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# Debt Management Practices and Financial Performance of Sugar Processing Companies in Kenya (Case Study of Western Region)

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## ABSTRACT

The study sought to determine the effect of debt management practices (client appraisal, credit risk, collection policy, and credit terms) on financial performance of sugar processing companies in Western Region, Kenya. The general objective of this study was to establish how debt management practices affects financial performance of sugar Processing companies. Specifically, the study sought to establish the effect of credit terms on financial performance of sugar processing companies; to determine the effect of client appraisal on financial performance; to evaluate the effect of credit risk control measures on financial performance; to evaluate the effect of credit collection policies on financial performance of sugar processing companies in Kenya. The study was based on the following theories: The 5 C's Model of Client Appraisal, Theory of the Pecking Order theory and liquidity practice Theory. A descriptive survey design was adopted for the study; the target population will comprise of all managers of the 4 sugar companies in Western Kenya. Data collected through a structured questionnaire. Cronbach (Alpha – α) model used to test the internal consistency while validity ensured by incorporating suggestions from supervisors and expert. Both descriptive and inferential statistics used to analyze the data. Data presentation was done by the use of charts and tables for ease of understanding and interpretation.

***Keywords:*** *Debt Management Practices, Financial Performance, Client Appraisal, Credit Risk Control*

## INTRODUCTION

Sugar processing industries in Kenya are experiencing hard times where it cannot pay debts from financial institutions and those of farmers. Debt management through credit risk has always been of primary concern in most firms and sources of credit risk. Securing and effective management of debt at the accelerated entry into the global financial system is one of the key issues of ensuring sustainable economic growth in the medium and long term (Kurbonov, 2021).

According to Pandey (2010), first growing companies prefer the use of debt for growth for it is arguably, a less expensive form of financing; the rate of growth of business's equity value is greater than the debts borrowing cost. In Brazil, the world's top producer and exporter of sugar, supplying 50% of worlds sugar (Senar, 2021) manage debts well. The sugar processing industries in the country have reduced debts to the lowest levels since 2013 (Reuters, 2018). According to Barton & Gordon (2008), the search for financial competitiveness has led the sugarcane industry and other agribusiness corporations in Brazil to continue assuming an increasingly high amount of debt in order to maintain productivity at an acceptable level. As in the

past, the recent expansion process depended on State shareholding capital structure and subsidies in order to assist sugar firms achieve their financial performance. The provision of this support can be interpreted as a continuation of the financial practices policies in sugar companies in Brazil from the 1970´s Pro-Alcohol period, which is contradictory to the common idea that agribusiness is continuously improving its "financial efficiency" (Barton & Gordon, 2008).

India, the second largest sugar producing country, despite the industry generating revenue and employment, it is grappling with serious concerns related to sugar prices, low domestic and international sugar prices and unfavorable policies. The debt equity ratio for India in the sugar industry (2012-2013) was roughly 1.89:1. The ratio raised questions on the repayment capacity of the sugar industry for it was in distressing situation. During the period, the sugar mills were stuck in the vicious cycle of increasing losses due to high cost of production and low ex-mill prices, thus leading to its inability to pay the cane price to farmers. This led to increased mounting arrears and increased borrowing to operate and finally increased debt levels.

In African Sugar industry, in reference to sugar cane production, it is an extraordinarily important sector overall in agriculture, and therefore, of the total economy of Africa. Sugarcane is produced in greater than 40 countries of the continent and many countries have been classified as efficient cost producers in world terms. However, trade in sugar is somewhat skewed, to the extent that the SADC countries export 2millions tons more than they eat, whereas whole of Africa is a net importer of 2million tons. If better financing options, cost of production and better policies were in place, Africa could be self-sufficient in Sugar. There are number of sites in Africa (i.e. Zambia, Malawi, Uganda and Mozambique) where new green fields opportunities exist and with better financial environments to the sugar industry (FAO, 2020). Scholars like Abuzayed (2012) share the same view and argue that efficient strategic financial management practices enable firms to be profitable in Ghana. According to Kahreman (2010), careless strategic financial management practices are the main cause of failure for business enterprises in Ghana.

