Journal of Finance and Accounting
2023; 11(3): 79-86
http://www.sciencepublishinggroup.com/j/jfa
doi: 10.11648/j.jfa.20231103.13
ISSN: 2330-7331 (Print); ISSN: 2330-7323 (Online)

Effects of Working Capital Management on Profitability of NBFIs in Rwanda

Wilson Bashaija

Department of Finance and Accounting, University of Rwanda, Kigali, Rwanda

Email address:
wilsonbashaija17@gmail.com

To cite this article:
Wilson Bashaija. Effects of Working Capital Management on Profitability of NBFIs in Rwanda. *Journal of Finance and Accounting*. Vol. 11, No. 3, 2023, pp. 79-86. doi: 10.11648/j.jfa.20231103.13

Received: November 1, 2022; **Accepted**: January 9, 2023; **Published**: May 29, 2023

Abstract: Working capital management is a key factor in determining a company's financial management. Inefficient or inefficient management of working capital impacts profitability and liquidity. To achieve optimal working capital management, company management must carefully manage the trade-off between profitability and liquidity. The general objective of this study was to determine the Effects of Working Capital Management on Profitability of NBFI in Rwanda. The study adopted Credit theory and Transaction Cost Theory. The study adopted a descriptive research design using both quantitative and qualitative approaches. The study assumed a target population of 96 individuals, a multistage random sample of 38 executives from various categories. Survey data were collected using a structured questionnaire. To test whether there is an impact on the profitability of the NBFIs in Rwanda, the correlation between inventory management policy and profitability and the correlation analysis between lending policy and profitability were used. Working capital has been found to have a significant relationship with profitability. Based on the research findings, it can be concluded that working capital is a positive, significant predictor of profitability. The findings of the study suggested that there is a positive and significant relationship between credit policy and profitability. A positive significant linear relationship between inventory control policies and profitability of NBFI in Rwanda was observed. The NBFI financial managers should regularly review their credit policies to ensure they are optimal. NBFI's finance managers should take precautions to help them maintain optimal inventory levels for both raw materials and finished goods.

Keywords: Working Profitability, Non-Bank Financial Institutions, Rwanda

1. Introduction

Efficient working capital management helps to keep a company running smoothly and includes managing inventory, accounts receivable and accounts payable. There is also needed to maintain both your current assets and liabilities to ensure you have the cash you need to run your day-to-day operations. To reach optimal working capital management firm manager should control the tradeoff between profitability and liquidity accurately [1] non-banking financial institution (NBFI) or non-bank financial company (NBFC) is a financial institution that does not hold a complete banking license and is not regulated by a national or international banking regulator. Investment, risk pooling, contractual savings, and market brokering are among services that NBFCs facilitate. Insurance companies, pawn shops, cashier's check issuers, check cashing establishments, and payday loans are just a few examples. Established lenders frequently resist including NBFIs in current credit-information-sharing agreements because of increased competition. NBFIs frequently lack the technological know-how required to engage in information sharing networks. NBFIs generally provide less data to credit reporting organizations than do banks. It is crucial to have regulations around NBFCs while preserving their innovation if they are to continue to expand and be sustained. NBFIs play a huge role in attracting savings to our economy. But unlike commercial banks, these institutions are not allowed to accept public deposit accounts that can be withdrawn by cheque.

From Global perspective, the global economic growth slowdown to 3.6 percent in 2018 from 3.8 percent (Year-on-Year) in 2017 [3]. This slowdown particularly happened in the second half of 2018, reflecting a combination of factors like increase of trade tensions and tariff hikes between the United States and China, a decline in business confidence, a tightening of financial conditions, and higher policy uncertainty across many developed and emerging economies. Working capital management, is the management of current assets and current liabilities, is an aspect of managerial accounting and an important component in a firm's financial success [2]. It can be considered a holistic approach to improving a company's liquidity, profitability, and value [4]. In Germany, working capital management had regained in importance during the financial crisis as a source of internal financing when there was limited or no access to external capital [5]. Working capital simple means the current assets of the company that can be change from one type to other type during day-to-day operations of the firm. Current assets are usually cash, prepaid expenses, short term investment, account receivables, inventory etc. Working capital management (WCM) impacts both a company's profitability and liquidity, and the company's main goal is to increase its annual turnover. Maintaining company liquidity is also a very important job. Reducing the company's liquidity and increasing the company's profitability can lead to serious problems for the company. Current research shows that while WCM has a significant impact on the profitability of Chinese companies, this impact is highly dependent on the ownership structure and related IE [6]. Therefore, the findings provide important implications by helping the Chinese government build a better IE and enabling manufacturing companies to improve their WCM practices.

