FINANCIAL MANAGEMENT AND FINANCIAL PERFORMANCE OF FIRMS LISTED UNDER MANUFACTURING AND ALLIED SECTOR AT THE NAIROBI SECURITIES EXCHANGE, KENYA

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A RESEARCH PROJECT SUBMITTED TO THE SCHOOL OF BUSINESS IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF DEGREE OF MASTERS OF BUSINESS ADMINISTRATION (FINANCE) OF KENYATTA UNIVERSITY.

OCTOBER, 2017
DECLARATION

This research project is my original work and has not been presented for a degree at any other university or for any other award.

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This research project has been submitted with my approval as Kenyatta University Supervisor.

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DEDICATION

I dedicate this work to my parents Sadia Elmi and Issack Bulle for their everlasting love and guidance. To my wife Zeinab Mohamed for her patience and understanding during my study. I also salute my son Muhamedamin, may this project be an inspiration to them.
ACKNOWLEDGEMENT

I want to thank almighty Allah (SWT) most gracious, most merciful for enabling me to complete my studies successfully. My sincere appreciation goes to my parents who stood beside me all through my studies. Many thanks go to my supervisor Dr. Job Omagwa for giving me the required guidelines all the way till I was through. I can’t also forget the entire management of Kenyatta University for their cooperation towards providing library facilities where I accessed much information concerning this research study. My appreciation also is to all my friends and classmates who assisted or contributed in one way or the other to the completion of this course.
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<td>ROCE</td>
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OPERATIONAL DEFINITION OF TERMS

Financial Management: Refers to the efficient and effective management of money (funds) in such a manner as to accomplish the objectives of the organization. It is the specialized function directly associated with the top management.

Working Capital: Liquidity measures the company's ability to meet its short-term obligations using its most liquid assets. It is measured using current ratio which is calculated as current assets divided by current liabilities.

Investment Decision: It is the process of allocating resources for major capital, or investment, expenditures.

Leverage: Leverage is the measure of how much debt a company has on its balance sheet. Leverage ratio which is widely used to measure leverage is calculated as Debt divided by Equity.

Earnings per Share: Refers to a company’s Earnings before interest and tax divided by its number of common outstanding shares.

Return on Assets: ROA gives an idea as to how efficient management is at using its assets to generate earnings. Calculated by dividing a company's annual earnings before interest and tax by its total assets, ROA is displayed as a percentage.

Return on Capital employed: It is derived by dividing Earnings before interest and tax by capital employed. Capital employed is total assets less current liabilities.
Financial Performance

Refer to a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues.
ABSTRACT

The success of any organization depend on sound financial management, some of the major financial management practices that determines the success or failure of an organization are: The level of working capital investment which focus on maintaining an efficient level of current assets and current liabilities, Investment decisions that guides the amount of Capital required and the project(s) to invest in, and the financing decisions which determines the capital structure of the organization and the choice of the sources of those funds. The general objective of this study was to determine the effect of financial management on the financial performance of firms listed under manufacturing and allied sector at the Nairobi securities exchange, Kenya. This study was guided by the following specific objectives: To determine the effects of working capital investment, capital structure and capital investment on financial performance of firms listed under the manufacturing and allied sector at the Nairobi Securities Exchange, Kenya. Data was analyzed using descriptive analysis and panel regression analysis. The target population of interest in this study constituted all companies listed under manufacturing and allied at the NSE for the period of five years from 2011 to 2016. The study used both primary and secondary data. The study found that working capital and capital structure and capital investment had a positive and significant effect on the financial performance of manufacturing and allied sector at NSE. The study concluded that working capital is important to the financial performance of manufacturing and allied sector at NSE because the current assets of a typical manufacturing firm accounts for over half of its total assets. Capital structure was concluded that it provides an organized way for the manufacturing and allied sector to raise capital and also provides flexibility in raising funds. The study concluded that through capital investment, firms in the manufacturing and allied sector at NSE invest to acquire capital assets in order to generate benefits over a series of years in future. On working capital, the study recommended that manufacturing and allied sector listed at NSE should increase their average collection period, inventory turnover periods and cash conversion period in order to improve their financial performance. On capital structure, the study recommended that manufacturing and allied sector listed at NSE should use shareholders’ funds as much as possible before they undertake to borrow, so that they minimize the risks related to borrowing, which include interest on the debt exceeding the return on the assets they are financing and on capital investment, the study recommended that manufacturing and allied sector listed at NSE should pursue product diversification investment strategies in order to broaden their revenue base.
CHAPTER ONE
INTRODUCTION

1.1 Background of the study

The success of any organization depends on sound financial management. Financial managers execute/perform financial management practices that determine the success or failure of an organization. Chung and Chuang (2010) has classified financial management practice into Capital structure management, working capital management, financial reporting and analysis, capital budgeting and accounting information system. The objectives of corporate governance are to govern companies in the best interest of all stakeholders. It’s about placing the right structure, processes and mechanism that safeguard and ensure the firm is being directed and managed in a way that enhances long term goals of the shareholder through accountability of managers and enhancing organizational performance.

Working capital investment is vital especially for manufacturing firms, where a major part of the assets is composed of current assets and it directly affects the profitability and liquidity of these firms. A study done in Ghana on the relationship between working capital management and profitability on manufacturing firms showed negative relationship between working capital management and firms profitability. Working capital was identified by cash conversion cycle (CCC), average collection period (ACP), inventory turnover days and average payment period (APP). The study recommends that trading firms should manage their working more efficiently so as to keep in equilibrium (Falope, 2009).

Working capital investment is considered to be crucial issue in financial management decision, it’s essential to a firm fundamental financial health. A good finance manager should have the ability to utilise working capital management to balance between growth, liquidity and
profitability. An optimal working capital management positively contributes in creating firm value (Bagchi & Khamrui, 2012).

Capital investment according to Trigeorgis (2013) is one of the main financial management decisions that affect the performance of manufacturing firms. Corporate finance also faces the choice of new investments and decisions about how to finance those investments. Each of these decisions has been studied extensively, but usually in isolation from the other. However, it may be inappropriate to study financing and investment decisions separately. New investments must be financed, and the financing decision may itself affect firm value by changing investors’ expectations. The connections between capital structure and investment decisions should be most apparent when a firm undertakes a large investment.

Capital investment involves commitment of current funds capital in long-lived assets in order to generate benefits over a series of years in future. It also entails planning of capital expenditure in order to achieve the long-term goals of a firm (Dixit & Pindyck, 2012). Long term investments are those that affect the firm’s operations for more than one year and would include decisions like expansion, acquisition, upgrading and replacement of the long term asset. Other decisions like the change in the ways of sales distribution, or promotional campaign or a research and development have long term implications on firm’s cost and benefits, thus can be considered as investment decisions. Myers (2014) note that capital budgeting or investment decisions are of considerable significant to the firm since they tend to determine its worth by influencing risk and return. In addition to other financial management practices the study takes into account the uncertainties and risks of tying up current funds in long term projects as well as moderating variables like government policies and Innovations which influences the performance of manufacturing firms. Innovation is about developing new products or new production processes.
to better firm’s operations, in which case the new products could be based on the new processes (Tufano, 2002; Lawrence, 2010). Institutional constraints and government intervention are particularly important and influences organizational development and performance (Olive, 1997; Zapalska, 2001).

The study will attempt to establish how working capital investment, capital structure and capital investment while appreciating the effect of external moderating factors like government intervention, innovation and technology on financial performance of manufacturing firms listed at the Nairobi Securities Exchange (Huselid, 2010).

1.1.1 Financial Management

The ultimate goal of financial management is to maximize the financial wealth of the business owner(s) (Myers, 2010). This general goal can be viewed in terms of more specific objectives: profitability and liquidity. Profitability management is concerned with maintaining or increasing a business’s earnings through attention to cost control, pricing policy, sales volume, inventory management and capital expenditures.

Inadequate working capital affects manufacturing firms smooth daily operations, for example cash or cash equivalent are needed to fuel for standby generator in case of power failure to continue production (Brigham & Houston, 2010). Businesses are therefore required to maintain a balance between liquidity and profitability while conducting their day to day operations. Investment decision, capital structure and dividend payout policy adopted have an impact on the financial performance of any firm. The importance of financing decisions cannot be over emphasised since many of the factors that contribute to business failure can be addressed using
strategies and financial decisions that drive growth and the achievement of organizational objectives (Salazar, Soto & Mosqueda, 2012).

The term capital structure represents the proportionate relationship between the different forms of long term financing (Varaiya, Kerin & Weeks, 2007). It refers to the way a corporation finances its assets through some combination of equity, debt, or hybrid securities. A firm’s capital structure is then the composition or ‘structure’ of its liabilities. Kochhar (2006) defines capital structure as a mixture of financial liabilities (debt and equity) that is used to finance the operations of a firm. Different theories have been proposed to explain the optimal mix of debt and equity. The theories suggest that firms select their capital structure depending on attributes that determine the various costs and benefits associated with debt and equity financing.

Capital investment is an investment that entails an outlay in the present, in exchange for a payoff in the future (Brigham, 2007). The future payoff is expected to exceed the value of investment hence providing a return that increases firm value and maximizes shareholders wealth. The foregoing forms the basis of the financial theory that the effect of capital expenditure should have a positively correlated relationship with firm’s financial performance. Al Farouque, Tony, Dunstan and Karim (2009), found that capital expenditure had a positive influence on corporate performance as measured using Return on Assets (ROA).

1.1.2 Financial Performance

According to Waddock and Graves (2011), financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. The study seeks to establish how financial performance of manufacturing and allied firms at NSE are affected by the level of working capital investment, capital structure choices and the investment
decisions undertaken by the firms. This term is also used as a general measure of a firm’s overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. The subject of financial performance has always been of great interest to scholars and still remains an area of great concern to the business practitioners of all types of organizations. According to Orlitzky et al (2013), financial performance has an effect to organization‘s health and ultimately its survival. High performance is an indicator of management effectiveness and efficiency in the use of company‘s resources and has a positive impact to the country‘s economy at large.

Huselid (2010) assert that financial performance has been measured in various ways, items in income and cash flow statement as well statement of financial position can be used for example liquidity measures the ability of the business to meet its financial obligations as they fall due without affecting the company’s normal business operations, it also provide an indication of the business ability to withstand risks by providing information about the operation‘s ability to continue operating after a major financial adversity.

