ABSTRACT

Globally and regionally, the sugar firms strive to generate enough revenue to finance budget expenditures on physical and human capital development and promote long-term economic development. It is estimated that sugar firms employ 12,500 Kenyans in sugar plantations and processing firms. Local production of the firms saves Kenya more than US$ 250 million annually in foreign exchange earnings. Empirical evidence postulates that Kenya’s Vision 2030 may not be attained as the country may fail to achieve the projected annual growth of 10 percent in GDP. Whereas literature reveals fluctuating financial performance in the sugar firms, previous findings have not targeted contributions on liquidity, corporate governance and competitiveness on the financial performance of sugar firms. The poor financial performance of Kenyan sugar firms has made them heavily indebted to the tune of more than US$ 1 billion cumulatively as at year ending 2014. The sector is still unable to optimize revenue and actively contribute to the growth and development of the Kenyan economy. The aim of this study was to determine the effect of liquidity, corporate governance, and competitiveness on the financial performance of sugar firms in Kenya. The specific objectives were to determine the effect of firm liquidity current liability coverage ratios, the percentage of the board of directors’ expenses and operating costs, production costs per tonne on the financial performance of the firms in Kenya. The study was anchored on Resource-Based View, Liability Management, and Stakeholder and Classical theories. The study target population was five sugar firms on which census sampling was applied. Secondary data comprising, twelve years from 2005 to 2016. A cross-sectional retrospective research design was used for this study. Diagnostic tests were to identify the reliability and validity of the data. Panel correlation and multiple linear regression were used in the analysis. The estimation results indicated that there is a negative effect between corporate governance, competitiveness, firm age and management efficiency. Firm size had a positive effect, while; monetary policy had a negative effect on firm performance. Fixed effects panel regression results reveal that the effect between current liabilities coverage ratio and financial performance was negative at ($\beta = -0.052, p\text{-value} = 0.350$), and statistically insignificant at a 5% level of significance. Secondly, the study results showed that corporate governance, had a negative and significant effect on the financial performance with ($\beta = -0.066, p\text{-value} = 0.044$). The study results also established that competitiveness, as a proxy of the firm’s production costs per tonne, has a statistically significant negative effect on a firm’s financial performance with ($\beta = -0.308, p\text{-value} = 0.000$). On the controls adopted, it emerged that firm size had a significant positive effect on firm performance with ($\beta = 0.510, p\text{-value} = 0.000$). This conforms to theoretical expectations, that the larger the firm, the greater the market share it commands and thus the higher it’s financial performance. On management efficiency, the results show that it has significant negative effect on financial performance with ($\beta = -0.009, p\text{-value} = 0.007$) while changes in monetary policy have a negative effect on firm’s financial performance ($\beta = -0.011, p\text{-value} = 0.764$); although statistically insignificant. With respect to a firm’s age and financial performance, the study results showed that there exists a significant negative effect with ($\beta = -5.573, p\text{-value} = 0.000$). The study recommends consideration and planning of funding liquidity and the need for the sugar firms to increase their operating cash flow, to positively influence their financial performance. Furthermore, sugar firms need to keep their production costs optimal as high costs negate their financial performance. Moreover, the sugar firms should cut on board expenses and operating costs to strengthen the sector and firm’s the financial position. Further, research areas on regional comparative study applying the same variables with advanced market-based performance models such as Tobin’s Q and compare the effect which is more useful in a changing market. Other variables such as age of the directors and educational qualifications could also be considered in future studies. The findings of the study may help to develop a policy framework on financial performance to guide the different players in the sugar firms to improve the financial performance and contribute to the existing body of knowledge for future researchers on liquidity, corporate governance and competitiveness of sugar firms.