

**FINANCIAL MANAGEMENT PRACTICES AND FINANCIAL  
PERFORMANCE OF KENYA TEA DEVELOPMENT AGENCY MANAGED  
TEA FACTORIES IN KENYA**

**SIMEON KIPROTICH RUGUTT  
D53/CTY/PT/25866/2013**

**A RESEARCH PROJECT SUBMITTED TO THE SCHOOL OF BUSINESS IN  
PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF  
THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION (FINANCE  
OPTION) OF KENYATTA UNIVERSITY**

**JULY, 2018**

**DECLARATION**

This research project is my original work and has not been presented for an examination in any other University or institution of learning.

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.....

**Signature**

**Date**

**SIMEON KIPROTICH RUGUTT**

**D53/CTY/PT/25866/2013**

**Supervisor**

This research project has been presented for examination with my approval as the university supervisor.

.....

.....

**Signature**

**Date**

**MR. JAMES MUTURI**

Department of Accounting and Finance  
Kenyatta University

## **DEDICATION**

I dedicate this research to my family for their unconditional support especially during my studies. To my mentor, the late Dr. Griffin, thank you for giving me an opportunity to pursue my secondary education.

## **ACKNOWLEDGEMENT**

I would like to positively acknowledge my project supervisor, Mr. James Muturi, for his guidance and supervision. I truthfully recognize the positive contribution I received from Kenyatta University staff particularly in providing me with necessary skills. To all those who contributed positively through their criticism, I celebrate them.

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## **LIST OF ACRONYMS AND ABBREVIATIONS**

<b>FA</b>	Factory Accountant
<b>FUM</b>	Factory Unit Manager
<b>KTDA</b>	Kenya Tea Development Age
<b>ROA</b>	Return on Assets
<b>ROE</b>	Return on Equity
<b>SME</b>	Small and Medium Enterprises
<b>WCM</b>	Working Capital Management

## DEFINITION OF OPERATIONAL TERMS

<b>Budget Management</b>	This is the analysis and organization of costs and expenditures for a business or an organization (Sangster, 2009).
<b>Capital Structure Decisions</b>	This is a mix of a company's long-term debt, specific short-term debt, common equity and preferred equity (Saad, 2010).
<b>Factory Accountant</b>	This is the person in the factory who measure factory performance on a daily basis, analyze findings, ensure all system data, and recommends financial actions is updated and maintained (KTDA, 2017).
<b>Financial Management Practices</b>	These are best practices for planning, organizing, directing and controlling the financial activities of an organization (Pinegar & Wilbricht, 2009).
<b>Financial Performance</b>	Financial performance is the degree to which financial objectives being or has been accomplished and is an important aspect of finance risk management (Gitman, 2007).
<b>Investment Appraisal Technique</b>	This is a method of evaluating the attractiveness of an investment of an investment proposal (Maseko & Manyani, 2011).
<b>Working Capital Management</b>	This involves the relationship between a firm's short-term assets and its short-term liabilities (Deloof & Jegers, 1996).

## ABSTRACT

Financial management in KTDA managed factories is concerned with ensuring funds are available when needed and that they are obtained and used in the most efficient and effective way to the benefit of the shareholders. Financial performance of KTDA managed tea factories in terms of service delivery continue being poor as depicted by low sales revenue and low profitability in most factories. There has been an issue of delay of the supply of services due to mismanagement of funds in these factories. Managing the movement of funds in relation to the budget is essential for shareholders and to the organization overall financial performance. This study was restricted to effect of financial management practices on financial performance of KTDA managed tea factories in Kenya. The study assessed the effect of capital structure decisions, working capital management, investment appraisal technique and investment budget management on performance of KTDA managed Tea Factories. This study would be of great importance to the management KTDA managed Tea Factories and other similar institutions on the matters concerning the challenges that are hindering financial management. The research used descriptive research design and its target population was 68 KTDA managed Tea Factories focusing on Factory Unit Manager (FUM) and Factory Accountant from each factory. The sample size of the study was selected by using multistage sampling method. Data was collected using questionnaires and analyzed using quantitative technique. The study found out that 50.9% of the respondents rated the effects of preferred stock as mix of capital structures that maximize shareholders' wealth at very great extent. The study further revealed that appropriate capital structure decisions is affected by the firm size as rated as great extent by that 38.9% of the respondents. It was also deduced that ownership structure has an effect on the retained earnings as noted by 50.0% of the respondents as very great extent. The study further inferred that data management enhances future financial commitments as rated by 37.0% of the respondents at very great extent. Based on the results it was revealed that investment budget management and capital structure decisions have the highest effect on financial performance KTDA managed tea factories while working capital management and investment appraisal technique have the least effect. The study also recommends that management of KTDA managed tea factories should initiate investments which minimize disruption to the organizations. The study further recommends that KTDA managed tea factories' managerial process should carry out continuous enrichment for good financial performances and they identify the cash balance that allows the business to meet day to day expenses but so as the business remain liquid. The study was however limited by limited access to materials related to financial management practices that are used by sampled tea factories hence appropriate information might not have been obtained. This study suggests that further research on the effects of financial management practices on financial performance of tea factories in Kenya that are not managed by KTDA should be conducted.

# **CHAPTER ONE**

## **INTRODUCTION**

### **1.0 Introduction**

This chapter has several contents including background to the study, statement of the problem and objectives of the study. This chapter also sets the research questions that will be answered in the research and identify how the research would be useful to others. The chapter further outlines significance, scope and finally limitations of the study. Generally, the key highlight of this chapter is to provide introductory information on effect of financial management practices on performance of Kenya Tea Development Agency (KTDA) managed tea factories in Kenya.

### **1.1 Background of the Study**

Financial management practices refer to the set of common methods one develop for carrying out financial reporting, budgeting and other activities related to business finances (Pinegar& Wilbricht, 2009). Understanding these practices would help KTDA managed tea factories in supporting business policies, establishing accountability and providing step-by-step instructions for completing a task of the organization which translates to enhanced performance.

#### **1.1.1 Financial Management Practices**

The rapidly changing nature of today's external environment continuously creates a need for business strategy, process improvements and organizational transformation to ensure survival in today's highly competitive market (Shah, 2009). Ahmed, Babar and Kashif (2010) added that businesses are under constant pressure to develop, implement and rapidly revise their financial management strategies. To do this, they argued that businesses need to develop and implement financial strategies to manage risk and improve financial performance and capabilities as depicted in the resource based theory.

Most organizations have limited opportunities for generating additional income (Lewis, 2005). These organizations are faced with an ever increasing agenda of programme and activities on which such funds could be spent. Sangster (2009) argued that the resource allocation activities and management of these organizations have received relatively little

attention in economic literature. In fact, accountants and financial managers as individuals and as occupational groups are largely invisible in the growing body of financial management literature (Lightbody, 2009). Financial management is therefore relegated to a subordinate role in public academic institutions decision making (Booth, 2010).

Raheman (2010) suggested that financial literature suggests optimal application and commitment towards financial management practices result in an increased company's performance. The financially well-managed companies are operationally efficient. This stands as a positive sign for investors and regulatory authorities. According to Zadek (2004), managers contracted to make decisions in the large, open corporation and received compensation for services rendered. Ahmed, Babar and Kashif (2010) did a study on financial management practices and their impact on organizational performance.

Gloy and LaDue (2011) studied the impacts of financial management practices on firm profitability. To measure the extent of business analysis, the authors identified the producers who benchmarked their profitability relative to other firms, producers who kept track of their financial profitability over time, and those who hold formal business meetings each year. The investment analysis and decision making practices of the managers were quantified by identifying the managers who used formal financial methods such as the payback period or discounted cash flow methods in evaluating major expansions (Srinivasan, 2008).

Financial management is one of the basic functions practice in all organizations (Brock, 2007). It is the way forward and represents the future for best practice organizations. Through this function, bases are determined for authority levels of financial control, budgeting and processing financial resulting information. A financial plan determines cash inflow and outflows of the treasury (Gary, 2003). The corporate sector plays a vital role in the economic outlook of any country. Financial literature suggests that capital structure has a greater impact on the economic system (Myers & Majluf, 2011) and managers should identify the ideal corporate structure for the company (Pinegar& Wilbricht, 2009).

The corporate culture depends on attitudes, beliefs and management's values, education and work experience and their impact on corporate decision making processes. In the last decade concept of corporate culture has attracted interest among business writers (Monique, 2012). Financing strategies and investments moves by the firm result in the performance of any corporation. Whenever a firm focuses on the maximization of shareholder wealth, always get proper care of its financing and investments (Cowton & Pilz, 2010).

Gloy and LaDue (2011) pinpoint that maintenance of sound internal controls for an organization is a fundamental aspect towards attainment of internal financial sustainability of the available funds. They also claimed that that failure to follow internal control procedures can have negative impact on any organization's strategic financial management. According to Osman (2007), financial management is one of the most important practices that an organization can be skilled in. With the challenges of financial sustainability facing today's public organizations, an understanding of the best financial management practices can help to ensure that these organizations are financially stable as postulated in the theory of budgeting (Dorothy, 2009).

Financial statements are intended to be understandable by readers who have a reasonable knowledge of business and economic activities and accounting and who are willing to study the information diligently. Financial analysis is then performed on these statements to provide management with a more detailed understanding of the figures. Employees need these reports in making collective bargaining agreements (CBA) with the management, in the case of labor unions or for individuals in discussing their compensation, promotion and rankings. Government entities need financial statements to ascertain the propriety and accuracy of taxes and other duties declared and paid by a company (Mautz and Sharaf, 2009).

### **1.1.2 Organizational Performance**

Performance entails a set of objective indicators (mission statement, a strategic plan, the human resource system, an independent financial audit and an information technology system) that help measure this performance (Herman and Rentz, 2008). Nolan (2011) indicated that an organizational assessment should be done to obtain valid information

about the performance of an organization and the factors that affect performance. Nolan (2011) further states that performance measurement is very essential for the valuable management of an organization.

Organizational performance is one of the most important variables in the management research and arguably the most important indicator of the organizational performance. (Monique, 2012) defined corporate performance as an organization's ability to exploit its environment for accessing and using the limited resources. An organization is successful if it accomplishes its goals using a minimum of resources hence an organization that achieves its performance objectives based on the constraints imposed by the limited resources (Lusthaus & Adrien, 2008).

When seeking to improve the performance of an organization, it is very helpful to conduct regularly assessments of the current performance of the organization (Neely & Adams, 2009). Well-done assessments typically use tools, such as comprehensive questionnaires, SWOT analyzes and diagnostic models along with a comparison of results to various best practices (Aguinis, 2009).

In comparison to the financial management practice around the world, Kenya is progressing in the financial management policies in the corporate sector. If the corporate sector follows comprehensive financial management practices it would directly affect its profits and value maximization. If these practices are applied on the different levels, an organization or an agency such as Kenya Tea Development Agency (KTDA) can achieve a better resource utilization and profit. From this discussion, it is evident that monetary practices have a strong influence on the organization's performance.