Profitability analysis focuses on the relationship between revenues and expenses and on the level of profits relative to the size of investment in the business for instance return on sales shows how much a firm earns in relation to its sales, return on assets (ROA) shows firm’s ability to make use of its assets and return on equity (ROE) reveals the return on investments (Roberts & Dowling, 2012). Traditionally, the success of manufacturing system or company has been evaluated by the use of financial measures. Financial efficiency measures the degree of efficiency in using labor, management and capital. Efficiency analysis deals with the relationships between inputs and outputs. Because inputs can be measured in both physical and
financial terms, a large number of efficiency measures in addition to financial measures are usually possible (Roberts & Dowling, 2012).

High performance is more than high returns. It is the ability to generate high returns for the level of risk assumed by a firm (Kester, 2010). Credit risk, liquidity risk, market risk and so on are some of the risks firms assume in order to earn optimal returns. High performing institutions are those that manage and control their risk the best by employing effective trade-off between risk and returns. Firms are constantly looking for ways to achieve high performance and therefore a lot of theories have been formulated and studies conducted by firms in efforts to determine the factors that influence performance of firms (Kester, 2010).

The firm’s debt ratio is the proportion of the firm’s debt in relation to the total equity finance in the company’s capital structure (Michael, 2012). This key ratio is famously known as an indicator of the company’s long term solvency position and also indicator of the financial risk position of the company. It’s obtained by dividing the total company debt with the total shareholders’ funds. Gross profit is the difference between revenue and cost of goods sold. Gross Margin is the ratio of gross profit to revenue. Depends on situation or decision analysed both or one of these two performance indicators can be more suitable (Michael, 2012).

1.1.3 Financial Performance of Manufacturing and Allied Sector at NSE

The manufacturing sector in Kenya is one of the major contributors to the economic development of the country, it’s the most sophisticated in East Africa and are relatively diverse. Agriculture being the backbone of Kenya’s economy, the transformation of agricultural raw material remains the key activities of the sector particularly tea and coffee. Other important activities in the sector are meat and fruit canning, wheat flour and cornmeal milling, and sugar
refining. Electronics production, vehicle assembly, publishing, and soda ash processing are all significant parts of the sector (Baskin, 2008).

Formal employment in the manufacturing sector according to Livingstone (2011) rose by 2.9 per cent to 287,456 persons in 2014. In addition, the Kenyan vision 2030 blue print, one of the key pillars of the attainment of the objectives of the strategy is the need for the manufacturing sector to grow at the rate of 8 per cent over a period of 20 years. This can only be achieved if there is growth in the profits of the sector and this will depend upon identifying all the variables that can influence profit of a firm including the management of working capital and investment decisions.

The inability of a firm to meet its obligations will lead to the disruption of its manufacturing process by actions such as labor strikes and blacklisting by suppliers (Kenya’s Economic Outlook, 2011). Currently there are a total of ten (10) firms listed under manufacturing and allied sector in the Nairobi Securities Exchange (Appendix 2). These firms play vital role in the country’s economic growth and their proper financial management is of keen interest to all the stakeholders. The study assesses the relationship between financial management practices adopted and financial performance of these firms.

1.2 Statement of the Problem

According to NSE (2010) report, all public and private firms that have been put under statutory management in the last decade had liquidity problems and were unable to pay their short term financial obligations as and when they fell due (NSE, 2010). Efforts to stabilize and revive the liquidation problems faced by companies have focused on financial rearrangement. According to the Economic Survey of 2015, KNBS stated that manufacturing sector’s contribution to Gross Domestic Product has remained at an average of 10 per cent for more than ten years. However,
the Vision 2030 stipulates that the sector should account for 20 per cent of the GDP. In an effort to spur growth in the sector, the Government continues to invest in both infrastructure development projects and cheap energy supply mainly in geothermal and wind energy. In 2014, the manufacturing sector real output expanded by 3.4 per cent compared to a growth of 5.6 per cent in 2013 (KNBS, 2015).

Many manufacturing companies in Kenya have been faced with major financial risks in recent years. According to Gibendi (2013), Mumias Sugar Company’s credit-rating has been downgraded from A+ to BBB between 2011 and 2013 by the Global credit rating reflecting the firm’s worsening financial position. According to Okoth (2015), Eveready East Africa Limited had to close its manufacturing plant in Nakuru in 2015 due to increase in financing costs and insecurity. Financing costs had increased due to a weaker Kenya shilling against other currencies especially the US dollar hence posing exchange rate risk to the company. Kang’aru (2010) show that Pan African Paper Mills Limited was closed down due to unpaid bills and other debts that amounted to Sh9 billion. Short-term lenders including Kenya Commercial Bank, Barclays Bank Kenya, Ecobank Kenya and Bank of Baroda Kenya placed the company under receivership in March 2009.

Previous Studies done on the relationship between various financial management practices and performance have produced mixed results. Wanyugu (2011) studied financial management practices of micro and small enterprises in Kenya a case of Kibera and found out that the management of the financial practices is an important factor in the performance of SMEs. Siba (2012) investigated on the relationship between financial risk management practices and financial performance of commercial banks in Kenya. Nyongesa (2011) studied the relationship between financial performance and financial management practices of insurance companies in
Kenya. The study found that there was a consistent, significant positive association between financial management practices and financial performance. However, the study did not establish if financial management has a significant effect on financial performance. Hence, this study will seek to assess financial management and its effect on financial performance of firms listed under manufacturing and allied sector at the Nairobi securities exchange, Kenya.

1.3 Objectives of the Study

1.3.1 General Objective

The general objective of this study was to determine the effect of financial management on the financial performance of firms listed under manufacturing and allied sector at the Nairobi securities exchange, Kenya.

1.3.2 Specific Objectives

This study will be guided by the following specific objectives:

i. To determine the effect of working capital investment on financial performance of firms listed under the manufacturing and allied sector at the Nairobi Securities Exchange, Kenya.

ii. To establish the effect of capital structure on financial performance of firms listed under the manufacturing and allied sector at the Nairobi Securities Exchange, Kenya.

To examine the effect of investment decisions on financial performance of firms listed under the manufacturing and
1.3.3 Research Hypotheses

This study sought answers to the following research hypotheses:

$H_01$: Working capital investment does not have a significant effect on financial performance.

$H_02$: Capital structure does not have a significant effect on financial performance.

$H_03$: Capital investment does not have a significant effect on financial performance.

1.4 Significance of the Study

Once finalized this study would provide valuable data that can be used by the management of the firms under study and potential investors in the economic sector. The findings of the assessment of the specified financial management practices influence on the target population’s financial performance variables would equip the management additional knowledge. This knowledge may be applied in the effective management of the components working capital, making capital expenditure and financing decisions to enhance financial performance. In addition, Kenya Association of Manufacturers would use this study to improve on the framework for regulation of manufacturing companies in Kenya. Furthermore, this study would be of use to security analysts, financial analysts, stock brokers and other parties whose knowledge of the relationship between financial management practices and the financial performance are important input into investment analysis and portfolio construction.

The results of this study would also assist policy makers and regulators to implement new set of policies and regulations regarding working capital management in the manufacturing firms. Again, the findings would enrich existing body of knowledge on impact of financial management practice variables on firms’ financial performance dynamics. Finally, the findings would be a basis for further research on the research problem under study.
1.5 Scope of the Study

The study presented a critical look on how financial management practices shape financial performance. The study explored ten firms quoted under manufacturing and allied sector at the Nairobi Securities Exchange, Kenya financial management practices like capital structure, investment decisions, working capital management variables and their extent of influence on the firms’ financial performance over a 5 year period (2011 -2015). Managers participated in the study. Questionnaires and document review were used as data collection instrument.

1.6 Limitations of the study

The study was limited by fear of respondents to disclose relevant information for the study. However, the researcher overcame this by assuring the respondents of strict confidentiality of any information disclosed. Also, the study was conducted using predetermined questionnaires which limited the respondents from expressing their views freely and widely. To overcome this, the researcher designed questionnaire with both open and closed ended questions.

1.7 Organization of the Study Proposal

This study was organized in five chapters. Chapter one comprise of the background to the study, research problem, objectives of the study, purpose of the study, research questions, significance of the study, scope of the study, limitation of the study and assumptions of the study. Chapter two comprise of the theoretical review, empirical review, conceptual framework, knowledge gaps and summary of the literature review. Chapter three comprise of the research methodology, that is, research design, target population, sampling and sample size, data collection instruments,
pilot study, data collection techniques, method of data analysis and ethical issues. Chapter four comprise of the research findings and discussion and finally, chapter five comprise of the summary of the findings, conclusion and recommendations.
CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

The chapter captures the theoretical framework that assesses the effect of financial management practices on financial performance of listed firms listed under manufacturing and allied sector at NSE. It also explores the empirical studies that have been carried on the same field of studies and summaries the literature review. A conceptual framework is developed to depict the variables of the study diagrammatically.

2.2 Theoretical Literature

This section presents the theories that inform the study in view of the variables under study. The theories include: The cash conversion Cycle theory, Modigliani-Miller Theory of capital structure irrelevance and trade off- theory.

2.2.1 Cash Conversion Cycle Theory

The cash conversion cycle, which represents the interaction between the components of working capital and the flow of cash within a company, can be used to determine the amount of cash needed for any sales level. Gitman (1974) developed cash conversion cycle as part of operating cycle which is calculated by adding inventory period to accounts receivables period and then subtracting accounts payables from it. Its focus is on the length of time between the acquisition of raw materials and other inputs and the inflows of cash from the sale of finished goods, and represents the number of days of operation for which financing is needed.

The cash conversion cycle theory is a dynamic measure of ongoing liquidity management, since it combines both balance sheet and income statement data to create a measure with a time
dimension (Jose and Lancaster, 1996). While the analysis of an individual firm's CCC is helpful, industry benchmarks are crucial for a company to evaluate its CCC performance and assess opportunities for improvements because the length of CCC may differ from industry to industry. Therefore the correct way is to compare a specific firm to the industry in which it operates (Hutchinson, 2007).

