
INFLUENCE OF FINANCING ON FINANCIAL PERFORMANCE OF AGRICULTURAL FIRMS LISTED IN NAIROBI SECURITIES EXCHANGE

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ABSTRACT

The success of any organization depends on sound financial management. Financial managers execute financial management practices that determine the success or failure of an organization. The objective of the study is to determine the influence of financing on the financial performance of agricultural firms listed on Nairobi Securities Exchange. A descriptive survey research design was applied. A Census of all the 6 companies listed at Nairobi Securities Exchange as at July 2014 to July 2019 constituted the study population. The study employed secondary data extracted from audited financial statements and individual companies annual report for the five year period covering July 2014 to July 2019. Record survey sheet was used when collecting data for independent and dependent variables. Data collected was analyzed by using descriptive and inferential statistics. Under descriptive statistics the study considered; Mean, Minimum, Maximum and Standard deviation. For inferential statistics the study considered correlation and multiple regression. Statistical Package of Social Science (SPSS) software program was applied in the analysis of the study with respect to the objectives of the study. The study found out that financing has a positive significant effect on financial performance. The results showed financing practices has a positive relationship with the Return on Investment (ROA) of the firms under study. The positive values indicated the direction of relationship between predictor and Return on Investment. The study recommended that the management team of agricultural firms listed at the NSE should put more emphasis on financing practices so as to improve the financial performance of agricultural firms listed on NSE.

Key Words: *Financing Practices, Financial Performance*

INTRODUCTION

Different authors and researchers globally approach the particular areas of financial management in various ways given their area of focus. For example, an examination completed in Malaysia by Mohd et al., (2010) distinguished the parts of financial the board as budgetary arranging and control, money related bookkeeping, monetary investigation, the board bookkeeping, capital planning and working capital administration. Chung and Chuang (2010) considered five specific territories of financial the board rehearses: capital structure the executives, working capital administration, money related announcing and investigation, capital planning and bookkeeping data framework. From the study variables, Financing, Investing and asset management decisions played out. Sambasivam and Biruk, (2013) investigated the relationship among Istanbul firms and found that growth in sales affects firm profitability positively. This result invariably support the view that liquidity and profitability are directly associated since liquidity is enhanced by sales growth.

Lamberg and Valming, (2009) examined the effect of liquidity management on productivity during financial crises with an example of organizations recorded on Stockholm stock exchanges little and mid-industrialist with certain restrictions. Adopting a quantitative methodology and regression analysis, they discovered that the adjustment of liquidity systems don't significantly affect benefit estimated by ROA. In any case, that expanded utilization of liquidity estimating and momentary financing during the money related emergency positively affected ROA. Majid (2014) also stressed prudence practice of liquidity management where in their research on risk management, regulation and supervision of Islamic banks in Jakarta-Indonesia .They alluded that failure to address liquidity management has led to banking collapse and to extension instability in financial systems. As opposed to the finding of positive connection among liquidity and financial execution of budgetary foundation, a few specialists have discovered negative connection among liquidity and execution. In the examination on liquidity – benefit compromise in developing markets, Eljelly (2015) estimated liquidity utilizing current proportions and money change cycle.

Onaolapo and Kajola (2010) found a significant and negative relationship between debt ratio and firms financial performance. In their study, Tauseef, Lohano and Khan (2013) examined the effects of leverage financing on the financial performance of a firm and ascertained that there exists a non-linear connection between Return on Equity and Debt-to-Asset ratio and concluded that while the debt-to-asset ratio increases, the return on equity initially raises up to an optimal debt level, after which it begins to decline. Harelimana (2017) explored the effect of leverage financing on business performance and established a strong positive connection between debt level and the profitability level.

Statement of the Problem

According to Kenya National Bureau of Statistics (2016), agricultural sector in Kenya is one of the core sectors backing the Kenyan economic growth. According to the statistics report, it shows that the performance of agricultural firms at Nairobi Securities Exchange keeps on reporting a decline hence raises a major concern to the future of the Kenyan economy. That is, the performance of quoted agricultural based companied in terms of financial metrics has become an issue of common concern of the stakeholders including the shareholder, the creditor, the companys staff and the government administration. According to NSE investors handbook (2017-2018), financial review report showed that out of all the seven listed agricultural firms, four of them indicated poor performance within the period 2014 to 2018. Eaagads Ltd, Limuru Tea Company, Sasini and Rea Vipingo where some experienced decline in profits others experienced losses and some were placed under receivership.