Firms can minimize risk and increase profitability by understanding the importance of working capital management. The importance of working capital management to UK firms [7]. The provision of credit among firms in the UK has been a prevalent practice and exists if business-to-business trade exists. It is estimated that about 80 per cent of business-to-business transactions are on credit [8] The UK economy is facing uncertainty, and this means it is more important than ever for UK corporates to remain focused on working capital. Given the competing priorities of corporates, this is easier said than done. Trends in working capital performance across UK corporates indicate that senior management are recognizing its importance [9]. Over the last year alone, cash-to-cash days have improved from 31.6 days to 30.5 days. This improvement has delivered £8.8 billion of cash to the balance sheets of UK corporates, providing the ammunition to fuel growth.

From regional perspective working capital management and financial performance of companies, particularly those involved in the sale of fast-moving consumer goods, are examined from a regional perspective using data from the South African listed NBFIs. This is because the working capital management practices of these Fast-Moving Consumer Goods (FMCG) differ significantly from those of other economic sectors, such as retail or mining.

These South African NBFIs are regarded as noteworthy because they play a key part in the nation's economy as producers and processors of food and beverages at a time when the nation is going through a radical economic upheaval that could endanger the industry and food security [10]. Working capital management is very important in Ghana as most loan providers prefer the short-term loan market to the long term loan market. This behavior can be attributed to Ghana's relatively high inflation rate compared to other developed and emerging markets, which tends to reduce the purchasing power of future cash flows [11].

From national perspective, Rwanda's financial sector has significantly improved 72% of Rwandan adults have access to financial services, with 42% of the population using formal financial institutions (commercial banks provide 23% of services, non-bank formal institutions provide 33%, and 58% using informal financial mechanisms [12]. Total assets held by financial institutions as a percentage of GDP that accept other deposit forms or that issue securities or other obligations that closely resemble deposits but do not accept transferable deposits.

The organizations like development banks, savings and loan associations, post office savings institutions, construction and loan associations, and finance corporations accept deposits or deposit substitutes [13]. However, Assets consist of claims.

1.1. Statement of the Problem

Working capital management is an important aspect of finance, as it is difficult for a company to thrive without it. Due to Rwanda, many NBFIs are closed due to poor working capital management, liquidation of companies, permanent closures, and other mergers, NBFI is believed to face capital management challenges. The NBFI of Rwanda is included in the background study conducted by financial institutions researching working capital management. Despite, most organizations either maintain excessive or inadequate walking capital categories, and each tier is incorrect. Too much walking capital might cause a company to invest money in unproductive assets, which lowers the potential for profit maximization.

This additional strategy implies that the organization's market share is not being maximized. However, too little walking capital is a danger to the liquidity of an organization. With little walking capital an organization can effect disintegrate regardless of pleasant earnings tiers. Therefore, all styles of businesses ought to maintain a top-notch diploma of walking capital. As at June 2017, interbank lending rate pushed up by around 50 basis points over the year to June 2017. To this, adds the decrease of non-remunerated deposits (volume effect). Institutions (RSSB, Insurance, MFIs) drew on their demand deposits in banks to invest in risk free government securities. As at June 2017, the outstanding amount of demand deposits of these institutional investors in banks declined from FRW 116 billion in June 2016 to FRW 97 billion in June 2017. Therefore, there are no research papers on this topic on the Internet or in NBFI books and journals in Rwanda. This study seeks to clarify the relationship between working capital management and the profitability of NBFI in Rwanda.

The general objective of this study was to determine the Effects of Working Capital Management on Profitability of NBFI in Rwanda.

1.2. Objectives of the Study

The general objective of this study was to the determine Effects of Working Capital Management on Profitability of NBFIs in Rwanda.

1.3. The Specific Objectives of the Study

1. To examine inventory control policy on profitability of NBFI in Rwanda.
2. To determine credit policy on profitability of NBFI in Rwanda.

1.4. The Research Hypotheses

The research hypotheses of the study were:

1. H0: There is no relationship between the inventory control and profitability of NBFI in Rwanda.
2. H0: There is no relationship between credit policy and profitability of NBFI in Rwanda.

