

Effects of Working Capital Management on Profitability of Tea Trading Companies – A Case of Chai Trading Company Limited

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Abstract

The study was intended to examine the effect of working capital management on profitability of tea trading companies with Chai Trading Company Limited (CTCL) as a case study. CTCL is the trading arm of Kenya Tea Development Agency (KTDA). Lately, CTCL has been associated with cash flow mismatch between inflows and flows occasioned by working capital elements which are affecting its profitability as a tea trading company. While available empirical data provides an insight on the roles of capital management practices that CTCL has adopted such as Inventory, Debtors, Creditors and Overdraft management practices, they have not effectively illustrated the specific effects of the practices on profitability of the company. The study therefore sought to make its contribution in sealing the existing research gap by establishing the effects of the company's working capital management practices on its profitability. A descriptive survey study involving 36 senior personnel in Executive Management, Finance, Freight, Trading and Chai DMCC divisions of CTCL were selected through stratified random sampling to provide data for the study. The dependent variable for the study was profitability while the independent variables were Inventory, Debtors, Creditors and Overdraft management practices. The specific objectives of the study were; to determine the extent to which inventory management affects the profitability of tea trading companies, to investigate the extent to which debtors management affects the profitability of tea trading companies, to examine the role of creditors management on profitability of tea trading companies and to establish how overdraft management affects the profitability of tea trading companies. Data was obtained from the respondents using a questionnaire which was then analyzed using ANOVA and Pearson's correlation coefficient. The ANOVA results showed that there exist a significant mean difference between Inventory, Debtors and Creditors management practices on one hand and profitability on the other hand at 0.05 level of significance. Pearson correlation coefficient showed that debtor management is the most significant working capital management practice for CTCL followed by creditor management then inventory management and lastly overdraft management in decreasing order of effect. It is therefore recommended that the management of CTCL enhance the process of inventory cycle management, improve the company's debt collection and ensure that the company fully utilizes its credit facilities with suppliers within the optimal range.

Keywords: Tea trading companies, Working capital, Profitability

1. Introduction

Chai Trading Company Limited is a wholly owned subsidiary of KTDA which based in Mombasa, Kenya and charged with the tea trading activities within the group. This entails buying teas at the Mombasa Auction and selling to overseas buyers in leading tea markets; mainly, Pakistan, Afghanistan, Egypt, Sudan, Iran and Kazakhstan. The teas purchased from the auction must be paid for within 10 days from purchase date while the customers who buy the teas pay mostly 30 days after shipment date. The tea produced in Kenya is mainly the black CTC tea that is predominantly for export in bulk form to overseas markets where it's further processed and packaged in tea value added form before being distributed for consumption.

As a result of the bulk form exports, tea trading business in Kenya is capital intensive. Just like many other companies in the industry, CTCL operates US Dollar denominated overdraft facilities with commercial banks to help it fund the working capital requirements of the trade. The overdraft has limits and attracts interest expense that is a finance cost which affects company profitability. The teas purchased are held in stock as inventory awaiting completion of export processes such as arrival of target vessel and opening of cargo acceptance as well as custom documentation. This generally takes two to three weeks from purchase date.

Trade debtors are mainly customers in the overseas markets who send auction bids to CTCL with instructions to buy on their behalf from the tea auction held on Tuesdays (except public holidays) at specific price levels, type of teas quantities. Once the teas have been purchased and shipped, the Bill of Lading is issued by respective shipping lines to the shipper. Given that this shipments are CIF (Cost Insurance Freight paid), ownership, title and risk are deemed to change hands from seller to buyer at this point; therefore the buyer is invoiced at by CTCL. Most debtors pay 30 days after shipment of teas although the vessel voyage only takes 7 to 14 days to arrive at ports of discharge. The payment mode is predominantly by Telegraphic Transfer.

Therefore, the working capital elements at CTCL are debtors, inventory, creditors and overdraft. The whole period from purchase of teas through to payment by overseas debtors is referred to as Cash Conversion Cycle.

