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Effect of Cost Accounting Management Practice on Financial Performance of Public Sugar Manufacturing Firms in Lake Region Economic Block, Kenya

*__Kerubo Okenyoru Colletah,__ MBA Accounting Student, Department of Accounting and Finance, School of Business and Economics, Masinde Muliro University of Science and Technology, Kenya
Ondiek Benedict Alala, Associate Professor, Department of Accounting and Finance, School of Business and Economics, Masinde Muliro University of Science and Technology, Kenya
Charles Tibbs, Associate Professor, Department of Accounting and Finance, School of Business and Economics, Masinde Muliro University of Science and Technology, Kenya

*Corresponding author's email: nyaundigorrety@gmail.com

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ABSTRACT

Purpose: The overall objective of this study was to investigate the effect of cost accounting management practice on financial performance of Public Sugar Manufacturing firms in Lake Region Economic Block

Methodology/Approach: The study used causal research design. Target population of 143 comprising of accountants

Findings: Data analysis was done using descriptive statistics thus frequencies and percentages and inferential statistics thus Pearson correlation and simple linear regression analysis. Data was presented using tables. The study found significant effect (t-statistic=7.324

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Introduction

Management accounting is a collection of approaches and methodologies that are designed to furnish managers with financial data to facilitate decision-making and ensure the effective management of corporate assets. Consequently, organizations implement management accounting practices, such as budgeting, costing, and performance evaluation (Chenhall & Moers, 2015). The main areas of focus in traditional management accounting techniques, such as budgeting, costing, and performance evaluation, are financial problems and internal organizational challenges (Ahmad & Zabri, 2015).

Sugarcane plays a crucial role in the global economy, especially in discussions on rural development (World Bank, 2016). Sugarcane accounts for more than 80% of global sugar consumption and holds a significant position in the global commercial agricultural sector. As per the United Nations (UN, 2017), it encompasses roughly 2% of the total cropland worldwide. The increasing worldwide demand and trade of sugar have greatly emphasized the importance of cultivating sugarcane (UN, 2017). As a result, the process of growing sugarcane has become an intricate endeavor with significant economic and political ramifications (World Bank, 2016). This indicates the beginning of the requirement for policy and, ultimately, laws for the growth of sugarcane.

Multiple studies have examined the significance of financial control in the United States. Insufficient financial management led to the downfall of Enron, an American energy firm (Balakrishnan *et al*., 2017). This is also realized in United Kingdom, the United States, Canada, Brazil, India, and China has revealed the positive impact of strategic financial management strategies on the profitability of manufacturing enterprises (Patro & Arpita, 2019). The sugarcane industry in Brazil has faced significant challenges during the past fifteen years.

Cost accounting research focuses on standard costing, target costing, activity-based costing, and life cycle costing. The performance evaluation has been assessed by analyzing performance reports and conducting internal and external audits to determine the accounting capabilities of the firm (Patro & Arpita, 2019). Past studies have primarily focused on analyzing complete manufacturing organizations and utilizing diverse metrics. In their study, Fwamba (2018) specifically investigated the impact of financial management techniques, rather than management accounting methods, on the financial performance of Sugar Manufacturing Companies in Kenya.
A company's financial performance can be defined as the degree to which it is able to turn its basic assets into revenue (Mills, 2018). When comparing businesses within the same industry or across sectors, this phrase is useful since it provides a holistic picture of the financial health of a company over a specific time. According to the KSB Annual report (2018), more than 50% of sugar producing enterprises in Kenya continually reported a decrease in earnings, indicating a substantial reduction in performance. State-owned sugar milling firms claimed different degrees of profitability. Chemelil Sugar had a decrease in profitability. Chemelil Sugar and Muhoroni Sugar suffered significant losses. The losses incurred by Chemelil Sugar 5 rose from 52,388,455 to 258,434,617 throughout the year of 2020-2021.

