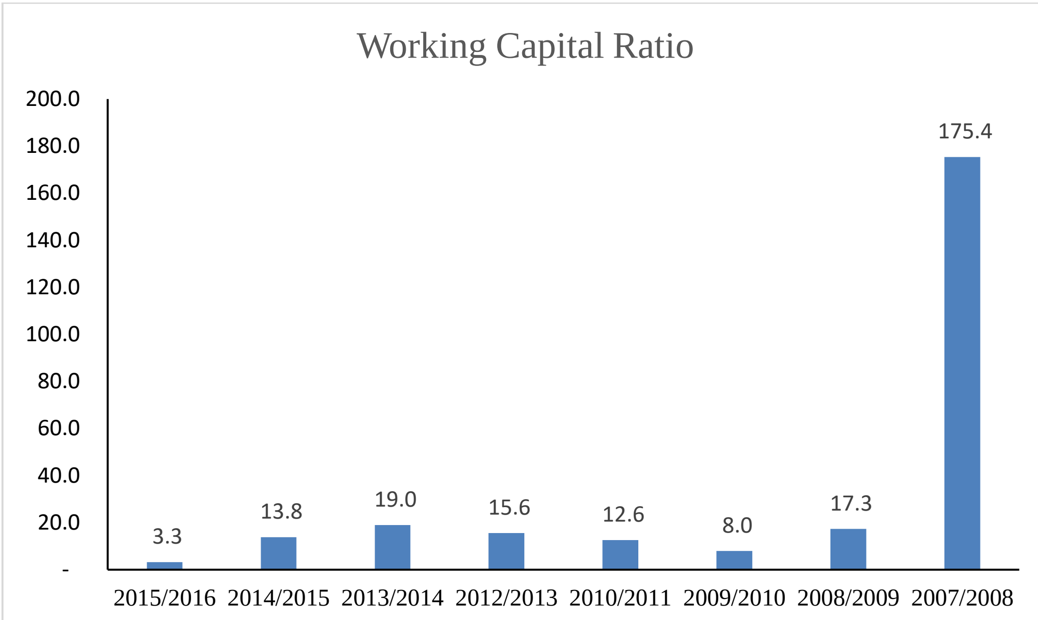
Source: Researcher's calculation from audited accounts of 9 financial years (FY)

Overall, the findings show very high cash conversion cycles for three periods; FY 2015/2016 with 2,531.93 days, FY 2014/2015 with 3,885.49 days and FY 2007/2008 with 1,031.54 days to turn its initial cash investment in inventory back into cash. Also, in average, it takes at least a year convert inventory and assets into cash. These high scores of CCC is likely caused by idle resources/inventories and poor collection of the receivables. For instance, account receivables FY 2015/2016 was TZS 31,475,131,527.67, FY 2014/2015 was TZS 30,885,241,649.83 and inventories worth over TZS 14 billion FY 2007/2008 which was the highest for all 9 financial years (See A1 in the appendix).

4.3.5 Working Capital Ratio Analysis

The study used current assets and liabilities to analyse the working capital ratio of TBA. It involved data of 8 financial years, from 2007/2008 to 2015/2016 as indicated in figure 4.0 below

Figure 4.0: Working Capital Ratio of TBA from 2007/2008 to 2015/2016



Source: Researcher's calculation, 2019

Overall, the figure shows the financial year of 2007/2008 had the highest working ratio while FY 2015/2016 had the lowest working ratio. Besides, the working ratio for all financial years is greater than 2 (the minimum ratio is 3.3 and the maximum is 175). This implies that the agency been having excess and idle resources that are not utilized, this is likely to increase opportunity cost as well.

4.4 Cash Management Practices at TBA

This section sought to determine what are the challenges facing TBA in implementing cash management practices. Respondents identified different challenges which hinder cash management practice to be less effective at the organisation as presented in Table 4.8 below

Table 4. 8: Challenges of implementing Cash Management at TBA

Challenges	Agree	Disagree	Total
Poor record keeping	45	15	60
Lack of enough and competent internal auditors and controllers	60	0	60
Poor infrastructures i.e. technology	60	0	60
Unavailability of accounting and internal control manual	50	10	60
Non observance of financial rules and memorandum	40	20	60

Source: Field Data, (2018).

The results in Table 4.8 showed that, there are different factors affecting the implementation of cash management. These challenges are mostly associated with lack of enough and competent internal auditors and controllers and also poor infrastructures i.e. technology as reported by all respondents (100%). Furthermore, other challenges as identified by the majority of respondents included unavailability of accounting and internal control manual (83.3%), poor record keeping due to lack of competent staff and the use of poor technology (75%) an also non-observance of financial rules and memorandum as reported by (66.7%) of respondents.

Respondents noted that computerized the system known as Institute for the Management of Information System (IMISs), which provide reach databases, are often lacking in many government agencies in Tanzania. Despite the fact, there is some progress being made in introducing Integrated Financial Management Information System (IFMISs) in many African countries, the quality of data available for making projections is mostly sub-standard, especially on the provision and timeliness of the high-frequency data which are needed for making reliable projections. Furthermore, respondents said that in many government agencies in Tanzania, the required skilled staff who are competent are few due to low civil service salaries, incomplete understandings of the importance of cash planning, inadequate management attention to eliminating the leakages associated with poor cash management. During the interview one respondent observed;

> *"At TBA funds are been mismanaged by top managers before reaching accounts department due to a poor system of internal control and lack of competent auditors, controllers and qualified staffs."*

These findings imply that TBA needs both financial accountability and technical capacity in order to effectively implement oversight and control functions, tracking and reporting on allocation, disbursement and the use of financial recourses using monitoring, auditing and accounting mechanisms as defined by the legal and institutional the framework which is a requirement in order to ensure that insufficient funds which are allocated are used for the intended purposes efficiently. This is because fraudulent, abuse of fund and corruption practices are most likely to occur in every stage of the process as a result of poorly managed expenditure systems and lack of effective auditing and supervision as identified by respondents.

