

Credit Management Policies and Management of Debtors in The Sugar Manufacturing Companies in Kenya

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Abstract

The purpose of this study was to examine the credit management policies and management of debtors in the sugar manufacturing companies in Kenya. The core problem affecting Kenya's sugar industry is the persistent deterioration in performance due to insufficient prudent financial management practice. Firms each year experience declining profitability leading to receivership while some are faced with imminent collapse due to huge debt burden and the inability to sustain their operations since they are not able to break even. Poor management and control of accounts receivables leads to increased cash flow problems thus distracting the daily operating activities. Additionally, it leads to inability to pay workers, pay for products and service delivered and meet other statutory obligations. The target population of the study was 288 employees in finance and sales department. A sample of 177 respondents was selected using stratified random sampling in each sugar industry. Structured questionnaires were used to collect primary data and Descriptive statistics and inferential statistics were used during data analysis. The results revealed that credit management policies are significant in sugar manufacturing firms using standardized b coefficients in simple linear regression. The coefficient was 0.710 with p-value (0.000) which was found to be significant at 0.05 significance level suggesting the existence of a strong positive relationship between credit management policies and management of debtors. Board of Directors also had an enhancing moderation effect on the relationship between Credit Management policies and Management of debtors. The study recommends that sugar manufacturing companies should develop and enforce a well-defined credit control policy framework to strengthen credit management systems which should encompass ways of reducing average collection period and hence huge debt.

Keywords: Management of debtors, credit management, financial management

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1. Introduction

The decision on liquidity is a significant financial management aspect to be handled by a prudent investor (Ongore & Kusa, 2013). The sustainability, success and performance of a business are driven by efficient and effective working capital management (Jindal & Jain, 2017). Kimtai (2006) observed that the accounts receivable is one of the largest and most liquid asset which is key in aiding business transactions. It appears from Mbula, Memba & Njeru (2016) that the account receivables is a current asset and a working capital component. Large amounts of accounts receivables are expected to decrease the value of the firm and as a result, the need to know the determinants of accounts receivables management.

Sugar manufacturing firms typically sell their products on credit basis rather than on cash basis only. These transactions create accounts receivables. Account receivables management is a global concern, with many production firms and dealers showing large amounts of account receivables as compared to their overall assets (Mbembe *et al.*, 2017). In Europe, Italian and Spanish firms are the worst companies in managing their accounts receivables (Sawers, 2012). In Italy, the Daily Sales Outstanding (DSO) in 2011 was 76 days. In the same year, the Daily Sales Outstanding for Spanish firms was 69 days. Enzhu (2008) observed that majority of China's firms do not adequately handle their accounts receivable, and that poor management systems, poor credit policies, employee ineffectiveness and manual inspection of trade credit are among the factors that lead to poor management of accounts receivables (Mbembe *et al.*, 2017). Furthermore, many small and medium-sized companies in Rwanda suffer financial distress due to their inability to manage accounts receivables (Nzitatira & Mulyungi, 2018). According to the study done by Oware *et al.*; (2015) if a company does not capitalize well in collection of accounts receivables, then the risk of a business stagnating due to its poor accounts receivables levels and debt accumulation would be high. This is clearly proven on how the processes of Ghana Water Company Ltd (GWCL) were affected. When accounts receivable takes a long period to be collected; it becomes

problematic investing in production for the next order. Uncollected cash tie up working capital leading to long business cycles. It is therefore imperative for economic entities to collect all due cash in a well-timed manner to avoid liquidity problems (Nzitatira & Mulyungi, 2018). Conolly (2013), found out that many business entities' hardly ever maintained customer details and credit information; appropriate credit terms and billing cycle which in the long run affected timely collection of payments from the credit customers.

In Kenya, Waweru (2013) noted the inadequate controls and management of account receivables by manufacturing companies in Thika Municipality contributing to increased problems with cash flow, thus crippling the daily operations of manufacturing firms. Moreover, this led to inability to pay employees, pay for the goods and services rendered and meet other statutory obligations. The CRF (2006) study showed that approximately 17% of business customers do not comply with the credit terms set by the suppliers. Furthermore, an additional CRF study reported that about 61 percent of all late-payments in organizations originate from administrative issues like late receiving of invoices consequently affecting the processing of payments or receiving incorrect invoices (CRF, 2008). In their research, Ernst and Young (2013) found out that a late payment culture had emerged with unjustifiably long payment periods which affects small businesses.

