

## **ASSESSMENT OF FACTORS INFLUENCING FINANCIAL PERFORMANCE OF ANIMAL FEED MANUFACTURING FIRMS IN NAKURU TOWN, KENYA**

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### **Abstract**

*Failure to realize requisite profits is presumed recourse for closure of shops of most animal feeds firms in Nakuru town. This study assessed factors influencing financial performance of animal feeds' manufacturing firms in Nakuru town, Kenya. It examined the influence of working capital, firm size, and capital structure on financial performance of these firms. Descriptive survey research design was adopted. The study targeted 346 employees in management and finance/accounts departments. A sample of 78 respondents obtained through stratified random sampling participated in this study. A structured questionnaire was used to collect data. The research instrument was pilot tested before it was administered in the final study. The data was processed and analyzed using SPSS version 21 software. Data analysis was both descriptive and inferential. Findings were presented in tables. It was established that the three elements positively and significantly influenced financial performance of the firms. The study concluded that the three elements were crucial to financial performance of these firms. The study recommended that the firms should maintain and manage their working capital and that large firms should take advantage of their economies of scale and ease to access financing to ensure enhanced and sustained financial performance. The firms should also strike a balance between equity and debt while financing.*

**Keywords:** *Animal Feeds Manufacturing Firms, Capital Structure, Firm Size, Financial Performance*

## INTRODUCTION

Profit is the major objective of every business enterprise according to Nimalathasan (2009). Profit tends to become a long term objective which is argued not only to measure the success of a product but also the development of the market for it. The author further opines that profit is determined by matching revenue against the cost associated with every business entity ought to earn profits in order for it to survive in an otherwise turbulent market. Whereas profit is described as an absolute measure of earning capacity, financial performance refers to the relative measure of earning capacity. In other words, financial performance is the ability of a given investment to earn an interest from its utilization. Velnamby and Nimalathasani (2009) noted that financial performance provides more accurate view of a firm's performance.

An empirical study conducted in Sri Lanka sought to examine the various determinants of financial performance in listed manufacturing firms (Nishanthini & Nimalathasani, 2013). The indicators of financial performance as exemplified in this study included gross profit ratio (GPR), operating profit ratio (OPR), net profit ratio (NPR), return on investment (ROI), and return on capital employed (ROCE). The study findings indicated that the financial performance of the aforesaid firms was not satisfactory. Another study indicated that sales are positively associated with financial performance ratios (Velnamby & Nimalathasani, 2007). More so, Makori (2013) examined environmental accounting and financial performance of firms listed in Bombay Stock Exchange in India. It was established that return on capital employed (ROCE) is influenced by environmental accounting. It was recommended that the governmental ought to give tax credit to firms that adhere to environmental laws.

Ishaya and Abduljeleel (2014) analyzed the capital structure and financial performance of Nigerian listed firms. It was established that both equity and debt ratio impacted on a firm's financial performance. The debt ratio was found to negate the financial performance while equity enhances a firm's financial performance. It was noted that the financial performance of a firm measures its gains over this operative years. Expectedly, firms with more profits ought to have higher leverage for income which they shield from taxes. In the same respect, it is opined that firms which are profitable should employ money debts with the object of serving as a disciplinary measure for the managers (Bauer, 2004). In a case of capital structure and performance of manufacturing firms in Nigeria, it is noted that capital structure measures relate negatively with the performance of the firm. In this regard, it is recommended that firms ought to employ more of equity than debt in financing their business activities (Lawal, Terer, Kinyanjui & Adisa, 2014).

In Kenya, it is opined that working capital management (WCM) is an important determinant of firm's financial performance (Makori & Jagongo, 2013). The authors noted this in

their analysis of the effect of WCM on firm's financial performance between 2003 and 2012. The study focused on three components of WCM which include accounts receivable, cash conversion cycle (CCC), financial leverage, sales growth, current ratio and firm size. Accounts receivable and CCC were found to impact negatively on financial performance. On the other hand, financial leverage, sales growth, current ratio and firm size have a significant effect on firm's financial performance.