According to Statista Research Department, 2021 Kenya imported roughly 153.8 thousand metric tons of Sugar, Uganda was the main trade partner, as 40,792 metric tons (26,5 percent) originated from the country, with over 33 milling plants between January and April in 2018. This is for the reasons that under the Custom Union of the East African Community, sugar from Uganda enjoys full duty-free access to Kenya and at cheaper production costs. The main non-tariff barrier employed by Kenya has been import licenses issued by sugar Directorate are neither to protect sugar factories in Western Kenya nor to prevent nor to limit imports from Uganda. Sugarcane millers in Uganda are mainly private owned who have better financial access from private investors which include Rai Group Mauritius and Kakira Sugar that enjoy majority of shares proportions in the market. The government of Uganda has not massively invested in the Sugar Industry in terms of owning share capital but rather in inputs and providing a supportive environment for its trade.

The sugar industry has been an integral component of the Kenyan economy. It has grown in significance over the years, in the present day the sector contributes about 15 percent to the country's agricultural GDP, the industry also supports around 400,000 small businesses(Kenya Sugar sub-sector Strategy plan,2021), workers and farmers. An estimated 25percent (approx.10M) of the country's population depends directly or indirectly on the sugar industry. The development of the sugar industry in Kenya is inextricably linked to the history of Asian Agricultural Settlement in the country. The most successful of these early Asian agricultural settlements were at Kibos in

present day Nyanza Province. It was here that the first sugar production on a commercial basis was started when the Miwani Sugar Mills was established on a medium scale at Miwani in Kisumu District of Nyanza Province, in 1922. It was run as a private business concern by the Hindocha family. The second sugar mill was established in 1927 by the Associated Sugar Company Limited at Ramisi in Kwale District of the Coast Province and managed by the Madhvani Group International of India. These two were managed and owned by private Asian companies and the large-scale farms that supplied them with cane up to the mid 1960s were exclusively owned by Asians. These were the only sugar manufacturing plants in Kenya till Independence. After independence, six additional companies were established namely Muhoroni (1966), Chemelil (1968), Mumias (1973), West Kenya Sugar(1971,) Nzoia (1978),South Nyanza(1979),West Kenya(1981), Soin (2006) and Kibos (2007).In recent years, Kenya's sugar industry has faced several key challenges, including trade liberalization under the COMESA and World Trade Organization (WTO) protocols, high cost of production compared to other sugar producing industries in the region, the dilapidated state of some factories, poor governance and management, insufficient funding and inadequate research and extension services (KSI, 2010).

**Statement of the problem**

Despite the government offsetting the debts owned by the sugar processing companies from time to time to assist the companies regain their strength of operation, the companies are still having problems to pay its bills as the obligations fall due. Hence the study to determine the best debt management practices that that can be used by the sugar manufacturing companies to ensure increase in profitability. An analysis of the financial statements of the local sugar companies shows that even for the few that have posted profits, e.g. Mumias Sugar Company, Nzoia Sugar Company Ltd and Sony Sugar company ltd, the debt equity ratios are still high meaning that they are highly geared.

According to Cheptum{2019} asserts that the growth pattern for the manufacturing industry in Kenya has not been stable due to poor adoption of credit management practices which among other factors has contributed to declining financial performance (Mogaka & Jagongo, 2013).Firms meeting their short-term commitments and they have extended longer credit periods to those buying on credit as they have shorter credit period from creditors (Mogaka & Jagongo, 2013), this in turn affected the operations of the firms making them difficult to meet their current liabilities (Kagoyire & Shukla, 2016).

IsabwaKajirwa Harwood (2015) shows that sugar firms in Kenya have been recording poor financial performance for over a decade (Wachira, 2014). For example, Muhoroni Sugar firm has been recording poor financial performance characterized by low profitability and the firm recording losses (Mutai, 2014). This financial problem has led to the firm's inability to pay for its administrative costs including wages and salaries expense for their clients and payment of their creditors. This financial problem at Muhoroni caused the firm being put under protective receivership to prevent the firm from total collapse and subsequent closure of the firm (Otieno, 2014).