### **1.1.3 Financial Performance**

The word 'Performance is derived from the word 'parfourmen', which means 'to do', 'to carry out' or 'to render'. Performance refers the act of performing execution, accomplishment and fulfillment. In broader sense, performance refers to the accomplishment of a given task measured against preset standards of accuracy, completeness, cost, and speed. In other words, it refers to the degree to which an achievement is being or has been accomplished. In the words of Frich Kohlar "The performance is a general term applied to a part or to all the conducts of activities of an

organization over a period of time often with reference to past or projected cost efficiency, management responsibility or accountability or the like. Thus, not just the presentation, but the quality of results achieved refers to the performance. Performance is used to indicate firm's success, conditions, and compliance (Premchand, 2012).

According to Earle and Estrin (2006) financial performance refers to the act of performing financial activity. In broader sense, financial performance refers to the degree to which financial objectives being or has been accomplished. It is the process of measuring the results of a firm's policies and operations in monetary terms. It is used to measure firm's overall financial health over a given period of time and can also be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. According to Gitman (2007) financial performance the degree to which financial objectives being or has been accomplished and is an important aspect of finance risk management. It is the process of measuring the results of a firm's policies and operations in monetary terms.

Financial performance principally reflects business sector outcomes and results that shows overall financial health of the sector over a specific period of time Maseko and Manyani (2011). It indicates that how well an entity is utilizing its resources to maximize the shareholders wealth and profitability. Although a complete evaluation of a firm's financial performance take into account many other different kind of measures but most common performance measurement used in the field of finance and statistical inference is financial ratios. The financial ratios used for the measurement of financial performance of the tea sector are profitability ratios, asset utilization ratios, leverage ratios, liquidity ratios and cash conversion cycle from the period 2006-2014. Return on Investment (ROI) is taken as predicted variable and five ratio parameters are taken as predictor variables (Oduware, 2011).

Over the years, company financial performance has been the central interest to shareholders, managers, researchers and policy makers. Yet there is little convergence of opinion how such performance should be measured. To evaluate a firm's performance, analysts apply certain yardsticks, the most frequently being used are ratios. However, recently focus has shifted to other performance indicators besides the financial aspect. In

the tea industry, key performance indicators include financial measures like profitability and return on investment, employee satisfaction, production quantities and market indicators like market share. Different stakeholders require different performance indicators to enable them make informed decisions (Kearney, 2013).

The performance of the tea industry is vital to the Kenyan economy. Tea is the largest foreign exchange earner in the country, contributing over Ksh114 billion (\$1.1 billion) in 2015, Ksh101 billion (\$1 billion) in 2016 and Ksh124 billion (\$1.2 billion) in 2017. More than 650,000 Kenyans earn a living directly from tea. Tea accounts for about 26 per cent of Kenya's export earnings, and 67 per cent of the volume of tea traded at the Tea Auction Centre in Mombasa. Despite the immense contribution tea production adds to the Kenyan economy, the sub-sector is grappling with increased costs of factor inputs, exemplified by the labour costs that have gone up an average of 200 per cent between 2001 and 2017. Though the government subsidised the cost of fertilisers in June 2015, it has not been sustainable and will not lower the cost of production. The cost of electricity has gone up 100 per cent and the cost of diesel has gone up 345 per cent. The increased labour costs could overburden the tea sector, making the business unsustainable.

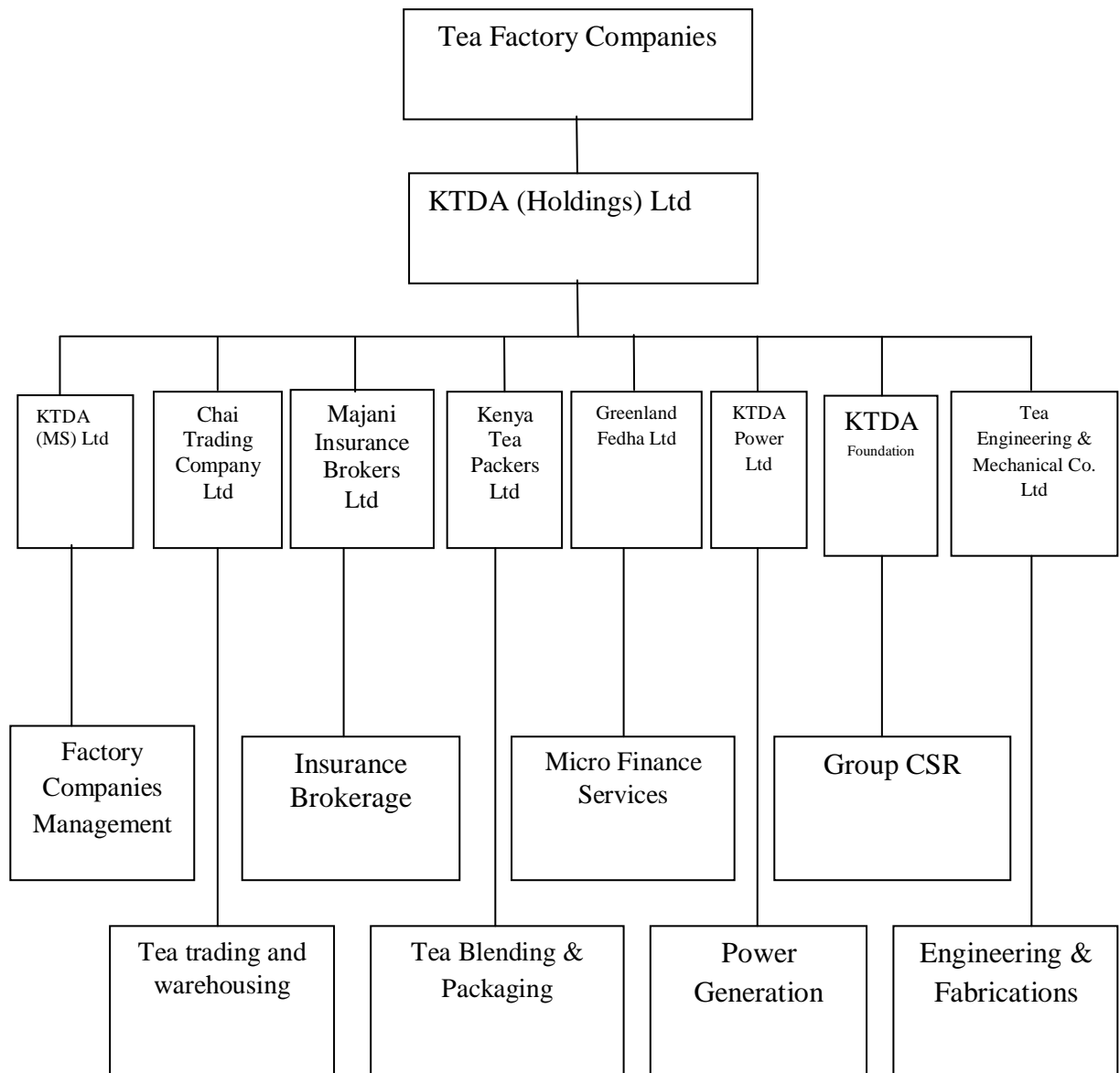
#### **1.1.4 The Kenya Tea Development Agency**

Kenya Tea Development Agency (KTDA) was formed on the privatization of Kenya Tea Development Authority in June 2000. It took over the assets; liabilities and the mandate of the Authority. The new terms applying to the Agency are contractual agreement with the independent tea factory companies it manages. Kenya Tea Development Agency Holdings provides comprehensive services to small tea farmers such as agri-extension, transportation, processing, and marketing. It has six subsidiaries including the KTDA Management Services Limited which oversees 54 companies that collectively own 66 tea processing factories in which small farmers are shareholders.

KTDA was created following the privatization of the parastatal Kenya Tea Development Authority in 2000. The Agency is contracted by the tea factory companies to; manage tea cultivation, develop and maintain tea husbandry, collect, weigh, handle and pay farmers for green leaf delivered. It is further mandated to manufacture green leaf into tea, market the manufactured tea, provide services in procurement, Information and Communication

Technology (ICT) and human resource (HR) as well as develop and provide sound technical, financial and managerial infrastructure. KTDA, through its subsidiaries, also engages in buying, bulk packing, and selling tea to local and international destinations and customers; provides insurance services to the general public; and exports packed tea to destinations around the world.

**Figure 1.1 The Kenya Tea Development Agency Group Structure**



**Source: KTDA, Corporate Communication Department (2018)**

## **1.2 Statement of the Problem**

The main buyers of Kenyan tea are Pakistan, Egypt and the UK accounting more than 65 percent of national tea exports with Pakistan alone importing 24 percent of the total tea being exported. Over-reliance on a few export partners is identified as one of the major challenges for Kenyan tea industry (Made et al., 2009). This problem cropped up when Pakistan began to look out for other providing markets which reduced Kenyan tea imports from 91,000 tonnes in 2016 to 65,000 tonnes in 2017 (The Tea Board of Kenya, 2016). One of the main challenge facing KTDA managed tea factories in Kenya is lack of credit facilities to the small scale grower. Other challenges facing include poor infrastructure, unreliable electricity, high costs of fuel and packaging materials further increase production costs.

Financial management is concerned with ensuring funds are available when needed and used in the most efficient and effective way (Waddell, 2012). Financial management practices requirements can impose a significant burden on tea factories especially those managed by KTDA. Managing the movement of financial resources in relation to the budget is essential for these tea factories performances. Wanyungu (2013) notes that the financial management processes of KTDA managed tea factories in Kenya are generally weak and dominated by conditions of resource scarcity. Oladipo (2013) postulated that while the financial management system is improving, there are still cases of weak financial systems and procedures.

Financial performance of KTDA managed tea factories in terms of service delivery continue being poor as depicted by low sales revenue and low profitability in most factories. There has been an issue of delay of the supply of services due to mismanagement of funds. According to task force report done by Ministry of Agriculture (2007) there are several issues which impact on tea industry which include inadequate access to financial services. Kenya is among the high cost producer with its cost of production at USD 1.33 per Kg of made tea which is higher compared to other East Africa countries. According to the report, financial management malpractices are the main reasons for poor performance.

For the full year 2017, Kenyan tea production remained around 7% lower than the previous year. Global tea production recorded a decline of 16% in 2017, primarily on the back of crop losses in Kenya, which accounts for around 16% of the total black tea production globally and Sri Lanka which contributes to around 10% of global tea production. According to Bliss (2003), tea is one of the most popular beverages in the world today. Tea contributes significantly to the economic revenue of tea producing countries (Davies, 2010). Wanyungu (2013) did a study on the financial management practices of micro and small enterprises but there is no local study that has focused on the effects of financial management practices on performance of KTDA managed tea factories.

After registering a considerable decline in financial performance from 2014 onwards, profit margins and debt coverage indicators for bulk tea players went considerably down in 2016 and 2017 especially for players operating in relatively higher quality tea segments. In addition, increased production, which, in turn, results in better absorption of fixed costs, together with input tax credit, is also likely to support performance. However, the overall improvement would be limited by continued costs pressures, mainly on account of increasing wage rates and this has affected the general performance of the KTDA managed tea factories. It is against the background of the above arguments that researcher tried to examine the effects of financial management practices on financial performance of KTDA managed tea factories with an intent of bringing out the best recommendations.