Animal feed firms fall under the agricultural sector which implies they are very vital given that this sector is the mainstay of the Kenyan economy. The financial performance of these firms is important to the sector and the national economy as justified by the Kenya Bureau of Statistics (2013) results. According to the KBS, the output of the animal feed manufacturing firms in the country in 2012 totaled Kshs.13.435 billion. Given that the input for the year amounted to Kshs.10.870 billion, then the gross profit reported was Kshs.2.565 billion. This profit margin is relatively significant since it is approximately 25 per cent. However, the margin in terms of shillings is quite low which implies a lot need to be done to the sector. This is further authenticated by the report that, the sector is the third worst when compared to other firms in its category in terms of both output and financial performance. This has, therefore, necessitated this study that seeks to examine the various factors that influence financial performance of animal feed manufacturing firms.

### **Statement of the Problem**

There are several animal feeds firms in Nakuru County which vary in size, capital and turnover. Just like in other business enterprises, the overriding goal of animal feed firms is to maximize their financial performance. Yet, against this backdrop a couple of these firms have closed shop in Nakuru town. It is presumptive that they failed to realize the requisite profits to keep them afloat in the competitive business. This concurs with the national situation of the sub-sector where according to Kenya Bureau of Statistics (2013) results the gross margin of Kshs.2.565 billion realized by these firms in terms of shillings is quite low. In addition, it is argued that the closure of animal feeds firms has far reaching implications. There are many households whose livelihoods depend upon animal feeds firms either directly or indirectly. Moreover, these enterprises contribute to the economic development of the country. Therefore, the collapse of these business firms is an issue of huge concern. The foregoing challenge necessitated this study which sought to examine the factors that affect the financial performance of animal feeds manufacturing firms in Nakuru town.

## General Research Objective

To assess factors influencing financial performance of animal feed manufacturing firms in Nakuru town, Kenya

## Research Hypotheses

**H<sub>01</sub>:** There exists no significant relationship between working capital and financial performance of animal feed manufacturing firms in Nakuru town.

**H<sub>02</sub>:** There exists no significant relationship between the size of the firm and financial performance of animal feed manufacturing firms in Nakuru town

**H<sub>03</sub>:** There exists no significant relationship between capital structure and financial performance of animal feed manufacturing firms in Nakuru town

## THEORETICAL FRAMEWORK

The study was guided by theories touching on financial performance of firms and the factors that influence the same. Firm effect models such as the ones advanced by Demsetz (1973) and Jovanovic (1982) alongside the Modigliani-Miller theorem and pecking order theory are reviewed and discussed in the context of animal feed manufacturing firms in Nakuru town, Kenya.

### Modigliani-Miller Theorem

The Modigliani-Miller theorem was proposed by Miller and Modigliani (1958) and is asserted to be the relevant pioneer theory of capital structure. The theory states that the value of a firm does not factor in how that firm is financed in a perfect market. In other words, it argues that the value of a firm is independent of its capital structure (Miller, 2001). As Chew (2001) adds, dividends and capital structure are inconsequential in the determination of stock prices in the market. Rather, the market value of a firm is dependent on the earning power of the assets currently held by the firm and also the size and relative financial performance of the investment opportunities. It is further asserted that the method of valuing a firm is based on the capitalization of operating earnings before interest and taxes.

The M&M theory was revised later in 1980's where it was renamed "tax-adjusted M&M". It stated that highly leveraged structures which replace deductible interest payments for non-deductible dividends are likely to raise optimal capital structure to 100 per cent debt (Miller & Modigliani, 2001). Kuang-Hua and Ching-Yu (2009) noted that, the real world reflects that the firm's value is relevant with it bankruptcy costs, agency costs, taxes, information asymmetry etcetera. This justifies why a firm's value is affected by the capital structure it employs. In the

context of factors influencing financial performance of manufacturing firms, M&M theory can be employed to explain the choice of capital structure firms in this sector can adopt. For example, the leverage level vis-à-vis equity.

### **Pecking Order Theory**

The pecking order theory was advanced by Myers and Mailuf (1984). It was based on the hypothesis that financing follows a hierarchy and that firms opt for internal over external financing and debt over equity. In respect to this theory, it is asserted that the bottom line is the asymmetry of information. In other words, the more the information asymmetry, the higher the costs of the financing sources and the reverse is true (Brounen, De Jong & Koedijk, 2004). It is asserted that, financial flexibility is the factor that mostly drives capital structure thus implying the application of a pecking order model.

