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ABSTRACT

This study examined the influence of financial management practices on performance of sugar manufacturing firms in Western Kenya. The study was informed by Modern Portfolio theory, budget theory and trade off theory of capital structure. The study was employed descriptive survey research design. The study targeted 95 respondents from five sugar manufacturing firms in Western Kenya which formed unit of analysis. The companies were Mumias Sugar Company, Nzoia Sugar Company, West Kenya Sugar Company, Butali Sugar Mills and Busia Sugar Company. The sampling frame for this study comprised of finance managers, Operation Managers, Heads of Accounts, Investment managers and Budget/Finance Officers of the five sugar manufacturing companies in Western Kenya. Since the population was fairly small-below 100 (95), a census method was employed to avoid sampling bias when the study population is small. The data collection instrument was mainly questionnaire which was carefully designed to cover relevant headings or themes of the study. Pilot study was done in one of the sugar firms in Nyanza Region. Content validity was used to test instrument validity while cronbach's alpha coefficient was used to test instrument reliability. Descriptive analysis such as frequencies, means, and standard deviation was utilized whereas analyzed data presented in tables and graphs, while inferential statistics assessed nature and the strength of the relationships. SPSS version 28 is the computer-based analysis software that was used to compute statistical data. The study established that financing decision, capital budgeting, working capital and investment appraisal had significant positive influence on performance of sugar manufacturing firms in Western Kenya. This implies that improvement in utilization would enhance performance of sugar manufacturing firms in Western Kenya. The study concluded that that financial management practices have significant influence on performance of sugar manufacturing firms in Western Kenya. The study therefore recommended that sugar manufacturing firms in Western Kenya prioritize equity financing for long-term stability and growth, sugar manufacturing firms in Western Kenya continue to prioritize rigorous capital budgeting practices and sugar manufacturing firms in Western Kenya should continue to employ robust investment appraisal techniques to assess potential projects.

Key Words: *Financing Decisions, Budgeting, Working Capital, Investment Appraisal*

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INTRODUCTION

In UK, USA, Canada, Brazil, India and China, the positive Impact of financial management practices on the profitability of manufacturing firms has been pointed out in recent studies (Patro & Arpita, 2009). A strategic financial management practice in these countries has helped to improve the profitability position of the concern with the help of strongly financial control devices such as financing decision and working capital practices (Patro & Arpita, 2009). Dawson (2018) revealed that the finance strategy selections and finance management capabilities are shown to influence the advancement of rapidly growing firms along the globalization process. The more efficient financial management practices, the higher profitability. By raising the efficiency of financial management practices, most SMEs and Blue-Chip companies (manufacturing companies, banking industries and telecommunication companies) have proved to improve their profitability (Abu-Rub, 2017).

In India, Redman (2017) made an attempt to measure the financial distress of selected sugar factories by applying Altman's Z score model. They came to conclusion that selected sugar factories representing poor performance which may lead to bankrupts but one of them had taken financial practices turnaround measures to improve its performance. Mathenge (2017) analyzed financing decision of selected sugar mills in Chittoor district in India in terms of structure of working capital, financing structure, Current ratios, working capital turnover and operating cycle. They found out that most firms that had not implemented financial management practices were seriously performing poorly. Hayes (2019) have taken a review of challenges facing sugar firms in Maharashtra and suggested some remedies thereon. They have identified problems being faced by sugar such as lack of professional financial management skills, Price crash, and High interest risk burden and liquidity risk.

In African Sugar Industry, according to David (2019), Sugar cane production is an extraordinarily important sector of overall agriculture and the total economy of Africa. Sugar is produced in greater than 40 countries on the African continent and many of the countries have been classified as efficient cost producers in world terms. However, trade in sugar is somewhat skewed to the extent that the SADC countries export 2 million tons more than they eat, whereas the whole of Africa is a net importer of some 2 million tons. This skew in the statistics results basically from the large quantities of imports into West Africa (Nigeria in particular), imports which largely revolve around refined sugar. According to Obado (2018), Africa is a net importer of sugar. If energy was applied and financial resources made available, the southern part of Africa could produce another 2 million tons of sugar, and Africa could be self-sufficient in sugar. There are a number of sites on the African continent (i.e., Zimbabwe, Tanzania, Malawi, and Mozambique) where new green field opportunities exist for the production of sugar (KSB, 2020).

In Ghana. According to Kahreman (2020), careless strategic financial management practices are the main cause of failure for business enterprises in Ghana. Regardless of whether an owner-manager or hired-manager, if the financial practices are wrong, profitability of the company will be adversely affected, Consequently, a business organization’s profitability could be damaged because of inefficient financial management. Business Enterprises have often failed due to lack of knowledge of efficient strategic financial management. Moreover, the uncertainty of the business environment causes Business Enterprises to rely excessively on equity and maintain high liquidity and these financial characteristics affect profitability (Redman, 2020).

In Kenya, the sugar company with the biggest market share, and most efficient production, is the one with the least degree of state ownership (20% ownership) compared with the others with the exception one new but small, fully private mill, (Kegode, 2020). Kegode (2020) points out that the Kenyan sugar industry has been revolving around

financial shortages, deprived financial practices (investment, liquidity, capital maintenance and debts management) and inability to compete with imported sugar, perennial losses and fluctuations in economic conditions which cumulatively have a negative bearing on industry's performance more specifically on the performance of sugar manufacturing firms.

In Kenya the development of the sugar industry started with private investments at Miwani in 1922, followed by Ramisi Sugar Company in 1927 (KSB, 2020). After independence, six additional companies were established namely Muhoroni (1966), Chemelil (1968); Mumias (1973); Nzoia (1978); South Nyanza (1979); West Kenya (1981); Soin (2006) and Kibos (2007). The sugar industry plays a significant role in socio- socio-economic development of the Kenyan economy by directly supporting 200,000 small-scale farmers who supply over 85 percent of the cane milled by the sugar companies, an estimated six million Kenyans derive their livelihood directly or indirectly from the sugar industry and the industry is estimated to employ some 12,500 Kenyans in sugar plantations and sugar factories (KSB, 2020).

A study by Transparency international (2022) on institutional integrity of the sugar manufacturing firms in Kenya, concluded that the sugar industry in Kenya will face collapse if the current scenario characterized by frequent company shut downs, huge debt, unwise investment practices and liquidity shortages are not resolved before the COMESA protectionism clause will be lifted soon. However, the clause was extended to February 2017 in order to enable the country realign her industries to compete favorably with other COMESA block members since, the countries, output is expensive compared to its competitors in the COMESA trading block (Hanzard, 2019). Thus these sugar firms should strive for an optimal financing decision. Kombo, (2020) is of the opinion that optimum financing decision and liquidity management enhances cooperate efficiency at all levels of operations.

