# FINANCIAL MANAGEMENT PRACTICES AND FINANCIAL PERFORMANCE OF DAIRY FIRMS IN KIAMBU COUNTY, KENYA

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## ABSTRACT

Dairy sector keeps on with its crucial and huge contribution to the Kenyan GDP, contributing around 4% to the economy. However, the industry faces many challenges emanating from financial related management activities, hence dwindling financial performance. The study was generally aimed at determining how the financial performance of dairy firms in Kiambu County was affected by the adopted financial management practices. Specifically, the impact of budgeting practices, fixed assets management, credit management practices and managerial capabilities` moderating effect, on dairy firms` financial performance in Kiambu County. The study used descriptive research design, targeted 138 staff drawn from finance departments of all the 17 dairy firms operating in Kiambu County and registered by Kenya Dairy Board. Stratified random sampling method came up with 74 respondents. Well- tailored and structured questionnaires gathered the primary data while a guide extracted from dairy firms` financial records and reports, collected secondary data. SPSS version 26 aided in the descriptive, correlational and multi - variable regression analysis of data as collected, with presentations achieved using tables. The study established that budgeting practices had a β of 0.116, fixed assets management practices, β = 0.063, credit management practices β = 0.121, all above the significance threshold of β < 0.05 and hence indicative they all had significant influence on financial performance of dairy firms in Kiambu County. Additionally, the results reflected change in R- square (0.143, 0.074 and 0.102) for the three models used to test moderating impact of managerial capabilities, therefore signifying presence of moderating impact of managerial capabilities on relationship between financial management practices and financial performance. Findings arrived at, pointed out that most of the respondents agreed with facts that budgeting practices, fixed assets management practices, credit management practices indeed affected financial performance of dairy firms in Kiambu County. Respondents as captured by the findings, strongly agreed that managerial capabilities affected the relationship between the financial management practices and financial performance of the dairy firms. The study recommended that firms should adhere to the approved budgets, ensure proper prior authorization in acquisition, use and disposal of fixed assets, customers appraisals be done prior to credit sales as well as attractive credit staff incentives. Further, the study recommended continuous training of employees and periodical evaluations. The study suggested the need to carry out similar studies on other sectors different from the dairy sector.


**Keywords**: Budgeting practices, Fixed assets management practices, Credit management practices, Managerial Capabilities, Financial Performance

## INTRODUCTION

Dairy firms engage on an important role in the purchasing, value- addition, packaging and marketing of milk and other dairy produce, and act on behalf of stakeholders in presenting dairy related issues to the county and national Governments (RW Mwangi, 2013). The dairy sub-sector is the biggest and leading of all the sub-sectors within the Kenyan agricultural sector (Muriuki et al 2004). It yields approximately 14% of total agricultural sector`s Gross Domestic Product as well as 4% of overall Kenyan economy, provides livelihoods to 1.83 million small scale business farmers, and about 750,000 direct jobs (Odero –Waitituh JA,2017). However, many of these firms fail due to failure of embracing best financial related management practices and activities, resulting in diminished financial performance and eventual collapse. A special case in point is the collapse of Kenya Cooperative Creameries (KCC) in the late 1990`s.

Kenya Dairy Board is the regulator of the dairy industry and has registered and licensed 17 dairy firms in Kiambu County. Among major firms are Githunguri, Kikuyu, Ndumberi, Kiambaa and Limuru dairies. According to Kiambu County annual report (2019), dairy farming is the common economic activity contributing 17.4% of the county's population income, offers employment to approximately 1.28 million people both directly and indirectly.

The financial management practices are deliberate and specific activities employed by an organization and which affects financial efficiency and performance (Wolmorans, 2015). They entail application of sound financial management principles to the financial resources of the organization (Prachi Juneja, 2011). There are many financial management practices employed in an organization including budgeting management practices, fixed asset management practices, credit management practices among others, and the practices are not mutually exclusive but are applied collectively to enhance the financial performance in an organization (Kamande, 2015).

Budgeting management practices ensures careful use of financial resources (Armitage, Webb, & Glynn, 2016). Budgets are essential in several areas including directing and coordinating the planning process, allocation of resources and implementation and control by aligning the focus of the stakeholders with the firm`s objectives (Merchant and van der Stede, 2017).

Fixed assets management is a detailed accounting process that controls and monitors non-current assets to ensure correct financial accounting and reporting, proper maintenance and pro-active theft deterrence and avoidance (Kamande, 2015).