### **1.3 Objectives of the Study**

#### **1.3.1 The General Objective**

The general objective of this study was to examine effect of financial management practices on financial performance of Kenya Tea Development Agency (KTDA) managed tea factories in Kenya.

#### **1.3.2 Specific Objectives**

- i. To establish how capital structure decisions affect financial performance of KTDA managed tea factories in Kenya.

- ii. To examine how working capital management affects financial performance of KTDA managed factories in Kenya.
- iii. To determine the effect of investment appraisal technique on financial performance of KTDA managed tea factories in Kenya.
- iv. To assess the extent to which investment budget management affect financial performance of KTDA managed tea factories in Kenya.

#### **1.4 Research Questions**

- i. To what extent do capital structure decisions affect financial performance of KTDA managed tea factories in Kenya?
- ii. How does working capital management affects financial performance of KTDA managed factories in Kenya?
- iii. What is the effect of investment appraisal technique on financial performance of KTDA managed tea factories in Kenya?
- iv. To what the extent does investment budget management affect financial performance of KTDA managed tea factories in Kenya?

#### **1.5 Significance of the Study**

Beutler and Mason (1987) argued that financial management practices have been proven to increase net worth and satisfaction with financial resources. It was further supported by studies done by DeVaney (1995) and Jeries & Allen (1991) that there are positive effects of using selected financial management practices in any organization. Using appropriate financial management practices like working capital management and budgeting techniques in KTDA managed Tea Factories are valuable and increase the financial performance of such organizations.

Understanding the right financial management practices to be applied by the management would improve financial well-being and overall financial performance of KTDA managed Tea Factories. The recommendations that would be made by this study would increase knowledge of the management of these factories on financial management principles as well as promoting the adoption of financial management practices. This study would be of great significance to a number of stakeholders among them tea factory

managers and KTDA managers in embracing the most suitable financial management practices which would enhance the operational financial performance of the tea factories.

This study would be of great importance to the management KTDA managed Tea Factories and other similar institutions to know more about the business and more so, on the matters concerning the challenges that are hindering financial management in the business. This would assist the organization management to know the ways in which they can overcome the financial challenges facing their businesses to grow. The study would generate greater awareness among tea factories on the importance of having a proper and practical strategic financial management framework as a vehicle to financial performance.

The policy makers and the relevant govern bodies would gain knowledge on how to handle financial management in regard to the regulations and making of policies. Due to making sound regulations and policies, this would result into improved confidence in investors in investing in tea sector. The information so obtained would be useful to research institutions and the academicians who want to advance the knowledge and literature on financial management.

### **1.6 Scope of the Study**

The research was restricted to Kenya Tea Development Agency (KTDA) managed Tea Factories in Kenya and specifically a sample of 68 tea factories with objective to understand effect of financial management practices on financial performance. The target population of interest was Factory Unit Managers (FUM) and Factory Accountants (FA) drawn from all KTDA Tea Factories targeted by the study. The study covered seven regions managed by KTDA namely; region 1 (Kiambu), region 2 (Murang'a and Nyeri), region 3 (Kirinyaga and Embu), region 4 (Meru and Tharaka Nithi), region 5 (Kericho, Bomet and Nakuru), region 6 (Nyamira and Kisii) and region 7 (Nandi, Vihiga & Kakamega, and Trans Nzoia). The research was carried out for one year.

### **1.7 Limitations of the Study**

The employees were not ready to answer the questions directed by the researcher for fear of being victimized by their seniors particularly due to sensitivity of the topic which

touches on the financial status of the organization. To overcome this, the researcher not only asked for financial records and post questionnaires but visited the factory managers in person and asked for their permission to conduct the research in their factories.

Some respondents showed reluctance in disclosing relevant records and support during interviews or observation of facilities. This, together with the failure by some respondents to return questionnaires, was taken care of by adding an extra factory in the sample to replace those who may have failed to cooperate; this increased the response rate and thus reduced errors.

The study was also limited by limited access to materials related to financial management practices that are used by sampled tea factories hence appropriate information might not have been obtained. However, the researcher did further research on the topic by using books and any other source of information such as internet in order to understand much on effect of financial management practices on financial performance.

### **1.8 Organization of the Study**

Chapter one introduces the problem for investigation that is effect of financial management practices on financial performance of Kenya Tea Development Agency (KTDA) managed tea factories in Kenya, thorough in-depth background information. Statement of the problem is also highlighted to understand the basis and the reasons for conducting the research. The general objective with specific objectives touching the independent variables (capital structure decisions working capital management, investment appraisal technique and investment budget management) and dependent variable (financial performance of KTDA managed tea factories) are also presented. The research questions guiding the study are outlined and the chapter concludes by giving the significance, scope and limitations of the study.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

In this chapter, the study presents the literature review which comprises of; theoretical framework, the empirical review which looks in what other studies have found, the conceptual framework; a discussion of the identified variables and a summary of the chapter.

#### **2.2 Theoretical Review**

Theoretical reviews compare how different theories address an issue. In this study three theories were used to explain impacts of financial management practices on financial performance of Kenya Tea Development Agency (KTDA) managed tea factories in Kenya. The theories used to explain the relationship between financial management practices and financial performance is illustrated below;

##### **2.2.1 Modigliani and Miller's Theory of Dividend Policy**

Modigliani and Miller's Theory was proposed by Franco Modigliani and Merton Miller in 1961. They were the pioneers in suggesting that dividends and capital gains are equivalent when an investor considers returns on investment. The only thing that impacts the valuation of a company is its earnings, which is a direct result of the company's investment policy and the future prospects. So, according to this theory, once the investment policy is known to the investor, it will not need any additional input on the dividend history of the company. The investment decision is, thus, dependent on the investment policy of the company and not on the dividend policy.

According to Modigliani and Miller's Theory the investors are capable enough to make their own cash flows from the stocks depending on their need for the cash. If the investor needs more money than the dividend he received, he can always sell a part of his investments to make up for the difference. Likewise, if an investor has no present cash requirement, he can always reinvest the received dividend in the stock. Thus, the Modigliani and Miller's Theory firmly states that the dividend policy of a company has no influence on the investment decisions of the investors. This Theory can be used by

management of KTDA managed factories to comprehend pricing of their shares at the end of any financial period, if the original share price, dividends received and the cost of capital is known thus helping in understanding the overall financial performance of specific factory.

### **2.2.2 Resource Based View (RBV)**

The study adopted the resource-based theory of the firm. This theory combines concepts from organizational economics and strategic management (Barney, 1991). In this theory, the competitive advantage and superior performance of an organization is explained by the distinctiveness of its capabilities (Scholes and Whittington, 2008). Traditional sources of competitive advantage such as financial and natural resources, technology and economies of scale can be used to create value. However, the resource-based argument is that these sources are increasingly accessible and easy to imitate (Jackson & Schuler, 1995). Being positioned against this view, the RBV explicitly looks for the internal sources of sustained competitive advantage and aims to explain why firms in the same industry might differ in performance (Peteraf& Barney, 2003).

RBV proponents argue that simultaneously valuable and non-substitutable resources can be a source of superior performance and may enable the firm to achieve sustained competitive advantage. The RBV of the firm is therefore a suitable approach to understanding the competitive dynamics whereby resources are intangible and tangible assets linked to the firm in a semi-permanent way, including: technological, human and physical assets. However, having resources alone is not sufficient, therefore, RBV theory adds a category of capabilities which result from complex patterns of interactions and coordination between resources (Wong & Karia, 2010).

RBV maintains that resources and capabilities are often synergistic in nature and can be more valuable when combined. RBV proposes that firms have different resource endowments and that the manner in which they require, develop, maintain, bundle and apply them lead to the development of competitive advantage and superior performance over time. RBV tenets prescribe that resources and capabilities, for instance bundle of resources need to be valuable, rare, inimitable and organizationally utilizable, for

example a firm has complementary resources to leverage and maximize capabilities to drive sustainable competitive advantage (Paulraj, 2011). The study adopted this theory since it indicates and explains how that firm's non-imitable resources are exploited which enables a firm to create long-lasting competitive capabilities through financial management practices which results to improved financial performance in an organization.

## **2.3 Empirical Review**

In empirical literature the author reviews the information and theories currently available concerning the topic and the historical background of the topic. The point is to demonstrate the researcher thorough understanding of the field in which he is conducting research. The empirical literature may also contain a review of information concerning the chosen conceptual framework.

### **2.3.1 Financial Performance**

Most investors and analysts tend to focus on financial performance indicators such as return on asset (ROA), return on equity (ROE), return on sales (ROS), and the retained earnings ratio related to equity in measuring the sustainable growth (Johnson and Soenen, 2013) but also looking at these following other potential indicators for companies success such as: advertising expenditures, research and development, cash conversion cycle, and earnings volatility (Schumacher and Boland, 2010). Many studies conducted on performance of corporate institutions, most of them were concentrated on financial performance impact on different entities (Tafri et al, 2009).

Return on assets (ROA) indicates the management ability to acquire the deposit at wise price and invest in high profitable investment (Ahmed, 2009). This ratio expresses how much one dollar of assets generates the net income. The company is more profitable when return on assets (ROA) is high. Return on assets (ROA) expresses the corporate efficient management to generate the net income from institutional resources (Khravish, 2011). According to Wen (2010), the high return on assets (ROA) indicates the more corporate efficiency of the use the resources. Return on assets (ROA) is an important measure of corporate performance and was used by Heras et al., (2009) to examine

whether the ISO 9000 obtained the improvements in auditing the financial performance of 400 certified and 400 non-certified Basque firms during 10 five years.

Return on equity (ROE) was used to evaluate responsibility centers and measure corporate performance. De With (2013) used the return on equity (ROE) to measure the financial performance for the large Dutch companies. The shareholders look for return on equity (ROE) in terms of return on their investments. The company with higher return gives the signals 11 because it generates more cash internally. However, the higher the return, the higher profit. Return on equity (ROE) indicates the corporate efficiency in using the shareholders' funds (Khrawish, 2011).

Return on equity (ROE) is extremely important indicator of corporate profitability and potential growth. It indicates the return to the shareholders or rate of return on each dollar of equity invested in corporate institutions. Return on equity (ROE) is used to examine the forecasting accuracy of earnings per share in corporate companies (Manfredo et al., 2011) and partially considered indicator of corporate performance without taking into account any risk assessment, broadly, it is used to assess an unrealistic and unsustainable values. Return on equity (ROE) is very communicative tool for assessment of financial performance (ECB, 2010). There is an overtime decrease of forecasting accuracy for many firms. Return on equity (ROE) is extremely important indicator of corporate profitability and potential growth.