Odhiambo (2014), Effects of credit risks on the financial performance of sugar firms in Kenya indicated that the sugar industry is highly inefficient and only survives due to high tariff and non-tariff protection. Obange (2011) carried out a study on market (supply and demand) factors causing high pricing, which influences performance of the locally manufactured sugar. The study shows that price related factors significantly contribute to poor performance of local sugar firms under the prevailing imperfect market conditions in Kenya. Wayande (2001) hence firms continue to register minimal growth

partly due to improper management decision made under uncertain investment environment Poor financial performance is one of the reasons for total collapse of Miwani Sugar firm which up to date the sugar firm is not operational (Otieno, 2014). There is no known study that has related debt management practices and financial performance of western sugar companies. This study sought to investigate and provide a solution

**General Objectives of the Study**

The general objective of this study is to establish how debt management practices affects sugar processing companies' financial performance.

**Specific Objectives of the Study**

1. To establish the effect of credit terms on financial performance of the sugar processing companies
2. To determine the effect of client appraisal on financial performance of the sugar processing companies

**Research Questions**

1. What are the effects of credit terms on financial performance of sugar processing companies?
2. Does client appraisal affect the financial performance of sugar processing companies?

**Hypotheses of the study**

$H_1$: There is a significant relationship between the perceptions of client appraisal towards financial performance of sugar companies in western Kenya.

## LITERATURE REVIEW

**Theoretical Review**

The Theory of the Pecking Order theory, liquidity practice Theory and competitive advantage theory.

**Pecking Order Theory**

Pecking order theory was first suggested by Donaldson in 1961 and it was modified by Stewart C. Myers and Nicolas Majluf in 1984. Myers (1984) calls the hypothesis that, when determining the capital structure, firms employ a pecking order due to adverse selection, in which case, the firm initially looks at the retained profits, afterwards to leverage, and just in extraordinary conditions to equity when financing their operations. As pointed out by Myers (1984) main implications of the pecking order hypothesis is the strict arrangement of financing. Frank and Goyal, (2007) noticed that firms have a set order of sources of capital used to fund their operations. Accordingly, the pecking order hypothesis, it proposes that organizations are inclined to employ in house resources compared to outsourced resources, thus will favor retained earnings to obligations, short term obligation to long term obligation and obligations to equity. Firms prefer leverage over equity as they have a more conservative view with regards to dividends and utilize obligation financing to fully realize firm value. Firms are said to have used pecking order when they have a partial of inner financing to obtaining outside financing and where leverage is utilized, leverage to equity.

This preference was driven with regards to the advanced assortment by Myers and Majluf (1984). This theory maintains that the company may end up not having a target capital structure implying that the capital structure of a company will always be as a result of a series of financing choices which are short-term in nature rather than long-term ones. Financing choices which are short-term in nature tend to decide only more desirable items on the pecking order at a given point. Secondly, debt will be utilized by company's which are highly profitable less frequently. This is so since most companies which are highly profitable tend to have retained earnings which are large, thereby reducing the need for financing from external sources. Lastly, company's preferences will shift to financial capacity. This is so since this theory is as a result of the cost associated with obtaining financing. For this reason, this theory

reasons that whenever the financial capacity is obtainable in advance, capital structure to be able to fund projects in future then the marginal cost of a new project will not become relevant.