According to Wamalwa (2010), most firms in the agricultural sector have not lived to their expectations and have led to shareholder apathy thereby contributing to the decline of the rural economy due essentially to unstable and low dividend payout by most agricultural firms. Previous studies also conducted in Kenya have not addressed financial management practices exclusively. For instance, Nyamao, Ojera, Lumumba, Odondo,

and Otieno,(2012) considered financial management practice in terms of efficiency of cash, inventory and receivables management, while Mathuva (2009) considered financial management practice in terms of the operating cycle, other researchers have only concentrated on working capital. It was against this background that this study was carried out.

Objective of the Study

The objective of this study was to determine the influence of financing on financial performance of agricultural firms listed in Nairobi Securities Exchange. The study was guided by the following hypothesis;

- H_0 : There is no significant relationship between financing and performance of agricultural firms listed on Nairobi Securities Exchange.

LITERATURE REVIEW

The Modigliani-Miller (MM) Capital Structure Theories.

In 1958 Franco Modigliani and Merton Miller formulated the Modigliani Miller theory. Merton Miller argued that if tax is not taken into account, there is no clear connection between capital structure and company value. MM assumed that, in the absence of tax, a company's overall market value should be calculated by only two factors, namely a company's total earnings and the amount of business risk associated with those earnings (Namusonge, 2016). This proposition was justified by use of the arbitrage process.

The great exchange based insignificance recommendations give scenes in which by trade money related authorities keep the estimation of the firm self-sufficient of its impact. The trade methodology shows that once all the open entryways for returns have been mishandled, two firms in a comparable class of business peril and pay would have moved to same market regard. The resulting superfluity proposal deduces that given an associations adventure methodology, the benefit payout it chooses to follow will impact neither the current expense of its offers nor the total return to its financial specialists (Miller and Modigliani, 1961).

As such, in flawless markets, neither capital structure decisions nor profit strategy choices matter. The 1958 paper animated genuine exploration enthused about refuting immateriality as an issue of hypothesis or as an exact issue. MM distributed a subsequent paper that presented corporate expenses in 1963 (Myers, 2014). In this paper they saw that the estimation of the firm will addition will lessen with impact since energy on commitment is an appraisal deductible expense. The estimation of the firm that uses commitment financing will be more imperative than the unlevered firm considering the way that the appearance to speculators escapes from charge assortment at the corporate level. The estimation of the turned firm will be more than the estimation of unlevered firm by the measure of the current estimation of the duty shield because of assessment reserve funds given by the expense deductibility of intrigue cost on obligation. Consequently, the estimation of turned firm equivalentents the estimation of unlevered in addition to the estimation of the duty shield. This suggestion bolster the utilization of more obligations in the capital structure to augment firms esteem (Pouraghajan, 2012).

Ensuing explores have demonstrated that the Modigliani-Miller hypothesis falls flat under an assortment of conditions. The most generally utilized components incorporate thought of charges, exchange costs, insolvency costs, office clashes, unfriendly determination, time-fluctuating money related market openings, and financial specialist customer base impacts (Robichek and Myers, 2006). Elective models use contrasting components from this rundown. As an experimental recommendation, the Modigliani-Miller superfluity suggestion isn't anything but difficult to test. With obligation and firm worth both conceivably endogenous and driven by different factors, for example, benefits, guarantee, and development openings, we can't set up a basic trial of the hypothesis by relapsing an incentive on obligation. Be that as it may, the way that genuinely dependable experimental relations between various components and corporate influence exist, while not

discrediting the hypothesis, causes it to appear to be a far-fetched portrayal of how genuine organizations are financed (Robichek and Myers, 2006).

A mainstream resistance has been to contend as follows: While the Modigliani-Miller hypothesis doesn't give a practical depiction of how firms money their activities, it gives a methods for discovering reasons why financing may matter. This depiction gives a sensible translation of a great part of the hypothesis of corporate money. In like manner, it impacted the early improvement of both the trade off theory and the pecking order hypothesis (Ebaidm, 2009).