According to Myers and Brealey (2003), Credit management entails adoption of best practices and strategies by a business enterprise to ensure maintenance of an optimal amount of credit, control and efficient monitoring.
According to O E Ndandigisi (2018), Managerial capabilities refers to the interaction of individual and organizational routines at a high level to deliberately create, grow, and control the resources. It is one aspect of financial management which involves educational qualifications, training, experience, and competence of the managers to be able to handle planning, coordination, motivation and controlling of activities (Cole, 2010).

Financial performance is the end results realized after proper utilization of a business enterprise`s assets to generate revenue during ordinary business operations (Adams and Mehran, 2005). It is the measure by which a firm`s financial health for a duration of time period is determined (Maseko and Manyani, 2011). Profitability, liquidity, solvency, and financial efficiency are key indicators of financial performance.

## Statement of the Problem

Kenyan dairy industry is core to development of the Kenyan economy contributing 4% to the economy, estimated 14% of total agricultural GDP, and about 44% contribution of livestock GDP, (Odero –Waitituh JA, 2017). The dairy sector is a source of livelihoods to 1.83 million small scale business farmers, offers an approximated 750,000 direct jobs and about 500,000 indirect jobs (KDB, 2019). However, this contribution can be threatened by many factors among them poor application and implementation of financial management practices, hence a big threat to financial performance of the dairy industry and the economy at large.

Past studies has indicated that generally, dairy farming in Kenya was profitable only when accounting gross profit was considered as the indicator for profitability, with on average, gross margins being between Ksh. 12.4 per litre to Ksh. 22.8 per litre, but when economic return which is a better indicator of profitability and performance since it takes into account self-owned ways and methods of production for example free family labour and own pasture, the dairy industry hardly break-even, leading to a loss of Ksh 0.6 per litre (KDB,2016). In same study, it was found out market prices remain comparatively low and unchanged regardless of skyrocketing costs of production hence lowering the profit margins. Githunguri dairy firm which is the biggest and leading dairy firm in Kiambu County, has had declining financial performance over the years. In 2016, the firm made a loss of 100 million shillings (https://ntv.nation.co.ke/business/2016), in 2017, the firm though made a profit, was unable to pay or declare dividends for the year. According to the firm`s financial statements, in the year 2018, 2019 and 2020, the profits declined by 39.9%, 19.9%, and 14% respectively. Over the same period, the financial statements in the year 2018, 2019 and 2020 of all the other dairy firms recorded a decline in financial performance. In the year 2018, the decline ranged from 5% to 9.5%, 2019, the decline was between 8% and 15% while the year 2020, the decline fell to between 2.7% and 6%. According to Wambugu et al (2011), dairy farmers in Kenya experienced low productivity on daily average from one cow of approximately 4 litres, compared to a daily average per cow of 19.6 litres in Australia and Denmark (Technoserve, 2011).This dismal productivity and low financial performance clearly indicate the dairy sector in Kenya continues to punch below its weight and hence the need for more and current information to guide the financial related management activities in ensuring improved financial performance.

Few studies on the influence on financial performance by financial related management practices has been conducted, with many of these lacking consensus on the subject matter as they are characterized by mixed findings. Internationally, Gloy, Hyde and LaDue (2002) did a study which examined implication on New York dairy farms` profitability by the adopted financial related management practices. Its findings are well suited for New York and may not be applicable to Kenya. Also, the study concentrated on the profitability which is just but one of the indicators of financial performance.

## Objective of the Study

The general objective of this research study is to establish the effect of financial management practices on financial performance of dairy firms in Kiambu County.

## Specific Objectives

i. To examine the impact of budgeting practices on financial performance of dairy firms in Kiambu County, Kenya.
ii. To find out the effect of fixed assets management on financial performance of dairy firms in Kiambu County, Kenya.
iii. To establish the implication of credit management practices on financial performance of dairy firms in Kiambu County, Kenya.
iv. To find out the moderating influence of managerial capabilities on the relational link between adopted financial management practices and dairy firms` financial performance in Kiambu County, Kenya.

## Theoretical Review

### Goal Setting theory

This theory is credited to Locke and Latham (2002), fully formed, upon evaluation of same 400 laboratory and actual studies in an industrial set-up for more than 25 years. The studies concluded that clearly spelt-out ambitious goals leads to excellent task performance than easy and ambiguous goals such as "do your level best". A budget is means by which firm`s goals and specific objectives for a specific period of time are set. Such specific goals positively affect the individual employee`s performance, work-groups, business units, as well as the entire firm`s performance over a period of time (EO Onduso, 2013). Budgets ought to be set in a way that the firm`s employees consider their achievements as challenging. Less demanding budgets in terms of achievement do not motivate staff to achieve (EO Onduso, 2013). Simplistic and easy to achieve budgets are a boredom to members of staff, while unrealistic ones demotivate them (DK Ngumi, 2017). This theory is of the view that clearly defined budgets improve the strategic direction and hence the performance of a business enterprise. It is therefore congruent with findings reached by the study that adopted budgeting management practices in the selected dairy firms in Kiambu County indeed affected the financial performance.