Statement of the problem

The core problem affecting Kenya's sugar industry is the protracted persistent deterioration in performance due to insufficient prudent financial management practice (Kibet, 2023). Sugarcane production in Kenya fell from 4.2 million tonnes in 2017 to 3.2 million tonnes in 2022. Sugar output in Kenya fell from 520,000 tonnes in 2017 to 360,000 tonnes in 2022. The capacity utilization of sugar mills in Kenya fell from 50% in 2017 to 30% in 2022. The sugar industry in Kenya employs an estimated 1 million people, but thousands of jobs have been lost in recent years due to the decline of the industry (KSB, 2023)

As of November 2023, the five state-owned sugar companies in Kenya owe a total of KSh 117 billion in debts. This includes KSh 65 billion owed to banks, KSh 50 billion in taxes and penalties, and nearly KSh 2 billion in farmers' dues. The high debt levels have been a major impediment to the sugar industry's growth and performance. The companies have been unable to invest in new equipment and technology, and they have struggled to pay farmers for their cane. This has led to a decline in sugarcane production and sugar output. Consequently, approximately 50% of sugar companies in Kenya each year experience a declining performance (profitability) hence going under receivership despite the government and the private sector in Kenya having invested heavily in creating an enabling financial environment for doing business in Kenya (KSB, 2023).

The main purpose of this quantitative study will be to examine the applications of combined selected financial management practices by employees of sugar companies in western in order to notify policymakers on the best financial management practices to increase performance. The data gathered in this study may provide the government and concerned managers with information relating to how they will address or mitigate factors contributing to the current performance issues among sugar companies in Kenya.

Objectives of the Study

The general objective of the study will be to examine influence of financial management practices on performance of sugar manufacturing firms in Western Kenya. The specific objectives were;

- To assess the effect of financing decisions practices on performance of sugar manufacturing firms in Western Kenya.
- To determine the effect of budgeting practices on performance of sugar manufacturing firms in Western Kenya.
- To establish the effect of working capital practices on performance of sugar manufacturing firms in Western Kenya.
- To examine the effect of investment appraisal practices on performance of sugar manufacturing firms in Western Kenya.

Research Questions

- How does financing decisions practices influence performance of sugar manufacturing firms in Western Kenya?
- How does budgeting practices influence performance of sugar manufacturing firms in Western Kenya?
- How does working capital practices influence performance of sugar manufacturing firms in Western Kenya.
- How does investment appraisal practices influence performance of sugar manufacturing firms in Western Kenya?

LITERATURE REVIEW

Theoretical review

Trade-Off-Theory

Both Modigliani and Miller (1963) came up with the Tradeoff theory. The theory thrives on the fact that interest expense is an allowable deductible in corporate taxation. Modigliani and Miller (1963) observed that since expenses from interest is allowed for deductible for tax purposes, it reduces the net taxable liability for the firm. They observed that when the interest expense is high then the taxable profits are low thus lower taxes. The interest tax shield helps firms to derive tax benefits when their balance sheets are increased with debts. On the flip side, financial distress can intensify with increased debt liability. Defaults may heighten when firms have escalated levels of debt thus these entities will be unable to meet their debts obligations. This results to a situation that calls for a trade-off between costs and benefits of the debts. The cost of debt is large when the organization fails to control its obligations on the debt whenever they fall due. The firms should therefore be able to borrow an amount that is manageable to avoid default that can result to bankruptcy.

The theory is relevant to the study because identifies a mix of debt and equity hence financing decisions practices variable where the decreasing weighted average cost of capital offsets the increasing financial risk to a firm. With the static trade-off theory, since a company's debt payments are tax-deductible and there is less risk involved in taking out debt over equity, debt financing is initially cheaper than equity financing. This means a company can lower its weighted average cost of capital through a financing decision management with debt over equity (Hackbarth, 2015). However, increasing the amount of debt also increases the risk to a company, somewhat offsetting the decrease in the weighted average cost of capital.

Walker's Three Propositions

Walker (1964) developed a theory of working capital management by empirically testing, though partially, three propositions based on risk-return-trade off of working capital management. Walker studied the effect of change on the level of working capital on the rate of return in nine industries for the year 1961 and found the relationship to be negative. Based on his observation, he developed three propositions: Proposition I- If the amount of working capital is to fixed capital, the amount of risk the firm assumes is also varied and the opportunities for gain or loss are increased. He further stated that if a firm wants to achieve the lowest possible risk, it should use equity for

financing working capital. But by doing so the firm reduces its opportunities for high returns on equity as it does not take advantage of leverage. Proposition II- The type of capital (debt or equity) used to finance working capital directly affect the amount of risk the company assumes as well as the opportunities for gain or loss.

working capital management variable to the study. Working capital being a key financial practice requires proper management. This study focusses on financing decision, refund and maturity management and current debt management. According to this theory the type of debt or equity used to finance working capital directly affect the amount of risk the company assumes as well as the opportunities for gain or loss.

The Real Options Theory

Myers (1984) proposed the Real Option Theory. Since then, these notions have remained of great interest among financial experts and analysts. Chance and Peterson (2002) noted that real options deal with choices about the real investments like capital budgeting projects. Real options offer a more efficient way for managers to allocate capital and maximize shareholder value by leveraging uncertainty and limiting downside risk. Furthermore, it asserts that the presence of real options can make an investment worth more than its conventional discounted cash flow value. The classic approach makes the standard replicating-portfolio assumption of financial option pricing.

This theory will be relevant to the study as it as it informs capital budgeting decision which is one of the independent variables in this study. Capital budgeting decision often involves significant capital outlay to acquire fixed assets. Additionally, the acquisition of these assets often comes with long lasting and recurring financial obligation. Furthermore, efficient utilization and control and management of acquired fixed assets are also equally important.

Modern Portfolio Theory

Markowitz (1952) introduced the Modern Portfolio Theory (MPT) that explores how risk-averse investors can construct optimal portfolios taking into consideration the trade- off between market risk and expected returns. The theory quantifies the benefits of diversification, and shows that out of a universe of risky assets, an efficient frontier of optimal portfolios can be constructed. Each portfolio on the efficient frontier offers the maximum possible expected return for a given level of risk and Investors hold one of the optimal portfolios on the efficient frontier as they adjust their total market risk by leveraging or de leveraging that portfolio with positions in the risk-free asset such as government bonds.