**The 5 C’s Model**

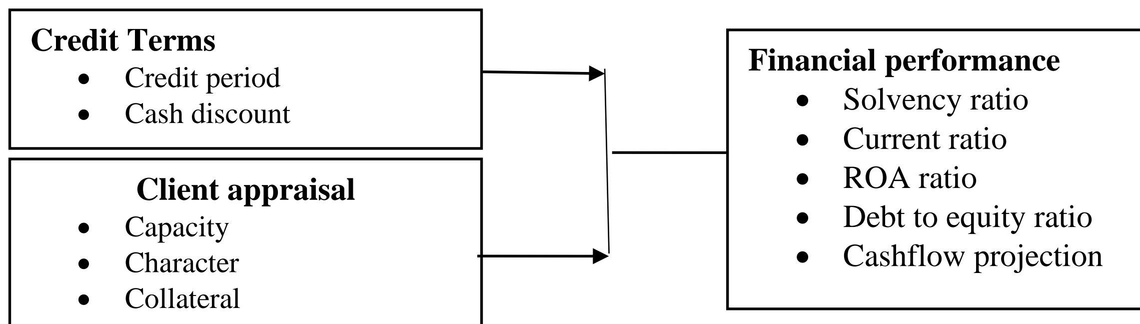
Pandey (1993) recognizes the 5 Cs as measurement parameters in setting credit standards. The lenders use this model to determine the creditworthiness of potential debtors. The model is based on the information declared by the applicant to the owner of the business. The 5 C's model emphasizes on the capacity, character, collateral, capital, and conditions of the applicant who requires the financial assistance.

According to Pandey (1995), the business owner attempts to ascertain the applicant’s willingness to pay and settle his or her obligation. In making an analysis of the client’s character, the company should consider some of the aspects of the clients. These aspects include marital status, the level of education contact, Operation stability and historical background. Collateral is referred to as a form of security for the lender. The business owner can require collateral as a type of insurance in case the borrower cannot repay the credit. They refer to items like land, houses, commercial and residential estates or any other property of value offered as the security of the value of the credit extended to the borrower (Kakuru, 2001). The collateral should be safe, easily marketed and that its value should be able to cover up the debt when sold in case the borrower defaults to pay (Van Horne,1995). Capital is the money invested in the business and is an indicator of how much is at risk should the company fail. It is ascertained by the analysis of the financial statements with particular emphasis on the risks and the debt-equity ratios and also evaluating the client firm working capital positions (Floucks, 2001). The financial manager can also assess the statement of financial position to ascertain how much the owner has invested in the business as his personal stake. Conditions refer to the economic and political situation in the country. According to Kakuru (2001), this includes the assessment of prevailing economic and other factors like social-political which may affect the client’s ability to pay. Due to the high cost which reduces their profits that may affect their payments (Pandey, 2001).

This theory maintains that conducting a competitor analysis allows sugar companies see how much competition they have in the market and determine ways that can outperform their opponents. Also Conducting a collaborator analysis may help sugar companies determine what areas they are most efficient in, discover those that are ripe for expansion or find out which might become obsolete.

**Conceptual Framework**

The conceptual base for this study was drawn from the theory of self-performance postulated by Bandura (1995). It "refers to beliefs in one's capabilities to organize and execute the courses of action required to manage prospective situations". Self-performance affects people's thoughts, feelings, actions, motivations, efforts, and determinations to confront the obstacles faced in life. High self-performance means that people are more likely to participate in activities in which they believe they can succeed. It promotes the premise that individuals have the potential to mitigate and improve their situations. Finally, the theory identifies factors that affect the success or failure of individuals, including their collective or group actions.




**Empirical review**

The study reviewed several empirical studies which were related to the variables under study. The specific areas covered here were: client appraisal, credit terms, credit risk control and collection procedures. The review refers to a directed search of published and related studies that discusses theories and presents empirical results that are relevant at hand (Zikmund *et al.,* 2010)

**Client appraisal**

Evaluation of the borrower concerning capacity, capital, collateral, condition and character by considering the cash flow from the business, the timing of the repayment, and the successful repayment of the debt. Anthony (2006) defines cash flow as the cash a borrower has to pay his debt. Cash flow helps the business to determine if the borrower has the ability to repay the debt. According to Wekesa, (2021) cash flow is more than simply comparing income and expenses. The business determines cash flow by examining existing cash flow statements (if available) and reasonable projections for the future. According to Sundaremen and Dawsonera (2018), capacity is the ability to remit loan installments according to the schedule. The key variable when establishing capacity is the nature of the client's cash flows. Srinivamen (2014) argues that cash is the quintessential element especially since loan installments are remitted in cash.

