

**WORKING CAPITAL MANAGEMENT PRACTICES AND
FINANCIAL PERFORMANCE OF TEA PROCESSING FIRMS IN
KENYA**

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DECLARATION

This research project is my own original work and has not been presented for award of a degree in any other University.

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DEDICATION

I dedicate this project to my wife Cecilia and my parents, brothers and sisters for their invaluable support, encouragement and prayers.

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ABBREVIATIONS AND ACRONYMS

ECM	Efficiency of Cash Management
EOQ	Economic Order Quantity
ERM	Efficiency of Inventory Management
ERM	Efficiency of Receivables Management
KTDA	Kenya Tea Development Agency
NSE	Nairobi Securities Exchange
ROA	Return on Assets
ROI	Return on Investment
SPSS	Statistical Package for Social Sciences
SSE	Small Scale Enterprises
TSE	Tehran Stock Exchange
WCM	Working Capital Management

DEFINITIONS OF TERMS

Working Capital

These are current assets and liabilities that can be liquidated within a year (Gunay & Kesimli, 2011).

Working Capital Management

Management of the short-term investments and financing of a company which include current assets and current liabilities (Ross, Westerfield, & Jordan, 2010)

Working Capital Management Practice

The basic guidelines and principles the firms use to control and manage their Working Capital (Nazir & Afza, 2009).

Cash Management

The determination of the optimal cash to hold in consideration to the trade-off between the opportunity cost of holding too much and the cost of holding too little amount (Ross, Westerfield, & Jordan, 2010)

Account Receivable Management

This is the maintaining of a given level of receivables that will attain the twin objectives of profitability and liquidity (Dunn, 2009).

Inventory Management

A set of controls and policies that monitors the levels of inventory and determine when to replenish, quantity to order and levels to be maintained (Chandra, 2008)

Account Payables Management

Payables management entails the decision to balance the benefits of trade credit against the cost associated with the credit which include the cost of late payment penalties and foregoing cash discounts (Van-Horne & Wachowicz, 2004).

Financial Performance

This is a measure of the outcomes of a firm's operations and policies in monetary terms (Kassim, 2011).

ABSTRACT

The tea sector is the most important agricultural sub-sector in Kenya contributing about 26 percent of the total foreign exchange earnings. The sector has been listed by the government as one of the pillars of achieving Vision 2030. Despite the great contribution, the performance of the tea processing firms has not been satisfactory to the farmers due to wide variation of bonus payment from one firm to another. KTDA attributes this variation to working capital management among other factors. Management of working capital aims at maintaining an ideal balance between each of the components of working capital which include cash, receivables, inventory and payables. Therefore, the objective of this study was to determine the effect of working capital management practices on the financial performance of the tea processing firms in Kenya. The study employed a cross-sectional descriptive research design. The target population was 54 tea processing firms in Kenya managed by KTDA. A sample of 48 tea processing firms was used in the study. Stratified random sampling method was used to select the sample. Primary data was collected by use of a questionnaire whereas the secondary data was collected by use of a record survey sheet. Pretesting was done to determine the reliability and validity of the questionnaire. The data collected was analyzed using Statistical Package for Social Sciences (SPSS). The study utilized both descriptive and inferential statistics. In descriptive analysis, mean, standard deviation and percentages of the responses were calculated. Under inferential statistics, Pearson's correlation, regression and ANOVA analyses were adopted. The findings of the study indicated that working capital management practices significantly affected the financial performance of tea processing firms. In particular, receivables and inventory management practices had a negative and significant effect on the financial performance of tea processing firms. Similarly, payables and cash management practices had a positive and significant effect on the financial performance of tea processing firms. The study therefore recommends tea processing firms to minimize the number of days accounts receivable is outstanding and inventory turnover in order to increase profitability. The firms should also lag creditors' payments and increase the cash conversion period in order to improve the financial performance. Managers and policy makers should also come up with desirable working capital management practices that will enable the firms to hold optimal levels and maximize the shareholders' interests

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Working capital management is the management of the short-term financing and investments of a firm (Ross, Westerfield, & Jordan, 2010). It is the management of investments which are required in order to finance day to day operations of the firm (Nkwankwo & Osho, 2010). These investments are the current liabilities and current assets which can be liquidated within a year or less and they are very vital for firm's day-to-day operations (Gunay & Kesimli, 2011). The management entails planning and controlling of the current assets and current liabilities in a way that avoids unnecessary investments and eliminates the risk of failing to meet organizations short term obligation (Eljelly, 2004). Efficient management of working capital especially in manufacturing firms, where a significant part of the investments is composed of current assets is very vital (Van-Horne & Wachowicz, 2004).

In Kenya, most manufacturing organizations have huge investments of funds in working capital, thus the way working capital is managed substantially impact on the profitability of the company (Makori & Jagongo, 2013). In addition to the magnitude of the working capital, surveys carried out have indicated that managers spend much of their time solving issues that involve working capital decisions (Raheman & Nasr, 2007). This is due to the fact that in order to find an optimal level of working capital, a firm has to achieve a balance between risks and efficiency (Filbeck & Kruger, 2005). Several finance theories have therefore been proposed to guide managers on how to maintain an optimal level of working capital. These theories include Keynesian liquidity preference theory (Keynes, 1936) which guides managers to properly manage their cash or liquidity, financing advantage theory (Schwartz, 1974) which enables managers to set up an adequate receivables management policy, transaction cost theory (Ferris, 1984) which assists managers to efficiently manage their payables and economic order quantity theory of inventory management (Harris, 1913) provides managers approaches that ensure proper management of inventory is achieved.

1.1.1 Working Capital Management Practices

Working capital management practice refers to the basic principles and guidelines that firms use when controlling their working capital. Financial risks of a firm can be minimized and overall performance improved if well thought working capital management practices are employed (Nazir & Afza, 2009). Pandey (2010) considered working capital management practices as ways in which firms finance their current assets. Proper management of working capital guarantees a company sufficient cash flow to meet its operating expenses and short-term obligations (Waithaka, 2012). Therefore, executing an effective working capital management practice facilitates firms to improve their earnings.

To ensure an ideal level of working capital is achieved, there are four management practices that can be considered: cash management, inventory management, account receivables management and account payables management practices. Cash management involves the determination of optimal cash to hold bearing in mind the tradeoff between cost of holding too little cash and the opportunity cost of holding too much (Ross *et al.*, 2010). A firm should therefore monitor and plan its cash flows so as to determine the optimum cash to maintain (Atrill, 2006). Inventory management is a set of controls and guidelines that monitor the levels of inventory and determine what levels should be held, when to replenish, and the quantity of each order (Chandra, 2008). Too much stock causes additional costs in form of potential spoilage, obsolescence and storage costs (Brooks, 2013).

Management of accounts receivable is crucial to a firm because investment in account receivables has both costs and benefits. A firm should therefore strive to maintain such a level of receivables that will achieve the twin objectives of profitability and liquidity (Dunn, 2009). Payables management entails the decision to balance the benefits of trade credit against the costs associated with the credit (Van-Horne & Wachowicz, 2004). Efficient management of accounts payables will optimize the cash outflow that will ensure the firm's liquidity is not adversely affected and ultimately the profitability of the firm will not be affected in the long run (Uremadu, Egbide & Enyi, 2012).

1.1.2 Financial Performance

Financial performance is a measure of the outcomes of a firm's operations and policies in monetary terms. These outcomes are revealed in the firm's accounting profitability, return on investment (ROI), shareholders value and return on assets (ROA) (Kassim, 2011). Return on Assets measures how efficiently a firm utilizes the resources at its disposal to generate revenue. Profitability is a measure that indicates whether a firm is performing satisfactorily. Profitability is also used to determine a firm's performance relative to its competitors, identify whether a firm is a worthwhile investment opportunity and measure the performance of management (Sushma & Bhupesh, 2007). The common dilemma in the management of firms' finances is to attain a preferred trade-off between solvency, liquidity and profitability (Lazaridis & Tryponidis, 2006). The study used return on assets, net profit and sales to assess financial performance.

1.1.3 Working Capital Management Practices and Financial Performance

Working capital management practices employed by a firm can make a significant difference between its success and failure (Kwame, 2007). This is because working capital, for most firms especially manufacturing firms constitutes a big chunk of their investment thus tying up cash in working capital is as much as an investment as is tying up cash in plant and equipment (Louderback & Dominic, 2000). Increasing investment on working capital is considered as cash outflow since the money is locked and thus cannot be used in other business area (Autukaite & Molay, 2011). It is therefore expected that a restricted lean-and-mean current asset investment generally provides the highest expected return (Brigham & Houston, 2007).

In the United States and United Kingdom, weak financial management, particularly poor working capital management practices is the primary cause of failure among firms (Bradley & Rubach, 2002). In Kenya, some private and public firms have been under statutory management. The firms include the Ngenye Kariuki Stockbrokers, Uchumi Supermarket and Pan Paper Mills. The major cause of failure of these companies was due to their inability to meet their current financial obligations when they fall due (Nairobi Securities Exchange 2013). This study therefore investigated the effect of working capital on the financial performance of tea processing firms.

1.1.4 Tea Processing Firms

GWL Caine introduced tea in Kenya in the year 1903. Commercialization of the tea was done in 1924 and subsequently Kenya became a major producer. Kenya is third in tea production after India and China. Tea is one of the top foreign exchange earners in Kenya alongside horticulture, coffee and tourism. The management of most tea processing firms in Kenya is done by KTDA. The tea firms are managed by KTDA through contractual agreements intended to ensure efficient production, processing and marketing. KTDA manages 54 tea processing firms serving more than 500,000 small scale farmers in Kenya.

KTDA members produce 60% of the tea in Kenya while large scale farmers produce the rest (KTDA, 2016). KTDA has grouped the processing firms into seven regions depending on geographical location. The regions are, Kisii Highlands, Kericho Highlands, Nyambene Hills, Mt. Kenya, Aberdare Ranges, Nandi Hills and Western highlands (KTDA, 2016). The farmers in the different regions have raised concerns due to wide variation of bonus payments from one region to another. KTDA has attributed this variation to working capital management practices employed by the different factories (KTDA, 2016). Therefore, this study investigated the working capital applied by the different factories and their effect on financial performance.

1.2 Statement of the Problem

The tea sector in Kenya is the second leading foreign exchange earner and the most important agricultural sub-sector contributing twenty six percent of the total foreign exchange earnings (KTDA, 2016). Due to this contribution to the economy, Kenyan government listed the tea sector as one of the pillars of achieving the government's Vision 2030. Although the tea industry plays a significant role in Kenyan economy, the performance of the tea processing firms over the years has not been satisfactory to the farmers due to poor returns and wide variation of bonus payment from one firm to another. The variation between the highest and the lowest paying tea processing firm was 39%, 67% and 41% in the year 2013, 2014 and 2015 respectively.

The farmers earning the lowest bonus have threatened to abandon tea farming or sell their tea to the highest paying bidders unless KTDA harmonizes the bonus payments. KTDA has attributed the poor returns and the variation in bonus payment among the tea processing firms to working capital management practices adopted by the various firms (KTDA, 2016).

A number of studies relating to working capital management have been conducted both in Kenya and in other economies. Raheman, Afza, Qayyum and Bodla (2010) examined the effect of working capital management on firm's performance in Pakistan and found that working capital management significantly affected the performance of the firms. This is supported by a study conducted in Kenya by Gakure, Cheluget, Onyango and Keraro (2012) on the relationship between working capital management and performance of manufacturing firms listed at Nairobi securities exchange. The study found that there is a strong negative relationship between the liquidity of a firm and its financial performance.

.However, a study by Oladipupo and Okafor (2013) on the implications of a firm's working capital management practices on profitability of manufacturing firms listed in Nigeria Stock Exchange found that the effect of working capital was statistically insignificant. Moreover, a study by Kotut (2009) on working capital management practices adopted by Kenyan firms using listed firms in Nairobi securities exchange found that working capital management practices affected firm's profitability in variant proportions depending on the sector the firms operated in as well the sizes of the firm.

Extant literature reveals that the studies on working capital management give conflicting results, some concluding that there is a significant effect of working capital management on financial performance, while others find that the effect was insignificant and others find that the effect varies from one industry to another. Many studies also targeted firms listed in stock exchange using secondary data and minimal studies have been done in tea processing firms in Kenya. The present study was an attempt to fill these gaps by investigating the effect of working capital management practices on financial performance of tea processing firms in Kenya using both primary and secondary data.