### Resource Based View Theory

Origin goes to Edith Penrose (1959), in a study where firm-specific resources are cited as the core driver of growth. This theory views a business enterprise as comprising of specific and rare resources hard to be copied and imitated by other businesses, and which maintains value in the firm`s markets (Wernerfelt, 1984). This study adopted this theory because it supports one independent variable – Fixed assets management and the moderating variable – Managerial capabilities by indicating that an organization`s specific, valuable, rare and non-substitutable resources for example the fixed assets and managerial capabilities create competitive capabilities when coupled with proper financial management practices resulting to improved financial performance. Fixed assets and managerial capabilities in the dairy firms in Kiambu County as found out by this study, are very specific, valuable, and inimitable and hence used effectively in combination with other resources, conducive for firms to remain aggressive in the competition and excel in performance.

### Cash Conversion Cycle (CCC) Theory

This is a theory that came up as a result of work attributed to Gitman (1974), who postulated CCC as a way of managing firm`s working capital and the liquidity. Thereafter, the study by Richards and Laughlin (1980), operationalized the theory to analyze firm`s working capital management efficiency. Cash conversion cycle is that duration period it will take for cash used to finance other items of working capital, back to liquid cash. Basically, it is the duration period between incurring for and receiving cash from working capital (Brigham and Houston, 2007). Credit management involves applying methods and strategies to ensure optimal level of credit in an organization and it is at the heart of working capital management and having a very strong effect on cash circulation in an organization. This study found out that credit management practices adopted by the dairy firms in Kiambu County affected positively the working capital and the liquidity of those firms, and hence is in agreement with the theory of cash conversion.

### Shareholder Theory

This theory originated from Milton Friedman (1970) and argues that business enterprise`s single purpose is that of generating profit for the shareholder. It is of a view that businesses are arrangements where shareholders advance capital to managers to be used to realize specific ends. According to Brandt and Georgiou (2016), the shareholder value is oriented towards maximization of profit from the investment in his shareholding. In this study, the shareholders are owners (farmers) of dairy firms who expects the management to employ proper and efficient financial management practices that will eventually lead to excellent financial performance, hence increasing their wealth in terms of yearly profits, bonuses and dividends they receive. This study found out the dairy firms in Kiambu County had a common goal of generating and maximizing the profits of the shareholders, and betterment of their financial performance. Therefore, the assumptions put forward by the Shareholder theory were realized by this study.

## Empirical Literature Review

### Budget practices and financial performance of dairy firms

H Wijewardena & De Zoysa (2001) in Yang (2010), in their study on the effect on Australian SMEs performance by financial planning and control, indicated the influential impact of budget planning, implementation and monitoring on firm`s performance differs in each firm depending on the level of its application. In their research study, they used questionnaire survey, to collect data from 473 respondents, with sales growth and return on investment being the financial performance indicators. Results revealed that thorough application of both budgetary planning and control measures yielded to higher sales growth and comparative better return on investment for the firms. This study was done in a different continent and foreign country, and therefore the findings may not be applicable to Kenya where this study was done.

Siyanbola (2013), investigated the implication on firm`s performance by budgetary control in a manufacturing firm in Nigeria - Cadbury Nigeria Plc. By use of descriptive research design, data collection by questionnaires to the respondents, chi square tool to analyze the data, he postulated existence of a strong relationship and concluded that budgetary control impacted the firm`s performance. The study is a case study of one company in Nigeria while this study focused on several dairy firms in Kiambu County, Kenya.

