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Abstract:
Decisions about how much to invest in the customer and inventory accounts, and how much credit to accept from suppliers, are reflected in a firm's cash conversion cycle. Some previous studies have used this measure to analyze whether shortening the cash conversion cycle has positive or negative effects on the firm's profitability. These previous studies have focused their analysis on large firms. This study contributes to literature by focusing on the small and medium-sized organizations like the sugar-cane out-grower companies in Kenya whose unique characteristics include very high levels of current assets, fewer alternative sources of external finance and dependency on short-term finance. Using a descriptive cross-sectional research design, a total of 30 managerial staff members from the ten out-grower companies in Kenya were surveyed by way of completing a semi-structured questionnaire. Secondary data was also collected to supplement the primary data. The study further established that more than 67% of the out-grower companies hold their inventories for more than 60 days before converting them into receivables due to large order sizes targeting economies of scale and bulk discounts. Lack of appropriate skills has also hindered the use of techniques like just-in-time (JIT) for efficient inventory management.

Keywords: Cash conversion cycle, working capital management, sugarcane out-grower companies