2. Theory

2.1. Credit Theory

A sale and purchase, according to the Credit Theory, is the exchange of a commodity for credit. The value of credit or money is based on the right that the creditor acquires to "payment," that is, to satisfaction for the credit, and the obligation of the debtor to "pay" his debt, and conversely on the right of the debtor to release himself from his debt by tendering an equivalent debt owed by the creditor, and the obligation of the creditor to accept this tender [14].

A company's trade credit is critical since it aids in the acquisition of new customers. Selling on credit becomes unavoidable when there is competition in the industry [15]. If a company does not give credit to its customers, it will lose them to competitors. As a result, investing in accounts receivables may not be an option, but rather a necessity. Given that receivables investment includes both benefits and costs, it is critical to maintain such a level of receivables investment while maintaining the twin objectives of liquidity and profitability [16] Trade credit is very important to a firm because it helps to protect its sales from being eroded by competitors and attract potential customers to buy at favorable terms [17] Selling on credit is unavoidable if there is competition in the sector. If a company does not give credit to its customers, it will lose them to competitors. As a result, investing in accounts receivables may not be an option, but rather a necessity. [18], we build a theory of money and credit as competing payment tools and then apply it to real-world scenarios. This is a fundamental problem, "of all disciplines of economic inquiry, which deals with money and credit undoubtedly has the oldest history and the most voluminous literature.

2.2. Transaction Cost Theory

Transaction cost theory (also known as social cost theory) suggests that a company that can maximize efficiency by minimizing transaction costs is operating the most economical business model [19] When British economist Ronald Coase defended the existence of economic entities like corporations in 1937, he put out the idea. His plan also outlines the function of service providers, such as trade facilitators, and talks about the significance of businesses or corporations in a free market. [20] according to theory, costs determine how transactions are structured in terms of the goods that are exchanged and the settings in which they take place. Parties involved in transactions develop agreements that are materialized into contracts [21] in keeping with the speculation, governance mechanism is important for agreements to be able to stave potential risk off derived from opportunistic behavior. transaction cost theory is overall probably the foremost used theoretical underpinning for many sorts of EC. Economists have classified transactions among and within organizations as those who (a) support coordination between buyers and sellers, i.e., market transactions, and people (b) supporting coordination within the firm [22].

Focusing on firm boundaries, transaction cost theory aims to answer the question of when activities would occur within the market and when they would occur within the firm [23]. According to the transactional theory, the reader, and the text both have a significant impact on how meaning is formed. Writing and reading are connected skills, therefore the transactional approach is also applicable in both areas [24] The transactional theory offers some consequences for language teaching in the classroom. [25] puts that a theory accounting for the actual cost of outsourcing production of products or services including transaction costs, contracting costs, coordination costs, and search costs. The inclusion of all costs is considered when deciding and not just the market prices.

3. Research Methodology

This chapter describes the methodological design that was used to achieve the aims and objectives of the study. It describes research design, target population, sampling technique, sample size, data collection procedures.

3.1. Research Design

The study used quantitative research design. Time Series Cross Sectional (TSCS) data was used to show the Effects of Working Capital Management on Profitability of NBFI in Rwanda. Research design is a quasi-experimental research design that [26] explained that TSCS designs have long been considered as one of the best designs for the study of causation, next to a purely random experiment. This research adopts the correctional design because the study aims at not only determining the direction relationships among variables but also relationships between different variables. Theoretically, any two quantitative variables can be correlated if you have scores on these variables from the same participants; however, it is probably a waste of time to collect and analyze data when there is little reason to think these two variables would be related to each other [27]. Also, by combining time series of cross-sectional observations, panel data give more informative data, more variability, less collinearity among variables, more degrees of freedom and more efficiency. Besides, panel data will minimize the bias that can result if individual banks are aggregated. It also enriches empirical analysis in such a way that may not be possible if either only time series data or cross-sectional data is used [28].

3.2. Target Population of the Study

As quoted by [29] it refers to whole group of items, people, and things under study from which the researcher makes generalization of the results. It is an all-inclusive collection of personages, measures or bits and pieces with similarities. The target population for the study was 96 licensed by NBFIs in Rwanda with employees from all levels, head of departments, middle level managers, supervisors, and operatives as potential respondents.