Return on Sales (ROS) is a ratio mostly used for evaluation the corporate financial performance. It is known as "operating profit margin". ROS expresses how much will be the corporate profit after variable cost expenses including wages, raw materials before interest and after tax. Return on Sales (ROS) indicates the revenue of a company (Ruziqa, 2013). Return on equity may be used in both ways for a single company's performance 13 analysis against its past performance and comparison of similar companies 'performances against another. The ratio differs from institutions but is basically to compare various companies in the same business. Many ratios, good to compare a corporate return on equity overtime to observe the trends and do comparison it to other corporate institutions (Mishra et al., 2012). The increase of return on equity expresses

how much the company's is more efficient, while the decrease of corporate return on Sales (ROS) indicates the financial troubles (Daly, 2011).

The financial performance can be measured into different ways, the efficient way for managers to control the corporate resources is the use of the ratios because they are basically showing the relation between two financial calculations or financial balances that help to understand the financial performance of different entities, the traditional extension ratios are important measures of financial performance using the financial statements tools (Hintz, 2010).

### **2.3.2 Capital Structure Decisions and Financial Performance**

Wipperfurth (1966) investigated the relationship between financial leverage and firm value on some industries which marked on high degree in difference characteristics from where growth, cost and demand. The study used debt to equity ratio as financial leverage indicator and earnings to market value of common stock as performance indicator. Results revealed that leverage effect positively on firm value and this traditional evidence which said that shareholders wealth can enhance by using outside financing. In this manner, Holz (2002) found that capital structure (debt ratio) related positively with the firm performance, the result ascribes to the willing of firms managers to finance their projects by borrowing and then use these money optimally to maximize the performance.

Capital structure refers to the firm's financial framework which consists of the debt and equity used to finance the firm. The ability of companies to carry out their stakeholders' needs is tightly related to capital structure. Capital structure in financial term means the way a firm finances their assets through the combination of equity, debt, or hybrid securities (Saad, 2010). In short, capital structure is a mixture of a company's debts (long-term and short-term), common equity and preferred equity. However, there are several useful conditional theories, each of which helps to understand the debt-to-equity structure that firms choose.

Based on Ebaid (2009) research, capital structure has weak-to-no influence on the financial performance of listed firms in Egypt. By using three accounting-based

measurement of financial performance which is Return on Asset (ROA), Return on Equity (ROE), and Gross Margin (GM), the empirical tests come put with the result that capital structure which is measure by ROA have a negative impact on an organization's performance. Apart from that, capital structure (including short-term debt, long-term debt and total debt) which is measure by ROE and GM have no significant impact on an organization's performance. Zeitun and Tian (2007) find out that firm's capital structure have a significant and negative impact on the firm's performance measures in both the accounting and market measures.

In today's business environment Gloy and LaDue (2011) noted that internal auditors are now providing management with a far broader range of information concerning the organization's financial, operational and compliance activities to improve effectiveness, efficiency, and economy of management performance and activities. The internal auditors are expected to provide recommendations for improvement in those areas where opportunities or deficiencies are identified. Lewis (2005) recommended that while management is responsible for internal controls, the internal audit activity provides assurance to management and the audit committee that internal controls are effective and working as intended.

Capital Structure is a mix of securities and financing sources used by corporations to finance real investments (Myers 2011). The capital structure is the mix of debt, proffered stock and common equity with which the firm tends to increase capital. The capital structure of a firm is very important since it related to the ability of the firm to meet the needs of its stakeholders. Flint (2002) states that fundamental questions in financial reporting are from which users' standpoint has the accounts to be considered and what level of understanding is to be assumed on the part of those who have to form opinions and take decisions. The most common format of formal financial reporting is financial statements (Zadek, 2004).

### **2.3.3 Working Capital Management and Financial Performance**

Sangster (2009) noted that working capital management is a very important component of corporate finance because it directly affects the liquidity and profitability of a company. It deals with current assets and current liabilities and important to due to many reasons.

The current assets of a typical manufacturing company account for over half of its total assets. Excessive levels of current assets can easily result in a firm's realizing a substandard return on assets. However firms with too few current assets may incur shortages and difficulties in maintaining smooth operations (Horne and Wachowicz, 2000).

A firm is required to maintain a balance between liquidity and profitability while conducting its day to day operations. Liquidity is a precondition to ensure that firms are able to meet its short-term obligations and its continued flow can be guaranteed from a profitable venture. A managerial accounting strategy focusing on maintaining efficient levels of both components of working capital, current assets and current liabilities, in respect to each other (Khan, 2013).

Tourna and Germanos (2008) studied about the role of accounting information on business strategy formulation. The study found out that, the use of accounting information system helped owners or managers to design and implement a strategic plan that will enable their business profitable in the long run. Kieu (2004) also found out that efficiency in accounting information system and financial reporting and analysis enhanced profitability. The efficiency of business organizations in this case was approximated by the on time and accurate recording and summarizing of business transactions, the frequency of preparing financial report and financial analysis, the degree of computerization of the accounting information system (Kieu, 2004).

Working capital management ensures a company has sufficient cash flow in order to meet its short-term debt obligations and operating expenses (Gloy & LaDue, 2011). Firms may have an optimal level of working capital that maximizes their value. Large inventory and a generous trade credit policy may lead to high sales. Larger inventory reduces the risk of a stock-out. Trade credit may stimulate sales because it allows customers to assess product quality before paying (Deloof & Jegers, 1996).

Another component of working capital is accounts payable. Delaying payments to suppliers allows a firm to assess the quality of bought products, and can be an inexpensive and flexible source of financing for the firm. On the other hand, late payment

of invoices can be very costly if the firm is offered a discount for early payment. A popular measure of Working Capital Management (WCM) is the cash conversion cycle (Raheman, 2010). The longer this time lag, the larger the investment in working capital (Deloof 2003). However, corporate profitability might also decrease with the cash conversion cycle, if the costs of higher investment in working capital rise faster than the benefits of holding more inventories and/or granting more trade credit to customer (Cox & Morgan, 2008).

According to Cook and Winkle (3006), the internal control system of an organization resembles the human nervous system which is spread throughout the business carrying orders and reactions to and from the management. In this concept, by measuring and evaluating the effectiveness of organizational controls, internal auditing, itself, is an important managerial control device, which is directly linked to the organizational structure and the general rules of the business (Cai, 2007).

Working capital management is defined as the ability of an organization to fund short term assets and short term liabilities (Harris, 2005). Management of working capital needs careful attention since it plays an important role in determination of firms' financial performance, liquidity and risk as well as firms value (Smith, 1980). Greater investment in current assets leads to lower risk in settling short term obligations while leading to lower profitability. Every business requires working capital for its survival. Working capital is a vital part of business investment which is essential for continuous business operations. Working capital management explicitly impacts both the profitability and level of desired liquidity of a business (Raheman & Nasr, 2007).

#### **2.3.4 Investment Appraisal Technique and Financial Performance**

Financial management is a process of managing financial resources, including management decisions concerning accounting and financial reporting, forecasting, and budgeting, as well as capital budgeting decisions, which include decisions whether to lease or buy, and whether to issue debt or equity (Lightbody, 2009). Financial management framework comprises the processes, systems, internal controls and practices relating to the way the department manages its revenues, expenses, assets, liabilities and contingencies (Sangster, 2009).

Sangster (2009) further stated that financial management framework also includes its systems for managing risk and monitoring its financial and operational performance, including budget performance and reporting on these functions, both internally and externally. Gitman (2007) defines financial management as the area of business management, devoted to a judicious use of capital and a careful selection of sources of capital, in order to enable an organization to move in the direction of reaching its goals. This definition points to certain essential aspects of financial management namely prudent or rational use of capital resource and achieving the goal of the firm.

Accounting and financial management books confirm that good accounting, reporting and financial analysis practice enhance performance by helping decision makers design and implement wise and strategic decisions (Tourna and Germanos, 2009). From this, it is possible to formulate the following hypothesis. Financial reporting is the process of preparing and distributing financial information to users of such information in various forms. Accounting typically restricts itself to information in a normal set of financial statements, that is, a balance sheet, a statement of income, and a statement of retained earnings (Anglo-Saxon countries), together with various footnotes and supporting schedules (IASB, 1989).

Investment decision of the company shifts its effect on share prices through dividend policy (Wanyungu, 2013). Thus, dividend contribution to firm's future earnings performance is quite evident from literature. Investment appraisal technique is one of the regularly studied areas of financial management. According to McConnel and Servaes (2010), there are a variety of concerns in investment appraisal which is a type of technique that is the starting point for management.

According to Oduware (2011), financial management entails planning for the future of a business enterprise to ensure a positive cash flow. He also added that financial management involves planning, organizing, directing and controlling the financial activities such as the procurement and the utilization of funds of the enterprise. From an organizational point of view, the process of financial management is associated with financial planning and financial control (Cowton & Pilz, 2010). Financial planning seeks

to quantify various financial resources available and plan the size and timing of expenditures (Appuhami, 2008).

### **2.3.5 Investment Budget Management and Financial Performance**

Budgets occupy a leading place among the special tools of management employed to direct and control the affairs of large and multifarious organizations (Burke & Modarresi, 2010). They are used not only by governments, where budgeting had its origins, but in other public bodies, in industry and commerce and in private families. A budget is a basic tool in management. In this regard it serves as a tool for planning and controlling the use of scarce financial resources in the accomplishment of organizational goals (Irala, 2006).

The budget is an invaluable aid in planning and formulating policy and in keeping check on its execution (Premchand, 2012). Any good budget process needs to attain three important objectives, namely, maintenance of fiscal discipline, attaining allocative efficiency, and operational or technical efficiency (Artiacha et al., 2010). Attainment of fiscal discipline has been the main goal of budget reforms. Enlargement of the legislature's role in budgeting is a new contemporary issue budgetary approaches. With legislative budgeting, new responsibilities must be accommodated both to long- standing appropriation processes, and to political relations with government (Wanyungu, 2013).

The study done by Srinivasan (2008) found a significant positive relationship between keeping books and records, but only when success is measured in terms of operator's labor and management income. According to Maseko and Manyani (2011), accounting systems provide a source of information to owners and managers of small businesses operating in any industry for use in the measurement of financial performance. It is crucial therefore that the accounting practices of small businesses supply complete and relevant financial information needed to improve economic decisions made by entrepreneurs.

Financing mix serves as the guiding force, when looking for the new investment opportunities. The value of dividend decision is found critical primarily by (Miller & Modigliani, 2011). They believe that the markets without capital market imperfections like transaction costs and taxes, dividend policy can bring no changes to the value of the

firm. This has given rise to unstoppable discussions on the dividend policy and the firm value (Black, 2006). There are certain financial management practices that are essential for a healthy functioning of any corporate organizations (Anthony and Young, 2010). These include budgeting process and sound ongoing internal controls. Budgeting therefore becomes a critical activity for these organizations. These financial management practices are critical for any organization.