Myers (1984) indicated that the pecking order theory is founded on asymmetric information. In other words, when a manager makes financial decisions by external funds, investors are likely to perceive this as overvaluation of the firm. Consequently, the investors will tend to sell their stocks which would in turn lead to a decline in the value of the firm. As such, firms follow a financing hierarchy, that is, descends from internal funds to debt and finally to external hierarchy. According to Myers and Mailuf (1984) there are two typical issues that are associated with pecking the application of order theory. It is illustrated that debt is encouraged when a firm experiences insufficient profits and also when equity is undervalued. However, Brounen et al (2004) rejected the foregoing hypothesis. In the case of animal feed manufacturing firms, the pecking order theory could be used to explain why and how these firms ought to prioritize internal financing and how the absolute external financing (external equity) should be avoided.

### **EMPIRICAL REVIEW**

This section outlines a review of the studies that have so far been carried out regarding determining factors of firm financial performance specifically animal feed manufacturing firms. The aforesaid factors include working capital, size of firm, and capital structure.

#### **Working Capital**

Makori and Jagongo (2013) conducted an empirical analysis of environmental accounting and firm financial performance amongst selected firms listed in Bombay Stock Exchange, India. The study relied on data from annual reports of the selected firms. The major findings indicated that the relationship between environmental accounting and return on capital employed (ROCE) was

significant and negative. Patel (2014) argued that net profit ratio (NPR) and working capital are related. The author opined that NPR is one of the best measures of the overall results of a firm particularly when it is included in the evaluation of how well a firm is using its working capital.

Researchers analyzed the importance of having efficient working capital management (WCM) through an assessment of WCM policies of 32 non-financial sectors in the United States (Filbeck & Krueger, 2005). The authors established that there exist significant differences between industries in working capital practice over certain duration of time. In addition, Rehman (2006) examined the how WCM impacted on financial performance of Pakistani firms listed on Islamabad Stock Exchange (ISE). The study focused on the implication of average payment period and cash conversion cycle on the net operating profit of firms. The study inferred that the aforesaid variables of WCM strongly and negatively impacted on firm financial performance. In the same light, it was advised that one way of enhancing firm financial performance is to reduce cash conversion cycle down to an optimal level.

An empirical study was conducted on working capital management as a financial strategy for Nestle Nigeria PLC (Owolabi & Alayemi, 2010). The firm under study was selected for a period of five years, that is, from 2004 to 2009. The study analyzed the effect of various constructs of WCM which included current ratio and collection days on gross profit movement coefficient. The results of the analysis indicated that there exists a negative correlation between current ratio and financial performance. Interpretatively, a decrease in current ratio resulted in reduced financial performance. The collection days were regressed against ROCE. The pertinent results showed that, the relationship between the two variables was negative. This implied that a reduction in collection days increased financial performance of the firm. Generally, therefore, the study revealed that WCM as a financial strategy not only affects firm liquidity but also its financial performance. It was essentially recommended that firms are supposed to aggressive and more committed in the management of their working capital as one way on enhancing their financial performance.

### **Firm Size**

The importance of the firm size has been underscored by several empirical studies (Bauer, 2004; Joshua, 2008). It is asserted that the size of the firm is one of the specific firm level characteristics which can impact on the firm's capital structure. It is opined that the size of the firm influences the option of financing that a firm may go for. According to empirical studies conducted by Al-Sakran (2001) and Hovakimian, Hovakimian and Tehranian (2004) it is suggested that, larger firms have a tendency of leveraging while smaller ones are inclined to employ equity. It is further indicated that larger firms are more likely to be financed by

commercial banks than smaller entities. Moreover, a study on capital structure and corporate finance conducted amongst Jordanian firms identified size of the firm as one of proxies for capital structure. A study on Saudi's cement manufacturing firms indicated that the firm size is directly proportional to firm's financial performance (Almazari, 2013). These findings concurred with a previous study conducted in Pakistan where it was noted that firm size had a significant effect on the financial performance of the firm (Raheman, Afza, Qayyum & Bodla, 2010).

According to Berger and Bouwman (2012) the extent to which higher capital ratios increase the performance of commercial banks during the time of stress is determined significantly by the size of the bank. A study conducted in Nigeria indicated that the size of the firm was one of the firm characteristics that were significant with debt ratio of the firm. Moreover, when examining agro-based firms in Nigeria between 2005 and 2010, Bassey, Aniekan, Ikpe and Udo (2013) noted that the firm size was one of the major determinants of short-term debt ratio for the firms under study. A study on listed manufacturing firms in Ghana (Akoto et al., 2013) found that firm size significantly and positively influence financial performance.