Table 1. *Below shows the target population and Sampling Frame.*

Name of the entity	Population	Sample Size
Rwanda Social Security Board (RSSB)	12	4
Development Bank of Rwanda	10	4
Sonarwa SA	8	4
Military Medical Insurance (MMI)	9	3
Umurenge SACCO	9	5
Umwalimu SACCO	12	4
Zigama CSS	11	3
Agaseke Bank	9	4
Vision Finance Bank	8	3
Radiant YACU Ltd	8	4
Total	96	38

3.3. Sample Size

Random sampling was used to identify the companies whose financial statements were studied and analyzed. This eliminated any biasness as the selected group contained elements representative of the characteristics found in the entire group. The respondents cut across the whole departments ranging from senior managers to operational staff who were directly linked to the NBFI to get a balanced view from all the stakeholders. Stratified sampling will be employed whereby the following procedure was followed:

n = (z2 PQ)/d was applied. This is in line with a statistical technique for selecting a sample from a population of less than ten thousand. The model is derived as follows:

$$n = (z2\ PQ)/d$$

Where:

n = the desired sample size when the target population is > 10,000.

z = standardized normal deviations at a confidence level of 95%, which is 1.96.

p = the proportion of the target population that assumes the characteristics being sought.

In this study, a 50:50 basis is assumed, which is a probability of 50% (0.5).

q = The balance from p to add up to 100%. That is 1-P, which in this case will be 1-50 (0.5).

d = Significance level of the measure, that is at 90% confidence level the significance level is 0.1. Using the above formulae, the number of companies to be sampled was calculated as below.

$$n = (1.962 \text{ X } 0.5 \text{ X } 0.5)/ (0.1)2= 96$$

The target population in this study is less than 10,000, so the sample of 96 was adjusted.

Using the formula: When the sample size is less than 10,000, nf = n/(1+n/N), where nf is the desired sample size. and n is the sample size when the target population is more than 10,000. N is the target. Population size. nf = n/(1+n/N) = 96/(1+96/62) = 3.

3.4. Sampling Frame

The population of the study was derived from different Institutions/ departments and hence stratified random sampling was adopted to arrive at the study sample. Stratified random sampling is adopted when the parent population or sampling frame is made up of sub-sets of known size to ensure that the results are proportional and representative of the whole population. However, a census survey was taken for all senior managers totaling to 96 as they are the major decision makers resulting to the overall study sample of 38 respondents.

3.5. Data Collection Instrument

Primary data

Data collection tools used are questionnaires. The data for the study was collected from two sources:

Primary data

Primary data was obtained using questionnaire which consisted of both closed and open-ended questions.

Secondary data

Data from earlier research, books, newsletters, journals, and other written sources in the finance sector were gathered. The respondents were surveyed using this method to gather qualitative data. A 5-point Likert scale was used in the current study's questionnaire. To measure responses to questionnaire items, this scale was employed. The predictor and prediction variables were therefore each given a 5-point Likert scale. Data were statistically and qualitatively examined, presented descriptively, and illustrated with tables. A questionnaire is a piece of writing made up of several questions printed or typed in a specific order on a form or collection of forms.

4. Findings and Discussions

4.1. Effects of Inventory Control on Profitability

The objective of the study was to examine credit policy on profitability of NBFI in Rwanda. The findings were presented in table 2 which shows the frequencies of responses and mean on the effect of inventory control polices on profitability.

Table 2. *Inventory Control Police Results.*

Statement	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
The company has defined levels	60%	15%	15%	5%	5%
The company reviews force situations periodically	40%	30%	10%	6%	4%
The company has installed a force control system	35%	25%	10%	10%	10%
The institution keeps accurate force records	50%	20%	10%	10%	10%

