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EFFECTS OF WORKING CAPITAL MANAGEMENT ON PROFITABILITY OF RETAIL FIRMS IN KISII COUNTY, KENYA

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Abstract

This study sought to investigate the Effects of working capital management on profitability, In order to develop an understanding of the dynamics of the retail firms not only for the development of their growth and strategies in management of their working capital but also for the growth of the economy as a whole. Such information is crucial in the evolution of appropriate policies for promoting retail firms. The study was guided by three specific objectives; to determine the effect of liquidity ratio on the profitability of retail firms, to assess the effect the debt ratio on the profitability of retail firms and to establish the effect of current ratio on the profitability of retail firms in Kisii County. To achieve the objectives of the study, a descriptive research design was adopted. The present study established that the profitability of retail firms in Kisii County was influenced by the working capital management significantly factors; liquidity ratio, debt ratio, and current ratio. It was established that 38.30% of change in profitability of retail firms in Kisii County is explained. However, this study did not explain what influences the remaining 61.70%. So another study needs to be done to explain others factors that influence the profitability of retail firms in Kisii County

Keywords: financial performance, liquidity ratio, working capital management

Background of the Study

Working capital management have been approached in numerous ways. According to Deloof (2003) the way that working capital is managed has a significant impact on profitability of firms. This result indicates that there is a certain level of working capital requirements which potentially maximizes returns. According to Wilner (2000) most firms extensively use trade credit despite its apparent greater costs, and trade credit interest rates commonly exceed 18 percent. In addition to that he states that in 1993 American firms extended their credit towards customers by 1.5 trillion dollars. Similarly Deloof (2003) found out through statistics from the national bank of Belgium that in 1997 accounts payable were 13 percent of their total assets while accounts receivables and inventory accounted for 17% and 10% respectively summers and Wilson (2000) report that in the UK corporate sector more than 80% of daily business transactions are on credit terms.

There seems to be a strong relation between working capital management and financial performance on the retail firms in Kisii County. The three components of cash conversion cycle (accounts payable, accounts receivables and inventory) can be managed in different ways in order to maximize profitability or to enhance the growth of a company sometimes trade credit is a vehicle to attract new customers. In order to have maximum value, equilibrium should be maintained in receivables, payables and inventory. According to Pike & Cheng (2001) credit management seeks to create, safeguard and realize a portfolio of high quality accounts receivable. Successful management of resources will lead to corporate profitability, but how can we measure management success since a period of 'credit granting' might lead to increased sales and market share whilst accompanied by decreased profitability or the opposite? Since working capital management is best described by cash conversion cycle we will try to establish a link between profitability and management of the cash conversion cycle. This simple equation encompasses all three very important aspects of working capital management.

Statement of the Problem

That retail shops in Kisii have been having poor performance and that in an attempt to solve this problem they have utilized various working capital management practices. It is not clear, however which practice is the best in achieving this objective and hence the study, hence the assessment of current ratio, debt ratio and liquidity ratio.

Objectives of the study

The study's specific objectives were to:

i. Determine the effect of liquidity ratio on the profitability of retail firms in Kisii County.

ii. Assess the effect of Debt Ratio on the profitability of retail firms in Kisii County.

iii. Establish the effect of current ratio on the profitability of retail firms in Kisii County.

iv. To evaluate the extent to which transparency affects the implementation of public procurement processes in Kenya.

Significance of the study

This study would promote adoption of necessary measures and plans of action to regulate the firms. The significant role of retail firms in Kenya economy suggests that an understanding of their performance is crucial to the stability and health of the economy. The government also needs a policy framework within which the sector can be regulated.

Research Design

Descriptive research case study was used to develop snapshots of a particular phenomenon of interest since they usually involve large samples. It can be used when the purpose is to describe the characteristics of certain items, estimate proportions of people who behave in certain ways and makes specific predictions. The design was ideal for this study given the need to collect information on the relationship between working capital and profitability. The target population of the study was 66 firms in Kisii town. In this study, a census of all retail firms listed in Kisii County, Kenya wise taken into consideration making it easier and accurate for the research.