Makori and Jagongo (2013) empirically analyzed working capital management (WCM) and financial performance of both manufacturing and construction firms listed on Nairobi Securities Exchange Kenya. The study found that the size of the firm has significant effect on the firm's financial performance. Their study concurred with the findings of a previous study on the relationship between WCM and performance of small and medium enterprises (SMEs) in Pakistani, which revealed that firm size is positively associated with financial performance (Gul, Khan, Rehman, Khan, Khan & Khan, 2013).

### **Capital Structure**

Outsourced capital is perceived as a liability to a firm since such an enterprise relies on external financing for its operations and had to compensate the capital source later. Studies have indicated that it is preferential to internally finance an entity in order to avoid the burden of compensating others. Capital structure which describes the mix of debt and equity, therefore, is a crucial determinant of a firm's success (Dare & Sola, 2010). In tandem with Chou's (2007) assertion, every firm ought to derive an optimal capital structure purposely to curtail cost of financing while maximizing the value of the firm. Dare and Sola observed that a firm has three options of structuring its capital. These include equity, debt or a mix of the two. The first option entails a firm relying absolutely on owners' financing while the second option implies absolute leveraging. The third is a combination of both owners' financing and leveraging. However, the authors argued that it is not practical for a firm to be funded wholly through debt. This implies



that equity and a mix of equity and leveraging are the only viable capital structure options available to all enterprises.

Kuang-Hua and Ching-Yu (2009) empirically studied capital structure and financing decisions as evidenced by cases in East Asian Tigers and Japan. Their study involved samples from Hong Kong, Japan, Korea, Singapore, and Taiwan. The authors argued that the aforesaid countries had homogenous level of economic development. They acknowledged that there exist several elements that temporarily impact on capital structure, yet firms from the aforementioned countries rebalance their leverage following equity issuances. The study further revealed that firms have their target capital structure determined by the marginal benefits of debt and costs associated with debt.

A study conducted in Nigeria examined capital structure and financial performance of listed firms in that country (Ishaya & Abduljeleel, 2014). The study considered a sample of 70 firms out of the 245 listed firms on the Nigerian Stock Exchange (NSE). The study considered debt ratio and equity as the components of capital structure and sought to understand how the two impacted on firm financial performance. The study established that debt ratio negatively affected financial performance. However, equity influenced financial performance positively. The study results indicated that firms may raise funds through either equity or a combination of both equity and debt. Nevertheless, a firm which is fully financed through equity is bound to yield optimum value to the enterprise by having increased financial performance.

### **Firm Financial Performance**

The financial performance of a firm which is described as a measure of an enterprise's gains over its operative years is determined by several factors according to various empirical studies. Stierwald (2009) investigated the determinants of financial performance by considering a case of large firms in Australia. The study established that the financial performance of a firm is influenced by a number of variables which include lagged profit, productivity level and size. It was further indicated that the degree of concentration in a given sector influences firm behaviour and financial performance. More so, it was postulated that differences in firm-level characteristics such as efficiency, organizational structure and/or quality management may cause differences in financial performance of firms.

A study conducted in Nigeria on the impact of capital structure on industrial performance noted that profit efficiency reflects financial performance (Oke & Afolabi, 2011). It is exemplified in a study of the capital structure and firm financial performance in Nigeria (Ishaya & Abduljeleel, 2014) that the financial performance of firms can be influenced by the kind of capital structure they adopt. The authors postulated that a purely equity-financed firm is bound to enjoy higher