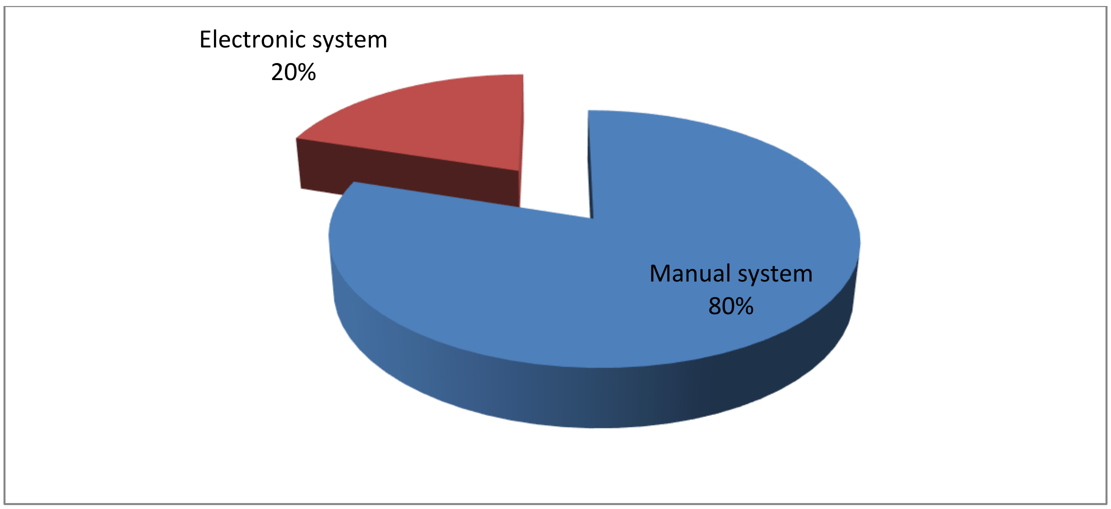
4.5 Practices of Inventory Management at TBA

Under this sub-section the researcher discussed how stock control is practised at TBA, how often does TBA practices stock taking per year and the challenges TBA encounter upon implementation of inventory management.

4.5.1 Stock Control practiced at TBA

Ponsian et al. (2014) revealed that the concept of inventory management brings in the total systems approach to managing the entire flow of information, materials, and services from raw materials suppliers through factories and warehouses to the end user/customer. Also, the study confirmed that organisation success depends much on how they control and manage their materials effectively. The study was interested in determining how TBA controls its stock. Respondents were asked to determine how the organisation controls its stocks to ensure the performance to be effective. In their reply, the study found that the majority of respondents 48(80%) identified that the organisation use mostly manual stock control method using stores ledger. It was revealed that many government institutions in Tanzania wants to use a simple, paper-based record keeping system due to ignorance on using the computerised system from staff. They believe that the process is simplified as it does not need staff to be familiar with how accounting software calculates and treats the information. Figure 4.1 below presents the findings;

Figure 4.1: Stock control method



Source: Field Data, (2018).

From the above findings in Figure 4.1 Above, it was found that 80% of the respondents revealed that the organisation uses mostly manual system method in controlling its stock while (20%) of respondents identified that the electronic system is also used at a low extent. During the interview one of procurement officer said:

> *"Here at TBA, we use the mostly manual system in managing and controlling all of our stocks. It takes a lot of time, its costs and the documents can be easily lost. The electronic system is only used for storage of information which is processed manually."*

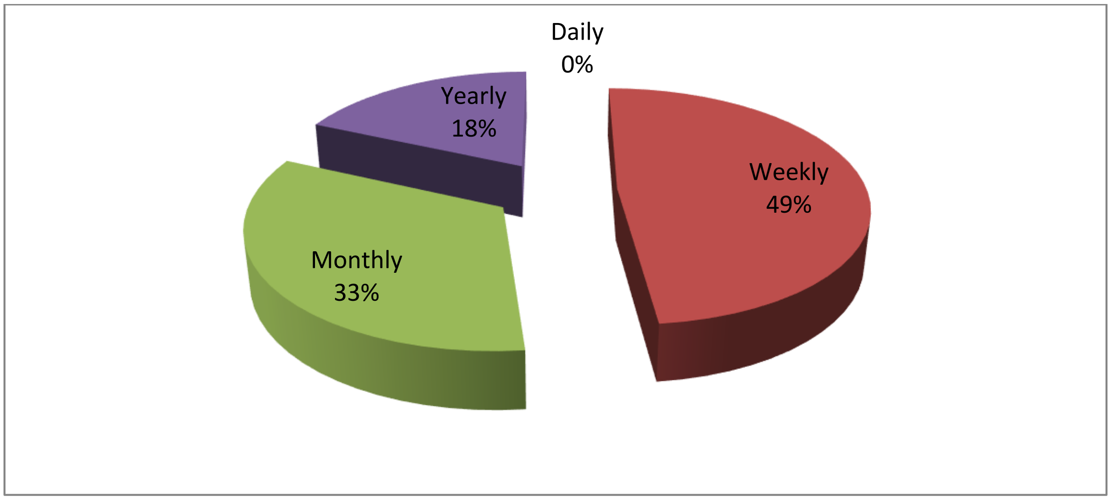
During interview respondents especially those operating under the procurement department argued that, in today's world the use of high technology especially computer systems is vital in controlling inventory especially to large organizations compared to manual system. They indicated that the justification upon the use of computer-based system is enhanced by the fact that organisation accounting and billing procedures need to be handled on the computer to save time and minimize costs. The use of computer also makes it easier to capture information, generate reports, and meet tax and legal reporting requirements.