1.3 General Objective

The general objective of the study was to investigate the effect of working capital management practices on financial performance of tea processing firms in Kenya.

1.3.1 Specific Objectives

- i. To investigate the effect of cash management practices on the financial performance of tea processing firms in Kenya.
- ii. To evaluate the effect of receivables management practices on the financial performance of tea processing firms in Kenya.
- iii. To ascertain the effect of payables management practices on the financial performance of tea processing firms in Kenya.
- iv. To assess the effect of inventory management practices on the financial performance of tea processing firms in Kenya.

1.4 Research Questions

- i. What is the effect of Cash Management Practices on the financial performance of tea processing firms in Kenya?
- ii. What is the effect of Receivables Management Practices on the financial performance of tea processing firms in Kenya?
- iii. What is the effect of Payables Management Practices on the financial performance of tea processing firms in Kenya?
- iv. What is the effect of Inventory Management Practices on the financial performance of tea processing firms in Kenya?

1.5 Scope of the Study

The study focused on the effect of working capital management practices on the financial performance of 54 tea processing firms in Kenya managed by KTDA. The working capital management practices were cash management, receivables management, inventory management and payables working capital management practices. The financial performance measures were return on assets (ROA), net profit and sales.

1.6 Significance of the Study

The study will equip managers and policy makers with desirable working capital management practices that will maximize the shareholders' interests. Researchers and scholars will use the study to identify the effects of the various practices on financial performance. The study will also contribute to existing literature in the area of corporate finance and open up areas for further research.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviews literature relating to working capital management practices and financial performance. The sections are organized to cover the theoretical and empirical literature on working capital management practices and its effect on financial performance. The section also highlights the conceptual framework, summary of literature and research gaps.

2.2 Theoretical Review

There are several economic theories that can be used to explain the relationship between working capital management practices and the financial performance of firms. This study adopted four theories namely: Keynesian liquidity preference theory, Economic Quantity Model of inventory management, Financing advantage theory and Transaction cost theory.

2.2.1 Keynesian Liquidity Preference Theory

The theory was proposed by Keynes in 1936 and identified three reasons why cash management practices are vital for a firm. The theory argues that cash is required for precautionary, speculative and transaction motives. Precautionary motive is the need for a safety supply of cash and financial reserve. The speculative motive is the necessity to hold cash in order to take advantage of investment opportunities. Transaction motive is the requirement to have cash on hand to pay bills which include the payment of salaries, dividends, trade debts and taxes. Pandey (2010) supported this theory and suggested that the need for cash to run the daily operations of a firm cannot be ignored. Entities should therefore invest adequate available funds in current assets for the success of its operations. The theory highlights why different approaches are adopted in managing cash and therefore enables the study to establish how the various firms have utilized these approaches and its effect on their financial performance. However, this theory does not give the optimum amount of cash that can be held at a given time or a model that can be used to arrive at optimum amount.

2.2.2 Financing Advantage Theory

The theory was put forward by Schwartz in 1974 and guides managers in setting up an effective receivables management practice. The theory asserts that a supplier may have an advantage over traditional lenders by investigating the credit worthiness of his clients, monitoring the repayments and forcing repayment of credit in case of default. This may offer a number of cost advantages over financial institutions in lending to its customers which include salvaging value from existing assets, information acquisition and controlling the buyer (Joana, Vitorino & Moreira, 2011). A firm should therefore set up a creditors management practice that will ensure the recovery of the credit offered. The theory highlights different practices that can be applied in managing receivables. This enables the study to establish the approaches used by the various firms to manage their receivables and its effect on their financial performance.

2.2.3 Transactions Costs Theory

Transactions Costs theory was put forward by Ferris in 1981. It asserts that payables management can lower the transactions costs of paying bills. A firm may wish to cumulate commitments and pay them on monthly or quarterly basis rather than paying them every time goods are delivered. This enables a firm to separate the payment cycle from the delivery schedule (Williamson, 2013). Furthermore, the firm may have to build up large inventories through credit in order to maintain smooth product cycle. However, this attracts costs of warehousing the inventory and the cost of financing it. Managers should therefore design a strategy that will minimize costs and increase profits. The theory enables the study to find out the practices adopted by the various firms in managing their payables and inventories their effect on financial performance of the firms.

2.3 Conceptual Framework

The dependent variable in this study is the financial performance of tea processing firms while the independent variables are the working capital management practices which are cash, inventory, receivables and payables working capital management practice as shown in Figure 2.1

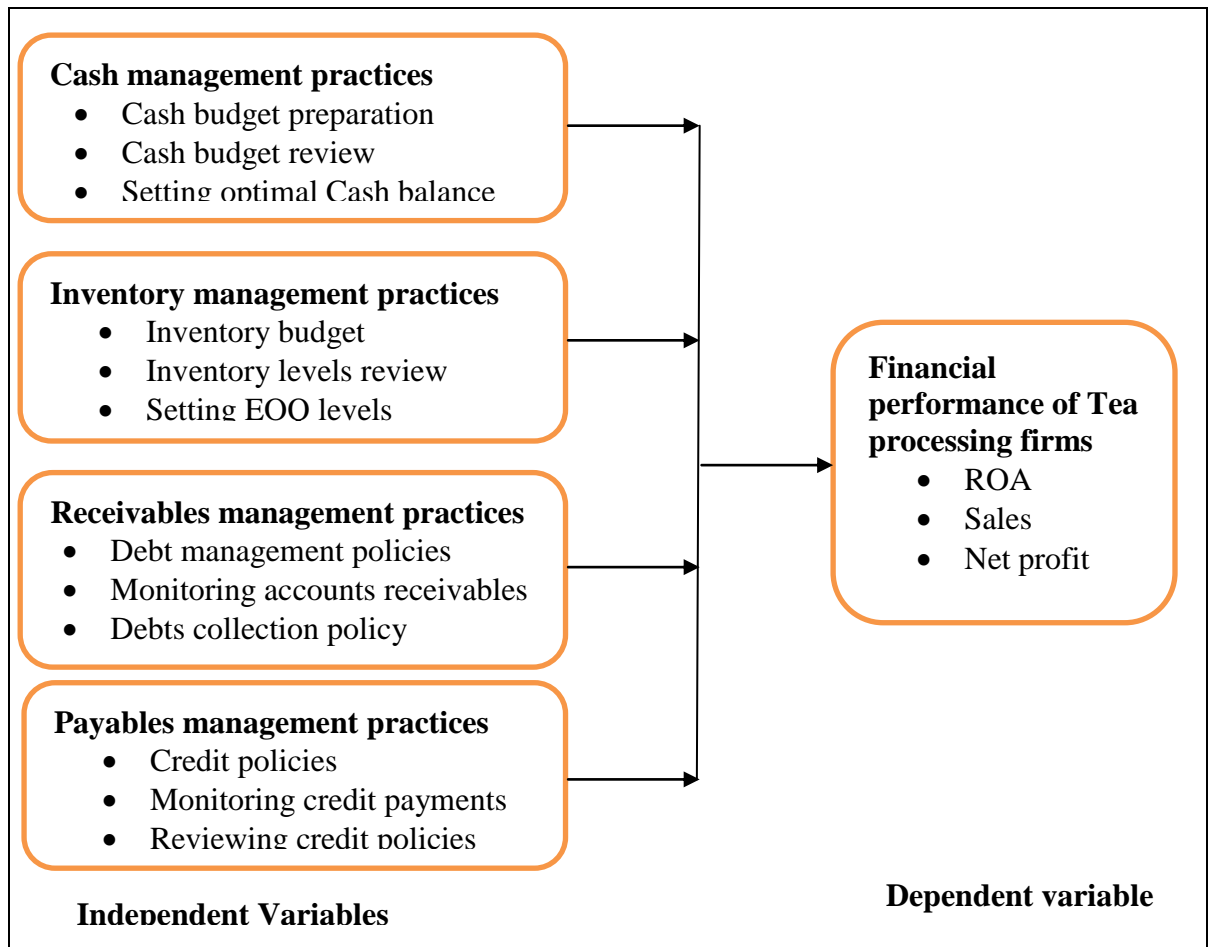


Figure 2.1 Conceptual framework of the effect of working capital management practices on financial performance of tea processing firms in Kenya

2.3.1 Cash Management Practices

Cash management is the process of making sure that sufficient cash is available to meet the daily expenses and purposes to reducing the cash holding costs of a company (Naser, Nuseibel & Al-Hadeya, 2013). It involves the process of controlling and planning cash flows within, into and out of a firm and the cash balances held by the firm at a given point in time (Pandey, 2010). It also involves the determination of the ideal cash to hold in consideration to the tradeoff between the opportunity cost of holding too much cash and the trading cost of holding too little (Ross *et al.*, 2010). Therefore there is need for managers to careful plan and monitor the cash flows over time in order to determine the optimal cash to hold (Atrill, 2006). The key elements of cash

management are administration of cash receipts, disbursements, balances and internal controls which include bank reconciliations (Gitman, 2009).

2.3.2 Inventory Management Practices

Inventory is the stock procured with the aim of selling at a profit and represents the largest cost to a manufacturing firm. Inventory consists of between 20% and 30% of the total investment in a manufacturing firm (Garcia & Martinez, 2007). Efficient management of inventory is therefore important in order to facilitate the firm's operations. Kwame (2007) established that most firms prepare inventory budgets and also review their inventory levels. Enhancing the inventory management enables firms to avoid tying excess capital in idle stock at the expense of other viable ventures (Lazaridis & Tryponidis, 2006).

2.3.3 Receivable Management Practices

Selling on credit is inevitable to a firm as long as there is competition in the industry. If a firm does not extend credit to its customers it will definitely lose them to its competitors. Investment in receivables therefore might not be an issue of choice but a key matter for survival (Kakuru, 2011). To ensure optimal investment in receivables, a firm must have an appropriate receivables management policy. The policy gives the guidelines on how to decide the customers to be offered sales on open account, payment terms, set the limits on outstanding balances and how to handle delinquent accounts (Filbeck & Krueger, 2005).

2.3.4 Accounts Payable Management Practice

The most significant source of short-term finance is trade credit. It is relatively easy to obtain; varies with the amount granted; informal and unstructured source of finance. It does not also require any negotiations and form of agreement or restrictions which is common in other sources of finance (Gitman, 2009). Management of accounts payables involves the balancing of the benefits of trade credit against the costs of foregoing cash discounts, late payment penalties, opportunity cost associated with deterioration in credit standing and chance of increase in the price that can be imposed by the seller on the buyer (Van-Horne & Wachowicz, 2004). The ultimate effect of managing accounts payables efficiently is to maintain cash outflow which ensures a firm's liquidity is not

adversely affected and consequently the firms profitability also will not be affected (Uremadu *et al.*, 2012).

2.4 Empirical Review

Studies relating to working capital management have been done in Kenya and other economies. Maradi, Salehi and Arianpoor (2012) did a comparison of the impact of working capital on performance of firms operating in medicine and chemical industries quoted in Tehran Stock Exchange. The results of the study showed that debt ratio has more impact on the reduction of net liquidity in medicine compared to chemical industry. Raheman *et al.*, (2010) investigated the effect of working capital management on the financial performance of firms in Pakistan. The study found that net trade cycle, inventory turnover and cash conversion cycle affected the firms' performance significantly. The study also found that the firms are faced with challenges due to the payments and collection policies adopted. The study therefore suggested that sound policies should be formulated for each component of working capital. Oladipupo and Okafor (2013) conducted a study to determine the impact of working capital management practices to the dividend payout ratio and profitability of 12 manufacturing firms listed in the Nigeria Stock Exchange. The study found that the impact of working capital management on the profitability of a firm was insignificant at 5% confidence level.

In Kenyan context, Budambula (2014) examined the effect of working capital management on profitability of tea trading firms a case of Chai Trading Company Limited. The study found that the firm had put in place robust working capital management practices which positively impacted the company's profitability. The study observed that debtors' management had the most significant effect followed by creditors' management, inventories management and overdraft management in decreasing order of effect. Nyabwanga, Ojera, Lumumba, Odondo, and Otieno (2012) investigated the effect of working capital management practices on the financial performance of small scale enterprises in Kisii South District, Kenya. The study found that the financial performance of the SSE was positively related to efficiency of cash management, receivables management and inventory management.