Research Findings

Response Rate

The study sought to collect data in form of balance sheets and income statements for the periods between the year 2014 and 2016 from 57 retail stores in Kisii Town, Kisii County. Out of the 57 retail stores approached, only 44 responded to the request for provision of data from their balance sheets and income statements to the researcher. This implies that 13 failed to respond as captured in table 1.

Table 1: Analysis by Response Rate

Response Rate	Frequency	Percent
Sample Size	57	100.00%
Response	44	77.19%
Non Response	13	22.81%

The results in table 1 show that that response rate was 77.19% and according to Mugenda and Mugenda (2003), a 50% response rate is adequate, while response arte of above 60% and not exceeding 69 is good and a response rate above 69% is rated very high. Mugenda and Mugenda (2003) further indicate that a response rate is of above 69%, which is rated as very high would produce credible results. The response rate for this study of 77.19% which was well above 69% and therefore based on the assertion by Mugenda and Mugenda (2003), it was evident enough that the response rate was very good and the result would be credible. Although the results were interpreted to indicate a very good response rate, a failure of 22.81% to respond would not explained. All those who responded to the study data collection, adequately provided the appropriate information that assisted in analysis. The answers were given by the right source and

were accurate to produce credible results. The researcher highly appreciated this response and was very thankful to the subjects. In addition, the subjects responded positively to the interviews conducted to verify the data provided.

Analysis Background Information

When assessing the effect of working capital management on profitability of retail firms in Kisii County, the study used; descriptive statistical analysis and inferential analysis. The study used descriptive analysis to produce descriptive statistics to establish trends and patterns, where a description of features of the study data using minimum, maximum, mean and standard deviation for each variable was presented. The inferential analysis involved firstly the; correlation analysis to measures the degree of association between the Independent Variables (IV); liquidity ratio, debt ratio, and current ratio, and the Dependent Variable (DV); profitability of retail firms in Kisii County. In essence, the matrix explores whether or not the relationship between variables is positive or negative, in addition to determining the degree of the association between variables under consideration, secondly the inferential analysis involved the regression analysis to establish the nature of relationship between each IV and the DV. The regression analysis was carried out to estimate a model to explain profitability of retail firms in Kisii County in terms of; liquidity ratio, debt ratio, and current ratio. Multiple regression analysis was used to establish the relationship between the IVs (predictor) and DV (response) and measure the strength of the relationship based on the regression model below.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \mu \quad \text{(ii)}$$

Where **Y**=Profitability of retail firms(ROA)

X_1= Current Ratio

X_2= Debt Ratio

X_3=Liquidity Ratio

β_0= Constant term,

β_1, β_2 and β_3= was used to measure the dependent variable (Y) to unit change in the predictor variables.

μ =is the error term

The study first tested for normality, to establish whether the data is normally distributed, using Komolgorov-Smirnov method (since the study data exceeds 50) and then it checked IVs for multicollinearity (high correlation between independent variables). The study will use variance inflation factors (VIF) and tolerance to test for multicollinearity, where VIF of greater than 10 a tolerance of less than 0.10 indicates multicollinearity. The variables chosen for our study were not highly correlated but if any two variables display multicollinearity, one variable would have been dropped.

Descriptive Analysis

The study measured liquidity ratio, debt ratio, current ratio and profitability of retail firms, all expressed as percentage, using the equations cited below;

Current ratio

Current ratio, a ratio used to measure short-term liquidity and which measures the ability of the firm to meet its short-term obligations, was measured as;

Current Ratio = Current Assets / Current Liabilities..(iii)

Liquidity Ratio

Liquidity ratio, which gives an insight of the ability of the store to meet its maturing current obligation and pay off creditors as the loan matures and is essential for firm' existence is measured as;

Liquidity Ratio = Liquid assets / Total assets ....(iv)

Debt Ratio

The Debt ratio (Leverage), which shows the percentage of the firm's asset funded by external debt, was measured as;

Debt Ratio = Total liabilities / Total assets...(v)

Profitability

The study considered profitability, the dependent variable, in term of Return on Assets (ROA) and measured it using the equation

Profitability of Retail firms (ROA) = Net Income/Total assets...(vi)

The various representation of information tables narratives. On analysis of the data about the variables; liquidity ratio, debt ratio, current ratio and profitability of retail firms, the study obtained the mean, median and standard deviation of the variables. In addition, it obtained the minimum and maximum values of each respective variable which essentially gave an indication of how wide ranging each respective variable were. The descriptive statistics of these results are captured in Table 2.