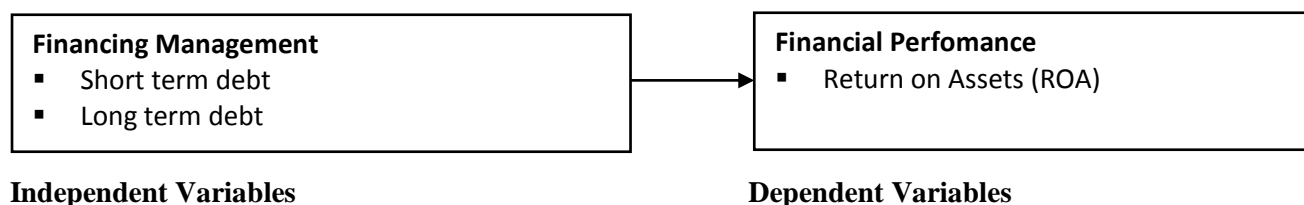


Figure 1: Conceptual Framework

Empirical Review

Financial Performance

Nosa and Ose (2010) found that effective funding required for the growth and development of the corporations in Nigeria. They suggested enhancing the regulatory framework for increasing the firms performance by focusing on risk management and corporate governance. Onaolapo and Kajola (2010) found a significant and negative relationship between debt ratio and firms financial performance. The DuPont growth analysis is efficient examining financial performance of any company (Mishra *et al.*2012). To measure financial performance, Return on Assets (ROA), Net Income Margin (NIM) and Return on Earnings (ROE) is used.

According to Simpasa (2011), the value of financial performance is measured as Return on Assets (ROA), Return on Earnings (ROE) and Net Income Margin (NIM). The Return on Assets is one of the significant performance factors in forecasting business performance (Mirsha *et al.*, 2012).

Financing Practices and Financial Performance

Financing decision acts as a basis of investment decision and a companys financial performance is extensively influenced by the proposition of mix financing. The choice of the appropriate mix of different sources of short and long term funds is one of the critical decision needs that have to be taken by central body of an organization (Leech, 2012) Debt financing has been used as an instrument of filling the budget deficits both in the private and public sector (Ongore, 2012). Debt financing is a key source of capital in many growing firms since their retained earnings may not be sufficient enough or may be unavailable (Githaigo & Kabiru, 2015)

By generating incomes that may not have been gained with no extra financing, external sourcing inform of equity or debt fund allows firms to improve the firms value which is traditionally considered the vital goal of many businesses (Davydov, 2014). In their study, Tauseef, Lohano and Khan (2013) examined the effects of leverage financing on the financial performance of a firm and ascertained that there exists a non-linear connection between Return on Equity and Debt-to-Asset ratio and concluded that while the debt-to-asset ratio increases, the return on equity initially raises up to an optimal debt level, after which it begins to decline. Harelimana (2017) explored the effect of leverage financing on business performance and established a strong positive connection between debt level and the profitability level.

A study by Ikapel and Kajirwa (2017) on the effects of long term debt on the financial performance of firms revealed that a considerable negative association between long-term borrowed funds and the financial performance. Koskei (2017) studied the relationship between long-term debt ratio, debt to asset ratio, debt to

equity ratio and the financial performance of the private sugar manufacturing companies in Kenya. The study surveyed the six private sugar companies in Kenya and used secondary data. The outcomes of the study exposed that debt to equity ratio has substantial effects on financial performance, debt asset ratio has no significant impact on financial performance and long-term debt equity ratio has considerable effects on financial performance and the moderating factor of a firms size have no effect on the financial performance of firms.

Xu, Ou and Chen (2016) explored the impact of diversification on financing through debts and the performance of operations and revealed a considerably negative effect on the operating performance of firms, and that diversification contributes a limited media or function linking leverage financing and the operating performance. Makanga (2015) contemplated the effects of debt financing on financial execution of the organizations recorded at the NSE. The investigation utilized a quantitative examination structure with examination being finished utilizing direct relapse models utilizing SPSS. The investigation uncovered that momentary obligation was adversely associated with return on resources yet not essentially. The investigation additionally found that drawn out obligation was likewise contrarily related to return on resources yet to a lesser extent than transient obligation and found a frail negative association between return on resources and absolute obligation.

