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Relationship between Financial Strategies and Agribusiness Performance A Case of Nyeri County in Kenya

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Abstract: **This project aimed at determining the relationship between financial strategies and agribusiness performance. The researcher placed emphasis on emerging livestock value chains of, indigenous improved chicken, rabbits, dairy goats and fish (trout, tilapia & cut/mud fish). To achieve the set objectives the researcher used a few selected financial and non-financial indicators to measure agribusiness performance. The objective of this study was to determine the relationship of financial strategies (access to finance, source of finance and financing period) on the performance of agribusinesses. The results of the study revealed a strong relationship between favorable loan interests had a strong positive relationship and performance of agribusiness. Access to long term financial products also had a strong positive relationship with performance, indicating that an increase in easy access to long germ financial products increases the performance of agribusiness. The researcher thus concluded that livestock agribusiness owners must focus their efforts on financial strategies for improved performance. Thus the researcher recommended financial strategies for better livestock agribusiness performance.**

Keywords: **Financial strategies, Strategy, Agribusiness, Performance, Emerging livestock and Value chain**

I. INTRODUCTION

Agribusiness is considered a catalyst to economic growth as well a tool to poverty eradication in Africa. It also provides a business remedy to rural poverty where redistribution mechanisms are at work. Agribusiness is a strategy to stimulate development and also provide business solution to rural poverty (Bidzakin, 2009). Bidzakin asserts that it paramount today to most governments to reduce poverty status among rural people via the development of agribusiness. Statistics has that, in North America 32.6% of women and 32.9% of men are actively employed in the agriculture sector. However, the statistics are very high in sub-Saharan Africa where 67.9% of women and 62.4% of men are actively employed in the same sector.

World Bank (2013) has that there has been neglect of agriculture for quite long. Recently, agriculture is again seizing the attention of African governments, communities, commerce leaders, as well as development donors, as an influential driver of the continent's unbelivable rapid growth. Africa currently earns an average of 24 per cent of its yearly growth from its farmers and their crops. If harmonized by means of more power and irrigation, smart trade along with trade policies with a changing private agribusiness division that works hand by hand with the government to connect farmers with target market in urban Africa. It is projected by World Bank that agriculture together with agribusiness will probably command a US$ 1 trillion in Africa's regional economy by 2030. Agricultural production is an important sector in most African countries, averaging 24 per cent of GDP for Africans (World Bank, 2013).

1.1 Agribusiness and Strategy:

Agribusiness is defined as all participants in products/goods vertical structure, starting with farm suppliers, farmers, assemblers, processors and distributors to the final domestic and international markets. The system also has coordinating machinery which put together, present markets, future markets, contractual integration, local and international farm cooperatives, governmental programs, selling boards, trade links, charitable agency programs, and a variety of private, cooperative, along with governmental joint ventures in addition to long-term agreements and planning" (Goldberg, 1988). Strategy is paramount on numerous fronts including; individual organizations, the farm, the orchard, in processing and

manufacturing, in supply chain evolution and finally strategy is central in marketing of farm products (Scrimgeour et al, 2006).

Livestock business:

There is little development and exploitation of the livestock agribusiness (Alila & Atieno, 2006). Regardless of the significant potential of livestock sector, it remains largely unexploited. Statistics has that Kenya livestock sector attributes to 10% to the GDP and about 42% of total agricultural output (Republic of Kenya, 2002). Major livestock p,opulation species in 2003 was estimated at over 25 million chicken, 11.9 million goats, 9.9 million sheep, 9 million zebu cattle, 3.5 million exotic and grade cattle, 895,000 camels, 470,000 rabbits and 415,200 pigs(Kiptarus, 2005).

Generally, livestock provide the domestic requirements of milk, dairy foodstuffs animal protein, and additional livestock goods that accounts for about 30% of all marketed agricultural commodities. Livestock business also earns foreign exchange via the export other than providing factor inputs for agro-based industries. It offers employs to 50% of total agricultural labor market. Even though, livestock rearing is commonly practiced all over Kenya more than 60% of all Kenyans livestock is found in ASAL which employees 90% of the local people. Livestock sector is responsible for ensuring self-reliance in livestock products (Republic of Kenya, 2002; Ministry of Livestock and Fisheries Development). The development of livestock segment is mostly constrained by a number of issues (Alila & Atieno, 2006).

