

IMPACT OF CASH FLOW MANAGEMENT ON THE PERFORMANCE OF AGRICULTURAL FIRMS IN TRANS-NZOIA COUNTY IN KENYA: A CASE OF AGRICULTURAL DEVELOPMENT CORPORATION- KITALE

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Abstract: Financial statements are the mirror which reflects the financial position and strengths and weakness of the concern. The agricultural sectors in the country as a whole as undergoes various up and downs in the recent past, every business needs to view the financial performance analysis and cash flow management very important for the day to day running of firms. The study was done in Agricultural development corporation units in Kitale region. The main aim of the study was to examine the impact of cash flow management on performance of the agricultural firms in trans-Nzoia County. The study geared towards establishing the effect of stable and healthy liquidity on the performance of agricultural firms in trans-Nzoia County. The study was anchored on the trade-off theory, pecking order theory, free cash flow theory and the agency theory. The study adopted descriptive design. Data obtained was cleaned, coded and analyzed using *spss* version 21 software. Multiple regressions model/analysis was used to determine the relationship between the independent variables and dependent variable. The results were presented using inferential statistics such as the Pierson correlation coefficients, comparative tables and percentages. Findings emanating from this study will be of great importance to all the direct and indirect stakeholders who play key roles in the support of agricultural development corporations to policy formulation. Data emanating from this study revealed that healthy and stable liquidity has a significant influence on the performance of agricultural firms in Trans Nzoia County. The interpretation of correlation coefficient showed that healthy and stable liquidity has significant influence on performance of agricultural firms in Trans Nzoia County at $p= 0.003$ or $P<0.05$. This means that the null hypothesis (H_{01}): healthy and stable liquidity has no significant influence on performance of agricultural firms in Trans Nzoia County will be rejected. The alternative hypothesis (H_{A1}) is true: The healthy and stable liquidity has a significant influence on performance of agricultural firms in Trans Nzoia County.

Keywords: agricultural sectors, Agricultural development, agricultural firms.

1. INTRODUCTION

The functioning of an organization is a complex dynamic process that is the result of a continuous cyclical flow of money. One of the problems that the economic entities face in modern conditions is the restoration and preservation of the dynamics of the operating, investment and financial cycles, which is a pledge of the necessary liquid position of the company and the realization of its demand for cash. In order to solve this problem, it is necessary to conduct in-depth studies of economic mechanisms that determine the cash flows

A significant number of Russian companies, even the biggest ones, currently do not have a clear understanding of the structure of the cash flows of their activities and are not able to assess the quality of their management (Aslund et al. 2010, p. 157). In this regard, it is very important to conduct an analysis of the principles and system of cash flow management, which is the basis that forms the monetary reserves, facilitates financial relations between different economic entities and implements various tasks of financial management.

A study by Shin and Soenen (2008) investigated the relationship between firm's efficiency of working capital management and its profitability. Although cash management is only a part of working capital management, the results concerning the latter could be valuable in analyzing cash management behaviour. They used the net trade cycle (NTC) to measure the efficiency of managing the firm's working capital. NTC was used as a proxy for the cash conversion cycle (CCC). According to the evidence of their study, Shin and Soenen (2008) found that a strong negative association exists between the firm's NTC and its profitability. In their later study, Shin and Soenen (2008) found that, contrary to traditional belief, if a firm has larger sales with a generous credit policy, which extends the cash cycle, the longer CCC can result in higher profitability.

Subsequently, Morris (2013) tried to connect cash management to the valuation framework of the Capital Asset Pricing Model (CAPM). He showed how cash balances affect the systematic risk of a firm's stock. He concluded that if a firm carries too little cash, the costs of cash management will have higher expected value and, because they are uncertain, they may add to the firm's systematic risk. Mauchi et al (2013) also sought to evaluate the effectiveness of cash management policies at Hunyani Flexible Products (HFP) using data from 2000-2010. From their findings, a high deficiency of an effective cash management policy was discovered although some attributes of an effective management system were present. The study found that there is a positive relationship between the level of cash flow and the profitability of the company. The research concluded that, cash management is a culture that forms part of the strategy of companies and depends more on managers themselves than the characteristics of companies.

