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

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ABSTRACT

The tea sector is the most important agricultural sub-sector in Kenya contributing about 26 percent of the total foreign exchange earnings. The sector has been listed by the government as one of the pillars of achieving Vision 2030. Despite the great contribution, the performance of the tea processing firms has not been satisfactory to the farmers due to wide variation of bonus payment from one firm to another. KTDA attributes this variation to working capital management. Management of working capital aims at maintaining an ideal balance between each of the components of working capital which include management of inventory and payables. Therefore, the objective of this study was to determine the effect of working capital management practices on the financial performance of the tea processing firms in Kenya. The study employed a cross-sectional descriptive research design. The target population was 54 tea processing firms in Kenya managed by KTDA. A sample of 48 tea processing firms was used in the study. Stratified random sampling method was used to select the sample. Primary data was collected by use of a questionnaire whereas the secondary data was collected by use of a record survey sheet. Pretesting was done to determine the reliability and validity of the questionnaire. The data collected was analyzed using Statistical Package for Social Sciences (SPSS). The study found that tea processing firms have established an inventory and payment management policies to guide the firms in managing their inventory. The Pearson correlation and ANOVA results showed that inventory management has a negative significant relationship with the financial performance of tea processing firms. The study therefore recommends tea processing firms to ensure the total numbers of days taken before inventories are sold is minimized in order to boost the returns of the firms. The longer the period taken to settle account payables therefore increased profitability of a firm. The firms should also prepare inventory budgets and review the budgets in order to maintain adequate inventory for smooth operations of the firm. In addition, the inventory level should be reviewed regularly to ensure optimal stock is maintained at all times. Firms should also set the level of economic order quantity to ensure sufficient inventory is ordered at minimal costs and establish an inventory control system to assists in efficient management of inventory. Firms should regularly review payables management policies to ensure optimal credit is maintained at all times.

Key Words: working capital, inventory management practices, financial performance

INTRODUCTION

The management of any component of working capital among firms cannot be overemphasized. In Kenya, most manufacturing organizations have huge investments of funds in working capital, thus the way working capital is managed will substantially impact on the profitability of the company (Makori & Jadongo, 2013). The most important components of working capital in a
firm are inventory, accounts payables and accounts receivables (Padachi, 2006). Inventory consists of between 20% and 30% of the total investment in a manufacturing firm (Garcia & Martinez, 2007). Efficient management of inventory is therefore important in order to facilitate the firm’s operations. Enhancing the inventory management enables a firm to avoid tying excess capital in idle stock at the expense of other viable ventures (Lazaridis & Tryfonidis, 2006). Too much stock causes additional costs in form of potential spoilage, obsolescence and storage costs (Brooks, 2013).

**Working Capital Management Practices**

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

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

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

**Financial Performance**

Financial performance is a measure of the outcomes of a firm's operations and policies in monetary terms. These outcomes are revealed in the firm's accounting profitability, return on
investment (ROI), shareholders value and return on assets (ROA) (Kassim, 2011). Return on Assets measures how efficiently a firm utilizes the resources at its disposal to generate revenue. Profitability is a measure that indicates whether a firm is performing satisfactorily. Profitability is also used to determine a firm’s performance relative to its competitors, identify whether a firm is a worthwhile investment opportunity and measure the performance of management (Sushma & Bhupesh, 2007).


Working capital management practices employed by a firm can make a significant difference between its success and failure (Kwame, 2007). Financial risks of a firm can be minimized and overall performance improved if well thought working capital management practices are employed (Nazir & Afza, 2009). A firm can create value by reducing their inventories since too much inventory will tie up funds which could be used optimally for growth strategies like capital expansion (Sharma & Kumar, 2011)). Pandey (2010) stressed that holding unnecessary amount of inventories will result to losses through wastage, mishandling and theft. Koumanakos (2008) argued that too much inventory may require more physical space, lead to financial distress, inventories damages, deterioration and losses. Weak financial management, particularly poor working capital management practices is the primary cause of failure among firms (Bradley & Rubach, 2002). Nobane and Alhajar (2009) pointed out that firms can improve their financial performance by shortening the inventory turnover. A firm should therefore ensure optimal inventory is held at a given time in order to enhance its financial performance.