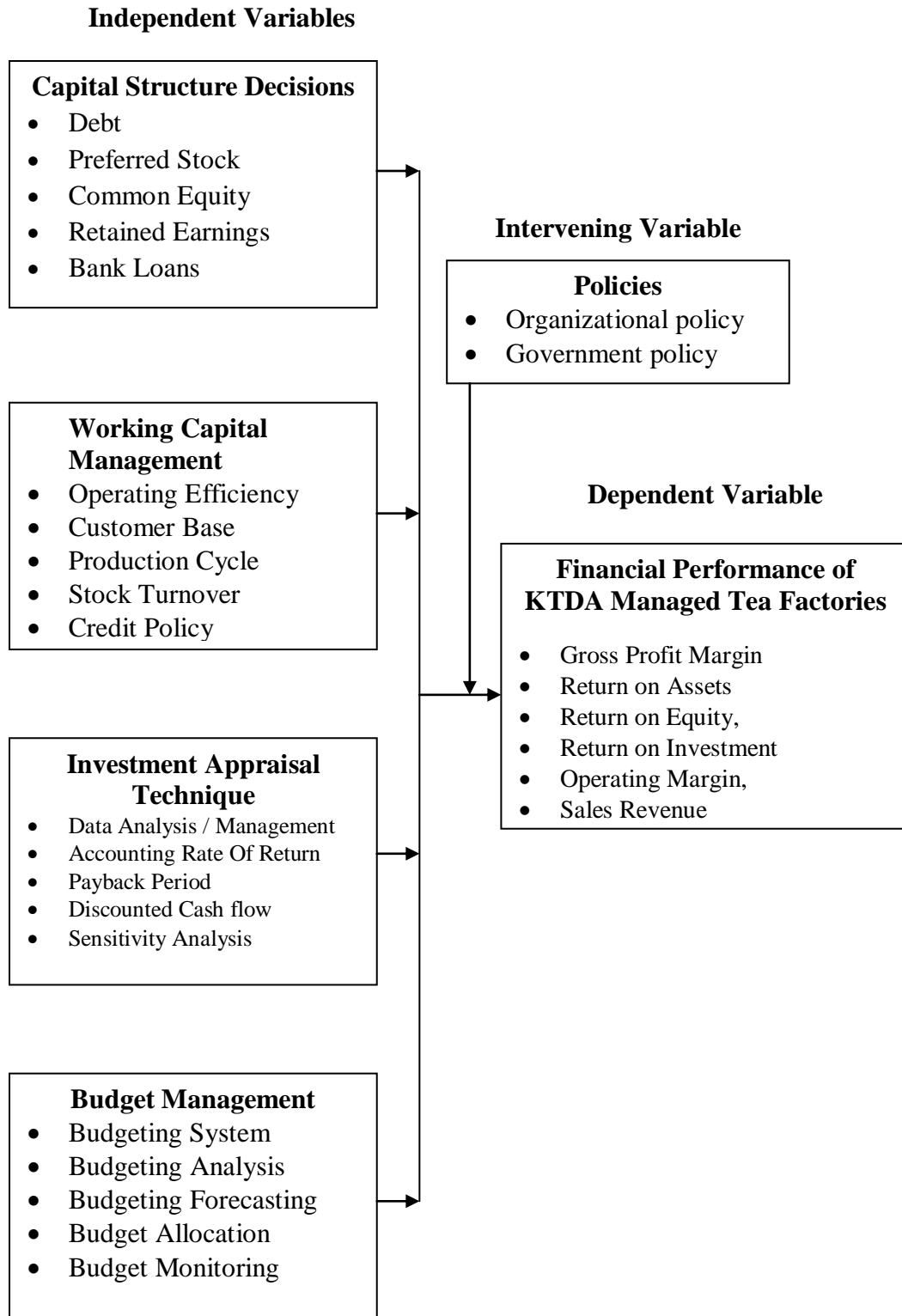
Peel and Bridge (2008) noted that capital budgeting and planning positively impact on the performance of small businesses. Small and Medium Enterprises (SME) engaged in detailed strategic planning are more likely to use formal capital budgeting techniques, including the net present value method, which is consistent with maximization of firm value. Lewis (2005) suggested that perceived profitability and success in achieving organizational objectives are positively associated with planning detail, suggesting that strategic planning is a key component in improving performance. Planning is very important because of the constantly changing and volatile business environment.

According to Cowton and Pilz, (2010) an effective internal audit activity is a valuable resource for management and the board or its equivalent, and the audit committee due to its understanding of the organization and its culture, operations and risk profile. The objectivity, skills, and knowledge of competent internal auditors can significantly add value to an organization's internal control, risk management, and governance processes. Similarly an effective internal audit activity can provide assurance to other stakeholders such as regulators, employees, providers of finance, and shareholders (Amit, 2012).

## **2.4 Conceptual Framework**

The independent variables in this study are capital structure decisions, working capital management, investment appraisal technique and budget management. These are financial management practices which affect financial performance of Kenya Tea Development Agency (KTDA) managed tea factories in Kenya. According to Everitt (2002) the dependent variable is what is measured in the experiment and what is affected during the experiment which is the financial performance of Kenya Tea Development Agency. Below is diagrammatic presentation of the variables which shows the relationship between the independent variables and dependent variables.

**Figure 2.1 Conceptual Framework**



**Source: Researcher (2018)**

## **CHAPTER THREE**

### **RESEARCH DESIGN AND METHODOLOGY**

#### **3.1 Introduction**

Research design involves determining best chosen method that is applied to answer research question. Key aspects of research design include research methodology; participant collection and assignment and data collection procedures and instruments.

#### **3.2 Research Design**

According to Kothari (2004), a research design can be defined as the framework or structure of a research. Designs in research describe the data collection method or research approach that is used in a study. A research design is the arrangement of conditions for collections and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. The research used descriptive research design. Descriptive research design is an innovative tool for researchers which present an opportunity to use quantitative data. The subject is being observed in a completely natural and unchanged natural environment. Descriptive research is used as a pre-cursor to quantitative research designs, the general overview giving some valuable pointers as to what variables are worth testing quantitatively.

This method was relevant to this study as it provided insight analysis on financial management practices. Descriptive research design was relevant to this study as it reported summary data such as measures of central tendency including the mean, median, mode, deviance from the mean, variation, percentage, and correlation between variables. Descriptive research design was also used since it reported the percentage summary on a single variable.

#### **3.3 Target Population**

According to Mugenda and Mugenda (2003), target population is a group of individuals, objects or items from which samples are taken for measurement. The study will cover seven regions managed by KTDA namely; Aberdare Ranges, Aberdare Range, Mt. Kenya, Mt Kenya & Nyambene Hills, Kericho Highlands, Kisii Highlands and Nandi Hills & Western Highlands. The target population for this study was all the 66 KTDA

managed Tea Factories with specific focus on Factory Unit Manager (FUM) and Factory Accountant from each factor (Appendix IV).

<b>Table 3.1 KTDA Managed Tea Factories as per Zones and Regions</b>					
	<b>County</b>	<b>Zones</b>	<b>Region</b>	<b>No. of Factories</b>	<b>Target Population</b>
1.	Kiambu	I	1	6	12
2.	Murang'a	II & III	1 & 2	10	20
3.	Nyeri	IV	2	5	10
4.	Kirinyaga	V	3	5	10
5.	Embu	VI	“	3	6
6.	Tharaka Nithi	VII	4	1	2
7.	Meru	VII	“	7	14
8.	Kericho	VIII	5	5	10
9.	Bomet/Nakuru	IX	“	10	20
10.	Nyamira	X	6	6	12
11.	Kisii	XI	“	6	12
12.	Nandi	XII	7	2	4
13.	Vihiga & Kakamega	XII	“	1	2
14.	Trans Nzoia	XII	“	1	2
<b>Total</b>	<b>16</b>	<b>12</b>	<b>7</b>	<b>68</b>	<b>136</b>

**Source: KTDA, Corporate Communication Department (2018)**

### **3.4 Sampling Design and Sample Size**

The study used multistage sampling method. Multistage sampling method is the probability sampling technique wherein the sampling is carried out in several stages such that the sample size gets reduced at each stage. While in the multistage sampling technique, the first level is similar to that of the cluster sampling, where the clusters are formed out of the population, but further, these clusters are sub-divided into smaller targeting groups. This method was considered by the researcher since it was easier to implement and create a more representative sample of the population than a single sampling technique. It was also considered since it helps in reducing costs of large-scale survey research and limits the aspects of a population which was needed to be included within the frame for sampling.

In this case all the 136 KTDA managed Tea Factories was put into consideration and specifically all Factory Unit Managers (FUM) and Factory Accountants. The researcher therefore used a sample size of 68 respondents which consisted of Factory Unit Manager and Factory Accountant from all the targeted Tea Factories.

### **3.5 Data Collection Instruments**

The data collected in this study was primary data. Each item in the questionnaire was developed to address specific objectives and research questions. Data was collected using questionnaires. Questionnaires are one of the cheapest and most feasible ways of gathering data from large population. The questions were both closed and open ended and covered the four independent variables that were used to obtain responses.

### **3.6 Reliability**

Reliability indicates the degree of dependability on research findings. It also implies that, if the research is conducted again, the research result is more or less same (Bryman, 2001). The researcher used test-retest method to evaluate the reliability of data acquired during the study. This was administered within a two week period on the same respondents. Quantitative reliability is achieved when results are found to be consistent in subsequent tests. In order to assess the reliability, or the strength of internal consistency of the variables considered in the study, Cronbach's alpha was used. Cronbach's alpha

was computed by correlating the score for each scale item with the total score for each observation, and then comparing that to the variance for all individual item scores.

### **3.7 Validity**

Numerous evaluation criteria are used to justify the validity of research based on the field of research but the credibility can be justified by the readers. It is vital for a test to be valid in order for the results to be accurately applied and interpreted. The researcher used construct validity method to ascertain the quality of the instruments and also its ability to measure the important aspect of the study. The researcher ensured that the questionnaire items were as relevant, objective and clear as much as possible which in essence improved their validity. To ensure validity questionnaires were pre-tested on respondents by doing piloting.

### **3.8 Data Analysis and Presentation**

On receipt of the completed questionnaires from the respondents, the collected data was checked for errors in responses, omissions, exaggerations and biases. The data was analyzed using descriptive and inferential statistics. Descriptive statistics was subjected to calculation of frequencies and percentages and presented in form of tables and all analyses were done using SPSS.

In order to link up financial management practices and financial performance of KTDA managed tea factories, Chi-square test, and Spearman Correlation Co-Efficient was employed. The relationship between financial management practices and financial performance of KTDA managed tea factories was established by a linear regression model.

### **3.9 Empirical Model**

The model that was adopted consisted of the independent variables namely; capital structure decisions, working capital management, investment appraisal technique and investment budget management, and dependent variable “financial performance of KTDA managed tea factories.” The model used was as illustrated;

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3+ \beta_4X_4+ e$$

Where;        Y        = Financial Performance,  
              X<sub>1</sub>        = Capital Structure Decisions  
              X<sub>2</sub>        = Working Capital Management  
              X<sub>3</sub>        = Investment Appraisal Technique  
              X<sub>4</sub>        = Investment Budget Management  
              β<sub>0</sub> = Regression Constants and e = Error term.