Waweru (2011) studied the relationship between working capital management and the value of firms quoted in the Nairobi securities exchange. The study used secondary data from financial reports and average stock price to measure the firms' value. The regression model indicated that there was relationship between working capital management and the firm's value while the result of the Pearson correlation indicated a negative relationship between average cash collection period, inventory turnover in days, cash conversion cycle and the value of the firm. Bowen, Morara, and Mureithi (2009) carried out a study on management of business challenges among small and micro enterprises in Nairobi. The study found that working capital management is one of the serious challenges facing these enterprises.

Gakure *et al.*, (2012) did a study on the relationship between working capital management and the performance of manufacturing firms listed in the Nairobi securities exchange (NSE) using secondary data. The results showed that there is a strong negative relationship between a firm's liquidity and its performance. The study also found a negative coefficient relationship between average payments period, accounts collection period, inventory holding period and profitability and positive correlation between cash conversion cycle and profitability. However, the independent variables except average payment period had no statistical significant effect even though the overall model was statistically significant.

Kotut (2009) conducted a study on working capital management practices adopted by firms listed in NSE. The study concluded that working capital management practices affected the profitability of the firms in variant proportions depending on the industry the firms operated in and their sizes. Wainaina (2010) did a study on the relationship between working capital and profitability of small and medium enterprises in Kenya. The firms were drawn from Information Communication and Technology (ICT), General Trade and Construction sectors. The study revealed that there was no relationship between profitability and cash conversion cycle for firms in the construction, ICT and transport sectors. However, there was a positive relationship between profitability and cash conversion for firms in the General Trade.

2.5 Summary of Literature Review

Keynesian liquidity preference theory enables managers to understand the need for proper management of cash. The theory provides that liquidity should be maintained for speculative, precautionary and transaction motives. Financing advantage theory enables firms to come up with effective receivable management system which will enable the firm to have cost advantages over financial institutions in offering credit facilities. Transactions costs theory helps managers to understand that trade credit may reduce transactions costs of paying bills. Furthermore, a firm can maintain smooth product cycle by obtaining goods on credit. Economic Order Quantity Model helps managers to hold optimal level of inventory which will minimize costs associated with inventory. The model also enables an organization to put in place an effective stock management system.

2.6 Research Gaps

The theories on working capital management reveal that working capital management is an important element of corporate finance since it affects the liquidity and profitability of a firm. An optimal management of working capital contributes positively to firm's performance and creation of a firm's value. Existing literature also reveal that some of the studies suggested that working capital management significantly affects the performance of a firm.

However, other studies observed that the impact of working capital management on corporate profitability is statistically insignificant while others concluded that working capital management influenced corporate profitability in variant proportions depending on the sector the firms operated. This therefore reveals that there exists conflicting findings from one study to another. Furthermore, few studies relate to tea industry especially processing firms managed by KTDA in Kenya. Therefore, the present study is an attempt to fill these gaps and establish the working capital management practices adopted by tea processing firms in Kenya and the effect on financial performance of the firms.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter covers the research design, target population, sampling technique and sample size, data collection and procedures, pretesting, data processing and analysis

3.2 Research Design

The study adopted cross sectional descriptive research design. This design was used because it necessitates an economical way of data collection at one point in time which is fundamental for objective analysis owing to timing similarity as recommended by Polit and Beck, 2010. This design also enables the identification and exposure of the relationship between the independent and the dependent variables. The uniqueness of each processing firm was also considered as each firm was expected to employ different working capital management practice.

3.3 Target Population

The target population of the study composed of the 54 tea processing firms managed by KTDA in Kenya. The firms are grouped into seven regions depending on geographical location. The regions are Kisii Highlands, Kericho Highlands, Nyambene Hills, Mt. Kenya, Aberdare Ranges, Nandi Hills and Western highlands.

3.4 Sampling Technique and Sample Size

Stratified random sampling technique was adopted in choosing the sample for this study. The technique was appropriate because the tea processing firms are grouped into 7 regions by KTDA. The technique also increases sample's statistical efficiency and provides adequate data for analyzing sub populations as recommended by Cooper & Schindler (2011). To have an adequate sample size relative to the objectives of the study, Slovin's formula as shown in Equation 3.1 was adopted (Ellen, 2012). This resulted to a sample size of 48 firms to be studied. Stratified random sampling was then employed to select the 48 tea processing firms from the seven regions as shown in Table 3.1.

$$n = N / [1 + N (e)^2]. \dots\dots\dots \text{Equation 3.1}$$

Where **n** is the sample size, **N** is the total population and **e** is the error tolerance which is 5%

Table 3.1: Sample Selection

Region	Population	Sample	Percentage
Aberdare Ranges(a)	11	10	20
Aberdare Ranges(b)	9	8	17
Mt. Kenya	8	7	15
Nyambene Hills	7	6	13
Kericho Highlands	7	6	13
Kisii Highlands	9	8	17
Nandi Hills/Western Highlands	3	3	6
Total	54	48	100

3.5 Data Collection Instruments

The study used both secondary and primary sources of data. Self-administered semi-structured questionnaire was used to collect the primary data. The secondary data was collected from the audited financial statements of the tea processing firms and KTDA website. This supplemented the primary data.

3.6 Data Collection Procedures

The primary data was collected from the heads of finance of the tea processing firms using self-administered semi structured questionnaire. A total of 48 questioners were administered using drop and pick later method. The questionnaires were delivered at the offices of the respondents, given ample time to fill their response then collected.

3.7 Pretesting of Research Tools

Pretesting was conducted in five tea processing firms in order to determine the reliability and the validity of the research instruments. This is 10% of the sample population as recommended by Cooper and Schindler (2011). The firms used in pretesting were omitted in the final study.

3.7.1 Reliability

The study applied internal consistency technique to measure the reliability of the data. In this method, scores attained from different items in the questionnaire were correlated and Cronbach's Alpha Coefficient (Cronbach, 1951) was then computed to determine the correlation between the items. The results of the Cronbach's alpha coefficients for the different items tested were between 0.737 to 0.804. The instruments therefore met the threshold value of 0.7 recommended by Cooper and Schindler (2011) thus they were reliable.

3.7.2 Validity

To establish validity of the research instruments, content validity was used. The opinions of experts in the field of study especially the study's supervisor and lecturers in the department of finance were sought. This facilitated the necessary modification and revision of the research instruments in order to enhance their validity.

3.8 Data Processing and Analysis

The questionnaires were checked to ensure completeness once collected from the respondents and coded prior to entering into the computer. The data were then analyzed using descriptive statistics by use of Statistical Package for Social Sciences (SPSS) as shown in Table 3.2. To establish the relationship between the independent and dependent variables, a multiple linear regression model was used. The overall significance of the model was tested using analysis of variance by use of F statistics at 95% confidence level. Coefficient of determination R^2 was used to show the contribution of the independent variables on the dependent variable. The regression model in equation 3.2 was used.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon \dots\dots\dots \text{Equation 3.2}$$

Where; Y is the financial performance of tea processing firms, β_0 is the Intercept constant, X_1 is Cash Working Capital Management Practice, X_2 is inventory working capital management practice, X_3 is receivable working capital management practice, X_4 is payables working capital management practice, $\beta_1 - \beta_4$ is the corresponding coefficients of the independent variables and ε is the error term.

Table 3.2: Statistical Analysis Table

Objective	Independent variable	Dependent variable	Statistical tools	Means of data collection
To investigate the effect of cash management practices on the financial performance of tea processing firms in Kenya.	Cash management practices	Financial performance of tea processing firms in Kenya	Mean, standard deviation, Pearson correlation analysis and regression analysis	Questionnaire and Record survey sheet
To evaluate the effect of receivables management practices on the financial performance of tea processing firms in Kenya.	Receivables management practices	Financial performance of tea processing firms in Kenya	Mean, standard deviation, Pearson correlation analysis and regression analysis	Questionnaire and Record survey sheet
To ascertain the effect of payables management practices on the financial performance of tea processing firms in Kenya.	Payables management practices	Financial performance of tea processing firms in Kenya	Mean, standard deviation, Pearson correlation analysis and regression analysis	Questionnaire and Record survey sheet
To assess the effect of inventory management practices on the financial performance of tea processing firms in Kenya.	Inventory management practices	Financial performance of tea processing firms in Kenya	Mean, standard deviation, Pearson correlation analysis and regression analysis	Questionnaire and Record survey sheet

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSIONS

4.1 Introduction

This chapter presents the analysis and findings of the study as set out in the research methodology. The chapter covers the response rate, background information of the respondents, descriptive statistics, and correlation and regression analysis.

4.2 Response Rate

The study administered 48 questionnaires to the respondents who were the heads of finance in each of the tea processing firms. A total of 37 questionnaires were filled and collected from the respondents which translates to 77% response rate as shown in Figure 4.1. Babbie (2010) recommended that a 60% return rate is good and a 70% return rate is very good. The distribution of the response rate per region is as shown in Table 4.1. The results show that the response rate ranged between 63% and 83% per region. This indicates that the response rate per region was sufficient and falls within the recommended threshold.

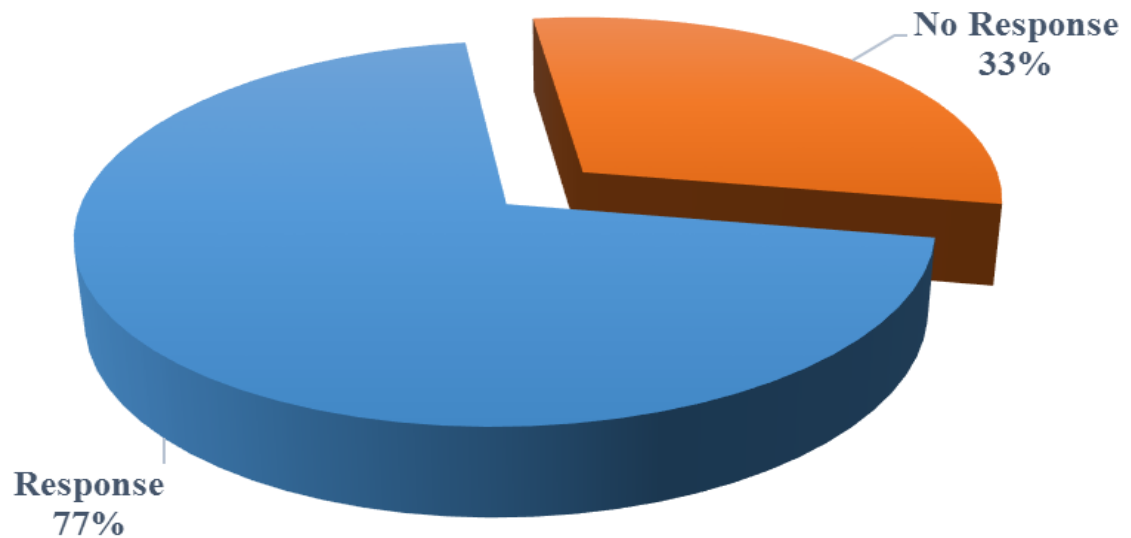


Figure 4.1: Response Rate

Table 4.1: Response Rate per Regions

Region	Sample size	Response Received	Response Rate
Aberdare Ranges(a)	10	8	80%
Aberdare Ranges(b)	8	6	75%
Mt. Kenya	7	5	71%
Nyambene Hills	6	5	83%
Kericho Highlands	6	5	83%
Kisii Highlands	8	6	75%
Nandi Hills /Western Highlands	3	2	67%
Total	48	37	77%

4.3 Pre-testing Results for Research Instruments

The study sought to determine the reliability of the research instruments. The results are as shown in table 4.2. The results of the Cronbach's alpha coefficients for the different items tested were between 0.737 to 0.804. The instruments therefore met the threshold value of 0.7 recommended by Cooper and Schindler (2011) thus they were reliable.

Table 4.2: Cronbach Alpha for Reliability Assessments

Variables	Number of items	Cronbach Alpha Values
Cash Management Practices Statement	4	0.742
Inventory Management Practices Statement	4	0.767
Receivables Management Practices Statement	4	0.737
Payables Management Practices Statement	4	0.752
Financial Performance Statement	3	0.804

4.4 Background Information of the Respondents

The study sought to find out the background information of the respondents in terms of gender, age, length of service, their level of education and the number of years their firms have been in operation. This information was useful in determining the understanding of the respondents on the issues sought by the study.