The cash conversion cycle is used as a comprehensive measure of working capital as it shows the time lag between expenditure for the purchase of raw materials and the collection of sales of finished goods (Padachi, 2006). Day-to-day management of a firm's short term assets and liabilities plays an important role in the success of the firm. Firms with growing long term prospects and healthy bottom lines do not remain solvent without good liquidity management (Jose and Lancaster, 1996).

This theory is relevant to the study because it directly affects the liquidity and profitability of the company. It deals with current assets and current liabilities. Since every corporate organization is extremely concerned about how to sustain and improve profitability, hence they have to keep an eye on the factors affecting the profitability. In this regard, liquidity management having its implications on risks and returns of the corporate organizations cannot be overlooked by these organizations and hence cash conversion cycle being indicator of the liquidity management needs to be explored as to how it may affect the profitability of the corporate units.

2.2.2 Residual Equity Theory

In the residual equity theory, changes in asset valuation, income and in retained earnings and changes in interest of other equity holders are all reflected in the residual equity of the common stockholders. The specific equities include the claims of creditors and the equities of preferred
stockholders. The balance sheet equation becomes as follows: ‘Assets minus specific equities are equal to Residual equity’. The equity of common stockholders in the balance sheet should be presented separately from the equities of preferred stockholders and other specific equity holders. According to Hendrickson (1982) the residual equity point of view is a concept somewhere between the proprietary theory and the entity theory.

This theory is relevant to the study because its objective is to provide better financial reporting as a consequence of good financial management practices. In a going concern situation, the current value of common stock is dependent primarily upon the expectation of future dividends. Future financial status is dependent upon expectations of total receipts less specific contractual obligations, payments to specific equity holders and requirements for reinvestment. Since financial statements are not generally prepared on the basis of possible liquidation, the information provided regarding the residual equity should be useful in predicting possible future financial status to common stockholders.

2.2.3 The Modigliani-Miller (MM) Capital Structure Theories.

Modigliani Miller theory was proposed by Franco Modigliani and Merton Miller in 1958. Merton Miller stated that there exist no direct correlation between capital structure and company’s value if tax is not taken into consideration. MM were of the opinion that the total market value of a firm, in the absence of tax, will be determined by only two factors, that is, the total earnings of a company, and the level of business risk attached to those earnings (Haugen & Senbet, 1978). This proposition was justified by use of the arbitrage process. The classic arbitrage-based irrelevance propositions provide sceneries in which by arbitrage investors keep the value of the firm independent of its leverage. The arbitrage process shows that once all the opportunities for returns have been exploited, two firms in the same class of business risk and earnings would
have moved to same market value. The second irrelevance proposition concludes that “given a firm’s investment policy, the dividend payout it chooses to follow will affect neither the current price of its shares nor the total return to its shareholders” (Miller & Modigliani, 1961).

In other words, in perfect markets, neither capital structure choices nor dividend policy decisions matter. The 1958 paper stimulated serious research keen on disproving irrelevance as a matter of theory or as an empirical matter. MM published a follow-up paper that introduced corporate taxes in 1963 (Myers, 2001). In this paper they recognized that the value of the firm will increase will decrease with leverage because interest on debt is a tax deductible expense. The value of the firm that uses debt financing will be greater than the unlevered firm because the return to bondholders escapes taxation at the corporate level. The value of the levered firm will be more than the value of unlevered firm by the amount of the present value of the tax shield due to tax savings given by the tax deductibility of interest expense on debt. Therefore, the value of levered firm equals the value of unlevered plus the value of the tax shield. This proposition support the use of more debts in the capital structure to maximize firm’s value (Pouraghajan, 2012).

Subsequent researches have shown that the Modigliani-Miller theorem fails under a variety of circumstances. The most commonly used elements include consideration of taxes, transaction costs, bankruptcy costs, agency conflicts, adverse selection, time-varying financial market opportunities, and investor clientele effects (Robichek & Myers, 2006). Alternative models use differing elements from this list. As an empirical proposition, the Modigliani-Miller irrelevance proposition is not easy to test. With debt and firm value both plausibly endogenous and driven by other factors such as profits, collateral, and growth opportunities, we cannot establish a structural test of the theory by regressing value on debt. But the fact that fairly reliable empirical relations between a number of factors and corporate leverage exist, while not disproving the theory, does
make it seem an unlikely characterization of how real businesses are financed (Robichek & Myers, 2006).

A popular defense has been to argue as follows: While the Modigliani-Miller theorem does not provide a realistic description of how firms finance their operations, it provides a means of finding reasons why financing may matter. This description provides a reasonable interpretation of much of the theory of corporate finance. Accordingly, it influenced the early development of both the trade-off theory and the pecking order theory (Ebadm, 2009).

**2.2.4 The Trade-Off Theory**

This theory was introduced by Robichek and Myers (1966). The trade-off theory states that there is an optimal capital structure that maximises the value of a firm. It is of the view that the management will set a target leverage ratio and then gradually move towards that. De Wet (2006) has demonstrated that firms select target leverage ratios based on a trade-off between the benefits and costs of increased leverage, he mentioned tax, financial distress costs and agency costs as three factors that influence the choice of this target leverage ratio. Managers will therefore choose the combination of debt and equity that achieves a balance between the benefits of debt through tax advantage and the various costs associated with debt.

The original version of the trade-off theory grew out of the argument over the Modigliani-Miller theorem. When corporate income tax was added to the original insignificance, this created an advantage for debt in that it served to safeguard earnings from taxes (Hackbarth et al., 2007). Since the firm’s objective function is linear, and there is no offsetting cost of debt, this implied 100% debt financing. Several aspects of Myers’ definition of the trade-off merit discussion. First, the target is not directly noticeable (Ju et al., 2005). It may be credited from evidence, but that
depends on adding a structure. Different papers add that structure in different ways. Second, the
tax code is much more complex than that expected by the theory. Relying on which features of
the tax code are included, different assumptions regarding the target can be reached (Baral,
2004).

Graham (2003) offers a useful review of the literature on the tax effects. Third, bankruptcy costs
must be deadweight costs rather than transfers from one claimant to another. The nature of these
costs is significant too. Haugen and Senbet (1978) provide a useful discussion of bankruptcy
costs fourth, operation costs must take a specific form for the analysis to work. For the
adjustment to be gradual rather than abrupt, the marginal cost of altering must increase when the
alteration is larger. Leary and Roberts (2005) describe the repercussions of alternative
adjustment cost assumptions.

This study is relevant to the study it explains the fact that corporations usually are financed partly
with debt and partly with equity. It shows the relationship between cost of financial distress and
agency costs. An important purpose of the trade-off theory of capital structure is to explain the
fact that corporations usually are financed partly with debt and partly with equity.

2.3 Empirical Review

This section gives the empirical review of working capital investment, capital structure and
capital investment on financial performance.

2.3.1 Working Capital and Financial Performance

The Nurein (2014) study sought to determine the impact of working capital management on
corporate performance and the influence of financial constraints on the relationship between
corporate performance and working capital management of Malaysian listed firms in Bursa
Malaysia. The data for this study was retrieved from the DataStream, consisting of 215 firms for the period 2008-2012. This study also finds that firms’ financial constraint is significant and positively related to working capital management and corporate performance. These findings indicate that managing an efficient and effective working capital as impact on corporate performance and firms with less financial constraints achieve better corporate performance than firms with high financial constraints. This study suggests that for a firm to achieve a better performance cum maximizing shareholder’s value, it must achieve a better working capital with a longer net trade cycle (NTC) as well as meeting its short-term obligations.

Wilson (2013) studied the effect of working capital management on the performance of manufacturing firms has attracted the attention of researchers in different countries of the world in recent times. This research expands the horizon of knowledge in this area by shedding more light on working capital management as measured by the cash conversion cycle (CCC), and how the individual components of the CCC influence the profitability of world leading beer brewery firms (Wilson, 2013). Multiple regression equations were applied to a cross sectional time series data of five world leading beer brewery firms after ensuring that the data are stationary and co-integrated. The outcome of the analysis clearly pinpoint that working capital management as represented by the cash conversion cycle, sales growth and lesser debtors’ collection period impacts on beer brewery firms’ performance (Mahrt, 2013).

Hampus (2012) sought to establish the relationship between working capital management and profitability by investigating how it is affected by different company characteristics. A quantitative method was applied with philosophical stances in objectivism and positivism and deductive theory was used to approach the subject. From the theoretical framework, five hypotheses were established and statistically tested in order to answer our research question. The
first hypothesis was formulated to confirm previous research, while the remaining two aimed at providing both a theoretical and practical contribution to existing knowledge. This was tested in a cross-sectional study on the Swedish wholesale industry, covering a sample of 1,485 companies. The companies were segmented by size and whether they were listed or not. By using correlation and regression analyses, the relationship between Working Capital Management and profitability is compared between the different company groups. The conclusion drawn from the study is that there is a positive relationship between the Cash Conversion Cycle and profitability, inconsistent with previous research. However, strong significant results indicated that smaller firms are returning a higher profit, regardless the level of Cash Conversion Cycle (Hampus, 2012).

Deloof (2013) investigated the relationship between working capital management and firm profitability of Belgian firms, where he studied 1009 large Belgian non-financial firms for the period of 1992 to 1996. Using correlation and regression tests he found a significant negative relationship between gross operating income and the number of days accounts receivables, inventories and accounts payable of Belgian firms. On the basis of these results he suggested that managers could create value for their shareholders by reducing the number of day’s accounts receivable and inventories to a reasonable minimum. The negative relationship between accounts payable and profitability is consistent with the view that less profitable firms wait longer to pay their bills.

Padachi (2010) examined the trends in working capital management and its impact on firm’s performance. The results proved that a high investment in inventories and receivables is associated with lower profitability. Further, Padachi (2010) showed that inventory days and cash conversion cycle had positive relation with profitability. On the other hand, account receivables
days and accounts payable days correlated negatively with profitability. A study on value added, productivity and performance of few selected companies in Sri Lanka with the sample of 15 financial companies listed under the Colombo Stock Exchange (CSE) reveals that, profit before tax per employee and value added per rupee of fixed asset is positively correlated and labor cost to sales and gross profit is also positively correlated. Further the labor cost to value added is correlated with gross profit and value added per rupee of fixed asset and no relationship was found between the rest of the productivity and performance measures (Velnampy, 2011).