It is true that agribusinesses have numerous challenges that pose opportunities to entrepreneurs. New emerging trends such as limited land size and health sensitive nature of consumers have seen the emergence of new agribusiness opportunities. This is evidenced in livestock agribusinesses where rabbits, dairy goats, fish, improved indigenous chicken have replaced the common and traditional livestock of cows, goats, pigs and sheep (Yumkella *et al*, 2011). Yumkella *et al*, assert low capital and little space requirements as some of the driving forces to this new development. The opportunities and developments have motivated Nyeri residents to engage in livestock agribusiness ventures. The individuals have employed several strategies for competiveness and better performance. There is need to understand the relationship between financial strategies and agribusiness performance of Nyeri county in Kenya. The knowledge of their performance will provide shade light on these ventures as well as provide recommendation on the way forward to better performance.

1.2 Statement of the Problem:

Haggblade (2011) has that Africa's agribusinesses has potentials for exceptionally rapid increase for the coming 40 years. The performance of agribusiness depends on several set of factors including; customer; value preference competitiveness, personal profile, globalization, management systems, , behaviour, urbanization and cost of inputs (Macharia *et al*, 2013). Strategy is useful on various fronts in agribusinesses including; the farm, processing as well as manufacturing, supply chain evolution and finally marketing at individual firm level (Scrimgeour *et al*, 2006).

Researchers have studied on the performance of common/traditional livestock of sheep and goats for meat, dairy cows, layers, broilers, cows for meat. Kiptarus (2005) reported on the livestock approximate numbers, productivity of beef red and white meat and milk production. Researchers have however, done little on the performance of emerging livestock value chains. According to Kaptarus (2005) emerging livestock is defined as animals that have been neglected in research and development. Some established reasons for slow growth of rabbit livestock farming in Kiambu County include; non access to finances, agro-industrial research and markets (Karanja, 2013).

Thus, the exceptional rapid increase in agribusiness suggested by (Haggblade, 2011) must be achieved. In addition, attention must to be given to the performance of emerging livestock value chains. This study aims at filling the gap and as well as provide insights through a research on the relationship between financial strategies and agribusiness performance of emerging livestock value chains. Finally, the knowledge will aid suggest workable plans that will improve their performance.

1.3 Objective of the Study:

The objective of the study was to evaluate the relationship between financial strategies and performance of agribusinesses in Nyeri County, Kenya.

II. LITERATURE REVIEW

Theoretical Review:

According to Serekan (2003) a theory is a set of tested and widely accepted principles that are used to explain phenomenon and that can be used to make predictions about a given phenomenon. A theoretical framework is a collection of statements, which are, interrelated (Orodho, 2009).

Resource Based Theory:

Resource-based theory addresses the issues of a firms identity as well as the nature and source of strategic capabilities. It has an intra-organizational view that performance is as a result of an organizations specific capabilities and resources (Barney, 1991; Wernerfelt, 1984). This theory is rooted on the fact that, firms that are successful will be competitive and will develop distinctive and unique that may be intangible (Teece et al, 1991). An organizations unique capabilities and resources describe the foundation of strategy (Rumelt, 1984). In addition, value adding aspect of strategy, thus the organizations ability to build and maintain a profitable market position, critically relies on its underlying resources and capabilities (Conner, 1991).

Resource-based view (RBV) puts it that a competitive advantage and performance results of an organization are due to a firm-specific resources and capabilities which must be expensive to copy by any competitors (Barney, 1986a, 1986b, 1991; Wernerfelt, 1984, Rumelt 1987). These resources and capabilities are important factors of sustainable competitive advantage and superb organizational performance only if they have certain special and unique characteristics. These characteristics must be valuable, efficient and effective, rare, imperfectly imitable and non-substitutable (VRIN) (Barney, 1991).

Performance Theory:

The theory of performance has that performance can be done by an individual or a group of individuals engaging in a common effort. According to this theory, to perform is to execute valued results. However, building performance is not a one-time activity, it is a process, the performance level describes a location in the process. Present level of performance depends entirely on several six components of: skills, identity, context, personal factors, level of knowledge, and fixed factors. Performance effectiveness depends on some factors of: performer's mind frame, an enriching environment, and reflective practice (Elger, 2006). The performance of livestock agribusiness also depends on this variables.