### **3.10 Ethical Considerations of the Study**

The researcher sought permission from the head office of KTDA managed Tea Factories located in Nairobi. This is where all the questionnaires were stamped to verify the legitimacy of the study. A cover letter bearing the college of the researcher was attached to each set of questionnaires to confirm the authenticity of the exercise. Questionnaires were sent to the identified respondents through courier services. The filled questionnaires were also sent back through courier services.

The researcher strove for honesty in all scientific communications, reporting data, results, methods and procedures, and publication status. The researcher did make sure that data collected was not fabricated, falsified or plagiarized. The researcher also did make sure that he did not deceive colleagues, university personnel or the public in general. The researcher ensured that the participants remained anonymous throughout the study even to the researchers themselves. The respondents were assured that they remained anonymous throughout and none of their identity was disclosed or revealed to anybody.

**CHAPTER FOUR**  
**DATA ANALYSIS, PRESENTATION AND INTERPRETATION**

**4.1 Introduction**

This chapter outlines the data analysis, presentation and interpretation of the results as per the objectives of the study. The data was analyzed using both descriptive and inferential statistics with descriptive statistics subjected statistics such as calculation of frequencies and percentages and presented in form of tables. All analyses were done using SPSS and deductions were presented according to observations of the results.

**4.2 Response Rate and Demographic Data**

The study found out that from 132 questionnaires that were administered, 108 were successfully completed. This form the number of questionnaires that was analyzed and interpreted.

**Table 4.1 Table on Response Rate**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Response Rate	108	79.4
Non-Response Rate	28	20.6
<b>Total</b>	<b>136</b>	<b>100</b>

**Source: Survey Data (2018)**

The response rate of the study was 79.4% while the non-response rate was 20.6%. Therefore the response rate was considered good to carryout analysis. In order to obtain useful information for the study, the data was subjected to analysis.

**Table 4.2 Gender of the Respondents**

<b>Gender</b>	<b>Frequency</b>	<b>Percentage</b>
Male	102	94.4
Female	6	5.6
<b>Total</b>	<b>108</b>	<b>100</b>

**Source: Survey Data (2018)**

From the study, it was observed that 94.4% of the respondents were males and 5.6% were females. This implies that the targeted population consisting of Factory Unit Manager (FUM) and Factory Accountant was gender bias.

**Table 4.3 Years of Work**

<b>Years</b>	<b>Frequency</b>	<b>Percentage</b>
Below 3 Year	21	19.4
Between 4-6 Years	32	29.6
Over 6 Years Above	55	51.0
<b>Total</b>	<b>108</b>	<b>100</b>

**Source: Survey Data (2018)**

From the study it was established that employees who have worked for less than 3 years was represented by 19.4%, between 4-6 years was 29.6% and those above 6 years constituted 51.0%.this implies that the employee turnover in KTDA managed tea factories is low as most of the targeted employees consisting of Factory Unit Managers and Factory Accountants have stayed at their works for more than six years.

### **4.3 Descriptive Analysis**

Meaningful and sound financial management practices were accredited by capital structure decisions, working capital management, investment appraisal technique and investment budget management within sampled population consisting of Factory Unit Manager (FUM) and Factory Accountant of KTDA managed tea factories in Kenya. Inferential analysis was conducted to come with meaningful relation between financial management practices (independent variables) and financial performance of Kenya Tea KTDA managed tea factories (dependent variable). The study employed the following ratings; *1 = Not At All, 2 = Little Extent, 3 = Moderate Extent, 4 = Great Extent, and 5 = Very Great Extent*

#### **4.3.1 Capital Structure Decisions and Financial Performance in KTDA Managed Tea Factories**

The study employed the following ratings;

1 = Not At All, 2 = Little Extent, 3 = Moderate Extent, 4 = Great Extent, and 5 = Very Great Extent

**Table 4.4 Mix of Capital Structures**

<b>Statements</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Debt	5	7	21	43	32
<b>Percentage</b>	<b>4.6</b>	<b>6.5</b>	<b>19.4</b>	<b>39.8</b>	<b>29.7</b>
Preferred Stock	2	5	28	29	44
<b>Percentage</b>	<b>1.9</b>	<b>4.6</b>	<b>25.9</b>	<b>26.9</b>	<b>40.7</b>
Common Equity	1	10	22	49	26
<b>Percentage</b>	<b>0.9</b>	<b>9.3</b>	<b>25.9</b>	<b>39.8</b>	<b>24.1</b>
Retained Earnings	2	6	17	28	55
<b>Percentage</b>	<b>1.9</b>	<b>5.6</b>	<b>15.7</b>	<b>25.9</b>	<b>50.9</b>
Bank Loans	6	4	19	38	41
<b>Percentage</b>	<b>5.6</b>	<b>3.7</b>	<b>17.6</b>	<b>35.2</b>	<b>37.9</b>

**Source: Survey Data (2018)**

From the study 40.7% and 50.9% of the respondents rated the effects of retained earnings and preferred stock as mix of capital structures that maximize shareholders' wealth at very great extent. Mohamad (1994) found that equity size is negatively related to firm's profitability. Nikolaos (1996) in an attempt to investigate the relationship between debts-to equity ratio and firm's profitability, taking into consideration the level of firms' investment and the degree of market power found that there is negative and statistically significant relationship between debt-to-equity ratio and organizational.

**Table 4.5 Capital Structure Decisions and Financial Performance**

<b>Statements</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Appropriate capital structure decisions is affected by the firm size	3	17	14	42	32
<b>Percentage</b>	<b>2.8</b>	<b>15.7</b>	<b>13.0</b>	<b>38.9</b>	<b>29.6</b>
Capital structure decisions vary closely with preferred stock market condition	8	12	17	33	38
<b>Percentage</b>	<b>7.4</b>	<b>11.1</b>	<b>15.7</b>	<b>30.6</b>	<b>35.2</b>
Profitability and financial risk of the firm affects the capital structure decisions	5	7	17	44	35
<b>Percentage</b>	<b>4.6</b>	<b>6.5</b>	<b>15.7</b>	<b>40.8</b>	<b>32.4</b>
Ownership structure has an effect on the retained earnings	2	5	16	31	54
<b>Percentage</b>	<b>1.9</b>	<b>4.6</b>	<b>14.8</b>	<b>28.7</b>	<b>50.0</b>
Cost of equity is affected by the use of debt capital	4	10	16	26	52
<b>Percentage</b>	<b>3.7</b>	<b>9.3</b>	<b>14.8</b>	<b>24.8</b>	<b>47.4</b>

**Source: Survey Data (2018)**

The study further revealed that appropriate capital structure decisions is affected by the firm size as rated as great extent by that 38.9% of the respondents. This study is in agreement to a study that was done by Saad (2010) who notes that capital structure is essential on how a firm finances its overall operations and growth by using different sources of funds. This is in agreement with Khan (2013) who argued that there is a positive relation between the capital structure and size of a firm. The large firms are more diversified, have easy access to the capital market, receive higher credit ratings for debt issues, and pay lower interest rate on debt capital. Therefore, larger firms tend to use more debt capital than smaller firms.

The study further noted that ownership structure has an effect on the retained earnings as noted by 50.0% of the respondents as very great extent. It was also deduced that profitability and financial risk of the firm affects the capital structure decisions as rated

by 40.8% of the respondents as great extent. Mohamad (2004) made a research on the relationship between capital structure and profitability and his results showed that there were significant relationships between market imperfections changes in capital structure on firm's performance of profitability.

#### **4.3.2 Working Capital Management and Financial Performance in KTDA Managed Tea Factories**

The study employed the following ratings;

*1 = Not At All, 2 = Little Extent, 3 = Moderate Extent, 4 = Great Extent, and 5 = Very Great Extent*

**Table 4.6 Performance Ratios and Financial Performance**

<b>Organization Structure</b>	<b>Frequency</b>	<b>Percentage</b>
Working Capital Ratio	47	43.5
Inventory Turnover	34	31.5
Collection Ratio	27	25.0
<b>Total</b>	<b>108</b>	<b>100</b>

**Source: Survey Data (2018)**

The study found out that 43.5% of the respondents stated that working capital ratio is an important financial performance ratio of a working capital management system which improves the financial performance of the organization while 31.5% and 25.0% noted inventory turnover and collection ratio respectively. This is in agreement with Horne and Wachowicz (2000) who noted that working capital ratio is relevant to organizations. They noted that firms with too few current assets may incur shortages and difficulties in maintaining smooth operations hence the financial performance will be affected. Khan (2013) also noted that an organization is required to maintain a balance between liquidity and profitability while conducting its business.

The study employed the following ratings;

*1 = Not At All, 2 = Little Extent, 3 = Moderate Extent, 4 = Great Extent, and 5 = Very Great Extent*

**Table 4.7 Working Capital Management and Financial Performance**

<b>Statements</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Working capital requirement is directly influenced by the size of the business	4	9	20	31	44
<b>Percentage</b>	<b>3.7</b>	<b>8.3</b>	<b>18.5</b>	<b>28.7</b>	<b>40.8</b>
The goal of working capital management is to ensure a firm is able to continue its operations	3	4	29	28	44
<b>Percentage</b>	<b>2.8</b>	<b>3.7</b>	<b>26.8</b>	<b>25.9</b>	<b>40.8</b>
Various stages of the business cycle affects working capital	5	6	27	26	44
<b>Percentage</b>	<b>4.6</b>	<b>5.6</b>	<b>24.9</b>	<b>24.1</b>	<b>40.8</b>
Credit policy of the organization helps in managing working capital of the organization	4	6	23	40	35
<b>Percentage</b>	<b>3.7</b>	<b>5.6</b>	<b>21.3</b>	<b>37.0</b>	<b>32.4</b>

**Source: Survey Data (2018)**

The study deduced that working capital requirement is directly influenced by the size of the business and various stages of the business cycle affects working capital as rated by 40.8% of the respondents at very great extent. These results agree with studies done by Jarrell and Poulsen (2008) who revealed that there is a direct link between the working capital and the scale of operations of an organization. They further found out that working capital is required in case of large organizations while less working capital is needed in case of small organizations.

The study inferred that working capital management is directly influenced by various stages of the business cycle as rated by 40.8% of the respondents at very great extent. The study also agrees with what Raheman (2010) who notes that the longer production cycle, the more will be the time for which the capital remains blocked in raw material and this affect the operations of the business. The study also noted that credit policy of the organization helps in managing working capital of the organization as rated by 32.4% of the respondents as very great extent. Irala (2006) agrees with this as he argues out that credit policy that is used by the organization has an effect with the operations of the

organization. He notes that longer credit period requires more investment in debtors and hence more working capital is needed by the organization.