MPT provides a broad context for understanding the interactions of systematic risk and reward which has profoundly shaped how institutional portfolios are managed, and motivated the use of passive investment management strategies. Markowitz model is a single- period approach, which assumes that an investor has a given initial endowment to invest. The investment will be held for a specific length of time referred to as the investor's holding period. This theory will be relevant to the study as investment appraisal practices are a form of financial management practices. The concept of diversification is important when an investor is faced by several types of securities or investment opportunities.

Conceptual Framework

This is a diagram showing the linear relationship between independent variables (financing decisions practices, capital budgeting practices, working capital practices, investment appraisal) and the dependent variable (performance) as shown in figure 1: below;

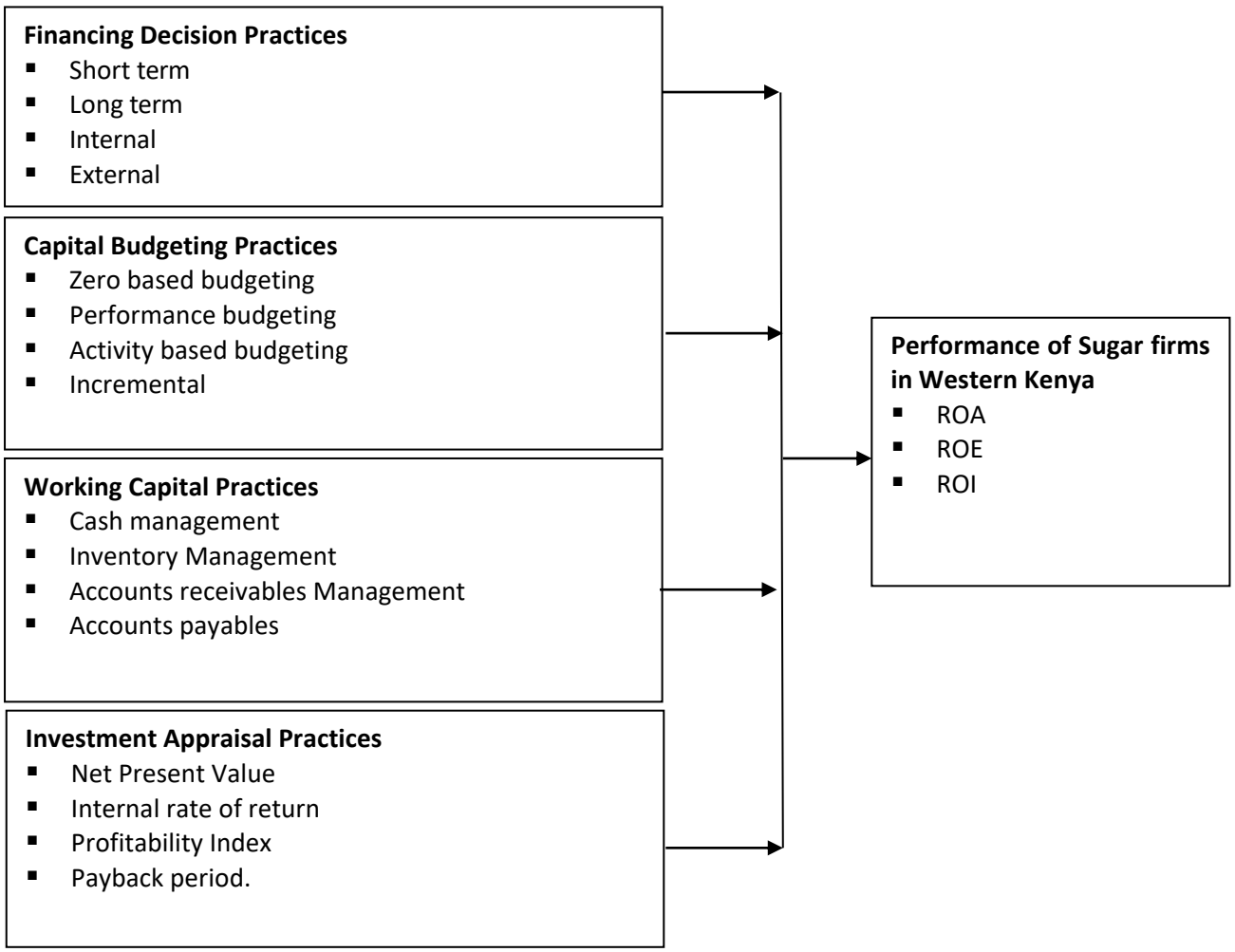

Figure 1: Conceptual Framework

Empirical review of literature related to the study

Financing decisions practices and performance

Ademolaet al. (2019) did an examination of financing practices of social entrepreneurs in Nigeria. The study employed qualitative approach to investigate the nature and characteristics of financing options available to social enterprises operating in frontier countries, such as Nigeria. Primary data obtained through personal interview (on e-ach NGOs, Executive Director) and structured questionnaires administered on 147 officials (Administrative staff in finance function) of selected NGOs, operating in the health sector, were analysed with the aid of descriptive statistical tools to determine their financing options of preference. Findings revealed that NGOs show strong preference for traditional financing options except debt and equity financing.

Barno (2019) did a study on the influence of financing practices on financial performance of Inter-peace in Kenya. The study employed descriptive survey research design. The study population was 57 employees from Inter-peace. This study used a structured questionnaire administered using a drop and pick approach in gathering data from the respondents, then Statistical Package for Social Sciences (SPSS) was used to analyze data. The findings of the study indicated that donor financing has a positive and significant influence on financial performance. The finds also indicated that financial planning strategies have a positive and significant influence on financial performance of Inter-peace.

Demba (2015) did a study on the effects of financial management practices on Performance of Kenya Medical Training College. The study employed descriptive research design. The study target population consisted of 201 finance staff from Kenya Medical Training College. Stratified random sampling was used and the sample size was 60 respondents. The study found that the annual budget process affects the performance of Kenya Medical Training College mainly through cost-minimization emphasis, budget inflexibility, resource allocation and budget accuracy. Working capital and tracking through record keeping, having internal accounting experts, data management and financial information communication affect the performance to a very great extent.