Ototo (2009) in his survey on the impact of budgeting process on financial management, used census survey design with a target population of 45 head offices belonging to commercial banks in republic of Kenya, gave proposition, indicating budget should be used in proper manner to make sure that resources are used in an effective manner. The study further recommends that; preparation of the budget should be in a manner that everyone requiring to use it comprehend it clearly with no difficulty. The study concluded that budgeting methods improve the quality of financial management, operational budgets play the role of predicting, control, and managing communication with other departments, and acts as ways of improving performance and also encourages workers to do better. The study dealt with commercial banks in the banking sector and therefore the findings could be different from the dairy sector in which this study focused on

### Fixed Asset Management and financial performance of dairy firms

Oluwarami & Memba (2016), relationship shared by management of assets and financial performance using 74 Nigerian listed firms between 2005 – 2014.The asset management was measured for efficiency and proper utilization by the assets-turnover ratio, and financial performance indicator –ROA and ROE. Analyzed results indicated shared strong relational link betwixt management of assets with financial performance. Study findings recommends to the managers that they ought to invest more on long- term investments and fixed assets but also ensure full and efficient utilization of the existing assets. The study was done in a foreign country and concentrated on listed manufacturing firms while this study concentrated on dairy firms of Kiambu County, Kenya. The measures for both variables in the study are different to the ones this study used.

Iqbal & Mati (2012), examined the relationship between fixed assets and profitability of a firm. Data for a period of ten years of different firms on KSE 100 Index was collected, analyzed using multi-linear regression method to establish association and relational link of the variables. The study found that the regression coefficient for assets turnover turns positive for gross profit margin and hence conclusively suggesting positive association and relationship between management of long-term assets and financial performance. They used only secondary data obtained from KSE, over a period of ten years of firms in different sectors, while this study relied on both sources of data – primary data as well as secondary data, of the dairy firms only in Kiambu County, Kenya in a period of three years.

Jan Horas Veryady Purba & Denny Bimantara (2019) assessed the influence resulting from Assets management practices on firm`s financial performance with the aim of establishing influential impact of management of asset on firm`s financial performance. Associative research design to capture association of the variables was used while sampling was achieved by purposive sampling method. Panel data regression analysis consisting of six firms in the time period between 2013 and 2017 analyzed the data, with the findings indicating that effective management of assets is essential in improving firm`s profitability, as it has significant impact on performance. The study utilized solely the secondary source of data while the researcher in this case employed the two major sources of data. Also, the methodology applied on this research study was by use of stratified sampling in a descriptive research design.

## Credit management practices and financial Performance of dairy firms

Djankov, McLiesh and Shleifer (2007), on impact of management of credit on performance at privately owned credit organizations in European countries, interviewed the finance managers of these firms, and using descriptive statistics analyzed the data which pointed out that proper management of credit, positively affected the performance. This research project purposed to fill up contextual gap by carrying out study in Kenya, and conceptual gap by dealing with dairy sector which is different from private credit sector.

E Bahizi (2017) studied management of credit and banks` financial performance in Rwanda; case study of bpr huye branch of commercial bank. The targeted population was 37 employees working in this branch, with sampling achieved by purposive method. Structured questionnaires collected the primary data, with secondary data picked from the bank`s records and financial statements. Detailed analysis of data was done through descriptive statistics, with results pointing out credit terms, standards and the policy on collection, had substantial effect on financial performance, with a conclusion of a positive relational link between management of credit and bank`s financial performance. Study is on a single entity while this study will deal with several entities in the dairy industry. The study used purposive sampling while this study used stratified random sampling. Also, it is a study on a bank in a foreign country while this study concentrated on dairy firms in Kiambu County, Kenya.