The respondents were requested to indicate whether their company has defined levels of inventories for their raw materials. A majority (75%) strongly agree that their firms had defined levels of inventories for their raw materials, 15% were neutral while 10% disagreed that their firms did not have defined levels of inventories for their raw materials. The responses had a mean of 3.85. This is in agreement with [30] always faced with the problem of meeting two conflicting needs: maintaining a large size of inventory for efficient and smooth production and sales operations and maintaining a minimum level of inventory so as to maximize profitability both excessive and inadequate inventories are not desirable. Overstocking presents risks since it raises stockholding expenses, which lowers a company's profitability. whether the company reviews force situations periodically. A significant majority (70%) indicated that their firms reviewed inventory levels periodically, 10% of respondents were neutral while 10% of respondents indicated that their firms do not review their inventories levels. The responses had a mean of 4.32. This is an indication that most of the responses concur with firms review inventory levels periodically. [31] observed that Continuous review systems generally order the same quantity of items in each order. The inventory is tracked, and orders are issued when goods reach a certain level, the order frequency changes in interconnected systems. Products are ordered consistently at the same time each period with periodic review processes. The respondents were asked to indicate whether their company has installed a force control system. A significant majority (60%) indicated that their firms had inventory control systems, while 10% of response were neutral and 40% disagreed with the statement. The responses' average of 4.22 showed that firms have implemented inventory control systems. This contradicts the study carried out by [32] found out that Quality control is a crucial component of stock management, especially as it may have an impact on consumer safety or the caliber of the final product. Stock and batches tracking should be a part of effective stock control. This entails being able to identify the other products in the batch and be able to track a specific item backwards or forwards from its source to its finished result. The daily operations of the stock and warehouse are controlled by an inventory control system. The respondents were asked to indicate whether the institution keeps accurate force records, majority (70%) of respondents indicated that the firm keeps accurate inventory records while 10% were neutral and 20% disagreed with the statement. The mean score of all the responses was 4.11. [33] asserted that, all retailers are required to conduct regular physical counts, to ensure that their financial records match what is physically in the stores and to record any discrepancies. The finance and audit teams utilize the information from these counts to check for compliance with accounting rules. Many firms struggle to manage client needs across numerous channels and inventory levels. To be competitive, you must have an inventory management system that offers outstanding inventory accuracy.

Table 3. *Credit Policy on Profitability of NBFI in Rwanda.*

Statement	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
Credit Operation and policy are the base for making opinions on extending credit	40%	30%	15%	7%	8%
The Company allow cash abatements to customers to induce them pay instantly	35%	35%	11%	10%	9%
Review standard terms of payment periodically	42%	38%	10%	6%	4%
The period they allow their credit customers has any influence on sales	35%	35%	15%	10%	10%
Firms write off as bad debts from customers who do not pay	43%	37%	10%	5%	5%
Firms investigate creditworthiness of their customers	44%	36%	11%	5%	4%

Respondents were requested to indicate whether Credit management and policy are the basis for making decisions on extending credit, majority of respondents (70%) indicated that Credit management and policy are the basis for making decisions on extending credit, 15% were neutral and 15% disagreed with the statement. According to [34] Credit management is crucial because it supports a company's liquidity. Correct implementation will increase cash flow and decrease the rate of late payments. The investment is managed by the credit department, who seeks the highest return at the lowest risk while maximizing the investment's benefits and lowering the penalty of nonpayment.

Respondents were requested to indicate whether there are standard terms of payment, Majority (70%), 11% were neutral while 19% disagreed with the statement. [35], Credit policy is the most popular medium of managing and regulating receivables. A company must have a suitable credit policy in place to secure the best investment possible in receivables. Credit rules are made to keep interest rates low while maximizing the benefits of credit.

Regardless matter how useful it turns out to be, a credit policy needs to be periodically reviewed if it is to remain effective. Respondents were asked whether Firms allow cash discounts to their customers to induce them pay promptly, 80% agreed that Firms allow cash discounts to their customers, 11% were neutral, 19% disagree with the statement. [36], Cash flow management is vital to the health of the business. The often-used adage "Sales is vanity, profit is sanity, but cash is king" remains wise advice for anyone managing a company's finances. In other words, most companies can endure multiple periods of losses but can only run out of money once at a time. Delaying cash outflows, when possible, but meeting your outflow commitments, will help you improve your cash flow.

Respondents were asked whether, the period allow their credit customers on sales, majority of respondents (70%) agreed, 15% were neutral, 20% disagreed with the statement. Effective management of credit sales has a positive relationship with the operating profit of the companies in the NBFIs. This suggests that for businesses to optimize their profits, they should extend credit to reliable clients using an effective credit control method. [37] Every credit policy established by an organization aims to generate appropriate profitability and cash flow (liquidity), which are the two fundamental elements that maintain a firm in the present and establish its position over the long term.

Respondents were asked whether Firms write off as bad debts from customers who do not pay, majority of respondents, (80%) agreed, 10% were neutral while 10% disagreed with the statement. [38] pointed out that, writing off a debt allows a credit card company to report it as a loss and reduce its tax liability.

However, this does not cancel your payment obligation. Once you write off one account, it impacts your entire business. It is not just the balance that gets written off, it is it's the time the marketing staff closes the deal, the time the sales staff closes the deal, the time the accounting staff records enters the invoice, and the time to which the Collection personnel chasing collection staff follows the payment.