Table 2: Descriptive Statistics for Study Variables

Variable	Mean	Std. Dev.	Min	Max
Liquidity Ratio	15.70	15.62	0.01	66.98
Debt Ratio	30.42	16.43	2.67	77.45
Current Ratio	18.56	17.18	0.07	76.14
Profitability	16.75	17.41	0.14	66.78

The descriptive results show that then average liquidity ratio maintained by the 44 retail store of Kisii Town was indicated to be 15.70%. The minimum value of liquidity ratio reported amongst the stores surveyed, between the years 2014 and 2106, was 0.01% while the highest liquidity ratio ever reported within the same period amongst those stores was 66.98%. The standard deviation value of 15.62 of liquidity ratio, meaning that the average ability of the retails store to meet their maturing current obligation and pay off creditors as their loan matured was 15.70%, in form liquidity ratio.

From these results, the average debt ratio was 30.42% and standard deviation of 16.43 while the store with the lowest debt ratio within the period 2014 to 2106 reported a ratio of 2.67%. The highest debt ratio reported by any store was 77.45%. On average, the results showed that the percentage of the retails stores asset funded by external debt was 30.42%.

It was shown that the mean current ratio was 18.56% and the standard deviation was 17.18. The minimum current ratio maintained by any of the stores was shown to be 0.07% and the highest reported highest current ratio by any of the stores within the period 2014 to 2016 was 76.14%. The study established that on average the store were able to meet 18.56% of their short-term obligations.

The mean profitability of the retails stores, measured as return on assets had a value of 16.75% for the stores sampled with a standard deviation value of 17.41. Notably, the minimum value of profitability of the retails stores was 0.14% while the maximum value was 66.78%. This shows that although some stores recorded insignificant profits in terms of ROA, none recorded any losses. The average portability of the retails stores sampled stood at 16.75%.

Certain observations were made from these results. For instance the difference between the maximum value of liquidity ratio and maximum profitability of the retails stores was a mere 0.20% while the difference the between the average value of liquidity ratio and average profitability of the retails stores was 1.05%. The liquidity ratio seemed to be consistent with the profitability of the retails stores. The study therefore concludes that sample retails stores were striking balance between the liquidity and profitability (Chukwunweike, 2014), where the cash balances were held by the stores at a point of time by financing deficit or investing surplus cash. Chukwunweike (2014) established that firms strike a balance between the liquidity and profitability such at there is enough financing for deficit or the firm invest surplus cash (retained earnings). This is enhanced through Cash management, where cash flows into and out of the firm are managed carefully, thereby maintaining adequate control over cash position to keep the firm sufficiently liquid and to use excess cash in some profitable way (Khan & Ali, 2016; Saleem & Rehman, 2011). Khan and Ali (2016) point out that the liquidity ratio has significant positive relationship with profitability as Saleem and Rehman (2011) established that liquidity ratio positively affects the profitability, which was the found in the present study.

Inferential Analysis

The study sought to establish whether the IVs; liquidity ratio, debt ratio, and current ratio were predictors of DV, profitability of retail firms in Kisii County. The study therefore tested for existence of significant relationship between the IV and the DV through inferential analysis using correlation analysis and regressions analysis. At the end the study estimated a model that explained profitability of retail firms in Kisii County in terms of; liquidity ratio, debt ratio, and current ratio.

Correlation Analysis

A correlation analysis was carried out to establish whether any relationship existed between the DV and each of the IVs. The correlational analysis was performed, using the Pearson's product method at 5% (0.05) level of significance. The study tested the relationship based on the study objectives;

i. To determine the effect of liquidity ratio on the profitability of retail firms in Kisii County.
ii. To assess the effect of Debt Ratio on the profitability of retail firms in Kisii County.
iii. To establish the effect of current ratio on the profitability of retail firms in Kisii County.

The results were recorded in Table 3.