A research on hotels in Kenya noted that the total debtor's portfolio represented 13 percent of the balance sheet size of the firm and also pointed out that the average value of debtors was 50 percent of the total borrowing (Gakure, Gekara & Ngugi, 2017). These are sums that require serious concern and efficient management to achieve the desired firms value (Lyani, 2017). Bwisa *et al.*, (2014), found out that most of the Micro and Small Business Enterprises in Bungoma District did not exercise accounts receivable management which adversely affected business performance. Most researchers in Kenya are in total agreement that a business entity should manage its accounts receivable well for its survival, profitability and growth (Adusei, 2017; Ngugi, 2017). In these studies, it is clear that selling on credit is risky, as there would be idle amounts tied up in the working capital in form of accounts receivable. A firm's investment in account receivable depends upon how much it sells on credit and how long it takes to collect receivable.

There are currently 14 sugar factories in the nation with a total production capacity of 141,000 tons of cane a day (Sugar Taskforce Report, 2019). The sugar crop is envisaged to play a bigger role not only in the achievement of the vision 2030 goals but also the government's big four agenda as an enabler in food and nutrition security and manufacturing sector (Sugar Taskforce report, 2019). However, according to the Sugar Annual Report (2021), there has been a decrease in sugar production, imports, and consumption, due to the impact of local and global measures to contain the spread of coronavirus disease (COVID-19). Sugar production activities have been hit by disruption in labor and inputs supply, while imports have also been affected by disruption of shipping logistics both in Kenya and at source markets. Further, consumption also decreased due to depressed demand in the food and beverage service and manufacturing sectors.

Statistically, 54% of farmers in Western region and part of Nyanza region grow sugarcane (Kenya Sugar Board, 2014). Mutai (2014), found out that most of the sugar firms in Kenya have been recording poor financial performance characterized by low profitability and the firm recording losses. This financial problem has led to firms' inability to pay for its administrative costs including wages and salaries expense for their employees and payment of their creditors. This financial problem at Muhoroni caused the firm put under receivership to prevent the firm from total collapse and subsequent closure of the firm (Otieno, 2014). 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). The financial problem has also been experienced by Mumias sugar company which began experiencing lowered sugar output and deceased profits (Wahito, 2012) which has led the company to be put under receivership by Kenya Commercial Bank Group which is owed Ksh 545 million (Juma, 2019).

The sugar industry in Kenya is characterized by frequent company shut downs, huge debts, unwise investment practices, liquidity shortages, low production capacity and high production cost making it difficult to them to compete favourably with cheap imports from COMESA trading block (KSB, 2017). Transparency International (2015) indicated that sugar industry in Kenya faces collapse if the current scenario is not resolved. Currently, Kenya is comparatively a high cost sugar producer which is attributed mainly to inefficiency across the entire value chain. This not only renders the industry uncompetitive but makes Kenyan attractive destination for imports from the region and globally. The imports from low cost producers dampen sugar prices creating financial constraints when local mills cannot offload locally produced sugar to the market (Sugar Taskforce Report, 2019).

Kenya's sugar industry's central concern is its gradual decline in profitability (Kibet, 2013; Fwamba, 2018). Approximately 50 percent of Kenyan sugar firms each year experience decreasing profitability leading to receivership while some are faced with imminent collapse due to huge debt burden and the inability to sustain their operations since they are not able to break even (KSB, 2018). For example, Muhoroni Sugar Company has been experiencing poor financial performance characterized by low profitability and firm recording losses (Mutai, 2014). This financial problem caused Muhoroni firm be put under protective receivership to prevent the firm from total collapse and subsequent closure of the firm (Otieno, 2014). 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). The financial problem has also been experienced by Mumias Sugar Company which led the company to be put under receivership by Kenya Commercial Bank Group (Juma, 2019). The private millers in the industry also recorded reduction in profitability over the years due to high cost of production and cheap imports (Mwanzo, 2017). This implies that the profitability of sugar industry in Kenya has been declining over the years.