The organisation is considered semi-automated since, even with automation implemented in their inventory management practices, manual processes are still being used to a high extent. The study found that the organisation continue to use manual methods in their stock count exercises. The stock count exercise involves printing inventory details with product codes from the system, counting items, recording the counted quantities, data entry in the inventory system, documenting inaccuracies and correcting inventory quantities where necessary.

4.5.2 Stock Taking Policy

According to Tesha (1998) stock taking refers to the physical verification of the quantities and condition of materials or items which are held within an organisation or warehouse helping in providing an accurate idea of the number of stock items which an organisation owns. It helps in allowing the organisation to reconcile the physical stock to the inventory records, determine variances and also helps in identifying issues of stock management and control. The study was interested in determining how often TBA practices stocks taking per year. Respondents were asked to determine the range of time the organisation uses in stock taking, in their reply the study found that the majority of respondents 29(49%) revealed that stock taking is carried out every week, (33%) indicated that stock-taking is carried out every month while 11(18%) said that it is practised effectively once per year; as presented in Figure 4.2

Figure 4.2: Stock taking period



Source: Field Data, (2018).

Figure 5.2 indicates the respondents (staff) response on the frequency of stock-taking policy. The study revealed that (49%) said that the centre stock-taking exercise is conducted weekly, (33%) said that the centre stock-taking exercise is conducted monthly while (18%) said that the centre stock-taking exercise is conducted annually (once per year). During interview, respondents indicated that exercise of stock taking is crucial to be undertaken with good care as it helps in determining how wealthy an organisation is. This finding implies that TBA has a tendency of guiding stock taking weekly and monthly for the aim of making physical confirmation of the assets which are owned by the organisation with their own values.

4.5.3 Challenges TBA encounter on Inventory Management

The researcher sought to determine the challenges faced by TBA in doing inventory management practices. When asked during interview sessions, what are the major challenges facing TBA upon implementation of inventory management, the responses were; insufficient funding from the government, lack of commitment by top management, poor infrastructures, poor technology and incompetent staff. Table 4.9 presented these challenges as identified by respondents.

Table 5.9: Insufficient fund by the government

Option		**Frequency**	**Percent**
Valid	Great extent	31	51.7
	Moderate extent	22	36.7
	Little extent	7	11.6
	Total	**60**	**100.0**

Source: Field Data, (2018).

Table 4.9 shows that the most (51.7%) of the respondents indicated to a great extent that an insufficient fund set by the government as a challenge facing the implementation of inventory management practices, (36.7%) to a moderate extent and (11.6%) said to little extent lack of fund among the major challenge affecting inventory management practice. Respondents indicated that a little amount of fund is being set aside by the government in ensuring that all procurement and capacity development programme such as training is conducted on inventory control.

Lack of commitment by top management was the other challenge as identified by respondents. In their reply, the majority of respondents (53.3%)indicated to a great extent that lack of commitment by top management as a challenge facing implementation of inventory management practices, (25%) to a moderate extent and (21.7%) to a little extent; as presented in Table 4.9

Table 4. 10: Lack of commitment by top management

Option		Frequency	Percent
Valid	Great extent	15	25.0
	Moderate extent	32	53.3
	Little extent	13	21.7
	Total	**60**	**100.0**

Source: Field Data, (2018).

From Table 4.10 above the study found that lack of commitment by top management is the major challenge which contributes to poor management of control systems. Respondents argued that in many scenarios government institutions management fails to give enough support to their subjects for the effective practice of inventory management; for instance, one respondent under the finance department said that

> *"Sometimes here at our organisation top management fails to involve its supply chain partners especially in decisions involving inventory management. This has brought poor coordination; it has increased the costs of communication which have negatively affected the performance of supply chain of the organization."*

URT (2013) revealed that if the management of any organisation fails to offer facilities and resources required to effectively manage inventory in the organization, the organisation will fail and hence it will result in poor performance.

Again, poor use of technology was the other challenge identified by respondents. It was revealed that the management of inventory at the organisation is hindered by the use of poor technology such as a manual system in checking and recording materials. During survey, the researcher found that the majority of respondents (61.7%) indicated to a great extent that poor use of technology effect inventory management practices, 33.3% to a moderate extent, and 5% little extent; as presented in Table 4.11

Table 4.11: Poor use of technology

Option		**Frequency**	**Percent**
Valid	Great extent	37	61.7
	Moderate extent	20	33.3
	Little extent	3	5.0
	Total	**60**	**100.0**

Source: Field Data, (2018).

Respondents indicated that poor use of technology results in poor cooperation between suppliers and an organization which eventually results in delaying upon delivery of goods/services or even no delivery of goods/services at all. To succeed in inventory management the organization needs to make sure that it has reliable suppliers to supply goods and services on time.

According to Nyabwanga (2012) many organizations mostly in developing economies, the top management are reluctant to invest hugely in modern technologies and equipment in order to ease the management of inventory. This has results to inhibit the effectiveness of management of stocks. It results in prolongs the time cycle and delaying on goods delivery and provision of services to stakeholders/consumer and it affects negatively the supply chain performance.