Richards and Laughlin (1980) identified the Cash Conversion Cycle (CCC) as one of the standard performance measures to evaluate how well a firm does in terms managing the working capital. In the context of this study, the cash conversion cycle at CTCL is being examined to determine the extent to which each element specifically affects profitability of the entity and how they combine to generally affect the profitability of the company.

2. Literature Review

Working capital management is the interaction between current assets and current liabilities to produce optimal financial performance in a firm. The optimal point is a trade-off point between investment elements and financing elements of working capital (Moyer, Mcguigan and Kretlow, 1998). In order to minimize liquidity risk and maximize profitability, managers adopt differing risk attitudes (Van Horne and Wachowicz, 1998), by comparing the levels of current assets against volume of sales or production which are briefly examined under the following approaches;

Maturity matching approach presumes temporary current assets are to be financed with current liabilities while the permanent portion of current assets and fixed assets are to be financed with long-term debt and equity capital. From this approach, the firm would need to reduce short term borrowings when sales are low and adjust borrowing upwards when sales are high without reference to equity and long term debt (Van Horne and Wachowicz, 1998).

Aggressive working capital approach entails financing a portion of the permanent current assets and all temporary current assets with short-term debt. This approach puts the firm at an elevated risk of technical insolvency. The frequency of refinancing the short-term debt increases the risk that the firm will be unable to obtain new financing when need arises. In conservative working capital approach, all the fixed assets and permanent current assets as well as a certain portion of the temporary (or fluctuating) current assets are financed with long term debt and equity capital. This puts the firm at a minimum risk of not being able to reschedule its short-term debt.

Firms are guided by various principles in determining how they manage their working capital. These principles include, principle of risk variation where working capital is varied relative to sales (presumed to represent risk), principle of equity position where working capital is influenced by equity injection level, principle of cost of capital where organizations are conditioned to invest their the working capital in current assets in line with their capital structure and principle of maturity of payment which advocates organizations to gear their effort towards relating maturity of payments to their flow of internally generated funds

Deloof (2003) studied the effect of working capital management on Belgian firm's profitability; his research findings revealed that the profitability can increase by reducing the length of the cash conversion period. The results further emphasized the importance of management working capital efficiency to increase firm profitability. These findings are further corroborated by Lazaridis and Tryfonidis (2006) who found that cash conversion cycle associated negatively with gross profit hence firms should efficiently manage their working capital in order to maximize profit and increase value of the firm. Nobanee, Abdullatif and Al Hajjar (2011) argue in their findings of studying Japanese companies that performance of the firm can be improved through efficiently managing working capital. Samiloglu and Demirnes(2008) examined the effect of working capital management on profitability for a sample of Turkish companies, for the period of 1998-2007. Empirical findings show that accounts receivables period, inventory period, creditor days and leverage affect firm profitability negatively.

2.1. Conceptual Framework

Independent variables Dependent variable

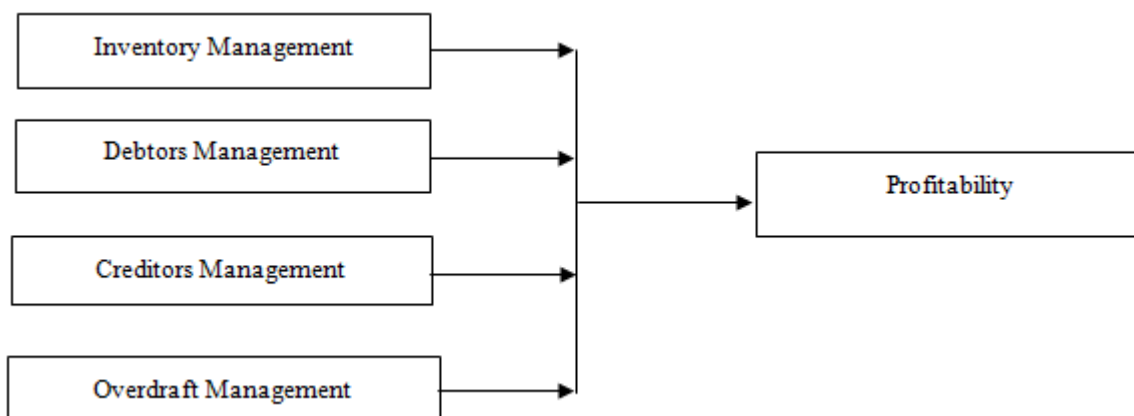


Figure 2.1 Conceptual Framework

Figure 2.1 above, conceptualizes how the identified independent variables relate to profitability of tea trading