**Tea Processing Firms**

Tea is one of the top foreign exchange earners in Kenya alongside horticulture, coffee and tourism. The tea firms are managed by KTDA through contractual agreements intended to ensure efficient production, processing and marketing. KTDA manages 54 tea processing firms serving more than 500,000 small scale farmers in Kenya. KTDA members produce 60% of the tea in Kenya while large scale farmers produce the rest (KTDA, 2016). KTDA has grouped the processing firms into seven regions depending on geographical location. The regions are, Kisii Highlands, Kericho Highlands, Mt.Kenya and Nyambene Hills, Mt. Kenya, Aberdare Ranges, Nandi Hills and Western highlands (KTDA, 2016).

**STATEMENT OF THE PROBLEM**

The tea sector in Kenya is the second leading foreign exchange earner and the most important agricultural sub-sector contributing twenty six percent of the total foreign exchange earnings (KTDA, 2016). Although the tea industry plays a significant role in Kenyan economy, the performance of the tea processing firms over the years has not been satisfactory to the farmers due to poor returns and wide variation of bonus payment from one firm to another. The farmers earning the low bonus have threatened to abandon tea farming or sell their tea to the highest paying bidders unless KTDA harmonizes the bonus payments. KTDA has attributed this poor
returns and the variation in bonus payment among the tea processing firms to working capital management practices which include inventory management and … adopted by the various firms (KTDA, 2016). This study investigated the effect of inventory management practices on financial performance of tea processing firms in Kenya.

OBJECTIVES OF THE STUDY

1. To investigate the effect of inventory management practices on the financial performance of tea processing firms in Kenya.

2. To ascertain the effect of payables management practices on the financial performance of tea processing firms in Kenya.

THEORETICAL REVIEW

There are several economic theories that can be used to explain the relationship between working capital management practices and the financial performance of firms. This study adopted Economic Quantity Model of inventory management and transactions costs theory.

Economic Order Quantity Model of Inventory Management

This model was formulated by Harris in 1913. The model enables an organization to establish an effective stock management practice to ensure a reliable sales projection to be used in ordering purposes (Atrill, 2006). The model involves the determination of economic order quantity (EOQ) which is the ordering quantity at which stock ordering costs are equal to stock holding costs (Saleem & Rehman, 2011). The model therefore recommends that the ideal inventory size is the point at which stock holding costs are equal to the stock ordering costs. However, EOQ model is based on unrealistic assumptions like annual demand requirements are known and one product is produced. Thus the model may not apply if the assumptions are not met by a firm.

Transactions Costs Theory

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

The dependent variable in this study was the financial performance of tea processing firms while the independent variables were inventory and payment management practices as illustrated in Figure 1.

![Conceptual Framework](image)

**Figure 1: Conceptual Framework**

**RESEARCH METHODOLOGY**

**Research Design**

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

**Target Population**

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

**Sampling Technique and Sample Size**

Stratified random sampling technique was adopted in choosing the sample for this study. The technique was appropriate because the tea processing firms are grouped into 7 regions by KTDA.
To have an adequate sample size, Slovin’s formula was used to select a sample size of 48 firms to be studied.

**Data Collection Instruments**

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

**RESEARCH RESULTS**

**Response Rate**

The study administered 48 questionnaires to the respondents who were the heads of finance in each of the tea processing firms. A total of 37 questionnaires were filled and collected from the respondents which translated to 77% response rate. This indicates that the response rate per region was sufficient and falls within the recommended threshold.

The study sought to establish the extent to which the respondents agreed with a given aspects of inventory and payment management practices as affecting the financial performance of a firm.

**Inventory Management Practices**

The study sought to find out if the firms had put in place an inventory management policy and how it affected their financial performance. The respondents indicated that the firms had established an inventory management policy and gave their opinion on how it affected their financial performance which was analyzed as shown in Figure 2. The figure shows that 73% of the respondents concurred that maintaining an inventory policy enables an organization to reduce costs associated to stock which in turn increase profitability. This implies that when a firm puts in place an inventory policy, the firm will be able to reduce cost of stock.