Accounts receivable management is one of the management roles and also it is the centre of the performance of every sugar manufacturing firms. Poor management and control of accounts receivables leads to increased cash flow problems thus distracting the daily operating activities. Additionally, it leads to inability to pay workers, pay for products and service delivered and meet any other statutory obligations (Waweru, 2013). The unpredictability of cash flows in the sugar processing firms also contributed to late payments to farmers, creditors and other stakeholders. As a result of the unpredictability in the payment pattern generated by weak cash flows, farmers and other stakeholders hold on raw materials and spares which affects the sugar factory operations efficiency. Accounts receivable in this sense represent loans granted to farmers for production of cane in the form of services such as preparation of land, planting, agricultural inputs such as fertilizers and herbicides, and sales of end products and by-products on credit.

Although many studies had been conducted on determinants of accounts receivable management in Kenya and many other parts of developing world, the study on credit management policies and management of debtors in sugar manufacturing companies is still lagging behind. After reviewing various literatures, it was evidenced that most studies mainly dwelt on the practices and principles for effective management of the receivables in all its dimensions. This prevailing problem of poor financial performance of sugar manufacturing firms involves not only public firms but also private firms (KSB, Annual Report 2015). This crisis in the sugar industry may call for assessing the finance determinants of accounts receivables management. The key determinant is credit management policies and competent Board of directors. The main purpose of this study was to examine the finance determinants and management of debtors in the sugar manufacturing companies in Kenya in order to notify policy makers with useful input for formulating sugar industry policies to review the entire sugar value chain and identify areas that require intervention such as production, process and marketing sugar to avert receivership and consequently closure of the firms as was the case of Muhoroni, Miwani and Mumias among others so as to improve productivity and profitability. The data gathered in the study may provide the government, research scholars, investors and concerned management with information relating to how they may address or mitigate factors contributing to the current profitability issues among sugar manufacturing firms in Kenya.

2. Objectives

1. To assess the effect of credit management Policies on management of debtors in the sugar manufacturing companies in Kenya.
2. To determine the moderating effect of board of directors on the relationship between credit management policies and management of debtors in the sugar manufacturing companies in Kenya.

2.1 Hypotheses

1. Credit management Policies does not have a statistical significant effect on management of debtors in the sugar manufacturing companies in Kenya.
2. Board of directors does not have a statistical significant moderating effect on the relationship between credit management policies and management of debtors in the sugar manufacturing companies in Kenya.

3. Methodology

The study adopted a mixed research design which consisted of qualitative and quantitative methods. This was the most suitable because it involves collecting information from the people opinions, habits, attitudes and any other educational or social issues (Namusonge, 2010). Mixed methods research takes advantage of using multiple ways to explore a research problem used to overcome the limitation of a single design. By mixing both qualitative and quantitative research and data, the researcher gains in breadth and depth of understanding and collaboration, while offsetting the weaknesses inherent to using each approach by itself (Creswell, 2015). Quantitative data analysis was used to determine the relationships between the dependent and independent variables using scores collected on instruments e.g. questionnaires. The quantitative data was extracted from the questionnaires as well as the financial statements of the sugar firms. The quantitative approach was followed in a systematic manner to describe and test relationships and examine the cause and effect among variables.

3.1 Model specification

Pearson product moment correlation was used to assess the independent variable and dependent variable. Hypotheses were tested at 5% level of significance using inferential statistics. Ordinary least squares method was used to determine the cause and effect relationship among the variables. Faraway (2002), asserts that regression analysis is a statistical tool that examines the relationship between the variables by analyzing coefficients for the equation in a straight line. According to Malholtra (2007), regression consists of R square which was used to test the overall significance of the model. The goodness of fit of each linear regression was assessed. The coefficient of determination (R^2) was used to assess the explanatory power of each model. R^2 gives the percentage of the variation in the response variable that can be explained by the model. This implies that $1-R^2$ gives the unexplained variation which is mainly associated to pure chance variations and other significant prediction variables that have not been captured by the analysis model. Research hypotheses were tested using F-statistics. Fischer distribution test called F-test was applied. It refers to the ratio between the model mean square divided by the error mean square. F-test was used to test the significance of the overall model at a 5% confidence level. The p-value for the F-statistic was applied in determining the robustness of the model. The conclusion was based on the basis of the p-value where if the null-hypotheses of the beta is rejected then the overall model is significant and if null hypothesis was accepted the overall model is insignificant. In other words, if the p-value was less than 0.05 then it is concluded that the model is significant and has good predictors of the dependent variable and that the results was not based on chance. If p-value is greater than 0.05 then the model is not significant and cannot be used to explain the variations in the dependent variable.

