

**FINANCIAL MANAGEMENT PRACTICES AND PERFORMANCE OF
SMALLHOLDER FARMERS' TEA COMPANIES IN THE WEST TEA BLOCK,
KENYA**

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**A THESIS SUBMITTED TO THE SCHOOL OF BUSINESS, ECONOMICS AND
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AWARD OF THE DEGREE OF MASTER OF SCIENCE (FINANCE) OF KENYATTA
UNIVERSITY**

OCTOBER, 2024

DECLARATION

Declaration by the Student

This thesis is my original work and has not been submitted for examination or award of a degree to any other University. I have also given appropriate credit to other sources used where due. No part of the thesis should be reproduced without the authority of the author and/or Kenyatta University.

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DEDICATION

I hereby dedicate this work to my wife Caroline and our daughters; Kayla, Eleanor and Talia for their unwavering support, patience and encouragement during the course of this research. May God's abundant grace, mercies and blessing be their portion.

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OPERATIONAL DEFINITION OF TERMS

Budgetary Process	Series of steps followed in development, implementation and monitoring of the financial plan for a tea company.
Capital Structure	Is the debt and equity mix a tea company utilizes to finance its assets and operations.
Corporate Governance	A system of policies, guidelines, practices and processes employed by the board of directors of a tea company whilst overseeing the management of a tea factory on behalf of all stakeholders.
East Tea Block	Area representing all smallholder farmers' tea factory companies in the larger Mount Kenya region as defined in the Tea Act, 2020.
Financial Management Practices	Refers to how managers handle various aspects of finances while utilizing funds at their disposal to optimize returns on investment. Financial management practices in this study included the four areas critical in financial management specifically; Financial Planning, Investment Appraisal, Financial Reporting and Funding Decision.
Financial Modeling	Financial modeling is a process of numerically representing a company's forecasted future results using past and current performance results, a set of assumptions about the future in order to aid in decision-making and financial planning.

Financial Planning

This is a process of quantifying financial resources available, planning their size, timing of the revenues and expenditures. In this study, this was represented by budget development, financial modelling and financial communication.

Financial Reporting

It refers to processes and procedures used by a firm in recording, verification, reporting and analysis of transactions that affect revenues, expenditures, assets, and liabilities. In this study, is represented by preparation of financial statements, publication of financial reports and auditing of financial statements.

Funding Decision

Refers to decisions on whether to use equity capital or debt to finance the operations of the business. This study focused on how capital structure decisions like the mode of financing and working capital are made.

Investment Appraisal

This refers the process tea factory companies follow in making a choice between various major investments such as plants, machinery, new products, acquisitions etc. This study focused on investment process, financial risks and project operational costs in evaluating investment appraisal.

Leverage

This is a measure of the level of indebtedness in the tea factory's statement of financial performance.

Liquidity Management

Refers to how a firm plan and manage its cash equivalent assets.

Performance of Tea factory companies	This is a measure of how tea factory companies use assets at their disposal to generate revenue and make profit. This study used financial performances parameters generally used in the tea industry to assess the wellbeing of a tea factory. These include returns to farmers, growth in companies assets and reserves, reduction in cost of production and debt levels.
Smallholder Farmers' Tea Companies	These are tea factory companies which processes tea for small scale tea farmers.
Smallholder Tea Farmer	This is a tea farmer who holds less than 10 hectares of tea and does not have a processing line for his/her tea.
West Tea Block	Area representing all smallholder farmers' tea factory companies in the Rift valley and West Tea Block valley as defined in the Tea Act, 2020.
Working Capital Management	This is a management strategy that aims at balancing current assets and current liabilities in order to ensure that tea factory companies have sufficient funds to meet both their operational expenses and short-term obligations.

ABBREVIATIONS AND ACRONYMS

AFA:	Agriculture and Food Authority
ANOVA:	Analysis of Variance
BETA:	Bottom-up Economic Agenda
BOM	Board of Management
CBK:	Central Bank of Kenya
CGI:	Corporate Governance Index
CEO:	Chief Executive Officer
COP:	Cost of Production
CTC:	Cut, Tear and Curl
EATTA:	East Africa Tea Traders Association
FAO:	Food and Agriculture Organization
FRCL:	Financial Reporting Council Limited
FY:	Financial Year
ICT	Information and Communication Technology
IFRS:	International Financial Reporting Standards
ITC:	International Tea Committee
IRR:	Internal Rate of Return
ARR:	Accounting Rate of Return
KNBS:	Kenya National Bureau of statistics
KTDA:	Kenya Tea Development Agency Holdings Ltd
KTGA:	Kenya Tea Growers Association
MOALD:	Ministry of Agriculture and Livestock Development

NPV:	Net Present Value
NSE:	Nairobi Securities Exchange
PAT:	Profit After Tax
PM:	Profitability Margin
ROA:	Return on Assets
ROE:	Return on Equity
SACCOS:	Savings and Credit cooperative societies
SMEs	Small and Medium Enterprises
SPSS	Statistical Package for Social Science
TBK	Tea Board of Kenya
TD:	Tea Directorate
UAE:	United Arabs Emirates

ABSTRACT

Smallholder tea farming in Kenya is a critical subsector since it provides a source of livelihood to over 750,000 farmers directly and indirectly to about 6.5 million Kenyans which represents 13% of Kenya's population. Declining tea earnings by smallholder tea farmers threatens the sustainability of the tea sub-sector in Kenya. In addition, the decline in earnings by smallholder tea farmers is more pronounced in the West-Tea-Block as compared to East-Tea-Block. This had caused a great concern to the government and tea value chain stakeholders who were therefore seeking to unearth what is bedevilling the sub-sector and policy interventions necessary to reverse the decline. This study therefore investigated the effect of financial management practices on the performance of smallholder farmers' tea factory companies in the West Tea Block, Kenya. Specifically, the study investigated the effect of; financial planning, investment appraisal, financial reporting and funding decisions on performance of smallholder farmers' tea factory companies in the West Tea Block Kenya. In addition, the study also determined the moderating effect of corporate governance on the relationship between financial management practices and performance of smallholder farmers' tea factory companies in the West Tea Block, Kenya. The theories underpinning the study were the Theory of Budgeting, Real Options Theory, Performance-Based-Budgeting-Model, Net Income Theory and Agency Theory. This study adopted the positivist research philosophy and explanatory research design. A census was conducted on all the 34 smallholder farmers' tea factory companies in the West Tea Block Kenya. Data was used and collected through a semi-structured questionnaire. Content, criterion, and construct related validity were confirmed accordingly. The study had a response rate of eighty-five per cent. Descriptive statistics were applied to assess variables characteristics including standard deviation and aggregate mean scores. The multiple regression model was employed to analyze the effect financial management practices on performance. Content analysis was used to analyse qualitative data. The findings were that financial planning, investment appraisal, financial reporting and funding decisions had a significantly positive effect on performance of smallholder farmers' tea factory companies in the West Tea Block, Kenya. Additionally, the study revealed that corporate governance had a significant moderating effect on the relationship between financial management practices and performance of smallholder farmers' tea factory companies in the West Tea Block, Kenya. The study concludes that adoption and consistent application of good financial management practices enhances the performance of smallholder tea factory companies in the West Tea Block, Kenya. The study recommends that the management and boards of tea factory companies should ensure that clear policies on budgeting and budgetary control, investment appraisal, funding decisions and financial reporting are developed and implemented.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

In 2023 and 2022, performance in global tea trade, in terms of price and quantity rebounded as compared to 2021 when exports were affected by global economic slowdown and logistics issues (Food and Agriculture Organization, 2024). Global tea prices averaged USD 2.90 and 2.78 per kilogram respectively compared to USD 2.67 recorded in 2021 due to release of the stocks carried forward from 2020. Production quantities hit 6.6 million metric tons in 2023 driven by a recovery in some of the major producing countries like China, India, Kenya and Sri Lanka and improved market opportunities (International Tea Committee, 2024). World tea exports reached 1.74 million tons in 2023 which is a 0.4 per centum increase as compared to 1.73 million in 2022. In terms of average unit price per kilogram of exports and re-exports for 2023, Japan and France recorded the highest prices at USD 31.52 and USD 17.02 respectively whilst Argentina and Uganda recorded the lowest prices at USD 1.12 and USD 1.14 respectively (FAO, 2024).

Reports by FAO (2024) indicates that, while tea companies in China, India and Sri Lanka continued to reap the full benefits of tea value addition, tea companies in Kenya are still reckoning with low prices due to low level of value addition. Whereas most farmers in China, India and Sri Lanka earned in excess of USD 1 per kilogram of green tea, farmers in Kenya earned on average USD 0.49 per kilogram of tea delivered to the factory thus underscoring the ever-widening gap in earnings from tea (ITC, 2022). This is despite the fact that Kenya produces high quality black CTC tea as compared to the rest of the world. Reports by FAO (2023) indicates that China, India and

Sri Lanka have invested highly in value addition and over 60 per centum of their tea is value-added before it is either sold locally or exported.

In Kenya, the tea sub-sector is among the key drivers of Kenya's socio-economic development, providing a source of livelihood to over 750,000 tea farmers and about 6.5 million Kenyans. It contributes about 2 per centum of Kenya's Gross Domestic Product (GDP) and 4 per centum of the agriculture GDP. On average, tea earns the country about Kshs 130 billion in exports, which translates to approximately 26% of the country's foreign exchange earnings. Kenya is a key producer and the leading exporter of crush, tear, curl (CTC) black tea accounting for 28% of the world tea exports. Earnings from tea exports significantly assists in the infrastructural development of 19 tea growing counties in Kenya consequently supporting Vision 2030 and the Bottom-up Economic Agenda - BETA (Tea Board of Kenya, 2024).

In 2023, Kenya produced 570 million Kgs of made tea against 535 million Kgs in 2022. This earned the country Kshs 197 billion against Kshs 160 billion in the previous year. Export volumes stood at 522 million Kgs of made tea against 450 million Kgs in 2022 whilst tea export earnings amounted to Kshs 181 billion against Kshs 138 billion in 2022. Earnings from local tea consumption amounted to Kshs 16 billion against Kshs 25 billion in 2022 (TBK, 2024).

Despite this extemporary performance, over 95 per centum of Kenyan tea is exported in bulk thus reducing the earnings by the country which instead transfers the benefits of value addition to Egypt, United Kingdom, UAE, Russia, Pakistan and other countries. Beside the prices difference, reports from Fairtrade (2021) indicates that companies in China, India and Sri Lanka maintained a payout

ratio of over 75 per centum as compared to tea companies in Kenya whose payout ratio has been consistently below 75 per centum. Since 2010, performance of the tea industry has been under scrutiny by the government due to declining tea earnings by smallholder tea farmers (Ministry of Agriculture and Livestock Development, 2021).

Over sixty per centum of tea produced in Kenya emanates from the smallholder tea farmers (MOALD, 2021). The bulk of the smallholder tea farmers in Kenya are managed by Kenya Tea Development Agency which manages over 634,000 smallholder tea farmers. In 2020/21, reports from the KTDA (2022) shows that the total payout to smallholder tea growers declined from Kshs 58.76 per kg of green leaf in 2016/17 to 52.83 in 2017/18; 41.27 in 2018/19; 36.64 in 2019/20 and Kshs 34.71 in 2020/21.

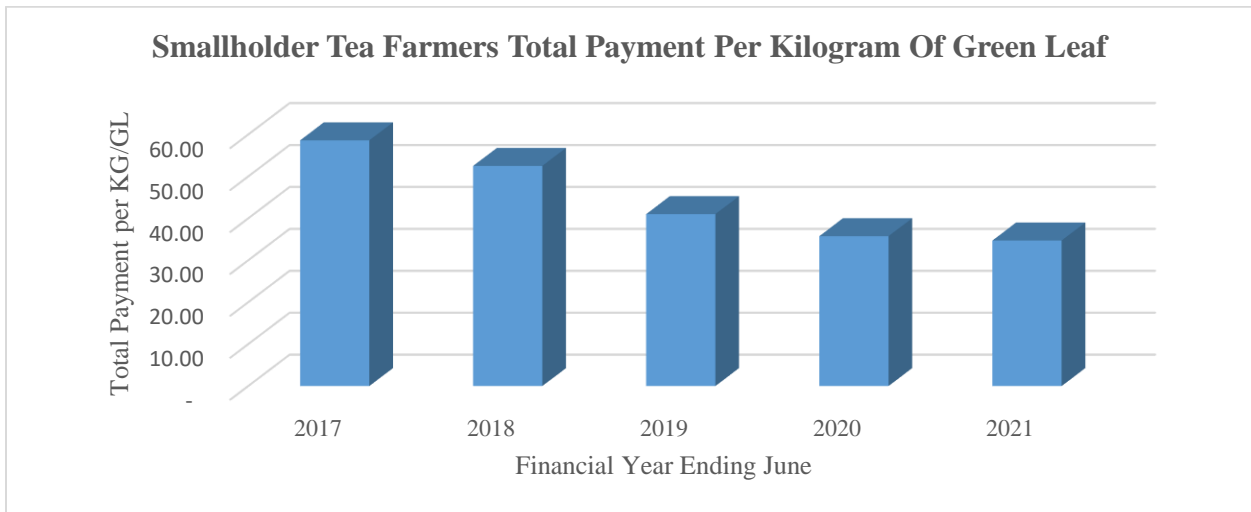


Figure 1.1: Total Green Leaf Prices

Source: KTDA

Over the same period, reports from East African Tea Traders Association, (2021) indicates that the overall tea prices at Mombasa tea auction averaged USD 2.1 whilst the average auction price for smallholders’ teas was USD 2.71 which translates to about Kshs 297 per kilo of made tea or approximately Kshs 69 per kilo of green tea. This shows that half of the selling price is gobbled in production and selling costs.

In addition, report from KTDA (2023) indicates that whereas smallholder tea farmers from the West-Tea-Block earned on average Kshs 26.14 and Kshs 50.86 between 2015 and 2023 respectively, smallholder tea farmers from the East-Tea-Block noticeably earned more on average at Kshs. 41.37 and Kshs 68.67 in the same period.

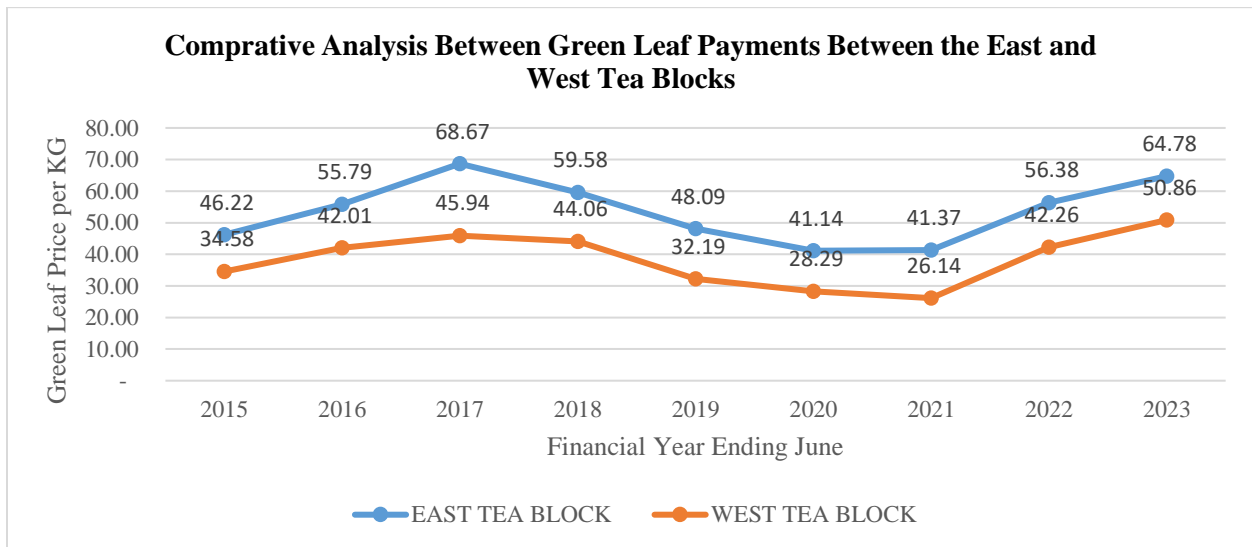


Figure 1.2: Comparison of Green Leaf Prices for the East and West Tea Blocks
Source: TBK

As shown in Figure 1.2, the average earnings by smallholder tea farmers from the West-Tea-Block are thirty per centum lower than their counterparts from the West-Tea-Block. Analysis of costs for the two regions indicates that the average costs of production in the West-Tea-Block is forty per centum higher as compared to the average cost of production in the East-Tea-Block (TBK, 2022). Therefore, despite the price differences at the auction, there are also other differences in performance between the two major tea blocks which need further analysis.

Kenya National Bureau of Statistics (2022) indicates that average gross commodity prices paid to tea farmers per 100 kilos of tea declined from Kshs 30,652.18 in 2017 to Kshs 21,414 and 23,444 in 2020 and 2021 respectively underscoring the consistent decline of earnings to tea farmers since

2012. Financial performance of smallholder tea factory companies is critical in determining earnings by tea farmers. Poor performance of the smallholder tea factory companies threatens the sustainability of the tea sub-sector in Kenya besides the threat to the livelihoods of over 6.5 million Kenyans who depend on tea sales. Specifically, the performance of the West Tea Block is further exacerbated by low auction prices and high production costs as compared to the East Tea Block. It is concerning that one hectare (ha) in the smallholder tea subsector fetches Kshs 467,630 in the East-Tea-Block but only Kshs 249,594 in the West-Tea-Block, with net margins of Kshs 257,500 and only Kshs 86,936, respectively (MOALD, 2021). These statistics further accentuate the disparity in earnings between the two main tea blocks in Kenya.

1.1.1 Performance of Tea factory companies

Segal and Summers (2002) asserts that performance of an entity can either be assessed using non-financial and financial performance measures. Non-financial performance parameters focus on the organization's value drivers that underpins its value proposition other than financial resources. This includes inter alia, relational resources (customers' and suppliers' relationships), human resource know-how, structural resources like data and information systems, physical resources like ICT and manufacturing platforms (Ganguli, 2020). Some organizations are established to provide certain services to the members and their performance can only be better measured by the efficiency and effectiveness they offer those services rather than reported profits (Sharma & Gadenne, 2011).

On the other hand, financial performance measures how an organization utilizes assets at its disposal to generate revenue and make profit (Allen, Shaik, Myles, & Muhammad, 2005). Brigham and Ehrhardt (2008) posits that financial performance is the yardstick for measuring the success

or failure of any business enterprise. Paramasivan (2009) reckons that most businesses are established with the sole objective of profit and wealth maximization, which can be quantified in terms of financial performance. Lewis (2005) suggests that financial performance is a good gauge of financial wellbeing of an organization and is also a good basis of comparing performance between firms in the same sector or for inter-sectoral comparison. Butt, Hunjra and Rehman (2010) concludes that a strong connection between financial performance of companies and earnings by shareholders exists. Whereas financial performance of a company is the most important aspect of its existence, performance in tea factory companies can be determined using both non-financial and financial parameters (Kiptoo, Kariuki & Maina, 2017), (Koech, 2014), (Moranga, 2012) and (MOALD, 2021).

Globally, performance of companies dealing with tea in the period 2016 - 2023 like Unilever, Tata Tea, Dharmasala Tea, Ten Fu Group and Akbar Tea declined in 2023 grossing USD 42.3 billion buoyed by low tea prices and demand for tea (Statista, 2024). Most tea companies are privately owned established with an objective of profit making and therefore uses the common financial performance measures like, Profit After Tax (PAT), payment to growers and Return on Equity (ROE) in assessing their financial performance (Terer & Kipkorir, 2019).

In Kenya, despite the great contribution the tea sub-sector makes to the Kenya's economy, performance of the tea factory companies particularly the smallholder factory companies have not been satisfactory in terms of their profitability and payments to the tea growers (Kiptoo, Kariuki, & Kimani, 2017). Most private and largescale tea factory companies in Kenya use PAT, ROA and ROE to measure how the company is performing (Koech, 2014) and (Moranga, 2012). Rugutt

(2018) posits that that poor financial performance of most of the smallholder tea factory companies has affected their service delivery and payments to tea growers. Kidusu, Memba, Wandabwa, and Koech (2014) reckons that financial performance of tea factory companies directly affects earnings by tea farmers in terms of bonus payment and the price paid for delivery of green leaf. Shyamalie and Wijeratne (2013) asserts that, earnings by tea farmers cannot be divorced from the financial performance of tea factory companies. Chang (2016) indicates that earnings by small-holder tea farmers in Kenya is on the decline which in turn threatens global tea trade.

Chikamai and Makhamara (2021) asserts that there have been declining results in the tea industry particularly the small-scale tea subsector in regard to tea prices, commitment of workers and declarations of tea bonuses. In Kenya's smallholder tea subsector, performance of a tea factory is usually measured by how well a tea company pays it growers for supply of green leaf in terms of the monthly pay and the bonus pay (Terer & Kipkorir, 2019). The profit remaining after tax is shared by way of Bonus Payment (BP) among the tea farmers depending on the amount of green leaf delivered to the factory. This is because of the green leaf payment model employed by most smallholder farmers' tea factory companies where farmers are paid between Kshs 23 and Kshs 25 per kilo of delivered tea and the annual profit made by the company is distributed in form of bonus payments. In the financial year 2023-24, total payment by KTDA averaged Kshs 68 ranging from Kshs 38 in Kapsara to Kshs 87.70 in Mununga (KTDA, 2024).

Since this study sought to evaluate how financial management practices affect the tea factory companies' incomes attributable to the tea farmers as the shareholders, this study used a questionnaire to assess how various companies performed on a myriad of parameters affecting growers' incomes. The parameters focused on returns to farmers, growth in factory companies'

assets and reserves, reduction in cost of production and debt levels of the company. Terer, (2019), Shyamalie & Wijeratne, (2013), Oyugi, (2012), Namu et al., (2014), Moranga, (2012), Magal, (2012), and Koech, (2014) reckons that these are parameters that objectively measures the performance of smallholder tea factory companies.

Studies by Terer, (2019), Namu et al., (2014) and Koech, (2014) concluded that performance of tea factory companies is synonymous with its profitability and how much it pays out to tea growers for delivery of green leaf. They therefore reckon that any performance measure of a tea factory that is oblivious of how much the tea farmers earn for delivery of green leaf is not only academic but also misleading. Moranga, (2012), Magal, (2012) and Rugut (2018) however adds cost of production, growth in assets/reserves and cashflow management as other important facets when it comes to measuring the performance of smallholder tea factory companies.

1.1.2 Financial Management Practices

Financial Management Practices is an ever-evolving concept since there is no universal definition of financial management from one country to another and from one sector to another (Khan & Kader, 2019). Mathiba (2011) describes financial management practices to be those practices performed by managers in an effort to manage the financial resources at their disposal. This includes management decisions on budgeting and forecasting, financial planning and analysis, investment and dividend decisions, financial reporting, financing and assets management. (Butt *et al.* (2010) posits that financial management practices comprise of processes, practices and internal controls employed by an organization to manage its assets and liabilities, revenues, expenses, and contingencies.

Pinegar & Wilbricht (2009) reckons that financial management practices are the actions managers take in directing, planning, controlling and organizing financial activities of a firm. Kieu (2004) posits that most, studies on financial management only concentrate on how business enterprises make decisions on the traditional areas of financial management that is; financing decisions, investing decisions and dividend policies but fails to explore other contemporary concepts like accounting information systems, management accounting, financial planning and analysis, financial reporting which cannot be divorced from financial management.

