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INFLUENCE OF WORKING CAPITAL MANAGEMENT PRACTICES ON THE FINANCIAL PERFORMANCE OF TEAFACTORIES INKISII COUNTY, KENYA

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Abstract

For many years, the tea factories in Kenya have been sufferingfrom significant challenges. The challenges in variation of bonus pay in tea factories have been accreditedto poor management of working capital. The main objective of the study was to evaluate the effect of working capital management on the financial performance of tea Factories in Kisii County. The following specific objectives were used; to assess the extent to which level of liquidity affect financial performance, to examine the effect of inventory control on financial performance and to assess the effects of credit policy on financial performance. The study adopted descriptive research design. Research design is a systematic way that a researcher uses to conduct a scientific study. The target populations were 795 respondents who were working in Kisii county tea Factories. Stratified sampling technique was used to select 238 employees by applying (30%) of the target population. The researcher used questionnaires as the main tool for data collection. Data was analyzed using descriptive statistics such as percentage, mean, variance and standard deviation. The data analyzed was presented by use of tables and graphs. The data analyzed was presented by use of tables. The study found that liquidity level had a positive correlation to financial performance by return of equity; a unit increase in liquidity level would result to a decrease to return on assets of firms. The study concluded that tea factories converted stock quickly and sold to the market without with a loss regarding working capital management practices. The study found that inventory control had a positive correlation to financial performance to return on asset. The study recommends that liquidity of the tea factory should be easily converted but be maintained with account receivables as a working capital management practice. That tea factories should increase stock conversion in order to increase financial performance and inventory conversion should be depended on debtor's payment period of conversion. Also, tea factories shouldimprove on ways of credit management units by its finished goods for invested suppliers.

Keywords: Liquidity, inventory control, credit policy, financial performance

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I. INTRODUCTION

1.1 Background to the Study

Working capital management is important for achieving both financial performance and liquidity of business. In Pakistan efficient working capital management is the major challenge when it comes into manufacturing firms. Liquidity of the firm may result to tie up of funds in idle assets hence, reducing financial performance. The issue of capital management is still lacking proper management with no reaction to achieve business goals in order to maximize profitability of the firm and its liquidity. The working capital management involves debt management, marketable securities, credit management, inventory management and receivables and payables. Even firms are considering the most effective working capital management there is tiny impact in on both liquidity and performance of the firm (Reheman, 2017).

In Bangladesh the issue of profitability is challenged by working capital management in Pharmaceutical Companies. The determinant of working capital management has not been well established to improve profitability in Asian firms as it lagged behind the sight, since the finance managers of the company did not appreciate the role for WCM as the task taken as a whole in corporate strategy in creating value to shareholders. The efficient of working capital management is left on demand without control of sufficient amount of current assets and current liabilities employed to assist for optimal revenue (Mobeen, 2013).

In India, the implication of working capital management improves companies to maintain attractive revenues to their shareholders. In investment firms working capital should be used sufficiently to the necessity of the company. The use of excessive assets should be controlled since it impairer profitability fork to the idle cash which produce nothing at hand. The use of working capital is difficult to be maintained with TOBIN Q. TOBIN Q (firm value) = market value of equity plus book value of debt / total assets (Kumari,2013).

In Rwanda the optimality of working capital is the one in which the firm attain capital efficiency. The use of working capital requires constant supervision of liquidity levels to continue with proper use of cash, debtors, and inventory account payables. However, it is shown as a difficult assignment to approximate actual working capital required for operations, as firms depends upon their operational scale. The efficient of working capital management is most critical to maintain survival of the company's liquidity. The studies conducted are heavily worried on the solvency and performance of the organization assets (Mobeen, 2013).

The issue of working capital management is of big problem that cannot be favorable to all stakeholders. The inadequate development attached with poor working capital management

which increases farmers' losses. The implication of working capital management had influence to the aforesaid challenges on financial performance among tea factories which have been a major concern to determine financial performance. The insufficient amount of the firm's working capital management is threatening to the firm insolvency due to the inability to pay all business obligations. The components of working capital deals with net current assets which includes stock of the firm, debt management, loan borrowed and loan advances to cash balances while current liability comprise of trade borrowing, creditors and short term loans. In manufacturing working capital is used to acquire raw materials which later converted to finished products as credits are converted to receivables in closing stock. The company can start with credit from raw material to be paid later time after undergoing delay of sales due to inventory period. In operation management of companies working capital management is stages of length in payment and receivables due to cash management cycles. The use working capital management is used distinctly in manufacturing sectors which involves operations and cash cycles (Trivedi, 2015).