companies as epitomized at Chai Trading Company Limited. Management of the independent variables which are overdraft, creditors, debtors and inventory management affects the profitability of tea trading companies.

2.1.1 Inventory Management

Inventory constitutes the stocks purchased and held for purposes of sale after undergoing production/value addition process. Inventory is mainly held in form of raw materials, work in progress and finished goods. There are three motives for holding inventories – the transactions motive, the precautionary motive and the speculative motive. The transaction motive emphasizes on the need to maintain inventory in order to facilitate smooth production and sales operations. Inventory held for precautionary motive guards against the risk of unpredictable changes in inventory price, demand and supply factors. The speculative motive refers to carrying inventory in order to take advantage of unpredictable changes in inventory price. To be effective, management has to apply a system to keep track of inventory on hand and on order, knowledge of lead times and its variability, a reliable forecast of inventory demand and reasonable estimates of inventory holding, ordering and shortage costs (Stevenson, 1982).

Inventory management is the art of managing the amount of stock held in various forms of inventories within a firm in order to efficiently and economically meet the demands for products. As Ross et al. (2008) observed the Economic Order Quantity model, as one of the most reliable approaches of determining the optimal inventory level takes into account the inventory carrying costs, inventory shortage costs and total costs helps in the determination of the appropriate inventory levels to hold.

2.1.2 Debtors Management

Provision of trade credit is normally used by businesses as a marketing strategy to expand or maintain sales. Efficient receivables management augmented by a shortened average collection period, low levels of bad debts and a sound credit policy often improves the businesses' ability to increase revenue at no extra cost in terms of working capital financing; in effect increasing profitability. Credit control mechanisms which are central to credit management begins with establishment of a credit control policy which determines the credit limits in monetary terms and age limits in days each customer is allowed to have. The controlling process is intended to detect deviations from policy and to provide signals of deviations from expectations (Scherr, 1989). Michalski (2007) observes that an increase in the level of accounts receivables in a firm increases both the net working capital and the costs of holding and managing accounts receivables; both lead to a decrease in the value of the firm. A study by Juan and Martinez (2002) emphasized that firms can create value by reducing their average collection period which corroborates the findings of Deloof (2003) who established that extended length of receivables collection period has a negative effect on a firm's performance.

2.1.3 Creditors Management

Firms would rather sell for cash than on credit, but competitive pressure forces most companies to offer trade credits. Unlike credit from financial institutions, trade credit does not rely on formal collateral but on trust and reputation (Fafchamps, 1997). Trade credits create the accounts payable which is a form of short-term financing common to all businesses with a credit purchase policy. There are three types of credit: open account, promissory note payable and trade acceptance (Van Horne, 1980). The most common type is the Open Account arrangement, where the seller ships goods to the buyer along with an invoice that specifies the goods shipped, the price, the total amount due and the terms of sale. Trade credit is an alternative financing choice to the short-term borrowing which comes at no interest cost; however, opportunity costs associated with delayed payment can be built in price of raw materials and services rendered ultimately affecting profitability in a negative way.