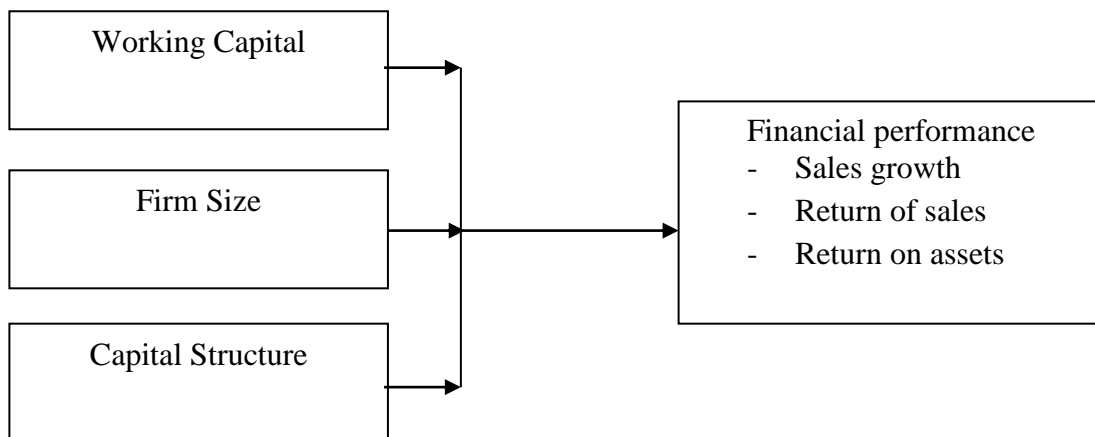
financial performance than a firm with a certain degree of leveraging. Bauer (2004) argued that those firms that make high profits ought to have higher leverage for income they shield from taxes. The author advises that more profitable firms should employ more debts in order to act as a disciplinary measure for firm managers.

Hitherto empirical studies reveal the existence of a negative relationship between capital structure and financial performance of an enterprise (Shyam-Sunder & Myers, 1999; Joshua, 2008). An empirical study of Malaysian banks indicated that profit efficiency is an indicator of reducing agency cost (Pratomo & Ismail, 2006). The study further revealed that higher leverage or lower equity capital ratio is linked to higher profit efficiency. A study on the U.S. banking sector established that profit efficiency could be used as a proxy for performance of the firm (Berger & Wharton, 2002). The study inferred that higher leverage is related to higher profit efficiency, a fact that concurs with the propositions of agency costs.

### Conceptual Framework

A conceptual framework as illustrated in Figure 1 shows the hypothetical relationship between the study variables

Figure 1: Conceptual Framework



As shown in Figure 1, the independent variables include working capital, firm size and capital structure while the dependent variable is financial performance of manufacturing firms. More so, the framework has also captured the moderating variables which are competition amongst the animal feed manufacturing firms and the management of individual firms. Interpretatively, it is hypothesized that working capital, firm size and capital structure influences the financial

performance of the aforesaid firms. In addition, how these variables interact with cognizance of the prevailing competition in the sector and how individual firms are managed.

## RESEARCH METHODOLOGY

### Research Design

The research design describes the roadmap of conducting a research study (Kothari, 2008). It should create the basis of the entire research work. As such, it is anticipated to outline the various approaches necessary in solving the research problem, the sources and information relative to the problem, timeframe, and the cost budget of undertaking the research study (Rajasekar, Philominathan & Chinnathambi, 2006). This study adopted descriptive research design. This design was employed in order to describe the views of the respondents regarding the variables of the study. It is argued that descriptive study is quantitative in nature (Kothari, 2004).

### Target Population

The target population refers to the population to which the study is limited. The findings of the study are generalized to this study population. The target population comprised of all the 346 accounts, finance and management staff of animal feed manufacturing firms in Nakuru town.

### Sample Size and Sampling Technique

Sampling is necessitated by the large target population. Appropriate formula and techniques were employed to calculate the sample size and obtain the sample from the target population respectively.

### Sample Size

The study adopted Naissiuma's formula to calculate the size of the sample. The calculation of the sample size is outlined as follows.

$$n = \frac{NC^2}{C^2 + (N-1)e^2}$$

Where

n = Sample

N = Population

C = coefficient of variation (0.5)

e = Error Rate (0.05)

Calculating the sample:

$$n = \frac{346 (0.5)^2}{0.5^2 + (346-1)0.05^2}$$

$$n = 77.75$$

$$n = 78 \text{ respondents}$$

### Sampling Technique

The study employed stratified random sampling method to obtain respondents from the target population. This was due to the reasoning that there existed 28 animal feed manufacturing firms in Nakuru town.

### Research Instrument

A research instrument is used to collect primary data from the respondents. Given that the respondents were drawn from the various animal feed manufacturing firms in Nakuru town, a questionnaire was the most appropriate tool for collecting data from such respondents who were geographically widespread (Mugenda & Mugenda, 2009). As such, the study employed a structured questionnaire to collect primary data. The instrument was structured in such a way that it captured data pertinent to respondents' demographics and study variables. The instrument contained close-ended questions.