4.4.1 Gender Distribution of the Respondents.

The respondents sampled in this study were expected to comprise of both male and female. The study therefore required the respondents to indicate their gender by ticking on the spaces provided in the questionnaire. Figure 4.3 shows the distribution of the respondents by gender. The figure shows that 59% of the respondents were male while 41% were female. This indicates that majority of the heads of finance in the tea processing firms are male. The findings also show that the tea processing firms had both male and female members of staff and the ratio is within the 1/3rd rule provided in the Kenyan Constitution. The findings also imply that the views expressed in the study are gender sensitive and can be taken as representative of the opinions of both genders as regards to the effect of working capital management practices on financial performance of tea processing firms in Kenya



Figure 4.3: Gender Distribution of the Respondents.

4.4.2 Age of the Respondents

The study sought to establish the composition of the respondents in terms of age. Figure 4.4 shows the distribution of the respondents by age bracket. The figure indicates that 54% of the respondents were aged between 25-35 years, 32% were aged between 36-45 years, while 14% of were aged above 45 years. It is clear from the results that the respondents were of different ages and most of them were below 35 years. The study therefore represents the views of young and aged finance officers with different knowledge and experience.

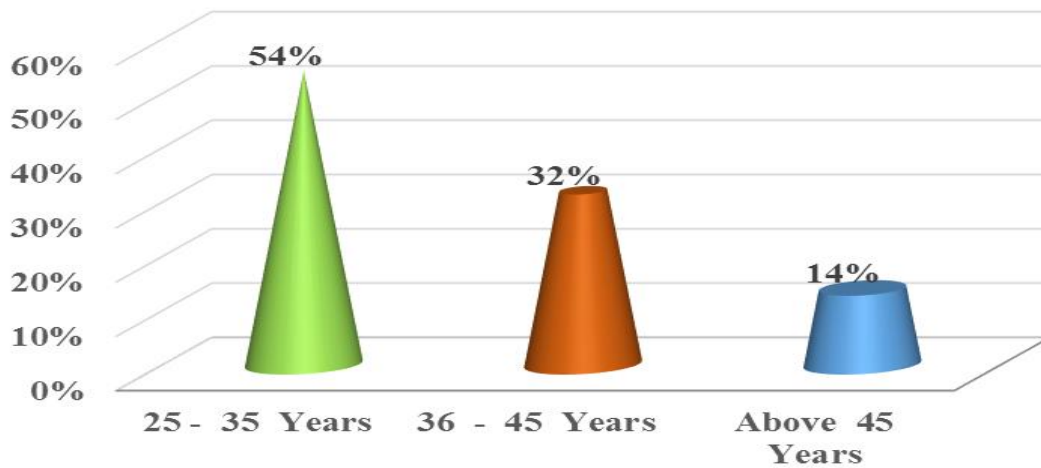


Figure 4.4: Distribution of the Respondents by Age Brackets

4.4.3 Length of Service

The study sought to find out the length of time that the respondents had been serving in their current position in order to establish their familiarity of the issues sought by the study. The results presented in Figure 4.5 shows that 48% of the respondents had served for a period of 6-10 years, 28% between 11-15 years while 17% had served for over 15 years and 7% had served in their current position for between 0-5 years. The length of service in an organization can determine the extent to which an employee is familiar with issues relating to their area of work or performance of their organization. The findings indicate that majority of the respondents had served for over 6 years and thus they were conversant with the issues sought by the study.



Figure 4.5: length of service of the respondents

4.4.4 Level of Education

The study was carried out in different tea processing firms who recruit staff depending on their policies which would differ from one firm to another. It was therefore expected that the employees could have different qualification depending on the policies adopted by the different firms. The level of education could also influence the application of certain working capital management practices by the firms due to the different skills or knowledge attained by the staff. This difference could therefore contribute to differences in the responses given by the respondents. The study therefore sought to establish the education level of the respondents. The distribution of the level of education of the respondents is presented in Figure 4.6. It is evident from the figure that 43% of the respondents had attained Certificate/Diploma, 38% had attained undergraduate degree while 19% had attained postgraduate degree. This results show that the respondents had attained a variety of knowledge and thus knowledgeable to contribute positively in this study.

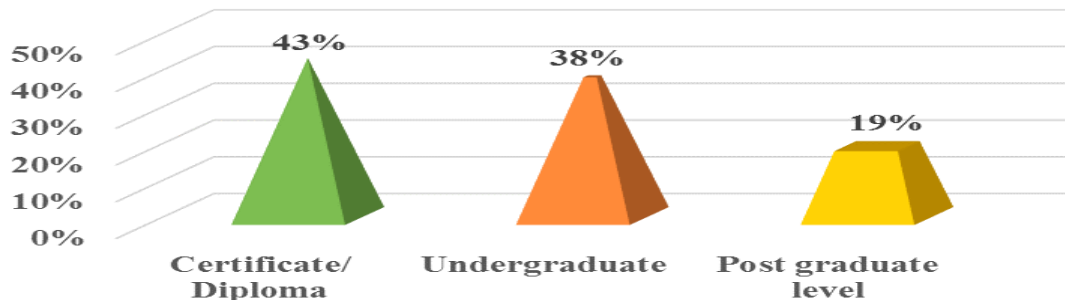


Figure 4.6: Respondents' Level of Education

4.4.5 Number of Years of Firms' Operation

The number of years a firm has been in operation can indicate the performance of a firm and the level of experience. The study therefore sought to establish the number of years the firms had been in operation. The results presented in Figure 4.7 reveal that a significant majority (78%) of the respondents indicated that their firms had operated for more than 15 years. A few (19%) had operated for between 11-15 years and 3% had operated for between 6-10 years. This shows that most of the firms had been in operation for more than 15 years and therefore the firms had sufficient information on the effect of working capital management practices on financial performance.

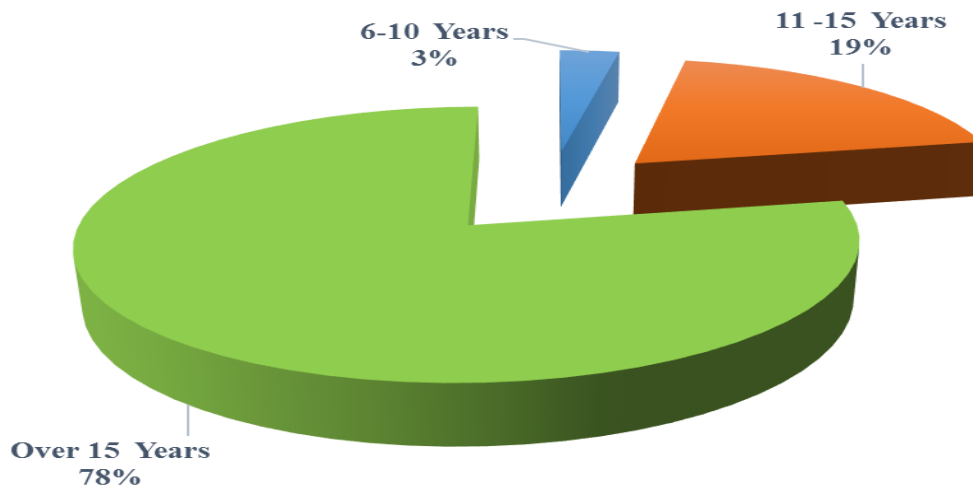


Figure 4.7: Number of Years of Firms' Operation

4.5 Descriptive Statistics

The objective of this study was to investigate the effect of working capital management practices on financial performance of tea processing firms in Kenya. As such the study sought to establish the extent to which the respondents agreed with a given aspects of working capital management practices as affecting the financial performance of a firm. A scale of 5 to 1 where 5 is Strongly Agree, 4 is Agree, 3 is Neither agree nor Disagree, 2 is Disagree and 1 is strongly disagree was provided. This section presents the results of how the respondents agreed with the different aspects of working capital management practices which were cash, inventory, accounts receivables and accounts payables management practices. The section also presents the descriptive results of the secondary data sought through the record survey sheet.

4.5.1 Cash Management Practices

The study sought to establish if the firms had put in place a cash management policy and how it affected their financial performance. All the 37 firms indicated that they had put in place a cash management policy. The study also sought the views of the respondents on the effect of the policy on the financial performance of the tea processing firms. The findings revealed that the opinions of the respondents varied as presented in Figure 4.8.

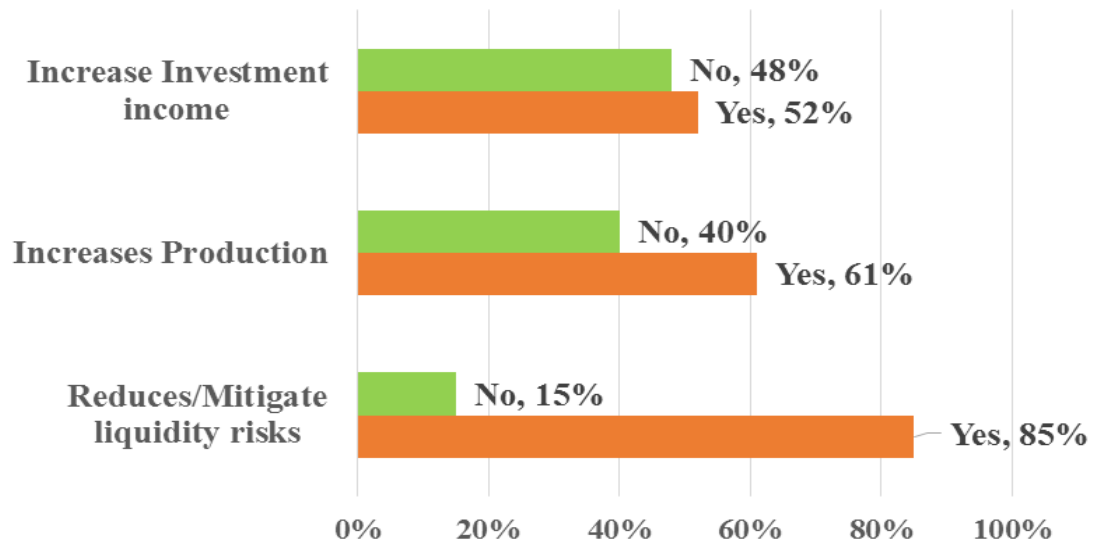


Figure 4.8: Effect of Cash Management Policy on Financial Performance

Majority (85%) of the respondents concurred that cash management policies enables a firm to reduce or mitigate liquidity risks. This implies that if a firm puts in place a cash management policy, the firm will be able to mitigate cost associated with cash shortage like borrowing costs or shortage of supplies due to lack of cash to purchase them. This will in turn lead to better financial performance of the firm. This view is consistent with a study by Naser *et al.*, (2013) which concluded that cash management process ensures that sufficient cash is available to meet daily expenses and purposes to reducing the cash holding costs of a firm.

The findings also indicated that 52% of the respondents were of the opinion that cash management policy enabled the firms to increase production which in turn increased the turnover and profits. This implies that proper management of cash enables a firm to have sufficient cash to discharge its operations without any disruption which may include lack of stock or labour due to inability to pay suppliers or wages and other costs.

The findings also show that 43% of the respondents concurred that cash management policy assists a firm to increase its investment income. The respondents asserted that the policy enables a firm to maintain an optimum amount of cash and invest any excess amount in income generating ventures like treasury bills thus increase investment income. This can be interpreted that the policy enables a firm to determine the level of cash to maintain at a given period and any amount that is not required is invested in order to generate income. The findings conform with a study by Ross *et al.*, (2010) which asserted that cash management involves the determination of ideal cash to hold in consideration to the tradeoff between the opportunity cost of holding too much cash and the trading cost of holding too little.

The findings from secondary data indicated that the average cash conversion cycle for the tea processing firms is 85 days. This means that the net time interval between cash collections from sales of the firms' products and cash payments for the resources acquired by the firm is 85 days. A similar study by Davis (2016) found that the cash conversion cycle for tea processing firms in Nandi county was 62.30. Tea processing firms therefore require a certain level of cash to facilitate the operations of the firm since it can take some time before stock or sale are converted into cash.

4.5.1.1 Aspects of Cash Management Practices as affecting the Financial Performance of a Firm

The study sought to establish the extent to which the respondents agreed with a given aspects of cash management practices as affecting the financial performance of a firm. The results are presented in Table 4.3.