The regression model in this study without the moderating variable was as follows:

$$Y = \beta_0 + \beta_1 X_1 + \varepsilon$$

Where:

Y = The dependent variable = Management of debtors

β = beta, the coefficient of credit management policies as an independent variable.

X_1 = Independent variable = Credit Management policies

ε = error term that denotes other unexplained Credit Management Policies

With the moderating effect (Board of Directors), the study adopted the use of stepwise hierarchical linear regression model which was as follows:

$$Y = \beta_0 + \beta_1 X_1 + \beta_5 X_1 \cdot M + \varepsilon$$

Where:

Y = The dependent variable = Management of Debtors

β = beta the coefficient of Credit Management policies as an independent variable and moderating variable.

M = Moderating Variable = Board of Directors

4. Results and Discussion

Table 4.1: Correlation results for Credit Management Policies and Management of debtors

		Credit Management
Management of debtors	Pearson Correlation Coefficient (r)	.710**
	Sig. (2-tailed)	.000
	N	160

Pearson correlation was used to determine the relationship between Credit Management Policies and Management of debtors. The coefficient was 0.710 with p-value (0.000) which was found to be significant at 0.05 significance level suggesting the existence of a strong positive relationship with management of debtors for Sugar Manufacturing companies in Kenya as shown in table 4.1 above. Therefore, we conclude that Credit Management Policies had a significantly strong positive relationship with management of debtors for Sugar Manufacturing companies in Kenya. According to Sushma and Bhupesh (2007) putting in place a sound credit policy ensure proper debt collection procedures and pivotal in improving efficiency in receivables management hence the performance of firms.

Table 4.2: Simple Regression Results for Credit Management Policies and Management of debtors

Model	R	R-Square	Adjusted R-Square	Std-Error of the Estimate
1	.710 ^a	.505	.501	.34743

- a. *Dependent Variable: Management of debtors*
b. *Predictors: (Constant), Credit Management Policies*

Table 4.2 above presents the regression model of Credit Management Policies with a coefficient of determination of $R^2 = 0.505$ and $R = .710$ at 0.05 significance level. Adjusted R squared is coefficient of determination which tells us the variation in the dependent variable due to change in the independent variable. R is the correlation coefficient which shows the relationship between the study variables. The coefficient of determination indicates that credit management policies was able to explain 50.1 percent of the variation in the Management of debtors. The remaining 49.9 percent can be explained by other factors. The implication of these findings is that credit management policies plays a significant role in management of debtors and the simple linear regression model was a good fit to the data. The findings were in tandem with studies such as Waweru (2013), Mukhoma (2014), Sushma and Bhupesh (2007) who asserted that putting in place sound credit management policies is pivotal in improving efficiency in receivables management hence the performance of firms.

Table 4.3: ANOVA for Credit Management Policies and Management of Debtors

ANOVA^a

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	19.421	1	19.421	160.889	.000 ^b
Residual	19.072	158	.121		
Total	38.493	159			

- a. *Dependent Variable: Management of debtors*
b. *Predictors: (Constant), Credit Management Policies*

ANOVA between credit management policies and management of debtors was conducted to establish the homogeneity of data. Table 4.3 above provides the results on the Analysis of Variance (ANOVA). The results indicate that the combined model was statistically significant. Further the results imply that credit management policies are a good predictor of accounts receivable management. This was supported by an F-statistic of 160.889 and the reported P- Value of (0.000) which was less than the conventional probability of (0.05) significance level. According to Analysis of Variance table, there were significant differences between the credit management policies in the mean number of debtors' management $F(1,158) = 160.889$ $P < 0.05$

Table 4.4: Regression Coefficients of Credit Management Policies and Management of Debtors Coefficients^a