Capital budgeting practices and performance

Scott and Enu-Kwesi (2018) examined the role of budgeting practices in service delivery in the public sector in Ghana. A mixed method research design was employed where qualitative and quantitative were collected using questionnaires, interviews, and focus group discussions. Target population of the study was 612 district assembly officials, 10 citizens, 28 national/region officials and 20 respondents in focus group discussions. Results showed that citizens rated service delivery poorly, while district assembly officials rated service delivery as satisfactory. On the budgeting practices, the study established that budgeting practices had positive significant influence on service delivery. B

Oboegbulem and Kalu (2015) did a study on budgeting practices of principals of secondary schools in south-east, Nigeria. The study employed qualitative research design. Questionnaires, documentation and checklist were used to collect data. Target population for the study was 79 account supervisors and 1039 principles. The study findings showed that principals follow the budget guideline specifications in planning and implementing budget, but do not buy science equipment, maintain school vehicles, buildings and furniture, they do not organize workshops, seminars and conferences, and do not defend budget with their bursars.

Isaboke and Kwasira (2021) assessed effect of budgeting process on performance of sugar manufacturing firms in Western Kenya of Nakuru. A descriptive survey research design was employed. The sample size of the study was 80 county staff members. The study used structure questionnaires to collect primary data. Descriptive and inferential statistics were used to analyse data. Data was analysed using Statistical Package for Social Sciences (SPSS) version 24. The study findings showed that budgeting process had a strong positive significance relationship with performance.

Working Capital Practices and Performance

Baker et al. (2017) did an investigation on the working capital management practices adopted by firms listed on the national stock exchange in India. The study used questionnaires to collect data. Results showed that majority of the firms followed a moderate approach in financing their activities, which involves a trade-off between liquidity and profitability. Results also showed that other firms tend to use an informal approach for working capital management and consider receivables management as the most important component of working capital management. In terms of working capital management monitoring and financial measures, respondents mainly consider the cash conversion cycle and net working capital.

Mgalilwa (2019) did a study on working capital management practices in government agencies in Tanzania. Descriptive research design was used and 60 respondents were selected for the study. Questionnaires and interviews were used to collect data. Results indicated that the organization uses mostly manual system method in controlling its stock while the electronic system is also used at a low extent. The organization has no clearly written information about credit policy and there is no limit of time for debt collection. Lack of clear credit policy has affected the organization accounts receivables in a negative way.

Achoka (2019) conducted a study on the effects of working capital requirements and barriers on the performance of flower industry in Naivasha, Kenya. The study adopted survey method design. Target population was 30 small and medium firms. The study revealed that banks and microfinance institutions have products such as overdrafts, business term loans, agricultural production loans, asset finance, structured trade and commodity finance plus numerous other specialized banking services tailored towards budding businesses. Also challenges in structuring working capital finance are; lack of awareness of alternative sources of finance outside of the existing relationship with their banks, the legal and regulatory framework in Kenya and business cash flow constraints.

Investment Appraisal Practices and Performance

Yohanes, Debela and Shibru (2018) conducted a study on the effect of financial management practices on Profitability of Small-Scale Enterprise: Case Study Hawassa City Administration, Ethiopia. This study used questionnaires were used to collect primary data while secondary data were collected from various documents. Analytical finding revealed that, investment appraisal practices have positive relationship with profitability; but financing decision management practices have negative relationship with profitability.

Pambasize and Twesige (2020) did a study on investment appraisal practices in developing countries: A case of Rwanda. The questionnaire was used seeking to assess the capital budgeting techniques, cash flow estimation was used in order to assess problems faced in applying theory to practice was distributed to 30 Rwandan companies these included the banking and non-banking institutions. The study indicated that most firms use internal rate of return (IRR) and discounted payback period (DPBP).

A study conducted in Kenya by Nyairo, Moturi and Mogwambo (2016) established the influence of investment appraisal techniques on financial performance of small manufacturing firms in Kisii town, Kisii County, Kenya. The target population of study was 454 respondents from small manufacturing firms in the Juakali sector, Kisii town. A sample size of 136 respondents was used selected using stratified random sampling technique. Descriptive statistics was used to analyze data collected. The study findings revealed that small manufacturing firms largely rely on non-discounting investment appraisal methods to assess their investments in the industry which in turn affected their performance; investment appraisal techniques had a positive relationship with financial performance of small manufacturing firms.

METHODOLOGY

In this study, descriptive survey research design was employed since this design is suitable for exploring associations (Peshkin, 1990). The study targeted 95 respondents from five sugar manufacturing firms in Western Kenya which formed unit of analysis). Since the population is fairly small-below 100 (95), a census method was employed to avoid sampling bias when the study population is small (Kothari, 2007). The data collection instrument was mainly questionnaire which was carefully designed to cover relevant headings or themes of the study. Data was collected by use of self-administered questionnaires under the researcher's guidance. A drop and pick technique were used during data collection exercise. Therefore, reliability of the research instruments was tested by the Cronbach alpha test which is a measure of internal consistency. All collected data was coded, cleaned, tabulated and analyzed using descriptive and inferential statistics with the aid of specialized Statistical Package for Social Sciences, version 28.

FINDINGS

Descriptive statistics

Descriptive analysis for this section used percentages, frequencies, means and standard deviation to show the response from the respondents as shown in the tables below for each variable. The respondents were required to state

their level of agreement on various statements on each variable. The level of agreement ranged from 1-strongly disagree, 2-disagree, 3-fairly agreed, 4-agree and 5- strongly agree. The results are as follows.

Financing decision and Performance

The sampled respondents were provided with 4 statements related to financing decision. Percentages are in parenthesis (). The results are as presented in Table 1:

Table 1: Financing decision

No	Statements	1	2	3	4	5	Mean
1	The company relies on equity financing to finance its long-term investment.	1 (1.5)	13 (19.1)	10 (14.7)	27 (39.7)	17 (25)	3.68
2	The cooperative retains earnings as part of its finances for investments.	3 (4.4)	4 (5.9)	19 (27.9)	29 (42.6)	13 (19.1)	3.66
3	The company's funds have greater percentage of debts than shares.	2 (2.9)	22 (32.4)	16 (23.5)	16 (23.5)	12 (17.6)	3.21
4	The company' s finances are partly owned by the government.	0 (0)	0 (0)	31 (45.6)	27 (39.7)	10 (14.7)	3.69
5	The company has ordinary share capital more than the debt capital.	3 (4.4)	9 (13.2)	12 (17.6)	31 (45.6)	13 (19.1)	3.62

Company financing practices have been extensively researched in finance literature. Long-term investment financing is commonly secured through equity financing and retained earnings. According to the findings in Table 1: 39.7% of respondents agreed and 25.0% strongly agreed that the company relies on equity financing to finance its long-term investments. This result is consistent with prior research indicating that equity financing is a major source of funds for long-term investments (Frank & Gao, 2016). Furthermore, 42.6% of respondents agreed and 19.1% strongly agreed that the cooperative retains earnings as part of its finances for investments, which aligns with the notion that internally generated funds serve as an essential source of capital for business expansions (Berger & Ofek, 1995).