### Reliability Testing of the Research Instrument

A reliable instrument is one that can be employed to collect consistent data from respondents. The most widely acclaimed reliability test is the use of the Cronbach alpha. As such, it was employed to test the instrument's reliability where the reliability threshold was alpha value equal to or greater than 0.7 ( $\alpha \geq 0.7$ ). Table 1 outlines the results of the reliability test.

Table 1: Reliability Test

Variables	Number of Tests	$\alpha$
Working Capital	5	0.71
Firm Size	6	0.87
Capital Structure	6	0.84
Financial Performance	5	0.91

From the reliability findings, it is clear that all study variables met the reliability threshold which means that the instrument was generally reliable for data collection.

### ***Validity of the Research Instrument***

A valid instrument is one that measures what it purports to measure. An instrument must first be reliable in order for it to be reliable. This authenticates the reason of testing an instrument's reliability before assessing its validity. In this study, both the content validity of the instrument was determined. The content validity was determined by seeking expert opinion of the assigned Jomo Kenyatta University of Agriculture and Technology (JKUAT) supervisors.

### **Data Analysis**

The filled questionnaires were grouped according to the firms from where they were collected. It was then ensured that the raw data considered were only from the questionnaires that were appropriately filled. This was followed by data coding with the help of the Statistical Package for Social Sciences (SPSS) tool. Both descriptive and inferential analyses were carried out. The former constituted frequencies, percentages, means, and standard deviations. On the other hand, inferential analysis was in form of Pearson's correlation coefficient. The study findings were presented in form of tables.

## **EMPIRICAL FINDINGS**

### **Descriptive Findings**

This part presents the descriptive findings of the study variables which include working capital, firm size, capital structure, and financial performance on the other. The findings are relayed in form of measures of central tendencies, that is, means and standard deviations as measures of variation.

### ***Working Capital***

The opinions of employees working with animal feed manufacturing firms in Nakuru town were sought and are summarized in Table 2

Table 2: Descriptive Statistics for Working Capital

		<b>N</b>	<b>Min</b>	<b>Max</b>	<b>Mean</b>	<b>Std. Dev</b>
i.	The average payment period of our firm is short.	68	1	5	3.96	1.861
ii.	Cash conversion cycle is short.	68	1	5	4.19	1.343
iii.	Current ratio influences financial performance.	68	1	5	4.18	1.010
iv.	Cash conversion cycle affects our firm's liquidity	68	1	5	4.31	1.141
v.	Reducing collection days impact on our firm's financial performance.	68	1	5	4.49	1.001

It was revealed that respondents concurred (mean  $\approx 4.00$ ; std dev  $> 1.00$ ) that average payment period of our firm is short; cash conversion cycle is short; current ratio influences financial performance; cash conversion cycle affects our firm's liquidity; and that reducing collection days impact on our firm's financial performance

### ***Firm Size***

This section captures the respondents' views regarding firm size in context of financial performance as outlined in Table 3

Table 3: Descriptive Statistics for Firm Size

	n	Min	Max	Mean	Std. Dev
i. Our firm accesses capital at low costs	68	1	5	1.79	1.452
ii. The size of our firm is relatively large	68	1	5	1.82	1.403
iii. The size of our firm is relatively small	68	1	5	4.09	1.379
iv. The size of our firm has determined accessibility of credit facilities	68	1	5	4.12	1.365
v. Our firm enjoys economies of scale	68	1	5	4.12	1.225
vi. The firm size influences capital structure	68	1	5	4.18	1.267

It was discovered that respondents concurred (mean  $\approx 4.00$ ; std dev  $> 1.00$ ) with the argument that the size of their firm was relatively small; the size of their firm has determined accessibility of credit facilities; their firm enjoyed economies of scale and that the firm size influenced capital structure. However, the respondents disagreed (mean  $\approx 2.00$ ; std dev  $> 1.00$ ) with the notion that their firm was able to access capital at low costs and that size of their firm was relatively large.

