

**INFLUENCE OF CASH MANAGEMENT PRACTICES ON FINANCIAL PERFORMANCE OF AGRIBUSINESS ENTERPRISES IN KENYA****Gitau Beth Njeri**

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**ABSTRACT**

The study was aimed at evaluating the impact of Cash Management Practices on Financial Performance of agribusiness enterprises in Kenya. The objective of the study was to assess the impact of Cash Management Practices on Financial Performance of registered Farming groups' operations. Agriculture and by extension agribusiness is the mainstay of the Kenyan economy contributing immensely in its economic growth and development. Financial management within the sector is thus imperative. Out of a target population of two hundred (200) farmers from eight (8) registered farming groups, one thirty two (132) individuals were selected by use of cluster and purposive sampling techniques. A structured questionnaire was administered to the respondents to enable primary data collection. Data were analyzed using descriptive statistics and Likert- average weighted scale evaluation. Information from the study shall be useful on the farmers who are keen on prudent financial management as a springboard for agribusiness growth and profitability. It will similarly inform the Ministry of Agriculture, Financial Institutions and Independent researchers on relevant policy formulation and implementation. The findings of the study revealed that the groups lacked adequate knowledge on judicious management of their financial resources. Recommendations from the study was that the groups should be taught on the need for borrowing funds in agri-enterprises, investment strategies and how to mitigate the inherent and inevitable risk-prone agribusiness challenges. The saving culture ought to be inculcated in them in addition to adopting a diversification approach to farming to reap its inherent benefits. The study concluded that the groups have not utilized Cash Management Practices effectively.

*Key Words: Cash Management Practices, Financial Performance, Agribusiness, Registered farming groups.*

## **Introduction**

Agriculture is a major driver of Kenya's economic growth. Its contribution to the country's GDP is around 25 percent, not counting indirect contributions through links with manufacturing, transport and communication, wholesale and retail and financial services. It is Kenya's main export earner. Kenya Vision 2030 identifies agriculture as a key sector through which annual economic growth rates of 10 percent can be achieved. Under the Vision, smallholder agriculture will be transformed from subsistence activities, marked by low productivity and value addition, to 'an innovative, commercially-oriented, internationally competitive and modern agricultural sector'. Its agribusiness strategy addresses the needs of small-, medium- and large- scale farming and business operations, and deals with multiple economies of scale. It puts emphasis on bringing smallholder farming into mainstream agricultural value chains and is relevant for all commodities, but is not commodity specific. (GOK- Agribusiness Strategy, 2012)

Agricultural farming organizations registered with the Ministry of Social Services in Kenya engage in agribusiness activities especially primary production such as Banana Production, Bee Keeping, Dairy Production, Dairy Goats, Horticultural Production, Poultry Keeping, Tree Nurseries and so on. There are many registered farming groups who have their sources of income from the members' contributions, sale proceeds from the different agricultural activities they engage in, and loans from banks, SACCO, Micro-Finance Institutions in which they have their savings account and the government grant like the Njaa Marufuku Kenya (NMK).

These farmers have a daunting task of ensuring that the cash proceeds from their activities is well managed in order to enable them meet day- to day expenses of educating their children , meeting basic necessities like food , shelter and clothing and at the same time ensuring that they remain in business and make profits. In fact, before any banks and financial institutions lend money to these groups, there are conditions that they have to look at like the firm's cash flow projections, credit worthiness, the amount the borrower is prepared to put into the project or activity and the security. Working capital administration is concerned with the problems that arise in attempting to manage current assets, current liabilities and the interrelationship that exists between them. In other words, these farmers must adopt proper Cash Management Practices.

## **Statement of the Problem**

Kenya is well endowed with rich Agricultural soils which support a wide variety of agricultural production. Most of the farmers practice both subsistence and cash crop production. The population density in the Country is high resulting into subdivision and fragmentation of holdings (Kenya, District Development Plan 1994-96). Farmers, thus, are characterized by low

financial capabilities and whenever they approach the banks and other financial institutions for financial assistance, they lack the prerequisite requirement of proper books of records and the business plans. There is, thus, a need for prudent and effective Cash Management Practices amongst agri-entrepreneurs. It was important, therefore, to assess the impact of Cash Management Practices on the financial performance by agribusinesses and the extent to which these practices are employed in the region.

