

ABSTRACT

Globally, studies on how various working capital elements impact on the firm's profitability have focussed on listed firms and small businesses. The performance of the Kenyan sugar companies has for a long time been wanting given that they heavily rely from the Government to bail them out. Analysis of the financial statements of the local sugar companies show that even for the few that have posted profits. Studies in the past have attributed the challenges to delay of disbursement of funding from the national government. Financial management literature show that working capital management practices drive firm's financial performance. However, prior studies focus on working capital management practices in developed countries but none has been done in the Kenya Sugar Sector yet the Kenya Sugar industry strategic plan (2010-2014) confirms that this sector is a major employer and contributor to the national economy. There is no known study that has related working capital management elements to financial performance in the sugar sub-sector. Therefore the purpose of this study is to investigate the effect of working capital management on financial performance of sugar companies in Western Kenya. Specifically, the study seeks to: determine the effect of the cash conversion cycle on financial performance, establish the effect of inventory turnover period on financial performance, determine the effect of accounts receivables period on financial performance and establish the effect of accounts payables period on financial performance of sugar firms in western region. The study will be guided by Baumol, Keynesian and cash conversion theories. Correlation research design will be adopted. The population will comprise all the 12 sugar firms for the period 2012-2016 yielding 72 firm year observations. Data will be collected from secondary sources. Data analysis will be done using Pearson's correlation and multiple regression analyses. Data will be presented using tables, graphs and charts. The research findings may be significant to sugar industry working capital management policy makers in designing appropriate working capital elements and strategies that maximize the firm's value. It will also provide new empirical evidence on the working capital management practices and financial performance of sugar firms and form a basis for future research in the area.