### ***Capital Structure***

In addition, the respondents' views on capital structure and financial performance were sought and are summarized as shown in Table 4

Table 4: Descriptive Statistics for Capital Structure

	n	Min	Max	Mean	Std. Dev
i. The costs associated with debt are relatively high	68	1	5	1.59	1.480
ii. Our firm uses both equity and debt financing	68	1	5	3.59	1.184
iii. Our firm relies heavily on equity financing	68	1	5	1.94	1.413
iv. Our firm relies more on debt financing	68	1	5	4.09	1.288
v. Equity enhances the financial performance of our firm	68	1	5	4.26	1.377
vi. Capital structure influences the success of our firm	68	1	5	3.62	1.256

The study findings indicated that respondents admitted (mean  $\approx 4.00$ ; std dev  $> 1.00$ ) that their firms used both equity and debt financing; their firms relied more on debt financing; equity enhanced financial performance of their firms and that capital structure influenced the success of their firms. Respondents, however, disagreed (mean = 1.59; std dev = 1.480) with the proposition that costs associated with debt were relatively high.

### ***Financial Performance***

Moreover, the study put into perspective the respondents' views regarding financial performance as illustrated in Table 5

Table 5: Descriptive Statistics for Financial Performance

	N	Min	Max	Mean	Std. Dev
i. Our firm productivity level is relatively high	68	1	5	4.06	1.687
ii. Our firm has been witnessing high return on sales	68	1	5	4.09	1.368
iii. Our firm has a high return on assets	68	1	5	4.18	1.167
iv. The sales of our firm have been increasing over the years	68	1	5	4.24	1.327
v. Higher returns on assets and sales have increased the profits of our firm	68	1	5	4.32	1.249

The study findings indicated that respondents agreed (mean 4.00; std dev  $> 1.00$ ) with the proposition that their firms productivity level was relatively high; their firms had been witnessing high return on sales; their firms had a high return on assets; the sales of their firms had been increasing over the years and that higher returns on assets and sales had increased the profits of their firms.

### ***Inferential Findings***

This section presents the inferential findings where the relationships between study variables are addressed. This analysis enabled to establish the effect of working capital, firm size, and capital structure on financial performance of animal feed manufacturing firms in Nakuru town.

### ***Influence of Working Capital on Financial Performance***

The study analyzed the influence of working capital on financial performance of animal feed manufacturing firms in Nakuru town where the results are illustrated in Table 6

Table 6: Correlation between Working Capital and Financial Performance

<b>Working Capital</b>	<b>Financial Performance</b>	
	Pearson Correlation	.511**
	Sig. (2-tailed)	.002
	N	68

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

The study findings illustrated that the relationship between working capital and financial performance was moderately strong, positive and statistically significant ( $r = 0.511$ ;  $p < 0.01$ ). The first null hypothesis was, therefore, rejected. This implies that working capital has a positive effect on financial performance of the firms. Therefore, working capital management and maintenance at the appropriate levels enhanced the financial performance of the firms. In other words, keeping working capital at optimum level positively influenced the performance of the animal feed manufacturing firms.

### ***Influence of Firm Size on Financial Performance***

In line with the second study objective, the influence of the size of the firm on financial performance of animal feed manufacturing firms was assessed. Table 7 outlines the results of correlation analysis

Table 7: Correlation between Firm size and Financial Performance

<b>Firm Size</b>	<b>Financial Performance</b>	
	Pearson Correlation	.598**
	Sig. (2-tailed)	.000
	N	68

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

The findings indicated there exists a moderately strong, positive and statistically significant relationship between firm size and financial performance of animal feeds manufacturing firms ( $r = 0.598$ ;  $p < 0.01$ ). Therefore, the second null hypothesis was rejected. The size of the firm being based on the annual turnover was found to have a positive effect on the financial performance of these firms. It further implies that the larger the firm in terms of turnover, then the higher its financial performance. In addition, it suggests that the enhancement of financial performance could be ascribed to the economies of scale enjoyed by large firms.



### ***Influence of Capital Structure on Financial Performance***

More so, the study analyzed how capital structure influences financial performance of animal feed manufacturing firms in Nakuru town as shown in Table 8

Table 8: Correlation between Capital Structure and Financial Performance

<b>Capital Structure</b>	<b>Financial Performance</b>	
	Pearson Correlation	.641**
	Sig. (2-tailed)	.000
	N	68

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

It was discovered that the relationship between capital structure and financial performance was strong positive and statistically significant ( $r = 0.641$ ;  $p < 0.01$ ). This is interpreted to mean that the firm's capital structure largely influenced its financial performance. The findings led to the rejection of the third null hypothesis. Therefore, in order to enhance financial performance of these firms, then capital structure should be enhanced. In other words the right proportions of debt and equity must be maintained if financial performance is to be achieved by animal feed manufacturing firms in Nakuru town.