	Unstandardized Coefficients		Standardized Coefficients		
Model	B	Std. Error	Beta	T	Sig.
1 (Constant)	.387	.135		2.874	.005
Credit Management Policies	.764	.060	.710	12.684	.000

a. *Dependent Variable: Management of Debtors*

b. *Predictors: (Constant), Credit Management Policies*

Analysis of the regression model coefficient is shown in table 4.4 above. From the table, there is a positive beta coefficient of 0.764 as showed by the co-efficient matrix with a p-value = $0.000 < 0.05$ and a constant of 0.387 ($\beta = 0.764$, $t = 12.684$, $p = 0.000 < 0.05$). Therefore both the constant and credit management policies contribute significantly to the model. Therefore, the model can provide the information to predict management of debtors. The regression equation is presented as follows: $Y = 0.387 + 0.764X_1 + \epsilon$; Where Y= Management of debtors, X_1 is the credit management policies and ϵ is the error term.

Table 4.5: Overall Correlation Results

	Management of debtors	Credit Management Policies	Board of Directors
Management of debtors	1		
Credit management policies	.710**	1	
Board of Directors	.493**	.320**	1

The study used Pearson correlation product moment correlation analysis to assess the nature of the relationship between the independent variable and the dependent variable as well as the relationships among the independent variables (Wong & Hiew, 2015; Jahangir & Begum 2008). Wong & Hiew (2015) further noted that the correlation coefficient value (r) ranging from 0.10 to 0.29 is considered weak, from 0.30 to 0.49 is considered medium and from 0.50 to 1.0 is considered strong. As per table 4.5 above, there was a strong relationship between credit management policies with management of debtors ($r = 0.710$, p-value < 0.01) and a medium relationship between Board of Directors and management of debtors ($r = 0.493$, p-value < 0.01).

4.1 Moderation Effect of Board of Directors on the Relationship between Credit Management Policies and Management of Debtors

To determine how Board of Directors moderates the relationship between Credit Management Policies and Management of debtors among the sugar manufacturing companies in Kenya, Brien (2007) suggest use of Interaction Plots and the findings are as shown in Figure 4.1 below..

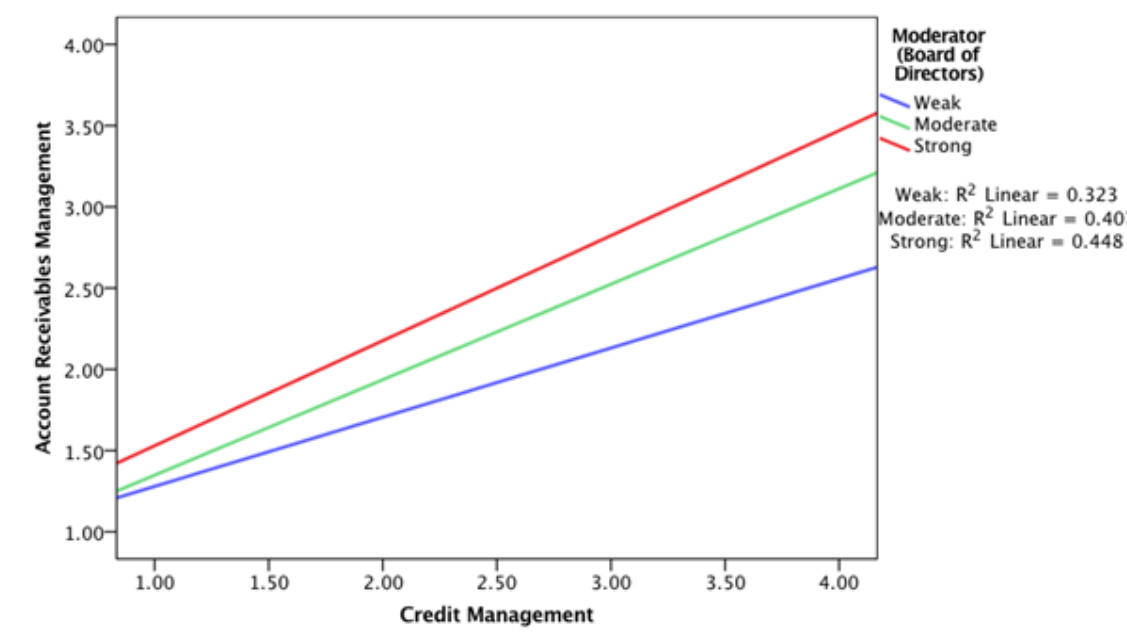


Figure 4.1: Interaction Plot for Effect of Board of Directors on the Relationship between Credit Management Policies and Management of debtors