Countries involved in sugarcane farming have established rules and treaties, such as the World Trade Organization (WTO) and the Common Market of Eastern and Southern Africa (COMESA) protocol, to govern the production and sale of sugar (Muteshi & Owino, 2017). The policies pertaining to the cultivation and trade of sugarcane mostly concentrate on internal affairs and are tailored to the unique circumstances of individual countries. Nevertheless, the regulations concerning the promotion and sale of sugar have an impact on both local and worldwide scales as a result of the global trade and consumption of sugar (Ligami, 2015). Major global producers including the United States of America (USA), European Union (EU), and Japan protect their sugar industry by implementing high tariffs, non-tariff barriers, and strict import limits (UN, 2017).

The Lake Region Economic Bloc (LREB) is a designated economic bloc in Kenya, comprising 14 counties: Bomet, Bungoma, Busia, Homabay, Kakamega, Kericho, Kisii, Kisumu, Migori, Nandi, Nyamira, Siaya, Trans-Nzoia, and Vihiga. These counties are located around Lake Victoria and its surrounding areas. There are four publicly-owned sugar manufacturing companies in the area: Nzoia Sugar, Chemilil Sugar, Sony Sugar, and Muhoroni Sugar Company.

Statement of the Problem

Despite benefiting from a few favorable regulations, the domestic sugar sector in Kenya, which was previously thriving, profitable, and well-structured, is currently struggling and on the verge of collapse. This was apparent in the decline and diminishing output of sugarcane, mounting debts, and rising production costs. Additionally, there was a shift in land usage to other purposes, accompanied by a continuous migration of farmers from sugarcane to alternative crops, particularly maize (Onyango, Kirimi & Baliero, 2018; COMESA, 2012).

In addition, a number of public mills are currently in receivership, while others are operating much below their established capacity due to a significant departure of farmers from the subsector (COMESA, 2012). This has greatly amplified the country's sugar shortage, leading to a partial reliance on imports. Consequently, this creates opportunities for the illicit entry of lower-priced sugar from foreign countries. The resulting window is accountable for the occurrence of four market failures and the current problem confronting the domestic industry (GOK, 2019). The reason for this is the cost advantage of imported sugar and the detrimental flaws in policy, which encourage excessive imports, illegal influx, and the dumping of cheaper sugar in the domestic market. This poses a significant threat to the survival of the previously thriving and profitable domestic industry (FECSSK, 2016).

Sugarcane is a prominent cash crop in Kenya's agricultural sector. The sugar business in Kenya has significantly contributed to the nation's development. Although the industry plays a crucial role in the economy, the persistent debt crisis poses a significant threat to its stability and growth (KSB, 2017). Nzoia Sugar Company's debt amounts to Kshs. 37 billion, Muhoroni Sugar Company's debt amounts to Kshs 27 billion, and Chemelil Sugar Company's debt amounts to Kshs 5 billion.These outstanding amounts are owing to suppliers, banks, the Sugar directorate, farmers, and the Kenyan government in the form of taxes. Despite several interventions, the performance of the business continues to deteriorate. For example, Chemelil Sugar and Muhoroni Sugar recorded losses of 52,388,455 and 258,434,617 for the 2021 financial years, respectively (KSB, 2017). Could the use of accounting management procedures be the cause of the poor financial performance? According to Transparency International's report in 2016 on the institutional integrity of sugar manufacturing firms in Kenya, it was determined that the sugar industry in Kenya is at risk of collapsing if the current situation, which includes frequent company closures, significant debt, unwise investment practices, and a lack of liquidity, is not addressed. Research has been carried out on accounting management practices, yielding varied outcomes. Omondi (2015) discovered that cost accounting is substantial, but Odindo (2018) found it to be small, highlighting the disparity in the findings. A study conducted by Waihenya (2018) investigated the impact of managerial accounting methods on the financial performance of manufacturing enterprises in the industrial district of Nairobi. However, the study was unable to establish a definitive relationship between managerial accounting practices and financial performance. This study examined the impact of cost accounting management practices on financial performance of Public Sugar Manufacturing businesses in the Lake Region Economic Block, Kenya.