### Research Objective

To investigate the influence of Cash Management Practices on the Financial Performance of Registered farming Groups in Kenya

### Hypothesis

H<sub>0</sub>: Appropriate Cash Management Practices do not influence the financial performance of Registered farming groups in Kenya

H<sub>0</sub>: Farmer Groups do not practice Cash Management Practices

### Research Methodology

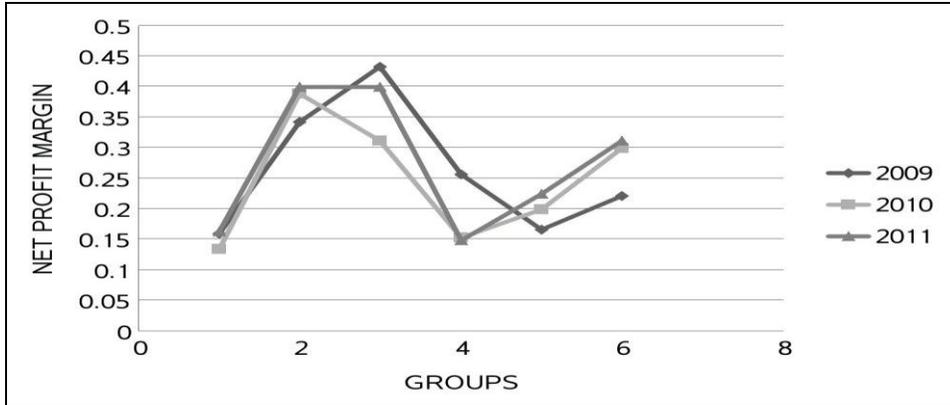
The study adopted a survey research design. The study specifically intended to determine the extent and the effectiveness of the cash management practices. The area of study was Kenya. The study targeted a population of two hundred (200). Cluster and purposive sampling were employed where a chairman, secretary, treasurer and a non-official member of each group of the sample size represented subjects which ensured that the existing subgroups in the population were more or less reproduced in the sample. A sample size of one thirty two (132) respondents was used.

### Research Results

The data collected were analyzed using descriptive statistics and a Likert scale weighed average means to facilitate answering the research objectives. The researcher administered 132 questionnaires to the respondents. Of these, 130 questionnaires were completed and returned to the researcher. This constituted 98.48% response rate and this was considered sufficient enough for analysis.

### Profitability Ratio

The respondents were asked to indicate the gross profits realized by the groups and net sales for the previous three years. The aim of this data was to assist in calculation of the net profit margin. The results obtained were summarized and presented in graphical form (figure 1).