Table 3: Correlation Statistics

pwcorr NProfitability NLiquidityRatio NDebtRatio NCurrentRatio, sig

	Profitability	Liquidity Ratio	Debt Ratio	Current Ratio
Profitability	1.0000			
Liquidity Ratio	0.4858	1.0000		
	0.0000			
Debt Ratio	-0.2122	0.1146	1.0000	
	0.0146	0.1908		
Current Ratio	0.5159	0.3810	-0.1882	1.0000
	0.0000	0.0000	0.0307	

The results of correlation analysis in table 3 show that each the IVs; liquidity ratio, debt ratio, and current ratio was significantly related to profitability of retail firms in Kisii County, since the p-value for each was less than 0.05. That is; current ratio (r = .5159, p-value = .0000), debt ratio (r = -.2122, p-value = .0146) and liquidity ratio (r = .4858, p =.0000), were significantly related to profitability of retail firms in Kisii County. The result show that current ratio had the highest (r = .5159) followed by liquidity ratio (r = .4858), and then debt ratio (r = -.2122).

The results in table 3 further show that the relationship between current ratio and profitability of retail firms in Kisii County was high since the correlation coefficient (r) for the comparison was greater than 0.5. Further, it was shown that there was a positive relationship between current ratio and profitability of retail firms in Kisii County. According to these results, relationship between liquidity ratio and profitability of retail firms in Kisii County was moderate since the correlation coefficient (r) was greater than 0.3 and not exceeding 0.5 and there was a positive relationship between liquidity ratio and profitability of retail firms in Kisii County. However, the relationship between debt ratio and profitability of retail firms in Kisii County, which was found to be low, was negative. These results confirm the findings by Serrasqueiro and Reis (2014) study which established that there was significant negative correlation between debt ratio and profitability. The results reveal that increase in use of debt financing has a negative impact on profitability.

Regression Analysis

Multiple regression was out on the IV (liquidity ratio, debt ratio, and current ratio) against the dependent variable (profitability of retail firms in Kisii County) to estimate the model, since they had shown to have a significant relationship. The study obtained an Analysis of Variance (ANOVA) statistics, regression statistics and a model summary as captured in Table 4.

Table 4: Relationship between profitability and working capital

F(3, 128) = 28.25						
Prob > F = 0.0000						
R-squared = 0.3983						
Adj R-squared = 0.3842						
Root MSE = .1441						
Profitability	Coef.	Std. Err.	T	P>|t|	[95% Conf.	Interval]
Liquidity Ratio	0.0340	0.0068	5.02	0.0000	0.0206	0.0474
Debt Ratio	-0.0185	0.0069	-2.70	0.0080	-0.0321	-0.0050
Current Ratio	0.0309	0.0071	4.37	0.0000	0.0169	0.0450
_cons	1.1097	0.0464	23.90	0.0000	1.0179	1.2016

The study interpreted the results based on the 5% level of significance (p-value < 0.05). From Table 4, it can be observed that p-value = .000, since p-value < 0.05 (F=28.25, P-value=.000), then we it implies at the 5% significance level (i.e. α = 0.05, level of significance), there exists enough evidence to conclude that at least one of the predictors; liquidity ratio, debt ratio, and current ratio is useful explaining profitability of retail firms in Kisii County.

The results in table 4 show that the adjusted R^2 is .03842 which implies that 38.42% of variation in profitability of retail firms in Kisii County is explained liquidity ratio, debt ratio, and current ratio. That is all the three IVs (liquidity ratio, debt ratio, and current ratio) could significantly predict the DV (profitability of retail firms in Kisii County).

The regression model from the results in table 4 was estimated using the equation;

$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \mu$……………………………………………………………(vi)

Where **Y**= Profitability of retail firms (ROA)

X_1= Liquidity Ratio

X_2= Debt Ratio

X_3= Current Ratio

β_0= Constant term,

β_1, **β_2** and **β_3**= was used to measure the dependent variable (Y) to unit change in the predictor variables.