In Kenya, Onchonga, Muturi and Atambo (2016) examined the effects of leverage financing in financial performance of selected firms in the country. The study targeted a population of 60 firms with debt in their capital structure in Nairobi Security Exchange, and utilized secondary data from audited financial reports of these firms between periods of 2009-2012. Using regression analysis coefficient on the debt effects on return on asset the study revealed that a unit increase of short term debt reduces return on asset. However, the study found a unit increase in short term debt however will reduce the profit margin ratio. In Nigeria, Lambe (2014) examined the functions of debt fund, the effects of capital mix and parameters that affected a companys capital selection and the general impact of the companys value in the market. This study used both primary data which was obtained through the use questionnaires and secondary data collected from the periodic publications and the fact book of the Nigerian Stock exchange. Findings of the study established that the value in the market for a company is positive and considerably affected by its selection of financial debt. Dube (2013) carried out a research study on the influence of debt on the profitability of SMEs in Zimbabwe, and discovered that productivity in a firm had a positive correlation to the level of leverage employed as well as disparities in investments. The study further established that investment expenditure was a dynamic deciding feature of efficiency in SMEs operations. The level of leverage must be reasonable to cause high costs of leverage which can prevent SMEs from employing retained earnings.

A study carried out in Malaysia by Mohd *et al.*, (2010) recognized the components of financial management as financial planning and control, financial accounting, financial analysis, management accounting, capital budgeting and working capital management. According to Koskei (2017) in his research on the impact of financing practices on the financial performance of private sugar companies revealed the relationship of long-term debt ratio, debt to asset ratio, debt to equity ratio and the financial performance of the companies under study. A survey study on all the six Kenyan private sugar companies was done and secondary data employed. The study revealed that debt-equity ratio has positive and significance effect on financial performance of the firms, debt-asset ratio has no significant impact on financial performance and long-term debt-equity ratio has considerable impact on the financial. Githire and Muturi (2015) in their study, effects of capital structure on financial performance of firms in Kenya: evidence of firms listed at Nairobi Securities Exchange. The research revealed that equity financing has a positive effect on financial performance. Secondary data was employed. Quantitative data obtained was analyzed using both descriptive (mean, standard deviation, frequencies and illustrations) and inferential statistics (ANOVA and t-test) were used to test significant differences and multiple regressions for determining relationships

METHODOLOGY

This study employed descriptive survey design. The target population comprised of 6 agricultural companies that had been listed in NSE. These Companies were Eaagads Ltd, Kapchorua Tea, Kakuzi, Limuru Tea, Sasini Ltd and Williamson Tea. The sampling technique used in the study was census. The study adopted census because the size of target population in the area of study was small. The study used secondary sources to obtain data. Secondary data was obtained from audited financial statements of the selected agricultural firms and through published journals and NSE documentations. All the data collected were coded and entered into an SPSS sheet, organized and cleaned for any inconsistencies. The data then was processed using Statistical Packages for Social Sciences software (SPSS 23). Finally the data was analyzed using descriptive and inferential statistics. Statistical analysis was performed using Statistical package of Social Sciences (SPSS version 23.0).

RESULTS AND DISCUSSION

Response Rate

Since the study used secondary data, all the target population of 6 agricultural firms listed at NSE was able to be covered. The researcher was able to obtain all the required data pertaining all the six agricultural firms resulting to 100% response. Therefore census of the target population was carried out. According to Kothari ,(1993) over 60% return rate was acceptable return for survey study and as such this study is far above the required thresh hold.

Inferential Statistics

Effect of Financing Practices on Financial Perfomance in Agricultural Firms Listed at NSE

The objective of the study was to examine the influence of financing practices on financial performance of agricultural firms listed at NSE. The objective sought answer the hypothesis that posits that there is no significant relationship between financing practices and financial performance of agricultural firms listed at NSE This was achieved by conducting Pearson Correlation to establish the significance of the relationship using R coefficient and if significant, simple linear regression to find out the variation in financial performance that is accounted for by financial performance (R^2).

Correlation between Financing Practices and Financial Perfomance

The Pearson correlation analysis was used to establish the relationship between financing practices and financial performance. The results were as shown in Table 1.