In Kenya supplier to tea factories are farmers who matters a lot to increase shorter revenues and long term revenue of tea Factories. In recent years farmer of tea leaves have not been enjoying the produce with well earning, but nowadays tea farmers are defecting. Working capital management decisions are very important to ensure all recurrent operating cost is rewarded for smooth running of the business operation attained. Several firms have botched due to its incapacity to finance their operational costs and failure to control working capital management in their individual firms. The implication of low returns has been influenced by its nature of the working capital management (Cheruiyot, 2016).In Kisii Tea factories are risk takers in price control and sell of harvested tea leaves from various collection points through price takers. The application of working capital management has not been well established in these tea factories since farmers are wondering about the payments they get upon their future markets even though Kenya is the leading tea growers over the world. The basis of the assumptions is theoretical which peg on cash received, inventories available, accounts payables and receivables that must be efficiently managed to aid valuable working capital management for optimal cash balances, with less expenses (Mohamed, 2016).

1.2 Statement of the problem

The fluctuation of bonus pay in tea factories has been attributed from unmanageable working capital. This is observed that bonus earnings were at 13.2billion in the year 2015 while in the 2016 was 11.1 billion. The decline in profits is throughout the years, the Tea factories in Kenya have been experiencing several challenges. Farmers are paid poorly and their debate is ongoing on the issue of low returns on tea farmers.

Chebet (2015) conducted a study on the effect inventory control on the financial performance of manufacturing firms in Nairobi County. The study aimed to analyze a study on the effect inventory control policies on the financial performance of 17 manufacturing firms. The study relied on secondary data from audited financial statements. The study used descriptive statics to analyze data. The study concluded that poor financial performance was attributed by trends of inventory control most firms affected by raw low amount of inventory conversion in selling finished products. The study applied a smaller sample size which included little representation of the respondents where the results cannot be generalized to other sectors hence failed to apply regression analysis.Michen, (2013) conducted a study of credit policy on financial performance. The study aim was to establish the effects of credit management on financial performance. The study adopted a sample of 64 respondents which were administered by the researcher. The study used descriptive statistics without inferential statistics to arrive at the findings of the study. The concluded that credit policy was held constant in the business for the purpose of improving financial performance. Therefore, the study failed to use correlation analysis to establish the relationship between credit policy and financial performance. The study intended to evaluate the effect of WCM on financial performance of firms in Tea factories in Kisii County.

1.3 Main Objective of the study

The main objective of the study was to evaluate the effect of working capital management on the financial performance of tea Factories in Kisii County.

1.3.1 Specific objectives

The following specific objectives were;

I. To assess the extent to which level of liquidity affect financial performance of tea Factories
II. To examine the effect of inventory control on financial performance of tea Factories
III. To assess the effects of credit policy on financial performance of tea Factories

II. LITERATURE REVIEW

2.1 Theoretical Framework

2.1.1 The Cash Conversion Cycle Theory

The theory was started by Rao in 1989. Theory states that firms plans to carry out high risk business where short term finances are applied to finance current asset. The theory is

characterized by low demand rates in cash. Therefore, it is important note that cash conversion is related to long term debt lower than short debts. This theory is useful with companies have huge capital. Working capital management provides current credit periods and has small amount of cash in hand holding inventory to the firm. The credit policy affects financial performance in tea factories (Mykhilo, 2013).The assumption of the theory is that cash conversion cycle is an inclusive indicator in net current asset. The theory indicates the duration of time between expenditure and acquisition of raw materials in sales collection. The adverse relationship between times of conversion is when cash is received from customers and firms performance. It also assumes that firms are profitable to enjoy little time for cash collection than profits earned. The cash conversion cycle theory work as a general estimation of working capital of the firm. The study of Cheruiyot (2016)adopted the theory to indicate its implication that the conversion of cash is timed for purchase of raw materials used for production.