Kieu (2004) defines financial management practices as how firms utilize funds in optimizing returns on investment. He identified four major areas of financial management practices including financial planning, financing decisions, working capital management, and investment appraisals. Sule (2021) posits that financial management practices include six spheres of financial management key to financial success of all business formations, that is, financial planning, management of working capital, capital budgeting, financial accounting, financial analysis, and management accounting. On the other hand, Chung and Chuang (2010) concluded that, financial management practices includes the following five areas: financial planning, capital budgeting, funding decisions, short-term capital decisions and financial reporting. Kang'aru and Tirimba (2018) classified financial management practices into four areas, that is, budgeting practices, working capital management, cash planning and inventory management.

The apparent convergence based on the foregoing discussion is that, financial management practices are concentrated in four distinct areas namely; investment appraisal, financial planning, financial reporting, and financing decision. Therefore, this study adopted financial management practices as identified by Sule (2021), Lightbody (2000) and Chung & Chuang (2010) to

conceptualize financial management practices. In discussing how financial management practices affect financial performance, this study focused on how financial planning, investment appraisal, financial reporting & analysis, and funding decision affects financial performance of smallholder farmers' tea factory companies in West Tea Block. These practices are critical in the operating model used by tea factory companies due to the nature and operations of the smallholder tea sector in Kenya.

In Kenya, poor financial' management practices are the leading causes of failure in majority of small and medium sized business enterprises (Nthenge & Ringera 2017). Oyugi, (2012) reckons that poor financial management practices in the tea sector is to blame for the decline in farmers' earnings in the tea sector. Khan and Kader (2019) posit that top management should establish the ideal management practices mix for their institutions and their contribution towards organizational performance. El-Charaani, Abraham and Skaf (2022) reckons that poor management practices are to blame for financial decline in most companies in Middle Eastern and North African Region. In Kenya, studies by Kamande (2015), Kiita (2013) and Kang'aru and Tirimba (2018) concluded that most Kenya companies have often recorded poor performance due to failure to embed the appropriate financial management practices in their operations.

1.1.2.1 Financial Planning

Financial planning is the process used by organizations to establish the financial resources at their disposal, then plan the size and timing of revenues and expenditures (Higgins, 1995). Ariyo, Onileowo & Oke (2020) conceptualized financial planning through cash budgeting, risk management and cash control. In many organizations, financial planning is actualized in form of budgeting decisions, financial policies and investment decisions (Amaraven & Mulukalapally,

2021). Borch and Wosnitzer (2021) reckons that financial modeling is an integral part of financial planning and forecasting.

Filho and Ferreira (2021) reckons that whilst undertaking financial planning, financial modelling with multiple criteria decision making is critical as it presents the management various options based on various scenarios. Kang'aru and Tirimba (2018) posits that due to resources limitation, financial planning is a critical process in resource allocation. They posit that a budget identifies programmes and activities which an organization should prioritize or ignore in order to maximize profit. Budgets are useful tools in focusing an organization to its goals by sanctioning actions and providing limits for management actions (Amaraven & Mulukalapally, 2021). (Horngreen, Datar and Foster) 2006 reckons that preparing a detailed financial plan usually contributes positively to firm performance. In order to ventilate on how financial planning affects a company operating in the 21st century, this study focused on how smallholder tea factory companies develop their budgets, monitor budgets implementation, use financial models in forecasting and strategy formulation, communicate financial information to stakeholders and how all this affects their financial performance.

1.1.2.2 Investment Appraisal

Investment appraisal, is the process of choosing between various long -term investments like plants, machinery, new products, acquisitions (Pandey, 2010). It entails decisions on acquisition, utilization and management of assets and projects at their disposal to generate income for the business. Recent development in the theory of capital budgeting has proposed various capital budgeting tools like Accounting Rate of Return (ARR), Pay Back Method (PBM) Discounted Pay

Back Method (DPBM), Net Present Value (NPV), Internal Rate of Return (IRR) and other discounted cash flow methods to appraise a project before investment.

Morwabe & Muturi (2019) concluded that investment decisions had a strong influence on changes in deposits taking SACCOs profitability in Kenya. Bon and Hartoko (2022) concluded that investment decisions, dividend policy and company size have a direct and indirect positive effect on each other respectively. Smallholder tea factory companies make decisions on major investments like establishment of a manufacturing line, boilers, power stations, woodfuel farms, new equipment all of which they evaluate their viability, financial risks involved in the project/ investment and operational costs involved (Jamal, 2014). Wanjohi (2017) posits that risk measurement practice and risk mitigation practice have a high bearing on the financial performance of all investments and projects undertaken by commercial banks. Iyakaremye (2015) argues that financial performance and financial risk ratios were driving force for determination of financial health of agricultural companies.

Kipkirui and Kimungunyi (2022) concluded that application of net present value appraisal techniques in investment appraisal impacts positively on financial performance of firms. Many financial economic theories reckon that efficient utilization, control and management of the company's investments impacts heavily on performance of a firm (Morwabe & Muturi, 2019). This study therefore evaluated the efficiency of the methods used by smallholder farmers' tea factory companies in evaluating viability of an investment, risk profiling mechanisms of those investments, appraisal of how the investment is performing after acquisition, how decisions on whether to retain it or dispose it are made, and how these affects performance.

1.1.2.3 Financial Reporting

Financial reporting is the process through which organizations collect, recognize, measure and present data in financial statements for use by its stakeholders (Financial Reporting Council Limited, 2018). Recent developments in the International Financial Reporting Standards (IFRSs) have materially changed how organizations report to their stakeholders and the public at large (Kerongo, 2014). Mironiuc et al., (2013) asserts that adoption of IFRSs and the quality of audit has a considerable impact on financial performance of agricultural enterprises. Financial reporting and tracking affect the performance of many organizations (Akman, Shehab and Kizil, 2020). Rathnayake, Rajapakse and Lasantha (2021) asserts that firms experience low variability in earnings in post adoption of the IFRS due to consistent treatment of accounting items.

Efficiency in accounting information system used in an organization and proper financial reporting enhances profitability (Akman, Shehab & Kizil 2020). Tourna and Germanos (2016) reckons that application of an efficient accounting information system assists organizations in designing and implementing a strategic plan that enhanced their profitability in the long run. Literature on financial accounting and management indicates that good financial accounting, reporting and analysis practice assists decision makers in designing and implementing sound and strategic decisions which enhances performance (FRCL, 2018).

Szydelko and Biadacz (2016) argues that, corporations which prepare financial reports in accordance with the IFRS experience more prolific results in terms of performance management. Whereas smallholder tea factories prepares their financial statements in accordance with IFRS, the extent to which they accurately recognize, measure and report of all financial transactions of the company; their financial statements are in agreement with the books of accounts; they undertake regularly analyze their financial data in order to deduce relevant information for management

decision making and the financial statements prepared enhances information symmetry among the stakeholders differs from one factory company to the other. From the forgoing discussion, this study therefore, focuses on how the smallholder tea factories from the West-Tea-Block mainstreams these important facets of financial reporting and how that impacts on their performance.

1.1.2.4 Funding Decision

This entails the decisions on whether to use equity capital or debt to finance the operations of the business (Sule, 2021). This study analyzed how tea factory companies chooses between debt and equity financing, how they manage working capital and how all these facets affect performance of tea factory companies in the West Tea Block. In a contemporary business environment, most funding decisions revolves around determination of optimal capital structure (Pandey, 2010). Capital structure decision is a question of the level of equity and debt to apply in financing a business (Sherine, Wiyanto and Budiono, 2021). Financial theory reckons that capital structure affects profitability of businesses due to tax advantage of debt and the use of retained earnings (Khan & Kader, 2019). Capital structure decision is manifested in the leverage ratio which measures the ratio between total debt to the total assets and shows the extent to which an organization's assets are financed by debts (Supami and Mochamad, 2021).

Mwangi (2014) reckons that financial leverage has a statistically insignificant negative association with ROA, but a significant negative relationship with ROE. Wainaina (2014) found a positive association between leverage and performance of leading Small and Medium Enterprises in Kenya. Kale (2014) established a significant negative association between leverage and returns on assets thus contradicting the study by Wainaina (2014). Most financial economic theories predict positive relationship between leverage and profitability. In order to maximize

shareholder's wealth, managers strive to make cogent decisions on the optimal capital structure that minimizes the cost of capital thus begetting a capital structure problem. Smallholder tea factory companies use both debt financing and equity sources to finance various projects like manufacturing line, boilers, power stations, woodfuel farms, new equipment. In this regard, as recommended by (Mukaria *et al.*, 2015) this study determined how various facets of debt and equity financing a tea factory companies finance affect profitability.

1.1.3 Corporate Governance

Corporate governance are ways and mechanisms by which institutions are directed and managed (Financial Reporting Council Limited, 2018). The Council reckons that corporate governance is a system whereby an appointed board of directors provide oversight to ensure that management has put in place appropriate measures and mechanisms to take care of the interests of all stakeholders of an organization. Shareholders of a company usually appoint the board and the company auditors then confirm that an appropriate governance structure to run the company has been put in place.

Bawuah (2024) reckoned that corporate governance has a significant moderating role in the relationship between one of the financial management practices, that is, capital structure decisions and a firm's performance. Ronoowah and Seetanah (2023) posits that the interaction of corporate governance and capital structure influenced financial performance, but the strength of the moderating effects depended on the performance measure being used. Sofian (2013) reckoned that corporate governance has a moderating role between intellectual capital and corporate performance.

According to KTDA (2022), most smallholder tea factory companies have six directors elected by tea farmers to serve for a period of three years. Every year, two directors undergoes rotation based on a pre-set cycle. Some factories have appointed independent directors to either represent gender

or provide necessary skillsets that could be lacking in the elected directors. The role of the directors is to provide an oversight role in the management of the tea factory. In each factory, the directors have engaged a management agent, that is, KTDA Management Services Ltd who oversees the day to day operations of the tea factory including; leaf collection, transportation, manufacturing, sales, warehousing, sales and marketing, finance and human resource, administration among others. The management agent reports to the directors during operations or quarterly meetings who in turn reports to the shareholders during the annual general meeting of the factory (KTDA, 2022).

According to a report by MOALD (2021), the board of director's understanding of their oversight role especially on financial matters determine how the financial function of smallholder tea factory companies is managed by the agency contracted by the factory. Financial literacy by the directors of tea factory companies is key in interpreting financial reports, interrogating the performance of tea factory companies and in giving policy directions on strategic matters of the factory (Chikamai & Makhamara, 2021). Exec. Order No. 3, 2021 figures that, poor corporate governance is a key challenge facing the smallholder tea subsector. This study focused on the existence or absence of these facets in the board's tea factory companies, that is, existence or absence of board committees, independent directors, training on good corporate governance, independent audit function reporting to the audit committee of the Board.

El-Charaani, Abraham and Skaf (2022) ascertained that independent members on the board, lack of political pressure on board members, high ownership concentration and strong legal framework had a significant positive effect on the relationship between financial management practices and performance. In this study, corporate governance was used as a moderator between the financial

management practices and dependent variable, that is, the performance of smallholder farmers' tea companies in the West Tea Block, Kenya. For example, competence in financial matters by the Board governing the Tea factory companies dictate to a large extent how budgets are prepared, investments are appraised, reporting are done and funding decisions are approved and implemented within the organization which in turn affects financial performance.

1.1.4 Financial Management Practices and Organization's Performance

Various studies to evaluate the effect of different financial management practices on different facets of performance have been done. Previous studies and finance literature have demonstrated a strong nexus between the various financial management practices and organizational performance. Kieu (2004) asserts that efficiency in employing the ideal financial management practices has a positive impact on a business's profitability. Kieu (2004) further posits that methods used by managers in financial planning, short-term capital decisions, financial reporting and analysis, liquidity management, optimum capital structure affects performance of business enterprises.

Chung and Chuang (2010) assert that efficiency in the management of the working capital, capital budgeting, capital structure decisions, financial reporting and accounting systems has a positive effect on business organizations' profitability. Butt *et al.*, (2010) showed a significant positive association between financial management practices used by Pakistani corporate sector and their financial performance. There is a strong correlation between liquidity management and profitability of enterprises depending on the sector (Mwangi *et al.*, 2014; Koperunthevi, 2010; Fathi & Tavakkoli, 2009; Mengesha, 2014; Munene, 2006; Runyola, 2012; Thiiru, 2013; Gill *et al.*, 2010; Deloof, 2003; Padachi, 2006). Various components of working capital such as: inventory management, accounts receivable, cash and cash equivalents impact on the financial performance

of an organization. Therefore, business enterprises need to identify optimum levels of their working capital that would minimize costs and maximize profits.

Given the fact that most smallholder tea factory companies are managed by the same management agent, that is, KTDA MS Ltd, one would be tempted to think that all the tea factory companies apply the same financial management practices. However, the effect of the oversight by different Boards in the application of various management practices vary from one tea factory company to the other (MOALD, 2021). Some boards emphasize on different practices as compared to others which in turn affects performance. From the foregoing discussion and review of empirical literature, the four major areas of financial management practices that were conceptualized in this study include: financial planning, investment appraisal, financial reporting & analysis and funding decisions.

1.1.5 Smallholder Farmers' Tea factory companies in West-Tea Block

Tea was first introduced in Kenya by Caine in the year, 1903 but it was until 1924 that commercial tea planting started in Mabroukie, Kiambu County in the East-Tea-Block (Owuor *et al.*, 1999). Since then the area under tea has grown from 21,448 hectares in 1963 to 227,777 hectares in 2023 (TBK, 2024). Production has risen from 18.1 thousand metric tons in 1963 to 570 thousand metric tons in 2023 of made tea (TBK, 2024). The smallholder tea sub-sector accounts for approximately 56 per centum of tea produced while the large estates produce approximately 44 per centum of total tea produced (TBK, 2024). Plantations usually owns the farms, factory and the other infrastructure along the tea value chain that produces and prepares tea for consumption either locally or abroad. In Kenya, there are 71 tea factory companies that manage smallholder tea farmers who comprises of tea farmers holding on average 2.8 hectares of tea and below are

managed by KTDA MS Ltd. Out of this, 34 tea factory companies are in the West-Tea-Block whilst 37 tea factories are in the East-Tea-Block.

Due to the model used by KTDA tea factory companies in reporting their performance, where production and selling costs are deducted from selling price and the balance treated as cost of green leaf in order to reduce taxation, performance of these factory companies is therefore measured in terms of how well they pay farmers for green leaf (MOALD, 2021). Reports from KTDA (2024) shows that, the average earnings by smallholder tea farmers in the West-Tea-Block are relatively lower as compared to the average earnings by the smallholder tea farmers in the East-Tea-Block. According to the report as shown in Figure 1.2, smallholder tea farmers earnings in the West-Tea-Block earned on average thirty per centum less in the FYs 2022/23, 2021/22, 2020/21, 2019/20, 2018/19, 2017/18, 2016/17, 2015/16 and 2014/15 as compared to the tea farmers from the East-Tea-Block. TBK (2023) reckoned that, despite the auction price differentials, the individual costs of production and management practices by specific tea factories also affected the bottom-line. The decline of earnings by tea farmers in the West-Tea-Block has begot serious concerns among the industry stakeholders who have petitioned the government to rethink the management model of KTDA as the largest management agent of smallholder tea farmers to establish whether it is really serving the farmers as envisaged (TBK, 2022).

Statistics from KTDA (2021) also shows that companies in the West Tea Block have a lower payout ratio of below 75 per centum as compared to companies in the East Tea Block which have payout ratio of above 75 per centum. The disparity thus calls for a special focus of the West Tea Block in order to unearth the reasons for these variances (Tea Directorate, 2016). Magal (2012) and Moranga (2012) reckons that, despite the impressive performance by many players along the

tea value chain, there has been growing concerns on the earnings by smallholder tea farmers in the West Tea Block thus necessitating an evaluation of the whole value chain and tea management model adopted in the smallholder tea farming in Kenya.

Currently, the net earnings to smallholder tea farmers' vis-a-vis operational costs varies from year to year, from one factory company to another and from region to region with green leaf payment ratio varies between 64:36 and 75:25 from West to East Tea Block (TBK, 2022). A taskforce report on the tea industry price stabilization framework (2021) recommended various areas of study including corporate governance, value addition, regulation, management practices and marketing that required further research in order to assess how they affect performance of tea factory companies and in effect, earnings by smallholder tea farmers. Therefore, arising from the numerous studies done on the tea value chain and the tea industry Task Force Report (2015), corporate governance issues and management practices at smallholder farmers' tea factory companies has featured prominently as some of the bottlenecks of good financial performance in the tea industry (MOA, 2021). Therefore, a study such as this, to evaluate how financial management practices affects performance was crucial.

1.2 Statement of the Problem

In Kenya, the smallholder tea sub-sector accounts for approximately 56 per centum of the total tea produced while the large estates accounts for about 44 per centum (TBK, 2023). However, over 90 per centum of smallholder tea farmers earns below the minimum wage of Kshs. 15,120 per month from tea farming (MOALD, 2021). Earnings by the smallholder tea farmers depends on the performance of tea factory companies (KTDA, 2022). Reports from the TBK (2023) indicates that the payment to tea farmers by smallholder farmers' tea factory companies from the West-Tea-

Block is declining and significantly lower as compared to that of the East-Tea-Block which threatens tea farmers' food and nutrition security. The declining earnings from tea sales has made smallholder tea farming in the West-Tea-Block to become increasingly unattractive and less sustainable which threatens the sustainability of the tea industry in Kenya (MOALD, 2016).

The disparity between returns by smallholder farmers' tea factory companies and the large private/estate tea factory companies is obvious despite high quality teas by the former as compared to the latter. Furthermore, disparities between total payment by tea factory companies in the West Tea Block and in the East Tea Block has increasingly become more pronounced over the years, begetting the question, why the disparity (MOALD, 2021). Studies done by Magal (2012) and Moranga (2012) on privatization of tea factory companies ventilates on the impact of liberalization of the tea sector on performance and recommends a deeper analysis on the management practices employed in smallholder farmers' tea factory companies.

Although various studies have been done on the effect of financial management practices on various types of organization's performance in Kenya and abroad, very few have delved on the tea industry in Kenya. Kang'aru and Tirimba (2018) conducted a study effects of financial planning practices on performance of nonprofit making establishments in health in Kiambu county, Kenya focusing on budgeting practices, working capital management, cash planning and inventory management. Butt *et al.*' (2010) investigated the nexus between financial management practices and performance of corporations in Pakistan and demonstrated a significant positive relationship. Sugethe (2009) investigated the effects of financial management practices on church funds stewardship by using cash management and financial analysis as the unit of analysis and established a negative relationship. Nyamao *et al.* (2012) established that there existed a significant

positive relationship between financial management practice and performance. Wandabwa (2012) evaluated financial management practices in Kenyatta University while Mathuva (2009) studied financial management practice in terms of the operating cycle both yielding a positive relationship.

From the foregoing, it is apparent that majority of studies conducted on financial management practices focused on the commercial and other sectors but very few have delved in the agriculture sector and more so in the tea sub-sector. Additionally, studies done in the tea sub-sector have probed other factors that affects performance like cost of production, labour, auction prices but very few have probed financial management practices. This research therefore sought to fill the existing gap in the Kenya tea sector by evaluating the effect of financial management practices on the performance of tea companies.

1.3 Research Objectives

To investigate the effect of financial management practices on performance of smallholder farmers' tea companies in the West Tea Block, Kenya.

1.3.1 Specific Objectives

This study was guided by the following specific research objectives:

- i. To establish the effect of financial planning on the performance of smallholder farmers' tea factory companies in the West Tea Block, Kenya.
- ii. To establish the effect of investment appraisal on the performance of smallholder farmers' tea factory companies in the West Tea Block, Kenya.
- iii. To establish the effect of financial reporting on the performance of smallholder farmers' tea factory companies in the West Tea Block, Kenya.

- iv. To establish the effect of funding decisions on performance of smallholder farmers' tea factory companies in the West Tea Block, Kenya.
- v. To establish the moderating effect of corporate governance on the relationship between financial management practices and performance of smallholder farmers' tea companies in the West Tea Block, Kenya.

1.4 Research Hypotheses.

Null hypotheses of the study:

H₀₁: Financial planning has no significant effect on the performance of smallholder farmers' tea factory companies in the West Tea Block, Kenya.

H₀₂: Investment appraisal has no significant effect on the performance of smallholder farmers' tea factory companies in the West Tea Block, Kenya.

H₀₃: Financial Reporting has no significant effect on the performance of smallholder farmers' tea factory companies in the West Tea Block, Kenya.

H₀₄: Funding decisions has no significant effect on the performance of smallholder farmers' tea factory companies in the West Tea Block, Kenya.

H₀₅: Corporate governance has no significant moderating effect on the relationship between financial management practices and performance of smallholder farmers' tea factory companies in the West Tea Block, Kenya.

1.5 Significance of the Study

Research findings and conclusion of this study are of great value to the boards and management of smallholder tea factory companies as it provides them with insights on how various financial practices like financial planning, investment appraisal, financial reporting and funding decisions

affects the overall performance of their tea factory companies. The knowledge derived from the study can be utilised in choosing the appropriate mix of financial management practices to employ in tea factory companies in order to enhance performance and value creation for their shareholders and farmers.

Directors of tea factory companies will get insights on how their oversight role (corporate governance) affects application of various practices in financial management of tea factory companies and how that eventually affects performance. Whereas directors are silent managers mandated by shareholders to oversight the affairs of the tea factory companies, their action/inactions are critical in determining the overall direction of the tea factory companies. It is therefore envisaged that the insights they have gotten from this study will help them improve on their corporate governance role in order to enhance performance of tea factory companies.

This study enlightens tea farmers on how financial management practices affects performance of tea factory companies and by extension, payment of green leaf. This is particularly important because smallholder farmers' tea factory companies are run by their elected representatives, and therefore, the study elucidated to farmers the importance of choosing representatives with good financial and business acumen. It also enlightens them on how to evaluate the effectiveness of the financial management practices employed by their stewards. Farmers would be able to pinpoint deficiencies in financial management practices employed by their elected stewards and demand for change.

This study also expands the literature of financial management practices in general and in particular, the tea industry in Kenya which is a key subsector of the economy. It provides scholars

with valuable insights on how financial management practices affects performance of tea factory companies and earnings from tea in general. This study would add to literature the empirical findings on financial management practices which is an area that is still evolving in Kenya

1.6 Scope of the Study

This study focused on all 34 smallholder tea factory companies in the West Tea Block, Kenya managed by KTDA owing to the fact they are entirely owned by smallholder tea farmers facing the problem under study. The West Tea Block was chosen owing to lower earnings compared to East Tea Block. Data collected related to the period July 2014 to June 2023 owing to the fact that, this is the period when performance of the two-tea bloc have become more pronounced as shown by the industry regulator (TBK, 2024). Performance of tea factory companies focused on returns to farmers, growth in factory companies' assets and reserves, reduction in cost of production and debt levels owing to the fact that these are the parameters that are generally accepted by industry players as the true measures of a factory's performance. The study focused on four independent variables namely: financial planning, investment appraisal, financial reporting and funding decisions to establish how they affect the dependent variable.

1.7 Limitations of the Study

The respondents comprised of persons with different levels of financial knowledge thus posing a threat of varied and incorrect interpretations of the study questions. This was mitigated by undertaking a pilot study in order to validate the research instrument before it was deployed to the target respondents.

