

ABSTRACT

Despite the importance of the sector, public sugar manufacturing firms in Western Kenya are faced with a huge debt burden and recurring poor performance. Many studies conducted in the sugar sector points out that the Kenyan sugar industry has been revolving around financial shortages, deprived financial practices and inability to compete with imported sugar, perennial losses and fluctuations in economic conditions which cumulatively have a negative bearing on industry's financial performance. The purpose of the study was to investigate the influence of capital structure decisions on financial performance of public sugar manufacturing firms in western Kenya. Specifically, the study sought to establish the influence of debt financing, equity financing, retained earnings on the financial performance of public sugar manufacturing firm in Western Kenya. This study adopted mixed research design. The study was conducted on four sugar manufacturing firms in western Kenya which were operational. They included Chemelil Sugar Company, South Nyanza Sugar Company, Mumias and Nzoia Sugar Company. The study target 50 respondents sampled from 5 public sugar companies mentioned. Both census procedure and purposive sampling was used to select the respondents. Both primary and secondary data was used for the study. The data collected was analyzed for both descriptive and inferential statistics by the help of SPSS Version 26.0 software. For descriptive statistics was in form of Mode, mean, standard deviation, frequency distribution and percentages and was presented inform of tables while inferential statistics the analysis was carried out inform of multiple regression analysis. The study also carried out regression and correlation analysis to test the relationship between study variables. Most respondents (84.4%) agreed that sugar companies prefer debt financing as 90.7% of the respondents agreed that the company debts are both short term and long term and a response mean weight of 4.25 magnitude. Majority of respondents (75%) agreed that the companies issued new shares as equity when funding major projects with a mean weight of 4.09; 78.1% of the respondents agreed that the firms adopted equity financing when retained earnings were insufficient and the response mean weight of 4.22 magnitude. Further, 81.3% of the respondents agreed that the companies used retained earnings as part of their finances with a mean weight of 4.34; a negative correlation between debt financing and financial performance of -0.116 while a positive correlation existed between equity financing and financial performance; also a positive correlation existed between retained earnings and financial performance of public sugar firms in Western Kenya. The R^2 was 0.114 which means 11.4% variation in financial performance of public sugar firms in Western Kenya was due to debt financing, equity financing and retained earnings while the remaining 88.6% of variation in financial performance of public sugar firms was explained by other factors not considered in the current study. The F test was significant with a p value = 0.0326 and therefore less than the standard p value of 0.05 and this meant that the model was significant in establishing the relationship between variables. Based on the findings the study concludes that debt financing negatively influence financial performance of Public Sugar firms in Western Kenya. For equity financing positively influenced financial performance of public sugar firms in Western Kenya. For retained earnings it negatively influences financial performance of public sugar firms in Western Kenya. Recommendations were that the management of sugar companies need for the management to review capital structure so as to identify areas that need to be improved on like reducing dependence on debt financing unless for capital assets meant for increased production, set an optimum Debt Equity and Debt Ratio that suit the firm in the long run, and priorities their sources of financing; preferably consider internal funds, followed by debt, and finally equity issues, as sources of finance.