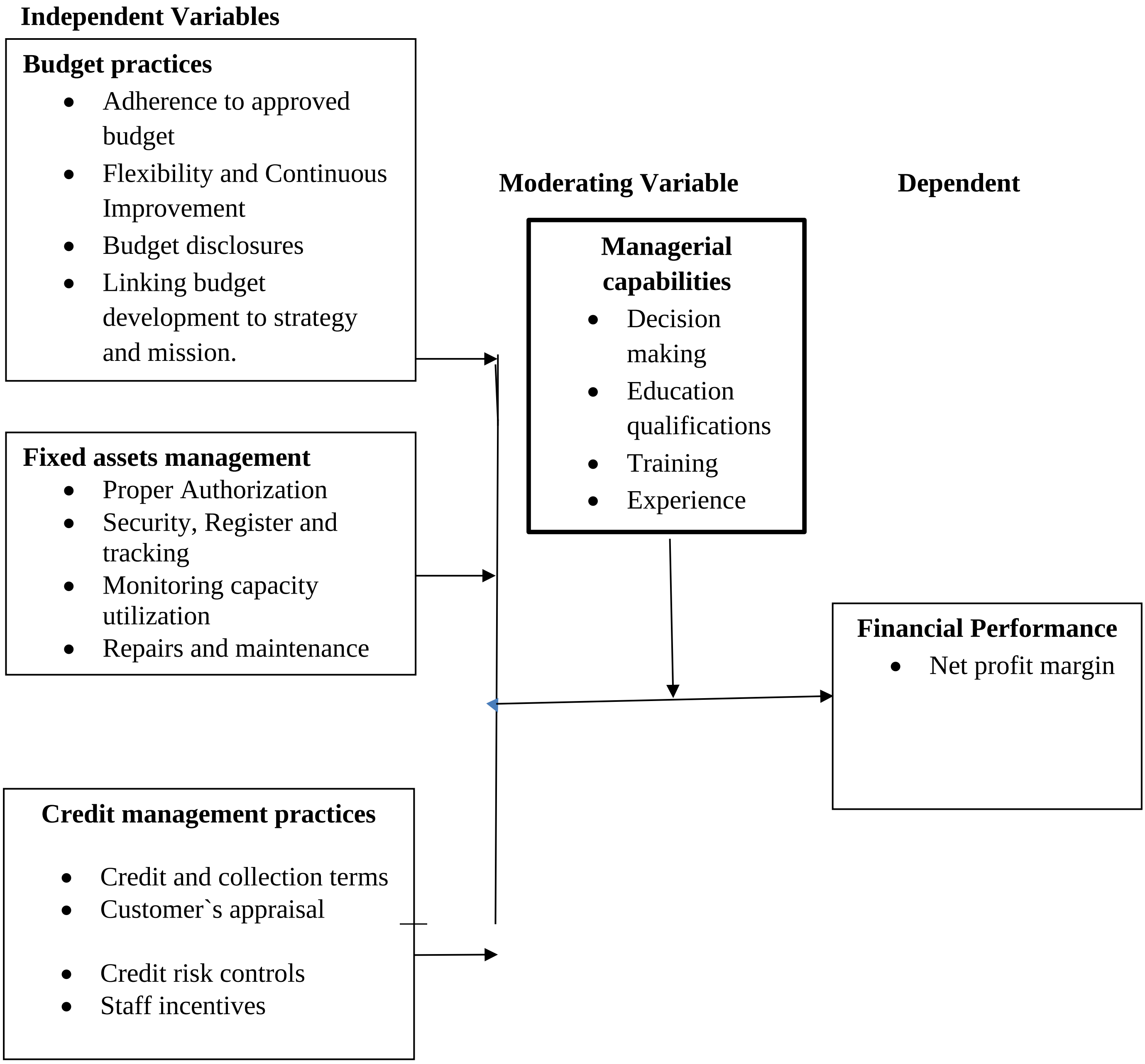
Gatuhu RN (2013), assessed the implications on financial performance of Kenyan microfinance institutions as a result of management of credit. Research targeted 59 microfinance institutions with descriptive study design being at the centre of the methodology that accomplished the task. Results arrived at, indicated management of credit, specifically credit policy, client assessment, and risk control had substantial impact on financial performance. It dealt with lending financial institutions in the banking industry while this study was on dairy firms in the dairy industry.

### Managerial capabilities, financial related management practices and financial performance of dairy firms

Going by Lwanga, Ndiwalana and Ssekakubo (2014) study, directed at establishing the implication of managerial competency on SACCOs` performance in Busoga, Uganda, quantitative research approach was used, and the findings revealed a positive relational link shared by managerial competency, and financial performance. The managerial capabilities enabled the SACCOs employ proper corporate management strategies, resulting in improved financial performance. This was a study in Busoga in the republic of Uganda, with a different business environment from Kenya. Also, was specifically on SACCOs in Busonga, Uganda, but this study related to Kiambu County, Kenya on dairy firms.

O E Nyandigisi (2018) did research on impact of managerial capabilities on competitive advantage on a study of Nairobi`s company - Numerical machining complex company. Descriptive survey design aiming on assessing the impact on manufacturing sector`s competitive advantage by managerial capabilities. The population under target comprised of 167 employees and 50 employees picked through stratified random sampling method, hence a 30-percentage representation of target population. Respondents were issued with questionnaires in a bid to collect primary data, analysis achieved using descriptive statistics for example, frequency distributions, percent, average score and variance, with multi-linear regression used to measure association and relationship of competitive advantage and managerial capabilities. Results established that managerial capabilities have strong impact on competitive advantage. The research considered and focused on competitive advantage compared to this study which focused on dairy firms` financial performance.