The respondents comprised of persons who are all employed by a single management agency but working for different factory companies meaning that authority had to be sought from both the tea factory companies' directors and the management agency in order to interview the respondents. Initially, all the three parties, that is, directors of the tea factory, management agency and the respondents were suspicious and uncooperative but the limitation was overcome by furnishing a letter from National Council of Science, Technology and Innovation (NACOSTI) to prove that the data was purely meant for academic purposes. In addition, the respondents felt that the nature of the performance questions being sought were sensitive and can be leaked to the competitors of the factory companies. Therefore, they were initially hesitant in revealing all data. This was overcome by assuring the respondents that the information provided will be treated with confidentiality and only used for academic purposes.

The study used primary data, therefore presupposing that the respondents' perceptions represented the actual data of smallholder farmers' tea factory companies. Consequently, the researcher had to collaborate some of the data obtained from the target companies with data from other sources like the industry regulator TBK, KTDA and KNBS. Due to the wide geographical distribution of tea factory companies, the researcher encountered some difficulty in accessing some tea factory companies in order to obtain required data. Nevertheless, the researcher used research assistants who were able to transverse the wide geographical area.

1.8 Organization of the Study

There are five chapters in this thesis. Chapter One provides the research background, research objectives, and significance, scope and the limitation of the study. Chapter Two comprise of theoretical review and literature studies on effects of financial management practices on

performance of smallholder farmers' tea factory companies in Kenya and a conceptual framework. Chapter Three provides the methodology which was used to collect and analyze data. Chapter Four presents study findings while also discussing the findings. Chapter Five ultimately presents the summary, conclusion and recommendations emanating from this study.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The chapter presents an overview of theoretical underpinnings of the study, empirical studies done on financial management practices with the aim of supporting the study findings using the available literature. The chapter highlights empirical research gaps, theories related to financial planning, investment appraisal, financial reporting, funding decisions and corporate governance.

2.2 Theoretical Literature Review

The study was underpinned by the Theory of Budgeting, Real Options Theory, Performance Based Budgeting, Net Income Theory and Agency Theory.

2.2.1 Theory of Budgeting

This study used the two dimensions to motivational theory of budgeting proposed by Hofstede (1967) and Otley (1987). According to Otley (1987) who put forth a model illustrating a theoretical relationship between difficulty in budget preparation, characteristic of the person preparing the budget and the desired performance levels. The theory argued that as the budget difficulty increases, the aspiration levels and performance increase up to the maximum level that is possibly achievable after which the aspirational levels and performance of the organization declines.

Therefore, according to the proponents of this theory, a budget that is not expected to be achieved easily will offer the greatest degree of motivation than an easy budget which in turn motivates a lower level of performance. Accordingly, the optimal budget point at which a budget ceases to inspire implementers to higher performance is reached is where they feel that there is less than a fifty per centum probability of achieving the budget (Bergman & Andreas, 2009)

Hofstede (1967) on the other hand used a similar approach to demonstrate a hypothesized relationship between the level of difficulty, the aspiration levels and performance of an expense budget. According to the theory's hypothesis, the ability of budgets to motivate depends on the acceptability among manager and other individuals implementing them. Consequently, if the persons implementing the budgets adopt them and make them their personal targets then difficult budgets will continue to inspire employees to higher performance until where the acceptability of the budget declines thus creating negative attitudes towards the budget which in turn may lead to low performance.

According to the proponents on this theory, a budget does not have any motivational effect unless the managers involved adopt and accept them. More so, difficult budgets have higher motivational value since they are viewed to have more relevance than less difficult targets. However, negative attitudes may arise if the budgets are perceived to be too difficult and unachievable. Good upward communication skills and regular meetings facilitate acceptance of budgets which in turn affects performance. Likewise, personality, cultural and organizational norms was also seen to influence managers' reactions to budget (Khan & Kader, 2019).

These two propositions therefore intimate that budgets setting and acceptability levels inspires individuals to achieve certain performance levels in the organizations. These propositions therefore underpin the first objective of this study in that financial planning in terms of budgeting setting and implementation processes inspires certain performance levels in the smallholder tea factory companies.

2.2.2 Real Options Theory

This study used the Real Options Theory as proposed by Myers (1977) and reviewed by (Trigeorgis & Luehrman, 2016). Real Options Theory postulates that the management of an organization has the option of choosing whether to defer, expand, consolidate operations, substitute, right-size, stagger, contract or even abandon an investment opportunity on tangible assets based on their assessment about its viability and uncertainties surrounding it (Copeland & Antikarov, 2000).

Real Options Theory improves upon past methods of optimal sequential decision-making and argues that, subsequent decisions can be made to modify the project once it has been undertaken (Amram & Kulatiloka, 1996). This proposition is used in business strategy formulation where there is a need to continually re-evaluate the assumptions underlying projections informing a particular investment decision.

This theory therefore underpins the second objective of this study that investment appraisal affects performance in that all projects should be taken as real options which the organization can either abandon, right-size, contract, expand or sell depending on their contribution to the overall organization's performance. This is because smallholder tea factory companies exist to create and maximize shareholders' wealth, that is tea farmers and all projects in expansion/ replacement of the factory machinery, establishment of satellite factories and other subsidiaries, procurement of woodlots and so on should be evaluated in light of their contribution to the overarching goal of the organization.

2.2.3 Performance Based Budgeting Model

Performance Based Budgeting Model is a budgeting approach developed by the World Bank in 1990s aimed at linking inputs to outputs in budget preparation, approval process, execution, audit and its evaluation (Segal & Summers, 2002). Performance Based Budgeting connects performance targets with the allocation and management of resources in that resources are only spent when they are aimed at achieving specific results that are in tandem with the overall organization's missions, goals and objectives.

Performance-Based –Budgeting starts by setting specific objectives based on program goals and envisaged results. Only then, are necessary resources allocated to achieve them. The approach therefore first defines the specific outcomes/results desired from a programme, after which a strategy to realize the outcomes is developed and only then are the necessary inputs to execute the strategy defined. Sugethe (2009) reckons that when resources are matched with the desired outcomes, effectiveness and efficiency becomes part of the budget process and this improves the organization's performance.

According to Segal and Summers (2002), Performance-Based-Budgeting process begins with the development of explicit goals and policy objectives that then guides managers in developing performance measures that are geared towards the realization of these goals/objectives. Future performance levels are consequently developed based on the current and past performance measures which are then considered in the budget preparation and approval process. The strategic plan and the desired outcomes are subsequently incorporated in the fabric of the budget by incorporating the financial and performance information. This method ensures that expenditure plans and performance plans are aligned during the process of budget creation. According to Kang'aru And Tirimba (2018) linking the budgetary process to performance outcomes

substantially improves the performance of organizations. This theory therefore underpins the first specific objective of this study on how financial planning, that is budgetary process of smallholder tea factory companies is aligned to the desired performance targets and the overall organization's missions, goals and objectives.

2.2.4 Net Income Theory.

Net Income approach to the capital structure problem was proposed by Durand (1952). Net Income Theory postulates that a change in financial leverage of a firm leads to change in its overall cost of capital and its total value (Tripathi, 2022). The theory posits that when a firm acquires more debt to leverage investments, its capital structure increases in size and the weighted average cost of capital reduces resulting to a higher firm value (Butt, *et al.*, 2010). The theory presupposes an optimal capital structure where the right mix of equity and debt finance results to a minimum cost of finance and maximization of the value of the firm.

This theory is critical in underpinning the fourth objective; the effect of funding decisions on performance of smallholder farmers' tea factory companies in that the cost of operations (which includes the cost of capital) is used as one of the parameters to measure performance of smallholder tea factory companies, that is, the lower the costs as per centum of tea made, the better the performance. In addition, the increase in the firm's value arising from adoption of an optimal capital structure is also used a measure of performance of smallholder tea factory companies (Moranga (2012).

2.2.5 Agency Theory

This study used the Agency Theory as proposed by Jensen and Meckling (1976). The theory explains the differing interests between the principal (usually the shareholders) and management

(usually management of the company). Sanda *et al.* (2005) hypothesizes that the presence of information asymmetry in the firm and the markets creates an agency problem where agents are tempted into pursuing interests that may be detrimental to the interest of others stakeholders especially the principals thus creating a conflict of interest and sometimes a moral hazard on the part of the agent.

The principals are usually uncertain which direction the agent may go; either choose to enter or fail to choose to enter into transactions that are mutually beneficial leading to suboptimal outcomes. Jensen and Meckling (1976) posits that the process of aligning the differing interests of both the principal and agents may ignite conflict between the interest groups.

In the case of smallholder farmers' tea factory companies, the farmers elect the Board of Directors to run the factory companies on their behalf. The board is responsible for appointing the management and provide an oversight authority on behalf of the tea farmers. Unfortunately, it happens at times, that the board and management fail in their fiduciary duty thus creating an agency problem. Therefore, agency theory explains the nexus between corporate governance and smallholder tea factory companies performance in that, the rationale behind good corporate governance by the directors is to protect the interests of principals, that is, the farmers.

2.3 Empirical Review

This section reviews related studies done on financial management practices giving particular emphasis to the four thematic areas of study as guided by the research objectives; - financial planning, investment appraisal, financial reporting and analysis, and funding decision. Each review highlights the area of study, research design used, findings and a critical review of the study in an effort to draw any gaps which this study subsequently strived to address.

2.3.1 Financial Planning and Organization's Performance

Amaraven and Mulukalapally (2021) studied the impact of financial planning on performance of five major pharmaceutical firms listed at the National Stock Exchange of India by examining secondary data for period 2011-2020. Study findings revealed that, improvement in financial planning strategies like budgeting decisions, financial policies and investment decisions tended to maximize the financial performance of the pharmaceutical companies. Whereas the study was critical in revealing the relationship between financial planning and financial performance of enterprises, the research only examined a direct relationship oblivious of other relationships that could exist between variables. Furthermore, the focus of the research; India pharmaceutical companies which is more developed is different from the tea sub-sector in Kenya therefore creating a contextual gap which this study sought to address. To address this gap, this study introduced a moderating variable that findings by Rugutt (2018) and Koech (2014) indicated is critical in the performance of the subsector

Filho and Ferreira (2021) undertook systematic literature review of financial modelling with multiple criteria decision-making and concluded that financial models acts as a viable alternative in dealing with difficulties and multiple objectives posed by financial plans. The study findings also indicated that financial models and multi-criteria decision analysis improves performance of business organizations by helping them in decision making particularly in financial planning. However, whereas the study was critical in revealing the relationship between financial modeling and performance, scrutiny of the methodology used shows that critical diagnostic tests for the model were not done to validate the ensuing testing of hypothesis. To check whether the observed data set can be used to derive correct inferences, essential diagnostic tests were performed during this study.

Ariyo, Onileowo and Oke (2020) undertook a research on how financial planning impacts on financial performance of small-scale business enterprises in Nigeria's Ekiti State. Research findings demonstrated a positive insignificant nexus between financial performance and risk management whilst cash budgeting and cash control wielded a significant negative effect on the performance. Nevertheless, whereas the study was critical in revealing the impact of various facets of financial planning like budgeting, risk management and cash control on financial performance of firms, the operating environment of SMEs in Nigeria is different from the tea industry in Kenya and thus creating a contextual gap in the tea industry which the current research sought to close.

Ganguli (2020) studied the impact and the effects of financial planning on enterprise organizations in Gujarat, India. The findings revealed that financial planning is one of the most critical components of financial management which influences performance. Whereas the study was critical in revealing the nexus between financial performance and financial planning, the operating environment of business enterprises in Gujarat India is different from the tea industry in Kenya thus creating a contextual gap in the tea industry which the current research sought to close.

In a study by Kang'aru and Tirimba (2018) on whether financial planning practices significantly affects the financial performance of health organizations in Kiambu, a descriptive research design was used. Research findings established a positive and significant effect budgeting practices, working capital management, cash planning and inventory management on performance. Whereas the study was critical in revealing the nexus between financial performance of organizations and financial management practices like budgetary process and working capital management, simple regression was undertaken for individual management practices, that is, budgetary practices, short-

term cash planning, inventory planning and working capital management separately. There was no joint correlation analysis for all management practices together yet studies by Ariyo, Onileowo and Oke (2020), Sherine, Wiyanto and Budiono (2021), Rathnayake, Rajapakse and Lasantha (2021) has proven that it always yields different results. Since smallholder tea factory companies employs a given mix of financial management practices together, this study ran a joint regression on the effect of all financial management practices, that is, budgetary process, investment appraisal, financial reporting and funding decisions on performance.

2.3.2 Investment Appraisal and Organization's Performance

Kipkirui and Kimungunyi (2022) studied the effect of net present value investment appraisal practice on financial performance of 7 licensed manufacturing cement companies in Nairobi county in Kenya. The study findings revealed that net present value appraisal technique has a positive significant effect on financial performance of these enterprises. However, the research only examined a direct relationship between the variables oblivious of other relationships that could exists between variables. Furthermore, the research was undertaken in manufacturing sector and there is need to test whether the findings can be generalized in other sectors like the agricultural sector. To address this gap, this study introduced a moderating variable that findings by Rugutt (2018) and Koech (2014) indicated is critical in the performance of the subsector.

Bon and Hartoko (2022) evaluated the effect of investment decision, dividend policy and company size on financial performance. According to the study findings, financial performance can be directly and positively affected by investment decisions, dividend policy and company size. Whereas the study was critical in enriching literature on the nexus between financial performance and these four critical variables, the study was undertaken in a different country and sector and

there is need to establish whether the same findings would be replicated in the smallholder tea subsector in Kenya.

Morwabe and Muturi (2019) conducted a study using only secondary data for five years from 2014 - 2018 to investigate the effect of investment decision on financial performance of deposits taking SACCOs in Nairobi, Kenya using a descriptive research design. Study findings revealed that investment decisions had a strong influence on changes in deposits taking SACCOs profitability in Kenya. Whereas the study was critical in enriching literature on the relationship between these two critical variables, the operating environment of deposits taking SACCOs and smallholder tea factory companies was different thus creating a contextual gap which this investigation sought to address.

Wanjohi (2017) undertook a research on the effects of financial risk management on performance of commercial banks operating in Kenya. Findings from the investigation depicted a strong association between commercial banks' financial performance and financial risk management, risk measurement practice and risk mitigation practice. The study also showed that most commercial banks in Kenya practices good financial risk management which has impacted positively on their performance. Whereas the study was critical in enriching literature on the nexus between these two critical variables, the operating environment of commercial banks and smallholder tea factory companies was different thus creating a contextual gap which this research sought to address.

Nyambura (2014) studied how capital budgeting techniques affects the financial performance of NSE listed firms using exploratory research design. The research concluded that there is no

correlation between financial performance of NSE listed firms and capital budgeting techniques employed. Nevertheless, the study suggested further research be done on other sectors in the economy using different facets of capital budgeting to validate the findings of this research. The research suggested a study using other measures of financial performance to be done on the same subject in order to establish whether the results obtained were homogeneous and consistent with theory and practice.

Namu, Kaimba, Muriithi and Nkari (2014) sought to establish how strategies aimed at cost reduction impact financial performance of tea factories in Embu County in Kenya. The research employed descriptive research design. The research findings revealed that these strategies did not have a positive index on the amount of tea processed. Whereas the study was important in describing the relationship between cost reduction strategies and performance, the findings went against theoretical knowledge and other empirical findings by Koech (2014), Namu and *et al.* (2014) and Azolin *et al.* (2009) which describe a positive effect. The current study wants to verify this inconstancy in study finding results.

2.3.3 Financial Reporting and Organization's Performance

Rathnayake, Rajapakse and Lasantha (2021) studied the impact of the quality of financial reporting on the performance of thirty Sri Lankan listed companies. According to the results of the study, there is a strong overall relationship between financial statements' quality and their performance measured against ROA, Return on Equity and Market to Book Ratio. The research has shown that, however, there is a negligible correlation between the quality of financial reporting and individual performance indicators which was contrary to findings by Munene, Nyangiru and

Ngungu (2016), Kerongo and Olango, (2014) and Tourna & Germanos (2016). The researchers therefore proposed further studies on the same which this research sought to do.

Akman, Shehab and Kizil (2020) undertook a case study on the impact of financial reporting on corporate performance of Exxon Mobil. The results showed a significant positive effect on the performance of the company with respect to quality of finance reports. However, the indicators used to operationalize financial performance are synonymous with financing decisions and liquidity management rather than the financial reporting quality. Whereas the study was critical in demonstrating the nexus between financial performance and financial reporting, conclusions were drawn from descriptive statistics only thereby limiting its ability to be generalized in other sectors. This research uses both inferential and descriptive statistics in analyzing data. In addition, this study used different indicators; publication of financial reports, internal and external audits and financial projections to operationalize financial reporting.

Munene, Nyangiru and Ngungu (2016) considered the relationship between auditing and the performance of Kirinyaga Water & Sanitation Company. Descriptive research design was used in the study. The study findings showed that increase in the auditor's independence impacts positively on the financial performance of Kirinyaga County Water and Sanitation Company. The study concluded that where there's a consistent and independent audit, organizations are committed to strong internal controls and robust policies and procedures that enhance financial performance of organizations. However, whereas the study was critical in localizing research on the nexus between financial performance and external audit, the facets used to measure external audit; audit independence and management support of audit reports does not comprehensively

represent external audit. This was the conceptual and methodological gap that this research aimed at filling by introducing other facets like audit quality, experience and corporate governance.

Tourna and Germanos (2016) did research on the role of accounting information systems on formulation of business strategy in Greece corporate sector using an exploratory research design. The findings of the study point to the fact that when using accounting information systems, business managers and owners were able to design and implement a good strategic plan which would allow them to achieve their objectives in both short and longer terms. This study was critical because, financial performance is core to any business's strategic intention. However, the contextual setting of the Greece corporate sector is different from the Kenya's tea sector and there was need to validate the findings in Kenya.

Kerongo and Olango, (2014) inspected the effect of adopting international financial reporting standards IFRSs on small & medium sized enterprises' overall performance in Kenya. According to the study findings, adoption of IFRSs in the preparation of SMEs financial statements enhanced comparability of financial statements which enabled them to conduct their SWOT analysis with accuracy. The findings also showed that financial statements led to reduced levels of fraud and management malpractices. Majority of the respondents indicated that compliance with IFRs helped stakeholders using the financial statements in making informed decisions. The study concluded that IFRSs are an important determinant on performance of SMEs. Whereas the study was critical to show nexus between international financial reporting practices and organizational performance, the study did not illuminate on the effects of adopting IFRSs on financial performance which was the subject matter of this study.

2.3.4 Funding Decision and Organization's Performance

Sherine, Wiyanto and Budiono (2021) studied the effect of investment decision, funding decision, and profitability on the firm value of consumer goods industry registered in Indonesia Stock Exchange during 2017-2020. Research findings showed that funding decisions have a positive effect on profitability, negative effect on dividend policy whilst profitability has a positive influence on dividend policy, funding decisions on dividend policy are mediated by profitability. The findings of the study therefore provide further empirical findings on the effect of funding decisions on performance of the company. Whereas this research was critical in establishing the nexus between investment decisions, funding decisions, and profitability on the firm value, the study used a different mediator; profitability while this study used corporate governance as the moderating variable between financial management practices and performance.

Supami and Mochamad (2021) studied the impact of funding decisions on dividends policy mediated by profitability on companies registered in the Jakarta Islamic Center, Indonesia. Study findings indicated that funding decisions have a great effect on the profitability of the enterprise which in turn influences its dividend policy. Whereas the study was critical in revealing the nexus between financing decisions and performance of companies, this study used a different moderating variable to assess whether the effect on performance would be the same.

Vatavu (2015) researched on the impact of capital structure on financial performance of listed manufacturing firms in Romania. Study findings indicated that financial performance of these undertakings in Romania that use equity is higher than those companies that relied on debt. The study further established that most of the companies in Romania do not use their fixed assets effectively which makes debt financing unviable. The study showed that most of the listed

companies have little reserves that they can use as internal funding to invest in viable investments. Most of the profitable companies divest their assets in times of high taxation and inflationary tendencies in order to reduce costs. Additionally, this study revealed a high propensity to use debt during times of financial constraint and increased business risk which at times results in high default levels and insolvency among manufacturing firms. The however it went against financial literature and studies by Supami and Mochamad (2021), Sherine, Wiyanto and Budiono (2021) and Mukaria *et al.* (2015) due to missing data on long-term debt. Consequently, the study recommended further research in other sectors of the economy to validate the findings of the study. Whereas the study was critical in establishing the nexus between capital structure adopted by a company and its financial performance, the findings of the study contradicted studies by Supami and Mochamad (2021), Sherine, Wiyanto and Budiono (2021) and Mukaria *et al.* (2015) and further research is necessary.

Mukaria *et al.* (2015) assessed the effects of financial leverage on performance of firms that are listed on NSE), Kenya. Employing a causal research design, the study investigated the causal and effect association between leverage and performance of listed non-financial firms. Findings concluded that the difference between financial performance of lowly levered firms and highly levered firms is insignificant. Contrary to the finance literature, this study has shown a negative relationship in terms of leverage and economic performance. Furthermore, the study indicated that there exists no material difference between large indebted and smaller indebted companies in terms of their profitability. Whereas the study was key in demonstrating the relationship existing between leverage and performance, the findings contradicted both financial literature on debt and other findings by Wainaina (2014), Butt, *et al.* (2010) therefore necessitating further research on the subject.

Butt et al. (2010) studied how organizational performance is affected by selected financial management practices like short-term capital decisions, financial planning, capital structure decision, investment appraisal, dividend policy in the Pakistani corporate sector. The survey used self-administered questionnaires where the nominal scale was used to evaluate the extent to which the respondents agreed/disagreed with the hypothesis that financial performance actually affects financial performance. The study has shown that financial management practices have a positive relationship with the results of companies in Pakistan's business sector. Due to the contextual difference of this research, the current investigation sought to establish whether the same findings would be established in the Kenya's tea sector.

2.3.5 Corporate Governance and Organization's Performance

Bawuah (2024) undertook a study on the moderating role of corporate governance on capital structure and performance nexus by analyzing data for 10 years (from 2010–2020) from one hundred firms in seven Sub-Saharan African countries. Study findings revealed that corporate governance mechanisms employed in these firms played a positive and significant moderating role between capital structure and their performance. Whereas the study was critical in establishing how corporate governance moderates the relationship between one of the financial management practices, that is, capital structure decisions, with performance, the facets used to operationalize and measure performance, that is, return on assets, return on equity and Tobin's Q does not apply in the smallholder tea factory companies. This study instead used measurements relevant to the tea factories; payment to growers, reduction in costs and growth in assets and reserves to measure performance. In addition, the context of the study, listed commercial firms in Sub-Saharan, is also different from the focus of this study.

Ronoowah and Seetanah (2023) studied the moderating and mediating effects of corporate governance and capital structure on firms' performance of thirty-eight listed non-financial companies in Mauritius by analyzing their data for the FYs 2009 to 2019. Study findings revealed that corporate governance has a positive but insignificant influence on two measures of the firm's performance, that is, ROE and Tobin's Q. In addition, the study showed that the interaction of corporate governance and capital structure influenced financial performance, but the strength of the moderating effect depended on the performance measure being used. Whereas the study was critical in establishing how corporate governance moderates the relationship between one of the financial management practices, that is, capital structure decisions, with performance, the regression was run against individual measures of performance whilst this study used a composite measure of performance. In addition, the measure performance used, that is, return on assets, return on equity and Tobin's Q does not apply in the smallholder tea factory companies.