Furthermore, the other the challenge which hinders effective implementation of inventory management as identified by the respondent was lack of qualified staff within the organization in carrying out procurement activities. In their reply, the study found that (8.3%) of respondents revealed that incompetent staff affect inventory management at great extent, majority of the respondent (53.4%) said that it affects the organization at a moderate extent and 38.3% at little extent; as presented in Table 4.11

Table 4.12: Incompetent staff

Option		**Frequency**	**Percent**
Valid	Great extent	5	8.3
	Moderate extent	32	53.4
	Little extent	23	38.3
	Total	**60**	**100.0**

Source: Field Data, (2018).

During the interview head of departments at TBA revealed that in order for stock controlling function to be well practised and increase performance; it is advised that organizations need to recruit, train and broaden staff with high ability and motivation to do better the process of inventory control.

Training and education of employees is something vital if full use is to be made from their abilities and talents. This finding is similar to Ruichao (2013) study which revealed that lack of trained and competent professionals within an organization who are knowledgeable and understand various concepts of inventory management is a major challenge to most organizations in developing countries which seek for effectively managing their inventory systems.

This finding implies that TBA is faced by different challenges upon implementing inventory management practices. The study revealed that the implementation of inventory management practices in developing countries is accompanied by many challenges. These challenges include; insufficient funding from the government, lack of commitment by top management, poor technology and incompetent staff. Organizations which fail to invest in inventory technology and good infrastructure mostly lack effective management of inventory systems. Organizations in developing countries need to invest more in improving these challenges to control the level of inventory. This will help in enabling organizations to save holding costs, stock out costs and lead time costs.

4.6 Accounts Receivable Management Practices at TBA

Under this subsection, the researcher discussed the existence of credit policy at TBA, the limit of time TBA uses in collecting debts from debtors, the effects of accounts receivables management policy on liquidity and the challenges of implementing accounts receivable management at the organization.

4.6.1 Existence of Credit Policy at TBA

Madishetti et al. (2013) revealed that credit is the major principal source of income for many organizations and it is usually representing one of the principal assets of the organization, its good management becomes more important. The researcher wanted to know whether credit policy exists at TBA, whereby respondents were supposed to decide if the policy exist or do not exist. The study results were tabulated in Table 4.13below as follows;

Table 4. 13: Existence of credit policy at TBA

Option		**Frequency**	**Percent**
Valid	Yes	32	53.3
	No	28	46.7
	Total	**60**	**100.0**

Source: Field Data, (2018).

Findings from Table 4.12 above shows that (53.3%) of respondents revealed that TBA has credit policy while (46.7%) said that TBA has no credit policy. From this response from respondents, it implies that TBA has credit policy but the existence of the policy was not clearly defined to the institutional members. In order to get more information from this, the researcher decided to conduct an interview to respondents whereby during the interview it was revealed that TBA had credit policy which was not defined clearly to staff. This implies that there was no clearly written information about credit policy. If the credit policies are well structured and governed them affect accounts receivables in a positive way.

4.6.2 Limited Time of Debt Collection

The limited time of debt collection is one among the variables of the credit policy. The researcher wanted to determine on to what extent this variable was used at TBA in its existing credit policy; because the longer periods for credit settlement, the higher the risk for the organization to suffer illiquidity conditions. Different responses were given by respondents, in their reply the study found that TBA has no limit of time for debt collection as identified by (88.3%) of respondents while (11.7%) said that limited time for debt collection is above 90 days. Table 4.14 presented the study findings;

Table 5.14: Limited time for debt collection

Option		**Frequency**	**Percent**
Valid	30 – 60 days	0	0.0
	60 – 90 days	0	0.0
	Above 90 days	7	11.7
	No period	53	88.3
	Total	**60**	**100.0**

Source: Field Data, (2018).

In order to get more clarification on this matter, the researcher had to interview staff where it was revealed that TBA has no limited time for debt collection. Respondents further said that there are times whereby other debts are not collected at all. Due to this, the organization is forced to use reminder method through writing memos and through phone calls to debtors to collect its outstanding debt. TBA reminds its debtors through writing notice where the name of the debtors and their outstanding balances are listed.

4.6.3 Effects of Accounts Receivables Management Policy on Liquidity of TBA

Furthermore, the researcher was interested in assessing how TBA's credit policy has contributed to its liquidity position. The study wanted to know if TBA was strong enough to settle its financial obligations or it was weak that it resulted in TBA not to be able to settle its financial obligations. In order to meet this, the researcher had to assess the financial position of the organization as presented below;

The study wanted to find if TBA has experienced or is continue experiencing any problem financially in a situation that it had long-term debts with its suppliers. Through this, the study wanted to determine if the organization had challenges meaning that its credit policy was weak which resulted in insufficient fund availability.

4.6.4 Challenges of implementing Accounts Receivable Management at TBA

The researcher was interested in identifying the challenges of implementing accounts receivable management at the organization. Different challenges were identified by respondents as presented below;

The first challenge as identified by respondents was lack of clear debt policy at TBA. According to Vural (2012) a proper and effective debtor policy should Cleary set up policies of providing credit, the procedures of identifying credit worth projects or customers, establishing a credit limit for each customer/suppliers, accurate and clear invoicing, presence of penalties for late payment and they have to be procedures for controlling outstanding balances. Majority of respondents (60%)

revealed that to a great extent lack of clear debt policy affect the implementation of accounts receivable management, (35%) said to a moderate extent while (5%) said it affects the management at little extent; as presented in Table 4.15

Table 4. 15: Lack of clear debt policies

Option		**Frequency**	**Percent**
Valid	Great extent	36	60.0
	Moderate extent	21	35.0
	Little extent	3	5.0
	Total	**60**	**100.0**

Source: Field Data, (2018).