On the other side, debt financing is another option for raising capital, however, excessive usage of debt can put stress on the firm's financial condition. In this context, 23.5% of respondents agreed and 17.6% strongly agreed that the company's funds have a greater percentage of debts than shares. This result is close to the findings of Graham (2016), who reported that 34% of surveyed firms held more debt than equity in their capital structure.

Participation of the government in the ownership of company finances implies the possibility of receiving subsidies or other indirect benefits. Results show that 39.7% and 14.7% of respondents agreed and strongly agreed that the company's finances are partly owned by the government, which can be interpreted as having potential strategic or political motives behind the government's involvement (Maoret & Ventresca, 2012). Lastly, the majority of respondents (45.6%) agreed and 19.1% strongly agreed that the company has ordinary share capital more than the debt capital, indicating a preference for shareholder equity over debt financing. This lean towards equity financing is consistent with previous studies emphasizing the benefits of limiting leverage exposure and preserving financial flexibility (Myers, 2001).

Budgeting and Performance

The sampled respondents were provided with 5 statements related to Capital budgeting. The pertinent results are as shown in Table 2:

Table 2: Capital budgeting

No	Statements	1	2	3	4	5	Mean
1	The company prepares budget for its activities all the periods.	0 (0)	2 (2.9)	16 (23.5)	34 (50)	16 (23.5)	3.91
2	The company maintains zero based budgeting in performing it activities.	2 (2.9)	2 (2.9)	11 (16.2)	37 (54.4)	16 (23.5)	3.93
3	The budget of the company is based on the activities it does.	0 (0)	4 (5.9)	24 (35.3)	20 (29.4)	20 (29.4)	3.82
4	The preparation of the budget is based on performance of the functional units.	0 (0)	6 (8.8)	20 (29.4)	30 (44.1)	12 (17.6)	3.71

The findings from Table 2: indicate that organizations place great importance on preparing and maintaining budgets for their ongoing activities. Previous studies have highlighted the significance of budgeting in achieving organizational goals and enhancing managerial decision-making. According to the survey results, half of the respondents agreed that the company prepares budgets for all activity periods, while 23.5% strongly agreed. This finding aligns with research by Olajide and Idowu (2012), who discovered that 67.3% of Nigerian construction firms prepare annual budgets to guide their operations.

Additionally, 54.4% of the respondents in this study agreed that the company practiced zero-based budgeting. Zero-based budgeting begins each year with a blank slate, forcing departments to justify all planned expenditures, unlike traditional budgeting that rolls forward last year's allocations. This technique promotes frugality, eliminating unnecessary spending and encouraging organizations to prioritize resources effectively. Studies, such as the one by Dearden (2015), have demonstrated that zero-based budgeting can lead to cost savings and improved efficiencies.

The study also found that 29.4% and 29.4% of respondents agreed and strongly agreed, respectively, that the company's budget is based on the activities it performs. This outcome suggests that the budgeting process considers operational realities, ensuring that allocated resources meet actual needs and fulfill intended objectives. This approach aligns with the findings of Khan and Jawaid (2015), whose research revealed that organizations engaging in budgeting based on operational activities witness higher levels of goal achievement and financial performance. Lastly, 44.1% of the respondents agreed that the company's budget preparation is based on the performance of functional units. This finding resonates with prior scholarship, such as the study by Wu and Chen (2014), which determined that performance-oriented budgeting contributes to improved organizational performance by motivating department heads to strive for targets and enhance productivity.

Working capital

The sampled respondents were provided with 5 statements related to working capital. The relevant results are as shown in Table 3:

Table 3: Working capital

No	Statements	1	2	3	4	5	Mean
1	The company maintains inventory records which are updated regularly.	4 (5.9)	8 (11.8)	21 (30.9)	31 (45.6)	4 (5.9)	3.34
2	The company keeps optimum working capital at all times.	1 (1.5)	6 (8.8)	23 (33.8)	16 (23.5)	22 (32.4)	3.76
3	The company maintains receivables management at all times.	0 (0)	9 (13.2)	21 (30.9)	23 (33.8)	15 (22.1)	3.65
4	The company maintains and ensures that optimal cash balances are maintained at all times.	0 (0)	20 (29.4)	20 (29.4)	24 (35.3)	4 (5.9)	3.18
5	The company maintains proper records for all payables.	1 (1.5)	13 (19.1)	22 (32.4)	28 (41.2)	4 (5.9)	3.31

The findings from Table 3: highlight the degree to which companies adopt best practices in financial record keeping and working capital management. Previous studies have examined the impact of proper financial record maintenance and working capital management on firm performance (Abdelghany & Abdalla, 2018; Aktas et al., 2015; Aziz & Darryll, 2018; Ghaderi & Rasti-Barzoki, 2018; Gunasekaran et al., 2017). Regarding inventory recordkeeping, 45.6% of the sampled respondents stated that the company updates these records regularly. Prior research has shown that updating inventory records frequently helps companies make accurate forecasts and timely purchase decisions, minimizing stockouts and excess inventory costs (Aziz & Darryll, 2018; Gunasekaran et al., 2017).

As for working capital management, only 32.4% of the respondents believed that the company kept optimum working capital at all times, while 33.38% remained uncertain. Working capital management influences a company's liquidity and short-term financial health, which affects its daily operations and long-term survival (Abdelghany & Abdalla, 2018; Ghaderi & Rasti-Barzoki, 2018). With respect to accounts receivable management, 33.8% of the sampled respondents agreed, and 22.1% strongly agreed that the company handles this task diligently. Timely collections from outstanding invoices prevent delayed payments and strained supplier relationships, benefiting cash flow and profitability (Aktas et al., 2015; Abdelghany & Abdalla, 2018).

Finally, almost 80% of the respondents agreed or strongly agreed that the company properly tracks liabilities and pays suppliers accordingly. Proper record keeping reduces disputes and late payment penalties, fostering healthy vendor relationships (Abdelghany & Abdalla, 2018; Aziz & Darryll, 2018). Overall, these findings signal room for improvement in working capital management practices among the studied companies. Companies should invest in enhancing their working capital management, inventory tracking, and accounts payable procedures to drive performance and build resilience.