An analysis of the impact of corporate governance on bank operations in North Africa and the Middle East, using an explanatory research method was carried out by El Charaani, Abraham and Skaf (2022). Research findings disclosed that the corporate governance measures had positive effects on bank financial performance. However, some aspect of corporate governance, such as inclusion of women in the boards, performance-based compensation, anti-takeover mechanisms and moderate size of the board had no significant impact on bank performance. Whereas the study was critical in establishing how corporate governance affects performance; the study was based on a crisis period; during the COVID-19 pandemic period and there is a need to test whether the

same findings would suffice in a normal set up. This study focused on the period 2016- 2023 and on smallholder tea factory companies.

Chikamai and Makhamara (2021) undertook a census study of the influence of leadership competencies on performance of tea factories in Nandi County, Kenya. The study found that a majority of tea factory companies had guiding vision statement, mission statements, clear objectives and guiding principles that guides their strategic direction. It has been concluded that in determining the performance of tea firms, good organizational management is essential and leadership skills have a significant and positive influence on output at tea undertakings. Whereas the study was critical in establishing how corporate governance affects performance of tea factory companies in Nandi County; the study focused on multinational firms which employs different management models from smallholder tea factory companies.

Dikko and Alifiah (2019) studied the moderating effect of corporate governance on recapitalization and bank's performance in the selected banks of Nigerian banking sector. According to the study, corporate governance has a positive influence on the relationship of recapitalization and bank profitability in Nigeria's banking sector. The study revealed a significant positive correlation between both financial and non-financial performance of the banks. However, the study used only one facet to characterize corporate governance which is not exhaustive on the scope of corporate governance which this study seeks to address by incorporating other aspects of corporate governance.

Abdulazeez, *et al.* (2016) assessed the determinants of corporate governance and financial performance of selected banks listed in Nigeria Securities Exchange by focusing on the size of the board, board composition, duality of the CEO, and the bank's audit committee. The study showed that the profitability of depositary banks listed on Nigeria's stock exchange is positively influenced by corporate governance. Study findings also showed commercial banks performing better tended to have larger size of the board. However, whereas the study is critical in establishing how corporate governance affects performance, it failed to delve into critical areas of corporate governance like the board's competence in financial matters and audit committees which were the focus of this study.

Shahwan (2015) carried out a study in Egypt to examine the effects of corporate governance on financial distress and business performance for selected Egyptian listed companies. The study findings used the overall score of the corporate governance index (CGI) showing that corporate governance practices in firms listed in Egyptian Exchange (EGX) is relatively wanting. Whereas the study findings did not show a positive relationship between the three variables, that is, performance, distress and corporate governance, the findings demonstrate that firm-specific characteristics were a good basis for determining how the firm is performing and its likelihood of fall into financial distress. However, contradiction of the findings by Abdulazeez, *et al.* (2016) and Otieno (2015) also calls for further research in the nexus between corporate governance and performance of firms.

2.4 Summary of Literature Review and Research Gaps

From the above empirical studies, it is apparent that most previous studies either investigate, explored, assessed, examined or described how business enterprises practices financial management. Others used different facets to describe the various aspects of financial management

practices. Albeit these studies provided rich empirical evidence on the independent variables; that is, financial management practices, it's apparent that there exists a myriad of gaps in the literature which still need to be filled. For instance, most of the research concentrated on developed economies and the findings may not be necessarily generalizable to developing countries like Kenya. Additionally, most of the studies done on the nexus between management practices and performance were done in commercial, industrial and other sector and very few had been done in agro-based industry in Kenya. Majority of the studies also focused on exploring and describing financial management practices practiced in business enterprises, but limited studies investigated the effect of financial management practices on financial performance. It was also evident that most research work on performance done in Kenya has examined individual components of financial management and not financial management as a whole. A summary of the studies and research gaps are given in table 2.1 below.

Table 2. 1 Summary of Literature Review and Research Gaps

Author	Focus/ Objectives	Key Findings	Research gap	Current Study
Bawuah (2024)	Moderating role of corporate governance on capital structure and performance nexus in seven Sub-Saharan African countries.	Study findings revealed that corporate governance mechanisms employed in these firms played a positive and significant moderator role between capital structure and their performance.	The facets used to operationalize performance, that is, return on assets, return on equity and Tobin's Q does not apply in the smallholder tea factory companies. The context of the study, listed commercial firms, is also different from the focus of this study	This study instead used measurements relevant to the tea factories; payment to growers, reduction in costs and growth in assets and reserves to measure performance.
Ronoowah and Seetannah (2023)	Moderating and mediating effects of corporate governance and capital structure on firms'	Study findings revealed that corporate governance has a positive but insignificant influence on two measures of the firm's performance, that is, ROE and Tobin's Q. In	Regression was run against individual measures of performance whilst this study will use a composite measure of	This study instead used measurements relevant to the tea factories; payment to

	performance of 38 listed non-financial companies in Mauritius	addition, the study showed that the interaction of corporate governance and capital structure influenced financial performance, but the strength of the moderating effects depended on the performance measure being used.	performance. In addition, the measure performance used, that is, return on assets, return on equity and Tobin's Q does not apply in the smallholder tea factory companies.	growers, reduction in costs and growth in assets and reserves to measure performance.
Kipkirui and Kimungunyi (2022)	Effect of net present value appraisal practice on financial performance of 7 licensed manufacturing cement companies in Nairobi, Kenya	The study findings revealed that net present value appraisal technique has a positive significant effect on financial performance of these enterprises.	The research only examined a direct relationship between variables oblivious of other relationships that could exist between variables. Furthermore, it was undertaken in manufacturing sector and there is need to test whether the findings can be generalized in other sectors like the agricultural sector.	This study introduced a moderating variable that findings by Rugutt (2018) and Koech (2014) indicated is critical in the performance of the subsector. It also focused on the smallholder tea sub-sector.
El-Charaani, Abraham and Skaf (2022)	Impact of corporate governance on the financial performance of the banking sector in North Africa and the Middle-East	Research findings disclosed that the corporate governance measures had positive effects on bank financial performance. However, some aspect of corporate governance, such as inclusion of women in the boards, performance-based compensation, anti-takeover mechanisms and moderate size of the board had no significant impact on bank performance.	The study was based on a crisis period; during the COVID-19 pandemic period and there is a need to test whether the same findings would suffice in a normal set up	This study focused on the period 2016-2023 and on smallholder tea factory companies.
Bon and Hartoko (2022)	Effect of investment decision, dividend policy and company size on financial performance.	According to the study findings, financial performance can be directly and positively affected by investment decisions, dividend policy and company size.	The study was undertaken in a different country and sector and there is need to establish whether the same findings would be replicated in the	This study focused on the smallholder tea sub-sector in Kenya concentrating on the West Tea Block

			smallholder tea subsector in Kenya.	
Chikamai and Makhamara (2021)	Influence of leadership competencies on performance of tea factory companies in Nandi County, Kenya.	The study's conclusion was that good corporate governance is critical in determining the performance of tea firms, leadership skills have a significant and positive influence on output at tea undertakings.	The study only focused on multinational firms which employs different management models from smallholder tea factory companies	This study focused on the smallholder tea sub-sector in Kenya concentrating on the West Tea Block
Amaraven and Mulukalapally (2021)	Impact of financial planning on performance of five major pharmaceutical firms listed at the National Stock Exchange of India	Improvement in financial planning strategies like budgeting decisions, financial policies and investment decisions tended to maximize the financial performance of the pharmaceutical companies.	The research only examined a direct relationship between the variables oblivious of other relationships that could exist between variables. Furthermore, it focused on India pharmaceutical companies which is very well developed is different from the tea sub-sector in Kenya therefore creating a contextual gap	This study introduced a moderating variable that findings by Rugutt (2018) and Koech (2014) indicated is critical in the performance of the subsector. It also focused on the smallholder tea sub-sector in the West Tea Block.
Filho and Ferreira (2021)	A systematic literature review of financial modelling with multiple criteria decision-making	The study findings also indicated that financial models and multi-criteria decision analysis improves performance of business organizations by helping them in decision making particularly in financial planning.	However, scrutiny of the methodology used shows that critical diagnostic tests for the model were not done to validate the ensuing testing of hypothesis.	Essential diagnostic tests were performed during this study
Sherine, Wiyanto and Budiono (2021)	Effect of investment decision, funding decision, and profitability on the firm value of consumer goods industry registered in Indonesia Stock	Funding decisions have a positive effect on profitability, negative effect on dividend policy whilst profitability has a positive influence on dividend policy, funding decisions on dividend policy are mediated by profitability. The findings of the study therefore provide further empirical findings on the	The study used a different mediator; profitability while this study used corporate governance as the moderating variable between financial management practices and performance	This study used corporate governance as the moderating variable between financial management practices and performance

	Exchange During 2017-2020	effect of funding decisions on performance of the company		
Rathnayake, Rajapakse and Lasantha (2021)	Impact of the quality of financial reporting on the performance of thirty Sri Lankan listed companies.	Results of the study revealed a strong overall relationship between financial statements' quality and their performance measured against ROA, Return on Equity and Market to Book Ratio.	The research has shown that, however, there is a negligible correlation between the quality of financial reporting and individual performance indicators which was contrary to findings by Munene, Nyangiru and Ngungu (2016), Kerongo and Olango, (2014)	This study sought to undertake further research on the same as proposed by the researchers
Supami and Mochamad (2021)	Impact of funding decisions on dividends policy mediated by profitability on companies registered in the Jakarta Islamic Center, Indonesia	Study results showed that funding decisions have a great effect on profitability of the enterprise which in turn influences its dividend policy.	This study used a different moderating variable to assess whether the effect on performance would be the same	This study used a different moderating variable to assess whether the effect on performance would be the same
Ariyo, Onileowo and Oke (2020)	How financial planning impacts on financial performance of small-scale business enterprises in Nigeria's Ekiti State.	Research findings demonstrated a positive insignificant nexus between financial performance and risk management whilst cash budgeting and cash control wielded a significant negative effect on the performance.	The operating environment of SMEs in Nigeria is different from the tea industry in Kenya thus creating a contextual gap in the tea industry which the current research sought to close.	This study focused on the smallholder tea sub-sector in Kenya focusing on the West Tea Block
Akman, Shehab and Kizil (2020)	Impact of financial reporting on corporate performance of Exxon Mobil.	The results showed a significant positive effect on the company's performance with respect to quality of finance reports.	Conclusions were drawn from descriptive statistics only thereby limiting its ability to be generalized in other sectors. In addition, the indicators used to operationalize financial performance are synonymous with financing decisions and liquidity management	This research uses both descriptive and inferential statistics in analyzing data. In addition, this study used different indicators; publication of financial reports, internal and

			rather than the financial reporting quality	external audits and financial projections to operationalize financial reporting.
Ganguli (2020)	Impact and the effects of financial Planning on enterprise organizations in Gujarat, India.	The findings revealed that financial planning is one of the most critical components of financial management which influences performance	The operating environment of business enterprises in Gujarat India is different from the tea industry in Kenya thus creating a contextual gap in the tea industry which the current research sought to close.	This study focused on the smallholder tea sub-sector in Kenya focusing on the West Tea Block
Dikko and Alifiah (2019)	Moderating effect of corporate governance on recapitalization and bank's performance in the selected banks of Nigerian banking sector.	According to the study, corporate governance has a positive influence on the relationship of recapitalization and bank profitability in Nigeria's banking sector. The study revealed a significant positive correlation between both financial and non-financial performance of the banks	The study used only one facet to characterize corporate governance which is not exhaustive on the scope of corporate governance	This sought to address by incorporating other aspects of corporate governance like independent directors, audit committees
Morwabe and Muturi (2019)	Effect of investment decisions on financial performance of deposits taking SACCOs in Nairobi County in Kenya	Study findings revealed that investment decisions had a strong influence on changes in deposits taking SACCOs profitability in Kenya.	The operating environment of deposits taking SACCOs and smallholder tea factory companies was different thus creating a contextual gap	This study focused on the smallholder tea sub-sector in Kenya focusing on the West Tea Block
Kang'aru and Tirimba (2018)	Whether financial planning practices significantly affects the financial performance of health	Research findings established a positive and significant effect budgeting practices, working capital management, cash planning and inventory management on performance	Simple regression was undertaken for individual management practice, that is, budgetary practices, short-term cash planning, inventory planning and working capital management	A joint regression on the effect of all financial management practices, that is, budgetary process, investment

	organizations in Kiambu, a descriptive research design was used.		separately. There was no joint correlation analysis for all management practices together yet studies by Ariyo, Onileowo and Oke (2020), Sherine, Wiyanto and Budiono (2021), Rathnayake, Rajapakse and Lasantha (2021) has proven that it always yields different results.	appraisal, financial reporting and funding decisions on performance.
Wanjohi (2017)	Effect of financial risk management on performance of commercial banks operating in Kenya using descriptive research design	Findings from the investigation depicted a strong association between commercial banks' financial performance and financial risk management, risk measurement practice and risk mitigation practice. The study also showed that most commercial banks in Kenya practices good financial risk management which has impacted positively on their performance.	Whereas the study was critical in enriching literature on the nexus between these two critical variables, the operating environment of commercial banks and smallholder tea factory companies was different thus creating a contextual gap	This study focused on the smallholder tea sub-sector in Kenya focusing on the West Tea Block
Abdulazeez, et al. (2016)	Determinants of corporate governance and financial performance of selected banks listed in Nigeria Securities Exchange by focusing on the size of the board, board composition, duality of the CEO, and the bank's audit committee	Profitability of depositary banks listed on Nigeria's stock exchange is positively influenced by corporate governance. Study findings also showed commercial banks performing better tended to have larger size of the board.	The study failed to delve into critical areas of corporate governance like the board's competence in financial matters and audit committees	This study considers other aspects of corporate governance like the board's competence in financial matters and audit committees which were the focus of this study.

Munene, Nyangiru and Ngungu (2016)	Relationship between auditing and the performance of Kirinyaga Water & Sanitation Company. Descriptive research design was used in the study.	Increased independence of audit firms has a positive impact on Kirinyaga County's Water & Sanitation company's financial performance.	The facets used to measure external audit; audit independence and management support of audit reports does not comprehensively represent external audit creating a conceptual and methodological gap	This was the conceptual and methodological gap that this research aimed at filling by introducing other facets like audit quality, experience and corporate governance.
Tourna and Germanos (2016)	The role of accounting information systems on formulation of business strategy in Greece corporate sector	Using accounting information systems, business managers and owners were able to design and implement a good strategic plan which would allow them to achieve their objectives in both short and longer terms	the contextual setting of the Greece corporate sector is different from the Kenya's tea sector and there was need to validate the findings in Kenya	This study focused on the smallholder tea sub-sector in Kenya focusing on the West Tea Block
Mukaria et al. (2015)	Effects of financial leverage on performance of firms that are listed on NSE), Kenya	Findings concluded that the difference between financial performance of lowly levered firms and highly levered firms is insignificant. This study established a negative relationship between leverage and financial performance which is contrary to financial literature	The findings contradicted both financial literature on debt and other findings by Wainaina (2014), Butt, <i>et al.</i> (2010) therefore necessitating further research on the subject	This study sought to undertake further research on the same as proposed by the researchers
Vatavu (2015)	Impact of capital structure on financial performance of listed manufacturing firms in Romania.	Study findings indicated that financial performance of listed manufacturing companies in Romania that use equity is higher than those companies that relied on debt.	The findings went against financial literature and studies by Supami and Mochamad (2021), Sherine, Wiyanto and Budiono (2021) and Mukaria <i>et al.</i> (2015) due to missing data on long-term debt.	This study sought to undertake further research on the same as proposed by the researchers
Namu, Kaimba, Muriithi and Nkari (2014)	To establish how cost reduction strategies impacts on financial performance of	The cost reduction strategies do not have a positive index on the amount of tea processed.	The findings went against theoretical knowledge and other empirical findings by Koech (2014), Namu and <i>et al.</i> (2014) and	The current study wants to confirm this inconstancy in study finding results.

	tea factory companies in Embu County in Kenya		Azolin <i>et al.</i> (2009) which describe a positive effect.	
Nyambura (2014)	How capital budgeting techniques affects the financial performance of NSE listed firms using exploratory research design	There is no correlation between financial performance of NSE listed firms and capital budgeting techniques employed.	The research suggested further research be done on other sectors in the economy using different facets of capital budgeting to validate the findings of this research. The study further suggested a study using other measures of financial performance to be done on the same subject in order to establish whether the results obtained were homogeneous and consistent with theory and practice	This study used investment processes, financial risks and projects costs to operationalize capital budgeting. In addition, other measures of performance like payment to growers and growth in assets and reserves were used.

Source: Researcher (2023)

2.5 Conceptual Framework

The relationship between the research variables was conceptualized in Figure 2.1.

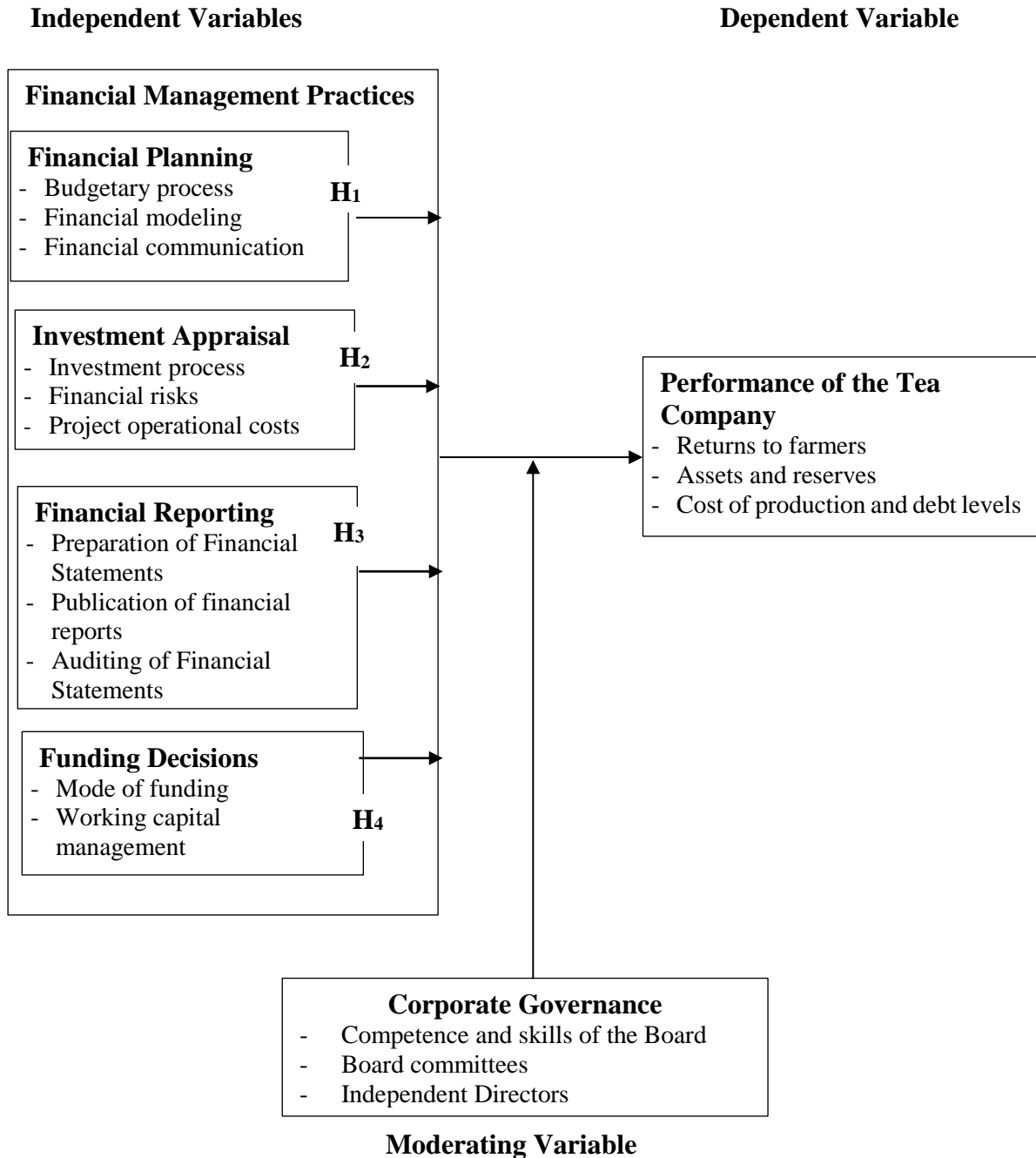


Figure 2.1: Conceptual Framework

Source: Researcher (2023)

The conceptual schema in Figure 2.1 depicts financial management practices as the independent variable, corporate governance as the moderating variable while performance of tea factory

companies in West Tea Block, Kenya as the dependent variable. Financial management practices were operationalized by a subset of four variables; financial planning, investment appraisal, financial reporting and funding decisions; corporate governance was represented by competence of the board members, board committees and independent directors while Performance of tea factory companies was operationalized by returns to farmers, assets, reserves and the cost of production.

The study hypothesized that financial planning, investment appraisal, financial reporting and funding decisions has an effect on performance of tea companies in West Tea Block, Kenya while corporate governance have moderating effect on the relationship between the financial management practices and performance of tea companies in West Tea Block, Kenya.

Financial planning aspects that were conceptualized to reflect aspects that influences financial performance included; budgetary process, financial modelling and financial communication. Further investment appraisal aspects included; investment process, financial risks and project operational costs. Financial reporting aspects included; preparation of financial reports, publication of financial reports and auditing of financial Statements while funding decisions aspects includes; choice between equity and debt financing and working capital management. Performance aspects included; returns to farmers, growth in tea factory companies' assets and reserves, reduction in cost of production and debt levels.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

Research methods used to study the effects of financial management practices on the performance of small holder tea producers in West Tea Block Kenya are set out in this chapter. This chapter provides a description of the research design, research philosophy, data collection instrument, model specification, target population, methods used in data collection and analysis that were applied in the course of this study.

3.2 Research Philosophy

Guest (2010) argues that research philosophy is a critical element of research methodology which enables the researcher to collect data in an appropriate and effective manner. Noviko & Novikov (2013) posits that research philosophy is an outlook towards research that is based on a group of shared values, assumptions, practices and concepts. Proponents of this research philosophy argue that, there exists a true and objective reality that can be studied through application of natural sciences and scientific inquiry methods and principles (Saunders, 2009).

In that study, a positivist theory of research was used to assess the impact of independent variables (financial planning, investment appraisal, financial reporting and funding decisions) on the dependent variables (Financial Performance) given the identified moderating variable (corporate governance). Positivism philosophy was deemed ideal for this study because it is premised on highly structured methodology that enables generalization of quantifiable observations. It also permitted the collection of data from the field, grounds the research on observable social realities and test the hypothesis for either rejection or acceptance. Guest (2010) argues that positivism philosophy is commonly used in natural science because it is a critical and objective base method.

Positivist approach gives the researcher an opportunity to play the role of an objective analyst whilst evaluating the data collected. The approach yields appropriate results that are tandem with the research objectives (Mertler & Vannatta, 2010).

Collins (2010) reckons that while using positivism philosophy, the investigator is usually independent from the research and the researcher is guided by the data without expressing any personal interests in the survey. According to Crowther and Lancaster (2008), positivist studies assume a deductive approach as a general rule where the researcher focuses purely on facts, whilst the phenomenology focusses on the meanings and makes a provision for human interest.

3.2.1 Research Design

In the present study, explanatory research design was ideal because it allowed the researcher to be able to generate information which explained the effect of financial management practices on performance of smallholder farmers' tea factory companies in Kenya thus justifying its use. According to Cooper and Schindler (2011) explanatory research focuses on 'why' and 'how' which is important in providing corresponding explanations and descriptive information regarding social phenomena questions. In answering the why questions, the study involved developing causal effect explanations. To provide concrete information on the existence of correlation between research variables and to determine whether they were causal, it was therefore very important to use an explanatory study design. This study has been conducted in an explanatory research design, with a view to ensuring that the evidence gathered as part of the research process is sufficiently able to address the researcher's problem through testing hypotheses.

