Factors Influencing Performance of Agricultural Companies in Kenya: A Case of Coast Province

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Abstract

Agricultural sector has remained a critical driver of economic growth in sub-Saharan Africa. However since the 1990s agriculture has erratically fluctuated widely with a declining trend. The study therefore sought to establish the various factors influencing agricultural companies in Coast province Kenya, since agricultural companies play a critical role in providing market for agricultural produce and also act as catalysts for production The boards which play an important oversight role in management, and performance targeting were the two areas studied through a cross sectional survey on 40 agricultural companies dealing with production, processing, production and processing, and those only in marketing of agricultural produce. The study observed that a negative relationship existed between board size, number of meetings and organizational performance. Moat boards were composed of either all men or with only one woman out of the total. Performance targeting similarly had a negative relationship with organization sales or expansion. However it had a positive relationship with employees' retention in an organization. It was recommended that gender diversity be put in consideration in organization management and also sensitization of the board, management and employees on board's roles and performance targeting in management.

Keywords: *Performance, Performance targeting, performance management, organizational performance, boards*

1. Background of the Study

Agriculture development is the most critical sector for most Sub-Sahara African countries owing to its significance in food security and employment creation Agricultural performance however has since the 1990s erratically fluctuated widely with a declining trend over the period. The status of the agricultural sector mirrors that of the economy whose growth has also been declining. This close relationship between the performance of agriculture and that of the economy obviously imply that agriculture must grow at a high rate for it to spur economic growth (Nyoro. 2002). However, for agriculture to grow at the expected rate, quality investments need to be put in place in key areas that have potential for growth. Agricultural companies thus have the potential of enhancing economic growth by providing raw materials and market for produce in large quantities and qualities and being catalysts for increased production of farm produce.

The Kenyan government has continued supporting the agriculture sector through various policies and programs aimed at enhancing its performance. The agriculture sector development strategy 2010-2020 intended to provide a guide for public and private sectors' efforts in overcoming the outstanding challenges facing the agricultural sector in Kenya is yet to bear fruits.. Besides ensuring food and nutritional security for all Kenyans, the strategy aimed at generating higher incomes as well as employment, especially in the rural areas. Moreover, it is expected to position the agricultural sector as a key driver in achieving the 10 per cent annual economic growth rate envisaged under the economic pillar of Vision 2030.(ASDS 2010) The strategy complements other strategies put in place by the government to spur growth of the sector. It is therefore necessary that efforts were put in place to enhance performance of the agriculture sector.

1.1 Problem Statement.

Despite the support from the government, the coast province of Kenya has continued facing enormous challenges in the agriculture sector with many companies in the agriculture sector closing down.(PDA 2010) The government has however continued supporting the region's agricultural organizations with little efforts geared towards establishing the factors leading to the poor performance and collapse of the companies. KDB(2010) observed that over 50% of dairy companies in the coastal region had closed down in the period between 2003 and the year 2010 while almost all the remaining dairy based companies were operating at below capacity.. Similarly PDA(2010) reported a similar trend with the crop based companies in the region closing down or operating at below capacity.

The study therefore envisaged to establish the various factors influencing performance of agricultural companies in the Coast province of Kenya. Areas of focus included the boards characteristics and performance targeting which has been variously employed and revamped organizations.

1.2 Research Objectives

Overall objective

The overall objective of the study was to establish the various factors influencing performance of agricultural companies in Kenya.

Specific objectives of the study

- To assess the relationship between the boards characteristics and the performance of agricultural companies in Kenya.

- To establish to what extent performance targeting influences performance of agricultural companies in Kenya

1.3: Research Questions

- What is the relationship between the boards characteristics and the performance of agricultural companies in Kenya?
- Does performance targeting influence performance of agricultural companies in Kenya?

1.4 Significance of the Study

Agriculture based companies would be able to use the study findings in prioritizing areas for improvement.

The government could also refocus on its policies towards coming up with measures which would enhance performance of the agriculture sector.

Scholars and researchers in the area of study would similarly find gaps in the study for further research.

Those planning to invest in the agricultural companies would get an insight on areas to focus and improve for enhanced performance.

The findings would also contribute to the body of knowledge.

2 Literature Review

2.1: Boards and Organizational Performance

Langton and Robbins, (2007).defined a Board as a team brought together to work towards achieving organizational goals. Therefore, from an organizational perspective, the board can be observed as being placed in a hierarchy above the chief executive and other managers. Since a board plays a critical and strategic role in an organization's performance, its composition and competences need to be given all the importance and attention deserved as it defines the competitive advantage of the organization (Ljungquist 2007).. Monks and Minnow (1995) observed that boards' performances always defined the corporate governance in an organization. They defined corporate governance as, the relationship amongst shareholders, the board of directors, and senior management and how the strategic decisions that are critical for the success of a business are arrived at. Minnow (2004), on the other hand indicated that corporate governance is the structure intended to ensure checks and balances and relevant questions in an organization got asked. The most critical element of this structure is the board membership and constitution which influenced its impact to the organizational performance. The roles of boards have over the years been getting important in quality management in Kenya just as in other countries. . PDA (2010) however noted that the selection of the board members has sometimes affected organizational performance especially in Kenya's public companies where the board members were mostly political appointees. Tricker (1984) indicated that the function of the boards included establishing of strategic direction, overseeing firm's strategy, assessing, monitoring performance, and ensuring proper execution of organization activities. Lorsch (1997) also emphasized that good board performance is achieved by providing effective monitoring, advice and counsel to management so as to enhance organizational performance. Hunger (2004) summarized the basic tasks of boards as follows:

- Monitor**:** A board should be fully aware of all the happenings in an organization so as to be able to offer timely corrective measures. Monitoring ensures information gathered is input in the decision making process of the organization and thus issues which could have been otherwise earlier ignored are brought on board.

- Evaluate and influence: Boards are also tasked with evaluating implementation, management's proposals, decisions and actions so as to offer suggestions; and outline alternatives.
- Initiate and determine: A board should also be able to examine the organizations missions and be able to advice on the strategic options to be taken by the management.
- The above roles point out that the board is responsible for the successful perpetuation of the corporation.

Table 1. Theoretical perspectives and implications for boards

Theory	Role of Board	Implications for board
Agency theory	Managerial control	Independent boards are a mechanism for shareholders to retain ownership control rights and monitor performance
Stewardship theory	Managerial empowerment	The board controlled by management is empowered and manages corporate assets responsibly
Resource dependency Theory	Co-optation	Board with strong external links is a co-optation mechanism for firms to access external resources
Stakeholder theory	Uphold interests of all stakeholders	Maximising the shareholder returns is not sole objective; interests of all stakeholders should be equally honoured.

Source; Board Characteristics and Firm Performance:

Evidence from New Zealand by; Hanoku Bathula(2008)

Hanoku (2008) found that board size was significantly and positively associated with firm performance. Similarly (Zahra and Pearce,1989) observed that Board size increased the independence of the board and reduced the effect of managerial entrenchment The findings provide support to stewardship perspective theory, that, unified board structure provides effective leadership to the organization (Davis et al., 1997; Hanoku 2008) suggested that gender diversity led to superior firm performance. Smith et al., (2006).similarly found out that the higher the number of women in a board the higher the organizational performance. The studies observed that women board members contributed to quality of decision since they questioned the conventional wisdom and provoked lively board discussion. The finding provide evidence to stakeholder perspective and also to resource dependency perspective that diversity is beneficial to firms. The studies however did not indicate the caliber of the women board representatives and also the size of the boards in terms of numbers. To be able to understand how the boards influence performance it is necessary that specific board member and industry specific characteristics are analyzed.

Byrne (1996) observed that directors of organizations where board meetings are frequent mostly performed as per the shareholders expectations. The study however did not categorically observe that the director's performance was synonymous to organization performance.

Vafeas (1999) stated that the number of board meetings by an organization was related to the organization performance. The findings however did not specify on the level of the meeting frequency and whether it was demand driven or scheduled regardless of the need. Jensen (1993) suggested that boards were required to be active when there was an issue at hand to be addressed otherwise could waste both time and resources of the organization.

2.2: Performance Targeting and Organizational Performance

Performance-related management systems are world over getting a lot of prominence both in the private and public sector as they endeavor for competitive edge in the ever changing market. The strategic use of performance management is thus intended to help drive change efforts from process to results orientation in service delivery. In pursuit of the goal of performance improvement, organizations have variously embraced it with varied success levels observed.(Balogun, 2003). In quest of this same goal, Kenya introduced performance contracting not only to improve service delivery but also to refocus the mind set of public service away from a culture of inward looking towards a culture of business as focused on customer and results The push factor for introduction of performance contracting in Kenya underlies the assumption that institution of performance measurements, clarification of corporate objectives, customer orientation and an increased focus towards incremental productivity and cost reduction can lead to improvements in service delivery (Obong'o 2009)