The findings of figure 4.1 shows that the Board of Directors had an enhancing moderation effect on the relationship between Credit Management Policies and Management of debtors among the sugar manufacturing companies in Kenya. When the Board of Directors is strong, the slope of the relationship between Credit Management Policies and Management of debtors is steeper compared to when it is moderate and weak, and it is when the Credit Management Policies explains the highest amount of variation, 44.8% in the Management of debtors among the sugar manufacturing companies in Kenya as indicated by R-Square = 0.448 (see figure 4.1 above). Similarly, when the Board of Directors is moderately effective, the slope of the relationship between Credit Management Policies and Management of debtors seem steeper compared to when it is weak, and it is when Credit Management Policies explains higher amount of variation 40.7% in the Management of debtors among the sugar manufacturing companies in Kenya compared to 32.3% when it is weak; these are indicated by R-Square = 0.40.7 and R-Square = 0.323 respectively (see figure 4.1 above). The Moderated Stepwise Hierarchical model for predicting Management of debtors among the sugar manufacturing companies in Kenya when given Credit Management as predictor variable and Board of Directors as the moderator is given as:

$$MD = 1.064 - 0.133 CM + 0.254 I_{CM}$$

where:

MD = Management of Debtors

CM = Credit Management

I_{CM} = Interaction between Credit Management Policies and Board of Directors

4.2 Testing the Hypothesis

Hypothesis 1 (H_{01}): Stated that Credit Management Policies does not have a significant effect on management of debtors in the sugar manufacturing companies in Kenya. However, study findings revealed that the beta coefficient on credit management policies was 0.710 which was greater than zero. The t-statistic of this coefficient was 12.684 with a p-value of 0.000 which was less than 0.05. This implies that the coefficient on credit management policies was significant and that credit management policies had a significant influence on management of debtors. This meant that a unit improvement in the credit management policy is likely to result to an improvement in the management of debtors for sugar manufacturing companies in Kenya by 71 percent. The null hypothesis that credit management policies does not have a significant effect on management of debtors in the sugar manufacturing companies in Kenya was therefore rejected. The findings demonstrated that as the value of credit management policies of sugar manufacturing firms increased, the level of debtors' management increased too.

The findings were in tandem with studies such as Waweru (2013), Mukhoma (2014)), Sushma and Bhupesh (2007) who asserted that putting in place sound credit management policies is pivotal in improving efficiency in receivables management hence the performance of firms. The findings were also consisted with prior studies such as Murkherjee (2014) who pointed out that a good accounts receivable management practice and policy will assist a firm reduce the amount of funds tied up in accounts receivables and decrease a firm's percentage of bad debts. The findings too concur with those in Oware, Samanhyia and Ampong (2015), who pointed out that when a firm does not invest well in the collection of account receivable, then the probability that a firm will stagnant as a result of very poor account receivables levels and debt accumulation would be high. In general, the findings emphasized the positive effect of credit management on improvement of accounts receivables management.

Hypothesis 2 (H_{02}): postulated that Board of Directors do not have a significant moderating effect on the relationship between Credit Management Policies and management of debtors among the sugar manufacturing companies in Kenya. The findings of table 4.6 below shows that the Stepwise Hierarchical regression model was a good fit in assessing the moderation effect of Board of Directors on the relationship between Credit Management Policies and Management of debtors. $F\text{-change} = 127.731$, $p\text{-value} = 0.000 < 0.05$. The interaction effect in the model was able to explain 22.2% of the variation in the account receivable management among the sugar manufacturing companies in Kenya as indicated by R-Square Change = 0.222. The interaction term (I_{CM}) was found to be significant in the model as shown by the significant Unstandardized Beta Coefficient, $\beta = 0.254$, $t = 11.302$, $p\text{-value} = 0.000 < 0.05$. The study therefore rejected the null hypothesis and concluded that the Board of Directors had a significant moderation effect on the relationship between the Credit Management Policies and Management of debtors among the sugar manufacturing companies in Kenya (Brien, 2007).