3.3 Empirical Model

This research used a multiple linear regression model for testing the effect of financial management practices on performance. The model was ideal for this study because it provided the best fit for the four variables, helped in determining the relative influence of each regressor on the outcome variable and has a strong ability to identify outliers in the model (Novikov & Novikov, 2013). The model assumed a linear relationship between the predictor variables of financial management practices and the dependent variables of the performance of tea factory companies, and that the variables were normally distributed, and that the independent variables were not highly correlated with one another.

3.3.1 Direct Relationship

The general multiple regression model was customized with the variables of this research in order to assess the effect of the four independent variables (financial planning, investment appraisal, Financial Reporting, funding decision), the moderating variable on the dependent variable. Consequently, the following model was used:

$$PTC = \beta_0 + \beta_1 FP + \beta_2 IA + \beta_3 FR + \beta_4 FD + \epsilon_i \dots \dots \dots (3.1)$$

Where: PTC = Composite Index for performance of tea factory companies

FP = Financial Planning of tea factory companies

IA = Investment Appraisal of tea factory companies

FR = Financial Reporting of tea factory companies

FD = Funding decision of tea factory companies

β_j where (j = 0,1,2,3,4) model coefficients

ϵ_i = Error term

To facilitate analysis, a mean aggregate for each of the variables was used to compute composite indices for both dependent and independent variables.

From equation 3.1, weighted harmonic mean for the four the independent variables, that is, financial planning, investment appraisal, Financial Reporting, funding decision was used to compute a composite index for financial management practices. Then, as proposed by Muthoka (2022), the model was used to test the joint effect of financial management practices on the performance of tea factory companies. To compute the weighted harmonic mean, the following formula was used as recommended by Bajpai (2009):

$$FMP = \sum_{i=1}^n wi \div \sum_{i=1}^n (wi \div xi) \dots\dots\dots (3.2)$$

Where: FMP = Composite index for Financial’ Management Practices, that is, Financial Planning (FP), Investment Appraisal (AI), Financial Reporting (FR) and Funding Decision (FD).

x_i = i^{th} Financial Management Practices

w_i = Weight associated with i^{th} Financial Management Practices

3.3.2 Moderating Effect

Equation 3.1 above can be modified to incorporate the effect of moderating variable. To establish whether corporate governance (CG) had moderating effect on the relationship between predictor and predicted variable, the computed index for Financial Management Practices; equation 3.2 above was used to convert equation 3.1 above to the following model;

$$PTC = \beta_0 + \beta_5 FMP + \epsilon \dots\dots\dots (3.3)$$

Where: PTC = Performance of tea factory companies

FMP = Computed index for Financial Management Practices, that is, (Financial Planning (FP), Investment Appraisal (AI), Financial Reporting (FR) and Funding Decision (FD)).

β_0 = Constant

β_5 = Beta Coefficient

From equation 3.3 above, a two-stage approach was used to test for moderation as recommended by Baron and Kenny (1986) as follows: -

Stage one: Estimated the effect Financial Management Practices on the performance of tea companies when Corporate Governance was included as an independent variable.

$$PTC = \beta_0 + \beta_5 FMP + \beta_6 CG + \epsilon \dots \dots \dots (3.4)$$

Where: PTC = Performance of Tea factory companies

FMP = Financial Management Practices

CG = Corporate Governance

Stage two: Estimated the relationship between the performance of tea factory companies and the financial management practices when corporate governance is incorporated to interact with financial management practices as follows: -

$$PTC = \beta_0 + \beta_5 FMP + \beta_6 CG + \beta_7 FMP * CG + \epsilon \dots \dots \dots (3.5)$$

Where: PTC = Composite Index for Performance of Tea factory companies

FMP = Financial Management Practices

CG = Corporate Governance

FMP*CG = Financial Management Practices multiplied by Corporate Governance

If the constants in model 3.4 are insignificant while corporate governance in model 3.5 is significant, then there is no moderation and corporate governance therefore remains an independent variable.

Table 3. 1 Decision Criteria for Moderation

Step	Model	Criteria
1	$PTC = \beta_0 + \beta_5 FMP + \beta_6 CG + \varepsilon$	<p>If β_5 is significant then there is an effect to be moderated</p> <p>If β_6 is significant and β_7 insignificant, CG remains only an predictor variable</p> <p>If β_6 is insignificant, CG can be used as a moderating variable</p>
2	$PTC = \beta_0 + \beta_5 FMP + \beta_6 CG + \beta_7 FMP * CG + \varepsilon$	If β_5 , β_6 and β_7 are significant, the CG has a significant moderating effect

Source: Baron and Kenny (1986)

On the other hand, if moderation is significant, the constant β_7 , of the interface (Financial Management Practices * Corporate Governance) captured characteristic 3.3 produces influence and bearing on moderator.

3.4 Operationalization and Measurement of Study Variables

Table 3.2 shows how the study intended to operationalize the study variables and the measurement used to estimate them: -

Table 3. 2 Operationalization and Measurement of Study Variables

Category	Variable	Operationalization	Measurement	Scale
Dependent Variable	Performance of a tea factory	Returns to farmers	Price paid per kilogram of green leaf,	Likert scale 1-5
		Assets and reserves	Monetary value of assets and reserves,	Likert scale 1-5
		Cost of production and debt levels	Level of operational costs and debt levels	Likert scale 1-5
Independent Variables	Financial Planning	Budgetary process	Presence of budget committee and guidelines on budget development and controls,	Likert scale 1-5

		Financial modeling	Procedures used in financial planning, modeling, forecasting, strategy and policy formulation	Likert scale 1-5	
		Financial communication	Policy on communicating financial information to stakeholders	Likert scale 1-5	
	Investment appraisal	Investment process	Investment policy and procedures used in making decisions regarding investments in fixed assets, securities and other investments	Likert scale 1-5	
		Financial risks	Risk management policy and procedures used to assess the risk of the project	Likert scale 1-5	
		Project operational costs	Investment policy and procedures used to assess project operational costs	Likert scale 1-5	
	Financial Reporting	Preparation of Financial Statements	Presence of financial statements	Likert scale 1-5	
		Publication of financial reports	Published financial reports,	Likert scale 1-5	
		Auditing of Financial Statements	Internal and external audits policies	Likert scale 1-5	
	Funding Decision	Mode of funding	Finance policy and procedures used in determining the mode of financing	Likert scale 1-5	
		Working capital management	Working capital management policy	Likert scale 1-5	
	Moderating Variable	Corporate Governance	Competence and skills of the Board	Annual Board Evaluation Performance	Likert scale 1-5
			Board committees	Number of committees and meetings	Likert scale 1-5
			Independent Directors	Number of independent directors	Likert scale 1-5

Source: Researcher (2023)

3.5 Target Population

Mertler and Vannatta (2010) describe a population as the whole assortment of objects or entities that are of interest and are being considered in any area of inquest and have similar characteristics.

Further, Collis and Hussey (2014) contend that a target population refers to a specific group of respondents which information desired is being derived from. A population is a collection of individuals, groups of things, services, events, elements or households that are well-defined and are the subject of investigation (Collis & Hussey, 2014).

All the 34 smallholder farmers' tea factory companies in the West Tea Block Kenya listed by the tea industry regulator; Tea Board of Kenya shall form the target population of this study (Appendix 3). The respondents of the study were the factory unit accountant (who acts as the finance manager of the tea factory) as they are responsible for implementing the financial management practices as well as measuring the performance of the factory. Hence, the study comprised of 34 respondents.

3.5.1 Sampling Design

A census was used where all 34 tea factory companies in the West Tea Block of Kenya as listed by the industry regulator TBK (2022) were studied. According to Fisher (2010), conducting a census often gives a sufficient number of respondents resulting to a high degree of statistical confidence in the results. A census approach was appropriate since financial managers of tea factory companies were not many in number and thus the population was manageable.

3.6 Data Collection Instruments

Semi-structured questionnaires which contained both open and closed-ended questions were used to collect primary data for this research (Appendix 2). According to Fisher (2010), questionnaires are ideal and effective because of their anonymity which emboldens the forthrightness of the respondents particularly on sensitive issues.

Questionnaires were preferred as they result in higher response rates since they are usually distributed to respondents for them to fill out at their convenience and collected later (Guest, 2012).

Questionnaires also have less possibility for bias when administered and analyzed consistently.

3.7 Pilot Study

To address any problems in research instruments, a pilot study was carried out prior to the studies.

This also helped the researcher in examining the feasibility of the intended approach for the main study. Fisher (2010) contends that the accuracy of the data collected depends primarily on the reliability and validity of the research instrument, which can only be established by a pilot test.

In this regard, a pilot group of 4 respondents from the East Tea Block was used in the pilot study to determine feasibility of the research approach. The answers provided by the respondents provided a good basis for reviewing the research instruments with an objective of improving it.

The pilot study also gave the researcher greater insights and experience which was necessary to improve the tested questionnaire and procedures. It also presented the researcher with a preview of the operational experience for the study.

3.7.1 Instrument Validity

The researcher used the experts' opinions in the tea industry in order to determine validity of the research instrument owing to their extensive knowledge of the industry dynamics. These experts comprised of the researcher's supervisors, tea industry experts and experts working as consultants of financial management. This process involved reviewing all questions in the data collection instrument and comparing them with the set objectives in order to ensure that the instrument contained all the necessary questions in order to answer the objectives of the research. Validity revolved around the inferences the researcher made based on the data collected, which were; appropriateness, meaningfulness and usefulness (Crowther & Lancaster, 2012).

Mertler and Vannatta (2010) suggest that an appropriate inference is that which is relevant to the purpose of the research being undertaken. Therefore, the research instrument measured content, criterion, and construct related validity. In this study, content validity focused on establishing the extent to which the instrument used for research, that is, the questionnaire adequately covers the subject matter that is being researched on. Criterion related validity has focused on determining whether one or more of the criteria considered to epitomize constructs and traits of interest exists or does not exist. On the other hand, construct validity focused on the extent to which the test measured the construct it was intended to measure.

3.7.2 Instrument Reliability

The reliability of an instrument used in research is the extent to which consistent results from repeated trials are obtained (Novikov & Novikov, 2013). In order to test the reliability of the questionnaire, this study used Cronbach's alpha coefficient. According to Mertler and Vannatta (2010) a Cronbach's Alpha coefficient of 0.7 is deemed suitable to confirm reliability of the research instrument. This has been done in order to assess the internal cohesion and reliability by determining which of the different parts of the questionnaire is relevant to each other, as well as to the overall research instrument. Therefore, alpha coefficients of greater than 0.7 were considered to be appropriate for this study.

3.8 Data Collection Procedure

Respondents in the targeted tea factory companies provided primary data which was gathered by the researcher using self-administered questionnaires see Appendix 2. To begin with, a license to undertake research was gotten from the National Council of Science, Technology and Innovation

(NACOSTI) before administering the questionnaire Appendix 6. Factory locations were identified and the respondents briefed on the objectives of this research.

Consent to administer questionnaires to the respective finance managers was sought for from KTDA MS Ltd, the Board and management of tea factory companies. Questionnaires were administered and the collected after the agreed timeline. The data collected was initially summarized using Microsoft Excel to enable verification before it was uploaded to the SPSS software. This data collection procedure was used because it was effective, reliable and yielded the desired data (Collis & Hussey, 2014).

3.9 Data Analysis and Presentation

According to Kothari (2004), data analysis entails data processing, descriptive analysis and inferential analysis. The data collected was first reviewed and cleaned to ensure completeness and consistency with the research questions. Questionnaires have been coded into SPSS, descriptive statistics have been used to summaries the data on management financial practices and performance, using per centages, means and standard deviations for the extent of congruity or incongruity with the research questions asked. The results of the descriptive analysis have been presented in figures and tabular form.

Inferential statistics was undertaken using correlation and multiple regression analysis where the four dimensions of financial management practices were jointly regressed on the dependent variable. According to Mertler and Vannatta (2010), statistical descriptives allow the researcher to draw up and understand large amounts of data, while multiple regression allows estimation of the value of a dependent variable relative to two or more predictor variables. The proportion of the

variation in the outcome variable explained by the predictor variables was measured using the Coefficient of Determination (R^2).

This research, following Baron and Kenny's (1986) recommendation, utilized a stepwise multilinear regression approach to identify how corporate governance moderated the relationship between finance management practices and tea factory companies' performance at the West Tea Block of Kenya. Testing of research hypotheses was done at a ninety-five per centum level of confidence in order to establish whether the effect of financial management practices on performance of smallholder tea factory companies was significant or not. The null hypotheses rejection point was set at $p < 0.05$. Qualitative data, which was collected on the basis of open-ended questions from the questionnaire, have been analyzed by contents analysis. Research findings were displayed in figures, tables and graphs.

3.10 Diagnostic Tests

Prior to data analysis, the following diagnostic tests were carried out to ensure conformity with necessary statistical assumptions of normality, multicollinearity and homoskedasticity. This are discussed herein below.

3.10.1 Test of Normality

Normality assumes that the data set is well-modelled by a normal distribution and the error term is normally distributed (Crowther & Lancaster, 2012). In this study, normality was tested using Jarque-Bera Test (1981) test was used to test for normality. In Jarque-Bera test, the null hypothesis assumes that the error disturbances are normally distributed if the measured p-value is above 0.05 and if the p-value is less than 0.05, then the null hypothesis is rejected and a non-parametric test used.

As recommended by Novikov & Novikov (2013), where the resultant calculated probability value for the study variables were between -0.5 and 0.5; therefore, the data was assumed to follow a normal distribution at 5% level of significance. As recommended by Crowther and Lancaster (2012) it was assumed that the error term was normally distributed and the distribution almost symmetric if the skewness is between -0.5 and 0.5 and vice versa. In this study, normality was therefore met.

3.10.2 Multicollinearity

Multicollinearity arises when predictor variables are highly correlated, making the coefficients estimation of multiple regression to change bizarrely as a result of small changes in model or data (Fisher, 2010). An auxiliary regression and the variance inflation factor (VIF) was done to determine whether multicollinearity would cause a problem. This is important because, existence of multicollinearity can lead to a situation where the R^2 is high but the individual coefficients have high standard errors, cause nonsensical coefficient signs and magnitudes, cause very wide confidence intervals for the parameters leading to inappropriate conclusions (Fisher, 2010).

Since the resultant VIFs of the study variables were found to be less than 5 and tolerance values greater than 0.1 it was assumed that multicollinearity did not pose problem in this study as recommended by (Zeng, 2016). All the study variables fell within the suggested range of VIF, implying that multicollinearity did not pose a problem thus necessitating retention of all predictor variables in the estimation model, that is, they were within the limits recommended by (Crowther & Lancaster, 2012). Otherwise, existence of multicollinearity in the data would have been dealt with by either omitting one of the collinear variables from the model or transforming the variables

that are highly correlated into a ratio which would be used in the regression instead of the absolute variables (Zeng, 2016).

3.10.3 Homoskedasticity Test

The model used in this study assumed that all residuals are drawn from a population that has a constant variance. Heteroskedasticity arises in cases where this assumption is not met and there is systematic variation of the distribution of residuals over a range of measured values (Zeng, 2016). Therefore, in order to establish whether heteroscedasticity posed a problem, Breusch–Pagan test (Zeng, 2016) was used to measure whether the estimated variance of the residuals from a regression are reliant on the values of the predictor variables. This was necessary because existence of heteroscedasticity can make the coefficient estimates to be less precise and therefore increase the likelihood that they will be further from the correct population value. It may also produce misleadingly smaller p-values meaning that the calculated t-values and F-values are based on underestimated variance which can lead to wrong conclusion that a model term is statistically significant when it is not (Fisher, 2010).

In this case, a null hypothesis at 0.05 significance levels, that is, the variances of the disturbances are equal, against a two-sided alternative. If the test was significant, the predicted p-values of the variables would be less than 0.05 and the significance level of Breusch–Pagan test would be more than 0.05 to indicate existence of variance heteroskedasticity. Otherwise, existence of heteroskedasticity in the data would have been dealt with by either transforming the variables into their equivalent logarithms or reducing some other measure of size in order to re-scale the data to “pull in” extreme observations (Zeng, 2016).

3.11 Ethical Consideration

According to Walton (2013), ethics is the set of rules or standards for behaviour which distinguish good from bad. Ethics in research provides guidelines for the responsible conduct of research. Cooper and Schindler (2008) reckons that research ethics is specifically interested in the analysis of ethical issues arising from participation of other people in the research. Before data analysis, the researcher had obtained permission from both Kenyatta University and NACOSTI and management of tea factory companies before data collect process. All information received from the respondents was treated with uttermost confidentiality.

The researcher did not discriminate any respondent whilst collecting data. The data collected was thereafter analyzed objectively without biasness. The researcher used formal language during data collection and after data analysis to avoid biasness. For the purpose of transparency, the researcher explained the objectives of this research to the respondents prior to data collection. Data collected was analyzed and reported objectively without biasness. After report presentation, the information was published to enable other researchers to gain access of the information for knowledge advancement. Information obtained from materials that has been published was recognized by providing proper citation for any material used to inform this study.

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction

Chapter four outlines the results and presents discussions in relation to variables of this study. This study was carried out in order to examine the effect of financial planning, investment appraisal, financial reporting, and funding decisions on performance of smallholder farmers' tea factory companies in the West Tea Block, Kenya.

Further, this study determined how the relationship between performance of tea factory companies in the West Tea Block, Kenya and financial management practices was moderated by corporate governance. The chapter demonstrates descriptive statistics and inferential statistics conducted according to the study variables thereby discussions are made based on the findings of existing empirical findings to establish convergence and divergence of the research findings from one context to another.

4.2 Response Rate

In total, 34 questionnaires were issued to finance managers of smallholder farmers' tea companies in the West Tea Block, Kenya. However, only 31 questionnaires were returned fully completed while 2 questionnaires were incomplete while 1 questionnaire was not returned despite several follow ups. This depicted a response rate of 91% which was sufficient to proceed with data analysis according to Guest (2010) who recommends that any response rate in excess of 50% is sufficient for data analysis.

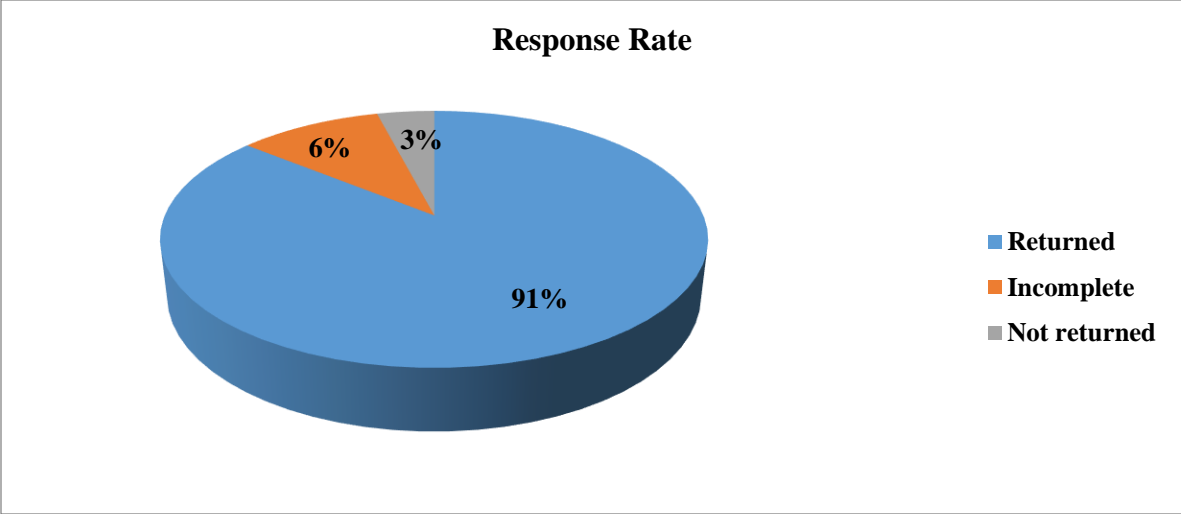


Figure 4.1: Response Rate
Source: Survey Data (2023)

4.3 Descriptive Statistics

The general behaviour of the data is analyzed using descriptive statistics such as, the mean and standard deviations. In all the study variables, there was low variation in responses with respect to the mean thus justifying the appropriateness of using the mean score in estimating the general behaviour of the data.

4.3.1 Financial Planning

This section presents results of the respondents’ opinions on various aspects that describe financial planning which were analyzed using the mean and standard deviation as recorded in Table 4.1.

Table 4.1: Financial Planning

Statement	Mean Score	SD
There is a structured framework for using financial modeling in forecasting	4.83	0.511
Performance is often measured on the basis of how well results have been achieved within the set targets	4.82	0.724
Financial information like budgets and performance is well communicated with relevant stakeholders	4.44	0.406
The company adopts a coordinated approach in budget development and implementation	4.33	0.644
Performance is often measured on the basis of how well results have been achieved within the set targets and then communicated to relevant stakeholders	4.15	0.637

The company has a formal budgeting committee/ office that spearhead budget formulation, implementation and monitoring	4.33	0.445
There is a structured framework for budget-setting and financial modeling that guide the operations of the company	4.22	0.241
Budgets are aligned with the strategic objectives of the company	3.92	0.653
Revenues are forecasted based on targeted performance levels and operational environment	3.37	0.345
Actual performance informs budgets reviews in order to reflect the realities of the business environment	3.68	0.308
There exist sufficient financial controls to ensure budgets are flexible but followed	2.97	0.247
There are systems of detecting and addressing errors in calculations and formulas	2.93	0.427
Budgets are continually monitored and a variance analysis prepared on a continuous basis	2.82	0.381
Variances to the set targets are immediately investigated and remedial action can be undertaken immediately	2.77	0.437
The company make use financial modeling in policy and strategy formulation	2.51	0.291
The company uses financial models to represent various aspects of its operations, estimate various outcomes or compare scenarios	2.37	0.263
Forecasting expenditures is aligned to production and operation budgets	2.14	0.281
Aggregate Mean Score	3.56	.426

Source: Survey Data (2023)

As depicted in Table 4.1, the overall aggregate mean score was 3.56 while the standard deviation was 0.426 indicating that the respondents who participated in the survey agreed to a larger extent that the measured facets of financial planning were practiced in smallholder farmers' tea factory companies in the West Tea Block, Kenya. The companies have a well-structured framework for using financial modeling in forecasting scored the highest mean of 4.83 while alignment of forecasting expenditures to production and operation budgets scored the lowest mean of 2.14. The standard deviations for the two parameters were .511 and .281 respectively. Low level of standard deviation, that is, less than 1.0 on all statements of financial planning and on the aggregate indicates low variability in the responses offered by the respondents.

Seven statements had a mean score of greater than 4.0 indicating a general agreement with statements regarding financial planning practices in the tea factory companies. These findings

show that majority of the respondents concurred that tea factory companies had well-structured framework for using financial modeling in forecasting, performance is often measured on the basis of how well results have been achieved within the set targets and financial information like budgets and performance is well communicated with relevant stakeholders. Further, the findings exposed that tea factory companies adopted a coordinated approach in budget development and implementation, performance was measured based on the results achieved and formal budget committees were constituted to spearhead budget formulation, implementation and evaluation.