Objectives of the Study

To establish the effect of costing accounting practice on financial performance of Public Sugar Manufacturing firms in Lake Region Economic Block, Kenya.

Research Hypothesis

H_{01}: Costing management practice has no significant effect on financial performance of Public Sugar Manufacturing firms in Lake Region Economic Block, Kenya.

Literature Review

Accountability Theory

According to Vance, Lowry, and Eggett (2015), accountability theory posits that the perceived obligation to justify one's actions to another person leads to a sense of responsibility for the decision-making and judgment process. Consequently, the apparent necessity to justify a decision-making process and its result enhances the probability of engaging in thorough and methodical reflection on one's procedural actions.

The management accounting literature has been criticized for its unduly positive interpretation of accountability. Instead, scholars have emphasized that accountability can lead to excessive conformity and jeopardize the independence of auditors when people know or can infer the opinions and expectations of significant others (Koch et al., 2012; Peytcheva & Gillett, 2011). Accountability has been recognized as a possible source of stress. An ongoing debate in the management accounting literature is around the idea that accountability places significant demands on individuals, both in terms of their emotions and cognitive abilities (Burkert *et al*., 2011). Previous research in the field of budget-pressure and job strain literature has revealed that accountability can induce stress (Marginson *et al*., 2014).

Traditionally, accountability has been studied as a concept that can be officially enforced on individuals (Fehrenbacher *et al*., 2020; Mala *et al*., 2018). However, theoretical research on accountability has emphasized that it goes beyond simply meeting formal requirements for justification. The theory is applicable to the research as it facilitates comprehension of how management accounting methods impact the financial performance of manufacturing organizations. The practice of holding individuals accountable for their decisions and evaluating the outcomes enhances the likelihood that individuals will engage in thoughtful and analytical reflection on their actions. This is a valuable attribute that may be beneficially applied by the management of a corporation. The expectation of performance evaluation entails that managers are aware that their statements will be subject to external auditing by the government, which will generate audit reports. Any lack of accountability was met with punishment. The stakeholders' desire to engage in cost appraisal and budget planning contributes to the social presence, which in turn enhances transparency and reduces the occurrence of fraud. This theory serves as the primary framework that directs the study.

Empirical Review

Melek (2017) studied the impact of budget participation on managerial performance and organizational commitment. A study was conducted by the researcher on the 500 leading corporations in Turkey. The results add to the existing body of knowledge in management accounting by shedding light on how organizational commitment and budget participation impact managers' performance. Participation in the budget process significantly and favorably affects management performance, as shown in their regression research. The study's authors concluded that raising the interaction score between budget participation and organizational commitment was directly associated with better management performance assessments.

Pike, Tayles, and Mansor (2021) conducted a study to examine the perceptions of users regarding activity-based costing and performance in three distinct systems within a prominent information and communication provider in Southeast Asia. Their research revealed that the inputs for development and the perceptions of user performance varied based on the type of system. Embedded systems, in comparison to stand-alone systems, received significantly greater inputs such as strong backing from top management, awards and recognition, the importance of tasks, and improved cohesion within the development team. Nevertheless, users assessed embedded systems to exhibit markedly inferior performance. The findings suggest that the type of system significantly influences the assessment of ABC's performance (Pike *et al*., 2021). Fridh and Borgenas (2016) examined the adoption of target costing in Swedish industrial firms. Among the 250 companies chosen for the study, 91 of them provided answers to the questionnaire. Through the process of random sampling, a grand total of 277 multiple choice questions were collected as main data. The results revealed that 16.5% of manufacturing companies in Sweden utilize target costs. These firms are typically characterized by their big size, implementation of a differentiation strategy, and presence in highly competitive marketplaces.

Salawu, Oyesola, and Tajudeen (2016) conducted a survey to assess the adoption of Activity Based Costing by manufacturing enterprises in Nigeria. The study discovered that the main reason for implementing activity-based costing (ABC) was the insufficiency of current cost methodologies in delivering pertinent cost data. The researchers found a clear and direct relationship between the implementation of ABC (Activity-Based Costing) and many organizational parameters, such as the degree of customization, competitive pressure, business size, and the ratio of overhead costs to total expenditures. Nevertheless, none of the disparities were found to be statistically significant with a significance level of 10%.