### **SUMMARY**

It was agreed that average payment period of firms was short; cash conversion cycle was short; current ratio influences financial performance; cash conversion cycle affects firm's liquidity; and that reducing collection days impact firm's financial performance. Further analysis indicated that there existed a strong, positive and statistically significant relationship between working capital and financial performance ( $r = 0.511$ ;  $p > 0.01$ ). This implied that working capital was undisputable in the enhancement of financial performance of the firms. Therefore, working capital was crucially important in the financial performance of the firms.

It was concurred that the size of their firm was relatively small and it determined accessibility of credit facilities. Moreover, their firm enjoyed the economies of scale and its size influenced its capital structure employed. However, it was disagreed that their firm was able to access capital at low costs and that size of their firm was relatively large. Correlation analysis revealed that firm size and financial performance of the firms had a strong, positive and statistically significant ( $r = 0.598$ ;  $p < 0.01$ ) relationship. The size of the firm being based on the annual turnover was found to largely influence its financial performance. In addition, it was

suggested that the enhancement of financial performance was ascribed to the economies of scale enjoyed by the firms.

The respondents admitted that their firm used both equity and debt financing but the firm relied more on debt financing. Capital structure was found to influence the success of their firm as equity capital enhanced the financial performance of the firm. It was however disagreed that costs associated with debt financing were relatively high. Further analysis depicted that the relationship between capital structure and financial performance was strong positive and statistically significant ( $r = 0.641$ ;  $p < 0.01$ ). This meant that the firm's capital structure positively and largely influenced the financial performance.

Respondents were in agreement that their firm productivity level was relatively high. This was coupled with the firm's high return on sales and high return on assets witnessed over some period. Higher returns on assets and sales were associated with increased the profits of their firm. The findings indicated that working capital, firm size, and capital structure had a joint significant influence on financial performance of animal feed manufacturing firms in Nakuru town ( $t = 2.330$ ;  $p < 0.05$ ). Moreover, each of the three independent constructs related significantly with financial performance of animal feed manufacturing firms in Nakuru town.

## CONCLUSIONS

The study concluded that working capital indeed largely and positively influenced the financial performance of the firms. The firms' working capital was inferred to be crucially vital to achieve financial performance. It is, therefore, imperative for firms to emphasize on their working capital. This is through maintaining the optimal working capital required to run the firms profitably.

It was inferred that the size of animal fed manufacturing firms has an affirmative effect on its financial performance. This is associated with the economies of scale the firm enjoys and the ease with which it accesses credit facilities to enable it run its operations profitably. It was, however, concluded that the size of the firm does not necessarily determine the accessibility of capital at low costs.

It was concluded that capital structure of animal fed manufacturing firm largely influenced the success of the firm. Further, it was inferred that firms used both equity and debt financing but with an inclination on debt financing. Equity capital though not heavily relied on, resulted to an enhanced financial performance of the firms. It is therefore concluded that firms' capital structure is vital for the financial performance of the firms but firms should blend equity with debt with an inclination on debt financing.

## RECOMMENDATIONS

Working capital is crucial in running firms profitably. It is, therefore, recommended that the firms should maintain and manage their working capital to ensure enhanced and sustained financial performance. Large firms generally enjoy economies of scale. However, firm size does not directly influence its financial performance but it determines the ease of access to credit facilities. The study, therefore, recommends that large firms should take advantage of their economies of scale and ease to access financing to enhance their financial performance. The study further recommends that firms should strive to have an optimal capital structure. They should strike a balance between equity and debt while financing their firms but with an inclination on debt financing because of its associated advantages.

## LIMITATIONS

There were a couple of challenges that were encountered when conducting the study. Some of the respondents were skeptical about the study which implies that they were hesitant to divulge the information sought. To counter this challenge, they were assured that the study was purely for academic purposes and that their identity was to remain anonymous. Some of the targeted firms did not have elaborate structure which means that they did not have distinct accounts/finance departments. Regarding this limitation, it was assumed that the management was in possession of the requisite data regarding financial performance of their entities.

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