Table 4.6: Moderation Effect of Board of Directors on the Relationship between Credit Management Policies and Management of Debtors

Model Summary									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change
1	.710 ^a	.505	.501	.34743	.505	160.889	1	158	.000
2	.853 ^b	.727	.723	.25881	.222	127.731	1	157	.000
a. Predictors: (Constant), Credit Management									
b. Predictors: (Constant), Credit Management, I_{CM}									
ANOVA ^a									
Model		Sum of Squares	Df	Mean Square	F				Sig.
1	Regression	19.421	1	19.421	160.889				.000 ^b
	Residual	19.072	158	.121					
	Total	38.493	159						
2	Regression	27.976	2	13.988	208.834				.000 ^c
	Residual	10.516	157	.067					
	Total	38.493	159						
a. Dependent Variable: Management of debtors									
b. Predictors: (Constant), Credit Management									
c. Predictors: (Constant), Credit Management, I_{CM}									

Coefficients					
Model		Unstandardized Coefficients		Standardized Coefficients	Sig.
		B	Std. Error	Beta	
1	(Constant)	.387	.135		2.874
	Credit Management	.764	.060	.710	12.684
2	(Constant)	1.064	.117		9.111
	Credit Management	-.133	.091	-.124	-1.462
	<i>I_{CM}</i>	.254	.023	.958	11.302

a. Dependent Variable: Management of debtors

5. Conclusion

Results revealed that most of the sugar manufacturing firms in Kenya were not performing well in the management of credits and thus poor financial performance of sugar firms. From the results, credit management has been put in place in sugar manufacturing companies such as credit limits, credit terms, credit standards and collection policies. Despite this, optimum use of them has not been realized. The underlying reason for this is the inadequate information for credit customer details as well as not following a well-defined effective credit policy. As a result, this has to be addressed by management through policy formulation and adoption in order to revive the poor performance of sugar manufacturing companies.

The findings demonstrated that as the value of credit management of sugar manufacturing firms increased, the level of accounts receivable management increased too. Portfolio theory was relevant to credit management variable in that the extension of trade credit is possible only if the firm categorizes customers from various sectors, branches, classes, regions and status. Since various categories of customers may have different levels of default risk. The theory therefore suggests that to maximize returns and minimize risks, then it is important to choose wisely assets that provide less risk and give higher expected return. Variables such as accounts receivable management are more likely to influence the liquidity and profitability of sugar manufacturing companies. Operating cycle theory was also important to the credit management variable because receivables are directly affected by the operating cycle activities, for example they are influenced by the credit collection policy of the company, credit standards, credit terms and the frequency of converting the outstanding amount into cash affects the accounts receivable management.

Board of Directors had an enhancing moderation effect on the relationship between Credit Management Policies and Account Receivable Management among the sugar manufacturing companies in Kenya. This implies that whenever board of directors has both male and female, directors have past experience in issues related to accounts receivable management and most of directors come from outside shareholders, then this may lead to a better accounts receivable management in the sugar manufacturing firms.

The big four agenda places sugar as one of the agro-processing target crops to help move manufacturing from 8% to 16% and thereby contributing to 20% increased GDP. As a result of lack of enabling policies, the sugar subsector has lagged in achieving the Medium Term Plan (MTP) III under the vision 2030 third pillar. The study showed that proper credit management through efficient and effective credit policies, procedures, standards and practices was key in accounts receivable management. Due to poor performance of the factories and their inability to pay farmers promptly, declining incomes, factory inefficiency and poor governance, the study recommends that sugar manufacturing companies should develop and enforce a well-defined credit control policy framework to strengthen credit management systems which should encompass ways of reducing average collection period and hence huge debt portfolios. This can include prompt sending of customer statements, assessing ability of new and existing customers to pay, maintaining an accurate customer data base and setting of appropriate credit terms. Firms should also set the procedure for collection of overdue accounts according to agreed payment terms, setting a high quality portfolio for accounts receivables and identifying high risk marginal accounts and taking necessary action to safeguard the company against such risks. Setting and adherence to such a credit policy will ensure that the average collection period is reduced and maintained at the optimum days thus enhancing both sales and maximizing collections. This will have a positive effect on the profitability of sugar manufacturing firms. Also, the study recommended the appointment of Board of Directors to be based on specific skills set and competencies and a revitalization committee also to be appointed to work with the board of directors, national and county government to identify and implement an effective restructuring plan in order to improve the financial performance of sugar manufacturing companies.

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