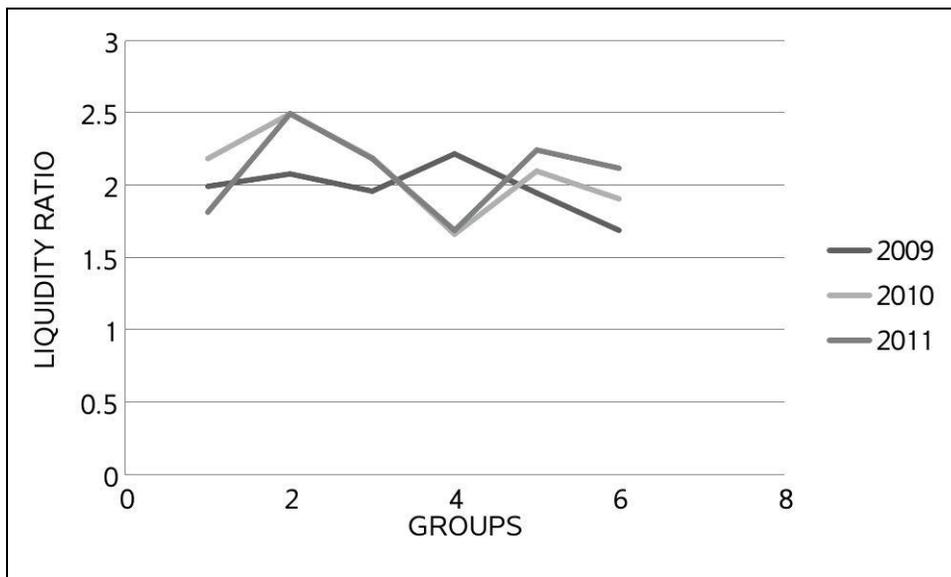


**Figure 1: Profitability Ratio of the Groups**

Figure 1 shows a continuous improvement in the net profit margin in groups 2, 5 and 6. This would be due to the intensive trainings by the Agricultural Extension staff on improved marketing strategies as compared to groups 1 and 3 which had a drop in their net profit margins in the year 2010. There was a general drop in net profit margin.

**Liquidity Ratio**

The respondents were asked to indicate the current assets owned by the group and the current liabilities owed by the groups in the previous three years. The aim of this data was to assist in calculation of the current ratio. From this data, each group’s current ratio was calculated and presented graphically (figure2).



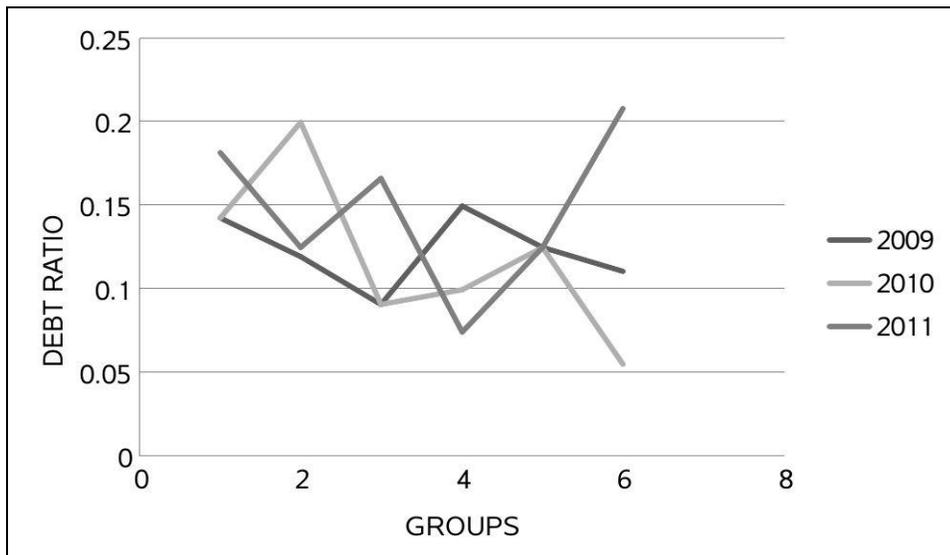
**Figure 2: Current Ratio of the Groups**

Figure 2 indicates that in the year 2009, only group 6 had a current ratio below 2:1. In 2010, groups 4 and 6 had a current ratio below 2:1 while in the year 2011, only group1 and 4 had

current ratio below 2:1 hence were considered as insufficiently liquid. Pandey (1995) argues that a ratio greater than 1 means that the firm has more current assets than current claims against them. He further states that as a conventional rule, a current ratio of 2:1 or more is considered satisfactory.