μ =is the error term

From table 8, the estimated equation is;

$Y = 1.1097 + .034X_1 - .0185X_2 + .0309X_3$ ……………………………………….. (viii)

The table showed that each of; liquidity ratio and current ratio had positive coefficients, which showed that they were directly proportional to profitability of retail firms in Kisii County. This means that an increase in any of IVs liquidity ratio or current ratio leads to increase in profitability of retail firms in Kisii County and any decrease in any of IVs; liquidity ratio or current ratio leads to decrease in profitability of retail firms in Kisii County. However, debt ratio had negative coefficients, meaning it was inversely proportional to profitability of retail firms in Kisii County. So an increase in debt ratio leads to decrease in profitability of retail firms in Kisii County and vice versa; a decrease in debt ratio leads to increase in profitability of retail firms in Kisii County.

The study used the objectives;

i. To determine the effect of liquidity ratio on the profitability of retail firms in Kisii County.

ii. To assess the effect of Debt Ratio on the profitability of retail firms in Kisii County.

iii. To establish the effect of current ratio on the profitability of retail firms in Kisii County.

As regards liquidity ratio, the results in Table 8 show that T= 5.02 p-value= .0000. Since $p < .050$ then the null hypothesis is rejected and the alternative hypothesis accepted. At the $\alpha = 0.05$ level of significance, there exists enough evidence to conclude that the liquidity ratio is not zero and, hence, that liquidity ratio is useful as a predictor of profitability of retail firms in Kisii County.

These results show that for debt ratio, T= -2.70 p-value= .0080. Since $p < .050$ then the null hypothesis is rejected and the alternative hypothesis accepted. At the $\alpha = 0.05$ level of significance, there exists enough evidence to conclude that the debt ratio is not zero and, hence, that debt ratio is useful as a predictor of profitability of retail firms in Kisii County.

Lastly, for current ratio, results show that T= 4.370, p-value= .0000. Since $p <.05$ then the null hypothesis is rejected and the alternative hypothesis accepted. At the $\alpha = 0.05$ level of significance, there exists enough evidence to conclude that the debt ratio is not zero and, hence, that debt ratio is useful as a predictor of profitability of retail firms in Kisii County.

Discussions

The study discussed the findings based on the research objective, and relating it to the literature reviewed. The study used the empirical literature to justify its findings. The first objective was to determine the effect of liquidity ratio on the profitability of retail firms in Kisii County. The study established that the liquidity ratio had significant positive relationship with the profitability of retail firms in Kisii County. This confirms the finding in the study by Saleem and Rehman (2011), which took five years data of 26 enterprises and found that there is positive relationship between firm's liquidity and profitability. Liquidity ratio provides insight of the ability of the retail firms in Kisii County to meet their maturing current obligation and pay off creditors as the loan matures.in fact liquidity ratio is essential for the existence of the retail firms in Kisii County. Also Khan and Ali (2016) conducted a study which found that there is significant positive relationship between liquidity ratio and profitability of the banks, findings similar to those in the present study. Hence, this research indicates that liquidity ratio has positive relationship with profitability of retail firms in Kisii County. Accordingly, the retail firms in Kisii County would use liquid assets to finance their operations and invest if other medium of funding are not available or unnecessarily exorbitant. Thus the retail firms in Kisii County tend to increase their liquidity until it reaches optimal level which maximizes profit (Chukwunweike, 2014). Accordingly, liquidity ratio has positive effect on profitability of retail firms in Kisii County.

The second objective was to assess the effect of debt ratio on the profitability of retail firms in Kisii County. The study established that there exists a significant negative relationship between debt ratio and profitability of retail firms in Kisii County. Such that an increase in debt ratio leads to decrease in profitability of retail firms in Kisii County and decrease in debt ratio leads to increase in profitability of retail firms in Kisii County. As the study by Rehmann (2007) established that there is negative relationship between debt used by the firm and its profitability other studies have confirmed the same. Mohammad and Jaafer's (2012) study established significant negative relationship between debt (short term, long term and total debt) and return on equity as Kebewar (2013) found that debt has negative affect on profitability (Anandasayanan & Subramaniam, 2013). Similar results were obtained by Wali, Goher, and Mehboob (2012) and many other researchers also found negative relationship between debt and profitability. Mohammad and Jaafer's (2012) studied Amman Stock Exchange based companies, Kebewar