### 4.3.3 Investment Appraisal Technique and Financial Performance in KTDA Managed Tea Factories

The study employed the following ratings;

*1 = Not At All, 2 = Little Extent, 3 = Moderate Extent, 4 = Great Extent, and 5 = Very Great Extent*

**Table 4.8 Investment Appraisal Technique and Financial Performance**

<b>Statements</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Data management enhances future financial commitments.	7	5	25	32	39
<b>Percentage</b>	<b>6.5</b>	<b>4.6</b>	<b>23.1</b>	<b>29.6</b>	<b>36.2</b>
Having internal accounting experts is quite important.	4	3	28	33	40
<b>Percentage</b>	<b>3.7</b>	<b>2.8</b>	<b>25.9</b>	<b>30.6</b>	<b>37.0</b>
Use only cash accounting.	3	9	21	28	47
<b>Percentage</b>	<b>2.8</b>	<b>8.3</b>	<b>19.4</b>	<b>28.9</b>	<b>40.6</b>
Record keeping enhances the control of the finances.	5	3	17	33	50
<b>Percentage</b>	<b>4.6</b>	<b>2.8</b>	<b>15.7</b>	<b>30.6</b>	<b>46.3</b>
Critical balance sheet items are incorporated into budget report.	4	4	21	35	44
<b>Percentage</b>	<b>3.7</b>	<b>3.7</b>	<b>19.4</b>	<b>32.4</b>	<b>40.8</b>

**Source: Survey Data (2018)**

The study deduced that data management enhances future financial commitments and having internal accounting experts is quite important as rated by 36.2% and 37.0% of the respondents at very great extent. Moreover, record keeping enhances the control of the finances and use only cash accounting is the best investment appraisal technique for financial management practices as rated by 46.3% and 40.6% of the respondents respectively. This is in agreement with a study done by Gloy and LaDue (2011) that

states that working capital requirement of a firm is directly influenced by the size of its business operation. They noted that large business organizations require more working capital than the small business organization.

#### **4.3.4 Budget Management and Financial Performance in KTDA Managed Tea Factories**

The study employed the following ratings;

*1 = Not At All, 2 = Little Extent, 3 = Moderate Extent, 4 = Great Extent, and 5 = Very Great Extent*

**Table 4.9 Budget Management and Financial Performance**

<b>Statements</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Resource allocation or monitoring is necessary	5	16	13	34	40
<b>Percentage</b>	<b>4.6</b>	<b>14.8</b>	<b>12.0</b>	<b>31.5</b>	<b>37.1</b>
Forecasting of revenues and expenditures affect the financial management	6	11	11	36	44
<b>Percentage</b>	<b>5.6</b>	<b>10.2</b>	<b>10.2</b>	<b>33.3</b>	<b>40.7</b>
Budget analysis is essential in an organization	8	12	18	32	38
<b>Percentage</b>	<b>7.4</b>	<b>11.1</b>	<b>16.7</b>	<b>29.6</b>	<b>35.2</b>
Budget consistency and forecasting should be aligned with strategic objectives of the organization	5	2	16	30	55
<b>Percentage</b>	<b>4.6</b>	<b>1.9</b>	<b>14.8</b>	<b>27.8</b>	<b>50.9</b>

**Source: Survey Data (2018)**

The study inferred that resource allocation or monitoring is necessary and forecasting of revenues and expenditures affect the financial management as rated by 37.1% and 40.7% of the respondents at very great extent respectively. This study is also in accordance with arguments of Burke & Modarresi (2010) who stated that budgets occupy a leading place among the special tools of management employed to direct and control the affairs of large and multifarious organizations which in essence affect the financial performance of an organization.

The study also found out that budget analysis is essential in an organization and budget consistency and forecasting should be aligned with strategic objectives of the organization as rated by 37.1% and 50.9% respondents at very great extent respectively. This study also agrees with the study done by Srinivasan (2008) found a significant positive relationship between keeping books and records, but only when success is measured in terms of management income.

The study employed the following ratings;

*1 = Not At All, 2 = Little Extent, 3 = Moderate Extent, 4 = Great Extent, and 5 = Very Great Extent*

**Table 4.10 Budget Management and Financial Performance**

<b>Statements</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
We forecast income first, and then create expense budgets within these constraints.	6	6	20	33	43
<b>Percentage</b>	<b>5.6</b>	<b>5.6</b>	<b>18.5</b>	<b>30.6</b>	<b>39.7</b>
The assumptions underlying budgets are made explicit and are challenged and tested.	5	5	23	30	43
<b>Percentage</b>	<b>4.6</b>	<b>4.6</b>	<b>21.3</b>	<b>27.8</b>	<b>41.7</b>
Managers are evaluated in part on the accuracy of their budgets.	4	7	30	30	37
<b>Percentage</b>	<b>3.7</b>	<b>6.5</b>	<b>27.8</b>	<b>27.8</b>	<b>34.2</b>

**Source: Survey Data (2018)**

The study inferred 31.3% of respondents strongly agreed that forecasting income first, and then creating expense budgets within these constraints and 5.6% strongly disagreed. The study also deduced that 41.7% of respondents strongly agreed that the assumptions underlying budgets are made explicit and are challenged and tested while 4.6 strongly disagreed. This study revealed what Premchand (2012) who argued out that a budget is an invaluable aid in planning and formulating policy.

The study further deduced that 34.2% of respondents strongly agreed that the managers are evaluated in part on the accuracy of their budgets while 6.5% agreed. This study is

also in agreement with Cowton and Pilz, (2010) who argued that budget management helps the organization in getting effective internal audit activity which is a valuable resource for management of an organization finances.

#### **4.3.5 Impacts of Financial Management Practices on Financial Performance of KTDA Managed Tea Factories in Kenya.**

The study employed the following ratings;

*1 = Not At All, 2 = Little Extent, 3 = Moderate Extent, 4 = Great Extent, and 5 = Very Great Extent*

What is the trend of the following statements for the last five years?

**Table 2.11 Trend of Financial Performance Indicators**

<b>Financial Performance Indicators</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Profitability Ratios	4	5	20	40	39
<b>Percentage</b>	<b>3.7</b>	<b>4.6</b>	<b>18.5</b>	<b>37.0</b>	<b>36.2</b>
Employee Productivity	3	4	28	30	43
<b>Percentage</b>	<b>2.8</b>	<b>3.7</b>	<b>25.8</b>	<b>27.8</b>	<b>39.9</b>
Sales Volume	7	8	20	31	42
<b>Percentage</b>	<b>6.5</b>	<b>7.4</b>	<b>18.5</b>	<b>28.7</b>	<b>38.9</b>
Customer Satisfaction	3	6	31	17	50
<b>Percentage</b>	<b>2.8</b>	<b>5.6</b>	<b>28.7</b>	<b>15.7</b>	<b>47.2</b>

**Source: Survey Data (2018)**

Financial performance of KTDA managed tea factories was used to measure the success of the financial management practices. The study revealed that 36.2% of respondents strongly agreed that financial management practices increases profitability ratios. The study also found out that 39.9% strongly agreed that financial management practices gives higher employee productivity. These results are in agreement with what Porter (1980) postulated that a more highly informed management staff, making more highly informed and empowered decisions and get satisfied customers in the long run.

The study further found out that 38.8% of respondents strongly agreed that financial management practices produce higher sales volume. It was also deduced by the study that 47.2% of the respondents strongly agreed that financial management practices improves

customer satisfaction. This study also agreed with Lorange (1998) who argued out that that financial management practices forces an organization to set objectives and measures of success which enhances sales and efficiency of the organization.

#### 4.4 Inferential Analysis

The ANOVA table below shows distribution of the respondents.

**Table 4.12 ANOVA Table**

		<b>Sum of</b>				
	<b>Model</b>	<b>Squares</b>	<b>df</b>	<b>Mean Square</b>	<b>F</b>	<b>Sig.</b>
1	Regression	95.306	7	18.793	441.599	.000 <sup>a</sup>
	Residual	4.733	92	.039		
	Total	102.345	98			

**Source: Survey Data (2018)**

From the above ANOVA Table, the sum of squares due to regression is 102.345 with two degrees of freedom while the sum of squares residual due to 92 degrees of freedom is 441.599. The means square gives a more accurate level of relationship and influence with the four variables capital structure decisions, working capital management, investment appraisal technique and investment budget management having better results than the remaining 91 due to residual effect.

From the ANOVA table, the sum of squares due to regression explained by four variables is greater than the sum of the squares due to the residues. This means that the degree of freedom of the variables is more accurate to explain the relationship and the influence of the financial management practices in relation to financial performance of KTDA managed tea factories in Kenya.

#### 4.4.1 Relationship between Financial Management Practices and Financial Performance of KTDA Managed Tea Factories

Person correlation analysis was determined to get the relationship between the independent and dependent variables of the study.

**Table 4.13 Measurement of Correlation between Variables**

Model	Unstandardized		Standardized	t	Sig.
	Coefficients		Coefficients		
	B	Std. Error	Beta		
(Constant)	.299	.035		4.105	.000
Capital Structure Decisions	.105	.088	.119	1.801	.323
Working Capital Management	.059	.045	.081	1.030	.282
Investment Appraisal Technique	.710	.078	.466	1.125	.112
Investment Budget Management	.024	.070	.028	7.415	.351

**Source: Survey Data (2018)**

From the table above, the linear regression model of the study can be written as;

$$Y = 0.119X_1 + 0.082X_2 + 0.466X_3 + 0.028X_4 + 0.299$$

From the model it can be observed that capital structure decisions, working capital management, investment appraisal technique and investment budget management have a positive effect on financial performance of KTDA managed tea factories. Based on t-value, it is observed that investment budget management have the greatest effect on financial performance of KTDA managed tea factories in Kenya.

#### 4.4.2 Total Variance Explained

**Table 4.14 Total Variance Explained**

	Initial Eigen values		Extraction Sums of Squared Loadings			
			Cumulati ve %	Total	% of Variance	Cumulativ e %
Capital Structure Decisions	4.788	93.899	93.899	4.748	93.899	93.899
Working Capital Management	.123	2.452	97.238			
Investment Appraisal Technique	.049	1.152	98.381			
Investment Budget Management	.039	.916	99.458			

**Source: Survey Data (2018)**

It can be observed from the results depicted in table above that Eigen value for the first factor is fairly larger than the Eigen value for the next factor that is from 4.788 to 0.123. Furthermore, the first factor accounts for 93.899% of the total variance which shows that there is no dimensionality on the scale variables.

## **CHAPTER FIVE**

### **SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Introduction**

This study examines the impacts of financial management practices on financial performance of KTDA managed tea factories in Kenya. The chapter is established on the results and discussions done data analysis. This chapter consists of the following subheadings: summary, conclusions, recommendations of the study and suggestions for the further studies.

#### **5.2 Summary of Findings**

This study was summarized under the constructs of the study which included; capital structure decisions, working capital management, investment appraisal technique and investment budget management. Judging from the various computation analysis and findings, the results revealed some pertinent facts from which the researcher drew certain conclusion. Results showed that financial management practices among KTDA managed tea factories are defined in terms of the four observed variables, capital structure decisions, working capital management, investment appraisal technique and investment budget management.

Most of the respondents strongly agreed that improved financial management practices enhance organizational financial performance of KTDA managed tea factories. Hence, based on the results obtained, it can be concluded that there is a link between financial management practices and financial performance KTDA managed tea factories, using the above responses as proves.