Nyakundi (2013) studied working capital management policies among the public companies in Kenya. From a sample of 30 companies quoted at the NSE covering the period from 2008 –2012, he concluded that most companies practiced the aggressive WCM policy. No significant differences were noted between the WCM policies across the five sectors. Further there were no significant differences in return on equity among companies that practice different WCM policies. From a simple regression analysis he found no relationship between the WCM policies and return on equity.

2.3.2 Capital Structure and Financial Performance

The term capital structure represents the proportionate relationship between the different forms of long term financing (Varaiya, Kerin & Weeks, 2007). It refers to the way a corporation finances its assets through some combination of equity, debt, or hybrid securities. A firm’s capital structure is then the composition or ‘structure’ of its liabilities. Majumdar and Chhibber (2009) confirm negative relationship between financial leverage and performance. Their results further suggest that liquidity, age and capital intensity have significant influences on financial performance. Many determinants of the corporate capital structure were nominated and empirically examined in the United States (US). Long and Maltiz (2010) observed that the
financial leverage of firms is positively related to a firm’s profitability. Given that a firm must seek an outside source of funds, its choice between debt and equity will depend in part on the magnitude of potential agency costs of debt.

Uwalomwa and Uadiale (2012) sought to investigate the relationship between capital structure and the financial performance of listed firms in Nigeria. The study considered a total sample of 31 listed firms on the floor of the Nigerian stock exchange. The annual reports for the period 2005-2009 were analysed using the Ordinary Least Squares (OLS) technique of model estimation to test the research propositions stated in this study. The study observed that two of the explanatory variables in the study, that is, short-term debt and shareholders’ funds have a significant positive impact on the financial performance of listed firms in Nigeria. In addition, the study observed that long-term debt has a significant negative impact on the financial performance of firms. The study concludes that employing high proportion of long-term debt in firms’ capital structure will invariably result in a low financial performance of a firm.

Gachoki (2011) reviewed the capital structure choice in the empirical testing of the pecking order theory among firms quoted on the NSE. The study used Shyam-sunder and Myers (2009) POT model, to test whether firms listed on NSE follow the pecking order theory of capital structure in their financing choices. The POT model predicts external debt financing driven by the internal financing deficit. The study used 31 firms listed on NSE for the period between 2008 and 2009. He concluded that NSE firms do not follow the pecking theory of capital structure in their financing choices. There is therefore, a need to test other theories explaining financing choices in an attempt to determine the one applicable to NSE firms. Maniagi et al (2013) in the study of the relationship between a firms capital structure and performance among a sample of 30 companies listed on NSE whose data for 5yrs period 2007-2011: concluded that firms listed on NSE have
adopted pecking order hypothesis due to undeveloped debt market and the restrictive covenants associated with long term debt, this makes long term debts expensive hence making firms borrow less. Most firms prefer to finance their activities by using short term debt. From the results the total assets was positively correlated to capital structure proxies which was significant. This indicates that long term debts was utilized by large firms that had large assets which could be used to act as collateral for securing the loans.

Okoth et al (2013) found that capital adequacy, asset quality and management efficiency significantly affect the performance of commercial banks in Kenya. However, the effect of liquidity on the performance of commercial banks is not strong. The relationship between bank performance and capital adequacy and management efficiency was found to be positive and for asset quality the relationship was negative. The study used linear multiple regression model and Generalized Least Square on panel data to estimate the parameters. The findings showed that bank specific factors significantly affect the performance of commercial banks in Kenya, except for liquidity variable. Thus, it can was concluded that the financial performance of commercial banks in Kenya is driven mainly by board and management decisions, while macroeconomic factors have insignificant contribution.

2.3.3 Capital Investment and Financial Performance

Investment behavior is critical to an individual’s future; investment decisions may be contingent on many factors. According to Alleyne (2010) it has been argued that individual attitudes among other variables can predict the investment decision process that the individual undertakes. Financial literacy is also vital in enhancing prudent decision making capabilities to an individual, this is supported by the fact that prior research has suggested that that improvement of education in financial management positively correlates with decision making on critical investment
activities (Chen & Volpe, 2011). Despite the importance of financial management literacy in prudent investment decision making ability there is still less knowledge on financial management matters by the SME sector players.

Cohen and Klepper (2012) sought to establish the cross-sectional nature of the investment decision functions and firm performance relationships. The empirical results were based on data from three consecutive Swedish innovation surveys. A common multi-step estimation approach which accounts for both simultaneity and selection biases was applied. As expected, the results showed evidence of a strong and highly significant relationship between aspects of investment like investment in research and development as well as increasing investment in productivity through innovation production, measured as share of sales associated with new product and processes at the firm level.

Alleyne (2010) studied the persistency of the relationship and its differences across firm sizes. Results based on the SME sample showed evidence of different relationship between the investment and financial performance variables. Current values of all indicators were found to be related to their own lags. The same observation had been made by Cohen and Klepper (2012) where they found that in the case of research and development, employment and profit the sign changed between the two lags. For instance; sales is strongly related to those investment decisions that highly relate to profit optimization and labor efficiency for instance employment expenditures but not to research and development expenditures and gross physical investment. They also found that there are differences among the two sizes concerning the feedback from profit to gross physical investment.
2.4 Summary of Literature

The literature shows that the independent variables under study (working capital, capital structure and investment decisions) greatly influence the financial performance of organizations. A firm has to issue various securities in a countless mixture to come across particular combinations that can maximise its overall value which means optimal capital structure. If a wrong mix of finance is employed; the performance and survival of the business enterprise may be seriously affected. Every organization, whether profit oriented or not, irrespective of size and nature of business, requires necessary amount of working capital. Capital investment enables an organization to decide whether it should invest in a project or not. Capital investment also enable manufacturing firms to acquire capital assets or fixed assets such as manufacturing plants and machinery that is expected to be productive over many years.

2.5 Conceptual Framework

![Conceptual Framework Diagram]

Source: Researcher (2017)

Figure 2.1: Conceptual Framework

Figure 2.1 shows the relationship between independent variables and dependent variables. The independent variables are the working capital structure, capital structure and investment...
decisions and the dependent variable is financial performance. Working capital is a part of a firm’s current assets. The investment in working capital involves carrying costs and shortage costs, so the firms have to find the tradeoff between them. Capital structure is the relative amount of debt and equity used to finance a firm. It’s the relative amount of permanent short term debt, long term debt, preferred stock and common equity used to finance a firm. Capital investment refers to money used by a business to purchase fixed assets, such as land, machinery, or buildings. All these practices are crucial for an efficient financial management in organizations while appreciating the moderating effect of external factors like government policies and new innovation on firm’s performances.
CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

This chapter covers the research design, target population, sampling design and sample size, data collection instruments, pilot study, data collection procedures, data analysis and ethical consideration. Saunders (2011) defines research methodology as the approach by which the meaning of data is extracted and is a continuous process. The research methodology gives the direction to follow to get answers to issues that are of concern in research. The aim of the research methodology is to produce reliable and valid data that is free from personal biases and other errors. This involves measurement that must be both reliable and valid (Cooper et al, 2011).

3.2 Research Design

Research design is the plan and structure of investigation so conceived as to obtain answers to research questions. The plan is the overall scheme or program of the research (Robson, 2002). The main purpose of this research was to investigate the financial management practices and financial performance of manufacturing firms listed at the Nairobi securities exchange. Hence, descriptive research was adopted for the purposes of this study. The major purpose of descriptive research was to provide information on characteristics of a population or phenomenon. Saunders (2011) observe that descriptive research is used as a pre-cursor to quantitative research designs as it provides the general overview giving some valuable pointers as to what variables are worth testing quantitatively.
3.3 Target Population

A target population is an entire group of individuals, events or objects having common characteristics that conform to a given specification (Mugenda & Mugenda, 2003). The target population of interest in this study constituted all companies listed under manufacturing and allied at the NSE for the period of five years from 2011 to 2015. The study was limited to listed companies due to lack of readily available data from private companies not listed in NSE. There was a total of ten (10) manufacturing firms listed under manufacturing and allied in NSE and as shown in Table 3.2. The target population was 127 respondents from finance and accounts department.

Table 3.1: Target Population

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>B.O.C Kenya Ltd</td>
<td>15</td>
</tr>
<tr>
<td>British American Tobacco Kenya Ltd</td>
<td>12</td>
</tr>
<tr>
<td>Carbacid Investments Ltd</td>
<td>11</td>
</tr>
<tr>
<td>East African Breweries Ltd</td>
<td>15</td>
</tr>
<tr>
<td>Mumias Sugar Co. Ltd</td>
<td>14</td>
</tr>
<tr>
<td>Unga Group Ltd</td>
<td>16</td>
</tr>
<tr>
<td>Eveready East Africa Ltd</td>
<td>13</td>
</tr>
<tr>
<td>Kenya Orchards Ltd</td>
<td>10</td>
</tr>
<tr>
<td>A.Baumann CO Ltd</td>
<td>11</td>
</tr>
<tr>
<td>Flame Tree Group Holdings Ltd</td>
<td>10</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>127</strong></td>
</tr>
</tbody>
</table>
3.4 Sampling Design and Sample Size

3.4.1 Sampling Design

Sampling technique is the elementary selection method of elements from the population that will stand on behalf that population (Cooper & Schindler, 2011). The objective, nature, and scope of the study are factors that determine a particular technique to be used. This study used a two-step sampling technique involving stratified sampling method and simple random sampling. Simple random sampling method was used to select respondents from finance and accounts department who were in management level since they were the main people involved in financial decisions in organizations.

3.4.2 Sampling Size

Sample size is the selection of a subset of individuals from within a population to yield some knowledge about the whole population, especially for the purposes of making predictions based on statistical inference (Barratt, 2009). Taro Yamane’s formula was used to determine the sample size for the study. The formula assumes normal distribution and will therefore be considered suitable for determining an appropriate sample size from the entire population because the study will involve all the departments. According to Hussey and Hussey (1997) a sampling error of less than 10% and confidence levels of more than 90% is acceptable, the study therefore adopted a sampling error of 5% to determine the minimum sample size that will be used for the purposes of this study.