The mean score for 3 statements was between 3.00 and 4.0 indicating a moderate agreement with the facets on financial planning. The results indicated that some of the respondents moderately agreed that budgets were aligned with the strategic objectives of the company, revenues were focused based on targeted performance levels and operational environment.

Seven statements had a mean score of less than 3.00 indicating a general disagreement with the statements. The results also revealed that some of the respondents disagreed that there existed sufficient financial controls to ensure budgets were flexible, there are systems of detecting and addressing errors in calculations and formulas, budgets are continually monitored and a variance analysis prepared on a continuous basis, investigations were done immediately and remedial measures were taken immediately. It was noted that companies did not make maximum use of financial modeling in policy and strategy formulation. The companies barely used financial models to represent various aspects of its operations, estimate various outcomes or compare scenarios nor were forecasting expenditures aligned to production and operation budgets.

4.3.2 Investment Appraisal

This section presents results of the respondents' opinions on various aspects that describe investment appraisal which were analyzed using the mean and standard deviation as recorded in Table 4.2.

Table 4.2: Investment Appraisal

Statement	Mean Score	SD
The company has a risk management policy that is used to evaluate all proposed projects and investments	4.03	0.681
The return on investment of a particular asset is a major consideration before choosing an investment	3.44	0.418
My company has a structured framework of investing in fixed assets, securities and other investments that guide all investment decisions in the company	2.35	0.401
The company has a set of investment appraisal techniques used to appraise the worth of an asset to the company (e.g. NPV, IRR, ARR, PB)	2.44	0.546
The organization has set techniques to assess the projects risk (i.e. scenario analysis, sensitivity analysis, decision free analysis, simulation analysis)	2.31	0.554
There exists a formal investment committee that analyses all projects and prioritize them in line with the company's investment policy and strategic direction	2.23	0.514
Financial risks are priced and profiled accordingly	2.19	0.346
Life-cycle-appraisal is an integral part of investment management in the company	2.13	0.404
The contribution of the asset to the strategic direction of the company is considered when choosing projects	2.11	0.367
The company considers the cost of green leaf, labour, green power (electricity and fuel) and other factory overheads when making investment decisions about a new factory	2.09	0.201
Aggregate Mean Score	2.53	0.443

Source: Survey Data (2023)

As depicted in Table 4.2, the overall aggregate mean score was 2.53 while the standard deviation was 0.443 indicating that the respondents who participated in the survey moderately agreed that the measured aspects of investment appraisal were practiced in smallholder farmers' tea factory companies in the West Tea Block, Kenya. The companies have a risk management policy that is used to evaluate all proposed projects and investments scored the highest mean of 4.03 while

consideration of the cost of green leaf, labour, green power and other factory overheads when making investment decisions about a new factory scored the lowest mean of 2.09. The standard deviations for the two parameters were .681 and .201 respectively. The low levels of standard deviation, that is, less than 1.0 on all statements of investment appraisal and on the aggregate indicates low variability in the responses offered by the respondents.

One out of the ten statements had a mean score of more than 4.00 indicating that only one respondent was in agreement that their tea factory companies had a risk management policy that was used to evaluate all proposed projects and investments while the mean score for 1 of the 10 statements was between 3.00 and 4.00 indicating that only one moderately agreed that investment considerations were determined based on the return on investment of a particular asset.

Eight out of the ten statements had a mean score of less than 3.00 indicating a general disagreement that tea factory companies did not have techniques of assess the projects risk such as scenario analysis, sensitivity analysis, decision free analysis, and simulation analysis. The results indicated that financial risks were inappropriately priced and profiled. Tea factory companies had no formal investment committee that analyzed all projects and prioritize them in line with the company's investment policy and strategic direction. Investment appraisal techniques such as NPV, IRR, ARR, PB were non-existent in the company. Life-cycle-appraisal was not an integral part of the companies. Projects chosen were not in line with the strategic direction of the company. The cost of green leaf, labour, green power and other factory overheads are rarely considered when making investment decisions about a new factory.

4.3.3 Financial Reporting and Analysis

This section presents results of the respondents' opinions on various aspects that describe financial reporting and analysis which were analyzed using the mean and standard deviation as recorded in Table 4.3.

Table 4.3: Financial Reporting and Analysis

Statement	Mean Score	SD
Financial statements prepared enhance information symmetry among the stakeholders	4.53	0.653
Financial statements prepared provides accurate and complete information about the company	4.21	0.527
Financial statements prepared enhance governance and reduce levels of fraud	3.89	0.566
There is continuous/ regular process of analyzing financial data in order to deduce relevant information for management decision making	3.43	0.433
The company has a robust internal audit team that monitors implementation of the internal control system and financial matters	3.33	0.413
The financial statements are in agreement with the books of accounts	3.20	0.405
Financial statements prepared are timely and enhance comparability of performance	3.11	0.327
There is accurate recognition, measurement and reporting of all financial transactions of the company	2.21	0.314
Issues raised by both internal and external audits are thoroughly analyzed and attended to by management	2.17	0.421
Financial statements are prepared in accordance with IFRS	2.11	0.234
The company has an accounting function that is well conversant with IFRS	2.08	0.218
Aggregate Mean Score	3.11	.410

Source: Survey Data (2023)

As depicted in Table 4.3, the overall aggregate mean score was 3.11 while the standard deviation was 0.410 indicating that the tea factory companies that participated in the survey agreed to a larger extent that the measured aspects of financial reporting and analysis are practiced in smallholder farmers' tea factory companies in the West Tea Block, Kenya. Financial statements prepared enhance information symmetry among the stakeholders scored the highest mean of 4.53

while existence of an accounting function that is well conversant with IFRS scored the lowest mean of 2.08. The standard deviations for the two parameters were .653 and .218 respectively. The low levels of standard deviation, that is, less than 1.0 on all statements of investment appraisal and on the aggregate indicates low variability in the responses offered by the respondents.

Two out of the eleven statements had a mean score of more than 4.00 indicating that a few respondents were in agreement that their tea factory companies had prepared financial statements with an aim of enhancing information symmetry among the stakeholders while information provided in financial statements provided accurate and complete information about the company.

Five out of the eleven statements had a mean score of between 3.0 and 4.0 indicating a moderate agreement that financial statements prepared enhanced governance and reduce levels of fraud, regular analysis of financial data had a positive influence of management decision making, there existed a robust internal audit team that monitored implementation of the internal control system and financial matters and financial statements prepared were timely and enhanced comparability of performance.

Four out of the eleven statements had a mean score of less than 3.00 indicating a disagreement that tea factory companies did not prepare financial statements in accordance with IFRS nor the accounting function was consistent with IFRS. The results revealed that tea factory companies did not accurately recognize, measure and report all financial transactions of the company and also issues raised by both internal and external audits were not thoroughly analyzed and attended to by management.

4.3.4 Funding Decisions

This section presents results of the respondents' opinions on various aspects that describe funding decisions which were analyzed using the mean and standard deviation as recorded in Table 4.4.

Table 4.4: Funding Decisions

Statement	Mean Score	SD
The mode of funding for a particular venture is usually aligned to the life and the risks inherent in the venture	4.71	0.553
There is a formal working capital policy that guides on all matters relating to cash, accounts receivables, account payables and other items of working capital	4.61	0.527
The company has structured framework of assessing working capital requirements at all times	4.43	0.333
Overdraft is seldom and only used to fund short-term working capital deficits	4.23	0.513
Liquidity is continually monitored so that excess cash invested and liquidity gaps avoided	4.19	0.466
My company has a framework for establishing the funding requirements and deciding on the mode of funding to be used	3.95	0.485
There are formal techniques of evaluating the cost implications of the various sources of finance	3.57	0.467
There is a formal and continuous system of determining the optimal capital structure based on the existing macro-economic environment	3.53	0.643
The choice between the financing method used is based on the cost of capital	3.43	0.443
All Financial decisions are made in line with the company's finance policy and overall organization objectives	3.23	0.613
Financial decisions are made cognizant of the financial risks inherent to the various sources of finance	3.13	0.398
Aggregate Mean Score	3.91	.495

Source: Survey Data (2023)

As depicted in Table 4.4, the overall aggregate mean score was 3.91 while the standard deviation was 0.495 indicating that the tea factory companies that participated in the survey agreed to a larger extent that the measured aspects of funding decisions are practiced by smallholder farmers' tea factory companies in the West Tea Block, Kenya. The mode of funding for a particular venture is usually aligned to the life and the risks inherent in the venture scored the highest mean of 4.71 while financial decisions are made cognizant of the financial risks inherent to the various sources

of finance scored the lowest mean of 3.13. The standard deviations for the two parameters were .553 and .398 respectively. The low levels of standard deviation, that is, less than 1.0 on all statements of investment appraisal and on the aggregate indicates low variability in the responses offered by the respondents.

Five out of the eleven statements had a mean score of more than 4.00 indicating a general agreement that tea factory companies had modes of funding for a particular venture that are aligned to the life and the risks inherent in the venture. There exists formal working capital policy that guide matters related to cash, accounts receivables, account payables and other items of working capital. Liquidity was continually monitored so that excess cash invested and liquidity gaps avoided and formal benchmarks of assessing working capital requirements were embraced at all times and overdraft was seldom and only used to fund short-term working capital deficits.

The mean score for 6 of the 11 statements was between 3.0 and 4.0 indicating a moderate agreement that tea factory companies made financial decisions in line with the company's finance policy and overall organization objectives. Financing method was determined by the cost of capital between debt and equity. Capital structure was determined by a formal and continuous system in relation to macro-economic environment. Financial decisions were made cognizant of the financial risks inherent to the various sources of finance and formal techniques were used to evaluate the cost implications of the various sources of finance.

4.3.5 Corporate Governance

This section presents results of the respondents' opinions on various aspects that describe corporate governance which were analyzed using the mean and standard deviation as recorded in Table 4.5.

Table 4.5: Corporate Governance

Statement	Mean Score	SD
The audit function of the company is not influenced by management in discharging its duties.	4.43	0.457
The audit function that directly reports to the audit committee of the Board	3.97	0.287
There is transparency and accountability in all affairs of the company and its books of accounts are periodically audited	3.63	0.539
The Board has the requisite committees that oversee all functions of the company's operations	3.41	0.356
Board of Directors possess the requisite skills to provide effective financial oversight of the company	2.97	0.399
My company has effective systems of detecting and preventing fraud	2.43	0.591
The company has a functional audit committee that processes all audit matters	2.37	0.287
Board of Directors are trained on good corporate governance	2.13	0.443
The board of directors have independent members appointed on the basis of the skillsets lacking in other board members who gives independent professional advice to the board,	0.23	0.253
Aggregate Mean Score	2.84	.401

Source: Survey Data (2023)

As depicted in Table 4.5, the overall aggregate mean score was 2.84 while the standard deviation was 0.401 indicating that tea factory companies that participated in the survey moderately agreed that the measured aspects of corporate governance are practiced by smallholder farmers' tea factory companies in the West Tea Block, Kenya. The low levels of standard deviation, that is, less than 1.0 on all statements of investment appraisal and on the aggregate indicates low variability in the responses offered by the respondents. The appropriateness of aggregate mean for the estimation of the corporate governance is justified by a low variation in responses with respect to the mean.

As depicted in Table 4.5, the results indicate approaching moderate agreement regarding corporate governance and performance of tea factory companies with an aggregate mean of 2.84 and a standard deviation of .401. The audit function of the company was not influenced in discharging

its duties had a 4.43 mean score which was the highest and a standard deviation of .457 while existence of independent members who gives independent professional advice to the board scored the lowest mean of .23 and a standard deviation of .253.

Four out of the nine statements had a mean score of more than 3.00 indicating moderate agreement that audit functions of tea factory companies were not influenced while discharging their duties. There was transparency and accountability in all affairs of the company and its books of accounts were periodically audited. The Board has the requisite committees that oversee all functions of the company's operations and the audit function was directly reporting to the audit committee of the board.

Four out of the nine statements had a mean score of between 2.00 and 3.0 indicating disagreements that board of directors possess the requisite skills to provide effective financial oversight of the company, board of directors were trained on corporate governance, effective systems for detecting and preventing fraud were in place and there existed a functional audit committee that processes all audit matters. One out of the nine statements had a mean score of below 2.0 indicating disagreement that the board have independent members appointed on the basis of the skillsets lacking in other board members who gives independent professional advice to the board.

Even though corporate governance is viewed to influence performance of tea factory companies, to some extent the findings revealed that, tea factory companies did not have independent members appointed on the basis of the skillsets lacking in other board members who gives independent professional advice to the board, board of directors were not trained on corporate governance, effective systems to prevent and detect fraud were non-existent and there was non-functional audit committee.

4.3.6 Measurement of Performance

This section presents results of the respondents' opinions on various aspects that measures performance in smallholder tea factory companies which were analyzed using the mean and standard deviation as recorded in Table 4.6.

Table 4.6: Measurement of Performance

Statement	Mean Score	SD
Net profit margin of the company has improved in the last five years	2.23	.660
The company reserves have increased in the last five years	2.73	.637
The company's liquidity position has improved in the last five years	2.71	.529
Total debt as a per centum of total assets have declined in the last five years	2.37	.656
Total finance costs to total operating revenue ratio over has declined in the last five years	2.27	.667
The price paid out per kilogram of green leaf has increased in the last five years	2.39	.433
Cost of production as a per centum of selling price has decreased in the last five years	2.13	.563
The total value of assets has increased in the last five years	2.31	.533
Return on equity have improved over the last 5 years	2.21	.523
Aggregate Mean Score	2.39	.567

Source: Survey Data (2023)

As depicted in Table 4.6, the overall mean score was 2.39 with a standard deviation of 0.567 indicating that tea factory companies that participated in the survey disagreed that the performance of smallholder farmers' tea factory companies in the West Tea Block, Kenya as measured by the above statements has improved. The company reserves have increased in the past five years scored the highest mean of 2.73 and a standard deviation of .637 while Cost of production as a per centum of selling price has decreased in the last five years scored the lowest mean of 2.13 and a standard deviation of .563.

All statements had a mean score of less than 2.50 indicating a general convergence that financial performance of tea factory companies has deteriorated as measured by the decrease profitability, return on investment, price paid to tea growers, change in reserves, total value of assets, liquidity position and increase in the per centum of total debt as a per centum of assets, cost of production as a per centum of selling price in decrease in finance costs. The low levels of standard deviation, that is, less than 1.0 on all statements of investment appraisal and on the aggregate indicates low variability in the responses offered by the respondents.

4.4 Inferential Statistics

Multiple linear regression models have been applied for the identification of a potential relationship of each individual variable on an outcome variable. In order to confirm statistically the assumptions of Multiple Linear Regression as suggested by Guest (2010), diagnostics such as homoskedasticity multicollinearity and normality have been performed.

4.5 Results of Diagnostic Tests

4.5.1 Normality Test

To test normality of data, Jarque-Bera Test was used. As recommended by Zeng (2016), the null hypothesis of this study was that if the p-value exceeded 0.05 ($P > 0.05$), the data is normal in its distribution else the alternative hypothesis would suffice.

Table 4.7: Normality Test Results

Variable	Jarque-Bera	p-value
Financial Planning	1.03630	0.411234
Investment appraisal	1.35612	0.391223
Financial Reporting and analysis	5.76976	0.061445
Funding Decisions	16.39042	0.082302
Corporate Governance	7.89911	0.069344
Performance of tea factory companies	18.31830	0.090117

Source: Survey Data (2023)

From table 4.7 the variables had the following p-values; financial planning ($0.411 > 0.05$), investment appraisal ($0.391 > 0.05$), financial reporting and analysis ($0.061 > 0.05$), funding decisions ($0.082 > 0.05$), corporate governance ($0.069 > 0.05$) and of performance of tea factory companies ($0.090 > 0.05$). In view of the fact that all p-value values were greater than 0.05, the study concluded that the data were normally distributed and thus did not reject the null hypothesis.

4.5.2 Multicollinearity Test

Tolerance and variance correlation were used to determine whether there existed multicollinearity. Variance Inflation Factors (VIF) were used to determine the level of multicollinearity among variables of the study. As recommended by Zeng (2016), multicollinearity is confirmed between variables if the VIF is more than 5 and tolerance values less than 0.1.

Table 4.9: Multicollinearity Test

Model	Collinearity Statistics	
	Tolerance	VIF
Financial Planning	0.678	1.345
Investment Appraisal	0.562	2.196
Financial Reporting and Analysis	0.346	3.291
Funding Decisions	0.438	2.789
Corporate Governance	0.713	1.278
Mean VIF	0.547	2.179
Dependent Variable: Performance of Tea factory companies		

Source: Survey Data (2023)

The results in Table 4.9 depicts that all variables have a VIF of less than 5 and the tolerance values was more than 0.1 indicating moderate levels of multicollinearity which cannot cause problems.

VIF for financial planning = 1.345, investment appraisal = 2.196, financial reporting and analysis = 3.291, funding decisions = 2.789 and corporate governance = 1.278. From the results, it was concluded that multicollinearity did not pose any problem.

4.5.3 Heteroscedasticity Test

Breusch-Pagan test (Zeng, 2016) was used to measure homoscedasticity of data. As recommended by Zeng (2016), equality between variables is confirmed if outcome variable exhibit equal variance across a range of regressors. In this study, the null hypothesis was that the outcome variable exhibited equal variance across a range of independent variables if the p-value is more than 0.05 ($P > 0.05$) and the alternative hypothesis was the data was not homoscedastic if the p-value was lower than 0.05 ($P < 0.05$) as recommended by Zeng (2016).

Table 4.10: Homoscedasticity Test Results

	LM	p-value
Breusch-Pagan	9.678	.4112
Koenker Test	12.562	.3443

Source: Survey Data (2023)

As illustrated in Table 4.10, the calculated p-value, that is, .4112 was greater than 0.05 the critical value. Consequently, since the p-value were greater than 0.05, the data was assumed homoscedastic.

4.6 Regression Analysis and Hypotheses Testing

To test the hypothetical effect of individual predictor variables; financial planning, investment appraisal, financial planning & analysis and funding decisions on the dependent variable; performance of tea factory companies, multiple linear regression analysis method was used. R-square statistic was used to ascertain the magnitude to which individual variables influenced the dependent variables as shown in Table 4.11. This research tested hypothesis for the five variables under study, that is, four determined the direct effect of independent variables on the performance

of tea factory companies whilst the fifth one tested how the relationship between performance of tea factory companies and financial management practices was moderated by corporate governance.

Adjusted (R^2) and p-values at $P < 0.05$ that is, 95% level of significance was used to interpret the results of the analysis. To facilitate the regression analysis, a composite index using the weighted average was computed for predictor variables and the outcome variable.

Table 4.11: Test Results for Financial Management Practices and Performance of Tea factory companies

(a) Model Summary Results						
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate		
1	.891	.794	.713	.04322		
(b) ANOVA Results						
Model		Sum of Squares	df	Mean Square	F-value	Sig.(p-value)
1	Regression	.066	3	.032	14.105	.000
	Residual	.017	30	.003		
	Total	.083	33			
(c) Coefficients Results						
Model		Unstandardized Coefficients		Standardized Coefficients	t-value	Sig.
		B	Std. Error	Beta		
1	(Constant)	.411	.071		4.300	.000
	Financial Planning	.361	.059	.400	5.211	.008
	Investment Appraisal	.369	.089	.411	4.217	.002
	Financial Reporting	.171	.059	.179	2.329	.012
	Funding Decisions	.256	.091	.187	2.917	.009

Predictors: (Constant), Financial Planning, Investment Appraisal, Financial Reporting, Funding Decisions

Dependent Variable: Performance of Tea factory companies

Source: Survey Data (2023)

Table 4.11 is the model summary which revealed that R^2 was 0.794 whilst the adjusted R^2 was 0.713 implying that financial planning, investment appraisal, financial reporting & analysis and funding decisions explained 79.4 % of the total variation in the performance of tea factory companies. As a result, 20.6% of variation in performance of tea factory companies' is explained by factors beyond the scope of this study.

The ANOVA analysis shows the F statistics for the estimated model was 14.105 with a p-value of 0.000 and significant at $P < 0.05$. These results infer that the model used significantly predicts the effects of the financial planning, investment appraisal, financial reporting & analysis and funding decisions on performance of tea factory companies and can therefore be used in the statistical analysis.

Table 4.11 also indicates the coefficients results at 95% confidence interval. The regression model: $Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon$ was fitted and the following regression equation derived from Table 4.11: -

$$PTF = 0.411 + 0.361 FP + 0.369 IA + 0.171 FR + 0.256 FD$$

Where:

- PTC = Performance of tea factory companies
- FP = Financial Planning of tea factory companies
- IA = Investment Appraisal of tea factory companies
- FR = Financial Reporting of tea factory companies
- FD = Funding decision of tea factory companies

The constant meant that, at zero financial planning, investment appraisal, financial reporting and funding decisions), the average performance of tea factory companies in the West Tea Block

would be 0.411. The test results are discussed below according to the independent variables and their corresponding hypothesis.

4.6.1 Effect of Financial Planning on Performance of Tea factory companies

By testing the following hypothesis, the first objective was to test whether financial planning influenced the performance of smallholder farmers' tea factory companies in the West Tea Block, Kenya: -

H₀₁: Financial planning had no significant effect on the performance of smallholder farmers' tea factory companies in the West Tea Block, Kenya.

The beta coefficient for financial planning was 0.400, with a corresponding p-value of .008, as can be seen in Table 4.11. Given that the p-value does not exceed .05, the regression coefficient for financial planning is thus statistically significant at 5 per centum significance level. Therefore, this research rejects the null hypothesis that financial planning had no significant effect on the performance of smallholder farmers' tea factory companies in the West Tea Block, Kenya. Consequently, it was concluded that financial planning has a positive and significant effect on performance of smallholder farmers' tea factory companies in the West Tea Block, Kenya.

These findings are congruent with empirical results gotten Sherine, Wiyanto, & Budiono (2021), Ariyo, Onileowo & Oke (2020) who concluded that financial planning practices such as budget development, financial modeling and financial communication were important to the performance of companies when it comes to profits, return on investments and minimal costs of operations. They were also consistent with empirical results gotten by Amaraven and Mulukalapally (2021) who established positive and significant effect between financial planning and financial

performance of five major pharmaceutical firms listed in National stock exchange in India by examining secondary data for period 2011-2020. However, the findings contradicted findings by Thevaruban (2016) who established that some aspects of financial planning like budgeting, forecasting and cashflow management has a negative impact on the financial management of manufacturing companies in Sri Lanka. The results further contradicted Hemsing and Baker (2013) who had established a negative relationship between organizational performance and tight budgetary controls whilst studying the effects of stringent budgetary control on managerial behavior of the public sector in Sweden. However, these findings were inconsistent with Theory of Budgeting by Hofstede (1967) and Otley (1987) and other financial literature which implies that budget setting continues to inspire employees to higher performance until where the acceptability of the budget declines thus creating negative attitudes towards the budget which in turn may lead to low performance. However, the study acknowledged the variations in the indicators used by various studies to characterize financial planning.

4.6.2 Effect of Investment Appraisal on the Performance of Tea factory companies

By testing the following hypothesis, the second objective was to test whether investment appraisal influenced the performance of smallholder farmers' tea factory companies in the West Tea Block, Kenya: -

H₀₂: Investment appraisal had no significant effect on the performance of smallholder farmers' tea factory companies in the West Tea Block, Kenya.