Table 4.3: Aspects of Cash Management Practices as affecting the Financial Performance of a Firm

Cash Management Practices Statement	strongly agree	Agree	Neither agree nor Disagree	Disagree	Strongly Disagree	Mean	Std. Dev
Cash budget enables a firm to maintain an optimum amount of cash that will meet the operations of the firm	56.8%	32.4%	5.4%	5.4%	0.0%	4.41	.832
The Cash budget is reviewed regularly to enable a firm to meet changes in cash requirements	40.5%	54.1%	5.4%	0.0%	0.0%	4.35	.588
Optimal cash balance is set to ensure adequate liquidity is maintained at all times.	32.4%	56.8%	5.4%	5.4%	0.0%	4.16	.764
Cash flow prediction aids in proper financial planning	45.9%	40.5%	10.8%	2.7%	0.0%	4.30	.777

Results in Table 4.2 reveals that majority of the respondents agreed with all the aspects of cash management practices as affecting the financial performance. In particular, it was evident that most of the firms regularly reviewed cash budgets in order to meet changes in cash requirement operations with 94.6% of the respondents being in agreement with the statement (mean = 4.31, std. dev = 0.588). Similarly, 89.2% of the respondents concurred that the firms prepared cash budgets in order to maintain optimum amount of cash that will meet daily (mean = 4.41, std. dev = 0.832).

The findings also reveal that optimal cash balance is set to ensure adequate liquidity is maintained at all times with 89.2% of the respondents agreeing with the statement (mean = 4.16, std. dev = 0.764). Most of the respondents (86.4% also affirmed that cash flow prediction aids in proper financial planning with (mean = 4.30, std. dev. = 0.777). The findings imply that a firm needs to prepare a budget for all its cash requirements for a given period in order to enable the firm to discharge its daily cash obligations which include procurement of supplies, payment of wages and bills.

In addition, a firm needs review the budget regularly in order to meet unexpected demands which might not have been unforeseen during the preparation of the budget for instance delay by customers to pay their obligation or rise in demand which will require more resources.

A firm is expected to set a certain level of cash to maintain at a given period. The level must be sufficient to meet daily cash requirements which include payment of bills and invest any unnecessary amount. A firm also needs to predict the cash required or generated in a given period in order to decide whether to borrow for more cash or invest any amount that might not be required. These findings are in agreement with a study by Kwame (2007) which established that putting in place a cash balance policy ensures prudent cash budgeting and investment of surplus cash. Kung'u (2017) established that firms embraced cash budgeting as a useful tool in cash management. Gryglewicz (2011) argued that cash flow which is cash receipts and cash payments determined the ability of a firm to generate profit and continue their operations.

4.5.2 Inventory Management Practices

The study sought to find out if the firms had put in place an inventory management policy and how it affected their financial performance. All the respondents indicated that the firms had established an inventory management policy and gave their opinion on how it affected their financial performance which was analyzed as shown in Figure 4.9.

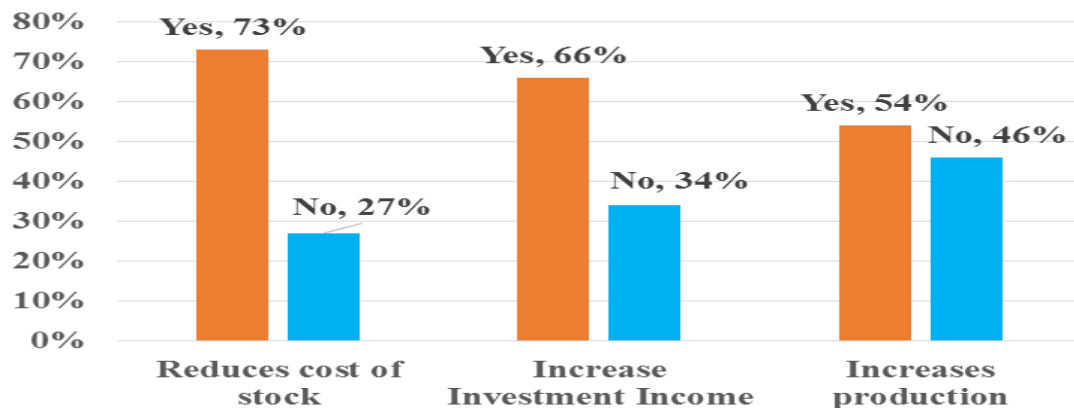


Figure 4.9: Effect of Inventory Management Policy on Financial Performance.

The figure shows that 73% of the respondents concurred that maintaining an inventory policy enables an organization to reduce costs associated to stock which in turn increase profitability. This implies that when a firm puts in place an inventory policy, the firm will be able to reduce cost of stock which include ordering costs, storage costs, pilferage, insurance and stock out costs.

It was also evident that 66% of the respondents were of the opinion that the policy enables a firm to increase its investment income. This can be interpreted that an inventory policy enables a firm to maintain only sufficient inventory which is required to facilitate production at a given time. This means that no idle stock is maintained in the firm and thus resources are released to other income generating investments. Similarly, 54% of the respondents indicated that the policy can help in increasing the firms' production. This implies that maintaining the inventory policy enables the firm to have sufficient stock at all times which in turn lead to un- interrupted production. Brooks (2013) asserted that too much stock causes additional costs in form of potential spoilage, obsolescence and storage costs.

The findings from secondary data indicate that the average inventory conversion period for the tea processing firms is 72 days. This shows that the firms maintain stock that can last for 72 days before they are sold. A study by Okungu (2014) found that the average inventory collection period for sugar processing firms was 70.61 days. This indicates that firms maintain a certain level of stock which requires to be managed in order to ensure only sufficient amount is maintained. Enhancing the inventory management enables firms to avoid tying excess capital in idle stock at the expense of other viable ventures (Lazaridis et al., 2006).

4.5.2.1 Aspects of Inventory Management Practices as affecting the Financial Performance of a Firm

The study sought to ascertain the extent to which the respondents agree with a given aspects of inventory management practices as affecting the financial performance of a firm. The findings are presented in Table 4.4

Table 4.4: Aspects of Inventory Management Practices as affecting the Financial Performance of a Firm

Inventory Management Practices Statement	strongly agree	Agree	Neither agree nor Disagree	Disagree	Strongly Disagree	Mean	Std. Dev
Inventory budget is prepared to ensure adequate inventory is available for smooth operations of the firm	29.7%	51.4%	8.1%	10.8%	0%	4.0	.913
The level of inventory is reviewed to ensure optimal stock is maintained	45.9%	40.5%	8.1%	5.4%	0%	4.27	.838
The level of EOQ is set to enable a firm to order sufficient inventory at minimal costs	35.1%	48.6%	5.4%	10.8%	0%	4.08	.924
Inventory control system assists in efficient management of inventory	32.4%	56.8%	10.8%	0%	0%	4.22	.630

The findings in Table 4.3 shows that majority (89.2%) of the respondents agreed with the statement that inventory control system assists in efficient management of inventory (mean = 4.22, std. dev. = 0.630). In regards with the statement that the level of inventory is reviewed to ensure optimal stock is maintained at all times, majority (86.4%) of the respondents agreed with the statement (mean = 4.27, std. dev. = 0.838). Most (83.7%) of the respondents also concurred that the level of EOQ is set to enable a firm to order sufficient inventory at minimal costs (mean = 4.08, std. dev. = 0.924). It was also evident that inventory budget is prepared to ensure adequate inventory is available for smooth operations of the firm with 81.1% of the respondents indicating that they agreed with the statement (mean = 4.0, std. dev. = 0.913).

The findings imply that a firm needs to prepare an inventory budget which will detail the inventory required in a given period. The budget will ensure adequate inventory is available to facilitate the operation of the firm and avoid cases of stock outs. The level of inventory also need to be reviewed regularly in order to meet unforeseen factors that might not have been covered by the budget for instance increased demands at a given period may lead to increased usage of inventory in order to meet the demands. A firm also needs to set an economical level of inventory to order at given time. This will minimize costs associated to stock which include ordering costs, storage costs, insurance costs and also avoid tying resources in unnecessary stock. Firms also need to come up with an inventory control system that will guide the firm on how much stock to order, what level to maintain at a given period and how to store the inventory.

These findings concurred with the findings by Kwame (2007) which found that firms reviewed their inventory levels and prepared inventory budgets. Nyabwanga et al (2012) also found that firms often prepare inventory budgets and reviewed their inventory levels. This enabled the firms to maintain an optimal level of inventory which reduces the cost of possible interruptions or loss of business due to the scarcity of products, reduce costs of supplies and protect the firm against fluctuations of prices. Pandey (2010) also recommended that a firm should put in place a control system in order to manage its inventory effectively.

4.5.3 Accounts Receivable Management Practices

The study sought to ascertain the effect of payables management practices on the financial performance of tea processing firms in Kenya. In this regard the study required the respondents to indicate if they had established an accounts management policy and how it affected their financial performance. All the respondents indicated that they had established the policy and the same affected the financial performance as presented in Figure 4.10.

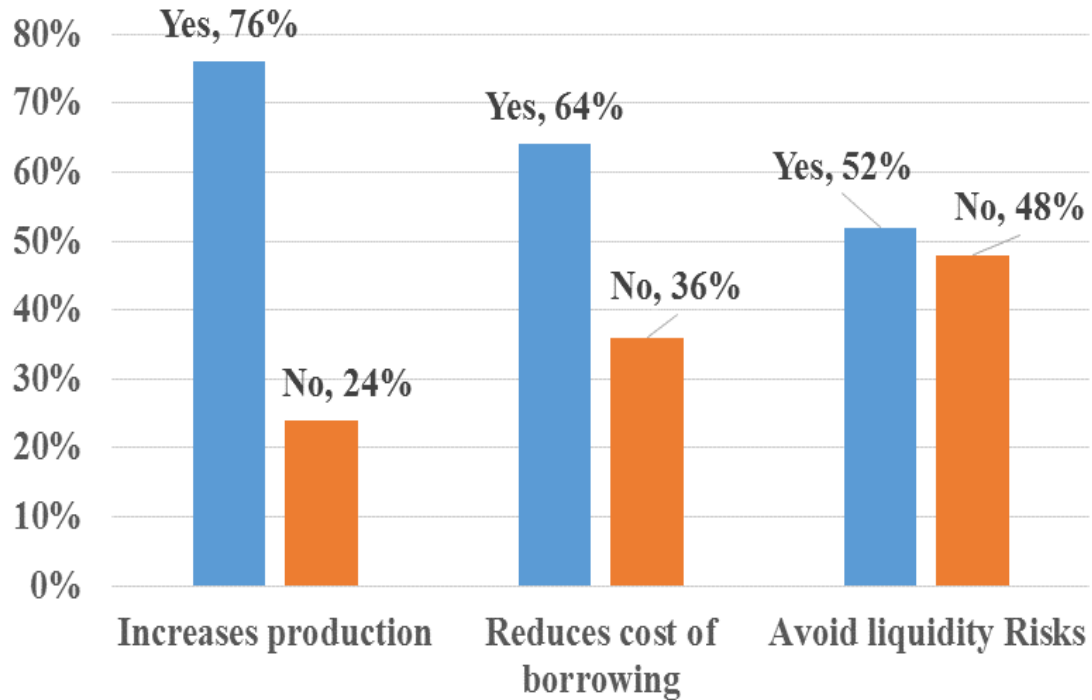


Figure 4.10 Effects of Receivables Management Practices on Financial Performance.

It is evident that majority of the respondents (81%) indicated that the policy reduced costs associated with debtors. This implies that the policy enables a firm to properly manage its debtors thus avoid costs which may result due to bad debts, delayed payments by debtors and debt collection costs which include debt collectors wages or factoring costs.

Majority (75%) of the respondents asserted that accounts receivable policy enables a firm to increase its sales turnover. This can be interpreted to mean that the policy enables a firm to offer credit facilities to deserving customers thus increase the sales of the firm. Offering credit also can enable a firm to have a competitive edge over its competitors who do not offer credit. Similarly, 52% of the respondents indicated that the policy assists a firm to reduce liquidity risks. This means that if a firm maintains accounts receivable policy, debtors will be monitored to ensure they pay as per the credit terms.

The findings agree with a study by Dunn (2009) which asserted that investment in receivables has both benefits and costs; it becomes important to have such a level of investment in receivables at the same time observing the twin objectives of liquidity and profitability. The findings from secondary data affirmed that the firms offered credit facilities. The average accounts collection period was 54 days which implies that the firms offered credit facilities to their customers and it took the firms an average of 54 days to receive payment from the customers. A study by Davis (2016) found that accounts receivables period for tea processing firms in Nandi County was 62.500. There is therefore need to have a policy to ensure the accounts receivable are properly managed in order to realize the benefits of investing in accounts receivables.