Table 1: Correlation of Financing practices and financial performance

		Financing practices	Financial performance
Financing practices	Correlation Coefficient	1.000	
	Sig. (2-tailed)	.	
	N	317	
Financial performance	Correlation Coefficient	.645**	1.000
	Sig. (2-tailed)	.000	.
	N	317	317

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

In examining the effect of financing practices on financial performance of agricultural firms listed at NSE, the study established a coefficient of correlation (r) as 0.8645**. This result revealed that the relationship between financing practices and financial performance is positive and significant. This suggested that increase in

financing practices management would results to increase in the financial performance in agricultural firms listed at NSE. The results are in agreement with Harelimana (2017) who explored the effect of leverage financing on business performance and established a strong positive connection between debt level and the profitability level. Though the results of this study were inconsistent with Tauseef, Lohano and Khan (2013) who examined the effects of leverage financing on the financial performance of a firm and ascertained that there exists a non-linear connection between Return on Equity and Debt-to-Asset ratio and concluded that while the debt-to-asset ratio increases, the return on equity initially raises up to an optimal debt level, after which it begins to decline.

Regression Results of Financing Practices and Financial Performance

Regression analysis was conducted to find the proportion in the dependent variable (financial performance) which can be predicted from the independent variable (financing practices). Table 2 showed the analysis results.

Table 2: Regression Results of Financing practices and Financial Performance

Model Summary						
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate		
1	.645 ^a	.415	.414	.4609288		
a. Predictors: (Constant), Financing practices						
ANOVA ^a						
Model		Sum of Squares	Df	Mean Square	F	Sig.
	Regression	47.553	1	47.553	223.827	.000 ^b
1	Residual	66.923	315	.212		
	Total	114.477	316			
a. Dependent Variable: Financial performance						
b. Predictors: (Constant), Financing practices						
Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.614	.118		13.697	.000
	Financing practices	.497	.033	.645	14.961	.000
a. Dependent Variable: Financial performance						

From the Table 2 above the value of R square was 0.415 which suggests that up to 41.5% variation in financial performance in agricultural firms listed at NSE is significantly accounted for by financing practices. From the ANOVA result, the significance of the model has a value $F(1,316) = 223.827$, $P < 0.01$ which shows that the model is significant 99.0% confidence level. This postulated that financing practices is a useful predictor of financial performance in agricultural firms listed at NSE. The unstandardized regression coefficient value of financing practices was 0.497 at 0.01 significance level. This implies that a unit change in financing practices management would result to significant change in financial performance by 0.497 in the same direction

Hypotheses Testing

H_0 : There is no significant relationship between Financing practices and Financial performance of Agricultural Firms listed in the NSE

The results indicated that the $p < 0.01$, $r = .645$ and $B = (.497)$ implying there was an insignificant positive relationship between financing practices and financial performance of agricultural firms listed at the NSE. The result was consistent to the findings of Wamugo, (2014) who found an insignificant relationship between

financing practices and financial performance though negative. Shaheen, (2014) in the study on impact of financing practices on financial performance of the organization, found a negative relationship between financing practices and financial performance in Pakistan, which is in contrast to the positive relationship established in this research. Ebaid, (2009) examined the impact of capital structure choice on firm performance in Egypt which consider as emerging or transitional economy of the period 1997-2005, indicate that capital structure choice decision has weak to no impact on firms performance.

CONCLUSION AND RECOMMENDATIONS

The objective of the study was to establish the influence of financing management on financial performance of agricultural firms listed in Nairobi Securities Exchange. Financing practices also contributed significantly to financial performance with results showing probability of less than 0.01 which is positive. This was achieved by conducting pearson correlation to establish the significance of the relationship using the R coefficient. From the results it was deduced that financing principles have a positive effect on the performance of agricultural firms listed in Nairobi Securities Exchange. This implied that when both long term and short-term finances are utilized well, it will enhance the productivity of these firms.

The study recommended that the management team of agricultural firms listed at the NSE should put more emphasis on financing practices so as to improve the financial performance of agricultural firms listed on NSE.

Suggestions for further Study

From the findings the researcher is recommending the following areas for further study; a study to be carried out to establish the effects of non-financial practices on financial performance of the same firms under the recent period.

Effects of investment management on the relationship between financial management practices and financial performance should also be further investigated to clear any conflicts between theory and Empirical findings by various researchers.

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