(2013) studied the French trade sector, Anandasayanan and Subramaniam (2013) studied manufacturing firms listed on Colombo stock Exchange while Wali *et al.* (2012) studied textile companies listed on KSE, Pakistan. Although these studies obtained data from diverse sources, they produced similar findings that there existed a significant negative relationship between debt and profitability. The present study as well established that there exists a significant negative relationship between debt and profitability of retail firms in Kisii County, which agrees to the findings in the studies by Mohammad and Jaafer's (2012), Kebewar (2013), Anandasayanan and Subramaniam (2013) and Wali *et al.,* (2012). The study can confidently confirm that the debt ratio has a negative effect on the profitability of retail firms in Kisii County

The last, third, objective was to establish the effect of current ratio on the profitability of retail firms in Kisii County. The study established that there was high positive relationship between current ratio and profitability of retail firms in Kisii County. The regression analysis results indicate that high current ratio lead towards higher profitability of retail firms in Kisii County in terms of ROA. These findings are consistent with other empirical studies such as by Manyo and Ogakwu (2013), Alavinasab and Davoudi (2013) and Bolek (2013). The findings these studies revealed a significant positive relationship between current ratio and profitability in terms of ROA. The results from these studies inferred that companies with strong liquidity ratios tend to face lower risk and improved profitability. Meanwhile the present established that current ratio has a significant positive impact on ROA of the sampled firms. Current assets are useful for firms to withstand and survive in a financial distress situation and firms require enough cash assets to maintain day-to-day operations alongside the long-term external financing. Thus, the current ratio has a significant positive effect on the profitability of retail firms in Kisii County.

Summary of Findings

Liquidity Ratio and Profitability

The study found that the liquidity ratio had significant positive effect on profitability of retail firms in Kisii County. There was positive relationship between liquidity ratio and profitability of retail firms in Kisii County. The difference between the maximum value of liquidity ratio and maximum profitability of the retails stores was negligible while the difference the between the average value of liquidity ratio and average profitability of the retails stores was insignificant too. The liquidity ratio was consistent with the profitability of the retails stores. The study concludes that there were striking balance between the liquidity and profitability, where the cash balances were held by the stores at a point of time by financing deficit or investing surplus cash.

Debt Ratio and Profitability

The study found that relationship between debt ratio and profitability of retail firms in Kisii County was found to be negative. It was established that there was significant negative correlation between debt ratio and profitability. The study established that increase in use of debt financing has a negative impact on profitability. This study reveals a significant but negative

relationship between debt ratio and profitability, thus, the higher the debt ratio, the lower the profitability. Debt appears to be more costly due to certain reasons, therefore increasing the proportion of debt ratio in capital structure will results in low profitability.

Current Ratio and Profitability

It was found that there was a significant positive relationship between current ratio and profitability of retail firms in Kisii County. This is to say that the current ration had significant positive effect on the profitability of retail firms in Kisii County. This implies that the level of current ratio of the retail firms in Kisii County influences the extent of profitability of the stores, hence current ratio impacts profit positively on profitability. The study established the stores would use liquid assets to finance their operations as well as invest if other funding sources were not available. These stores tended to increase their liquidity until it reached optimal level which maximizes profit. So, low current ratio would result in a lower profitability.

Lastly the study found that, at 0.05 level of significance, liquidity ratio, debt ratio, and current ratio would significantly predict profitability of retail firms in Kisii County. In fact, 38.42% of variation in profitability of retail firms in Kisii County is explained liquidity ratio, debt ratio, and current ratio. Further it was found that an increase in liquidity ratio or current ratio would lead to an increase in profitability of retail firms in Kisii County and vice versa. An increase in debt ratio would lead to decrease in profitability of retail firms in Kisii County and vice versa. The study therefore found that working capital management significantly affects the profitability of retail firms in Kisii County.

Conclusions

The study reveals that that there is a positive profitability of retail firms in Kisii County, in terms on ROA. Although some stores had been experiencing insignificant portability none of these stores indicates a negative profitability, measured in terms of ROA.