4.5.3.1 Aspects of Accounts Receivables Management Practices as affecting the Financial Performance of a firm

The study sought to establish the extent to which the respondents agree with a given aspects of accounts receivables management practices as affecting the financial performance of a firm. The findings are presented in Table 4.5.

Table 4.5: Aspects of Accounts Receivables Management Practices as affecting the Financial Performance of a firm

Accounts Management Statement	Receivables Practices						Strongly Disagree	Mean	Std. Dev
		strongly agree	Agree	Neither agree nor Disagree	Disagree				
Receivables management policies are put in place to enable a firm to regulate the credit allowed and recovery of debtors		51.4%	40.5%	8.1%	0.0%	0.0%	4.43	.647	
Monitoring of accounts receivable ensures timely recovery of debts		37.8%	56.8%	2.7%	2.7%	0.0%	4.30	.661	
Receivables collection policies are set to assist in reduction of bad debts		54.1%	40.5%	5.4%	0.0%	0.0%	4.49	.607	
The length of credit period to customers has an influence on sales		43.2%	43.2%	2.7%	10.8%	0.0%	4.19	.938	

The findings in Table 4.4 show that most of the respondents agreed with the aspects of accounts receivable. Majority (94.6%) of the respondents concurred that monitoring of accounts receivable ensures timely recovery of debts (mean = 4.30, std. dev. = 0.661). Similarly, majority (94.6%) of the respondents agreed with the statement that receivables collection policies are set to assist in reduction of bad debts (mean = 4.49, std. dev. = 0.607). It was also evident that majority (91.9%) of the respondents agreed with the statement that receivables management policies are put in place to enable a firm to regulate the credit allowed and recovery of debtors (mean = 4.43, std. dev. = 0.647). Most of the respondents (86.4%) also agreed with the statement that the length of credit period to customers has an influence on sales (mean = 4.19, std. dev. = 0.938).

The findings imply that a firm needs to come up with a policy that will guide in offering credit facilities. This policy will provide the criteria that will be followed before granting credit to customers. The policy will also guide on the amount and time that the customers will be required to pay their debts. Once credit is offered to customers, a firm is expected to monitor the repayment of the debts. This will enable the firm to know if the debtors are repaying as agreed and those who do not comply are noted and necessary action is taken to avoid bad debts. A firm is also need to consider giving its debtors sufficient time to pay their debts since it will encourage them to purchase more due to the ability to repay small amounts for a longer period.

The findings concur with a study by Lazaridis *et al.*, (2006) which found that credit period granted to customers had a positive impact on profitability. Owolabi and Obida (2012) argued that where goods are sold on credit, a monitoring system is important because without it, receivables will build up to excessive levels and bad debts will offset profit on sales. Elliots (2009) recommended that management should review and revise their credit policies periodically in order to incorporate changes in strategic direction and risk tolerance or market conditions. Dunn (2009) on the other hand suggested that customers who may not honor their obligation should not be offered credit and credit selection and standards should be applied in determining the customers to be offered credit and only credit worthy customers should access credit.

4.5.4 Payables Management Practices

The study sought to find out whether the respondents had established payables management policy and the effect of the policy on their financial performance. The results indicated that all the firms had payables management policy in place and the same affected the financial performance as shown in figure 4.11.

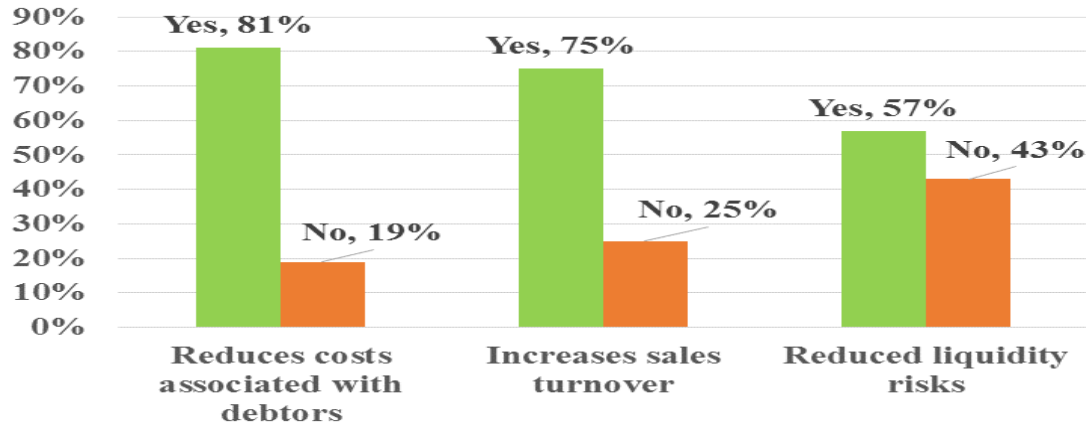


Figure 4.11 Effects of Payables Management Practices on Financial Performance

Majority of the respondents (76%) indicated that payables policy enables a firm to increase its production. This implies that when a firm manages its accounts payables it will be able to borrow when need arises and also pay the creditors within the expected time. This will enable the firm to have good relationship with suppliers and thus be supplied with goods and services promptly and also be offered credit facilities and discounts.

The findings also indicate that 64% of the respondents indicated that the policy enables a firm to reduce costs of borrowing. This implies that when a firm utilizes credit facilities, the cost of borrowing reduces because credit facilities are cheaper than other sources of capital like borrowing from banks which charge higher interest rates. It was also evident that the policy enabled the firms to avoid liquidity risks. When a firm is faced with cash shortages during the course of its operations for instance inability to purchase raw materials, the firm can organize with suppliers to deliver the raw materials and pay them later. The policy can help the firm to decide how much and when to procure in credit in order to avoid liquidity risks and also avoid interruption of its production process.

Findings from the secondary data indicate that the average accounts payable period was 43 days. This means that the firms utilized credit facilities and it took 43 days for the firms to pay the suppliers for the goods delivered. Chebet (2015) found that the average payment period for manufacturing firms in Nairobi County was 113.05 days. The firms therefore require a policy to manage the accounts payable. Uremadu et al., (2012) asserted that the ultimate effect of managing accounts payables efficiently is to maintain cash outflow which ensures a firm's liquidity is not adversely affected and consequently the firm's profitability also will not be affected.

4.5.4.1 Aspects of Payables Management Practices as affecting the Financial Performance of a firm

The study sought to find out the extent to which the respondents agreed with a given aspects of payable management practices as affecting the financial performance of a firm. The findings were presented in Table 4.6.

Table 4.6: Aspects of Payables Management Practices as affecting the Financial Performance of a firm

Payables Management Practices Statement	strongly agree	Agree	Neither agree nor Disagree	Disagree	Strongly Disagree	Mean	Std. Dev
Payables/credit policies enables a firm to avoid liquidity risks	40.5%	45.9%	8.1%	5.4%	0%	4.22	.821
Payables/ credit payments are monitored to ensure timely supply of goods and services	29.7%	67.6%	2.7%	0%	0%	4.27	.508
Credit policies are reviewed to ensure optimal credit is maintained at all times	32.4%	64.9%	2.7%	0%	0%	4.30	.520
Credit facilities enables a firm to adequately finance its operations	37.8%	45.9%	5.4%	10.8%	0%	4.11	.936

The results in Table 4.5 shows that most of the respondents agreed with the aspects of payables management practices as affecting the financial performance of a firm. Majority (97.3%) of the respondents concurred that payables/ credit payments are monitored to ensure timely supply of goods and services (mean = 4.27, std. dev. = 0.508). It was also evident that credit policies are reviewed to ensure optimal credit is maintained at all times with most (97.3%) of the respondents agreeing with the statement (mean = 4.30, std. dev. = 0.520). Similarly, majority (86.4%) of the respondents agreed with the statement that payables/credit policies enables a firm to avoid liquidity risks (mean = 4.22, std. dev. = 0.821). Majority (83.7%) of the respondents also agreed that credit facilities enables a firm to adequately finance its operations (mean = 4.11, std. dev. = 0.936).

The findings reveal that credit policy enables a firm to avoid liquidity risks and adequately finance its operations. Liquidity risk is the inability of a firm to meet its daily cash requirements in order to honor obligations which include payment of bills, supplies and wages. If a firm has a credit policy in place, it will be able to determine how much to borrow at a given point in order to meet its cash requirements and avoid over borrowing. The policy therefor enhances the management of credit thus the firm will be able to pay its debts in time thus have good relationship with creditors who in turn help in time of need.

A firm is expected to monitor and review the credit policy regularly in order to cater for changes in the financial needs of the firm for instance when the demand of the firm increase or prices of goods increase, the firm should consider changing the credit terms to facilitate the changes in demands. The results are in agreement with a study by Van-Horne and Wachowicz (2004) which suggested that management of accounts payables involves the balancing of the benefits of trade credit against the costs of foregoing cash discounts, late payment penalties, opportunity cost associated with deterioration in credit standing and chance of increase in the price that can be imposed by the seller.

4.5.5 Working Capital Management Practices and Financial Performance

The study sought to establish the extent to which the respondents agreed with a given aspects of working capital management practices as affecting the financial performance of a firm. The findings were presented in Table 4.7.

Table 4.7: Aspects of Working Capital Management Practices as Affecting the Financial Performance of a Firm

Working Capital Management Practices		strongly agree	Agree	Neither agree nor Disagree	Disagree	Strongly Disagree	Mean	Std. Dev
Statement								
Proper working capital management practices ensures high rate of Return on Assets of a firm		45.9%	51.4%	2.7%	0%	0%	4.43	.555
Employing sound Working Capital management practices results to increased Sales Revenue of a firm		37.8%	56.4%	5.4%	0%	0%	4.32	.580
Efficient working capital management practices improves the Net Profit of a firm		29.7%	67.6%	2.7%	0%	0%	4.27	.508

The findings reveal that most of the respondents indicated that they agreed with the statements. In particular, majority (97.3%) of the respondents agreed with the statement that proper working capital management practices ensures high rate of return on assets of a firm (mean = 4.43, std. dev. = 0.555). It was also evident that majority (97.3%) of the respondents agreed with the statement that efficient working capital management practices improves the net profit of a firm (mean = 4.27, std. dev. = 0.508). Most (94.2%) of the respondents also agreed that employing sound working capital management practices results to increased sales revenue of a firm (mean = 4.32, std. dev. = 0.580).

The results shows that proper management of working capital enables a firm to improve its financial performance which can be measured in terms of return on assets, sales and profit. The working capital management practices are cash, inventory, receivables and payables management practices. This means that coming up with ideal working capital management practices will positively contribute to better financial performance of a firm. These findings are in agreement with a study by Kwame (2007) which found that he working capital management practices employed by a firm can make a significant difference between its success and failure. Nazir and Afza (2009) asserted that financial risks of a firm can be minimized and overall performance improved if well thought working capital management practices are employed.

4.5.5.1 Factors which hinder tea processing firms from optimizing their returns through management of their working capital

The study sought to establish factors hindering tea processing firms from optimizing their returns through the management of working capital. The findings were summarized and presented in Figure 4.12.