2.1.4 Overdraft Management

Overdraft is short term financing by financial institutions which allows the bank to honour an entity's payment obligations in excess of the amount of funds available in the organizations account at the time of transacting. The payment is cleared for settlement subject to pre-signed agreements defining overdraft limit and terms of use of the facility which typically includes some form of guarantee such as cash covers or corporate guarantees. The bank extends the loan to the organization for the amount necessary to cover the payment. So, the firm does not hold cash balances; it simply borrows whatever cash it needs for transaction purposes from the bank and pays the market interest rate, as transaction costs on borrowings (Kaen, 1995). The overdraft facility is one of the ways organizations can alleviate the liquidity problems caused by cash flow imbalance between current assets and current liabilities (payables) within the trading cycle. Over draft can be viewed as short-term debt negotiated with banks or financial institutions that could be used as permanent source of financing if the debt is continually refinanced as it matures (Flannery and Rangan, 2006).

3. Research Methodology

3.1 Research Design

The study adopted descriptive survey design. This design was preferred because the study aimed at establishing the company's past financial performance as well as its working capital management practices. According to Cohen and Manion (1994) descriptive study is concerned with finding out who, what, where, when and how

much of a phenomenon, which was the concern of the study. A descriptive survey was considered appropriate as it enabled the researcher to collect a considerable amount of information required for generalization.

3.2 Sample size

A sample is any number of cases less than the total number of cases in the population from which it is drawn Ingule and Gatumu (1996). The study adopted census survey considered appropriate due to the relative small size of the population. Orodho (2009) recommends a sample of 10% and above as representative of a population. In this study, a sample size of 46 respondents representing 25% of the total Chai company limited employees was sampled. However 36 returned fully filled questionnaires representing 78.3% of the sampled population. Stratified, random sampling method was used to select respondents from various sections within the company.

3.4 Data Collection Instrument

The study collected both primary and secondary data. Primary data was collected using a questionnaire designed by the researcher in consultation with research experts in the school of business administration of Jomo Kenyatta University. In the questionnaire administered, closed ended questions which are of Likert type were used. Likert scale used comprises of 5 response categories selected because they are convenient in quantitative analysis. There were also open ended question to help gather richer qualitative data.

3.5 Data Processing and analysis

The data collected was edited to ensure consistency across respondents and accuracy. To permit quantitative analysis, the data was coded and analyzed quantitatively using descriptive statistics in the form of mean, standard deviation and frequency tables with the aid of Statistical package for Social Sciences (SPSS) version 20. The processed data was then presented in form of tables, frequencies and percentages. With regard to the relationship between the dependent and independent variables, inferential statistics such as Analysis of variance (ANOVA) and Pearson's correlation coefficient were used.

4. Data Analysis

4.1 Introduction

This chapter presented an analysis of data collected from employees in senior management positions in various departments within Chai Trading limited and discusses the findings. Data analysis and report of findings was done using descriptive statistics in the form of tables, frequencies and percentages. For analyses of the relationships between independent and dependent variables inferential statistics such as Analysis of variance (ANOVA) and Pearson's correlation coefficient were used.

4.2 Effect of Inventory Management on Profitability of Tea trading Companies

The study sought to determine the extent to which inventory management affects profitability of tea trading companies. The results are analyzed and presented below;

Table 4.1 Correlation between Inventory Management and Profitability

Quarter / Year	2009	2010	2011	2012
1 st	0.596**	0.122	-0.115	0.424**
2 nd	0.265	0.343*	0.051	-0.080
3 rd	0.221	0.172	0.067	0.383*
4 th	0.033	0.379*	0.464**	-0.297

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

*. Correlation is significant at the 0.05 level (2-tailed).

An analysis of the relationship between the inventory holding period and profitability shows that inventory holding period is negatively correlated to profitability. For instance, taking the figure of 2009, there is a gradual decrease in inventory holding period from first to fourth quarter against an increasing profit before tax over the same period which translates into decreasing R values (Table 4.1) signifying that inventory holding period is negatively correlated to profitability. This is also confirmed by the figures for the other years over the same period.