Respondents were asked whether Firms investigate creditworthiness of their customers, most of respondents (80%), agreed, 11% were neutral, 9% disagreed with the statement. [39], most business lending companies have a set of criteria they use to determine a customer's creditworthiness. These criteria can be ether subjective or objective. Subjective criteria can be, for example, whether the customer appears uncomplicated or honest and trustworthy on the phone or in a personal conversation. They contended that firms that are efficient at managing receivables should determine their optimal loan that minimizes the overall cost of lending.

4.2. Correlation Analysis Between Credit Policy and Profitability

A correlation coefficient statistic that describes the degree of linear association between credit policy and profitability was determined. The table indicates that there is a positive significant linear relationship between credit policy and profitability of NBFI in Rwanda. This relationship has been illustrated by correlation coefficient of 0.346 at 0.01 significant level. This indicates that there is a positive and significant relationship between credit policy and profitability. These results conform to previous studies done by [40], pointed out that firms maintain accounts receivables at optimal level can create and maximize their revenues. This suggests that credit policy is good for explaining the financial success of NBFI in Rwanda and it is a critical factor to consider when taking decision to improve productivity.

Table 4. *Correlation between Credit Policy and Profitability.*

	Profitability	Credit Policy	
Profitability	Pearson Correlation	1	.346**
	Sig. (2-tailed)		.015
	N	71	71
Credit Policy	Pearson Correlation	.346**	
	Sig. (2-tailed)	.015	
	N	71	71

** Correlation is significant at the 0.01 level (2-tailed).

4.3. Correlation Between Inventory Control Policy and Profitability

A correlation coefficient statistic describes the degree of linear association between inventory control policies and profitability were determined. Table 4 indicates that there is a positive significant linear relationship between inventory control policies and profitability of NBFI in Rwanda. This relationship has been illustrated by a correlation coefficient of 0.601 at 0.01 significant level. This implies that there is a positive and significant relationship between inventory control policies and profitability of NBFI in Rwanda. The results conform to the previous studies done by [41] who found that good business performance is positively related to efficiency of inventory management. This positive relationship between inventory control policies and profitability indicates that the NBFIs have installed sound inventory control systems that ensure the total cost between stock holding, and ordering are at minimum level.

Table 5. *Correlation between Inventory Control Policy and Profitability.*

	Profitability	Inventory Control Policy	
Profitability	Pearson Correlation	1	.601**
	Sig. (2-tailed)		.000
	N	71	71
Inventory Control Policy	Pearson Correlation	.601**	1
	Sig. (2-tailed)	.000	
	N	71	71

** Correlation is significant at the 0.01 level (2-tailed).
Correlation .601** 1 Sig. (2-tailed).000 N 71 71 **. Correlation is significant at the 0.01 level (2-tailed)

5. Conclusion

5.1. Credit Policy and Profitability

The results show that credit policy management has a positive impact on NBFI`s profitability. Between the two proxies for credit risk management, NPLR has a large impact on ROE and ROA, while CAR has a small impact on ROE and ROA. The positive statistically significant relationship between credit policy and profitability maximizes the company's profits by allowing financial managers to extend credit to their clients and prevent credit policies from being too generous or too strict. It means that it can be converted. They should only lend to customers who are familiar with the company and have a good history in the company. Discounts should be given to customers to encourage them to pay immediately. The extended loan term should not be too long to ensure early cash collection. In addition, in Rwanda, we can conclude that there is a positive and important link between lending policies and NBFI profitability. This means that lending policies were statistically significant in explaining the profitability of Rwanda's NBFI.

5.2. Inventory Control Policies and Profitability

The results of NBFI`s profitability inventory review in Rwanda show that NBFI's finance managers are taking precautions to help them maintain optimal inventory levels for both raw materials and finished goods. This may have improved the profitability of Rwanda's NBFI, and we can conclude that there is a positive and significant relationship between inventory control policies and profitability.

6. Recommendation

6.1. Credit Policy and Profitability

The NBFI financial managers should regularly review their credit policies to ensure they are optimal. Optimal credit policies increase both sales and profits while minimizing the risk of bad debts. Good working capital management encourages quick cash recovery from loan sales for quick reinvestment in short-term securities to increase profitability, so they allow businesses to earn money from debtors. We need to develop a credit policy that can help NBFI's relationships with customers. This has many benefits, including: a better understanding of customer requirements, especially in relation to credit policies that help avoid bad debt and increase sales. In addition, NBFI is encouraged to continue early payments to its suppliers to benefit from discount rates that can be used as a short-term source of funding.