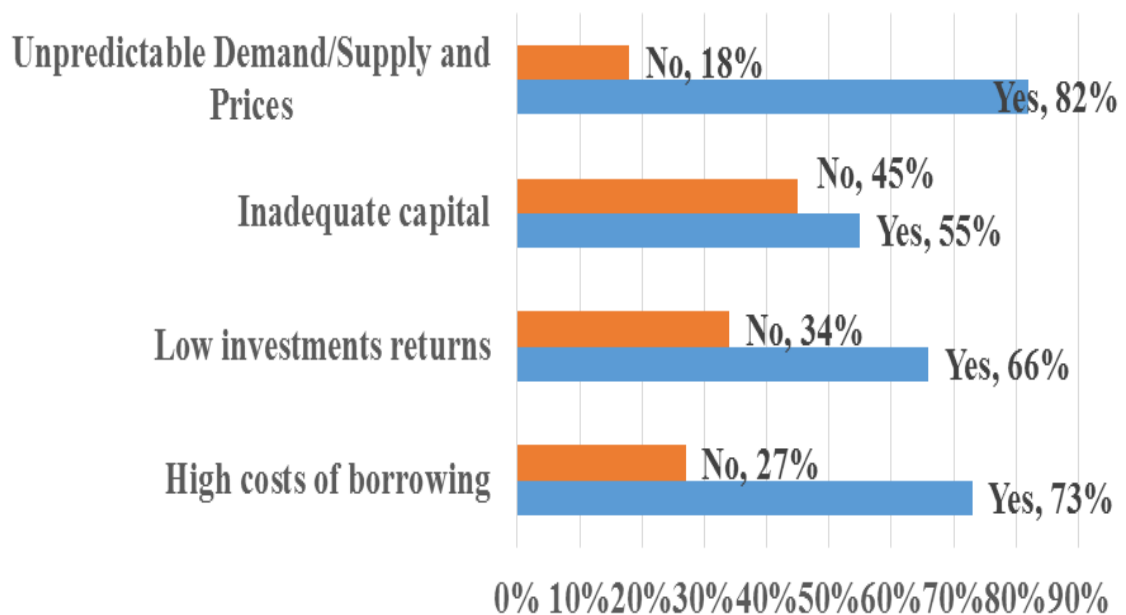


Figure 4.12: Factors hindering tea processing firms from optimizing their returns through management of their working capital

The figure indicates that majority (82%) of the respondents concurred that unpredictable demand, supply and prices of their products contributed negatively to the firms optimizing their returns through management of working capital. This implies that the firms are faced with unpredictable changes in demand, supply and prices of both the raw materials and products. This means that even though the firms prepare budget for the working capital needs, any change in the market for instance prices of the demand of their final product will lead to need for more cash or raw materials to facilitate the firm produce more for the increased demand. This may lead to the firm not being able to honor its obligation or even be force to withdraw savings before they mature in order to meet the rise in demand.

Most (73%) of the respondents also indicated that high cost of short term borrowing affected the firms from achieving their goals through management of working capital. A firm needs to borrow in order to facilitate its operations when it doesn't have enough working capital. If the cost of borrowing is high than the income generated, a firm will be forced to avoid the loan. This will therefore lead to lack of enough funds to continue with the firms operations thus lead to reduced production and loss of revenue.

Majority (66%) of the respondents also indicated that low investments opportunities for short term savings hindered the firms from optimizing their returns through management of their working capital. When a firm has surplus cash at a given period, the money need to be invested in order to generate income. If the income generated from the savings is lower than expected, the profitability of a firm will be low. The respondents (55%) also indicated that inadequate capital hindered the firms from optimizing their returns through management of their working capital. If a firm does not have sufficient capital, it will be forced to rely on loans in order to facilitate its operations. The firm will also not be able to offer credit facilities or have surplus funds to invest in order to generate income.

The findings are consistent with other studies which found that both firm specific or internal variables and macroeconomic or external variables affected the efficiency of working capital management (Caballero *et al.*, 2009; Zariyawati *et al.*, 2010).

4.6 Correlation Analysis

Pearson correlation analysis was undertaken in order to ascertain the linear relationship and the strength of associations between the variables. This enabled the study to establish which variables best explains the effect of working capital management practices on the financial performance of tea processing firms.

4.6.1 Correlation between Cash Management Practices and Financial Performance

The results in Table 4.8 indicates that there is a positive significant linear relationship between cash management practices and financial performance of tea processing firms ($r = 0.669$, $p < 0.05$). This implies that if tea processing firms increase the time difference between procurement of raw materials and other inputs, and the receiving of cash from finished products then the financial performance of the firms will improve. This conforms to results of the study done by Sharma and Kumar (2011) which found a positive correlation between cash conversion cycle and financial performance. The positive relationship between liquidity management practices and profitability suggests that through proper management of cash, the managers are able to create high profits and improve the financial performance of their firms.

Table 4.8: Correlation between Cash Management Practices and Financial Performance

		Financial Performance
Cash Management practices	Pearson Correlation	.669**
	Sig. (2-tailed)	.000
	N	37

** . Correlation is significant at the 0.05 level (2-tailed).

4.6.2 Correlation between Inventory Management Practices and Financial Performance

Results in Table 4.9 reveals that a moderate negative correlation exists between inventory management practices and the financial performance of tea processing firms ($r = -0.530$, $p < 0.01$).

The findings imply that there is an inverse linear relationship between the inventory management and financial performance. Therefore, a tea processing firm is expected to make less returns if it takes a long time to process raw materials to finished goods and consequently into sales. These findings conform to the study by Sharma and Kumar (2011) which found a negative correlation between inventory management practices and financial performance.

Table 4.9: Correlation between Inventory Management Practices and Financial Performance

		Financial Performance
Inventory Management practices	Pearson Correlation	-.530**
	Sig. (2-tailed)	.001
	N	37

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

4.6.3 Correlation between Receivables Management Practices and Financial Performance

The results of the correlation between receivables management practices and financial performance are presented in Table 4.10. The correlation is positive and significant but moderately weak ($r = -0.449$, $p < 0.05$). These results conform to previous studies done by Gill, Biger and Mathur (2010) which found that firms that maintain accounts receivables at optimal level are able to create and maximize their profits. Gakure et al., (2012) also found that the number of days accounts receivables exhibit a negative relationship with corporate profitability. This indicates that the more days accounts remain unpaid will lead to reduction in the profitability of a firm. This is because cash will be locked in receivables instead of being invested in income generating ventures.

Table 4.10: Correlation between Receivables Management Practices and Financial Performance

		Financial Performance
Receivables Management practice	Pearson Correlation	-.449**
	Sig. (2-tailed)	.005
	N	37

** . Correlation is significant at the 0.05 level (2-tailed).

4.6.4 Correlation between Payables Management Practices and Financial Performance

The correlation between payables management practices and financial performance is presented in Table 4.11. The results indicates that there exists a strong and significant positive relationship between payables management practices and financial performance ($r = 0.747$; $p < 0.05$). The positive relationship can be interpreted that the longer it takes to settle creditors' results to increase in financial performance and vice versa. The findings agree with the results of studies by Mathuva (2010) which found a highly significant positive relationship between average payment period and profitability.

Table 4.11: Correlation between Payables Management Practices and Financial Performance

		Financial Performance
Accounts Payable Management practice	Pearson Correlation	.747**
	Sig. (2-tailed)	.000
	N	37

** . Correlation is significant at the 0.05 level (2-tailed).

4.7 Regression Analysis

Regression analysis was conducted to determine whether there was a significant relationship between working capital management practices and financial performance of the tea processing firms. The results in Table 4.12 shows that the coefficient of determination (R^2) was 73.5% meaning that the model estimated explains 73.5% of the variations in the financial performance of tea processing firms.

Table 4.12: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	.857 ^a	.735	.702	3.33725

a. Predictors: (Constant), Receivables Management Practices, Inventory Management Practices, Payables Management Practices, Cash Management Practices

4.7.1 Analysis of Variance

The results of the Analysis of Variance (ANOVA) indicated in Table 4.13 shows that the relationship between the independent variables and dependent variable was significant ($F = 22.164$, p value $<.05$). This reveals that the independent variables significantly affect the returns of tea processing firms. The independent variables (cash, inventory, receivables and payables management practices) are therefore statistically acceptable as useful in predicting the financial performance of the tea processing firms. This is supported by a P value of 0.000 which is less than the conventional value of 0.05.

Table 4.13: ANOVA^a

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	987.398	4	246.850	22.164	.000 ^b
Residual	356.392	32	11.137		
Total	1343.790	36			

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Receivables Management Practices, Inventory Management Practices, Payables Management Practices, Cash Management Practices

4.7.2 Regression Coefficients

The results in Table 4.13 provide the coefficients of the variables used in the study which were receivables, inventory, payables and cash management practices.

Table 4.14 Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	33.294	2.565		12.982	.000
Receivables Management Practices	-.279	.095	-1.454	-2.941	.006
Inventory Management Practices	-.334	.084	-1.031	-3.950	.000
Payables Management Practices	.195	.075	1.365	2.579	.015
Cash Management Practices	.318	.087	2.782	3.651	.001

a. Dependent Variable: Financial Performance

The regression equation model for this study is as shown in equation 4.1.

$$Y = 33.294 - .279X_1 - .334X_2 + .195X_3 + .318X_4 \dots\dots\dots \text{Equation 4.1}$$

The findings indicates that the constant term (33.294) was statistically significant ($p = 0.000 < 0.05$), implying that holding the variables under consideration to zero, could result to 33.294 units of returns to the firm. This could be due to other factors not considered in this study. The regression coefficient for the receivables management practices (-0.279) was statistically significant ($t = -2.941, p < .05$). This indicates that holding other independent variables to zero, an increase in accounts receivables by 1 unit results to a decrease of 0.279 units on returns. This implies that the number of days that accounts receivables is turned into cash should be minimized to increase profitability The findings is consistent with a study by Mathuva (2010); and Filbeck, et al. (2005) which found a significant negative relationship between average collection period and profitability.

The coefficient for the inventory management practices (-0.334) was statistically significant ($t = -3.95$, $p < .05$). This indicates that holding other independent variables to zero, an increase in inventory days by 1 unit results to a decrease of 0.334 units on returns. It implies that the total number of days taken before inventories are sold should be minimized to boost returns. This is consistent with studies done by Sharma and Kumar (2011), Padachi (2006), Garcia and Martinez (2007), Deloof (2003), Raheman and Nasr (2007) and Raheman *et al.*, (2010).

The coefficient for the payables management practices (0.195) was statistically significant ($t = 2.579$, $p < .05$). This indicates that holding other independent variables to zero, an increase in payables period by 1 unit results to an increase of 0.195 units on returns. It implies that the period taken to settle account payables should be longer to increase profitability of these firms. These findings hold that more profitable firms wait longer to pay their bills. This implies that the firms withhold their payment to suppliers so as to take advantage of the cash available to meet the firms' other working capital needs. This findings are consistent with studies done by Makori and Jagongo (2013) and Mathuva (2010) who found that the longer a firm takes to pay its creditors, the more profitable the firm is.

The coefficient for the cash management practices (0.318) was statistically significant ($t = 3.651$, $p < .05$). This indicates that holding other independent variables to zero, an increase in cash conversion period by 1 unit results to an increase of 0.318 units on returns. This implies that the time difference between procurement of raw materials and other inputs, and the receiving of cash from finished products should be longer in order to improve the financial performance of the firms. These findings agree with the findings of a study by Amalendu and Sri (2011) which found that there is a positive relationship between cash management and profitability.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The chapter presents the summary of the findings, conclusion, recommendations, limitations, and suggestions for further research.

5.2 Summary of the Findings

This study sought to investigate the effect of working capital management practices on financial performance of tea processing firms in Kenya. This section presents the summary of findings in regards to the effect of cash, inventory, receivables and payables management practices on the financial performance of tea processing firms.

5.2.1 Cash Management Practices and Financial Performance

The study established that all the tea processing firms had put in place a cash management policy. The policies adopted by the firms also affected the financial performance of the firms. The policy enables a firm to reduce or avoid liquidity risks, increases the firms' production and investment income. The results also revealed that most of the firms prepare cash budgets in order to maintain optimum amount of cash that will meet daily operations. Similarly, majority of the firms reviewed the cash budget regularly in order for the firms to meet changes in cash requirement. It was also evident that optimal cash balance is set to ensure adequate liquidity is maintained at all times. Most of the respondents also affirmed that cash flow prediction aids in proper financial planning. The study also established that a positive significant linear relationship exists between cash management practices and financial performance of tea processing firms.

5.2.2 Inventory Management Practices and Financial Performance

The findings revealed that tea processing firms had established an inventory management policy. The policy enabled the firms to reduce costs associated to stock which in turn improve their financial performance. Furthermore, the policy assisted in increasing the firms' production and investment income since lean stock is maintained.

Majority of the respondents also affirmed that inventory budget is prepared to ensure adequate inventory is available for smooth operations of the firm. The level of inventory should also be reviewed regularly to ensure optimal stock is maintained at all times. The respondents also concurred that the level of EOQ is set to enable a firm to order sufficient inventory at minimal costs. It was also evident that inventory control system should be put in place to assist in efficient management of inventory. The study also found that a negative relationship exists between inventory management practices and the financial performance of tea processing firms.