The relevance of this theory to this study is that it can be used to analyze working capital management policy in controlling flow of firms operation. The application of this theory is to control internal use of funds to finance its operation without financial debts. The relevance of this theory indicated that most assetsare convertible to cash. The relevance of this theory is important in most aspect of capital management due to its aspects of managing liquidity in the firm performance. This informs the study in that tea factories develop credit policies in terms of credit items, and customer credit worthiness and ability to make payment.

2.1.2 The costs transaction Theory

This theory was started by Schwartz in 1974. Theory states that supplies may take advantage on traditional borrowers in investigating the real financial position and credit worthiness of the firm. In working capital supplier to company have good ability to manage and make repayment of credit. Many suppliers provide cost related to their financial performance. The transaction costs occurs when a good or services is transferred within working capital in separate interface in which one activity terminates one another (Senthilmani, 2013).The assumption of this theory is that transaction is seen as untrustworthy, hence there no other wise to occur low specified. The theory proves that cost is a crucial framework for decision in the firm. By reducing cost information between customers, clients and credit officers allow cost extension to improve financial performance. It has proved to resulting in higher aggregate customer base and low cost transaction (Karim 2016).

The theory is relevance as it informs the study that tea factories are managed with KTDA which will consider cost incurred in acquiring existing assets and timing of working capital. It also provides working capital a tool that weighing values for different characteristics of working capital and total weighted score of the assets values. The success of tea factories depends on the

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effectiveness of their working capital management, since these factories generate most of the income from assets, raw materials which forms inventory, and creditor extended to other firms.