Odek, Kegode, and Ochola (2016) investigated how cost management strategies affect the financial performance of the sugar business in Kenya. The study found that Kenya's sugar production costs are presently higher than those of other producers, leading to a significant negative impact on financial performance. In 1996, the cost of Kenya's locally produced sugar was around US$623 per tonne, however in 2015, it increased to US$673 per tonne. By contrast, the mean worldwide cost of sugar during both periods was US$296 and US$276, correspondingly. Austrialia, Brazil, Colombia, Guatemala, Fiji, Malawi, Swaziland, Thailand, Zambia, and Zimbabwe are the countries with the most economical production expenses for sugarcane. Kenya incurs one of the highest expenses for sugar production worldwide, despite the fact that the global price of sugar has constantly stayed lower than Kenya's production cost. It is crucial to implement methods that would enhance the performance of Kenya's sugar millers in order to enhance their competitiveness.

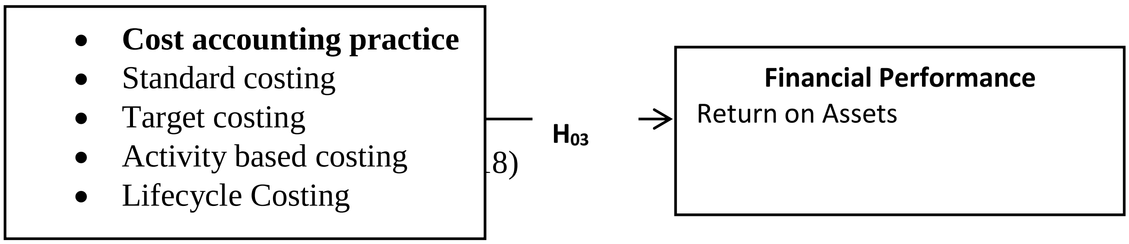
Akombo (2020) analyzed the competitiveness of Kenya's sugar sector using Porter's Diamond model. According to the report, a major challenge for the firm is the accessibility of cane raw material, which must be both dependable and cost-effective. Approximately 78% of the surveyed firms indicated apprehensions over this matter. The substandard state of road infrastructure has considerably raised the cost of cane, as transportation charges now make up to 35% of the entire expenditures. This has had a detrimental effect on the financial performance of enterprises, making them less competitive. Furthermore, the millers perceive the existing payment system, which is predicated on tonnage, as disadvantageous. This is due to a substantial proportion of the cane supplied having a low sucrose concentration, which is the main desirable component extracted from cane.

Waswa, Mukras, and Oima (2018) conducted a study to examine how competitiveness affects the financial performance of the sugar business in Kenya. The researcher performed a fixed effects regression study on a sample of five sugar firms, covering the period from June 30th, 2015 to 2016. The objective was to examine the impact of competitiveness and management efficiency on the performance of companies in the sugar sector. The results suggest that enterprises with lower production costs per tonne exhibit better performance in comparison to those with higher industry production costs per tonne. Thus, it can be inferred that greater expenses incurred per metric ton are linked to less profitability. Therefore, it is necessary to enact rules that encourage the implementation of initiatives aimed at reducing costs. Moreover, the results indicate the existence of a harmful association between managerial efficacy and organizational performance. The inverse relationship implies that the degree of managerial efficacy in sugar sector firms is insufficient to have a substantial influence on a company's financial prosperity. Based on these findings, the researcher recommends that organizational management should aim to maintain optimal production costs, as elevated costs have an adverse effect on their financial performance.

Waihenya (2018) endeavored to assess the financial performance of manufacturing firms located in Nairobi's industrial area in relation to managerial accounting techniques. A total of 54 participants were chosen for the study using a basic random sampling technique. According to the findings, financial success is influenced by the full budgeting process, which comprises both short-term and long-term budget planning. Mixed costs affected the financial performance of industrial firms, according to the study, which also demonstrated that fixed cost analysis had an effect.