## Conceptual Framework




**Source: Researcher, 2022**

## RESEARCH DESIGN

This research used descriptive study design to find out influential impact of financial related management activities on financial performance of dairy firms in Kiambu. According to Orodho (2003), descriptive research design is one where collection of data is through interviews or giving out questionnaires that are well prepared, to a selection derived from the target population, commonly used when collecting data touching on attitude, opinions, habits or any of other social issues. Kothari (2011) pointed out that descriptive research design entails finding out what is happening to particular variables in their natural and unchanged environment. This research design is relevant to the study since it allowed researcher collect suitable amount of research data from sizeable sample, as well as affording a detailed analysis and scrutiny of financial related management activities and financial performance. Additionally, the study design allows quantitative data to be summarized and reported using central tendency measures like the average, mode, median, and variance, as well as correlation and percentages even on lone and unique variable.

### Target Population

This study targeted 138 employees working in the finance departments of all the 17 dairy firms in Kiambu County that are registered and licensed by Kenya Dairy Board.

### Sampling design and Sample size

The research study made use of stratified sampling where target population got divided into 17 subgroups according to the various dairy firms. Simple random sampling was then performed on every one of the sub-group to ensure reduction of bias and sampling error hence a good representation of target population. Sample size picked was 74, which is 54% and a good representation of the target population. According to Kamau (2021), a sample size of at-least 40% is suitable for representation for descriptive research. Table 3.1 below depict the sample size.

### Data Collection Instruments

Collection of the primary data was achieved by use of semi-structured questionnaires. Questionnaires are commonly used because the respondents fill them at their most convenient time and place and are also suitable for large samples (Mugenda & Mugenda, 2003). The data collection method of dropping questionnaires to the respondents and picking them up later was used in order to give them ample time to adequately respond. Collection of the Secondary data was by use of a guide extract from the analysis of financial records and reports of the sampled dairy firms.

### Data Analysis and Presentation

After data collection, data was scrutinized for errors and biases, and then by use of inferential statistics in addition to descriptive statistics, and assisted by SPSS 26 program, a detailed data scrutiny and analysis was achieved. Carrying out detailed descriptive statistics was achieved by coming up with measures of central tendency such as mean, variation, frequency tabulations and percentages, with results easily communicated using tables. To determine the relationship between the dependent variable and the independent variables, Inferential statistics through correlation analysis was performed, while the strength of the relationship between the variables, was achieved by multiple regression analysis. The model used was in the form of:

$$Yt = \beta_0 + \beta_1 C_1 + \beta_2 E_2 + \beta_3 T_3 + \varepsilon$$

**Where,**

Yt = Financial performance of dairy industries.

$B_0$ - intercept coefficient

$C_1$ – Budgeting practices

$E_2$– Fixed assets management practices

$T_3$– Credit management practices

$\beta_1$, $\beta_2$, $\beta_3$ = regression coefficients

$\varepsilon_i$ – error term (extraneous variables)

Regression model estimating the influence of the moderating variable on the independent measure and the contributively effect on the dependent variable;

$$Yt = \beta_0 + \beta_1 X_1 + \beta_2 mo + \beta_3 X{*}mo + \varepsilon$$

X*mo, is the interaction between financial management practices and Managerial capabilities

## Research Findings and Discussions

The researcher gave out in totality 74 questionnaires to the participants. 68 respondents filled and returned questionnaires making a 92% rate of response with 6 questionnaires ending up not returned. Mugenda & Mugenda (2003), posit that a response weight of 50%, is judged to be enough, 60% is regarded good with over 70% taken to be excellent. Consequently, 92% response weight attained was adequate for the study as clearly indicated in the table below.

**Response Rate**

| **Status** | **Number of Questionnaires** | **%** |
|---|---|---|
| Filled - in | 68 | 92 |
| Unfilled | 6 | 8 |
| **Total No. of Questionnaires** | **74** | **100.** |

**Source: Researcher, (2022)**

## Correlation Analysis.

Correlation analysis was done for this research to demonstrate the relationship inherent between the financial management practices and the financial performance.

Correlation results from the correlation analysis evidenced a presence of positive correlation among all the features of the financial management practices tested in this study and financial performance of dairy firms in Kiambu county although the strength of the correlation differed. The connection between budgeting practices and financial performance of dairy firms was weak at only 0.016 but significant at 0.038($p<0.05$). Asset management practices indicated weak correlation with financial performance of diary firms, with the Pearson correlation coefficient at 0.065 and had a significant level of 0.045($p<0.05$). It was found out that credit management practices exhibited medium connection with the financial performance of dairy firms with the Pearson correlation of 0.156 and was significant in predicting financial performance at a p -value of 0.020($p < 0.05$). Managerial capabilities had weak correlation with financial performance of the dairy firms with the Pearson coefficient at 0.032 and level of significance at 0.037($p<0.05$).