Conceptual Framework:

A conceptual framework as a set interlinking concepts that together gives a comprehensive understanding of a phenomenon or phenomena (Jabareen 2009). This study provides its conceptual framework using dependent variable and independent variables as well as their relationship as shown below.

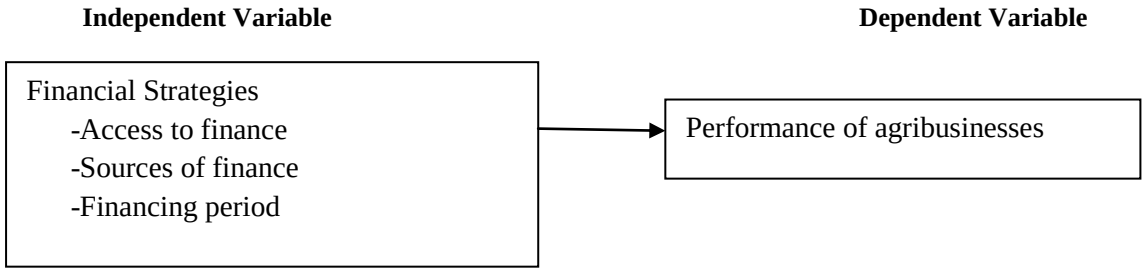

Fig 1: Conceptual Framework

Empirical Framework:

Financial Strategies:

This research described financial strategies using access to finances, sources of financing and financing period as follows:

Access to Finances:

The lack of capital seems to be the primary reason for business failure and is considered to be the greatest problem facing agribusiness small and micro business owners (Fatoki & Garwe, 2010). Supported by Shafeek (2009) who asserts without

adequate financing, the business will be unable to maintain and acquire facilities, attract and retain capable staff, produce and market a product, or do any of the other things necessary to run a successful operation.

Stokes and Wilson (2006) add that financial difficulties of agribusiness arise, either because of an inability to raise sufficient funds to properly capitalise the business, or a mismanagement of the funds that do exist or a combination of both. He further explains that, access to external funds may be difficult to achieve for new or young, small and micro agribusinesses with no track record, especially for owners without personal assets to offer as security. According to

Clover & Darroch (2005) lack of finance at business start-up is associated with agribusinesses inability to attract skilled labour, to purchase sufficient technology, and to afford business premises close to their suppliers.

Stokes and Wilson (2006) stress that many new owner managers, having received funds, misuse them; small businesses are notorious for their lack of proper financial controls and information.

Unlike in other economic sectors, there is widespread lack of adequate financing for the particular characteristics of agribusiness investments. Financial constraints are more pervasive in agricultural production, which forms the basis for agribusinesses. According to FAO (2013), where finance is available, access is often hampered by high interest rates and/or stringent collateral requirements.FAO suggests that facilitating access to finance is a priority in enabling better performance. Access to finance can be improved through: developing financial and risk management systems that evaluate the particular characteristics of agriculture and agro-enterprises.

Sources of Financing:

ACI & ETG (2011) have that rural areas in most developing countries have few commercial bank offices, and even when rural areas do have offices, these offices make few loans to local businesses. They only accept deposits. Clover & Darroch (2005) stress that difficulty in sources of finance results from formal lending institutions being averse to financing smaller loans due to relatively high administration and information costs in the absence of collateral. Most of the financial resources are generated from rabbit farmer's self-savings which is Inadequate (Karanja, 2013).

Nathan Associates (2004), insist that absence of banking facilities in the rural areas where agricultural production takes place as well as the lack of financial products tailored to the specific risks and cash flow patterns of agricultural enterprises hinder their good performance. Moreover, agricultural production tends to take place in dispersed geographical areas; there are high transaction costs for providing traditional financial services in small amounts to such areas, where the transportation and communications infrastructure is typically poor.

FAO (2013) has that to improve agribusiness performance there is need to first increase the outreach of financial institutions and agricultural financial service delivery in rural areas where agribusinesses are located. Second, improvement can be achieved through considering the use of matching grants to offset agribusiness risks, broadening the range and scope of services offered by formal financial institutions. Thirdly, improvement can also be realized by expanding microcredit programmes and rural community banking. Finally improvement is arrived at by deepening rural and agricultural finance by supporting financial institutions to be more innovative in managing risk.