During the data collection process, the researcher interviewed to get more clarification. Respondents argued that TBA lack proper debt policy; this has resulted in illiquidity conditions within the organization. It was revealed that the first step of credit investigation is a fairly standard process. Through standardizing the steps which are taken to figure new or existing accounts and identifying its desirability, the department dealing with credit will minimize the potential for bad debts or slow payments.

Poor infrastructure and low use of technology was the second challenge TBA encounter in implementing accounts receivable management. In their reply, (40%) of respondents identified poor technology affect accounts receivable management to a great extent, (48.3%) said to a moderate extent while (11.7%) said it affect the organization in collecting debts for little extent; as presented in Table 4.16.

Table 4.16: Poor infrastructures

Option		Frequency	Percent
Valid	Great extent	24	40.0
	Moderate extent	29	48.3
	Little extent	7	11.7
	Total	**60**	**100.0**

Source: Field Data, (2018).

The findings from Table 4.15 implies that the majority of respondents argued that poor use of technology was the other challenge affecting the performance of TBA in collecting outstanding balances from its debtors. During the interview, respondents revealed that manual management of accounts is still used in viewing and printing balances and statements, searching for specific items and reminding debtors to pay them debt within the organization. One finance officer during the interview said that;

> *"At TBA the credit control department in big part reconciles its accounts receivables using the manual process and not by advanced technology (computerized)."*

It was argued that TBA should use online account management since it is more cost-effective an alternative to paper-based processes. Through this, accounts data can be easily obtained simply from the internet and be used within the organization software, this saves times, and it minimizes data capture mistakes. This finding concurs with Ruichao (2013) in Canada which revealed that the use of electronic processing methods such as Electronic Data Interchange (EDI) of accounting data results in complex accounting and management of accounts receivables in any organization.

The other challenge as identified by respondents was poor management style and structure within TBA. Decision-making process in any organization depends largely on top management commitment and decision. Lack of strong management system within an organization affects much its performance. Majority of respondents (61.7%) revealed that poor management structure affects the management of accounts receivable at moderate extent, (13.3%) said that it affects the organization at great extent while (15%) said that it affects the organization at the little extent. Table 4.17 below presents the study findings;

Table 5.17: Poor management structure

Option		**Frequency**	**Percent**
Valid	Great extent	8	13.3
	Moderate extent	37	61.7
	Little extent	15	25.0
	Total	**60**	**100.0**

Source: Field Data, (2018).

The findings imply that the style and structures management of TBA and accounts receivables management are not related correctly. This implies that there are no effective systems for managing accounts payable at the organization and monthly allocating of budgets. The findings further imply that organization management is not concerned with providing further information which helps in improving the clarity and comprehensiveness of the organization's accounts receivables and has not put in place emphasis on proper methods used to select, train and supervise accounting personnel and credit control.

4.7 Discussion of Research Findings

The first objective of the study was to determine the stability of the cash conversion cycle at TBA. The study found that the stability of CCC is determined by inventory, accounts receivable, and cash management. It was found that inventory management is weak whereby there exists scarce of inventory and delaying of projects completed on time due to lack of timely availability of resources. Moreover, on accounts receivable, the study found that the collection of debt from debtors is not as forecast. Hence, all these results to lack of liquidity and poor performance of the organization. Moreover, the study found that that majority of respondents indicated that the amount of cash held is kept in office and some of the cash is kept in banks accounts while few respondents revealed that cash held it is spent for other proceeds. This is similar to Kazi (2012) study which revealed that holding too little cash, an organization may have a liquidity problem or it might not be in a position to take advantage of unexpected opportunities while holding an excessive amount of cash an organization foregone the opportunity of earning interest. Furthermore, it was found that TBA prepare a cash budget; through cash budget, the organization is able to determine its future cash needs, planning for the financing of these needs and also exercise control over cash and liquidity.

The second objective of the study was to identify challenges facing TBA in implementing cash management practices. Respondents identified different challenges which hinder cash management practice to be less effective at the organization. The study found that lack of enough and competent internal auditors and controllers, poor infrastructures i.e. technology and unavailability of accounting and internal control manual. Other challenges identified by respondents were poor record keeping due to lack of competent staff and poor use of technology and non-observance of financial rules and memorandum.

The third objective of the study thought to identify the challenges facing government agencies in implementing inventory management. The study found that the majority of respondents identified that the organization use mostly manual stock control method using stores ledger. It was revealed that many government institutions in Tanzania want to use a simple, paper-based record keeping system due to ignorance on using the computerised system from staff. The study revealed that TBA employed a combination of both automated and manual techniques for inventory management, with the manual system being more than others. The organization was found to have a semi-automated inventory management system with the use of off-the-shelf and other systems such as

Microsoft Dynamics and Microsoft Navision. Challenges identified by respondents from this study on inventory management includes; insufficient funding from the government, lack of commitment by top management, poor infrastructures, poor technology and incompetent staff.

The fourth objective of the study thought to identify the challenges facing government agencies in implementing accounts receivable practices. The study found that the majority of respondents revealed that TBA has credit policy while others said that TBA has no credit policy. From this response from respondents, it implies that TBA has credit policy but the existence of the policy was not clearly defined to the institutional members. In his study Madishetti et al., (2013) explained the importance of practising credit policy in an organization. It was revealed that credit is the major principal source of income for many organizations and it is usually representing one of the principal assets of the organization, therefore its good management becomes more important. In terms of debt collection time, the study found that TBA has no limit of time for debt collection as identified by (88.3%) of respondents while (11.7%) said that limited time for debt collection is above 90 days. During interview members of the Audit committee revealed that TBA experiences financial problems, these problems include; failure to complete projects on time, delaying to settle its bills on time, delaying on paying salary to its employees and delaying in paying to its suppliers. It was, therefore, indicated that TBA is facing some early indications of illiquidity due to weak practices of credit policies upon managing its accounts receivables. Further, in implementing accounts receivable management TBA encounters different challenges and these include; lack of clear debt policies, poor management structures, and also poor infrastructures.