This therefore is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenue (Mills, 2008). The cash flow is generally used as a measure of financial health over a given period of time, and can be used to compare firms across the same industry or compare industries, sectors in aggregation. The performance measurement concepts indicate that clients increase the size of a firm by; increasing the size of a firm's future cash flows through making them more certain and less risky (Cadbury,2012) future cash flows. Cash flows as an indicator of financial performance can be enhanced by efficiently sales, fees, costing, expenditure and share markets prices. Alternatively, return on equity (ROE) and return on asset (ROA) can be accounting measures for the financial performance.

Character is the other significant aspect of establishing the suitability of lending. An individual's stability is a pointer of their character strength. Goldberg and Palladini (2012) portend that character can be evaluated by examining payment patterns for utility bills as well as credits. Moreover, analysis of a bank account discloses bad habits such as habitual missed loan repayments and bouncing of checks. Collateral is normally taken as a measure of last resort, and is accessed when all recovery endeavors have failed. Effendi (2013) argues that the collateral requested must possess such qualities as ready market, readily transferable as well as extrinsic and intrinsic value. Effendi (2013) further elaborates that the collateral taken should be an item that the borrower typically would not desire to lose since the loss would leave a huge void.

The sharp increase in the debt to income ratio in developed countries has raised concerns about a parallel rise in financial

fragility that would affect financial performance of financial institutions (Rinaldi L. & Sanchis-Arellano. A (2016). Timely identification of potential credit default is important as high default rates lead to decreased cash flows, lower liquidity levels and financial distress, and ultimate low financial performance of the institution, A. Kagoyire and J. Shukla (2016), in their study on Effect of credit management on performance of commercial banks in Rwanda. Financial institutions employ credit policies that guide the technique of advancing credit (Woldie et al., 2017). Employment of appropriate client's appraisal techniques was essential to enhance financial performance (C.Simotwo, A. Nyang'au,2018). Firms can only benefit from credit if the profitability generated from increased sales exceeds the added costs of receivables. Thus, the scholars were focused on effects of credit management policies with no focus on effects of client appraisal policy on financial performance. Moreover, financial performance of financial institutions cannot be delinked from sound client appraisal before loan disbursement. These findings show that, whether application of strategies for granting credits focusing on who, how and what ought to be done at the branches and Head office levels while appraising borrowers had effects on financial performance of financial lending institutions. The use of appraisal strategies on borrowers before lending had an effect on the financial performance. On the other hand, client appraisal on the basis individuals and businesses financial and physical characteristics in credit scoring models and utilization of the credit reference bureau and client credit risk analysis on individuals and businesses have an effect on the financial performance of creditors.

### Credit Terms

Wamasembe (2012) describes credit terms as the stipulation under which credit sales are made to clients by the firm. The stipulations involve: cash discount and credit period. An industry culture and practices can direct the credit period of a firm. The firm may widen the credit period or shorten the credit time. A firm tightens credit period by increasing sales and extension of credits hence increase in operating profits. With increased sales and extend credit period. According to Kakuru (1998), found out that cash discount boosts collections due from clients and is used as a tool to increase sales. This will lead to the reduction in the level of debtors and associated costs.

Terms of credit in practice includes: the time of cash discount, the net credit period and the cash discount period. Saleh and Zeitun (2007) showed that credit period is the length of time taken to approve from the applicants to the issue of credit. Failure by clients to pay credit within a specified credit period would result to bad debts. The credit terms are measured by determining cost of bad debt arising when a business entity agree to credit a sum of assets to a debtor with expected repayment in a fixed period of time. This refers to the conditions under which a business lender advances credit to its clients.

Cash discount is the privilege offered to a loanee for a bulk/and or earlier payment than the earlier stipulated credit period. This is accounted by a lower amount paid on the principle as interest. A firm would utilize the opportunity of cash discount to seize opportunity to be debt free in order to to meet minimum threshold for a window to get indebted a larger sum, meet prompt demands and/or pay a lesser amount to have a net working capital ratio to meet its liabilities.