Table 4.1.1 Effect of Inventory holding period on Profitability (ANOVA)

Dependent variable		Sum of Squares	df	Mean Square	F	Sig.
Profit before tax	Between Groups	939321.741	8	117415.218	583.485	.000
	Within Groups	5433.231	27	201.231		
	Total	944754.972	35			
Gross profit margin percentage	Between Groups	.105	8	.013	321.312	.000
	Within Groups	.001	27	.000		
	Total	.107	35			
Profit margin percentage	Between Groups	.856	8	.107	10.859	.000
	Within Groups	.266	27	.010		
	Total	1.122	35			

From Table 4.1.1 which gives a summary of the respondents' ANOVA score on effects of inventory management on the profitability of the company, the ANOVA results { $F=583.485$; $df=8$; 27 ; $P=0.000$ } shows that the observed mean difference was significant at 0.05 level of significance. This means that the respondents who scored highly on the elements also tend to believe that maintenance of inventory significantly affected the company's profitability. Similar results were obtained with gross profit margin percentage { $F=321.312$; $df=8$; 27 ; $P=0.000$ } and profit margin percentage { $F=10.859$; $df=8$; 27 ; $P=0.000$ }. This finding which confirms the significance of maintenance of inventory management tallies with that of Deloof (2003) who observed that the inventory conversion period has a negative effect on a business's performance. However, most of the respondents indicated that inventory maintenance was administratively expensive since it involves record keeping and continuous stock taking thus was a challenge. The other challenge listed was the possibility of the company incurring loss through theft or pilferage

4.2 Effect of Debtors Management on Profitability of Tea trading Companies

The second objective of the study was to establish the effect of debtor management on profitability of tea trading company. The results are analyzed and presented below;

Table 4.2 Correlation between Debtor Management and Profitability

Quarter / Year	2009	2010	2011	2012
1 st	0.330*	-0.172	0.167	0.233
2 nd	0.725**	0.142	0.001	0.006
3 rd	0.639**	-0.241	-0.052	0.037
4 th	0.181	-0.666**	0.150	0.031

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

* Correlation is significant at the 0.05 level (2-tailed).

Analysis of the relationship between debtor management in terms of debt collection period and profitability shows that debt collection is positively correlated to profitability. For instance, taking the figure of 2009, there is a gradual decrease in debt collection period from first to fourth quarter against an increasing profit before tax over the same period which translates into increasing R values (Table 4.2) signifying that debt collection period is positively correlated to profitability. This is also confirmed by the figures for the other years over the same period.

Table 4.2.1 Effect of Debtor Management on Profitability (ANOVA)

Dependent variable		Sum of Squares	df	Mean Square	F	Sig.
Profit before tax	Between Groups	939423.072	7	134203.296	704.757	.000
	Within Groups	5331.900	28	190.425		
	Total	944754.972	35			
Gross profit margin percentage	Between Groups	.105	7	.015	269.241	.000
	Within Groups	.002	28	.000		
	Total	.107	35			
Profit margin percentage	Between Groups	.640	7	.091	5.299	.001
	Within Groups	.483	28	.017		
	Total	1.122	35			

Results in Table 4.2.1 which gives an ANOVA analysis of the effects of debtor management on profitability of tea trading company shows that at 0.05 level of significance, the results { $F=704.757$; $df=7$; 28 ; $P=0.000$ } means that there was significant mean difference on the elements. This means that most of the respondents were positive that the company's debt management significantly affected its profitability. Similar results were also posted against gross profit margin percentage { $F=269.241$; $df=7$; 28 ; $P=0.000$ } and profit margin percentage { $F=2.299$; $df=7$; 28 ; $P=0.001$ } at 0.05 level of significance. This finding augers well with that of Sushma and Bhupesh (2007) who affirmed that, putting in place a sound credit policy ensures proper debt collection procedures and is fundamental to improving efficiency in receivables management hence the performance of firms. Ross et al., (2008) maintained that firms that are efficient in receivables management should determine their optimal credit which minimizes the total costs of granting credit. Michalski (2007) on his part observes that an increase in the level of accounts receivables in a firm increases both the net working capital and the costs of holding and managing accounts receivables; both lead to a decrease in the value of the firm. Lazaridis and Dimitrios (2005) found out that firms that increase their accounts receivables to an optimal level increase their profitability as well as their sales and market share. The respondents however indicated that the probability of some debtors defaulting on payment, the possibility of the company facing liquidity problems due to working capital being tied up in debt and the risk of the company facing insolvency were some of the challenges due to debt management that the tea trading company faced