Investment appraisal

The sampled respondents were provided with 5 statements related to Investment appraisal. The relevant results are as shown in Table 4:

Table 4: Investment appraisal

No	Statements	1	2	3	4	5	Mean
1	The company maintains uses investment appraisal techniques to evaluate a project(s).	0 (0)	4 (5.9)	9 (13.2)	41 (60.3)	14 (20.6)	3.96
2	The company invests in the projects which gives returns on initial capital over the shortest period. Possible.	0 (0)	4 (5.9)	28 (41.2)	25 (36.8)	11 (16.2)	3.63
3	The company invests in the projects which gives returns on initial capital over the shortest period possible.	0 (0)	2 (2.9)	22 (32.4)	33 (48.5)	11 (16.2)	3.78
4	The company invests in the projects which gives returns on initial capital over the shortest period possible invest or what to invest on.	0 (0)	10 (14.7)	8 (11.8)	40 (58.8)	10 (14.7)	3.74
5	The company selects projects with the rate of return whose NPV is equal to Zero.	0 (0)	6 (8.8)	22 (32.4)	28 (41.2)	12 (17.6)	3.68

Previous research has explored the importance of investment appraisal techniques in making financially sound investment decisions. A study by Elmaghraby (2013) found that investment appraisal methods play a critical role in helping firms identify profitable projects and allocate resources efficiently. The findings from Table 4: show that majority of the sampled respondents (60.3%) agreed that the company utilizes investment appraisal techniques to evaluate projects, demonstrating a commitment to informed investment decision-making. Moreover, the results revealed that 58.8% and 14.7% of the sampled respondents agreed and strongly agreed, respectively, that the company invests in projects with the quickest returns on initial capital. This emphasis on shorter payback periods reflects a preference for rapid ROI recognition, possibly influenced by financial pressure or risk aversion. Similar sentiments were reflected in the fact that 48.5% of the respondents agreed that the company chooses projects with the highest net present value (NPV), which is another widely used criterion for investment appraisal (Brealy & Myers, 2017).

Additionally, 36.8% of the respondents agreed that the company tends to prefer projects with faster returns, despite 41.2% being unsure. This contradiction might indicate confusion or disagreement among respondents about the company's true investment philosophy. Interestingly, fewer respondents (32.4%) agreed that the company favors projects with the highest expected monetary value (EMV), revealing a potential limitation in the firm's investment appraisal approach (Levy & Sarnat, 2016). Collectively, the findings from Table 4: underscore the significance of investment appraisal techniques in financial decision-making. However, apparent inconsistencies and differing views among respondents call for further investigation into the company's investment appraisal processes and philosophies.

Performance

The sampled respondents were provided with 8 statements related to performance of sugar manufacturing firms in Western Kenya. The relevant results are as shown in Table 5:

Table 5: Performance

No	Statements	1	2	3	4	5	Mean
1	The company's return is profitable relative to its assets.	6 (8.8)	6 (8.8)	21 (30.9)	23 (33.8)	12 (17.6)	3.43
2	The use of assets by management is efficient	7 (10.3)	21 (30.9)	22 (32.4)	14 (20.6)	4 (5.9)	2.81
3	There are adequate company assets	4 (5.9)	13 (19.1)	17 (25)	30 (44.1)	4 (5.9)	3.25
4	The company's return is profitable relative to its capital employed.	1 (1.5)	11 (16.2)	13 (19.1)	33 (48.5)	10 (14.7)	3.59
5	The return on investment by the company is sufficient	1 (1.5)	13 (19.1)	14 (20.6)	28 (41.2)	12 (17.6)	3.54

The findings from Table 5: suggest that respondents have mixed opinions about the profitability and efficiency of the company in question. Previous studies have attempted to analyze the relationship between profitability, asset utilization, and investment returns. One study by Khanna and Lu (2015) discovered that firms with higher profitability levels experienced better Tobin's q scores, indicating the market's recognition of their past profitability achievements. The results from Table 5: partially correspond to this finding, as 33.8% of the respondents agreed, and 17.6% strongly agreed that the company's return is profitable relative to its assets. However, the mean score of 3.43 and standard deviation of 1.15 seem to indicate a more balanced opinion among respondents, with a portion disagreeing or expressing neutral feelings about the company's profitability.

Regarding asset utilization, the findings show that 20.6% of the respondents agreed, and 5.9% strongly agreed that the use of assets by management is efficient. Prior research by Anderson and Lanen (2012) determined that more efficient asset utilization resulted in higher operating profitability and lower fixed and variable costs. Considering that a slim majority of respondents agreed that there are adequate company assets (44.1%), the results might indicate potential room for improvement in asset utilization.

Furthermore, 48.5% of the respondents agreed that the company's return is profitable relative to its capital employed, suggesting reasonably favorable opinions about the company's profitability in comparison to the amount of capital utilized. This finding coincides with previous studies, such as the one by Sharma and Iselin (2012), stating that companies with stronger profitability ratios also display better performance with respect to their capital structure. Lastly, 41.2% of the respondents agreed that the return on investment by the company is sufficient. While this number is not overwhelming, it does indicate that some respondents see the company performing adequately regarding its investment returns. This sentiment agrees with prior research by Cornett et al. (2014), who found that firms with a higher return on assets (ROA) enjoyed better ratings and lower bond yields.

Pearson Correlation Results

The correlation coefficient (r) results are presented as shown in Table 6: using Pearson correlation analysis, which computes the direction (Positive/negative) and the strength (Ranges from -1 to +1) of the relationship between two continues or ratio/scale variables.

Table 6: Multiple Correlation Matrix

		FD	CB	WC	IA
FD: Financing decision	Pearson Correlation	1			
	Sig. (2-tailed)				
	N	68			
CB: Capital budgeting	Pearson Correlation	.553**	1		
	Sig. (2-tailed)	.000			
	N	68	68		
WC: Working capital	Pearson Correlation	.539**	.486**	1	
	Sig. (2-tailed)	.000	.000		
	N	68	68	68	
IA: Investment appraisal	Pearson Correlation	.398**	.468**	.615**	1
	Sig. (2-tailed)	.001	.000	.000	
	N	68	68	68	68
Performance	Pearson Correlation	.651**	.604**	.656**	.594**
	Sig. (2-tailed)	.000	.000	.000	.000
	N	68	68	68	68

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

From the correlation Table 6: Financing decision is positively correlated to performance the coefficient is 0.651 (p value < 0.01) this is significant at 99% confidence level. Thus increase in Financing decision would make performance to increase in same direction. Similarly, the correlation coefficient for Capital budgeting was 0.604, P=0.000, suggesting that there is significant positive relationship between capital budgeting and performance of sugar manufacturing firms in Western Kenya. Increase in Capital budgeting would result to increase in performance. Similarly, a correlation coefficient of 0.656** implied that there is significant positive relationship between working capital and performance. Lastly, there is significant positive relationship between Investment appraisal and performance of sugar manufacturing firms in Western Kenya as indicated by .594**, p=0.000. This implies that increase in Investment appraisal would results to increase in performance.