## MATERIALS & METHODS

### Research Design

The study intends to use a descriptive survey design. According to Oso and Onen, (2009), descriptive survey design is an oriented methodology used to investigate populations by selecting samples to analyze and discover occurrences.

**Target population**

A population is the totality of features which has one or more characteristics in common. With reference to (Mugenda and Mugenda, 2003), a target population means a set of complete individuals, cases, units, items or objects with some common characteristics used by a researcher in generalizing a study result. The study targets a population of 660 clients from four counties; Bungoma, Kakamega, Kisumu and Busia and in four companies; Sony Sugar, Mumias Sugar, Busia Sugar and Nzioa Sugar Companies selected from departments as shown in table 3.2 (Sample data from Mumias, Sony, Nzoia and Kabras company records (2022).

The millers are chosen conveniently with regards to their dwindling performance and outstanding debts. Busia sugar is chosen for contrasting needs as it is a private company. Furthermore, Western region is a major sugarcane belt with potential for the millers to be revived. The study targets 660 clients in all levels of management operation or equivalents as respondents to provide relevant information.

**Sampling Technique and Sample size**

The study will use judgmental sampling method which is a non-probability technique where sample strata are randomly chosen on the basis of researcher's knowledge and judgement. This involves picking a sample size of 30% of the target population as recommended by (Muganda and Mugenda, 1999) who recommends a sub set of between 10% to 30% of target population can be used to generalize the entire population. Hence 63 respondents are randomly sampled in the study. However, according to Kothari (2008) the larger the sample size for a small population, the more accurate the results are likely to be and hence the consideration of getting the maximum sample size will be considered in the strata of management levels. The strata will enable actualize the validity of the feedback and data that will be acquired. The study adopts a formula by Nassiuma (2008) to calculate the sample size which resulted to 63 Respondents

The study adopted stratified random Sampling technique to obtain the 63 sampled respondents from the target population (660). According to Olsen and George (2004), in cross-sectional studies, subgroups of clients may possess different views. As such all subgroups must be adequately represented in the study sample. This method, therefore, is chosen based on the argument that the foregoing managers have different number of subordinate staffs. This technique thus ensures fair and equitable distribution of respondents in the four sugar companies and across all western sugar Counties.

**Data Collection**

Mugenda, (2003), describes data collection as a systematic approach to gathering and measuring information from a variety of sources to get a complete and accurate picture of an area of interest. Data collection will assist the researcher to answer relevant questions, evaluate outcomes and make predictions about future probabilities and trends. The data collection instrument in this study will be questionnaire. According to Gaurav, (2014), a questionnaire is defined as an instrument of data collection in which a respondent is asked to respond to some set of questions in a predetermined order. These include closed questions, open ended and Likert scale. In this study the researcher will utilize Likert scale questionnaire to collect data on independent variables from the respondents. This is because they are more effective than open ended questionnaires, given the attitudes of people towards a questionnaire. The questionnaires will be the 63 clients from the four companies. A questionnaire provides an effective way of collecting responses from a sample before analysis. The research instrument will be conveyed to the respondents through the drop and pick technique.

Secondary data will be another source of data collection. This will involve collecting of secondary data through documentary

analysis of the financial books of accounts from the sugar manufacturing firms in the period 2018-2022. The period will be chosen from data availability and since it will be given the most recent data. Secondary data collection tool (Appendix 2) will be used, Kennedy Otieno (2018)

**Data Analysis and Presentation**

To establish the influence of the independent variable on the dependent variable multiple regression analysis will be used in the form of $Y= \alpha+\beta_1X_1+ \beta_2X_2+\c{e}$

Where:

Y is the dependent variable, α is the regression constant or Y intercept. Intercept, $\beta_1 \ldots B_4$ are the coefficients of the regression model. The basis of the model is to help in measuring financial performance by exploring the contribution of various components.

Operationalization of use of variables

Y=Financial performance: Measured by a ratio of earnings before interest and taxes over total net assets known as return on assets. ROA=EBIT/Total Assets.