It was also evident that 66% of the respondents were of the opinion that the policy enables a firm to increase its investment income. This can be interpreted that an inventory policy enables a firm to maintain only sufficient inventory which is required to facilitate production at a given time. This means that no idle stock is maintained in the firm and thus resources are released to other income generating investments. Similarly, 54% of the respondents indicated that the policy can help in increasing the firms’ production. This implies that maintaining the inventory policy enables the firm to have sufficient stock at all times which in turn lead to un-interrupted production. The findings from secondary data indicate that the average inventory conversion period for the tea processing firms is 72 days. This shows that the firms maintain stock that can last for 72 days before they are sold. This confirms that the firms maintain a certain level of stock which requires to be managed in order to ensure only sufficient amount is maintained.
Figure 2: Effect of Inventory Management Policy on Financial Performance

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

The study sought to ascertain the extent to which the respondents agree with a given aspects of inventory management practices as affecting the financial performance of a firm. The findings are presented in Table 1.

Table 1: Aspects of Inventory Management Practices as affecting the Financial Performance of a Firm

<table>
<thead>
<tr>
<th>Statement</th>
<th>5</th>
<th>4</th>
<th>3</th>
<th>2</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory budget is prepared to ensure adequate inventory is available for smooth operations of the firm</td>
<td>29.7%</td>
<td>51.4%</td>
<td>8.1%</td>
<td>10.8%</td>
<td>0%</td>
</tr>
<tr>
<td>The level of inventory is reviewed to ensure optimal stock is maintained</td>
<td>45.9%</td>
<td>40.5%</td>
<td>8.1%</td>
<td>5.4%</td>
<td>0%</td>
</tr>
<tr>
<td>The level of EOQ is set to enable a firm to order sufficient inventory at minimal costs</td>
<td>35.1%</td>
<td>48.6%</td>
<td>5.4%</td>
<td>10.8%</td>
<td>0%</td>
</tr>
<tr>
<td>Inventory control system assists in efficient management of inventory</td>
<td>32.4%</td>
<td>56.8%</td>
<td>10.8%</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>
The findings in Table 1 shows that majority (81.1%) of the respondents agreed with the statement that inventory budget is prepared to ensure adequate inventory is available for smooth operations of the firm (mean = 4.0, std = 0.913). In regards with the statement that the level of inventory is reviewed to ensure optimal stock is maintained at all times, majority (86.4%) of the respondents agreed with the statement (mean = 4.27, std = 0.838). Most (83.7%) of the respondents also concurred that the level of EOQ is set to enable a firm to order sufficient inventory at minimal costs (mean = 4.08, std = 0.924). It was also evident that inventory control system assists in efficient management of inventory with 89.2% of the respondents indicating that they agreed with the statement (mean = 4.22, std = 0.630). The findings imply that a firm needs to prepare an inventory budget which will detail the inventory required in a given period. The budget will ensure adequate inventory is available to facilitate the operation of the firm and avoid cases of stock outs. The level of inventory also need to be reviewed regularly in order to meet unforeseen factors that might not have been covered by the budget for instance increased demands at a given period may lead to increased usage of inventory in order to meet the demands. A firm also needs to set an economical level of inventory to order at given time. This will minimize costs associated to stock which include ordering costs, storage costs, insurance costs and also avoid tying resources in unnecessary stock. Firms also need to come up with an inventory control system that will guide the firm on how much stock to order, what level to maintain at a given period and how to store the inventory.

**Payables Management Practices**

The study sought to find out whether the respondents had established payables management policy and the effect of the policy on their financial performance. Majority of the respondents (76%) indicated that payables policy enables a firm to increase its production. This implies that when a firm manages its accounts payables it will be able to borrow when need arises and also pay the creditors within the expected time. This will enable the firm to have good relationship with suppliers and thus be supplied with goods and services promptly and also be offered credit facilities and discounts. The findings also indicate that 64% of the respondents indicated that the policy enables a firm to reduce costs of borrowing. This implies that when a firm utilizes credit facilities, the cost of borrowing reduces because credit facilities are cheaper than other sources of capital like borrowing from banks which charge higher interest rates. It was also evident that the policy enabled the firms to avoid liquidity risks. When a firm is faced with cash shortages during the course of its operations for instance inability to purchase raw materials, the firm can organize with suppliers to deliver the raw materials and pay them later. The policy can help the firm to decide how much and when to procure in credit in order to avoid liquidity risks and also avoid interruption of its production process.