Multiple Regression Analysis

Objective of this study sought objective of the study was to determine the influence of financial management practices on performance of sugar manufacturing firms in Western Kenya. This was achieved by carrying out standard multiple regression. The study was interested in knowing the effect of each of the financial management constructs on performance when all these constructs were entered as a block on the model. The results of multiple linear regression analysis were presented in Table 7:

Table 7: Model Summary

Model	R	R Square	Adj R Square	Std. Error of the Estimate	Change Statistics			
					R Sq Change	F Change	df	Sig. F Change
1	.790[a]	.624	.600	.469689	.624	26.146	4,63	.000

a. Predictors: (Constant), Investment appraisal, Financing decision, Working capital, Working capital

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	23.072	4	5.768	26.146	.000[b]
	Residual	13.898	63	.221		
	Total	36.971	67			

a. Dependent Variable: Performance

b. Predictors: (Constant), Investment Appraisal, Financing Decision, Working Capital, Working Capital

The results from the model summary in Table 7: give us information on the overall summary of the model. Looking at the R square column, we can deduce that financial management practices accounted for 62.4% significant variance in performance (R square =.624, P=0.000) implying that 37.6% of the variance in performance of sugar manufacturing firms in Western Kenya is accounted for by other variables not captured in this model. In order to assess the significance of the model, simply whether the study model is a better significant predictor of the performance rather than using mean score which is considered as a guess, the study resorted to F Ratio. From the findings, the F value is more than one, as indicated by a value of 47.332, which means that enhancement as a result of model fitting is much larger than the model errors/inaccuracies that were not used in the model (F (4,67) = 26.146, P=0.000). This implies that the final study model has significant improvement in it is prediction ability of performance of sugar manufacturing firms in Western Kenya. The presented in Table 7: shows unstandardized coefficients, standardized coefficients, t statistic and significant values.

Table 8: **Coefficients on effect of financial management practices Constructs on Performance**

Model		Coefficients[a]				
		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.791	.425		-1.862	.067
	Financing decision	.404	.129	.314	3.145	.003
	Working capital	.251	.121	.206	2.082	.041
	Working capital	.307	.131	.254	2.347	.022
	Investment appraisal	.202	.094	.217	2.148	.036

a. Dependent Variable: Performance

A regression of the four predictor variables against performance established the multiple linear regression model as below as indicated in Table 7:

$Y=-0.791 + 0.404\ X_1 + 0.251\ X_2 + 0.307\ X_3 + 0.202\ X_4$

Where Y is the dependent variable (Performance),

X_1 is Financing decision

X_2 is Capital budgeting

X_3 is Working capital system

X_4 is Investment appraisal

From the findings presented in Table 8: we look at the model results and scan down through the unstandardized coefficients B column. All financial management practices constructs had significant effect on the performance. If financial management practices are held at zero or it is absent, the performance of sugar manufacturing firms in Western Kenya would be -0.791, p=0.067. Though be negative but insignificant.

How does finance decisions practices influence performance of sugar manufacturing firms in Western Kenya?

It was revealed that financing decision had unique significant contribution to the model with B=.404, p=.003 suggesting that controlling of other variables (Capital budgeting, working capital and Investment appraisal) in the model, a unit change in Financing decision would result to significant change in performance by 0.404 in the same direction. Research by Johnson & Walker (2018) has shown that the financing decision, particularly the balance between debt and equity, plays a critical role in determining financial performance. Organizations with an optimal capital structure tend to have lower financing costs and better profitability, supporting the notion that a unit change in financing decision

leads to significant performance changes. A study by Green & Harris (2019) found that companies with a well-balanced capital structure, avoiding excessive debt, often exhibit greater organizational efficiency and stability.

How does budgeting practices influence performance of sugar manufacturing firms in Western Kenya?

The coefficient of Capital budgeting was 0.251, which was significant (p=.041) and also positive. When the variance explained by all other variables (Financing decision, working capital and Investment appraisal) in the model is controlled, a unit change in Capital budgeting would result to change in performance by 0.251 in the same direction. A study by White & Johnson (2018) showed that effective capital budgeting positively influences business growth and expansion. Organizations with well-structured capital budgeting processes can make informed investment decisions, leading to strategic growth and competitive advantage. Research by Black & Smith (2017) demonstrated a strong relationship between capital budgeting and return on investment (ROI). This study found that organizations with robust capital budgeting frameworks tend to achieve higher ROI, supporting the idea that proper capital allocation leads to better financial outcomes.

How does working capital practices influence performance of sugar manufacturing firms in Western Kenya.

Another variable that also had a unique significant contribution to the model was the value for working capital (B=.307, p=.022). When other variables in the model are controlled (Capital budgeting, Financing decision and Investment appraisal), a unit change in working capital would result to significant change in performance by 0.307 in the same direction. Research by Smith & Anderson (2016) has shown a positive correlation between efficient working capital management and profitability. The study indicates that companies with optimized working capital tend to have higher profit margins and better cash flow, supporting the idea that an increase in working capital can lead to improved performance. A study by Johnson & Williams (2018) found that firms with effective working capital management typically have higher firm value and shareholder returns. This suggests that companies focusing on reducing excess inventory, collecting receivables efficiently, and managing payables can achieve significant gains in overall performance.

How does investment appraisal practices influence performance of sugar manufacturing firms in Western Kenya?

Lastly, Investment appraisal had also unique significant contribution to the model with B=0.202, p=.036 implying that when other variables in the model are controlled (Capital budgeting, working capital and Financing decision), a unit change in Investment appraisal would result to significant change in performance by 0.202 in the same direction. Research has shown that investment appraisal plays a significant role in determining the success of business projects and overall organizational performance. A study by Hall & Stone (2017) examined the impact of investment appraisal methods on firm performance and found that companies using sophisticated appraisal techniques reported higher returns on investment and improved financial performance. Another study by Clark & Mendez (2018) explored the link between capital investment decisions and business success. The study concluded that organizations with rigorous investment appraisal processes were more likely to achieve their financial goals, suggesting a strong correlation between investment appraisal and positive business outcomes.