The formula for determining sample size was shown below:

\[ n = \frac{\sqrt{\frac{N}{n}}}{1+N(e)^2} \]

Where: \( n \) = sample size
N=population size

e= level of precision/sampling error at .05

n= 127

1+127(0.05)^2 = 96

The sample size to be used was 96 respondents which make up for 75.6% of the target population (127). The sample size was differentiated in their strata based on the 75.6%. This was done according to stratified method. This was ideal since the respondents belonged to different categories and each category had different role from each other. This was shown in Table 3.2

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Population*0.756</th>
<th>Sample Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>B.O.C Kenya Ltd</td>
<td>15</td>
<td>11</td>
</tr>
<tr>
<td>British American Tobacco Kenya Ltd</td>
<td>12</td>
<td>9</td>
</tr>
<tr>
<td>Carbacid Investments Ltd</td>
<td>11</td>
<td>8</td>
</tr>
<tr>
<td>East African Breweries Ltd</td>
<td>15</td>
<td>11</td>
</tr>
<tr>
<td>Mumias Sugar Co. Ltd</td>
<td>14</td>
<td>11</td>
</tr>
<tr>
<td>Unga Group Ltd</td>
<td>16</td>
<td>12</td>
</tr>
<tr>
<td>Eveready East Africa Ltd</td>
<td>13</td>
<td>10</td>
</tr>
<tr>
<td>Kenya Orchards Ltd</td>
<td>10</td>
<td>8</td>
</tr>
<tr>
<td>A.Baumann CO Ltd</td>
<td>11</td>
<td>8</td>
</tr>
<tr>
<td>Flame Tree Group Holdings Ltd</td>
<td>10</td>
<td>8</td>
</tr>
</tbody>
</table>

| Total                                      | 127              | 96          |

3.4 Data Collection

Collection is gathering empirical evidence in order to gain insights about a situation and answer questions that prompt undertaking of the research (Flick, 1998). Primary data is defined as first
hand information received from a respondent while data that has been already collected and passed through the statistical process is secondary data (Chandran, 2004). The study used secondary data collection methods which were obtained from financial statements which included latest published annual reports, profit after tax, current assets, current liabilities, fixed assets and long term debt and equity to be surveyed. Company’s financial statements were obtained from NSE library and the Capital market authority library and the relevant websites.

3.5 Data Collection Instrument

The study used both primary and secondary data. Primary data was collected using a semi-structured questionnaire. The questionnaire was sub-divided into two sections. Section A for demographic information and section B for financial management practices adopted by the manufacturing and allied sector. The questionnaire used both open and closed ended questions to obtain the information required. A five-point Likert scale was used in the design of the financial management practice questions. The secondary data was obtained from the published financial statements of the manufacturing and allied sector.

3.6 Data Collection Procedure

The study used a secondary data collected from the Nairobi Securities Exchange. The use of secondary data was justified on the basis that some of these sources have information that is very pivotal to this study and has been vetted and accepted. The Secondary Data which included size of the firm, total debt, long-term debt was extracted from the income statement, statement of financial position, and notes to the accounts using a document review guide.
3.7 Validity and Reliability of the Instruments

Data validity refers to how well the result of a research can give the right answer to the research question (Remenyi et al., 2008). To ensure validity, information from previous studies and different literatures which cover all the areas of the study was used. The theoretical framework being a reflection of these previous studies, the questionnaire was based on the theoretical framework in order to arrive at the right answer to the research problem. A pilot test was conducted to test validity of the research instruments with regard to financial management practices at the manufacturing and allied sector. For data reliability, the researcher designed the questionnaire using an elaborate procedure of reviewing relevant literature. In order to measure internal consistency, the researcher used Cronbach’s alpha method.

8 Data Analysis and Presentation

The data collected was edited for accuracy, consistency and completeness and arranged to enable coding and tabulation before final analysis. The data was presented using tables, charts and cross tabulation and data was analyzed using panel regression analysis and pearson’s correlation analysis. The following regression model was used to compute the relationship between financial management and financial performance of manufacturing and allied sector.

The study conducted a panel regression analysis for over 5 years to establish the relationship between financial management practices and financial performance of manufacturing and allied sector.

The panel regression analysis model adopted is shown below:

\[ Y_{it} = \beta_0 + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \varepsilon \]
Whereby

$Y_{it} = \text{Financial Performance for firm i at time t}$

$X_{1it} = \text{Working Capital for firm i at time t}$

$X_{2it} = \text{Capital Structure for firm i at time t}$

$X_{3it} = \text{Capital Investment for firm i at time t}$

$\beta_1 = \text{Coefficient of Determination}$

$\varepsilon = \text{Error term}$

### 3.9 Ethical Consideration

Ethical measures are principles which the researcher should bind himself with in conducting his research (Schulze, 2002). An introductory letter from the university was obtained and a research permits from National Commission for Science, Technology and Innovation (NACOSTI). Participants were given adequate information on the aims of the research, the procedure that would be followed, the credibility of the researcher and the way in which the results was used. This enabled participants to make an informed decision on whether they would want to participate in the study or not. Participant confidentialities were not compromised as their names were not indicated in the questionnaire.
CHAPTER FOUR
DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the analysis and interpretations of the data collected. The general objective of this study was to determine the effect of financial management on the financial performance of firms listed under manufacturing and allied sector at the Nairobi securities exchange, Kenya.

This study sought answers to the following research hypotheses:

\( H_01: \) Working capital investment does not have a significant effect on financial performance.

\( H_02: \) Capital structure does not have a significant effect on financial performance.

\( H_03: \) Capital investment does not have a significant effect on financial performance.

Quantitative data was analysed using descriptive statistics such as frequencies, percentages, mean and standard deviation and presented in tables, charts, graphs and figures by the use of Statistical Package for Social Sciences (SPSS) version of 17.0. Qualitative data from the open ended questions was analysed using content analysis technique and reported in narrative form alongside the quantitative data.

4.1 Response Rate

This study targeted 96 respondents from accounts and finance departments from which 88 respondents filled in and returned the questionnaires forming a response rate of 91.7%. Saunders et al. (2007) and Bryman & Bell, 2007) posit that for most academic studies involving top management or representatives of organizations, a response rate of 35 percent is reasonable, while a response rate of above 85 percent is considered excellent (Bryman & Bell, 2007). The
response rate achieved in this study was, therefore considered sufficient for data analysis, conclusion and recommendations.

4.2 Demographic Data of the Respondents

Table 4.1 presents the distribution of the respondents by gender, age, highest level of education and the years worked in the organization.

Table 4.1: Respondents’ Demographic Data

<table>
<thead>
<tr>
<th>Demographic Data</th>
<th>Classification Factor</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td>Male</td>
<td>43</td>
<td>48.9</td>
</tr>
<tr>
<td></td>
<td>Female</td>
<td>45</td>
<td>51.1</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>88</td>
<td>100</td>
</tr>
<tr>
<td>Work Experience</td>
<td>Less than 2 years</td>
<td>10</td>
<td>11.4</td>
</tr>
<tr>
<td></td>
<td>2 to 5 years</td>
<td>21</td>
<td>23.9</td>
</tr>
<tr>
<td></td>
<td>6 to 10 years</td>
<td>35</td>
<td>39.8</td>
</tr>
<tr>
<td></td>
<td>Above 10 years</td>
<td>22</td>
<td>25.0</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>88</td>
<td>100</td>
</tr>
<tr>
<td>Age</td>
<td>Less than 25 years</td>
<td>14</td>
<td>15.9</td>
</tr>
<tr>
<td></td>
<td>25 to 35 years</td>
<td>40</td>
<td>45.5</td>
</tr>
<tr>
<td></td>
<td>36 to 45 years</td>
<td>10</td>
<td>11.4</td>
</tr>
<tr>
<td></td>
<td>Over 45 years</td>
<td>24</td>
<td>27.3</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>88</td>
<td>100</td>
</tr>
<tr>
<td>Level of Education</td>
<td>Diploma/College</td>
<td>11</td>
<td>12.5</td>
</tr>
<tr>
<td></td>
<td>Post Graduate Diploma</td>
<td>10</td>
<td>11.4</td>
</tr>
<tr>
<td></td>
<td>University Degree</td>
<td>40</td>
<td>45.5</td>
</tr>
<tr>
<td></td>
<td>MBA/MA</td>
<td>27</td>
<td>30.7</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>88</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Research Data (2017)

From the Table 4.1, majority (51.1%) of the respondents were female while the rest (48.9%) were male. This implies that majority of manufacturing and allied sector are managed or monitored by females. On experience of respondents, over 64.7% had worked in the organization for over six years. This would imply that the respondents were knowledgeable on financial
performance of firms listed under manufacturing and allied sector at the Nairobi securities exchange, Kenya.

Majority (45.5%) of the respondents were between ages 25 to 35 years. Only 11.4% of the respondents were between 36 to 45 years. The implication of the distribution of the respondents’ ages is that over 39.8% were above 36 years of age, which represented a fairly aging manufacturing and allied sector staff in Kenya implying that a concerted effort needs to be put in places to mentor younger accounting and finance professionals for proper succession planning.

From Table 4.1, 45.5% of the respondents had a university degree certificate while those with post graduate diploma level certificate were the minority at only 11.4% percent. Only 30.7% of the respondents had MBA/MA degree. From the data presented, most of the respondents were well educated with a cumulative percentage of 76.2 for those with first degree and above. It is assumed, therefore that the respondents were well informed on financial performance of firms listed under manufacturing and allied sector at the Nairobi securities exchange, Kenya.

4.3 Descriptive Statistics

Descriptive statistics such as mean and standard deviations were used to present the quantitative data with the use of Statistical Package for Social Sciences (SPSS) version 17.0. These were presented as per the study objectives as follows.
4.3.1 Working Capital and Financial Performance

Table 4.2: Working Capital and Financial Performance

<table>
<thead>
<tr>
<th>Statement</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Optimal cash balances are maintained by the company at all times</td>
<td>3.82</td>
<td>1.034</td>
</tr>
<tr>
<td>The company ensures that there is sufficient cash flow to meet daily needs</td>
<td>4.09</td>
<td>0.905</td>
</tr>
<tr>
<td>The company prepares cash flow forecasts to identify future surpluses and deficits</td>
<td>3.80</td>
<td>0.973</td>
</tr>
<tr>
<td>The company maintains proper records for all payables</td>
<td>3.73</td>
<td>1.058</td>
</tr>
<tr>
<td>Receivables management system is fully automated</td>
<td>2.91</td>
<td>1.319</td>
</tr>
<tr>
<td>The company maintains inventory records which are updated regularly</td>
<td>3.09</td>
<td>1.171</td>
</tr>
<tr>
<td>The company has a working capital management system</td>
<td>3.27</td>
<td>1.142</td>
</tr>
<tr>
<td>Aggregate</td>
<td>3.53</td>
<td>1.086</td>
</tr>
</tbody>
</table>

Source: Research Data (2017)

The results in Table 4.2 show that there is a moderate maintenance of optimal cash balances by the company at all times as indicated by a mean of 3.82. This varies significantly as indicated by a standard deviation of 1.034. This is in agreement with the findings of Bagchi and Khamrui (2012) who observe that an optimal working capital management positively contributes in creating firm value.