Financing Period:

According to FAO (2013) the issue of financing need a special consideration in the assessments of enabling environments for agribusinesses performance. The lack of availability of long-term finance for productive development, and financial information is a problem. ACI & ETG (2011) the perception of high risk with respect to rural business activities affects the availability of credit and banking services. These effects manifest themselves in a dearth of local financial services, a lack of short term credit for farm production, and a serious scarcity of longer term debt or equity investment.

Incubators are confronted with the need to assist their clients in overcoming the finance availability challenge, not only with respect to venture capital, but also with respect to securing short-term credit with which to survive until their cash flow becomes positive ACI & ETG, (2011). This will lead to better agribusiness performance.

III. RESEARCH METHODOLOGY

The researcher used a descriptive research design. A research design is a plan used in the collection and analysis of data to get the relevant information (Orodho 2009). Such studies make use of questionnaires and interviews that this study employed to collect data. The population for the study had member's of agribusinesses in Nyeri county Kenya. The target

population were members of agribusinesses who reared emerging livestock of indigenous improved chicken, dairy goats, rabbits and fish. Simple random sampling was used to collect a sample data of 75 from 250 members who had emerging livestock value chains. According to student t-test a sample should be above 30% of the total population. Primary data collection instrument used were questionnaires. A pilot test carried out on 5 members randomly to for instrument reliability.

The collected data was analysed using descriptive analysis, processed by SPSS. The information generated was presented in form of pie charts, frequency, graphs, and percentage tables. Inferential statistics were also used to establish the relationship between the variable.

IV. RESEARCH FINDINGS AND DISCUSSION

The study aimed at evaluating the financial strategies that the respondents used. It was measured in three categories namely; access to finance, source of financing and the financing period.

Access to Finance:

Table 4.1 Availability of Credit and Credit Access Difficulty

Category		Frequency	Percentage	Cumulative percentage
Availability of credit source				
	Strongly disagree	15	24.2	24.5
	Disagree	17	27.4	51.9
	Neutral	8	12.8	64.8
	Agree	21	33.6	98.4
	Strongly agree	1	1.6	100.0
	Total	62	100.0	
Difficult accessibility				
	Strongly disagree	12	19.4	19.4
	Disagree	12	19.4	38.8
	Neutral	09	14.5	53.3
	Agree	27	43.5	96.8
	Strongly agree	2	3.2	100.0
	Total	62	100.0	

The descriptive table 4.1 elaborates the financial strategies in terms of availability of credit course and access to finance. Out of the 62 respondents, 33.6% agreed that source of credit was available, however, 1.6% strongly agreed, 12.8% were neutral, 27.4% disagreed and 24.2% strongly disagreed to the statement. Nevertheless, 43.5% agreed that it was difficult to access credit, 19.4% strongly agreed, while 14.5% were neutral, 19.4% disagreed and 19.4% strongly disagreed to it.
The results implied that the respondents have few sources of credit and banking institutions and that it is also difficult to access the few that are available. This agrees with literature that rural areas in most developing countries have few commercial bank offices, and even when rural areas do have offices they make few loans to local businesses (ACI & ETG, 2011). Also access to external funds may be difficult to achieve for new or young, small and micro agribusinesses (Stokes and Wilson, 2006). Finally where finance is available, access is often hampered by high interest rates and/or stringent collateral requirements (FAO, 2013).

Source of Financing:

The source of finance sought to find out the source where the respondents acquired their funding.

Table 4.2 Personal Savings

	Frequency	Percent	Cumulative Percent
Strongly disagree	4	6.6	6.6
Disagree	7	11.3	17.9
Neutral	1	1.6	19.5
Agree	33	53.1	72.6
strongly agree	17	27.4	100.0
Total	62	100.0	

The options laid out in the table 4.2 indicate personal saving as a source of financing. A majority of the respondents at 53.1% agreed to use personal savings as a source of finance, 27.4% strongly agreed to it, 1.6% were neutral, 11.3% disagreed and 6.6% strongly disagreed to it. This means that a greater number of respondents use their personal savings to finance their agribusiness activities. This supports literature that most of farmers financial resources are generated from self savings which is inadequate (Karanja, 2013).