6.2. Inventory Control Policies and Profitability

The study recommends that managing NBFI in Rwanda is a highly growing business and should focus on business growth. You can increase profitability and operating cash flow and scale. That allows companies to withstand any negative shock and benefit from savings Scale related to large size. Inventory control policies are required to smooth production processes within your organization and improve profitability for the company. Inventory control policies are necessary because it helps organizations do this. Thus, this helps to keep the organization run of stock.

7. Limitations

Most organizations keep their personnel records private due to the sensitivity of the issues.

Most corporations have put in place procedures requiring departments to handle access to such information with strict confidentiality. As a result, getting the respondents to provide the researcher with this crucial information was difficult. Second, the respondents to the survey were initially slow to react and expressed frustration with the length of the questionnaire. This was lessened by ongoing phone follow-up and in-person visits to the respondents' offices.

Acknowledgements

We would like to thank the employees of the of NBFIs in Rwanda for giving us the details and courtesy we needed to gather the data. NBFIs managers are recognized for their true communication of their knowledge and abilities throughout the program. The project would not have been a success without their selflessness, commitment, and never-ending efforts.

References

[1] Uremadu, S. O., Egbide, B. C., & Enyi, P. E. (2012). Working capital management, liquidity and corporate profitability among quoted firms in Nigeria: Evidence from the productive sector. *International journal of academic research in accounting, finance and management sciences*, *2* (1), 80-97.

[2] Gallagher, S. (2019). *Banking performance and socio-economic development*. Scientific e-Resources.

[3] Gern, K. J., Hauber, P., Kooths, S., & Stolzenburg, U. (2018). World Economy Summer 2018-Reduced world economic momentum.

[4] Knauer, T., & Wöhrmann, A. (2013). Working capital management and firm profitability. *Journal of Management Control*, *24* (1), 77-87.

[5] Högerle, B., Charifzadeh, M., Ferencz, M., & Kostin, K. B. (2020). The development of working capital management and its impact on profitability and shareholder value: evidence from Germany. *Strategic management*, *25* (2), 27-39.

[6] Ren, T., Liu, N., Yang, H., Xiao, Y., & Hu, Y. (2019). Working capital management and firm performance in China. *Asian Review of Accounting*.

[7] Enqvist, J., Graham, M., & Nikkinen, J. (2014). The impact of working capital management on firm profitability in different business cycles: Evidence from Finland. *Research in International Business and finance*, *32*, 36-49.

[8] Cullen, J. B., & Parboteeah, K. P. (2008). *Multinational management: A strategic approach*. Thomson/South-Western Pub..

[9] Mathuva, D. (2015). The Influence of working capital management components on corporate profitability.

[10] Mabandla, N. Z., & Makoni, P. L. (2019). Working capital management and financial performance: evidence from listed food and beverage companies in South Africa. *Academy of Accounting and Financial Studies Journal*, *23* (2), 1-10.

[11] Akoto, R. K., Awunyo-Vitor, D., & Angmor, P. L. (2013). Working capital management and profitability: Evidence from Ghanaian listed manufacturing firms. *Journal of economics and international finance*, *5* (9), 373-379.

[12] Ingabire Rwanyindo, C. (2016). *The impact of financial inclusion on (econometric study: quarterly data from 2006-2014)* (Doctoral dissertation, University of Rwanda).

[13] Fanta, A. B., & Makina, D. (2017). Equity, bonds, institutional debt and economic growth: Evidence from South Africa. *South African Journal of Economics*, *85* (1), 86-97.

[14] NOKO, J. (2017). A History of Ideas about the Origins of Money. *Money in a Human Economy*, *5*, 61.

[15] Bushe, B. (2019). The causes and impact of business failure among small to micro and medium enterprises in South Africa. *Africa's Public Service Delivery and Performance Review*, *7* (1), 1-26.

[16] Kiptoo, I. K. (2017). *Working capital management practices and financial performance of tea processing firms in Kenya* (Doctoral dissertation, University of Embu).

[17] Khumalo, P. (2014). Improving the Contribution of Cooperatives as Vehicles for Local Economic Development in South Africa. *African Studies Quarterly*, *14* (4).

[18] Mises, V., & Ludwig. (1980). *Theory of money and credit*.

[19] Barykin, S. E., Kapustina, I. V., Sergeev, S. M., Daniali, S. M., Kopteva, L. A., Semenova, G. N.,... & Senjyu, T. (2022). Financial logistics models based on systematic approach improving management solutions. *F1000 Research*, *11* (570), 570.