The mean of 4.09 indicated that the company highly ensures that there is sufficient cash flow to meet daily needs with a significance variance of 0.905. The company moderately prepares cash flow forecasts to identify future surpluses and deficits as indicated by the mean of 3.80 and a standard deviation of 0.973. Huselid (2010) assert that financial performance has been measured in various ways, items in income and cash flow statement as well statement of financial position.
can be used for example liquidity measures the ability of the business to meet its financial obligations as they fall due without affecting the company’s normal business operations, it also provide an indication of the business ability to withstand risks by providing information about the operation’s ability to continue operating after a major financial adversity.

The company moderately maintains proper records for all payables as indicated by the mean of 3.73 and a standard deviation of 1.058. Gitman (1974) developed cash conversion cycle as part of operating cycle which is calculated by adding inventory period to accounts receivables period and then subtracting accounts payables from it. Receivables management system is not fully automated as indicated by the mean of 2.91 and a standard deviation of 1.139. Padachi (2010) examined the trends in working capital management and its impact on firm’s performance. The results proved that a high investment in inventories and receivables is associated with lower profitability.

The company moderately maintains inventory records which are updated regularly as indicated by a mean of 3.09 and a standard deviation of 1.171. Padachi (2010) showed that inventory days and cash conversion cycle had positive relation with profitability. On the other hand, account receivables days and accounts payable days correlated negatively with profitability. The company has a moderate working capital management system as indicated by a mean of 3.27 and a standard deviation of 1.142. Nyakundi (2013) studied working capital management policies among the public companies in Kenya and found that there is no significant differences were noted between the WCM policies across the five sectors. Further there were no significant differences in return on equity among companies that practice different WCM policies.
The overall mean of 3.53 shows that working capital moderately influenced financial performance of firms listed under manufacturing and allied sector at the Nairobi securities exchange, Kenya which varied significantly as indicated by a standard deviation of 1.086. This is in line with the findings of Bagchi and Khamrui (2012) who state that working capital investment is considered to be crucial issue in financial management decision, it’s essential to a firm fundamental financial health. A good finance manager should have the ability to utilise working capital management to balance between growth, liquidity and profitability. An optimal working capital management positively contributes in creating firm value.

The respondents indicated that working capital is important because the current assets of a typical manufacturing firm accounts for over half of its total assets. For a distribution company, they account for even more. Excessive levels of current assets can easily result in a firm’s realizing a substandard return on investment. Working capital is necessary for the manufacturing company to function on a daily basis, as the organization requires a certain amount of cash on hand to cover unexpected costs, make regular payments and buy raw materials used in production.

### 4.3.2 Capital Structure and Financial Performance

**Table 4.3: Capital Structure and Financial Performance**

<table>
<thead>
<tr>
<th>Statement</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The company has fully utilized the debt facility according to its capabilities</td>
<td>4.45</td>
<td>0.896</td>
</tr>
<tr>
<td>The company relies on equity capital only</td>
<td>4.09</td>
<td>0.672</td>
</tr>
<tr>
<td>The company has foreign ownership</td>
<td>4.36</td>
<td>0.647</td>
</tr>
<tr>
<td>The capital structure of the company is appropriate</td>
<td>3.64</td>
<td>1.306</td>
</tr>
</tbody>
</table>
Optimum capital structure is obtained when market value per share is the maximum | 3.09 | 1.171

The capital structure of a company is to be determined initially at the time the company is floated | 3.91 | 1.247

Capital structure is the permanent financing of the company represented primarily by long-term debt and shareholders’ funds | 3.45 | 1.312

| Aggregate | 3.86 | 1.036 |

Source: Research Data (2017)

The results in Table 4.3 show that the company highly utilizes the debt facility according to its capabilities as indicated by mean of 4.45 which varied significantly as indicated by a standard deviation of 0.896. According to Varaiya, Kerin and Weeks (2007), the term capital structure represents the proportionate relationship between the different forms of long term financing. It refers to the way a corporation finances its assets through some combination of equity, debt, or hybrid securities. A firm’s capital structure is then the composition or ‘structure’ of its liabilities. The company highly relies on equity capital only as indicated by a mean of 4.06 and a standard deviation of 0.672. This agrees with Michael (2012) who found that the firm’s debt ratio is the proportion of the firm’s debt in relation to the total equity finance in the company’s capital structure.

The company has a high foreign ownership as indicated by a mean of 4.36 and a standard deviation of 0.647. The capital structure of the company is not much appropriate as indicated by a mean of 3.64 and a standard deviation of 1.306. Majumdar and Chhibber (2009) confirm negative relationship between financial leverage and performance. Their results further suggest that liquidity, age and capital intensity have significant influences on financial performance. The mean of 3.09 shows a moderate optimum capital structure obtained when market value per share is the maximum which vary significantly as indicated by a standard deviation of 1.171. Long and
Maltiz (2010) observed that the financial leverage of firms is positively related to a firm’s profitability. Given that a firm must seek an outside source of funds, its choice between debt and equity will depend in part on the magnitude of potential agency costs of debt.

The capital structure of a company is highly determined initially at the time the company is floated as indicated by a mean 3.91 which vary significantly as indicated by a standard deviation of 1.247. Okoth et al (2013) found that capital adequacy, asset quality and management efficiency significantly affect the performance of commercial banks in Kenya. Capital structure is the permanent financing of the company represented primarily by long-term debt and shareholders’ funds as indicated by a mean of 3.45 and a standard deviation of 1.312. Uwalomwa and Uadia (2012) observed that two of the explanatory variables in the study, that is, short-term debt and shareholders’ funds have a significant positive impact on the financial performance of listed firms in Nigeria.

The mean of 3.86 shows that capital structure highly influenced financial performance of firms listed under manufacturing and allied sector at the Nairobi securities exchange, Kenya which varied significantly as indicated by a standard deviation of 1.036. This is in accordance with Brigham and Houston (2010) who observed that inadequate working capital affects manufacturing firms smooth daily operations, for example cash or cash equivalent are needed to fuel for standby generator in case of power failure to continue production.

The respondents indicated that capital structure describes the amount of debt a company uses as opposed to equity, and it is often measured with the ratio of debt to equity. The more debt a company has, the more it has to pay creditors for the use of those funds. However, the more debt a company takes on, the more cash it has to generate sales. Capital structure provides an
organized way to raise capital. Both debt and equity have their advantages and disadvantages. Capital structure also provides flexibility in raising funds. The challenge manufacturing companies get is finding the right equilibrium between debt and equity for an optimal capital structure, which can then be leveraged to grow the business.

### 4.3.3 Capital Investment and Financial Performance

**Table 4.4: Capital Investment and Financial Performance**

<table>
<thead>
<tr>
<th>Statement</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>A firm’s decision to invest in long term assets has decisive influence on the rate and direction of its growth.</td>
<td>3.27</td>
<td>1.362</td>
</tr>
<tr>
<td>Investment decisions involve commitment of large amount of funds</td>
<td>4.18</td>
<td>0.838</td>
</tr>
<tr>
<td>Investment decisions affect the risk of the firm</td>
<td>4.00</td>
<td>1.213</td>
</tr>
<tr>
<td>Investment decision is a complex problem to correctly estimate the future cash flows of an investment</td>
<td>3.82</td>
<td>0.941</td>
</tr>
<tr>
<td>An investment decision revolves around spending capital on assets that will yield the highest return for the company over a desired time period</td>
<td>4.45</td>
<td>0.659</td>
</tr>
<tr>
<td><strong>Aggregate</strong></td>
<td>3.94</td>
<td>1.002</td>
</tr>
</tbody>
</table>

*Source: Research Data (2017)*

The results in Table 4.4 show that there is a moderate firm’s decision to invest in long term assets has decisive influence on the rate and direction of its growth as indicated by the mean of 3.27 which vary significantly as indicated by a standard deviation of 1.362. According to Alleyne (2010) it has been argued that individual attitudes among other variables can predict the investment decision process that the individual undertakes.

The mean of 4.18 shows that investment decisions highly involve commitment of large amount of funds which vary significantly as indicated by a standard deviation of 0.838. Cohen and
Klepper (2012) found a strong and highly significant relationship between aspects of investment like investment in research and development as well as increasing investment in productivity through innovation production, measured as share of sales associated with new product and processes at the firm level.

Investment decisions highly affect the risk of the firm as indicated by a mean of 4.00 and a variance of 1.213. Investment decision is a complex problem to correctly estimate the future cash flows of an investment was moderate as indicated by a mean of 3.82 and a standard deviation of 0.941. The mean of 4.45 shows that an investment decision highly revolves around spending capital on assets that will yield the highest return for the company over a desired time period which vary significantly as indicated by a standard deviation of 0.659. Financial literacy is also vital in enhancing prudent decision making capabilities to an individual, this is supported by the fact that prior research has suggested that that improvement of education in financial management positively correlates with decision making on critical investment activities (Chen & Volpe, 2011).

The mean of 3.94 shows that capital investment highly influenced financial performance of firms listed under manufacturing and allied sector at the Nairobi securities exchange, Kenya which varied significantly as indicated by a standard deviation of 1.002. Capital investment is an investment that entails an outlay in the present, in exchange for a payoff in the future (Brigham, 2007). The future payoff is expected to exceed the value of investment hence providing a return that increases firm value and maximizes shareholders wealth. Al Farouque, Tony, Dunstan and Karim (2009), found that capital expenditure had a positive influence on corporate performance as measured using Return on Assets (ROA).
The respondents indicated that through capital investment funds are invested in a firm or enterprise for the purpose of furthering its business objectives. Manufacturing firms acquire capital assets and fixed assets such as manufacturing plants and machinery that is expected to be productive over many years. Sources of capital investment include equity investors, banks, financial institutions, venture capital etc.