Findings from the secondary data indicate that the average accounts payable period was 43 days. This means that the firms utilized credit facilities and it took 43 days for the firms to pay the suppliers for the goods delivered. The firms therefore require a policy to manage the accounts payable. The ultimate effect of managing accounts payables efficiently is to maintain cash
outflow which ensures a firm’s liquidity is not adversely affected and consequently the firm’s profitability also will not be affected.

Figure 3: Effect of Payables Management Practices on Financial Performance

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

The study sought to find out the extent to which the respondents agreed with a given aspects of payable management practices as affecting the financial performance of a firm. The findings were presented in Table 2.

Table 2: Aspects of Payables Management Practices as affecting the Financial Performance of a firm

<table>
<thead>
<tr>
<th>Statement</th>
<th>5</th>
<th>4</th>
<th>3</th>
<th>2</th>
<th>1</th>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Neither Agree</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
<th>Mean</th>
<th>Std.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payables/credit policies enables a firm to avoid liquidity risks</td>
<td>40.5%</td>
<td>45.9%</td>
<td>8.1%</td>
<td>5.4%</td>
<td>0%</td>
<td>0%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>4.22</td>
<td>.821</td>
</tr>
<tr>
<td>Payables/ credit payments are monitored to ensure timely supply of goods and services</td>
<td>29.7%</td>
<td>67.6%</td>
<td>2.7%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>4.27</td>
<td>.508</td>
</tr>
<tr>
<td>Credit policies are reviewed to ensure optimal credit is maintained at all times</td>
<td>32.4%</td>
<td>64.9%</td>
<td>2.7%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>4.30</td>
<td>.520</td>
</tr>
<tr>
<td>Credit facilities enables a firm to adequately finance its operations</td>
<td>37.8%</td>
<td>45.9%</td>
<td>5.4%</td>
<td>10.8%</td>
<td>0%</td>
<td>0%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>4.11</td>
<td>.936</td>
</tr>
</tbody>
</table>
The results in Table 2 shows that most of the respondents agreed with the aspects of payables management practices as affecting the financial performance of a firm. Majority (86.4%) of the respondents agreed with the statement that payables/credit policies enables a firm to avoid liquidity risks (mean = 4.22, std = 0.821). Similarly, the respondents (97.3%) also concurred that payables/credit payments are monitored to ensure timely supply of goods and services (mean = 4.27, std = 0.508). It was also evident that credit policies are reviewed to ensure optimal credit is maintained at all times with most (97.3%) of the respondents agreeing with the statement (mean = 4.30, std = 0.520). Majority (83.7%) of the respondents also agreed that credit facilities enables a firm to adequately finance its operations (mean = 4.11, std = 0.936). The findings reveal that credit policy enables a firm to avoid liquidity risks and adequately finance its operations. Liquidity risk is the inability of a firm to meet its daily cash requirements in order to honor obligations which include payment of bills, supplies and wages. If a firm has a credit policy in place, it will be able to determine how much to borrow at a given point in order to meet its cash requirements and avoid over borrowing. The policy therefore enhances the management of credit thus the firm will be able to pay its debts in time thus have good relationship with creditors who in turn help in time of need.


The study sought to establish the extent to which the respondents agreed with a given aspects of working capital management practices as affecting the financial performance of a firm. The findings reveal that majority (97.3%) of the respondents agreed with the statement that proper working capital management practices ensures high rate of return on assets of a firm (mean = 4.43, std = 0.555). Most (94.2%) of the respondents also agreed that employing sound working capital management practices results to increased sales revenue of a firm (mean = 4.32, std = 0.580). It was also evident that majority (97.3%) of the respondents agreed with the statement that efficient working capital management practices improves the net profit of a firm (mean = 4.27, std = 0.508). The results show that proper management of working capital enables a firm to improve its financial performance.