[20] Teck, L. H., Siong, H., Mohd, A., & Fan, T. (2016). Do institutions matter in neighbourhood commons governance? A two-stage relationship between diverse property-rights structure and residential public open space (POS) quality: Kota Kinabalu and Penampang, Sabah, Malaysia. *International Journal of the Commons*, *10* (1).

[21] Bolaños, A. B. (2016). A step further in the theory of regional integration: A look at the Unasur's integration strategy.

[22] Cervigni, G., & Larouche, P. (2014). Regulating smart metering in Europe: Technological, economic and legal challenges. *Report of a CERRE project. Centre on regulation in Europe*.

[23] Hervas-Oliver, J. L., Boronat-Moll, C., Peris-Ortiz, M., & Rojas-Alvarado, R. (2022). Understanding spatial networking and industrial district evolution from firms' strategies. *European Planning Studies*, 1-29.

[24] Zapata, G. C. (2022). *Learning by Design and Second Language Teaching: Theory, Research, and Practice*. Taylor & Francis.

[25] Springer, M. L. (2019). *Project and program management: A competency-based approach*. Purdue University Press.

[26] Muriithi, J. G., Muturi, W. M., & Waweru, K. M. (2016). The effect of market risk on financial performance of commercial banks in Kenya.

[27] Kepha, O., Mukulu, E., & Waititu, G. A. (2014). The influence of recruitment and selection on the performance of employees in research institutes in Kenya. *International Journal of Science and Research*, *3* (5), 132-138.

[28] Mochabo, I. M., Ombaba, K. B. M., & Ondiek, B. A. (2017). Effect of bank diversification on the financial distress of commercial banks listed at the Nairobi Securities Exchange, Kenya. *International Journal of Scientific Research and Management*, *5* (11), 7329-7343.

[29] Bukhuni, E. C. (2022). *Effect of Human Resource Management Practices on Employee Performance in Public Secondary Schools in Kenya* (Doctoral dissertation, JKUAT-COHRED).

[30] NdiranguKung'u, J. (2016). Effects of inventory control on profitability of industrial and allied firms in Kenya. *IOSR Journal of Economics and Finance (IOSR-JEF)*, *7* (6), 9-15.

[31] Rosales, C. R., Magazine, M., & Rao, U. (2015). The 2Bin system for controlling medical supplies at point-of-use. *European Journal of Operational Research*, *243* (1), 271-280.

[32] Naliaka, V. W., & Namusonge, G. S. (2015). Role of inventory management on competitive advantage among manufacturing firms in Kenya: A case study of Unga Group Limited. *International Journal of Academic Research in Business and Social Sciences*, *5* (5), 87-104.

[33] Natukunda, M. (2013). *Inventory Management and Financial Performance of Small and Medium Enterprises: A case Study of Ferdsult Engneering Services Ltd-Uganda* (Doctoral dissertation, Uganda Management Institute).

[34] Martínez-Sola, C., García-Teruel, P. J., & Martínez-Solano, P. (2013). Trade credit policy and firm value. *Accounting & Finance*, *53* (3), 791-808.

[35] Kungu, J. N., Wanjau, K. L., Waititu, A. G., & Gekara, G. M. (2014). Effects of credit policy on profitability of manufacturing firms in Kenya. *IOSR Journal of Economics and Finance*, *2* (4), 1-7.

[36] King, S. D. (2018). *When the money runs out: the end of western affluence*. Yale University Press.

[37] Edem, D. B. (2017). Liquidity management and performance of deposit money banks in Nigeria (1986–2011): An investigation. *International Journal of Economics, Finance and Management Sciences*, *5* (3), 146-161.

[38] Brunnermeier, M., & Krishnamurthy, A. (2020). Corporate debt overhang and credit policy. *Brookings Papers on Economic Activity*, *2020* (2), 447-502.

[39] Anna, S., Boris, K., & Ivana, W. (2015). Impact of credit risk management. *Procedia Economics and Finance*, *26*, 325-331.

[40] Iqbal, A., & Zhuquan, W. (2015). Working capital management and profitability evidence from firms listed on Karachi Stock Exchange. *international Journal of Business and Management*, *10* (2), 231.

[41] Čihák, M., Sharifuddin, S. T., Tintchev, K., & Muñoz, S. (2012). Financial Stability Reports: What Are They Good For?