## Descriptive Statistics

Actual results from the questionnaire appraised their compliance on Likert scale interval from 1 and 5, with a number of statements on financial management practices in relation to financial performance among the employees. The means of responses were interpreted as follows; (5.00-4.21) was an indication of strongly agree, (4.20-3.41) indicated agree, (3.40-2.61) indicated neither agree nor disagree, (2.60-1.81) indicated disagree and (1.80-1.00) indicated strongly disagree. Respondents were requested to give responses to what extent they understood the following financial management practices on financial performance of diary firms in Kiambu County.

| **Descriptive Statistics for Budgeting Management Practices** | | | | | |
|---|---|---|---|---|---|
| | N | Minimum | Maximum | Mean | Std. Deviation |
| Firm adherence | 68 | 2 | 5 | 4.03 | .712 |
| Budget disclosures | 68 | 4 | 5 | 4.29 | .459 |
| Budget implementation | 68 | 2 | 5 | 3.94 | 1.049 |
| Budget development | 68 | 1 | 5 | 3.51 | 1.299 |
| Budgeting management practices | 68 | 4 | 5 | 4.41 | .496 |
| Valid N (listwise) | 68 | | | | |
| **Descriptive Statistics for Fixed Asset Management Practices** | | | | | |
| | N | Minimum | Maximum | Mean | Std. Deviation |
| Prior authorization | 68 | 1 | 4 | 2.29 | 1.383 |
| Repairs and maintenance | 68 | 1 | 5 | 3.22 | 1.144 |
| Asset's register | 68 | 2 | 5 | 4.04 | .609 |
| Efficiency use of fixed assets | 68 | 1 | 5 | 3.97 | .946 |
| Fixed Assets Management practices | 68 | 3 | 5 | 4.34 | .563 |
| Valid N (listwise) | 68 | | | | |
| **Descriptive Statistics for Credit Management Practices** | | | | | |
| | N | Minimum | Maximum | Mean | Standard Deviation |
| Credit and collection terms | 68 | 4 | 5 | 4.53 | .503 |

| | | | | | |
|---|---|---|---|---|---|
| Credit Customer appraisal | 68 | 1 | 5 | 3.69 | 1.040 |
| attractive staff incentives | 68 | 1 | 5 | 3.04 | 1.606 |
| Credit risks controls | 68 | 1 | 5 | 3.96 | .999 |
| Credit Management practices | 68 | 2 | 5 | 4.46 | .679 |
| Valid N (listwise) | 68 | | | | |

**Descriptive Statistics for Managerial Capabilities**

| | N | Minimum | Maximum | Mean | Standard Deviation |
|---|---|---|---|---|---|
| Training of employees | 68 | 2 | 5 | 4.18 | .645 |
| minimal financial errors | 68 | 1 | 5 | 4.07 | 1.176 |
| Managerial and Financial capabilities | 68 | 2 | 5 | 4.18 | .752 |
| Periodical evaluations | 68 | 1 | 5 | 3.59 | 1.363 |
| Managerial Capabilities | 68 | 2 | 5 | 4.59 | .674 |
| Valid N (listwise) | 68 | | | | |

**Source: Study Data (2022)**

As indicated in the above table, majority of the respondents agreed on the various questions under the different financial management practices that indeed financial management practices affected the financial performance of the dairy firms in Kiambu County.

**Regression results linking financial management practices and financial performance.**

**Regression Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .615[a] | .378 | .349 | .04304 |

a. Predictors: (Constant), Credit Management practices, Fixed Asset Management practices, Budget management practices

**Source: Study Data (2022).**

As indicated above, the R square (coefficient of determination) of 0.378 was computed which denoted that 37.8% of changes in financial performance of dairy firms in Kiambu County was explained by changes in budget management practices, fixed asset management practices and credit management practices in the dairy firms. The rest of the changes, 62.2% were attributed to the factors not considered in this model

. **Analysis of Variance**

**ANOVA[a]**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | .072 | 3 | .024 | 12.965 | .000[b] |
| | Residual | .119 | 64 | .002 | | |
| | Total | .191 | 67 | | | |

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Credit Management practices, Fixed Asset Management practices, Budget management practices

**Source: Study Data (2022)**

From the ANOVA figures in the table above, P value as computed of 0.000 as computed implies model of regression used was adequately significant to forecasting the relational link shared by financial management practices and financial performance of dairy firms in Kiambu County as the p-value was within the standard of 5%. The F* test table (5%, 3) was used and the value of 4.2 as tabulated was less than the computed *F*=12.965, and this also, did prove the model to be significant.