4.4 Analysis of Document Review Data

4.4.1 Working Capital and Financial Performance

![Graph showing working capital structure on financial performance](image)

**Source: NSE report (2017)**

**Figure 4.1: Working capital structure on financial performance**

Figure 4.1 shows that the working capital in terms of debtors’ level, cash level and inventory level was increasing from 2011 to 2015. The inventory level showed a higher margin followed by debtors’ level and cash level. Trading firms should manage their working more efficiently so as to keep in equilibrium (Falope, 2009). Working capital investment is considered to be crucial issue in financial management decision, it’s essential to a firm fundamental financial health. A good finance manager should have the ability to utilise working capital management to balance
between growth, liquidity and profitability. An optimal working capital management positively contributes in creating firm value (Bagchi & Khamrui, 2012).

4.4.2 Capital Structure and Financial Performance

![Graph showing capital structure on financial performance](image)

Source: NSE report (2017)

Figure 4.2: Capital structure on financial performance

Figure 4.2 shows that debt level of the manufacturing and allied sector had a higher margin compared to equity level from the here 2011 to 2015. Each kept on increasing each year. There a slight decline between the year 2014 and 2015 in both debt level and cash level. The term capital structure represents the proportionate relationship between the different forms of long term financing (Varaiya, Kerin & Weeks, 2007). It refers to the way a corporation finances its assets through some combination of equity, debt, or hybrid securities. A firm’s capital structure is then the composition or ‘structure’ of its liabilities. Kochhar (2006) defines capital structure as a mixture of financial liabilities (debt and equity) that is used to finance the operations of a firm.
4.4.3 Capital Investment and Financial Performance

Source: NSE report (2017)

Figure 4.3: Capital investment on financial performance

Figure 4.3 shows that the short term investment of manufacturing and allied sector at NSE increased from 384 to 444 million Kenya shillings from the year 2011 to 2015. The long term investment increased from 299 to 360 million Kenya shillings from the year 2011 to 2015. Financial performance of manufacturing firms is greatly impacted by the efficiency with which firms manage their working capital. Profitability and liquidity which are directly related are determined by the amount of capital held up in short term marketable securities vis a vis long-term debt. The will attempt to establish how working capital investment, capital structure and capital investment affect financial performance of manufacturing firms listed at the Nairobi Securities Exchange (Huselid, 2010). The firm’s debt ratio is the proportion of the firm’s debt in relation to the total equity finance in the company’s capital structure (Michael, 2012). This key ratio is famously known as an indicator of the company’s long term solvency position and 8 also indicator of the financial risk position of the company.
4.5 Regression Analysis

Regression analysis was used to model, examine, and explore the relationships between financial performance of firms listed under manufacturing and allied sector at the Nairobi securities exchange, Kenya against the three independent variables (working capital, capital structure and capital investment) used for the study, this was important in measuring the extent to which changes in one or more variables jointly affected changes in another variable.

Table 4.5: Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.749</td>
<td>.562</td>
<td>.546</td>
<td>.610</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Capital Investment, Capital Structure, Working Capital

Source: Research Data (2017)

Adjusted R squared is coefficient of determination which tells us the variation in the dependent variable due to changes in the independent variable. From the findings in Table 4.5 the value of adjusted r squared was 0.546 an indication that there was variation of 54.6% on financial performance of firms listed under manufacturing and allied sector at the Nairobi securities exchange, Kenya was due to changes in working capital, capital structure and capital investment at 95% confidence interval. Additionally, this therefore means that factors not studied in this research contribute 45.4% of financial performance of firms listed under manufacturing and allied sector at the Nairobi securities exchange, Kenya and a further research should be conducted to investigate the other factors (45.4%) that affect financial performance of firms listed under manufacturing and allied sector at the Nairobi securities exchange, Kenya.
Table 4.6: Analysis of Variance (ANOVA)

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>40.037</td>
<td>3</td>
<td>13.346</td>
<td>35.89</td>
<td>.000a</td>
</tr>
<tr>
<td>Residual</td>
<td>31.236</td>
<td>84</td>
<td>.372</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>71.273</td>
<td>87</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Capital Investment, Capital Structure, Working Capital
b. Dependent Variable: Financial Performance

Source: Research Data (2017)

The significance value is 0.000a which is less than 0.05 thus the model is statistically significant in predicting how various factors affect financial performance of firms listed under manufacturing and allied sector at the Nairobi securities exchange, Kenya. The F critical at 5% level of significance was 13.718. Since F calculated is greater than the F critical (value = 35.889), this shows that the overall model was significant. The relationship (p < 0.05) indicated a linear relationship among the variables under the study meaning there was 95% chance that the relationship among the variables was not due to chance.

Table 4.6: Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>.522</td>
<td>.362</td>
<td></td>
<td>5.503</td>
</tr>
<tr>
<td>Working Capital</td>
<td>.295</td>
<td>.136</td>
<td>.337</td>
<td>2.166</td>
</tr>
<tr>
<td>Capital Structure</td>
<td>.415</td>
<td>.156</td>
<td>.411</td>
<td>2.659</td>
</tr>
<tr>
<td>Capital Investment</td>
<td>.268</td>
<td>.049</td>
<td>-.404</td>
<td>-5.437</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Financial Performance

Source: Research Data (2017)
As shown in Table 6 working capital and capital structure was found to have a positive and significant effect and capital investment had a negative effect on financial performance of firms listed under manufacturing and allied sector at the Nairobi securities exchange, Kenya as indicated by beta values. Working capital (t=2.166, p<0.05), capital structure (t=2.659, p<0.05) and capital investment (t = -5.437, p<0.05).

Table 4.6 further shows the constant in this model is represented by a value of 0.522, which is the expected value of financial performance of firms listed under manufacturing and allied sector at the Nairobi securities exchange, Kenya when the values of the independent variables are equal to zero. Capital structure was found to be the most (41.5%) significant among the three variables followed by working capital (29.5%) and finally capital investment (26.8%).

Based on the analysis, the regression equation for the independent variable on the dependent variable resulted to the following; \( Y = 0.522 + 0.295X_1 + 0.415X_2 + 0.268X_3 \)

Where \( Y = \text{Financial Performance} \)
\( X_1 = \text{Working Capital} \)
\( X_2 = \text{Capital Structure} \)
\( X_3 = \text{Capital Investment} \)

\( H_{01} : \text{Working capital does not have a significant effect on financial performance} \)

The null hypothesis that working capital does not have a significant effect on financial performance was thus rejected because t statistics 2.166 has a p value of 0.003 less than 0.05.

\( H_{02} : \text{Capital structure does not have a significant effect on financial performance} \)
The null hypothesis that capital structure does not have a significant effect on financial performance was thus rejected based on the fact that t statistics 2.659 has a p value of 0.001 which is less than 0.05.

**H$_{03}$: Capital investment does not have a significant effect on financial performance**

The null hypothesis that capital investment does not have a significant effect on financial performance was not rejected based on the fact that t statistics -5.437 has a p value of 0.023 which is greater than 0.05.
CHAPTER FIVE
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction
The chapter provides the summary of findings, gives the conclusions and recommendations of the study based on the objectives of the study. The summary of the findings is based on the quantitative findings per specific objectives. Conclusions is based on qualitative findings on the effects of working capital, capital structure and investment decisions based on the findings of the study and recommendations shows the best ways in overcoming the effects of the working capital, capital structure and investment decisions.

5.2 Summary of Findings

5.2.1 Working Capital
The study revealed that working capital had a positive and significant effect and capital investment had a negative effect on financial performance of firms listed under manufacturing and allied sector at the Nairobi securities exchange, Kenya as indicated by beta values (t=2.166, p<0.05). The mean of 4.09 indicated that the company highly ensures that there is sufficient cash flow to meet daily needs with a significance variance of 0.905. There is a moderate maintenance of optimal cash balances by the company at all times as indicated by a mean of 3.82. This varies significantly as indicated by a standard deviation of 1.034. The company moderately prepares cash flow forecasts to identify future surpluses and deficits as indicated by the mean of 3.80 and a standard deviation of 0.973. The company moderately maintains proper records for all payables as indicated by the mean of 3.73 and a standard deviation of 1.058. The company moderately maintains inventory records which are updated regularly as indicated by a mean of 3.09 and a standard deviation of 1.171. The company has a moderate working capital management system.
as indicated by a mean of 3.27 and a standard deviation of 1.142. The overall mean of 3.53 shows that working capital moderately influenced financial performance of firms listed under manufacturing and allied sector at the Nairobi securities exchange, Kenya which varied significantly as indicated by a standard deviation of 1.086.

### 5.2.2 Capital Structure

The study revealed that capital structure had a positive and significant effect and capital investment had a negative effect on financial performance of firms listed under manufacturing and allied sector at the Nairobi securities exchange, Kenya as indicated by beta values (t=2.659, p<0.05). The company highly utilizes the debt facility according to its capabilities as indicated by mean of 4.45 which varied significantly as indicated by a standard deviation of 0.896. The company highly relies on equity capital only as indicated by a mean of 4.06 and a standard deviation of 0.672. The company has a high foreign ownership as indicated by a mean of 4.36 and a standard deviation of 0.647. The mean of 3.09 shows a moderate optimum capital structure obtained when market value per share is the maximum which vary significantly as indicated by a standard deviation of 1.171. The capital structure of a company is highly determined initially at the time the company is floated as indicated by a mean 3.91 which vary significantly as indicated by a standard deviation of 1.247. Capital structure is the permanent financing of the company represented primarily by long-term debt and shareholders’ funds as indicated by a mean of 3.45 and a standard deviation of 1.312. The mean of 3.86 shows that capital structure highly influenced financial performance of firms listed under manufacturing and allied sector at the Nairobi securities exchange, Kenya which varied significantly as indicated by a standard deviation of 1.036.
5.2.3 Capital Investment

The study revealed that capital investment had a negative and insignificant effect and capital investment had a negative effect on financial performance of firms listed under manufacturing and allied sector at the Nairobi securities exchange, Kenya as indicated by beta values ($t=-5.437$, $p<0.05$). There is a moderate firm’s decision to invest in long term assets has decisive influence on the rate and direction of its growth as indicated by the mean of 3.27 which vary significantly as indicated by a standard deviation of 1.362. The mean of 4.18 shows that investment decisions highly involve commitment of large amount of funds which vary significantly as indicated by a standard deviation of 0.838. Investment decisions highly affect the risk of the firm as indicated by a mean of 4.00 and a variance of 1.213. Investment decision is a complex problem to correctly estimate the future cash flows of an investment was moderate as indicated by a mean of 3.82 and a standard deviation of 0.941. The mean of 4.45 shows that an investment decision highly revolves around spending capital on assets that will yield the highest return for the company over a desired time period which vary significantly as indicated by a standard deviation of 0.659. The mean of 3.94 shows that capital investment highly influenced financial performance of firms listed under manufacturing and allied sector at the Nairobi securities exchange, Kenya which varied significantly as indicated by a standard deviation of 1.002.