4.3 Role of Creditors Management on Profitability of Tea trading Companies

The study sought to establish the role of creditors' management relative to the profitability of tea trading

company. The results are analyzed and presented below;

Table 4.3 Correlation between Creditor Management and Profitability

Quarter / Year	2009	2010	2011	2012
1 st	0.668**	0.088	-0.092	0.045
2 nd	0.928**	0.540**	-0.128	0.168
3 rd	0.201	0.365*	-0.479**	0.103
4 th	-0.064	-0.177	0.180	-0.195

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

*. Correlation is significant at the 0.05 level (2-tailed).

An analysis of the relationship between credit management in terms of credit deferral period and profitability shows that credit deferral is negatively correlated to profitability. For instance, taking the figure of 2009, there a gradual decrease in credit deferral period from first to fourth quarter against an increasing profit before tax over the same period which translates into increasing R values (Table 4.3) signifying that credit deferral period is negatively correlated to profitability. This is also confirmed by the figures for the other years over the same period.

Table 4.3.1 Effect of Creditor's Management on Profitability (ANOVA)

Dependent variable		Sum of Squares	df	Mean Square	F	Sig.
Profit before tax	Between Groups	941742.678	5	188348.536	1875.798	.000
	Within Groups	3012.295	30	100.410		
	Total	944754.972	35			
Gross profit margin percentage	Between Groups	.065	5	.013	9.496	.000
	Within Groups	.041	30	.001		
	Total	.107	35			
Profit margin percentage	Between Groups	.708	5	.142	10.249	.000
	Within Groups	.414	30	.014		
	Total	1.122	35			

From Table 4.3.1 which gives a summary of the respondents' ANOVA score on effects of creditors' management on the profitability of the company, the ANOVA results {F=1875.798; df=5; 30; P=0.000} shows that the observed mean difference was significant at 0.05 level of significance. This means that the respondents who scored highly on the elements also tended to believe that creditor management significantly affected the company's profitability. Similar results were obtained with gross profit margin percentage {F=9.496; df=5; 30; P=0.000} and profit margin percentage {F=10.249; df=5; 30; P=0.000} at 0.05 level of significance. This finding which affirms the significance of creditor management as argued by Samiloglu and Demirnes (2008) who found a negative relation between credit holding period and profitability.

The respondents also indicated that credit facility as a financial management tool exposed the company to several risks with the major challenges being damage to the company reputation when payments are delayed and increased cost of inputs to factor in financial costs associated with delayed payments.

4.4 Effect of Overdraft Management on Profitability

The last objective for this study had to do with the effects of overdraft management on profitability of tea trading company. The results are analyzed and presented below;

Table 4.4 Correlation between Overdraft Management and Profitability

Quarter / Year	2009	2010	2011	2012
1 st	0.020	-0.154	-0.057	0.269
2 nd	0.665**	-0.266	0.065	-0.086
3 rd	0.721**	0.199	0.081	-0.060
4 th	-0.606**	0.268	0.991**	-0.337*

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

*. Correlation is significant at the 0.05 level (2-tailed).

An analysis of the relationship between overdraft management in terms of overdraft interest cost and profitability shows that overdraft interest cost is positively correlated to profitability. For instance, taking the figure of 2009, there is a gradual increase in overdraft interest cost from first to third quarter against an increasing profit before tax over the same period which translates into increasing R values (Table 4.4). This could be interpreted to mean that overdraft management is positively correlated to profitability which is also confirmed by the figures for the other years.