5.2.3 Receivables Management Practices and Financial Performance

The findings showed that tea processing firms had established an accounts receivable policy. Majority of the firms indicated that the policy reduced costs associated with debtors' collection. The policy also enabled the firms to increase sales turnover and minimize borrowing costs. It was also evident that receivables management policies are put in place to enable a firm to regulate the credit allowed and recovery of debtors. The firms also monitored accounts receivable to ensure timely recovery of debts. Receivables collection policies are also set to assist in reduction of bad debts. Most of the respondents also affirmed that the length of credit period to customers has an influence on sales. The study also established that a negative relationship exists between receivables management practices and financial performance.

5.2.4 Payables Management Practices and Financial Performance

The study found that tea processing firms had established payables management policy. Majority of the respondents indicated that payables policy assists a firm in reducing costs of borrowing. The policy also enables a firm to increase production and avoid liquidity risks. It was also evident that that payables/ credit payments should be monitored to ensure timely supply of goods and services. The credit policies should also be reviewed to ensure optimal credit is maintained at all times. The respondents also affirmed that credit facilities enable a firm to adequately finance its operations. The study also established that a positive relationship exists between payables management practices and financial performance.

5.2.5 Working Capital Management Practices and Financial Performance

The study found that majority of the respondents concurred that that proper working capital management practices ensures high rate of return on assets of a firm. The respondents also affirmed that employing sound working capital management practices and results to increased sales revenue of a firm. Majority of the respondents concurred that unpredictable demand, supply and prices of their products contributed negatively to the firms optimizing their returns through management of working capital. Inadequate capital, high costs of borrowing and low investments opportunities also hindered the tea processing firms from optimizing their returns through management of their working capital.

5.3 Conclusions

The study investigated the effect of working capital management practices on financial performance of tea processing firms. From the analysis of the data collected and the findings, the study makes the following conclusions in line with the objectives of the study.

5.3.1 Cash Management Practices and Financial Performance

Cash management policy has a positive relationship with financial performance of tea processing firms. In this regard, long time difference between procurement of raw materials and other inputs, and the receiving of cash from finished products improves the financial performance of a firm. In addition, cash policy enables a firm to reduce or avoid liquidity risks, increase production and investment income. The study further noted that cash budgets are prepared in order to maintain optimum amount of cash that will meet daily operations of a firm. The budget is also reviewed regularly in order for the firms to meet changes in cash requirement and optimal cash balance is set to ensure adequate liquidity is maintained at all times.

5.3.2 Inventory Management Practices and Financial Performance

Inventory management policy has a negative relationship with the financial performance of the tea processing firms. Therefore, minimizing the total number of days taken before inventories are sold therefore improve the returns of a firm.

Inventory management policy reduces the costs associated to stock which in turn improve the financial performance. The policy also assists in increasing the firms' production and investment income. Tea processing firms prepare inventory budget in order to maintain adequate inventory for smooth operations of the firm. The firms also review the level of inventory regularly to ensure optimal stock is maintained at all times. The level of EOQ is also set to enable a firm to order sufficient inventory at minimal costs and an inventory control system is put in place to assist in efficient management of inventory.

5.3.3 Receivables Management Practices and Financial Performance

Accounts receivables have a negative relationship with financial performance. Minimizing the number of days taken to turn accounts receivables into cash therefore increases the returns of a firm. Receivables management policy enables a firm to reduce costs associated with debtors' collection, increase sales turnover and minimize borrowing costs. The policy also enables a firm to regulate the credit allowed and recovery of debtors. The policy is set to assist in reduction of bad debts. The study also noted that accounts receivables are also monitored to ensure timely recovery of debt and the length of credit period to customers has an influence on sales.

5.3.4 Payables Management Practices and Financial Performance

Payables management practices had positive relationship with financial performance of tea processing firms. The longer the period taken to settle account payables therefore increased profitability of a firm. Payables management policy assists a firm in reducing costs of borrowing, increase production and avoid liquidity risks. Reviewing the policies regularly ensures optimal credit is maintained at all times. In addition, utilizing credit facilities enables a firm to adequately finance its operations and monitoring payables also ensures timely supply of goods and services.

5.3.5 Working Capital Management Practices and Financial Performance

Proper working capital management practices ensures high rate of return on assets of a firm. Consequently, firms that employ sound working capital management practices increase their sales revenue and profits.

Unpredictable demand, supply and prices of tea processing firms' products contributed negatively to the firms optimizing their returns through management of working capital. In addition, inadequate capital, high costs of borrowing and low investments opportunities also hindered the tea processing firms from optimizing their returns through management of their working capital. Working capital management practices significantly affect the financial performance of tea processing firms.

5.4 Recommendations

The study makes the following recommendations regarding cash management practices, inventory management practices, receivables management practices and payables management practices based on the findings.

5.4.1 Cash Management Practices

Cash budgets should be prepared in order to maintain optimum amount of cash that will meet daily operations of a firm. The budget should also be reviewed regularly in order for the firms to meet changes in cash requirement and optimal cash balance should be set to ensure adequate liquidity is maintained at all times. Firms ensure the time difference between procurement of raw materials and other inputs, and the receiving of cash from finished products are longer in order to improve the financial performance. Firms should also come up with cash management policies that will enable the firm to reduce liquidity risks, increase production and investment income

5.4.2 Inventory Management Practices

A firm should ensure the total number of days taken before inventories are sold is minimized in order to boost the returns of the firm. The firms should also prepare inventory budgets in order to maintain adequate inventory for smooth operations of the firm. The inventory level should be reviewed regularly to ensure optimal stock is maintained at all times. Firms should set the level of EOQ to ensure sufficient inventory is ordered at minimal costs. The firms should also establish an inventory control system to assists in efficient management of inventory.

5.4.3 Receivables Management Practices

Firms should monitor accounts receivables to ensure timely recovery of debts and reduction of bad debts. The number of days taken to turn accounts receivables into cash should also be minimized as much as possible in order for a firm to increase its returns. The firm should also design policies that will enable it to regulate the credit allowed, reduce costs associated with debtors' collection, increase sales turnover and minimize liquidity risks.

5.4.4 Payables Management Practices

Firms should regularly review payables management policies to ensure optimal credit is maintained at all times. Similarly, payables should be monitored to ensure timely supply of goods and services. Firms should also seek for credit facilities in order to adequately finance its operations. In addition, firms should take longer period to settle account payables in order to increase profitability.

5.4.5 Working Capital Management Practices and Financial Performance

Firms should come up with working capital management practices that will encounter unpredictable demand, supply and prices of their products in order to optimizing their returns through management of working capital. In addition, capital should be enhanced and cheaper sources of capital should be sought in order to boost working capital. A firm should also seek for better investment opportunities to invest any excess funds and invest prudently in order to increase its returns.

5.5 Limitation of the study

The study was conducted in tea processing firms in Kenya which are managed by KTDA. The firms are privately owned and hence do not publicly avail their financial statements. Getting the reports from the firms was therefore difficult since the reports were regarded as confidential. The respondents were therefore assured that the data collected will be used for academic purposes only. The firms were also situated in remote areas due to their nature of operation thus accessing the firms was a challenging task. Ample time was therefore allocated in data collection stage and where necessary, well trained research assistants were hired to assist in data collecting exercise.

5.6 Suggestion for further study

This study was limited to tea processing firms operating in Kenya and managed by KTDA. The study therefore suggests that there is need for further studies on the same area but covering all the firms undertaking tea processing in Kenya in order to obtain an industry wise analysis of the effect of working capital management practices on financial performance. The relationship between working capital management and other aspects such as growth and investments can also be measured over and above profitability.

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APPENDICES

APPENDIX I: QUESTIONNAIRES

Kindly answer the following questions by ticking in the appropriate box or filling the spaces provided. Information obtained will be used for academic purposes only and will therefore be handled with the highest level of confidentiality. Your corporation will be highly appreciated.

Part A: Respondent Details and Bio-Data

1. Please indicate your gender

Male Female

2. Indicate your age bracket

Below 25 years 25-35 years

36-45 years above 45 years

3. How long have you served in the current position?

0-5 yrs 5-10 yrs

10-15 Over 15 yrs

4. To date, what has been your highest formal qualification?

Secondary School Level Certificate/ Diploma

Undergraduate Post graduate level

Other

(Specify).....

.....

5. When was the tea processing firm incorporated?

.....

.....

Part B: Cash Management Practices

6 Does your organization have cash management policy?

Yes () No ()

If Yes, comment on how it affects the firms' financial performance.....

.....

.....

.....

.....

To what extent do you agree with following aspects of cash management practices as affecting the financial performance of a firm? Use a scale of 1 to 5 where 1= Strongly Disagree, 2= Disagree, 3= Neither agree nor Disagree, 4= Agree and 5 is strongly agree.

	Cash Management Practices Statement	5	4	3	2	1
1	Cash budget enables a firm to maintain an optimum amount of cash that will meet the operations of the firm					
2	The Cash budget is reviewed regularly to enable a firm to meet changes in cash requirements					
3	Optimal cash balance is set to ensure adequate liquidity is maintained at all times.					
4	Cash flow prediction aids in proper financial planning					

Part C: Inventory Management Practices

4 Does your organization have Inventory management policy?

Yes () No ()

If Yes, comment on how it affects the firms' financial performance.....

To what extent do you agree with following aspects of the Inventory management practices as affecting the financial performance of a firm? Use a scale of 1 to 5 where 1= Strongly Disagree, 2= Disagree, 3= Neither agree nor Disagree, 4= Agree and 5 is strongly agree.

	Inventory Management Practices Statement	5	4	3	2	1
1	Inventory budget is prepared to ensures adequate inventory is available for smooth operations of the firm					
2	The level of inventory is reviewed to ensures optimal stock is maintained at all times					
3	The level of EOQ is set to enable a firm to order sufficient inventory at minimal costs					
4	inventory control system assists in efficient management of inventory					

Part D: Receivables Management Practices

5 Does your organization have Accounts Receivable Management policy?

Yes () No ()

If Yes, comment on how it affects the firms' financial performance.....

To what extent do you agree with following aspects of receivable management practices as affecting the financial performance of a firm? Use a scale of 1 to 5 where 1= Strongly Disagree, 2= Disagree, 3= Neither agree nor Disagree, 4= Agree and 5 is strongly agree.

	Receivables Management Practices Statement	5	4	3	2	1
1	Receivables management policies are put in place to enable a firm to regulate the credit allowed and recovery of debtors					
2	Monitoring of accounts receivable ensures timely recovery of debts					
3	Receivables collection policies are set to assist in reduction of bad debts					
4	The length of credit period to customers has an influence on sales					

Part E: Payables Management Practices

6 Does your organization have an Accounts Payable Management policy?

Yes () No ()

If Yes, comment on how it affects the firms' financial performance.....

.....

To what extent do you agree with following aspects of Payables management practices as affecting the financial performance of a firm? Use a scale of 1 to 5 where 1= Strongly Disagree, 2= Disagree, 3= Neither agree nor Disagree, 4= Agree and 5 is strongly agree.

	Payables Management Practices Statement	5	4	3	2	1
1	Payables/credit policies enables a firm to avoid liquidity risks					
2	Payables/ credit payments are monitored to ensure timely supply of goods and services					
3	Credit policies are reviewed to ensure optimal credit is maintained at all times					
4	Credit facilities enables a firm to adequately finance its operations					

Part F: Financial Performance

To what extent do you agree with following aspects of working capital management practices as affecting the financial performance of tea processing firms? Use a scale of 1 to 5 where 1= Strongly Disagree, 2= Disagree, 3= Neither agree nor Disagree, 4= Agree and 5 is strongly agree

Financial Performance Statement		5	4	3	2	1
1	Proper working capital management practices ensures high rate of Return on Assets of a firm					
2	Employing sound Working Capital management practices results to increased Sales Revenue of a firm					
3	Efficient working capital management practices improves the Net Profit of a firm					

7 From your experience, what hinders tea processing firms from optimizing their returns through management of their working capital?

.....

8 What advice would you give to finance practitioners in the industry regarding working capital management?

.....

Thank You

APPENDIX II

Record Survey Sheet

The information required in the matrix will be obtained from annual reports of the tea processing firms for the period 2012 to 2015.

	2012 (In Ksh Million)	2013 (In Ksh Million)	2014 (In Ksh Million)	2015 (In Ksh Million)
Sales				
Cost of sales				
Profit before tax & interest				
Bonus (Ksh Per Kg)				
Current Assets				
Current Liabilities				
Non-current assets				
Accounts Payable				
Accounts Receivable				
Inventories				
Cash and Bank Balance				
Return on Assets (ROA)				