$X_1$=Client appraisal

$X_{2=}$Credit risk control:

This analysis enabled the establishment of the exact financial performance of all western sugar companies with variables under study. In addition, this method are integral components of any data analysis procedure which is concerned with description of the effects of a response variable on one or more explanatory variables. Data collected was edited for accuracy, uniformity, consistency and completeness, to enable coding and tabulation before final analysis. (Cooper and Emory, 1998). Statistical Package for Social Scientists was used to analyze the data. The findings are presented in tabular, graphs and percentages.

## STATISTICAL ANALYSIS

**Hypotheses Testing**

Mouton (2001) expounds that opinions or data can be interpreted by developing hypotheses or theories that clarify observed patterns and trends in the data. Interpretation means associating the results and findings of the study to existing theoretical frameworks or models and showing whether these are supported or proven to be false by the new interpretation. The formulation of hypotheses is a fundamental principle in the scientific method and the purpose of hypothesis is to predict a relationship between variables that can be tested. The hypothesis, once formulated, can be accepted or rejected on the basis of the statistical tests (Goddard and Melville, 2006). According to Walliman (2004), an essential part of any empirical analysis is to analyze the large collection of raw data into meaningful information. There are many reasons for analyzing data which include testing hypotheses, forecasting, making comparisons, measuring and examining relationships (Gaur and Gaur, 2009).

$H_1$: There is a significant relationship between debt management practices and financial performance of sugar manufacturing companies in western Kenya.

### Aspect of the collateral are put into consideration while carrying out client appraisal

**Table 1: Aspect of the collateral put into consideration while carrying out client appraisal (N=660)**

| | Positive PERCEPTION | | Negative PERCEPTION | | TOTAL |
|---|---|---|---|---|---|
| | **Frequency** | **Percentage** | **Frequency** | **Percentage** | |
| Yes | 246 | 69.1 | 216 | 71.0 | 462 |
| No | 110 | 30.9 | 88 | 29.0 | 198 |
| **Total** | **356** | **100** | **304** | **100** | **660** |

Pearson's Chi squared test is a statistical test applied to sets of categorical data to evaluate how likely it is that any observed difference between the sets arose by chance. And from our data where the subset is 660; Pearson Chi -squared test = 0.063b, df = 1, Significance $p<0.05$.

A Pearson Chi-square test revealed a significant result ($p<0.05$). A further analysis showed that the majority of respondents (69.1%) affirmed that Aspect of the collateral are put into consideration while carrying out client appraisal leads to effective financial performance.

**Clients' appraisal considers the character of the clients seeking credit facilities**

**Table 2: Clients appraisal considers the character of the clients seeking credit facilities (N=660)**

| | POSITIVE PERCEPTION | | Negative PERCEPTION | | TOTAL |
|---|---|---|---|---|---|
| | **Frequency** | **Percentage** | **Frequency** | **Percentage** | |
| Yes | 233 | 65.4 | 202 | 66.7 | 435 |
| No | 124 | 34.6 | 102 | 33.3 | 225 |
| **Total** | **356** | **100** | **304** | **100** | **660** |

**Pearson Chi -square = 0.063b, df = 1, Significance p<0.05.**

In relation to Table 2 the hypothesis tested, a Pearson Chi-square test revealed a highly significant result ($p<0.05$). A further analysis showed that the majority of respondents (65.4%) affirmed that Clients appraisal considers the character leads to clients seeking credit facilities. According to Tyson and York (2000), several criteria are needed in order to evaluate use of collection agencies like auctioneers enhances client's commitment to debt repayment for the sugar companies accurately.
In the view of Robbins and Coulter (2002), the data or information that managers receive on how well clients in four sugar processing companies are performing.

## CONCLUSION

There is no specific research that has been done on government funded sugar processing firms; in regards to debt management practices.and their financial performances.The high rate of failure among government owned sugar processing companies is as a result of poor financial management to efficiently manage their debts. This gap underscores the need to develop sound debt management skills. The sugar processing companies that emulates on how to collect, analyze and interpret information and how its relevant to specific problems will increase the company's chances for survival, growth and profitability.
The overall problem therefore is that relatively little is known about the relationship between debt management practices and financial performance by government owned sugar processing companies in western region, Kenya. Therefore, this research seeks to bridge the gap and recommend on proper ways to manage debts to survive on the market in the long run.