2.2 Conceptual Framework

Independent Variable

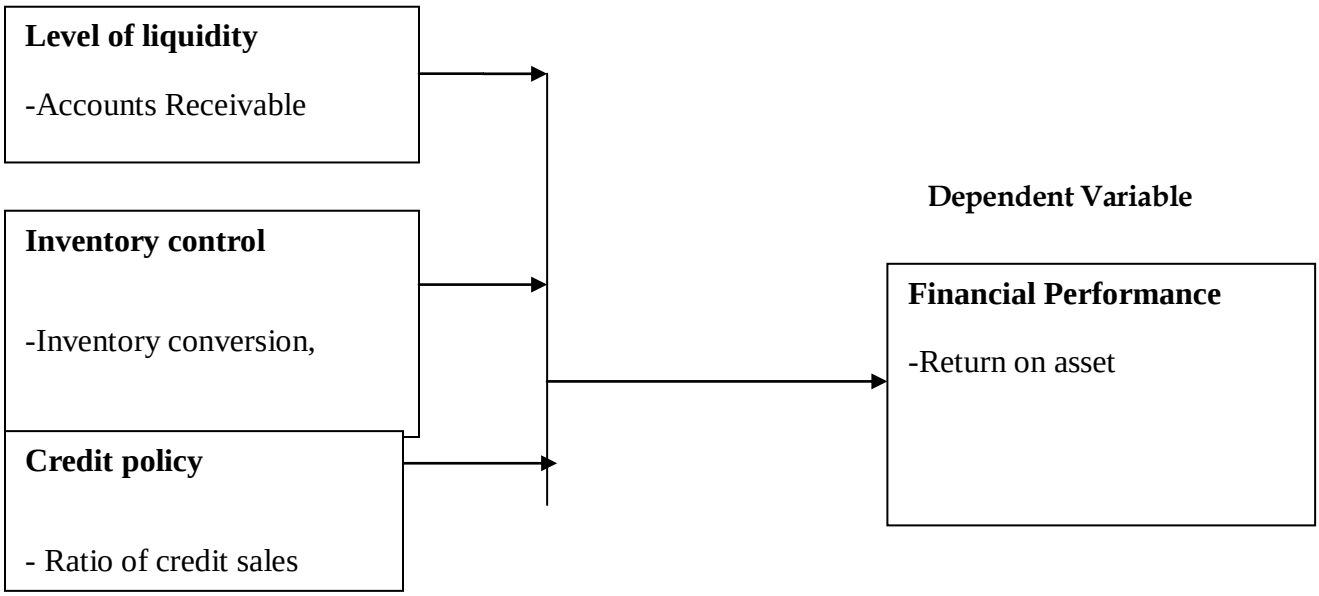

Figure 2.1 Conceptual Framework

2.3 Empirical Literature

Gamze (2012) studied the effect liquidity management on the firm performance. The study aim was to investigate the relationship between liquidity management and firm performance in Turkey. The collected data from 75 firms listed in Istanbul stock exchange from 2002 to 2009. The study used panel data analysis to determine the results. The findings indicated that there is increase of profitability with operating cost form cash collection and liquidity. The study also found that financial liquidity is controllable to improve performance. The study concludes that there exists a relationship between market value of the firm and profitability instead of findings on the liquidity management. The study recommended that liquidity should be increased with leverage to enhance performance. The study however fails to examine the relationship between the effect of liquidity of the firm and performance.

The study conducted by Senthilman (2013) on the effect of credit policy management on profitability. The study aim was to examine the effect of credit policy on profitability of the company. The sample was 78 respondents in manufacturing firms. The study adopted component analysis to analyze data collected from the questionnaires. Correlation analysis showed that credit policy which include raw materials work in progress and finished goods represents a very critical significant component of current liability. Further, findings show that efficient management of credit policy is great importance to a manufacturing firm. However, it failed to analyze credit policy together with receivables, cash, and credit and account payable which are effective for management of each component of working capital crucial to enhance value of the firm.

Ani (2013) examined the effect of credit management on profitability of top beer brewery firms in the world Asian. The study aimed to examine the effect of credit management on profitability of top beer brewery firms in the world Asian. The study used multiple regression analysis to analyze data collected from 45 respondents sampled from the firm through stratified random sampling techniques. The study indicated that manufacturing firm's investment in credit using working capital accounts for the largest cost of the firm about 30 to 40 percent of firm's total investment. Thus, credit management is of paramount importance to the firm's management usually but though not alwaysforprofit maximizing firms endeavoring to link a balance between current assets and current liabilities. However, the credit management is directly measured by number of sales on credit in terms of credit sales

Ayodele (2014) analyzed the effect of working capital management and financial performance of firms. The study concludes that financial performance has faced limitation due to delayed in offering the reports. The study further indicated that effectiveness of credit management enhances financial performance through generation of income from return on assets, savings and on loan extended to shareholders.

III. RESEARCH METHODOLOGY

3.1 Research Design

The study used descriptive research design. Kothari, (2004) describes research design as the arrangement of collection and analysis of data. It is the blue print for collection, measurement and analysis of data and provides a conceptual structure within which any research is conducted.

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3.2Target Population

In this study, the target populations was 795 employees who weredistributed into factory accountants, credit officers, and store keepers working in tea Factories. The study targeted 6 tea factories in Kisii County.

Table 1 Target Population

Factory	Manager	Factory accounts	Store keepers	Credit officers	Total
Ogembo	1	6	5	78	90
Eberege	1	6	4	59	70
Nyamache	1	6	4	109	120
Itumbe	1	6	4	119	130
Kiamokana	1	6	5	308	320
Rianyamwamu	1	6	3	55	65
Total	6	**36**	**25**	**728**	**795**

3.3 Sample Size and Sampling Procedure

The study sampled 244 respondents through use of census to select 6tea factory managers and 238 employees stratified sampling by 30 % of the target population for other employees according to Mugenda (2003) as the sample size because the number of respondents is appropriate for the study.

Table 2 Sample Size

Factory	Factory accounts	Store keepers	Credit officers	Total
Ogembo	2	2	23	27
Eberege	2	1	18	21
Nyamache	2	1	33	36
Itumbe	2	1	36	39
Kiamokana	2	2	92	96
Rianyamwamu	2	1	16	19
Total	**12**	**8**	**218**	**238**

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3.4 Data Collection Instruments

The study relied on primary data from the entire population which was quantitative in nature. The researcher used structured questionnaires as the tools for data collection. The questionnaire was taken to the respondents by the researcher administering the questionnaire personally. The questionnaire was chosen as a method to gain a picture of practice in the area of working capital management for the sample size for the study.