Liquidity Ratio

The study concludes that liquidity ratio has a significant positive effect on profitability of retail firms in Kisii County. The liquidity ratio of these retails stores was consistent to their profitability such that when the liquidity ratio increases, the profitability increase with a similar proportion. Liquidity ratio gives an insight of the ability of the retail firms in Kisii County to meet their maturing current obligation and is essential for existence of these stores.

Debt Ratio

The study concludes that debt ratio had a significant negative effect on the profitability of retail firms in Kisii County. Thus, an increase in use of debt financing has a negative impact on profitability. The study reveals that increasing debt ratio lower profitability of retail firms in Kisii County thus, the higher the debt ratio, the lower the profitability. When these stores reduce their debt ratio, their profitability increases accordingly.

Current Ratio

The study concludes current ratio has a significant positive effect on the profitability of retail firms in Kisii County. So, the level of current ratio of the retail firms in Kisii County influences the extent of profitability of the stores, hence current ratio impacts profit positively on profitability. The liquid assets are used to finance their operations as well as for investment. These stores tended to increase their liquidity until it reached optimal level which maximizes profit. So, low current ratio would result in a lower profitability.

The study reveals that there is a there was a significant relationship between current ratio (p-value = .000), debt ratio (p-value = .013), and liquidity ratio (p-value =.000) and profitability of retail firms in Kisii County, since the p-value for each predictor variable is less than 0.05 So; current ratio, debt ratio, and liquidity ratio are predictors of profitability of retail firms in Kisii County. It was revealed that 38.42% of change in profitability of retail firms in Kisii County is explained liquidity ratio, debt ratio, and current ratio. An increase in liquidity ratio or current ratio would lead to an increase in profitability of retail firms in Kisii County and vice versa while an increase in debt ratio would lead to decrease in profitability of retail firms in Kisii County and vice versa while. The study reveals that working capital management significantly affects the profitability of retail firms in Kisii County.

Policy Recommendations

The study made policy recommendation based on the findings and study objectives. First, the retail stores in Kisii County should maintain a liquidity ratio that would ensure optimal portability. This is owing to the fact the liquidity ratio gives an insight of the ability of the business to meet its maturing current obligation and pay off creditors as the expected loan matures. An advantage associated with holding cash is that the retail stores would be able save transaction costs to raise funds and it does not need to liquidate assets to make payments. Further the liquidity ratio is essential for existence of the retail stores, since they can use liquid assets to finance their operations and invest if other forms of capital structure are not available or unnecessarily exorbitant. Thus a retail stores in Kisii County need to be increasing its liquidity ratio until it reaches optimal level which maximizes profit.

Secondly, the study recommends that the retail stores in Kisii County should make optimal capital structure decision making vital for the maximization their profitability. These decisions should help in making choices for right proportion of debt and equity in capital structure will help in increasing the company's profitability. In as much as possible, they should try to avoid excessive utilization of debt financing. This is because debt appears to be more costly due to certain reasons, therefore increasing the proportion of debt in capital structure will results in low profitability. Therefore, the study recommends that retail stores in Kisii County should prefer internal financing or other sources of financing as opposed to debt financing.

Thirdly, the study recommends that retail stores in Kisii County adopt and appropriate working capital management policy strategy to provide synchronization between current assets and

investments. They should maintain adequate control over cash position to keep the firm sufficiently liquid and to use excess cash very profitable means. They should capitalize on using their current assets to generate optimum profits.

Recommendations for further study

The present study established that the profitability of retail firms in Kisii County was influenced by the working capital management significantly factors; liquidity ratio, debt ratio, and current ratio. It was established that 38.30% of change in profitability of retail firms in Kisii County is explained liquidity ratio, debt ratio, and current ratio. However, this study did not explain what influences the remaining 61.70%. So another study needs to be done to explain others factors that influence the profitability of retail firms in Kisii County.

Secondly, the study was done in on retail store in Kisii Town only, which represents about 30% of retail store in Kisii County. This does not provide representation of the entire retail industry in Kisii County. There is therefore a need to conduct comprehensive study on the entire retail industry in Kisii County.

Thirdly, the study only embarked on only three ratio of working capital; liquidity ratio, debt ratio, and current ratio. So other studies should be done to include all other ratios of working capital management such as Cash Conversion Cycle, number of days of inventory and the like.

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