Table 4.2.1 Effect of Overdraft Management on Profitability (ANOVA)

Dependent variable		Sum of Squares	df	Mean Square	F	Sig.
Profit before tax	Between Groups	944754.972	10	94475.497	.	.
	Within Groups	.000	25	.000		
	Total	944754.972	35			
Gross profit margin percentage	Between Groups	.107	10	.011	.	.
	Within Groups	.000	25	.000		
	Total	.107	35			
Profit margin percentage	Between Groups	1.122	10	.112	.	.
	Within Groups	.000	25	.000		
	Total	1.122	35			

This could be interpreted to mean that while descriptively the respondents perceived overdraft management practice as being crucial to the company's financial performance, the elements could not be inferentially interpreted to provide intelligible information. The above findings using Pearson correlation corroborates the findings of Samiloglu and Demirnes (2008) who found a positive correlation between management of leverage level (interest bearing borrowings) and profitability of Turkish companies.

4.5 Relationship between the Conceptual Framework Elements

Finally, the elements of the conceptual framework were probed to determine their extent of association to the dependent variable using Pearson's correlation coefficient. The results were as is recorded in Table 4.5.

Table 4.5 Relationship Between the Conceptual Framework Elements

	A	B	C	D	E
Pearson Correlation	1	.767**	.786**	.066	.559**
A Sig. (2-tailed)		.000	.000	.703	.000
N	36	36	36	36	36
Pearson Correlation	.767**	1	.877**	.100	.801**
B Sig. (2-tailed)	.000		.000	.564	.000
N	36	36	36	36	36
Pearson Correlation	.786**	.877**	1	-.013	.728**
C Sig. (2-tailed)	.000	.000		.940	.000
N	36	36	36	36	36
Pearson Correlation	.066	.100	-.013	1	.113
D Sig. (2-tailed)	.703	.564	.940		.512
N	36	36	36	36	36
Pearson Correlation	.559**	.801**	.728**	.113	1
E Sig. (2-tailed)	.000	.000	.000	.512	
N	36	36	36	36	36

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

Key: A – Inventory Management; B – Debtor Management; C – Creditor Management
 D – Overdraft Management; E – Profitability

The results in Table 4.5 (R=0.559; P=0.000; N=36) show a positive significant correlation between the elements of inventory management and financial performance at 0.01 level of significance, a positive and significant correlation between debtor management and financial performance (R=0.801; P=0.000; N=36) at 0.01 level of significance and finally a positive and significant correlation between elements creditor management and financial performance (R=0.728; P=0.000; N=36) at 0.01 level of significance. However, the results (R=0.113; P=0.512; N=36) showed that there exists a positive though insignificant correlation between overdraft management and financial performance at 0.01 level of significance. This means that according to the respondents, debtor management is the most important financial management followed by creditor management then inventory management and lastly overdraft management in decreasing order of effect.

5. Conclusion

It can therefore be concluded that the Chai Trading Company Limited was found to have put in place a robust financial management practices in the form of inventory management, debtor management, creditor management and overdraft management practices. Further, it was found that these financial management practices positively impacted on the company's profitability with debtor management playing the most significant role followed by creditor management then inventory management and lastly overdraft management in decreasing order of effect. They therefore should be enhanced to help improve on the tea trading company's financial

5.1 Recommendations

It is therefore recommended that the management of Chai trading company limited consider putting in place the recommended steps seen as probable ways of ensuring that their financial management practices are improved for better return on assets. For instance they should enhance the process of preparation and maintenance of the company's inventory, improve the company's debt collection and ensure that the companies fully utilize their credit facility according to their capability.

Further, it is suggested that the company be encouraged to better manage their reliance on overdraft facility. Management of Chai trading limited should also ensure that the company strategize on best possible means of maintaining the experienced employees to harness their potential. Lastly, the management is encouraged to adhere to international best practices by ensuring that the quantity of human resource at all levels is not skewed to one gender.

5.2 Suggestion for further Research

The following areas are suggested for further study:

- i. Further studies can be done in other industries as the data established in the tea trading company might not necessarily represent the relationship in other industries.
- ii. A comparative study of financial management practices and non – financial management practices affecting financial performance of tea trading companies in Kenya.

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