Table 4.3 Source of Financing

Source of financing	Frequency	Percent	Cumulative Percent
Self	27	43.5	43.5
Table banking	26	41.9	85.4
Family and relatives	1	1.6	87
Friends	2	3.2	90.2
Bank	5	8.2	98.4
Sacco	1	1.6	100.0
Total	62	100.0	

Table 4.3 shows the various sources of financing, ranging from table banking, family and relatives, friends, bank and Sacco. A greater percentage of 43.5% and 41.9% agreed to use own sources and table banking as a source of funding for their agribusiness. However only 1.6% used family and relatives as a source, 3.2% used friends, 8.2% used banks and 1.6% used Saccos. No one used microfinance institutions, government funding, and NGO's. This indicates that, most of the funding for agribusiness is from farmers own sources and table banking. Very few use banks, Saccos, friends, relatives and family but don't use microfinance institutions, government funding, and NGO's.

Table 4.4 Correlation between Financial Strategy and Performance of Agribusiness

Financial strategy variable		Pearson R	Sig
Easy to access funds		0.133	0.276
Availability of infrastructure and raw materials		0.635	0
Adequate information on credit facilities		0.108	0.379
Security to secure loans		0.108	0.383
Favourable loan interests		0.651	0
Access to short term financial products		0.272	0.023
Access to long term financial products		0.538	0

Easy access to funds had a weak positive relationship of .133 with performance. Indicating that, an increase in easy access to funds will slightly increase agribusiness performance. Availability of raw material has a strong positive significant relationship of 0.635 with performance. Indicating that the more the raw materials availability to respondents is increased the performance of the agribusiness increases significantly. The strength of the relationship is large making a share of variance to be 40%.

Adequate information on credit facilities and security to secure loans had a weak positive relationship of .108 with performance. Indicating that, an increase in adequate information on credit facilities and security to secure loans slightly increases agribusiness performance. Favourable loan interests had a strong positive significant relationship of 0.651 with performance. Indicating that, an increase in favourable loan interests by financial institutions leads to an increase in performance of the agribusiness significantly. This shows a strong relationship between favourable loan interests and performance of agribusiness indicating a 42% shared variance.

Access to short term financial products had a weak positive relationship of .272 with performance. Indicating that, an increase in the access to short term financial products increases slightly increases the performance of agribusinesses. In

addition, access to long term financial products had a strong positive significant relationship of 0.538 with performance. Indicating that, an increase in easy access to long term financial products increases the performance of the agribusiness significantly. The value shows a strong relationship between accesses to long term financial products with performance of their agribusiness.

V. DISCUSSION OF RESULTS

Favourable loan interests had strong positive relationship with performance. This implied that, an increase in favourable loan interests in financial institutions leads to an increase in performance of agribusiness. It also shows a strong relationship between favorable loan interests and performance of agribusiness.

On the other hand, access to long term financial products also had a strong positive relationship with performance, indicating that an increase in easy access to long germ financial products increases the performance of agribusiness.

VI. CONCLUSIONS

In conclusion, the research revealed that there was a strong relationship between favourable loan interests and performance of agribusiness, indicating that an increase in favourable loan interests in financial institutions leads to an increase in performance of the agribusiness. Furthermore, the strong relationship between accesses of long term financial products with performance indicated that an increase in easy access to long term financial products increases the performance of the agribusiness.

VII. RECOMMENDATIONS

There is need to ensure that the agribusiness owners get sources of financing, which will provide them with financial incentives to expand their operations hence better performance. Expanding operations will lead to increased productivity and hence economies of scale. In addition, instead of using personal savings and table banking sources for funding their business they may explore other sources especially banks, saccos and microfinance institutions. Access to banking institutions and other financial institutions that provide credit facilities both short term and long term must also be made available and closer to agribusiness livestock owners for ease of accessibility. To add, the interest and security attached to loans must be reasonable enough to motivate them take loans to expand operations. Moreover, information on various credit facilities credit facilities must be increased as knowledge is power. Empowered business owners make wise credit decisions that lead to improved and increased performance.

Agribusiness owners must increase the number of customers they serve weekly so as to increase the income that is earned in a weekly basis to improve performance. The study clearly showed that majority serve few customers in a week which translates to majority earningless income on a weekly basis. Thus increasing customers to serve weekly will automatically increase income as market share will have increased hence performance will increase. Many livestock farmers had a low start up capital that has persisted since many have the same range of current capital. Therefore, the performance of the agribusiness is not good, it is thus advisable that the livestock agribusiness members must increase their market share which will lead to increased profits hence increased will lead to increased current capital. However to achieve this sales volume must be increased through high production levels.

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