Conceptual Review

Independent variables **Dependent variable**



The conceptual framework comprised of independent variables and a dependent variable. The independent variables were the factors that influenced the change in other variables, and the researcher had the ability to manipulate them. The variable consisted of cost accounting techniques. The assessment of performance in accounting practice was conducted through internal audits, external audits, and performance reports.

Methodology

Study Design: The study employed a casual research strategy to elucidate the link between factors. The study examined the causal relationship between management accounting methods and the financial performance of a public sugar corporation in the Lake Region economic bloc. Cooper and Schindler (2017) state that causal design is useful for evaluating the cause and effect relationship between variables.

Target population and sample size: The target population was 143 based on the KSB Employee Report of 2022. This leads to a sample of 98 as provided in Table 1.

Table 1: Target population

Sugar companies	Managers	Management Accountants	Auditors
Nzoia Sugar Company	8	21	8
Chemilil Sugar Company	7	26	9
Sony Sugar Company	8	23	6
Muhoroni Sugar Company	5	15	7
N=143	28	85	30

Source: Sugar Companies Employee Report, (2023)

The process of sample determination, as described by Yamane Taro in 1967, was utilized to achieve 98 as a sample.

The stratified simple random sampling technique was implemented in the investigation. Managers, accountants, and auditors comprised the strata.

Instrumentation: Data was collected using self-administered questionnaires. Furthermore secondary data on Return on Assets (ROA) from the financial statements of the different enterprises for the period between 2018 and 2022 was used.

Data Analysis: Researchers used descriptive and inferential statistics to examine the study's data.

Results and Discussion

Table 3: Response Rate: A total of 98 questionnaires were distributed, and 94 of them were returned. The response rate was 95.74%. According to Mugenda and Mugenda (2018), a response rate of 70% is deemed satisfactory for a research.

Descriptive statistics: Regarding eight statements concerning board characteristics on dividend policy of deposit accepting SACCOs in Kenya, the respondents were asked to indicate their degree of agreement, ranging from strongly disagree (1) to strongly agree (5). Table 4.2 displays the results.

Table 3: Cost Accounting Practice

Description	N	SD (%)	D (%)	N (%)	A (%)	SA (%)
My sugar firm provides standard costing measures.	94	0(0.0)	11(11.7)	35(37.2)	30(31.9)	18(19.1)
My sugar firm provides target costing measures	94	0(0.0)	5(5.3)	46(48.9)	33(35.1)	10(10.6)
My sugar firm provides activity based costing measures	94	0(0.0)	19(20.2)	24(25.5)	29(30.9)	22(23.4)
My sugar firm provides Lifecycle Costing measures	94	1(1.1)	10(10.6)	35(37.2)	30(31.9)	18(19.1)
My sugar firm provides cost breakdown records for efficiency purposes	94	0(0.0)	19(20.2)	24(25.5)	29(30.9)	22(23.4)

Source: Researcher, (2024)

The data from table 3 revealed that 11 individuals (11.7%) disagreed, while 35 individuals (37.2%) were neutral on the sugar firm's implementation of standard costing methods. Additionally, 30 individuals (31.9%) agreed, and 18 individuals (19.1%) highly agreed with the use of these measures. When asked if the sugar firm implements target costing procedures, 5 individuals (5.3%) disagreed, while 46 individuals (48.9%) were unsure. On the other hand, 33 individuals (35.1%) agreed, and 10 individuals (10.6%) highly agreed. The findings indicated that 19 individuals (20.2%) disagreed, while 24 individuals (25.5%) were uncertain about whether the sugar company implements activity-based costing procedures. On the other hand, 29 individuals (30.9%) agreed, and 22 individuals (23.4%) highly agreed. Finally, 1 individual (1.1%) expressed extreme disagreement, 10 individuals (10.6%) disagreed, and 35 individuals (37.2%) remained neutral. Both 30 (31.9%) and 18 (19.1%) agreed equally. The investigation additionally confirmed that the sugar company gives cost breakdown statistics for the objective of enhancing efficiency.