Traditionally, much has been written in corporate finance literature on long term investment and financing decisions. However, investment in short term assets has attracted less attention by researchers. Both academic researchers and financial professionals have paid less attention to cash (liquidity) management and its importance to business. Researchers of finance have focused more on the relationships between firm value and capital structure than cash, despite its central role in real business, very little is known about the practical issues of cash management. Of more concern is the dearth of research on cash management in Nigeria, although working capital is well researched but little has been done on cash management as a component of working capital management in Nigeria. However, cash in prior researches have been largely discussed in different contexts by financial experts, academic scholars, and international organizations with an attempt to add to the knowledge of actual corporate practices of cash management.

Because of these contradictory results, the question of whether cash management improves or worsens performance in a business organization is still worthy of further research such as the one being undertaken in this study. In addition, despite the existence of these studies, very little attention has been given to the manufacturing industry. This means that the impact of cash management on the performance in the manufacturing industry has not received adequate research attention in Nigeria. Thus, there is a major gap in the relevant literature on Nigeria, which has to be covered by research. Consequently, this research aims at examining liquidity and other cash management problems faced by most manufacturing companies in the country which has led to the near collapse status of manufacturing sector in Nigeria, with a view of proffering solutions that can assist in resuscitating the sector towards achieving economic development. This research therefore attempts to fill this gap by studying the situation and providing more empirical evidence on the impacts of cash management on the performance of manufacturing companies in Nigeria.

In addition, the topic of the thesis is actual because of the deteriorating economic situation in Kenya due to the inadequate markets and changes in prices for inputs and output, these factors have affected the activities of the agricultural sectors. At present, it is necessary to search for new approaches and tools to manage cash flows, the development of which would enable to carry out efficient financial and economic activities of the company. In a competitive and an unstable external environment, it is important to respond quickly to deviations from the normal activities of the organization.

The Agricultural Development Corporation is a government corporation whose function is to support Agricultural sector in Kenya .it was started in 1965 through an Act of parliament Cap 346 ,to facilitate the land transfer programme from European settlers to locals following the attainment of the country's independence. After the land transfer mission, ADC function was redefined to include promotion of agricultural development in the country development in the country

through initiation, assistance and expansion of agricultural projects and enterprises. The corporation plays a critical role in development of agriculture in the country. It ensures that Kenyan farmers have access to quality maize seeds as the main maize grower in the country. Maize seed is grown in Trans-Nzoia farm and is passed to Kenya Seed Company among other companies for processing and packaging. In 2013, ADC enhanced this role by processing and packaging its own brand of maize seed giving farmers increased choices of the maize seeds. Through multiplication of quality maize, ADC is contributing to national food security and poverty reduction in the country. The corporation ensures the continued existence of livestock breeds and supply of quality livestock to the Kenyan farmers at affordable prices. Additionally, ADC provides strong linkages between the research institutions and the farmers by way of providing a testing ground for technologies and research and later transfer of the same to the farmers.

ADC as other parastatals has undergone through cash flow problems that have resulted from different dimensions ranging from planning, expertise, government policies, capital, political climate among others, this may be enumerate further below, The planning has been a problem, yearly plans are done in accordance to government vision which does not duly fits with ADC financial inflows, thus the entity finds itself concentrating on projects that narrows their funds, the projects end up unfinished with no inflows. The budget is done to some extent by qualified persons who do not interact with the operations in real situation. It is left to unqualified personnel to implement it, the person who does not know its importance, objective and even others do not know its contents and parameters, this people have no control over finances and their ideas are over looked thus curtailing the entire budget leading to reduction in production hence low revenue. There is also aspect of price changes and market changes, the input prices are overpriced in the course of the season thus affecting the efficiency of subsequent operation .Unfortunately at the end of the season the anticipated prices of the produce is lowered. In order to make profit it has to stock its produce until price is favorable but this negatively affects other operation which needs funding.