3.5 Data Analysis

Data was analyzed using statistical methods where classifications and tabulations will be used to summarize data. The raw data from the questionnaires were exported into Microsoft excel for easy analysis. Microsoft excel was used because it create appropriate figures and charts to identify key trends, similarities and differences in the data was analyzed (King, 2010). These was enabled the researcher to deal with organization and presentation of collected data.Quantitative methods were used to analyze data. Quantitative data was used for analysis using descriptive statistics such as percentages and means with the help of Statistical Package for Social Sciences. Data analyzed was presented in figures and tables.

Correlations and Regression analysis was used to establish the relationship between variables. Analytical model was simple regression model which was used to study the effect of the independent variable on dependent variable by computing the regression coefficients of linear function. The model for this study was summarized as:

$Y = \beta_o + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$

Y= the dependent variable (Financial performance)

Where: X_1 = Level of liquidity

X_2 = Inventory control

X_3 = Credit policy

β_1, β_2, β_3, are the coefficients of proportionality for liquidity, inventory control and Credit policy respectively

ε = Error of margin

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IV. RESULTSAND DISCUSSION

4.1 Response Rate

A total of 269 questionnaires were administered. At the end of the data collection period, 240 questionnaires were duly filled and returned while 29 were never returned. Data collection was conducted in a period of three weeks and was summarized as shown in Table 4.1.

Table 4: Response Rate

	Questionnaires	Percentage
Filled and Returned	240	89
Did not respond	29	11
Total	269	100

Kothari (2014) show that 50% response rate is adequate, 60% good and above 70% rate very good. This implies that based on this assertion, the response rate in this case of 89% was very good. The above data can be represented in percentages as shown in Table 4.1 above whereby questionnaires returned are represented by 11% while the duly filled were correspond to by 89%.

4.2 Descriptive Statistics

4.2.1 Level of liquidity

The study sought to establish the effect of increasing profitability from cash receivables. The respondents were asked to indicate their level of agreement, either strongly agree, agree, neutral, disagree and strongly disagree. The results were displayed in table 5.

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Table 5 Liquidity

	Mean	Std. Deviation
Increase of profitability with operating cost from cash receivables	3.39	.966
Accounts receivable improves financial growth of the company	3.42	.990
Financial needs for the firm not to involve other financial debts	3.13	1.053
A firm can lead to a decision of using long- term capital	3.76	.923
Liquidity conversion to cash and firm size is easy	2.10	1.129
liquidity levels to continue with proper use of cash	2.94	1.100
It plays important role when there is availability of cash, savings in terms of liquid assets	3.70	.917
Liquid assets are believed is easy to convert without loss	2.19	1.024
Liquidity trap is highly employed to expand monetary policy	3.77	.761
It does not have influence on interest rates, income and growth	3.09	1.139

The study showed that use of Liquidity trap is highly employed to expand monetary policy had a mean of 3.77 with a standard deviation of.761, a firm can lead to a decision of using long- term capital had a mean of 3.76 with a standard deviation of .923, It plays important role when there is availability of cash, savings in terms of liquid assets had a mean of 3.70 with a standard deviation of.917, Accounts receivable improves financial growth of the company had a mean of 3.42 with a standard deviation of.990, Increase of profitability with operating cost from cash receivables had a mean of 3.39 with a standard deviation of.966, Financial needs for the firm not to involve other financial debts had a mean of 3.13 with a standard deviation of 1.053, It does

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not have influence on interest rates, income and growth had a mean of 3.09 with a standard deviation of 1.139, liquidity levels to continue with proper use of cash had a mean of 2.94 with a standard deviation of 1.100, Liquid assets are believed is easy to convert without loss had a mean of 2.19 with a standard deviation of 1.024 and Liquidity conversion to cash and firm size is easy had a mean of 2.10 with a standard deviation of 1.129.From the results, it was indicated that use of Liquidity trap was highly employed to expand monetary policy with working capital management practices which had the highest mean of 3.77 with a standard deviation of.761 while Liquidity conversion to cash and firm size is easy had lowest mean of 2.10 with a standard deviation of 1.129.

4.2.2 Credit policy

The study sought to analyze whether Credit policy has influence on interest rates, income and growth of the factory when dealing with creditors (suppliers of the factory and if any loan lend to the factory.