### Leverage of the Groups

The respondents were asked to indicate the total assets owned by the owners and total debts from financial institutions for the group's operations in the previous three years. The aim of this data was to assist in calculation of the leverage ratio. From this data, each group's leverage ratio was calculated and results presented in a graphical form (figure 3)

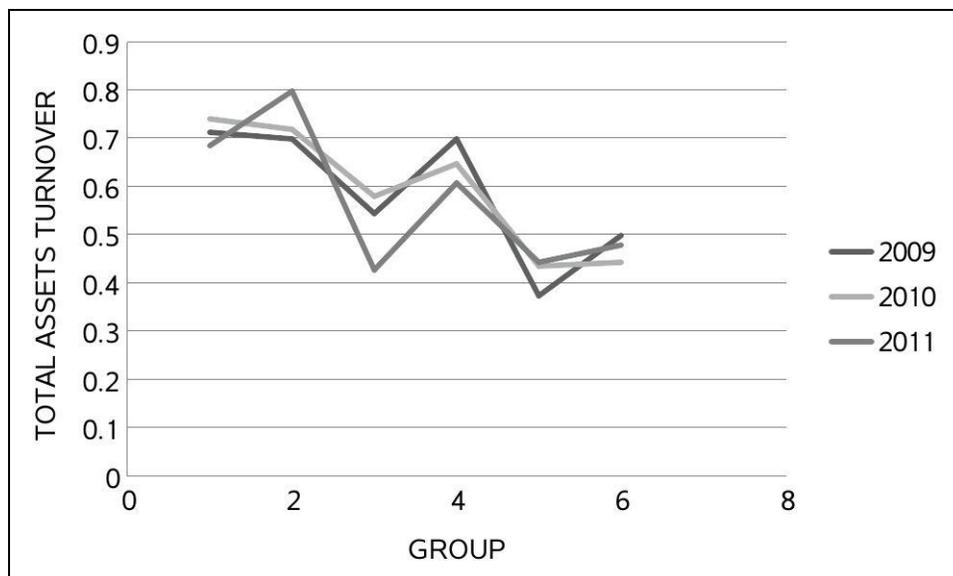


**Figure 3: Leverage of the Groups**

The results from figure 3 indicate that in the year 2009, five groups had their leverage ratio between 0.1 and 0.15, implying that the groups have were running their businesses using own contributions with very little funding from financial institutions. There was no improvement in borrowing in the year 2010, since their leverage ratio was still low, except group two which had improved up to 20%. This would be attributed to the fact that they were ignorant to go for borrowing from financial institutions and also the financial institutions had not intensified their trainings to the groups. In the year 2011, group 1, 3 and 6 had improved in their borrowing. This would be because by this time, there was improved awareness created by the financiers through financial trainings to the groups.

### Activity Ratio of the Groups

The respondents were asked to indicate the total assets owned by the group and net sales for the previous three years. The aim of this data was to assist in calculation of the total assets turnover. The results obtained are summarized in Appendix iv. From this data, each group's total assets turnover was calculated using the formula



**Figure 4: Activity Ratio of the Groups**

As figure 4 indicates, the total assets for all the 6 groups within the three years is on a downward trend, indicating poor efficiency with which all the groups manage and utilize their assets. This could be attributed to poor marketing strategies employed by the farming groups, no value addition of the groups’ product to ensure increased sales. There could also be competition from the community individual small scale farmers.

**Accurate Preparation of Records**

The research sought to know how accurately selected types of records were prepared by the groups. The results obtained were as tabulated in table 4.3

**Table 1: Rate of accurate financial records**

Financial Records	Very Accuratel y	Most Accuratel y	Accuratel y	Moderatel y Accurately	Least Accuratel y			
Debtors’ Records	75	60	75	80	35	13	325	2.5
Creditors’ Records	50	60	90	90	30	13	320	2.4
Sales Records	50	48	84	100	30	13	312	2.4
Purchasing Records	10	32	165	80	25	13	312	2.4
Inventory Records	20	24	60	80	60	13	244	1.8
Production Records	20	12	69	84	58	13	243	1.8

Ledger	0	12	75	80	62	13	229	1.7
Books	0	20	15	60	90	0	185	6
Balance Sheet						13		1.4
						0		2
Profit and Loss Account		0	15	60	90	130	185	
20								1.42

Table 1 indicates that the only “moderately accurately” record prepared by the group was the Debtors’ records, Creditors’ records, Sales records, purchasing records also received higher ranking in this category with weighted means of 2.46, 2.40 and 2.40 respectively. The research also noted “least accurately” preparation of inventory records, production records and ledger books which were ranked with weighted means of 1.88, 1.87 and 1.76 respectively. The weights attached to Balance sheet and profit and loss accounts indicate that rarely do the groups bother to calculate their realized profits and whether there is any financial gain out of the farming activities they engage in.

