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Effect of Working Capital Management Decisions on Financial Performance of Tea Firms in Kenya

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The title of this study is to investigate the effect of working capital management decisions on the financial performance of tea firms in Kenya. The specific objectives of the study were to determine the effect of the accounts collection period, accounts payment period and inventory conversion period on financial performance. This study was underpinned by three theories: agency/stakeholder theory, risk and return theory and operating cycle theory. The study employed a correlational research design. The target population included 23 multinationals and 17 KTDA managed tea. The study adopted a census approach where all the firms were included in the study. A panel regression model was being used in the study. The analysis of the data was done using both descriptive and inferential statistics. The study illustrated that the accounts collection period is positively and significantly related to return on assets ($\beta = 0.1299$, $p=0.0160$). The study found that the accounts payment period is negatively and significantly related to return on assets ($\beta = -0.0843$, $p = 0.0070$). The study noted that the inventory conversion period is positively and significantly related to return on assets ($\beta = 0.0623$, $p = 0.0180$). The study concluded that the accounts collection period, inventory conversion period is positively and significantly related to financial performance, while account payment period is negatively related to financial performance. The study recommended the tea firms should increase the level of the account receivables by increasing the debtors and accounts payable period should be made as low as possible.

Keywords: Working capital, Accounts Collection Period, Accounts Payment Period and Inventory Conversion Period

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