CHAPTER FIVE

CONCLUSION, LIMITATIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter remarks the end of this research report through summarizing and concluding the research findings. Study summary and conclusion of the study shows how far the study attained its research objectives and questions. The chapter further shows areas for recommendations which are needed for further improvement. The chapter also suggests limitations and recommendations for further studies.

5.2 Summary of the Study

Generally, the study intended to determine the working capital management practices in government agencies in Tanzania. Specifically, the study aimed at determining the stability of cash conversion cycle at TBA, identifying the challenges of implementing cash management at TBA, identifying the challenges of implementing inventory management at TBA and identifying the challenges of implementing accounts receivable management practices at TBA. The study used a descriptive case study design whereby a sample of 60 respondents including Head of departments, Finance and Internal audit departments, members of the Audit Committee and other Administrative staff. Primary data were collected by using interviews and questionnaires instruments which were distributed to respondents. Microsoft Excel and SPSS were used in analyzing data while figures and tables were used in presenting data.

Based on the study findings the researcher found that majority of respondents (88.3%) indicated that the TBA prepares cash budgets while the rest (11.7%) indicated that the organization does not prepare cash budgets. It was found that the use of the cash budget enables the organization to determine its future cash needs, planning for the financing of these needs and exercise control over cash and liquidity. The study also found that the amount of cash held at the organization is being kept in the office.

Furthermore, the study found that TBA has a tendency of conducting stock taking weekly and monthly for the aim of making fiscal verification of the assets which are owned by the organization with their respective values. The organization uses mostly manual system method in controlling its stock while (20%) of respondents identified that the electronic system is also used at a low extent. Due to this system of using manual system the implementation of inventory management at the organization is hindered by the insufficient amount of fund set by the government on procuring materials, poor use of technology, lack of commitment by top managers/directors and incompetent staff which all results in poor management of inventory within the organization as identified by respondents.

Again, the study found that TBA has credit policy but the existence of the policy was not clearly defined to the institutional members. The organization has no clearly written information about credit policy. Lack of clear credit policy has affected the organization accounts receivables in a negative way. Due to the lack of clear credit policy, the study also found that TBA has no limit of time for debt collection as identified by (88.3%) of respondents. Due to this, the organization is forced to use reminder method through writing notice/memos and through phone calls to debtors to collect its outstanding debt. Furthermore, TBA experiences financial problems, these problems include; failure to complete projects on time, delaying to settle its bills on time, delaying on paying salary to its employees and delaying in paying to its suppliers which all these problems are caused by poor management structure, poor infrastructures and lack of clear debt and credit policies. It was, therefore, indicated that TBA is facing some early indications of illiquidity due to weak practices of credit policies upon managing its accounts receivables.

5.3 Conclusion

The organization of working capital is one of the greatest significant commercial choices of an organization. Adequate stage of working capital must be present for even running of an organization nonetheless of the nature of their procedure. The administration of an organization helps in creating value for its shareholders by dropping the several day’s accounts receivable; since as the Average Collection Period (ACP) decreases, the profitability or performance increases. It is noted that as ACP increases, the level of bad debt also increases which in the long-run results in a reduction in profitability or poor performance.

5.3.1 Cash Conversional Cycle Stability

The dimension of Cash Conversion Cycle Stability was looked four dimensions which included the adequacy of CCC, Cash held by TBA, Cash budget and ratio of the working capital. Any profit-making organizations seek to have cash for business operations which in return will contribute to the profit. In this context, cash conversion cycle becomes very important because it measures the working capital of the firm like TBA. Besides, the stability of the cash conversion cycle is a function of inventory, accounts receivable management, and cash management. TBA has been found to have weak inventory management is weak, limited inventories. This was also evidenced by the analysis of audited ants which shows it takes at least a year to turn assets into cash. If the agency fails to collect cash from their debtors while having few inventories, it will unlikely become unsustainable and undergo insolvency in the long run. Furthermore, in terms of cash holding, the majority (51.7%) have confirmed cash is kept in the Bank, yet the proportion of those who sated cash is kept in the office is quite close to those have claimed it is put in the Bank. TBA requires sufficient cash so that they can effectively being able to fulfill their responsibilities and grab opportunities which may come around.

5.3.2 Cash management practices at TBA.

Cash management requires enough and qualified staff, effective written controls, records keeping and good infrastructure. However, the study found there is lack of enough and competent internal auditors and controllers; the agency is characterized by poor infrastructures in particular technology, unavailability of accounting and internal control manual (83.3%) and poor record keeping. This affects both financial accountability and technical capacity of TBA to effectively exercise its duties. TBA management must make sure cash management becomes their top priorities for it to become successful.

5.3.3 Inventory management practices at TBA

Inventories make one of the main components in assessing the working capital of the agency just like any other business firm. In assessing practices and challenges of inventory management, the researcher mainly looked at TBA controls of its stock. The study found that the majority of respondents 48(80%) identified that the organization use mostly manual stock control method using stores ledger using a simple, paper-based record keeping system. This likely caused by ignorance on using the computerised system from staff. That means the agency will be wasting a lot of time and cost in managing stocks while technology would make it more efficient.