This study reveals that, KTDA managed tea factories in Kenya have use financial management practices which are articulated to all of its employees at various levels and departments but in most cases such practices have not been followed or used well which in the long run affect financial performance of such organizations. The study further reveals that the strong agreements of factors of various dimensions of financial management practices indicate the effectiveness and efficiency of such practices that

KTDA managed tea factories employ which have affected their financial performance in a positive manner.

### **5.3 Conclusions**

Based on the results it was observed that investment budget management and capital structure decisions have the highest effect on financial performance KTDA managed tea factories while working capital management and investment appraisal technique have the least effect. Working capital management and investment appraisal technique were found not to play a significant role in determining the financial performance of KTDA managed tea factories.

Results clearly show that there is a positive and significant relationship between working capital management practices and financial performance of KTDA managed tea factories. This means that efficient management of working capital management like operating efficiency, size of the business, production cycle, stock turnover and credit policy are highly associated with improved financial performance of KTDA managed tea factories.

Results further show that there is a positive and significant relationship between investment budget management and financial performance of KTDA managed tea factories. This implies that efficient investment budget practices like budgeting system, budgeting analysis, budgeting forecasting, budget allocation and budget monitoring are highly associated with improved financial performance of KTDA managed tea factories.

In regard to investment appraisal technique, the results also indicated a positive and significant relationship with financial performance of KTDA managed tea factories. This implies that efficient investment appraisal techniques like data management, internal accounting experts, cash accounting, record keeping and financial information communication are highly associated with high financial performance of KTDA managed tea factories.

It is therefore evident that there is a positive and significant correlation between financial management practices and financial performance of KTDA managed tea factories since the multiplicative effect of all financial management practices such as capital structure decisions, working capital management, investment appraisal technique and investment

budget management have a strong association with financial performance of KTDA managed tea factories.

#### **5.4 Recommendations**

The study recommends that KTDA managed tea factories should embrace best financial management practices to enhance financial performance in their operations. In regards to capital structure decisions, the management of KTDA managed tea factories management should decide how much external capital it will need to raise to operate its business their operations. The management of KTDA managed tea factories should also choose a capital structure which optimizes managerial incentives while keeping financial distress relatively low.

The KTDA managed tea factories' managerial process needs continuous enrichment for good financial performances, and certified accountants should act as change agents in introducing best practice guides, good organizational governance, and introducing best working capital that can enhance the operations of the business. Working capital represents the net current assets available for day-to-day operating activities. One of the two key objectives of working capital management is to ensure liquidity and profitability hence working capital should be a prerequisite component for the management of KTDA managed tea factories. The management should identify the cash balance that allows the business to meet day to day expenses but that which reduces holding cost so as the business remain liquid.

The management of KTDA managed tea factories should initiate investments which minimize disruption to the organizations and able to create synergies with other potential projects for better financial performance. They should also ensure that each project of the organization is implemented according to the investment plans which are also regularly reviewed in order to assess how well the process went, and the information used to improve future appraisals and investment decisions. It is also important for the management to understand the appropriate technique to appraise a potential investment project of the organization since each technique provides different assessments.

Budgeting enhances planning and controlling system and hence management of KTDA managed tea factories should also do well the budgeting for the organization based on the company's financial performance objectives guided by performance reports. Since budgeting is concerned primarily with the planning and controlling functions of management, the management of KTDA managed tea factory should institute appropriate techniques of observing and reporting to determine how actual results behave compared to plans of the organization.

### **5.5 Suggestions for Further Research**

This study suggests some of the areas to explore for future research. A study comparing financial management practices used by private and public sector would seem likely to lead to new insights. It is also imperative to assess independently the relationship between each construct investigated in this study (capital structure decisions, working capital management, investment appraisal technique and investment budget management) and organizational financial performance in private sector. Since data for other tea factories not managed by KTDA is not readily available, it was not possible to include in targeted population. Therefore, the study suggest that further research on the effects of financial management practices on financial performance of tea factories in Kenya that are not managed by KTDA should be conducted.

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## APPENDIX I: QUESTIONNAIRE

**Dear Respondent,**

I am a Master's student at Kenyatta University and conducting a research on *“relationship between financial management practices and financial performance of KTDA managed tea factories.”* It is my hope that you will give me your assistance and all information obtained will be treated with confidentiality. Do not write your name in this questionnaire.

### SECTION A: PERSONAL INFORMATION

#### 1. Gender

Male

Female

#### 2. Work Experience

Below 3 Years

Between 4-6 Years

Over 6 Years Above

### SECTION B: CAPITAL STRUCTURE DECISIONS

3. How do you rate the following mix of capital structures that will maximize shareholders' wealth or maximize value of the organization?

5 = Very Great Extent, 4 = Great Extent, 3 = Moderate Extent, 2 = Little Extent and 1 = Not At All

Statements	1	2	3	4	5
Debt					
Preferred Stock					
Common Equity					
Retained Earnings					
Bank Loans					

4. To what extent do the following affect the financial performance of KTDA managed tea factories?

5 = Very Great Extent, 4 = Great Extent, 3 = Moderate Extent, 2 = Little Extent and 1 = Not At All

Statements	1	2	3	4	5
Appropriate capital structure decisions is affected by the firm size					
Capital structure decisions vary closely with preferred stock market condition					
Profitability and financial risk of the firm affects the capital structure decisions					
Ownership structure has an effect on the retained earnings					
Cost of equity is affected by the use of debt capital					

### SECTION C: WORKING CAPITAL MANAGEMENT

5. Which of following key financial performance ratios of a working capital management system are important in improving the financial performance?

Working Capital Ratio      [   ]  
 Inventory Turnover        [   ]  
 Collection Ratio            [   ]

6. To what extent do the following affect the financial performance of KTDA managed tea factories?

5 = Very Great Extent, 4 = Great Extent, 3 = Moderate Extent, 2 = Little Extent and 1 = Not At All

Statements	1	2	3	4	5
Working capital requirement is directly influenced by the size of the business					
The goal of working capital management is to ensure a firm is able to continue its operations					
Various stages of the business cycle affects working capital					
Credit policy of the organization helps in managing working capital of the organization					

## SECTION D: INVESTMENT APPRAISAL TECHNIQUE

7. To what extent do the following affect the financial performance of KTDA managed tea factories?

5 = Very Great Extent, 4 = Great Extent, 3 = Moderate Extent, 2 = Little Extent and 1 = Not At All

Statements	1	2	3	4	5
Data management enhances future financial commitments.					
Having internal accounting experts is quite important.					
Use only cash accounting.					
Record keeping enhances the control of the finances.					
Critical balance sheet items are incorporated into budget report.					

## SECTION E: BUDGET MANAGEMENT

8. To what extent do the following statements affect the financial performance of KTDA managed tea factories?

5 = Very Great Extent, 4 = Great Extent, 3 = Moderate Extent, 2 = Little Extent and 1 = Not At All

Statements	1	2	3	4	5
Resource allocation or monitoring is necessary					
Forecasting of revenues and expenditures affect the financial management					
Budget analysis is essential in an organization					
Budget consistency and forecasting should be aligned with strategic objectives of the organization					

9. What is your level of agreement with the following statements?

5 = Strongly Agree, 4 = Agree, 3 = Don't Know, 2 = Disagree and 1 = Strongly Disagree

Statements	1	2	3	4	5
We forecast income first, and then create expense budgets within these constraints.					
The assumptions underlying budgets are made explicit and are challenged and tested.					
Managers are evaluated in part on the accuracy of their budgets.					

#### SECTION F: FINANCIAL PERFORMANCE

10. What is the trend of the following statements for the last five years?

Statements	1	2	3	4	5
Profitability Ratios					
Employee Productivity					
Sales Volume					
Customer Satisfaction					

#### **APPENDIX IV: LIST OF KTDA MANAGED TEA FACTORIES**

1. Boito Tea Factory Company Limited
2. Chebut Tea Factory Company Limited
3. Chelal Tea Factory Company Limited
4. Chinga Tea Factory Company Limited
5. Eberege Tea Factory Company Limited
6. Gacharage Tea Factory Company Limited
7. Gachege Tea Factory Company Limited
8. Gathuthi Tea Factory Company Limited
9. Gatunguru Tea Factory Company Limited
10. Gianchore Tea Factory Company Limited
11. Githambo Tea Factory Company Limited
12. Githongo Tea Factory Company Limited
13. Gitugi Tea Factory Company Limited
14. Igembe Tea Factory Company Limited
15. Ikumbi Tea Factory Company Limited
16. Imenti Tea Factory Company Limited
17. Iriaini Tea Factory Company Limited
18. Itumbe Tea Factory Company Limited
19. Kagwe Tea Factory Company Limited
20. Kambaa Tea factory Company Limited
21. Kangaita Tea Factory Company Limited
22. Kanyenya-ini Tea Factory Company Limited
23. Kapkatet Tea Factory Company Limited
24. Kapkoros Tea Factory Company Limited
25. Kapsara Tea Factory Company Limited
26. Kapset Tea Factory Company Limited
27. Kaptumo Tea Factory Company Limited
28. Kathangariri Tea Factory Company Limited
29. Kebirigo Tea Factory Company Limited
30. Kiamokama Tea Factory Company Limited

- 31. Kiegoi Tea Factory Company Limited Profile**
- 32. Kimunye Tea Factory Company Limited**
- 33. Kinoro Tea Factory Company Limited**
- 34. Kionyo Tea Factory Company Limited**
- 35. Kiru Tea Factory Company Limited**
- 36. Kobel Tea Factory Company Limited**
- 37. Litein Tea Factory Company Limited**
- 38. Makomboki Tea Factory Company Limited**
- 39. Mataara Tea Factory Company Limited**
- 40. Michimikuru Tea Factory Company Limited**
- 41. Mogogosiek Tea Factory Company Limited**
- 42. Momul Tea Factory Company Limited**
- 43. Motigo Tea Factory Company Limited**
- 44. Mudete Tea Factory Company Limited**
- 45. Mungania Tea Factory Company Limited**
- 46. Mununga Tea Factory Company Limited**
- 47. Ndarugu Tea Factory Company Limited**
- 48. Ndimma Tea Factory Company Limited**
- 49. Nduti Tea Factory Company Limited**
- 50. Ngere Tea Factory Company Limited**
- 51. Njunu Tea Factory Company Limited**
- 52. Nyamache Tea Factory Company Limited**
- 53. Nyankoba Tea factory Company Limited**
- 54. Nyansiongo Tea Factory Company Limited**
- 55. Ogembo Tea Factory Company Limited**
- 56. Olenguruone Tea Factory Company Limited**
- 57. Ragati Tea Factory Company Limited**
- 58. Rianyamwamu Tea Factory Company Limited**
- 59. Rorok Tea Factory Company Limited**
- 60. Rukuriri Tea Factory Company Limited**
- 61. Sanganyi Tea Factory Company Limited**

- 62.** Tegat Tea Factory Company Limited
- 63.** Theta Tea Factory Company Limited
- 64.** Thumaita Tea Factory Company Limited
- 65.** Tirgaga Tea Factory Company Limited
- 66.** Tombe Tea Factory Company Limited
- 67.** Toror Tea Factory Company Limited
- 68.** Weru Tea Factory Company Limited