2. RESEARCH METHODOLOGY

This study adopted a descriptive research design to establish the impact of cash flow management on the performances of the agricultural firms in trans-Nzoia County. The target population that the researcher examined in this research study was 150 people comprising of top management, regional representative managements, and county government officials. Systematic random sampling approach was used because the population was too large to be covered. To test the validity and reliability of the instruments that was used, a pilot test was conducted. A pilot test is a small scale preliminary test or study before the main research in order to measure the validity and reliability of the data collection instrument. The data obtained was then analyzed and the results correlated to determine their reliability coefficients. Analysis of the data was done using spss 21software. Comparative tables, percentages and pie charts were also used for data analysis and presentation. Inferential statistics was also used-Pierson correlation.

3. RESULTS

150 questionnaires were distributed for feedback on the study. All the 150 were distributed, dully filled and returned for analysis. The response rate was therefore 100 percent. Cronbach's alpha correlation value obtained was 0.82, which indicated that the level of internal consistency for the items was 82 percent. Male respondents outnumbered female respondents, with males posting a 60.6 percent representation while females reflected 39.4 percent representation, creating an approximate 21.2 percent disparity.

Liquidity of the firms and performance of agricultural development corporation

This was the first objective of the study which was to establish how the various selected parameters of healthy and stable liquidity of the firms influenced the performance of agricultural development corporation.

Liquidity parameter	Strongly disagree	Disagree	Not sure	agree	Strongly agree	TOTAL
The liquidity position of the agricultural firms affects the performances of the firms in trans-Nzoia county	1.3	2.5	10.0	42.5	43.7	100.0
The poor liquidity position has contributed to poor supplier relationship which affects overall performances of the agricultural in trans-Nzoia county	5.0	16.3	18.8	43.8	16.1	100.0

Stable liquidity contributes to good operation efficiency of the firms which affects the overall performances of the firms	10.0	14.0	22.5	37.5	16.0	100.0
Liquidity position has impacts on the job satisfactions of the employees this affects the performances of the firms.	12.5	16.3	7.5	35.0	28.7	100.0
Liquidity position impact on the credit rating of the firms limiting their access to credits hence affecting the overall performances of the firms	10.8	12.3	5.5	26.4	45.0	100.0
Negative liquidity has impact on the diversification and investment decisions of the firms hence affecting the overall performances of the firms	15.0	13.8	7.5	42.5	21.2	100.0

From the data analyzed on how selected liquidity parameters influenced agricultural firms' performance, it was noted that most of the respondents (43.7 percent) strongly agreed and 42.5 percent agreed that the liquidity position of the agricultural firms affects the performances of the firms in trans-Nzoia County. Only a small percentage of the respondents strongly disagreed to this parameter (1.3 percent). Another small ratio of the respondents disagreed (2.5 percent). Of the total respondents, only 10 percent stated as being not sure whether the liquidity position of the agricultural firms affects the performances of the firms in trans-Nzoia County. Similarly, 43.8 percent of the respondents agreed that the poor liquidity position has contributed to poor supplier relationship which affects overall performances of the agricultural firms in trans-Nzoia County compared to 16.3 percent who disagreed to the same. On the contrary, the proportion of respondents who strongly agreed the poor liquidity position has contributed to poor supplier relationship which affects overall performances of the agricultural firms in trans-Nzoia County (16.1 percent) almost equaled those that disagreed on the same (16.3 percent). 18.8 percent stated that they were not sure that poor liquidity position has contributed to poor supplier relationship which affects overall performances of the agricultural in trans-Nzoia County. When required to indicate on the likert scale to what extent Stable liquidity contributes to good operation efficiency of the firms which affects the overall performances of the firms, only 16.0 percent strongly agreed. Similarly, 37.5 percent agreed while 14.0 percent disagreed that Stable liquidity contributes to good operation efficiency of the firms which affects the overall performances of the firms. However, 10 percent disagreed on the same parameter while 22.5 percent were not sure. Out of all the respondents, 28.7 percent strongly agreed that the Liquidity position has impacts on the job satisfactions of the employees this affects the performances of the firms while 12.5 percent strongly disagreed. Furthermore, 35.0 percent agreed that Liquidity position has impacts on the job satisfactions of the employees this affects the performances of the firms while 16.3 percent disagreed. Those that stated as being not sure accounted for 17.5 percent. The respondents were further required to indicate to what extent Liquidity position impact on the credit rating of the firms limiting their access to credits hence affecting the overall performances of the firms. 10.8 per cent strongly disagreed, 12.3 disagreed 5.5 were not sure while 26.4 percent agreed while the greatest proportion (45 percent) strongly agreed. 15 percent of the respondents strongly disagreed that Negative