5.3 Conclusion

The study concluded that working capital is important to the financial performance of manufacturing and allied sector at NSE because the current assets of a typical manufacturing firm accounts for over half of its total assets. For a distribution company, they account for even more. Excessive levels of current assets easily result in a firm’s realizing a substandard return on investment. Working capital is necessary for the manufacturing company to function
on a daily basis, as the organization requires a certain amount of cash on hand to cover unexpected costs, make regular payments and buy raw materials used in production.

The study concluded that capital structure on financial performance of manufacturing and allied sector at NSE describes the amount of debt the organization uses as opposed to equity, and it is often measured with the ratio of debt to equity. The more debt a company has, the more it has to pay creditors for the use of those funds. However, the more debt a company takes on, the more cash it has to generate sales. Capital structure provides an organized way to raise capital. Both debt and equity have their advantages and disadvantages. Capital structure also provides flexibility in raising funds. The challenge manufacturing companies get is finding the right equilibrium between debt and equity for an optimal capital structure, which can then be leveraged to grow the business.

The study concluded that through capital investment on financial performance of manufacturing and allied sector at NSE funds are invested in a firm or enterprise for the purpose of furthering its business objectives. Manufacturing firms acquire capital assets and fixed assets such as manufacturing plants and machinery that is expected to be productive over many years. Sources of capital investment include equity investors, banks, financial institutions, venture capital etc.

5.4 Recommendations

The study recommended that manufacturing and allied sector listed at NSE should increase their average collection period, inventory turnover periods and cash conversion period in order to improve their financial performance. In order to improve their financial performance there is need to increase the leverage ratios currently present. Higher leverages will lead to higher financial performance. This can be improved by increasing the debt levels. This debt can be used
to make more purchases and therefore more sales volumes which will translate to higher financial performance through more incomes.

The study recommended that manufacturing and allied sector listed at NSE should use shareholders’ funds as much as possible before they undertake to borrow, so that they minimize the risks related to borrowing, which include interest on the debt exceeding the return on the assets they are financing. Firms must therefore be encouraged or assisted to obtain equity by listing on the exchanges. This can be done by educating and sensitization of business owners of the benefits of listing, as well as granting of special fiscal measures to encourage them to list.

The study recommended that manufacturing and allied sector listed at NSE should pursue product diversification investment strategies in order to broaden their revenue base. Since investment decisions directly affects financial performance of manufacturing firms. Government of Kenya should consider subsidizing manufacturing products as a policy consideration through the annual budget proclamations.

5.5 Suggestion for Further Studies

This study suggests that further studies should be conducted on the influence of financial management practices on growth of manufacturing and allied sector listed at NSE. The study should also focus on private manufacturing companies in a similar study. This may lead to a more generalized conclusion on findings and policy recommendation across the industry. The study also recommends that small and medium sized companies should be targeted because the sector consists of a majority of people with low and middle level of education, yet it consists of a very high percentage of economy hence the need for a workable policy.
REFERENCES


Kadondi, E.A (2002) a survey of Capital Budgeting Techniques used by companies listed at the NSE, unpublished MBA project, University of Nairobi


Mutie Peter Kiko (2010), Relationship between prior period dividends and financial Performance of firms listed at the Nairobi stock Exchange, Nairobi, pp.89


Nurein Saheed Adebowale (2014) on the impact of working capital management on corporate performance


APPENDICES

Appendix I: Letter of Introduction

Hassan Issack Bulle

P.o Box 1455
Garissa

Dear Sir/Madam,

Re: Research Study

I am an MBA student from Kenyatta University - City Campus, undertaking research on the ‘An Assessment of Financial Management and Financial Performance of Firms Listed Under Manufacturing and Allied Sector at the Nairobi Securities Exchange, Kenya’.

I therefore request to be granted permission to carry out the study in the attached list of selected departments in your organization.

Yours Faithfully

Hassan Issack Bulle
MBA Student
Kenyatta University – Main Campus
Appendix II: Questionnaire

Kindly you are requested to provide answers to the questions as honestly and precisely as possible. Responses to these questions will be treated as confidential. Do not write your name or that of your department anywhere on this questionnaire but tick [✓] where appropriate or fill in the required information on the spaces provided. Please take a few minutes to complete this questionnaire. Your honest responses will be completely anonymous and will only be used for academic purposes only.

Section A: Demographic Data

1. Gender: Male [ ] Female [ ]
2. Age:
   [ ] Less than 25 Years [ ] 25 – 35 Years
   [ ] 36 -45 Years [ ] Over 45 Years
3. How long have you worked in this organization?
   Less than 2 years [ ] 2 – 5 years
   6– 10 years [ ] Over 10 years [ ]
4. What is your level of education?
   Diploma/College [ ] University Degree [ ]
   MBA/MA [ ] Post-graduate Diploma [ ]

Section B: Working Capital and Financial Performance

The statements below relate to the influence of working capital on financial performance of firms listed under manufacturing and allied sector at the Nairobi securities exchange, Kenya: Supplied also are five options corresponding to these statements:
**Key:** Strongly agree(SA)=5, Agree(A)=4, Undecided(U)=3, Disagree(D)=2, and Strongly Disagree(SD)=1.

<table>
<thead>
<tr>
<th>Statement</th>
<th>1</th>
<th>2</th>
<th>3</th>
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<tbody>
<tr>
<td>Optimal cash balances are maintained by the company at all times</td>
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<td>The company ensures that there is sufficient cash flow to meet daily needs</td>
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<td>The company prepares cash flow forecasts to identify future surpluses and deficits</td>
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<tr>
<td>The company maintains proper records for all payables</td>
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<tr>
<td>Receivables management system is fully automated</td>
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<td>The company maintains inventory records which are updated regularly</td>
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<td>The company has a working capital management system</td>
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5. Based on your opinion, how does working capital influence financial performance of firms listed under manufacturing and allied sector at the Nairobi securities exchange, Kenya?

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Section C: Capital Structure and Financial Performance

The statements below relate to the influence of capital structure on financial performance of firms listed under manufacturing and allied sector at the Nairobi securities exchange, Kenya:

Supplied also are five options corresponding to these statements:

**Key:** Strongly agree(SA)=5, Agree(A)=4, Undecided(U)=3, Disagree(D)=2, and Strongly Disagree(SD)=1.

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<tr>
<th>Statement</th>
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<tbody>
<tr>
<td>The company has fully utilized the debt facility according to its capabilities</td>
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<tr>
<td>The company relies on equity capital only</td>
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<tr>
<td>The company has foreign ownership</td>
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<tr>
<td>The capital structure of the company is appropriate</td>
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<tr>
<td>Optimum capital structure is obtained when market value per share is the maximum</td>
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<tr>
<td>The capital structure of a company is to be determined initially at the time the company is floated</td>
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<tr>
<td>Capital structure is the permanent financing of the company represented primarily by long-term debt and shareholders’ funds</td>
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6. Based on your opinion, how does capital structure influence financial performance of firms listed under manufacturing and allied sector at the Nairobi securities exchange, Kenya?

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66
**Section D: Capital Investment and Financial Performance**

The statements below relate to the influence of capital investment on financial performance of firms listed under manufacturing and allied sector at the Nairobi securities exchange, Kenya:

Supplied also are five options corresponding to these statements:

**Key:** Strongly agree(SA)=5, Agree(A)=4, Undecided(U)=3, Disagree(D)=2, and Strongly Disagree(SD)=1.

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<thead>
<tr>
<th>Statement</th>
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<tr>
<td>A firm’s decision to invest in long term assets has decisive influence on</td>
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<td>the rate and direction of its growth.</td>
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<tr>
<td>Investment decisions involve commitment of large amount of funds</td>
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<td>Investment decisions affect the risk of the firm</td>
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<td>Investment decision is a complex problem to correctly estimate the</td>
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<td>future cash flows of an investment</td>
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<td>An investment decision revolves around spending capital on assets that</td>
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<td>will yield the highest return for the company over a desired time period.</td>
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7. Based on your opinion, how does investment decisions influence financial performance of firms listed under manufacturing and allied sector at the Nairobi securities exchange, Kenya?

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### Appendix III: Document Review Data

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<th>2014</th>
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<tr>
<td><strong>Working Capital</strong></td>
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<tr>
<td>Cash Level</td>
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<tr>
<td>Debtors Level</td>
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<tr>
<td>Inventory Level</td>
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<tr>
<td><strong>Capital Structure</strong></td>
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<tr>
<td>Debt Level</td>
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<tr>
<td>Equity Level</td>
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<tr>
<td><strong>Capital Investment</strong></td>
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<tr>
<td>Long Term Investment</td>
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<td>Short Term Investment</td>
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Appendix IV: Manufacturing Firms and Allied Sector

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<thead>
<tr>
<th>Companies</th>
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<tbody>
<tr>
<td>B.O.C Kenya Ltd</td>
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<tr>
<td>British American Tobacco Kenya Ltd</td>
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<tr>
<td>Carbacid Investments Ltd</td>
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<tr>
<td>East African Breweries Ltd</td>
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<tr>
<td>Mumias Sugar Co. Ltd</td>
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<tr>
<td>Unga Group Ltd</td>
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<tr>
<td>Eveready East Africa Ltd</td>
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<tr>
<td>Kenya Orchards Ltd</td>
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<tr>
<td>A.Baumann CO Ltd</td>
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<td>Flame Tree Group Holdings Ltd</td>
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</table>

Total

Source: NSE, 2017