Table 6 Credit policy

	Mean	Std. Deviation
Maintain finished goods by credit standards	4.03	.954
Sufficient credit management is invested	3.19	1.353
Credit policy is a ratio of credit sales of net present value	3.40	1.280
Need to enables credit sales	3.91	.900
Credit conversion are payable at deferral time	3.80	1.006

Valid N (listwise)

The result show that maintain finished goods by credit standards had a mean of 4.03 with standard deviation of .954 Need to enables credit sales had a mean of 3.91 with standard deviation of.900, Credit conversion are payable at deferral time had a mean of 3.80 with standard deviation of 1.006, Credit policy is a ratio of credit sales of net present had a mean of 3.40 with standard deviation of 1.280, Sufficient credit management is invested had a mean of 3.19 with standard deviation of 1.353.

From the results, it was indicated that maintain finished goods by credit standards had the highest mean of 4.03 with standard deviation of .954 and sufficient credit management is invested had the lowest mean of 3.19 with standard deviation of 1.353

4.2.2 Inventory control

The study sought to examine the extent to which Inventory control affect financial performance of tea factories.

Table 7 Inventory control

	Mean	Std. Deviation
Method of inventory conversion is inimical returns on financial performance	2.04	.845
Inventory and firm size depends on total assets	4.00	.763
Stocks kept can be converted quickly or sold to the market without	4.37	.484
Cash equivalents are also used in liquidity through market	3.33	1.058
Low amount of inventory conversion	1.64	.561
Valid N (listwise)		

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The study showed that Stocks kept can be converted quickly or sold to the market without had a mean of 4.37 with a standard deviation of 0.484, Inventory and firm size depends on total assets had a mean of 4.00 with a standard deviation of .763, Cash equivalents are also used in liquidity through market had a mean of 3.33 with a standard deviation of 1.058, Method of inventory conversion is inimical returns on financial performance had a mean of 2.04 with a standard deviation of .845 and Low amount of inventory conversion had a mean of 1.64 with a standard deviation of.561.

The result indicated that stocks kept can be converted quickly or sold to the market without had the highest mean of 4.37 with a standard deviation of 0.484 and low amount of inventory conversion had the mean of 1.64 with a standard deviation of.561.

4.2.4 Financial performance

The study sought to establish the extent to analyze return on asset of tea factories in Kisii County.

Table 8 Return on Asset

	N	Minimum	Maximum	Mean	Std. Deviation
Asset base	240	1	5	3.71	1.005
Profit after tax	240	2	5	4.09	1.088
Total assets	240	1	5	3.25	1.083

The study shows that Inventory control at minimum response of 2, maximum response of 5 had a mean of 4.09 with a standard deviation of 1.088, Liquidity had a mean of 3.71 with a standard deviation of 1.005, and Credit policy had a mean of 3.25 with a standard deviation of 1.083. This indicated that Inventory control had highest mean of 4.09 with a standard deviation of 1.088 and credit policy had the lowest mean of 3.25 with a standard deviation of 1.083.

4.3 Correlation analysis

The study pursued to establish the link between working capital management practices affect financial performance of tea factories in Kisii County.

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Table 9.Correlation matrix of working capital management

		Liquidity	Credit policy	Inventory control
Liquidity	Pearson Correlation	1	-.007	.057
	Sig. (2-tailed)		.911	.376
	N	240	240	240
Credit policy	Pearson Correlation	-.007	1	-.112
	Sig. (2-tailed)	.911		.085
	N	240	240	240
Inventory control	Pearson Correlation	.057	-.112	1
	Sig. (2-tailed)	.376	.085	
	N	240	240	240

The study shows that liquidity of the factory is positively correlated to financial performance, credit policy r= -0.007 indicated a negative correlation and inventory control with r= 0.057 indicated a positive correlation. The study however showed that working capital management affect financial performance.

4.4 Regression analysis

An adjusted R square of .927 indicated that that 92.7%of the variation financial performance can be explained by working capital management practice with liquidity, credit policy and inventory control while the other percentage can be explained by other variables which are executed in the model.