### Effect of Cash Management on Selected Financial Operations

The respondents were asked to indicate how cash management practices affected some selected financial operations. The results obtained were as tabulated in table 2.

**Table 2: Effect Rates of Cash Management Practices**

Financial Operations	Most effectively	Very effectively	Effectively	Moderately effective	Least effectively			
Cash Flow	95	120	84	50	28	130	377	2.90
Record Keeping	50	80	72	104	26	130	332	2.55
Inventory Management	10	72	90	96	32	130	300	2.31
Purchasing practices	55	80	30	64	57	130	286	2.20
Savings	25	60	60	100	40	130	285	2.19
Working Capital levels	20	60	90	64	49	130	283	2.18
Management of Accounts Payables	0	0	42	72	80	130	282	2.17
Invoicing Procedure	0	64	60	32	78	130	234	1.80
Management of Accounts Receivable	0	24	24	92	70	130	210	1.62

Table 2 indicates that Cash flow and record keeping were the financial operations “moderately effectively” controlled by cash management practices. These had weighted means of 2.90 and 2.55 respectively. Inventory management, purchasing practices, Savings , working capital levels and management of accounts payable were ranked next with weighted means of 2.31, 2.20,2.19, 2.18 and 2.17 respectively, meaning controlled “moderately effectively” tending towards “effectively”. Invoicing procedures and management of accounts receivable were ranked least with weighted means of 1.80 and 1.62 respectively. These were considered “least effectively”. This implies that although cash management practices had moderately effectively controlled Cash flow and record keeping, the groups needed to pay special attention on the aspects of management of accounts payable, receivables and the invoicing procedures.

## Discussion

This research was aimed at assessing the impact of cash management practices on financial performance of the farming registered groups’ operations. To address this aim, three objectives were studied. The first objective was to determine the types and extent of Cash Management Practices used by farming registered groups. The research established that all the farming groups practice the Cash Management practices. The research further established that the respondents were “moderately frequently” trained on group dynamics and marketing .Besides, there was also “moderately frequent” training on Entrepreneurship, and “least frequent” trainings on organizational development, record keeping, financial management ,sales, budgeting and savings and credit. The groups were noted as not having a vast knowledge on how they can manage their financial resources well.

The second objective was to identify various important Financial Performance yardsticks within the firms. The results from the study indicated that the only “moderately accurately” records prepared by the group were the debtors, creditors, sales and purchasing records. However, there was also “least accurate” preparation of all the other, inventory, production, ledger records. The weights attached to the above financial records imply that the groups are not most accurately preparing their records and more so the Profit and loss account and the balance sheet.

The third objective was to determine the effectiveness of Cash Management Practices on farming registered groups. The study established that Cash flow, record keeping and inventory management were the financial operations “moderately effectively” controlled by cash management practices. Purchasing practices, savings, and working capital levels controlled “moderately effectively” tending towards “least effectively”. However, there is need for the groups to improve on invoicing procedures and management of accounts receivables which were considered “least effectively”.

## Conclusions and Recommendations

In summary, the study indicates that cash management practices are used by the agribusiness groups albeit in an inadequate degree. The basic financial records kept by most of the agri-enterprise groups were the debtors' records. It revealed that record keeping and inventory management were not as effective as they ought to be. This calls for intervention. Purchasing Practices, Savings, Working Capital levels and Management of accounts payables controlled were nearly ineffective. Additionally, there is need for further improvement on Invoicing procedures and Management of accounts receivables which were considered unsuccessful.

Education on the significance of using borrowed capital alongside their individual capital contribution is paramount. A formal saving culture ought to be inculcated in the agribusiness farming groups to be able to access the financing options available in the market. Similarly, training on the various diversification strategies should be up-scaled in order to mitigate the inherent risk-prone agribusiness and for maximization of available resource utilization.

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