## RECOMMENDATION

The results of the study indicated that most Debt Management Practices and Financial Performance of sugar processing industries in Western Region, preferred Credit terms evaluated by the trends in cash flow to be used for effective debt management. It is recommended that based on this, managers should improve on the enforcement of guarantee policies which provides chances for debt recovery in case credit default in order to meet the aspirations of their clients. This is based on the fact that a well-trained and developed workforce is required for efficient debt management and organizational growth. It would also lead to efficiency and effectiveness of sugar millers activities.
Furthermore, changes made to ratings of clients during the Debt Management Practices and financial performance process should be communicated clearly and early to all concerned. This would go a long way to prevent conflict situations and create a healthy atmosphere for team work, in addition to creating a positive perception towards these policies.
Moreover, as regards the effectiveness on collection efforts of the aging accounts

receivables, methods should be put in place to help debt defaulters to improve upon their performance, such as putting a stringent policy in debt recovery than a lenient policy as well as use of collection agencies like auctioneers enhances client's commitment to debt repayment. The national government of Kenya through the selected current agriculture committee should prioritize the sugar industry for its part of the commercial crops that improve the Kenyan GDP.

Also, top management and managers of Sugar Processing Companies who conduct the debt management practices and financial performance on the use of debt for growth for it is arguably, a less expensive form of financing; the rate of growth of sugar companies' equity value is greater than the debts borrowing cost.

Barton & Gordon (2008), indicates that the search for financial competitiveness has led the sugarcane industry and other agribusiness corporations in Brazil to continue assuming an increasingly high amount of debt in order to maintain productivity at an acceptable level. As in the past, the recent expansion process depended on State shareholding capital structure and subsidies in order to assist sugar firms achieve their financial performance.

Furthermore, appraisal of clients is a viable strategy for debt management that motivates debt default to develop themselves and improve on their performance. If all these recommendations are followed properly, it is expected that the debt management practices and financial performance policy of various sugar processing companies will be improved upon this turn will have an impact on debt management.

The study recommends that the long-Term Debt ratio to be considered since they affect the financial performance of the sugar manufacturing firms in Kenya. Finance director and board of directors should consider borrowing long term finance so long as the firms are able to pay; too much borrowing is dangerous to the firms since it means firms are being financed by creditors rather than its financial resources. Creditors and buyers prefer low debt ratio and debt to equity ratio due to the fact their interests are included in the occasion of enterprise decline. The debt ratio and debt to equity ratio provide significant negative effect on financial performance. Hence high debt/ Equity ratio results in additional interest expense and therefore in case the interest outweigh its return it may lead to bankruptcy which may leave shareholder with nothing. Firms should consider having an optimal debt to equity ratio as well as debt ratio in the long run. The study recommends that sugar millers should consider reducing high debts which is measured using debt/equity ratio and debt/asset ratio since it has negative on effect financial performance. A higher Debt equity ratio and Debt Ratio implies that there is greater financial risk. Companies should consider financing their assets with less debt to minimize financial risk and more internal financing from retained earnings and equity. Therefore, should set an optimum Debt Equity and Debt Ratio that suit the firm in the long run. Finally, the study recommends that sugar manufacturing firms should consider lowering long term debt ratio for their success that is the loan element should be lower than asset to avoid bankruptcy and takeover based on low liquidity and solvency ratio. So long as the LTDR is lower than DER, DAR and ROE their significant improvement of the firm's financial performance.

**Suggestions for further research**

It is the recommendation of the researcher that credit terms on financial performance have a positive impact on client and overall industrial performance, further research needs to be carried out on the impact to credit terms on financial satisfaction and organizational performance not only in Sugar Processing Companies, but also other corporates. Similar studies to this can also be done to asses on other moderating variables such as firm ownership, age and competency of management on effect of

debt management on performances institutions as well.

## *Declaration by Authors*

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