The beta coefficient for investment appraisal was 0.411, with a corresponding p-value of .002, according to the findings in Table 4.11. Given that the calculated p-value does not exceed .05, the regression coefficient for investment appraisal is thus statistically significant at 5 per centum significance level. Therefore, this research rejects the null hypothesis that investment appraisal

had no significant effect on the performance of smallholder farmers' tea factory companies in the West Tea Block, Kenya. Consequently, it was concluded that investment appraisal has a significant positive effect on the performance of smallholder farmers' tea factory companies in the West Tea Block, Kenya.

These research findings are congruent with the empirical results gotten by Morwabe and Muturi (2019), Fribontius and Hartoko (2022), Kamande (2015, Kerongo and Olango (2014) who depicted that there existed a positive significant relationship between investment appraisal practices such as financial risks and performance of organizations from one context to another. Using secondary data for five years from 2014 – 2018, Morwabe and Muturi (2019) revealed that investment decisions had a strong influence on changes in deposits taking SACCOs profitability in Kenya. However, Nyambura (2014) concluded that there is no correlation between investment appraisal techniques and performance of companies listed on the Nairobi Securities Exchange. Her findings were inconsistent with literature in finance and Real Options Theory which postulates that all projects should be taken as real options which the organization can either abandon, right-size, contract, expand or sell depending on their contribution to the overall organization's performance meaning that capital budgeting affects performance of firms. However, the study acknowledged the variations in the indicators used by various studies to characterize investment appraisal.

4.6.3 Effect of Financial Reporting on Analysis and Performance of Tea factory companies

By testing the following hypothesis, the third objective was to test whether financial reporting and analysis influenced the performance of smallholder farmers' tea factory companies in the West Tea Block, Kenya: -

H₀₃: Financial reporting had no significant effect on the performance of smallholder farmers' tea factory companies in the West Tea Block, Kenya.

The beta coefficient for financial reporting and analysis was 0.179, with a corresponding p-value of .012, according to the findings in Table 4.11. Given that the calculated p-value does not exceed .05, the regression coefficient for financial reporting and analysis is thus statistically significant at 5 per centum significance level. Therefore, this research rejects the null hypothesis that financial reporting and analysis had no significant effect on the performance of smallholder farmers' tea companies in the West Tea Block, Kenya. Consequently, it was concluded that financial reporting and analysis has a significant positive effect on performance of smallholder farmers' tea companies in the West Tea Block, Kenya.

These research findings are congruent with the empirical results gotten by supported by Rathnayake, Rajapakse and Lasantha (2021), Akman, Shehab and Kizil (2020), Kerongo and Olango, (2014) who found out that financial reporting such as adoption of IFRS, publication of financial reports internal and external audit and financial projections had a significant impact on performance of organizations. These findings are in line with the work of Rathnayake, Rajapakse and Lasantha (2021) and Koech (2014), who concluded out that firms that had fully embraced international financial reporting system reported better performance. These studies concluded that firms which incorporate better quality information in their financial statements (associated with better quality of earnings, better quality of accruals and accounting conservatism) reported better financial performance which was key to investors. However, the study acknowledged the variations in the indicators used by various studies to characterize investment appraisal.

4.6.4 Effect of Funding Decisions on Performance of Tea factory companies

By testing the following hypothesis, the third objective was to test whether funding decisions influenced the performance of smallholder farmers' tea factory companies in the West Tea Block, Kenya: -

H₀₄: Funding decisions had no significant effect on the performance of smallholder farmers' tea factory companies in the West Tea Block, Kenya.

According to the findings in Table 4.11, the beta coefficient for funding decisions was 0.187, with a respective p-value of .009. Given that the calculated p-value does not exceed .05, the regression coefficient for funding decisions is thus statistically significant at 5 per centum significance level. Therefore, this research rejects the null hypothesis that funding decisions had no significant effect on the performance of smallholder farmers' tea factory companies in the West Tea Block, Kenya. Consequently, it was concluded that funding decisions has a significant positive effect on the performance of smallholder farmers' tea companies in the West Tea Block, Kenya.

These research findings are congruent with the empirical results gotten by Sherine, Wiyanto and Budiono (2021), Supami and Mochamad (2021) and Vatavu (2015) who revealed a significant connection between funding decisions and performance of organizations from one context to another. The study done by Sherine, Wiyanto and Budiono (2021) for consumer goods industry registered in Indonesia Stock Exchange During 2017-2020 revealed that funding decisions have a positive effect on profitability, negative effect on dividend policy whilst profitability has a positive influence on dividend policy, funding decisions on dividend policy are mediated by profitability. Supami and Mochamad (2021) study revealed that funding decisions have a great positive effect on profitability of companies. These findings were also consistent with conclusions by Sherine,

Wiyanto and Budiono (2021) and Agriculture and Food Authority, (2018) that funding decisions had a significant impact on performance of tea factory companies regardless of environmental issues such as economic and legal policies.

Nevertheless, the study by Vatavy (2015) contradicted these findings where it revealed a high propensity to use debt during times of financial constraint and increased business risk can lead to high costs of financing and lower performance of companies. These findings went against financial literature and the Pecking Order Theory which postulates that a firm should prioritize use of debt financing because of the tax benefits of using debt finance and the ease of acquiring it as compared to equity financing.

4.6.5 The Moderating Effect of Corporate Governance on the Relationship between Financial Management Practices and Performance of Tea factory companies

The following null hypothesis was tested: -

H_{0s}: Corporate governance had no significant moderating effect on the relationship between financial management practices and performance of smallholder farmers' tea factory companies in the West Tea Block, Kenya.

To test the above hypothesis, a composite index for all Financial Management Practices was computed as shown in equation 3.3. The typical three steps approach of moderating the relationship between the regressor and the outcome variable recommended by Baron and Kenny (1986) was used in this analysis.

Stage 1: Regression of Financial Management Practices on Performance of Tea factory companies

In stage one, performance of tea factory companies was regressed upon financial management practices, and the test results are indicated in table 4.12.

Table 4.12: Moderation Model Test Results 1

(a) Model Summary Results						
Model		R	R Square	Adjusted R Square	Std. Error of the Estimate	
1		.846	.716	.702	.03777	
(b) ANOVA Results						
Model		Sum of Squares	df	Mean Square	F-value	Sig.(p-value)
1	Regression	.061	2	.028	13.125	.000
	Residual	.014	24	.002		
	Total	.075	26			
(c) Coefficients Results						
Model		Unstandardized Coefficients		Standardized Coefficients	t-value	Sig.
		B	Std. Error	Beta		
1	(Constant)	.326	.076		4.314	.000
	Financial Management Practices	.472	.106	.621	4.429	.000

Predictors: (Constant), Financial Management Practices

Dependent Variable: Performance of Tea factory companies

Source: Survey Data (2023)

Table 4.12 model summary shows that the Correlation Coefficient; R is 0.846 implying a strong positive relationship between the regressor and the dependent variable. Coefficient of determination R^2 was 0.716 whilst the adjusted R^2 was 0.702 implying that financial management practices explained 70.2 % of the total variation in the performance of smallholder tea factory companies in West Tea Block. As a result, other variables explain the remaining 29.8% of variation in the performance of tea factory companies.

The ANOVA analysis shows the F statistics for the estimated model was 13.125 with a p-value of 0.000, that is, significant at $P < 0.05$ which indicates that the estimated model significantly predicts the effect of financial management practices on performance of tea factory companies

and can therefore be used in the statistical analysis. Financial Management Practices has a coefficient of 0.472 with a respective P-value of .009. Given that the calculated p-value does not exceed .05, the parameter of financial management practices is thus statistically significant at 5 per centum significance level. The constant was 0.326 implying that at zero financial management practices, performance of smallholder tea factory companies in West Tea Block would be 0.326. The findings indicate that the association between financial management practices and the performance of tea factory companies is positive and significant. This statistical analysis was supported by the following fitted regression equation:

$$PTF = 0.326 + 0.472 FMP \dots\dots\dots 3.4$$

Where: PTC = Performance of tea factory companies

FMP = Financial Management Practices

Stage 2: Regression of Performance of Tea factory companies on Financial Management Practices and Corporate Governance.

Stage two involved regressing the performance of tea factory companies upon financial management practices and corporate governance and the test results are indicated in Table 4.13.

Table 4.13: Moderation Model Test Results 2

(a) Model Summary Results						
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate		
1	.859	.738	.789	.04782		
(b) ANOVA Results						
Model		Sum of Squares	df	Mean Square	F-value	Sig.(p-value)
1	Regression	.056	4	.028	14.105	.000
	Residual	.014	24	.002		
	Total	.060	28			
(c) Coefficient Results						
Model		Unstandardized Coefficients		Standardized Coefficients	t-value	Sig.
		B	Std. Error	Beta		
1	(Constant)	.411	.083		4.314	.000
	Financial Management Practices	.516	.106	.728	4.429	.000
	Corporate Governance	.302	.078	.512	.952	.000

Predictors: (Constant), Corporate Governance, Financial Management Practices

Predictors: (Constant), Corporate Governance Financial Management Practices

Dependent Variable: Performance of Tea factory companies

Source: Survey Data (2023)

Table 4.13 model summary shows that the Correlation Coefficient; R is 0.859 and the Coefficient of determination R^2 was 0.738 whilst the adjusted R^2 was 0.789. This implied that 78.9% of the total variation in the performance of tea factory companies is explained by financial management practices and corporate governance whilst other variables explained the remaining 21.1% of variation in the performance of tea factory companies.

The ANOVA analysis shows the F statistics for the model was 14.105 with a p-value was 0.000 that is, significant at $P < 0.05$ which infers that the model significantly predicts the effect of

regressors on the dependent variable. The coefficient of corporate governance is positive at 0.302 while P=0.000 and therefore significant at P<0.05 implying that corporate governance was significant when introduced in the model 3.4. consequently, the regression equation for this statistical analysis was:

$$\mathbf{PTC} = 0.411 + 0.516\mathbf{FMP} + 0.302\mathbf{CG} \dots\dots\dots 3.5$$

Where: PTC = Performance of Tea factory companies

FMP = Financial Management Practices

CG = Corporate Governance

Stage 3: Regression of Performance of Tea factory companies on Financial Management Practices, Corporate Governance and the interaction term.

Stage three involved regressing the performance of tea factory companies upon financial management practices, corporate governance and the interaction term between financial management practices and corporate governance. Test results are indicated in Table 4.14.

Table 4.14: Regression of performance of tea factory companies upon financial management practices and corporate governance and the interaction term

Table 4.14: Moderation Model Test Results 3

(a) Model Summary Results						
Model		R	R Square	Adjusted R Square	Std. Error of the Estimate	
1		.912	.832	.804	.05111	
(b) ANOVA Results						
Model		Sum of Squares	df	Mean Square	F-value	Sig.(p-value)
1	Regression	.113	5	.032	23.005	.000
	Residual	.009	25	.007		
	Total	.122	30			
(c) Coefficient Results						
Model		Unstandardized Coefficients		Standardized Coefficients	t-value	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.256	.116		5.213	.000
	Financial Management Practices (FMP)	.692	.106	.621	5.711	.000
	Corporate Governance (CG)	.417	.056	.475	.233	.000
	Interaction term (FMP^CG)	1.102	.001	.157	.249	.010

Predictors: (Constant), Corporate Governance, Financial Management Practices

Predictors: (Constant), Corporate Governance Financial & Financial Management Practices (interaction term)

Dependent Variable: Performance of Tea factory companies

Source: Survey Data (2023)

Table 4.14 model summary shows that the adjusted R^2 was 0.804 implying that financial management practices and corporate governance explained 80.4% of the total variation in the performance of smallholder tea factory companies in the West Tea Block whilst other variables explained the remaining 21.1% of variation in the performance of tea factory companies.

The ANOVA analysis shows the F statistics for the model was 23.005 with a p-value of 0.000, that is, significant at $P < 0.05$ which infers that the model significantly predicts the relationship between dependent and independent variables. The coefficients of financial management practices and corporate governance were positive at 0.692 and 0.417 respectively with a $P = 0.000$ and therefore significant at $P < 0.05$ implying that corporate governance was significant when introduced in the model 3.5.

As observed from stage 1, the adjusted R^2 was 0.716 whilst the adjusted R^2 in Stage 3 is 0.832 indicating an increase of 0.116. This can be accounted for by the influence of corporate governance on performance of tea factory companies. The results reveal that the moderation factor of financial management practices and corporate governance had coefficient of 1.102 and p-value of 0.010 ($P < 0.05$) which indicates significant influence. The regression equation for this statistical analysis was:

$$PTC = 2.256 + 0.472FMP + 0.417CG + 1.102FMP * CG \dots\dots\dots 3.6$$

Where: PTC = Performance of Tea factory companies

FMP = Financial Management Practices

CG = Corporate Governance

MP*CG=interaction of Financial Management Practices & Corporate Governance

The decision criterion was that both direct in model 3.4 and moderated relationship models 3.5 and 3.6 should be significant for moderation to be assumed (Baron & Kenny, 1986). From the foregoing results, the null hypothesis was rejected and it was concluded that corporate governance had a moderating effect on the relationship between financial management practices and performance of smallholder tea factory companies in West Tea Block.

Table 4.15 is a summary of statistical analysis of R^2 , adjusted R^2 , F-value and beta coefficients of the regression results from steps 1-3 of hypothesis five (H_{05}).

Table 4.15: Summary of the statistical results from stage 1-3

Parameter	Stage 1	Stage 2	Stage 3	Change
R Square	0.716	0.738	0.832	0.116
Adjusted R Square	0.702	0.891	0.804	0.102
Sig.(p-value)	0.000	0.000	0.000	0.000
F-value	13.125	14.105	23.005	9.880
β Constant	0.326*	0.411*	2.256*	1.930
β Financial Management Practices	0.472*	0.516*	0.692*	0.220
β Corporate Governance	-	0.302*	0.417*	0.417
Interaction	-	-	1.102*	1.102
Predictors: Financial Management Practices Moderator: Corporate Governance Dependent Variable: Performance of Tea factory companies * Value is Significant at $P < 0.05$,				
Source: Survey Data (2023)				

The summary of the statistical results table 4.15 indicates that adjusted R^2 increased from 70.2% without the moderator to 80.4% when the moderator was incorporated underscoring the moderation effect of corporate governance on the relationship between the predictor variables on performance of tea factory companies. The study therefore established that corporate governance has a moderating effect with financial management practices.

These results were congruent with findings by Dikko and Alifiah (2019) who studied how corporate governance moderated the relationship between recapitalization and bank's performance in the selected banks of Nigerian banking sector. Research findings shown that the relationship

between recapitalization and financial performance of banks in Nigeria's banking sector is positively influenced by corporate governance. Abdulazeez, *et al.* (2016) whilst evaluating the the determinants of corporate governance and performance of selected financial institutions listed in Nigeria Securities Exchange showed that corporate governance has positive effect on the performance of deposit money banks. Otieno (2015) and Shahwan (2015) noted that corporate governance can positively have a direct or indirect effect on performance of organizations if effectively managed. These findings are supported by El-Charaani and Skaf (2022), Chikamai and Makhamara (2021) and Nyambura (2014) who found out that corporate governance influences the relationship between financial practices and performance of organizations. The studies concluded that challenges of knowledge and skills were attributed to poor performance of companies from one context to another.

Table 4.16: Summary of Hypotheses and Decisions

Hypothesis	Test Criteria	Test Criteria	Decision
H ₀₁ : Financial planning had no significant effect on the performance of smallholder farmers' tea factory companies in the West Tea Block, Kenya.	Reject null hypothesis if $P > 0.05$, alternatively do not reject	$P = 0.008 < 0.05$ Regression Coefficient significant	Rejected H ₀₁
H ₀₂ : Investment appraisal had no significant effect on the performance of smallholder farmers' tea factory companies in the West Tea Block, Kenya.	Reject null hypothesis if $P > 0.05$, alternatively do not reject	$P = 0.002 < 0.05$ Regression Coefficient significant	Rejected H ₀₂
H ₀₃ : Financial reporting had no significant effect on the performance of smallholder farmers' tea factory companies in the West Tea Block, Kenya	Reject null hypothesis if $P > 0.05$, alternatively do not reject	$P = 0.012 < 0.05$ Regression Coefficient significant	Rejected H ₀₃
H ₀₄ : Funding decisions had no significant effect on the performance of smallholder farmers' tea factory companies in the West Tea Block, Kenya.	Reject null hypothesis if $P > 0.05$, alternatively do not reject	$P = 0.009 < 0.05$ Regression Coefficient significant	Rejected H ₀₄
H ₀₅ : Corporate governance had no significant moderating effect on the	Reject null hypothesis if	$P = 0.000 < 0.05$	Rejected H ₀₅

relationship between financial management practices and performance of smallholder farmers' tea factory companies in the West Tea Block, Kenya.	P>0.05, alternatively do not reject	Regression Coefficient significant	
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Source: Survey Data (2023)

The Summary of Hypotheses and Conclusions in Table 4.15 indicates that the causal relationship between the survey variables was mostly supported by the findings. Hypotheses 1-4 were supported that financial planning, investment appraisal, financial reporting & analysis and funding decisions have a significant effect on performance of tea factory companies while corporate governance moderate the effect of financial management practices on performance of tea companies.

4.7 Qualitative Data Analysis

Qualitative data collected from the open-ended questions on other parameters that either affects or measure performance of smallholder tea factory companies was analyzed using content analysis. Analysis results were grouped dominant themes and presented in subsections 4.11.4 and 4.11.5 below.

4.7.4 Other Management Practices affecting Performance of Smallholder Tea factory companies

Results from the qualitative data on other management practices affecting performance coalesced around procurement of works, goods and services, treasury management and the human resource function at the tea factory. Most respondents opined that smallholder tea factory companies lose significant amount of funds through malpractices in procurement of works, goods and services tea factory companies which ultimately affects performance. It was also established that treasury management in most tea factory companies is ineffective where idle funds are either invested in

short-term deposits or lent to related tea factory companies at sub-optimal interest rates. Respondents also highlighted losses occasioned by irregular hiring of staff at the factory level where most factory companies are operating excess staff level. In this regard, it was established that tea factory companies that would generally require a maximum of 60 employees was operating with between 90 – 120 employees resulting to inflated payroll costs.

4.7.4 Other Parameters that Measure Performance of Smallholder Tea factory companies

The study sought participants' opinion on other measures of performance that they considered relevant in their tea factory companies. All respondents indicated that the ranking of the factory based on the price realized by the factory teas at the auction as a good measure of performance while others indicated the ranking on the cost of production by the tea factory. In this regard, the lower average cost of production compared to peers and the previous year was ranked highly. In addition, a significant majority also indicated the contribution of the tea factory companies in the social welfare of the community around them as a good indicator of performance of the tea factory.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

Chapter five discusses summary of the research findings, conclusion, recommendations made based on the findings and finally, suggestions for further research are made.

5.2 Summary of Findings

The focal aim of this research was to ascertain the effect of financial management practices on performance of smallholder farmers' tea companies in the West Tea Block, Kenya. The existing evidence indicates that smallholder farmers' tea factory companies adopt various financial management practices which have affected their performance differently. The background highlighted the prevailing problem which culminated to the research objectives for solving the problem. The study reviewed theories underpinning the study. Empirical studies upon which this study was premised was also reviewed in order to identify gaps in existing literature. A conceptual framework to show the nexus between predictor and dependent variables was developed. The methodology adopted is presented and the basis on which positivist philosophy was preferred for the study explained. A census study was done and data was collected using a semi-structured questionnaire. Analysis was done using descriptive and inferential statistics. From the study findings, all predictor variables had a positive and significant effect on performance smallholder farmers' tea factory companies.

The first objective of the study was to establish the effect of financial planning on the performance of smallholder farmers' tea factory companies in the West Tea Block, Kenya. Descriptive results obtained indicated that smallholder farmers' tea factory companies have to a greater extent employed good financial planning practices in their financial systems. It was a hypothesis of this

study that financial planning had no statistically important effect on performance of tea factory companies. Test results for hypothesis one showed that, at five per centum significant level, financial planning practices such as budgetary process, financial modelling and financial communication indeed had a significant positive effect on performance of tea factory companies in the West Tea Block, Kenya.

The second objective of this research was to establish the effect of investment appraisal on the performance of smallholder farmers' tea factory companies in the West Tea Block, Kenya. Descriptive results obtained indicated that smallholder farmers' tea factory companies have moderately employed good investment appraisal techniques in appraising their investments. It was a hypothesis of this study that investment appraisal had no statistically important effect on the performance of tea factory companies. Test results for hypothesis two showed that, at five per centum significance level, investment appraisal practices such as application of investment appraisal techniques to assess viability of investments, existence of investment committees, risk management on investments and assessment of production costs indeed had a significant positive effect on performance of tea factory companies.

The third objective of this research was to establish the effect of financial reporting on the performance of smallholder farmers' tea factory companies in the West Tea Block, Kenya. Descriptive results obtained indicated that smallholder farmers' tea factory companies have to a greater extent adopted good financial reporting and analysis in their companies. It was a hypothesis of this study that financial reporting and analysis had no statistically important effect on the performance of tea factory companies. Test results for hypothesis three showed that, at five per

centum significance level, financial reporting and analysis practices such as preparation of financial statements in accordance with IFRS, publication of financial reports, existence of a robust internal function, internal and external audits findings are analysed and attended, financial statements and reports prepared are timely and enhance comparability of performance indeed had a significant positive effect on performance of tea factory companies.

The fourth objective of this research was to establish the effect of funding decisions on the performance of smallholder farmers' tea companies in the West Tea Block, Kenya. Descriptive results obtained indicated that smallholder farmers' tea factory companies have to a greater extent adopted good practices in making funding decisions in their companies. It was a hypothesis of this study that funding decisions had no statistically important effect on the performance of tea factory companies. Test results for hypothesis four showed that, at five per centum significance level, funding decisions practices such as alignment of the mode of funding for a particular venture to the life and the risks inherent in the venture, existence of working capital policy and policies on liquidity management, debt and equity financing indeed had a significant positive effect on performance of tea factory companies.

The fifth objective of the study was to determine the moderating effect of corporate governance on the relationship between financial management practices and performance of smallholder farmers' tea companies in the West Tea Block, Kenya. Descriptive results obtained indicated that smallholder farmers' tea factory companies have fairly adopted good corporate governance practices in their boards. It was a hypothesis of this study that corporate governance had no statistically important moderating effect on the relationship between financial management

practices and performance of tea companies. Test results for hypothesis five showed that, at five per centum significance level, revealed that corporate governance aspects such as competence of directors on financial matters, existence of strong audit committees had a significant moderating effect on the relationship between financial management practices and performance, thus rejecting the null hypothesis. The overall moderation effect of corporate governance on the predictor variables towards performance of tea factory companies was 10.2% since the variation in adjusted R^2 when the moderator was incorporated increased from 70.2% without the moderator to 80.4%. Therefore, corporate governance was found to have an interaction effect with financial management practices.

5.3 Conclusions

From the study findings, it was therefore concluded that financial management practices as postulated affects the performance of smallholder farmers' tea factory companies in the West Tea Block, Kenya. From the findings, it was concluded that performance of tea companies improved by the extent to which they adopted and stanchly practiced good financial management practices. However, it was also concluded that despite this fact, most of the companies had not fully adopted various facets of good financial management practices in financial planning, investment appraisal, financial reporting and analysis and in funding decisions. From the findings of each component of financial management practices as conceptualized, the following conclusions were made.

From the findings of the first objective, it was concluded that the performance of tea factory companies in the West Tea Block was either worsened or enhanced by the extent to which they adopted various financial planning practices like implementing well defined policies on budgeting

and budgetary control, financial modeling techniques in forecasting revenues and expenditures, establishing formal budgeting committee/ units and investigating and taking action on budget variances. Tea companies can enhance their performance by developing flexible budgets and employing effective budgetary control mechanisms, using financial models to estimate various outcomes and by aligning budgets to the strategic objectives of the company. It was further concluded that lack of concise financial plans also has a potential to affect the tea factory companies' ability to meet performance standards set by its shareholders.