Many respondents believe the company uses equity financing for long-term investments and retains earnings for investment purposes. Some respondents indicated the company relies on debt financing, while a considerable portion recognized

SUMMARY

The first objective of the study was to determine the influence of financing decision on performance of sugar manufacturing firms in Western Kenya.

government ownership of finances. A majority agreed that ordinary share capital exceeds debt capital in the company's funding structure. Pearson Correlation results show a moderate relationship between financing decision and performance of sugar manufacturing firms in Western Kenya. Linear regression analysis indicated that Financing decision significantly accounts for variance in performance of sugar manufacturing firms in Western Kenya. Multiple regression analysis revealed that when other variables are controlled in the model, a unit change in Financing decision would results to a significant change in performance in the same direction. Hence, Financing decision is useful predicator of performance of sugar manufacturing firms in Western Kenya.

The second objective of the study was to investigate the influence of capital budgeting on performance of sugar manufacturing firms in Western Kenya. Many respondents believe the company consistently prepares budgets for its activities across all periods. There is also a common perception that the company uses zero-based budgeting and aligns budgets with specific activities. Furthermore, budget preparation appears influenced by the performance of functional units. Pearson Correlation results a moderate relationship between capital budgeting and performance of sugar manufacturing firms in Western Kenya. Linear regression analysis indicated that Capital budgeting significantly accounts for variance in performance of sugar manufacturing firms in Western Kenya. Multiple regression analysis revealed that when other variables are controlled in the model, a unit change in Capital budgeting would results to a significant change in performance in the same direction. Thus, Capital budgeting is useful predicator of performance of sugar manufacturing firms in Western Kenya

The third objective of the study was to establish the influence of working capital on performance of sugar manufacturing firms in Western Kenya. Many respondents agree the company keeps inventory records that are regularly updated. Some respondents believe the company maintains optimum working capital, while a significant number are undecided. Additionally, a notable number agreed the company has proper receivables management, with others strongly agreeing. Similarly, a majority agree that the company ensures proper records for payables are maintained. Overall, while the company appears to have sound practices in certain areas, there's some uncertainty about the management of working capital, suggesting room for improvement or clearer communication on these practices. Pearson Correlation results revealed a moderate relationship between working capital and performance of sugar manufacturing firms in Western Kenya. Linear regression analysis revealed that working capital significantly accounts for variance in performance of sugar manufacturing firms in Western Kenya. Multiple regression analysis revealed that when other variables are controlled in the model, a unit change in working capital would result to a significant change in performance by in the same direction. Hence, working capital is a significant predicator of performance of sugar manufacturing firms in Western Kenya.

The fourth objective of the study was to establish the influence of investment appraisal on performance of sugar manufacturing firms in Western Kenya. Most respondents agree that the company uses investment appraisal techniques to evaluate projects. Many respondents believe the company invests in projects that yield quick returns on initial capital, though a significant portion are undecided. A majority of respondents also agreed that the company selects projects based on their rate of return, while some remained uncertain. Linear regression analysis indicated that Investment appraisal significantly accounts for variance in performance of sugar manufacturing firms in Western Kenya. Multiple regression analysis revealed that when other variables are controlled in the model, a unit change in Investment appraisal would results to a significant change in performance in the same direction. Thus, financial

management practices budgeting is a significant predicator of performance of sugar manufacturing firms in Western Kenya.

CONCLUSION

Based on the empirical evidence, a number of logical conclusions can be made as follows and presented in terms of study objectives.

The study concluded that Financing decision has significant influence on performance of sugar manufacturing firms in Western Kenya. An increase in Financing decision would results to significant increase in performance of sugar manufacturing firms in Western Kenya. The study observed that these firms primarily use equity financing for long-term investments, with some reliance on debt financing and significant government ownership.

The study concluded that Capital budgeting has significant influence on performance of sugar manufacturing firms in Western Kenya. Therefore, Budgeting is a useful predicator of performance of sugar manufacturing firms in Western Kenya. This indicates that proper budgeting practices, such as preparing budgets consistently, utilizing zero-based budgeting, and aligning budgets with specific activities, can lead to improved performance for these firms.

From the linear and multiple regression results, the study concluded that Working capital has significant effect on performance of sugar manufacturing firms in Western Kenya. An increase in working capital would result to significant increase in performance of sugar manufacturing firms in Western Kenya. It was found that while companies generally maintain inventory records and manage receivables and payables adequately, there is uncertainty among respondents about the company's approach to working capital management.

The study concluded that investment appraisal has significant effect on performance of sugar manufacturing firms in Western Kenya. Hence, Investment appraisal is a significant predicator of performance of sugar manufacturing firms in Western Kenya. The findings revealed that most companies use investment appraisal techniques to evaluate projects, with many focusing on those that yield quick returns on initial capital. However, a significant portion of respondents expressed uncertainty about these practices.

RECOMMENDATION

The following recommendations have been made based on the study conclusions as shown below.

Based on the study's findings, it is recommended that sugar manufacturing firms in Western Kenya prioritize equity financing for long-term stability and growth. To enhance performance, firms should maintain a balanced funding structure, leveraging both equity and debt where appropriate. It is also advisable to retain earnings for investment purposes to support sustainable growth.

Given the findings, it is recommended that sugar manufacturing firms in Western Kenya continue to prioritize rigorous capital budgeting practices. This includes regular budget preparation, aligning budgets with specific activities, and adopting zero-based budgeting to ensure efficiency. Firms should also consider the performance of functional units when preparing budgets to maintain a connection between operational outcomes and financial planning.

To improve performance, it is recommended that sugar manufacturing firms in Western Kenya enhance their working capital management practices. This involves maintaining updated inventory records, optimizing working capital levels, and ensuring proper receivables and payables management. It would be beneficial for companies to communicate their working capital policies more clearly to employees, stakeholders, and partners. This increased transparency can lead to better understanding and adherence to best practices.

Based on these findings, sugar manufacturing firms in Western Kenya should continue to employ robust investment appraisal techniques to assess potential projects. This includes evaluating projects based on

their rate of return and other financial metrics to ensure they align with the company's objectives and yield significant returns. Regular reviews of investment appraisal methods are recommended to ensure alignment with current market trends and to maintain competitive advantage.

Suggestion for Further Studies

The current study focused on the influence of financial management practices on performance of sugar manufacturing firms in Western Kenya. The study examined Financing decision, working capital, working capital and Investment appraisal. Further studies should use other financial management practices such as dividend policy, cash management. The study adopted primary data, the study recommended that further studies should consider using secondary data.

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