## Regression Coefficients

The regression constants values which supported the researcher to conclude the effect of independent variables on dependent variable are shown in the table below.

**Coefficients[a]**

| Model | | Unstandardized Coefficients B | Unstandardized Coefficients Std. Error | Standardized Coefficients Beta | t | Sig. |
|---|---|---|---|---|---|---|
| 1 | (Constant) | -.129 | .051 | | -2.526 | .014 |
| | Budget management practices | .116 | .028 | 1.258 | 4.152 | .000 |
| | Fixed Asset Management practices | .063 | .019 | .729 | 3.396 | .001 |
| | Credit Management practices | -.121 | .020 | -1.986 | -6.149 | .000 |

Dependent Variable: Financial Performance

**Source: Researcher Data (2022)**

A multi-linear regression equation as shown below was established.

Yt (Financial performance) = $-0.129 + 0.116C_1 + 0.063E_2 - 0.121T_3$

Where, -0.129 is the Intercept coefficient, $C_1$ represents Budget management practices

$E_2$- Fixed Assets Management Practices, $T_3$ – Credit Management Practices. 0.116, 0.063 and-0.121 are regression coefficients.

Based on the regression results, the following findings were arrived at;

Budgeting practices at ($\beta=0.116$, $p<0.05$) indicated it was statistically significant and therefore did affect the financial performance of the dairy firms.

Fixed asset management practices at ($\beta=0.063$, $p<0.05$) indicated it was statistically significant and therefore did affect the financial performance of the dairy firms.

Credit management practices at ($\beta=-0.121$, $p<0.05$) indicated it was statistically significant and therefore did affect the financial performance of the dairy firms.

On the analysis of the moderating effect of managerial capabilities on the relationship between financial management practices and financial performance, a three- stage model propagated by Fairchild and Mckinnon (2009), was used with the findings revealing a positive impact of managerial capabilities on the relationship between financial management practices and financial performance.

## Conclusion

For first objective, regression results sought to find out effect of budgeting practices on financial performance of dairy firms and concluded budgeting practices was statistically significant and did affect the financial performance. In view of the second objective regression results which sought to establish the effect of fixed asset management practices on financial performance of dairy firms, the concluded that though the correlation was weak, fixed asset management practices was statistically significant and hence affected the financial performance.

In view of the third objective regression results which sought to establish the effect of credit management practices on financial performance of dairy firms, and conclusion arrived was credit management practices was statistically significant with a medium correlation and having influential effect on financial performance. In view of the fourth objective regression results which sought to establish the moderating effect of managerial capabilities on the relationship between financial management practices and financial performance of dairy firms in Kiambu County, it was concluded that the moderating effect was statistically significant and therefore impacted the financial performance.

## Recommendations

For first objective, the study does recommend that the dairy firms in Kiambu County should adhere to the approved budget and ensure that the budget is authorized for implementation, which should be monitored closely. For second objective, recommendation by the study is that proper prior authorization in acquisition, use and disposal of fixed assets in the firm should be adhered to. The firms should also ensure that the repairs and maintenance of fixed assets is carried out regularly.

On the third objective, the study recommends that the credit customer appraisal should be done before the credit sales are done thus increasing on credit management performance. The firms should also ensure there are attractive staff incentives for excellent credit management performance and ensure credit risks controls and continuous monitoring. Based on fourth objective, the study recommends continuous training of employees which improves work performance and minimizes wastage of firm`s resources. the firms should also ensure periodical evaluations which boost employees` performance resulting to increased productivity in the firm.

## Contribution to Practice and Policy

The management of the county government could utilize the findings made through this study to make suitable options regarding the financial management practices. National Government represented by the Ministry of Agriculture, Livestock, Fisheries and Cooperatives being the policy maker and Kenya Dairy Board being the dairy industry regulator, will benefit from this study by guiding them in formulating best policies and regulations tailored to embrace best financial management activities and practices, and hence improving dairy sub-sector`s profitability and productivity.

Findings of the study will also furnish the key stakeholders in the dairy industry especially management team of various dairy processing firms in Kiambu County, with a deeper understanding of how their management activities and practices affect their firms` financial performance. The study will as well benefit future researchers as reference about the significance of financial management practices and other related topics. This will lead to the generation of new ideas in the finance field.

## Suggestions for Further Studies.

The present study was conducted in the dairy sector on dairy firms in Kiambu County, future studies can be done focusing on other sectors of the economy. Furthermore, in the present study, 37.8% variation in financial performance was explained by financial management practices, which means that 62.2% was not explained and thus needs the focus for further studies.

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