On top of that, the study assessed stock taking the policy and examines the frequency of physical verification of the quantities and condition of materials or items which are held within an organization or warehouse. The study revealed that the majority of respondents 29(49%) revealed that stock-taking is carried out every week and monthly which is good for the agency. However, the agency is experienced by a wide range of challenges including insufficient fund and poor technology. Having these main challenges create a risk of frauds and misuse of the stocks which will again affect the working capital of the agency.

5.3.4 Accounts receivable management practices at TBA.

The study examined the existence of credit policy, time of debts collection and challenges in implementing accounts receivables management at TBA. Findings at least a half of the respondent shave conformed availability of the credit policy, however, the policy was not clearly defined to the institutional members. If the credit policies are not well structured and unclear to the staff that means accounts receivables will negatively be affected.

Besides, over 80 per cent of the respondents confirmed that TBA has no limited time for debt collection. They also stated that there are times whereby other debts are not collected at all. This is evidenced in the findings of the cash conversion cycle which shows it takes over the year to collect cash from their debtors. This has negatively affected the liquidity of the agency. This has been mainly caused by Lack of clear debt policies among others.

5.4 Recommendations/Practical Implications

From the findings of the study it is recommended that to improve the management of working capital in government agencies, private and other organizations in Tanzania, the following should be considered to both the government agencies, policymakers and staff;

To the Government agencies

The study revealed that among challenges facing the Government agencies in Tanzania is the limited scope of internal control and poor use of technology in practising management of cash, inventory and accounts payable and receivables. The study identified this as a danger especially in this modern world of science and technology whereby everything is being done computerized. Therefore, the study stands to advise the Tanzanian Government to institute as many internal controls system as possible to protect the public funds and creation of the good reputation to the entire public on cash management.

The study further recommended that policies on working capital management need to be reviewed and changed from informal to formal to enhance the opportunity of Government agencies to be successful in their working capital management. Also, these policies of working capital need to be reviewed at least quarterly or semiannual within a year to identify the weaknesses early for redial action to be taken prompt. Reviewing policies should be taken seriously to ensure that periodic report are prepared about working capital management in order to assess whether the organization has adequate working capital and is able to meet current obligations.

Management of Government agencies need to have a dedicated department for collecting all debt and task them with the responsibility of accounts receivable collections and the department should have clear information and follow up with all debtors even before the debt is due, this will enable the agencies to collect the debts on time.

To staff

It was found that majority of employees at TBA are not competence, lack experience, and technical skills within their working areas. The study therefore recommended that apart from huge efforts which are made by the Government of Tanzania in improving capacity development programme such as training and development methods, it is each employee responsibility to update and upgrade him/herself in accounting standards and general working capital management knowledge.

5.5 Limitations and Recommendation for Further Studies

5.5.1 Limitations of the study

In conducting this study, the researcher faced different limitations;

Time limit; the researcher faced limited time frame in conducting the study. This challenge contributed to delaying of concluding the research on time, especially on proposal writing, data collection from respondents and research report writing. Upon data collection, research fund was another factor that limits the researcher. Researcher movement from place to place in collecting information from respondents was restricted by the lack of enough research funds. This challenge was addressed by the researcher effectively utilizing a selected sample of 60 respondents from different departments within the organization. Due to the lack of fund and time schedule, TBA was used as a case study.

Moreover, some respondents were occupied by Government Budget preparation process, therefore, responding to a questionnaire on time was difficult. Due to this way, the late responses delayed the process of data processing and analysis. Furthermore, some employees feared to respond to the questionnaires for different reasons. The problem was addressed by spending more time in explaining the objective of the study, its relevance on employees and organisation performance and how the researcher respects the privacy of respondents.

5.5.2 Recommendation for further studies

The comparative study of the research needs to be conducted to assess how working capital management influence the performance of various pension funds operated in Tanzania since pension sectors play an important role in providing economic security to majority of households across time. Pension sector mostly channels a vast volume of investments into a wide range of financial markets and plays an important role in providing long-term funds to numerous sectors of the economy. Furthermore, further areas for research need to be empirical investigations into the impact of working capital on company performance specifically in the industry sector by using a case study approach.

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APPENDICES

Appendix I: Questionnaire

My name is **Frank Mgalilwa**. I am conducting a research on, "**Working Capital Management Practices in Government Agencies; A case of Tanzania Building Agency (TBA).** Your participation on answering this questionnaire will make this research effective and complete. Therefore, I am kindly requesting your attention to read and answer the questions below to the best of your knowledge and ability. Please, I request your attention and respond to the questions below so as to facilitate my research.

Instruction: Please circle the correct answer and fill the blanks.

Section A: Demographic Characteristics of Respondents

1. Gender
   a) Male
   b) Female
2. Age group

18 – 24	
25 – 35	
36 – 45	
46 – 55	
Above 55	

3. Level of education
   a) Certificate
   b) Diploma level
   c) First Degree/Advanced diploma level
   d) Masters/PhD level
4. What is your position in the organization……………………………….

5. Years engaged in service
    a) 1 – 3 years
    b) 3 – 5 years
    c) 5 – 10 years
    d) Above 10 years

Section B: The stability of Cash Conversion Cycle at TBA

6. To what extend do you rate the importance of managing working capital at your organization?
    a) Very important
    b) Important
    c) Not important
7. On average, how often does your organisationreview its working capital policies?
    a) Weekly
    b) Monthly
    c) Quarterly
    d) Semi Annually
    e) Annually
8. Does your organisationprepare cash budgets?
    a) Yes
    b) No
9. How does your organisationmanage the difference in the required cash in case of shortfalls?