From the findings of the second objective, it was concluded that the performance of tea factory companies in the West Tea Block was either worsened or enhanced by the extent to which they adopted various good practices in investment appraisal like the use of formal and systematic techniques in evaluating the worth of investments, existence of risk management policies for investment, undertaking life-cycle-appraisals for projects, assessing the cost of production. However, it was concluded that, despite the positive impact of investment appraisal on performance of tea factory companies, most of the tea factory companies had challenges in implementing structured techniques of assessing projects risk such as scenario analysis, sensitivity analysis, decision free analysis, and simulation analysis. These challenges can be attributed to non-existence of formal investment committee among tea factory companies to analyse all projects and prioritize them in line with the company's investment policy and strategic direction. Further, limited application of investment appraisal techniques such as IRR, NPV, ARR and payback methods can also be cited as some of the reasons causing deteriorating performance of tea factory companies.

From the findings of the third objective, it was concluded that whereas the findings depicted a positive significant relationship between financial reporting and performance of tea factory companies, their contribution to performance was low as compared to other financial management practices. The fact that most tea factory companies have not embraced some of the aspects of financial reporting and analysis such as; continuous/ regular process of analysing financial data in order to deduce relevant information for management decision making, accurately recognizing, measuring and reporting of all financial transactions of the company and ensuring symmetry of information among stakeholders could explain why the contribution of financial reporting and analysis to performance was low. In addition, most companies lacked own internal audit functions but relied on the audit services provided by the management agent, they lacked a structured framework of analysing financial results to deduce information necessary to make financial plans. Inability of tea factory companies to diversify and publish financial statements not only resulted to lack of confidence by foreign investors but also contributed to a decline in profits generated.

From the findings of the fourth objective, it was concluded that the techniques employed by tea a factory in making funding decisions has a significant positive effect on the performance of smallholder farmers' tea companies in the West Tea Block, Kenya. It was therefore concluded the techniques like alignment of the mode of funding for a particular venture to the life and the risks inherent in the venture, existence of working capital policy and policies on liquidity management, debt and equity financing indeed has the potential to affect the performance of tea factory companies. Failure to align funding decisions to finance policies, inexistence of formal and continuous system of determining the optimal capital structure, failure to use of financial risk strategies for various sources of finance and failure to evaluate cost implications of the various sources of finance negatively affects performance of tea factory companies.

Finally, based on research findings of the fifth objective, it was concluded that while the studied financial management practices constructs affected performance of smallholder farmers' tea factory companies directly, their effect is either amplified or reduced by their interaction with corporate governance. The study revealed that, where the board of directors possessed requisite skills, or the company had the requisite oversight Board committees, or the company has independent directors, or the board is well trained on corporate governance, there was enhanced adoption of better financial management practices in the factory company which in turn positively affected performance. Therefore, it was concluded that good corporate governance enhances the adoption and consistent use of good financial management practices which in turn enhance performance of smallholder tea factory companies in the West Tea block, Kenya. It was further concluded that where the board of directors properly exercised their oversight role (good corporate governance), performance of those tea factory companies is likely to be relatively better and vice-versa. This suggests that corporate governance affects how good/ bad financial management practices employed in a tea factory companies affect their performance. However, from the descriptive findings on corporate governance, it was concluded that, lack of independent board members appointed on the basis of the skills set lacking in the board who gives independent professional advice to the board, lack of training on good corporate governance, lack of effective systems of detecting and preventing fraud and inexistence of functional audit committee that processes all audit matters are but a few challenges tea factory companies are facing on corporate governance.

5.4 Contribution of the Study to Knowledge

In the past, all discourse and studies relating to the performance of tea factories have been reduced into how their tea performance at the tea auction affects their profitability thus obscuring any discourse on other areas of performance in the tea factory. As such, no study had previously been done in the tea subsector on how these facets of financial management practices affects performance. This study therefore adds into the existing body of empirical literature on financial performance in Kenya by illuminating how these facets affects performance of tea factories.

The conceptualization of how corporate governance moderates the effect of financial management practices on performance of tea factory companies is critical in broadening the insights of scholars on how modelling with an adopted third variable can be undertaken. Scholars can now test how other moderating or mediating variables are likely to affect the relationship between the two variables and make their recommendations.

The study variables were anchored on various theoretical frameworks which is critical for scholars in testing and validating propositions by other scholar on the Theory of Budgeting, Real Options Theory, Performance Based Budgeting, Net Income Theory and Agency' Theory. This study validates that the proposition that there is a nexus between difficulty in budget preparation, characteristic of the person preparing the budget and the desired performance levels. It also validates that the proposition that budgeting should starts by setting specific objectives based on envisaged results or desired performance levels as proposed by Performance-Based –Budgeting. It also validates that the proposition that there is a need to continually re-evaluate the assumptions underlying projections informing a particular investment decision in order to optimize their

performance as proposed by Real Options Theory. The study is also important in validating the proposition by Net Income Theory that an optimal capital structure can result to a minimum cost of finance and maximization of the value of the firm. Finally, the study validates the proposition by the proponents of Agency Theory that, the actions or inactions of the agent, that is, directors of a tea factory may be detrimental to the interest of the company's shareholders.

5.5 Policy Implications and Recommendations

From the forgoing, the study made several recommendations based on the conclusions made that if properly applied by the government and the management of smallholder farmers' tea factory companies' can revitalize the sub-sector and help them realize their maximum potential.

Firstly, the boards should develop financial policies stipulating guidelines, practices and procedures that shall be adopted in all facets of finance starting from financial planning, investment appraisal, funding decisions, financial reporting and analysis. The boards of directors should ensure adoption of structured financial planning practices that institutionalizes structured budget setting and control; formation of budgeting committees, structured budget implementation and monitoring; forecasting of revenues and expenditures; financial modelling tools in their companies.

Secondly, use of formal investment appraisal techniques should be made a prerequisite for all investments done in tea factory companies. Thirdly, adoption of international financial reporting standards and publication of financial statements should be strictly enforced in smallholder tea factory companies. Policies that ensure that the books of accounts and financial statements are thoroughly audited by internal and external auditors' independent reports submitted and recommendations acted upon should be enhanced in order to promote transparency of financial information to stakeholders. To deal with challenges in funding decisions, tea factory companies

should ensure policies on acquisition and utilization of both short-term and long-term finance are fully implemented and also ensure that financial risk management mechanisms are developed and implemented. To promote good corporate governance, Boards of smallholder tea factory companies should have independent members appointed on the basis of the skillsets lacking in other board members who gives independent professional advice to the Board. Mechanisms of detecting fraud or weaknesses in the internal controls systems should be put in place.

The government through the industry regulator should also develop guidelines/ regulations stipulating standard financial management practices that must be adopted and implemented in these tea factory companies. Notwithstanding the fact that, smallholder tea factory companies are public limited companies owned by the shareholders, their contribution to the socioeconomic development of 19 tea growing counties is so paramount to the government's bottom-up economic agenda to be ignored. Legislation on minimum financial management practices for smallholder tea factory companies is necessary in order to enhance compliance to good financial management practices.

In order to deal with weaknesses on corporate governance, the government should develop and enforce corporate governance guidelines for the tea industry and a code of conduct for directors of smallholder tea factory companies in Kenya. This could enhance good corporate governance in the institutions along the tea value chain especially the smallholder tea factory companies whose one major challenge currently is poor corporate governance. These guidelines supplemented by the regulations on minimum financial management practices would go a long way in mainstreaming adoption of good financial management practices in the affairs of smallholder tea factory companies in order to enhance their performance.

5.6 Areas for Further Research

Given that this study examined the effect of financial planning, investment appraisal, financial reporting, funding decisions on performance of smallholder farmers' tea factory companies in the West Tea Block, Kenya, other researchers and scholars should also seek to establish other financial management practices that influence performance of tea factory companies in Kenya. A similar study can be undertaken in other sectors such as manufacturing firms to examine consistency of results. Researchers can replicate this study in other countries to compare consistency of results from one context to another. Moderating effect such as technology, government policies and regulations can be introduced in the relationship to replace corporate governance as a moderating variable.

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APPENDICES

Appendix 1: Introductory Letter

C/O

JOHN MWANGI KARIUKI

D58/CTY/PT/24773/2013

P.O BOX 43844-00100, NAIROBI, KENYA

RE: MASTER OF SCIENCE IN FINANCE STUDY

My name is John Mwangi Kariuki from the Department of Accounting and Finance of Kenyatta University. I am carrying out a study on the “**Financial Management Practices and Performance of Smallholder Farmers’ Tea factory companies in the West Tea Block, Kenya**”. This study is being conducted for the partial fulfilment of the requirements of the degree of master of Science in Finance. In this regard, I request you spare some time to respond to the questions in as indicated in questionnaire attached herein. Information given will be treated with utmost good faith and high level of confidentiality will be maintained. You may as well accept or decline to answer the questions which you may not understand. This report is therefore purely for academic purposes and will not be used for any other purposes.

Appendix 2: Research Questionnaire

SECTION A: FINANCIAL MANAGEMENT PRACTICES

PART A: FINANCIAL PLANNING

1. Indicate your level of agreement or disagreement with the following statements concerning the effect of financial planning on performance of your tea company by using the Likert type scale, where; 5= Strongly agree (SA), 4= Agree (A), 3 = Moderately agree (MA), 2= Disagree (D), 1 = Strongly disagree (SD))

Statements	1	2	3	4	5
There is a structured framework for budget-setting and financial modeling that guide the operations of the company					
The company has a formal budgeting committee/ office that spearhead budget formulation, implementation and monitoring					
Budgets are aligned with the strategic objectives of the company					
Revenues are forecasted based on targeted performance levels and operational environment					
Forecasting expenditures is aligned to production and operation budgets					
There exist sufficient financial controls to ensure budgets are flexible but followed					
There are systems of detecting and addressing errors in calculations and formulas					
Budgets are continually monitored and a variance analysis prepared on a continuous basis					
Variances to the set targets are immediately investigated and remedial action can be undertaken immediately					
Actual performance informs budgets reviews in order to reflect the realities of the business environment					
Performance is often measured on the basis of how well results have been achieved within the set targets					
The company make use financial modeling in policy and strategy formulation					
The company uses financial models to represent various aspects of its operations, estimate various outcomes or compare scenarios					

There is a structured framework for using financial modeling in forecasting					
Financial information like budgets and performance is well communicated with relevant stakeholders					
The company adopts a coordinated approach in budget development and implementation					
Performance is often measured on the basis of how well results have been achieved within the set targets and then communicated to relevant stakeholders					

PART B: INVESTMENT APPRAISAL

2. Indicate your level of agreement or disagreement with the following statements concerning the effect of investment appraisal on performance of your tea company by using the Likert type scale, where; 5= Strongly agree (SA), 4= Agree (A), 3 = Moderately agree (MA), 2= Disagree (D), 1 = Strongly disagree (SD))

Statements	1	2	3	4	5
My company have a structured framework of investing in fixed assets, securities and other investments					
There exists a formal investment committee that analyses all projects and prioritize them in line with the company's investment policy and strategic direction					
The company has a set of investment appraisal techniques used to appraise the worth of an asset to the company (e.g. NPV, IRR, ARR, PB)					
The return on investment of a particular asset is a major consideration before choosing an investment					
Life-cycle-appraisal is an integral part of investment management in the company					
The contribution of the asset to the strategic direction of the company is considered when choosing projects					
The company has a risk management policy that is used to evaluate all proposed projects and investments					
The organization has set techniques to assess the projects risk (i.e. scenario analysis, sensitivity analysis, decision tree analysis, simulation analysis)					
Financial risks are priced and profiled accordingly					
The company considers the cost of green leaf, labour, green power (electricity and fuel) and other					

factory overheads when making investment decisions about a new factory					
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PART C: FINANCIAL REPORTING AND ANALYSIS

3. Indicate your level of agreement or disagreement with the following statements concerning the effect of financial reporting and analysis on performance of your tea company by using the Likert type scale, where; 5= Strongly agree (SA), 4= Agree (A), 3 = Moderately agree (MA), 2= Disagree (D), 1 = Strongly disagree(SD))

Statements	1	2	3	4	5
Financial statements prepared provides accurate and complete information about the company					
Financial statements prepared are timely and enhance comparability of performance					
Financial statements are prepared in accordance with IFRS					
The company has an accounting function that is well conversant with IFRS					
Financial statements prepared enhance governance and reduce levels of fraud					
Financial statements prepared enhance information symmetry among the stakeholders					
There is continuous/ regular process of analyzing financial data in order to deduce relevant information for management decision making					
The company has a robust internal audit team that monitors implementation of the internal control system and financial matters					
There is accurate recognition, measurement and reporting of all financial transactions of the company					
Issues raised by both internal and external audits are thoroughly analyzed and attended to by management					
The financial statements are in agreement with the books of accounts					

PART D: FUNDING DECISIONS

4. Indicate your level of agreement or disagreement with the following statements concerning the effect of funding decisions on performance of your tea company by using the Likert type scale, where; 5= Strongly agree (SA), 4= Agree (A), 3 = Moderately agree (MA), 2= Disagree (D), 1 = Strongly disagree(SD))

Statements	1	2	3	4	5
My company has a framework for establishing the funding requirements and deciding on the mode of funding to be used					
All Financial decisions are made in line with the company's finance policy and overall organization objectives					
The choice between the financing method used is based on the cost of capital					
There is a formal and continuous system of determining the optimal capital structure based on the existing macro-economic environment					
Financial decisions are made cognizant of the financial risks inherent to the various sources of finance					
There are formal techniques of evaluating the cost implications of the various sources of finance					
The mode of funding for a particular venture is usually aligned to the life and the risks inherent in the venture					
There is a formal working capital policy that guides on all matters relating to cash, accounts receivables, account payables and other items of working capital					
Liquidity is continually monitored so that excess cash invested and liquidity gaps avoided					
The company has structured framework of assessing working capital requirements at all times					
Overdraft is seldom and only used to fund short-term working capital deficits					

SECTION B: CORPORATE GOVERNANCE

5. Indicate your level of agreement or disagreement with the following statements concerning the effect of corporate governance on performance of your tea company by using the Likert type scale, where; 5= Strongly agree (SA), 4= Agree (A), 3 = Moderately agree (MA), 2= Disagree (D), 1 = Strongly disagree(SD))

No	Statements	1	2	3	4	5
1.	Board of Directors are trained on good corporate governance					
2.	Board of Directors possess the requisite skills to provide effective financial oversight of the company					
3.	The board of directors have independent members appointed on the basis of the skillsets lacking in other board members who gives independent professional advice to the board					
4.	The Board has the requisite committees that oversee all functions of the company's operations					
5.	The company has a functional audit committee that processes all audit matters					
6.	The company has an audit function that reports directly to the audit committee of the Board					
7.	The audit function of the company is not influenced by management in discharging its duties.					
8.	There is transparency and accountability in all affairs of the company and its books of accounts are periodically audited					
9.	My company has effective systems of detecting and preventing fraud					

SECTION C: PERFORMANCE OF THE COMPANY

6. Indicate your level of agreement or disagreement with the following statements concerning the effect parameters used by your tea company to measure performance by using the Likert type scale, where; 5= Strongly agree (SA), 4= Agree (A), 3 = Moderately agree (MA), 2= Disagree (D), 1 = Strongly disagree (SD))

No	Statements	1	2	3	4	5
1.	The price paid to farmers per kilogram of green leaf has increased in the last five years					
2.	Cost of production as a per centumage of selling price has decreased in the last five years					
3.	The total value of assets has increased in the last five years					
4.	The company reserves have increased in the last five years					
5.	The company's liquidity position has improved in the last five years					
6.	Total debt as a per centumage of total assets have declined in the last five years					
7.	Total finance costs to total operating revenue ratio over has declined in the last five years					
8.	Net profit margin of the company has improved in the last five years					
9.	Return on equity have improved over the last 5 years					

7. In your opinion, what other management practices affects performance of your tea company

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.....
.....

8. In your opinion, what other parameters used by your tea company to measure performance

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.....
.....

Thank you

Appendix 3: List of Tea Factory Companies from the West Tea Block that Responded

	FACTORY	COUNTY	REGION	RESPONSE
1.	Litein	Kericho	West-Tea-Block	✓
2.	Chelal	Kericho	West-Tea-Block	✓
3.	Tegat	Kericho	West-Tea-Block	✓
4.	Toror	Kericho	West-Tea-Block	✓
5.	Momul	Kericho	West-Tea-Block	✓
6.	Kapkatet	Kericho	West-Tea-Block	✓
7.	Tebesonik	Kericho	West-Tea-Block	✓
8.	Mogogoseik	Bomet	West-Tea-Block	✓
9.	Boito	Bomet	West-Tea-Block	✓
10.	Kobel	Bomet	West-Tea-Block	x
11.	Kapkoros	Bomet	West-Tea-Block	✓
12.	Motigo	Bomet	West-Tea-Block	✓
13.	Tirgaga	Bomet	West-Tea-Block	✓
14.	Olenguruone	Nakuru	West-Tea-Block	✓
15.	Kapset	Bomet	West-Tea-Block	✓
16.	Rorok	Bomet	West-Tea-Block	✓
17.	Kiamokama	Kisii	West-Tea-Block	✓
18.	Rianyamwamu	Kisii	West-Tea-Block	✓
19.	Nyamache	Kisii	West-Tea-Block	✓
20.	Eberege	Kisii	West-Tea-Block	✓
21.	Itumbe	Kisii	West-Tea-Block	x
22.	Tombe	Kisii	West-Tea-Block	✓
23.	Sombogo	Kisii	West-Tea-Block	✓
24.	Nyankoba	Kisii	West-Tea-Block	✓
25.	Ogembo	Kisii	West-Tea-Block	✓
26.	Gianchore	Kisii	West-Tea-Block	✓
27.	Nyansiongo	Nyamira	West-Tea-Block	✓
28.	Matunwa	Nyamira	West-Tea-Block	✓
29.	Kebirigo	Nyamira	West-Tea-Block	x
30.	Sanganyi	Nyamira	West-Tea-Block	✓
31.	Chebut	Nandi	West-Tea-Block	✓
32.	Kaptumo	Nandi	West-Tea-Block	✓
33.	Mudete	Vihiga	West-Tea-Block	✓
34.	Kapsara	Trans- Nzoia	West-Tea-Block	✓

Source: Researcher, 2023

Appendix 4: Kenyatta University Data Collection Approval Letter



KENYATTA UNIVERSITY
GRADUATE SCHOOL

E-mail: dean-graduate@ku.ac.ke

Website: www.ku.ac.ke

P.O. Box 43844, 00100
NAIROBI, KENYA
Tel. 810901 Ext. 4150

Internal Memo

FROM: Dean, Graduate School

DATE: 27th November, 2018

TO: John Mwangi Kariuki
C/o Accounting & Finance Dept.

REF: D58/CTY/PT/24773/13


SUBJECT: APPROVAL OF RESEARCH MASTERS PROPOSAL

We acknowledge receipt of your revised Proposal as per our recommendations raised by the Graduate School Board at its meeting of 11th October, 2018, Entitled, "Financial Management Practices and Performance of Small Holder Farmers: Tea Companies in the West of Rift, Kenya".

You may now proceed with your Data Collection, Subject to Clearance with Director General, National Commission for Science, Technology and Innovation.

As you embark on your data collection, please note that you will be required to submit to Graduate School completed Supervision Tracking Forms per semester. The form has been developed to replace the Progress Report Forms. The Supervision Tracking Forms are available at the University's Website under Graduate School webpage downloads.

Thank you.


HARRIET ISABOKE
FOR: DEAN, GRADUATE SCHOOL

C.c. Chairman, Department of Accounting and Finance

Supervisors:

1. Dr. Lucy Ngugi
C/o Department of Management Science
Kenyatta University
2. Dr. Lucy Wamugo
C/o Department of Accounting and Finance
Kenyatta University

III/m

Appendix 5: Kenya National Commission for Science, Technology and Innovation Data Collection Approval Letter



NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY AND INNOVATION

Telephone: +254-20-2213471,
2241349, 3116671, 2219420
Fax: +254-20-318243, 318249
Email: dg@nacosti.go.ke
Website: www.nacosti.go.ke
When replying please quote

NACOSTI, Upper Kabete
Off Wanjuki Way
P.O. Box 30025-00100
NAIROBI-KENYA

Ref No: **NACOSTI/P/19/80053/27363**

Date: **14th January, 2019**

John Mwangi Kariuki
Kenyatta University
P.O. Box 43844-00100
NAIROBI.

RE: RESEARCH AUTHORIZATION

Following your application for authority to carry out research on "*Financial management practices and performance of smallholder farmers' tea companies in the West of Rift, Kenya*" I am pleased to inform you that you have been authorized to undertake research in **all Counties** for the period ending **14th January, 2020**.

You are advised to report to **the County Commissioners and the County Directors of Education, all Counties** before embarking on the research project.

Kindly note that, as an applicant who has been licensed under the Science, Technology and Innovation Act, 2013 to conduct research in Kenya, you shall deposit a **copy** of the final research report to the Commission within **one year** of completion. The soft copy of the same should be submitted through the Online Research Information System.

GODFREY P. KALERWA MSc., MBA, MKIM
FOR: DIRECTOR-GENERAL/CEO

Copy to:

The County Commissioners
All Counties.

The County Directors of Education
All Counties.

Appendix 6: Kenya National Commission for Science, Technology and Innovation Data Collection Permit

THIS IS TO CERTIFY THAT:
MR. JOHN MWANGI KARIUKI
of KENYATTA UNIVERSITY, 0-1004
Kanjuku, has been permitted to conduct
research in *All Counties*

on the topic: **FINANCIAL MANAGEMENT
PRACTICES AND PERFORMANCE OF
SMALLHOLDER FARMERS' TEA
COMPANIES IN THE WEST OF RIFT,
KENYA**

for the period ending:
14th January, 2020

.....
**Applicant's
Signature**

Permit No : NACOSTI/P/19/80053/27363
Date Of Issue : 14th January, 2019
Fee Received :Ksh 1000



.....
Patema
**Director General
National Commission for Science,
Technology & Innovation**


**THE SCIENCE, TECHNOLOGY AND
INNOVATION ACT, 2013**

The Grant of Research Licenses is guided by the Science,
Technology and Innovation (Research Licensing) Regulations, 2014.


CONDITIONS

1. The License is valid for the proposed research, location and specified period.
2. The License and any rights thereunder are non-transferable.
3. The Licensee shall inform the County Governor before commencement of the research.
4. Excavation, filming and collection of specimens are subject to further necessary clearance from relevant Government Agencies.
5. The License does not give authority to transfer research materials.
6. NACOSTI may monitor and evaluate the licensed research project.
7. The Licensee shall submit one hard copy and upload a soft copy of their final report within one year of completion of the research.
8. NACOSTI reserves the right to modify the conditions of the License including cancellation without prior notice.

National Commission for Science, Technology and Innovation
P.O. Box 20623 - 00100, Nairobi, Kenya
TEL.: 020 460 7000, 0713 788787, 0735 404245
Email: dg@nacosti.go.ke, registry@nacosti.go.ke
Website: www.nacosti.go.ke



REPUBLIC OF KENYA



National Commission for Science,
Technology and Innovation

RESEARCH LICENSE

Serial No. A 22560
CONDITIONS: see back page