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Table 10 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.963[a]	.927	.691	3.00616

a. Predictors: (Constant), Liquidity, Inventory control, credit policy

The study showed that Regression coefficients (R= 0.963) predictor financial performance could be explained by return on asset could be predicted by return on asset the variables under study up to 93.6%. From this study, working capital management practices can predict financial performance by return on asset. However, this study it only predicted financial performance by return on assetat 93.6% while other variable remain with different practices. This can be agreed with Muturi (2015) who showed that working management practices was statistically significant effect on financial performance by return on assets.This study implied that working management practices had statistically significant effect on financial performance.

The study established the relationship between variables the researcher has conducted inferential statistics on the criterion variable. The results were presented by table 11

Table 11 ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	111.036	3	37.012	4.096	.010[b]
	Residual	596.443	76	9.037		
	Total	707.479	79			

a. Dependent Variable: Return on asset
b. b. Predictors: (Constant), credit policy, Liquidity, Inventory control

An F statistics of 4.096 and p value of 0.010 showed that working capital management practices; liquidity, inventory control and credit policy had a joint significance on financial performance by return on asset.

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From the ANOVA results, the p-value 0.000 was analyzed means that regression model was statistically significant in predicting the relationship between credit policy, liquidity, inventory controland financial performance by return on asset and the predictor variables was less than 5%. By use of the F* test table (5%, 3) tabulated value was 4.096 which was not more than the calculated at p=.010[b]indicated that the model was significant. The ANOVA confirms that the model was fit to predict the relationship between working capital management and financial performance using return on asset.

Regression coefficients were used to test the linear relationship between working capital management practices and financial performance.

Table 12 Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	9.315	.620		15.024	.000
Liquidity	.681	.327	.028	2.08	.006
Inventory control	.817	.401	.203	2.04	.010
credit policy	-.634	.218	-.248	-2.90	-.060

a. Dependent Variable: Return on asset

Table 11 showed the established regression equation as $Y= 9.315+ 0.681X_1 + 0.817X_2- 0.634X_3$

X_1- Liquidity, X_2- Inventory control, X_3 - Credit policy.

From the equation, it was established that unit increase in Liquidity is statistically significantat 0.006 less than the calculated probability value pv(0.05)would result to an increase to return on assets of firms by 68.1%, unit increase in inventory control is statistically significantat 0.010 less than 0.05 which results to increase in return on assets of firms by 81.7%, unit increase in Credit policy would result to a decrease in return on asset of firms by 81.7% statistically insignificant by 0.06 more than calculated probability value 0.05 and generally a unit increase in capital

management practice would result to an increase in return on asset of firms by 9.315. All the variables were insignificant P was more than 0.05.

The findings indicated that there was a positive relationship between working capital management practices and financial performance of firms among tea factories. The study further revealed that there was a positive relationship between working capital management practices and financial performance.

V. CONCLUSION AND RECOMMENDATION

From theresults, it was indicated that unit increase in Liquidity is statistically significantat 0.006 less than 0.05 would result to an increase to return on assets of firms by 68.1%, unit increase in Credit policy would result to a decrease in return on asset of firms by 81.7% statistically insignificant by 0.06 more than 0.05 and unit increase in capital management practice would result to an increase in return on asset of firms by 9.315. All the variables were insignificant P was more than 0.05.The study sought to analyze whether Credit policy has influence on interest rates, income and growth of the factory when dealing with creditors (suppliers of the factory and if any loan lend to the factory. It was shown that the majority of the respondents agreed, that Credit policy has influence on interest rates, income and growth of the factory when dealing with creditors (suppliers of the factory and if any loan lend to the factory.

The study shows that Inventory control at minimum response of 2, maximum response of 5 had a mean of 4.09 with a standard deviation of 1.088, Liquidity had a mean of 3.71 with a standard deviation of 1.005, and Credit policy had a mean of 3.25 with a standard deviation of 1.083.The study sought to establish the relationship between working capital management practices affect financial performance of tea factories in Kisii County.The unit increase in inventory control is statistically significantat 0.010 less than 0.05 which results to increase in return on assets of firms by 81.7%.

The study recommends that liquidity of the tea factory should be easily converted but be maintained with account receivables as a working capital management practice. That tea factories should increase stock conversion in order to increase financial performance and inventory conversion should be depended on debtor's payment period of conversion. Also, tea factories should improve on ways of credit management units by its finished goods for invested suppliers.

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