liquidity has impact on the diversification and investment decisions of the firms hence affecting the overall performances of the firms while 13.8 percent disagreed. On the contrary, a higher percentage of the respondents (42.5 percent) agreed that Negative liquidity has impact on the diversification and investment decisions of the firms hence affecting the overall performances of the firms while 21.2 percent strongly agreed. Only 7.5 percent stated as being not sure. These findings are in line with those of Zheng and Sheng (2008) who found out that a company which has an efficient cash management system and favorable liquidity and has got a good control of both cash inflows and outflows will be better placed to invest its surplus cash in marketable securities or investments that earn a good return. Apart from the above factors, the other factors that affect the liquidity mix are yield, taxability, interest rate risk, financial risk, liquidity of security etc.

Correlation

Correlation of firms' healthy and stable liquidity and performance of agricultural firms in Trans Nzoia County

		Agricultural firm performance
Liquidity position	Pearson Correlation	.117
	Sig. (2-tailed)	.003
	N	150

A Pearson correlation was carried out to determine the relationship between the independent variables i.e. liquidity position and the dependent variable i.e. level agricultural firms' performance. There was a partial positive and statistically significant correlation between level of agricultural firms performance and firms liquidity position ($r= 0.117$, $p= 0.003$)

The influence of firms' healthy and stable liquidity when correlated with the performance of agricultural firms in Trans Nzoia County has a Pearson Correlation Index of 0.117. It falls between +0.100 to + 0.400 which means that the healthy and stable liquidity parameters have significance influence on the performance/performance of agricultural firms in Trans Nzoia County. The interpretation of correlation coefficient shows that healthy and stable liquidity has significant influence on performance of agricultural firms in Trans Nzoia County because the P value was $p= 0.003$ or $P<0.05$.

Regression analysis

Variables in the Equation		B	S.E.	Wald	df	Sig.	Exp(B)	95percent C.I. for EXP(B)	
								Lower	Upper
Step 1 ^a	healthy and stable liquidity	.839	.652	1.656	1	.045	.432	.121	1.550
	Constant	5.878	3.493	2.832	1	.092	356.965		

a. Variable(s) entered on step 1: Good governance.

In totality, the regression model shows that Liquidity ($P = 0.045$), had significant influence on Agricultural firm's performance. The following regression analysis was obtained was

$Y = 5.878 + 0.839X_1 + X_e$ Where Y is Agricultural firm's performance, X_1 is Liquidity

4. CONCLUSION

The study was steered to evaluate the effect of stable and health liquidity on the performance of agricultural firms in Trans-Nzoia County. Data emanating from this study revealed that healthy and stable liquidity has a significant influence on the performance of agricultural firms in Trans Nzoia County.. The interpretation of correlation coefficient showed that healthy and stable liquidity has significant influence on performance of agricultural firms in Trans Nzoia County at $p= 0.003$ or $P<0.05$. This means that the null hypothesis (H_{01}): healthy and stable liquidity has no significant influence on performance of agricultural firms in Trans Nzoia County will be rejected. The alternative hypothesis (H_{A1}) is true: The healthy and stable liquidity has a significant influence on performance of agricultural firms in Trans Nzoia County.

5. RECOMMENDATIONS

There is need to release the findings of this study for further scholarly research by other researchers in other counties. Similarly, cash flow management need to be an aggressive exercise in ensuring an all-inclusive effort in engaging all stakeholders and management to ensure that firms performance in trans-Nzoia County and the country at large is boosted. The researcher recommended that radical changes should be made including; institutional strengthening, increased production and productivity in all sectors, improved operational efficiency, diversification to other business lines and sourcing for investors for funding including partnering with the county government. Much more effort needs to go into creating the right structures for use of periodic auditing, monitoring and evaluation tools, proper budgeting and customer handling especially through relevant strategic plans to enhance proper functioning systems in the agricultural firms.

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