Table 4: Pearson Correlation Matrix

		Cost accounting management practice	**ROA**
Cost accounting practice	PCorrelation		
	Sign at 2-tailed		
	N	94	
ROA	PCorrelation	.607**	
	Sign at 2-tailed	.000	
	N	94	94

Source: Field Data (2024)

The results above show that, at a significance level of 0.05, the practice of cost accounting was a strong predictor of financial performance ($r = 0.607$, p-value $= 0.000 < 0.05$). Therefore, implementing cost accounting management practices directly results in improved financial performance.

Table 5: Cost Accounting Practice

Summary Model

Model	R	R^2	Adj R^2	Estimate Err	Change Statistics R2 Change	F Change	df1	df2	Sig. F Change
1	.607[a]	.368	.361	.91607	.368	53.634	1	92	.000

a. Cost accounting practice

ANOVA[a]

Model		Sum ^{2}	df	Mean ^{2}	F	Sign.
1	Computed regression	45.008	1	45.008	53.634	.000[b]
	Computed residual	77.204	92	.839		
	Total	122.213	93			

a. Return on assets
b. Cost accounting practice

Coefficients[a]

Model		Unstd coeff B	Std. Error	Std coeff Beta	t	Sign.
1	(Constant)	.217	.443		.490	.625
	Cost accounting practice	.926	.126	.607	7.324	.000

a. Return on assets

Source: Researcher, (2024)

Table 5 indicates that the expansion choice is responsible for 36.8% of the variance in financial performance, as the R-square value of 0.368 suggests. Conducted at a significance level of 0.05, the ANOVA test revealed that the cost accounting technique greatly influenced the financial performance of public sugar companies in the Lake area economic block. This was demonstrated by a significance value of 0.000, which was less than the selected significance level (p=0.000 0.05). A t-statistic of 7.324 and a p-value of 0.000, which is less than the significance level of 0.05, show therefore the significant influence of cost accounting on the financial performance of public sugar companies in the Lake area economic block. The null hypothesis was thereby disproved. Public sugar companies in the Lake region economic block showed a 0.926 increase in financial performance by using cost accounting techniques. The equation of the regression model reflects this as: The equation is Y = 0.217 + 0.926X.CP

Gohil (2015) looked at the financial performance and cost accounting methods of the Indian sugar industry. The results exposed that the financial performance of the sector was clearly influenced by cost accounting. Target costing has been found by Fridh and Borgenas (2016) as very vital for Swedish manufacturing companies. It aligns with the findings of Salawu, Oyesola, and Tajudeen (2016), who conducted a survey on the adoption of activity-based costing among manufacturing companies in Nigeria. However, there is disagreement with Waihenya's (2018) evaluation of the effects of managerial accounting methods on the financial performance of manufacturing enterprises in the industrial district of Nairobi. Waihenya reported that the practice of cost accounting had no meaningful impact. The distinction is in the varying extent of manufacturing companies in the industrial sector, rather than in sugar companies.

Conclusion

According to the the objective, the practice of cost accounting management has an influence on the financial performance of sugar enterprises, as confirmed by respondents who stated that sugar firms implemented standard costing measures and target costing measures. The study revealed that the implementation of cost accounting management practices had a substantial impact on the financial performance of Public Sugar Manufacturing businesses in the Lake Region Economic Block, Kenya. Management accounting practices that are cost accounting management practice.

A unit increase in Management accounting practices led to financial performance of Public Sugar Manufacturing firms in Lake Region Economic Block, Kenya.

Recommendations

Public Sugar Manufacturing firms in Lake Region Economic Block should practice standard costing, target costing, activity based costing and lifecycle costing measures so as to improve cost accounting management practice.

The study recommends use of other accounting practices not used in the current study; this may include strategic management accounting and Variance Analysis. Further studies can use other moderators such as age of the firm. It is suggested that other studies can be conducted on private sugar companies in Kenya.

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