**Table 3: Aspects of Working Capital Management Practices as Affecting the Financial Performance of a Firm**

<table>
<thead>
<tr>
<th>Statement</th>
<th>5</th>
<th>4</th>
<th>3</th>
<th>2</th>
<th>1</th>
<th>Mean</th>
<th>Std.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proper working capital management practices ensures high rate of Return on Assets of a firm</td>
<td>45.9%</td>
<td>51.4%</td>
<td>2.7%</td>
<td>0%</td>
<td>0%</td>
<td>4.43</td>
<td>.555</td>
</tr>
</tbody>
</table>
Employing sound Working Capital management practices results to increased Sales Revenue of a firm

Efficient working capital management practices improves the Net Profit of a firm

<table>
<thead>
<tr>
<th>Inventory Management practices</th>
<th>Pearson Correlation</th>
<th>Sig. (2-tailed)</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>-0.530**</td>
<td>.001</td>
<td>37</td>
</tr>
</tbody>
</table>

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

Correlation between Payables Management Practices and Financial Performance

The correlation between payables management practices and financial performance is presented in Table 6. The table indicates that there exists a strong and significant negative relationship between payables management practices and financial performance (r = -0.747; p < 0.01). The negative relationship can be interpreted that the longer it takes to settle creditors the decrease in financial performance and vice versa. A long payment period is likely to result in the imposition of stringent credit terms on a firm by its suppliers, leading to the loss of a low-cost source of credit. The loss of low-cost credit from a firm’s suppliers will most likely results in high finance
expenses as the firm turns to alternative sources of short-term credit, something that results in a decline in the bottom-line performance as it increases the overall operating costs.

**Table 5: Correlation between Payables Management Practices and Financial Performance**

<table>
<thead>
<tr>
<th>Accounts Payable Management Practice</th>
<th>Pearson Correlation</th>
<th>Sig. (2-tailed)</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>-.747**</td>
<td>.000</td>
<td>37</td>
</tr>
</tbody>
</table>

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

**Regression Analysis**

Regression analysis was conducted to determine whether there was a significant relationship between working capital management practices and financial performance of the tea processing firms. The results in Table 6 shows that the coefficient of determination ($R^2$) is 73.5% meaning that the model estimated explains 73.5% of the variations in the financial performance of tea processing firms.

**Table 6: Model Summary**

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.857a</td>
<td>.735</td>
<td>.702</td>
<td>3.33725</td>
</tr>
</tbody>
</table>


**Analysis of Variance**

The results of the Analysis of Variance (ANOVA) indicated in Table 7 shows that the relationship between the independent variables and dependent variable is significant ($F = 22.164$, sig <.05). This reveals that the independent variables significantly affect the returns of tea processing firms. The independent variables (inventory and payables management practices) are therefore statistically acceptable as useful in predicting the financial performance of the tea processing firms. This is supported by a P value of 0.000 which is less than the conventional value of 0.05.

**Table 7: ANOVAa**

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Regression</td>
<td>987.398</td>
<td>4</td>
<td>246.850</td>
<td>22.164</td>
<td>.000b</td>
</tr>
<tr>
<td>Residual</td>
<td>356.392</td>
<td>32</td>
<td>11.137</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>1343.790</td>
<td>36</td>
<td>11.137</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Financial Performance
The results in Table 8 provide the coefficients of the variables used in the study which were receivables, inventory, payables and cash management practices.

### Table 8 Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
</tr>
<tr>
<td>(Constant)</td>
<td>33.294</td>
<td>2.565</td>
</tr>
<tr>
<td>Inventory Management Practices</td>
<td>-.334</td>
<td>.084</td>
</tr>
<tr>
<td>Payables Management Practices</td>
<td>.195</td>
<td>.075</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Financial Performance

The regression equation model in this study is as shown in equation 2.

\[
Y = 33.294 + .318X_1 + .195X_4 \quad \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ ld
Inventory management policy reduces the costs associated to stock which in turn improve the financial performance. The policy also assists in increasing the firms’ production and investment income. Tea processing firms prepare inventory budget in order to maintain adequate inventory for smooth operations of the firm. The firms also review the level of inventory regularly to ensure optimal stock is maintained at all times. The level of EOQ is also set to enable a firm to order sufficient inventory at minimal costs and an inventory control system is put in place to assists in efficient management of inventory.

Payables Management Practices and Financial Performance

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

RECOMMENDATIONS

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

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

REFERENCES