    (Please explain)

    ....

    ....

    ....
10. How does your organisationcontrol the proceeds generated on a daily basis?
    a) Keep it in office cash till

b) Keep it in the bank

c) Spend the proceeds

d) Others (specify).............................

11. What methods does TBA use in controlling cash? (Please mention)

....

....

....

12. What are the major challenges facing TBA as far as WCM is concerned? Please mention

....

....

....

13. Can you please explain the effect of the CCC on the organisationperformance, if any?

....

....

....

Section C: Inventory Management

14. What method is used in your organisationin evaluating inventory?
    a) First in First Out
    b) Last in First Out
    c) Average cost
    d) Standard cost
    e) Others (specify)..
15. How do you control stocks in your organization?
    a) Manual
    b) Electronically using inventory system

16. How often does your organisationdo stock taking?
    a) Daily
    b) Monthly
    c) Yearly
    d) Other (specify)…………………………………………………
17. Are the assets at your organisationall coded to ensure control?
    a) Yes
    b) No
18. If the answer is No above, what methods are used to ensure control to some organisationproperties not coded?
    a) Keep in storewaiting to be coded
    b) Given to supervisors with official store documents
    c) Given to supervisors without official store documents
    d) Others (specify)..
19. How does mismanagement of inventory affect the performance of your organization?
    ....
    ....
    ....
20. What are challenges TBA encounter upon implementing inventory management? (Please mention)
    ....
    ....
    ....

Section D: Accounts Receivable management

21. Does TBA have a credit policy?
    a) Yes
    b) No
22. Does TBA have a limited time for debts collection?

a) Yes

b) No

23. If the answer in question 22 above is Yes; for how long?

a) Less than 30 days

b) 30-60 days

c) 60-90 days

d) Above 90 days

24. If the answer is no in question 22; is there a possibility that other debts are not collected at all?

a) Yes

b) No

25. In collecting its outstanding debts, which collection efforts are used by TBA?

a) Reminders through writing to debtors

b) Restrictions on supply of services/materials

c) Imposition of penalties

d) Others; specify …………………………………………

26. Do you think that the management of accounts receivable affects performance and profitability? Why or why not?

....

....

....

27. What are the main policies regulating accounts payable and accounts receivable at your organization?

....

....

....

28. What are the major challenges hindering implementation of accounts receivable management practices at TBA? (Please mention)

....
....
....

29. What are your opinion/suggestions on influence of accounts receivables management on cash of TBA?

    ....
    ....
    ....

Thank you for your cooperation.

Appendix II: Interview Guide

1. How long have you worked at TBA? Past experience?
2. What is working capital and working capital management?
3. What is cash conversion cycle, inventory, accounts receivable and accounts payable management?
4. What is the stability of cash conversion cycle in government agencies in Tanzania?
5. Could there be any underlying motives on why some government institutions do not present and disclosure their financial informations/statements to the public?
6. What are the practives of government agencies in implementing cash management practices?
7. What are the practices of government agencies in implementing inventory practices?
8. What are the practices of government agencies in implementing accounts receivable management practices?

Appendix

A1: Current Assets, Current liabilities and Working Capital from 2007/2008 to 2015/2016

FY	Current Assets	Current Liabilities	Working Capital
2015/2016	88,739,130,530.36	27,167,224,825.74	61,571,905,704.62
2014/2015	67,018,968,171.82	4,842,905,009.54	62,176,063,162.28
2013/2014	62,894,965,981.98	3,309,404,424.25	59,585,561,557.73
2012/2013	60,787,887,693.00	3,893,950,217.00	56,893,937,476.00
2010/2011	50,841,130,555.00	4,038,638,176.00	46,802,492,379.00
2009/2010	59,629,290,709.00	7,472,504,814.00	52,156,785,895.00
2008/2009	51,943,800,370.00	3,000,449,790.00	48,943,350,580.00
2007/2008	47,975,389,446.00	273,539,443.00	47,701,850,003.00

A2: Data from the balance sheet and CCC

FY	2015/2016	2014/2015	2012/2013	2011/2012	2010/2011	2009/2010	2008/2009	2007/2008	2006/2007
Inventory	1,904,310,504.00	1,904,310,504.00	1,904,310,504.00	1,868,310,504.00	9,694,789,629.00	9,582,798,913.00	7,714,488,409.00	14,885,472,862.00	2,225,437,163.00
Account Receivable	31,475,131,527.67	30,885,241,649.83	13,814,705,235.00	6,301,673,362.00	4,858,065,312.00	3,530,609,848.00	1,939,101,360.00	1,648,208,179.09	4,024,918,176.19
Account Payable	5,471,604,178.94	3,521,905,009.54	0	-	1,179,544,629.00	2,261,237,685.00	807,269,467.00	16,500,000.00	559,992,235.80

Total Revenue	4,449,969,091.82	2,880,848,058.00	17,424,680,365.00	7,277,583,471.00	9,580,173,017.00	8,684,260,287.00	11,040,301,847.00	15,967,334,965.82	15,728,882,299.00
Operating Expenses	26,166,711,964.18	21,367,127,806.84	10,543,925,521.00	7,150,060,249.00	7,425,204,994.00	7,961,248,120.00	6,908,952,133.00	5,460,680,077.69	4,125,667,281.00
DOI	27	33	66	95	477	439	408	995	197
DRO	2582	3913	289	316	185	148	64	38	93
DPO	76	60	0	0	58	104	43	1	50
CCC (DOI+DRO-DPO)	2,531.9	3,885.5	355.3	411.4	603.7	484.1	429.0	1,031.5	240.7