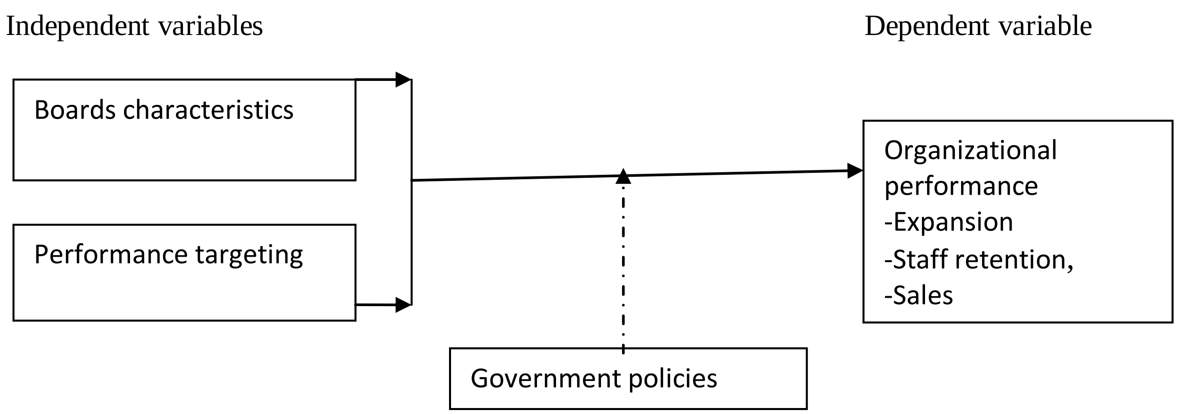
Performance management aims at attaining operational effectiveness which in a broader sense refers to a number of practices that allow an organization to better utilize its resources.(Triveldi 2000). Performance contracts in Kenya were introduced on a pilot basis in 2004 in 16 state corporations which recorded an increase of 282% in net pre-tax profits over the previous period (2003/4) and an increase of 14% over set targets. In absolute terms, the state corporations achieved 116.25 million US dollars against a combined target of 102.5 million US dollars against the previous year's performance of 30 million US dollars. The lessons learned in the pilot state corporations were used and incorporated in the introduction of performance contracts in the entire public sector. For the period during which performance contracting process has been in operation, there is a clear evidence of radical improvement particularly in profit generation for commercial enterprises and significant improvement in delivery of services in cases of other public institutions. Bouckaert and De Corte (1999) noted that performance contracting in addition to cost saving, can allow for considerable autonomy in financial, human resources and internal organization management. Performance contracting must therefore be continually reviewed and adapted to assist organizations improve their service delivery. Brignall and Ballantine (1995) argued that the design of a performance measurement system should depend on three interacting contingent variables, which together determine the why, the what, and the how of performance measurement. These include the organization's external environment (which explains the why of performance measurements), its chosen mission and strategy (which explains the 'what' of performance measurement) and its internal capabilities (which explains the how of performance measurement). Despite the various modifications done to the performance measurement systems there is need for continuous evaluation on the various sector organizations on how they have been able to customize the systems. Kenya being an agriculture based economy it is necessary that the various agriculture based companies were evaluated based on how performance targeting has been embraced and contributed in their performance.

2.3: Conceptual Framework

The performance of any company is influenced by the characteristics of the board. That is, where the board is effective in discharging its duties then favorable output and outcome is expected. (Ljungquist 2007).likened boards to the lifeline of any organization.

Performance targeting has become a major ingredient in performance improvement with many organizations setting targets for their workers. Therefore where workers operate on the basis of set targets the organization is expected to enhance performance. Bouckaert and De Corte (1999) noted that performance contracting in addition to cost saving, can allow for considerable autonomy in financial, human resources and internal organization management. The number of board members, meetings held and gender diversity is conceptualized to enhance an organizational performance in terms of increased sales, expansion and employees retention. Similarly, where an organization has embraced performance targeting the overall performance of the organization is bound to be enhanced. However government policies could also influence how and organization performance based on how the policies would influence how the organization conducts business.

Figure 1. Conceptual framework



3 Research Methodology

3.1 Research Design.

A cross sectional survey was conducted for agricultural companies in Coast province, Kenya

3.2 Population.

The population of the study included the agricultural companies in Kenya while the target population was the 120 active agricultural companies in Coast province, Kenya. The companies in Coast province provided a representative sample of the population.

3.3: The Sampling Frame

The sampling frame of the study included a list of all active registered agricultural based companies located in the coast province. The list was developed from various sources including the relevant government departments and the registrar of societies and Kenya Revenue Authority offices in Coast province, Kenya. The ministry of agriculture, Livestock, Fisheries and cooperative played a critical role in updating the list as they deal with the companies directly.

3.4: Sample and Sampling Technique

The sampling frame would be used to generate the sample of the study where the fisher's et al method as suggested by Mugenda and Mugenda (2003) was used. Probabilistic stratified random sampling was used in the study so as to come up with the representative sample for the four company categories. Notably: production, processing, production and processing, and marketing companies.

3.5. Data Collection Instruments

The data collection instrument used was a self administered questionnaire. . Notes accompanying the questionnaire were also provided to clarify on the questions so as to ensure questions were accurately answered.

3.6: Data Collection Procedures.

The questionnaire developed was posted to the targeted respondents after having been sensitized on the interview by phone and agreed to participate in the survey. The questionnaire was pilot tested in four companies not part of the study. Follow up calls were used to get progress and ensuring high return rate of the questionnaires.

4. Data Presentation, Analysis and Interpretation

4.1: Response Rate

The study had targeted to sample 50 agricultural companies in coast province but was able to sample 40 companies. The response was therefore 80% of the target which was achieved due to good sensitization and follow up on the respondents

4.2 Descriptive Characteristics of the Companies

Out of the surveyed companies 25% were involved in production, 40% in processing, 20% in both production and processing and 15% in marketing of agricultural produce.

Low supply of inputs was the main challenge to the performance of agricultural companies in coast province, Kenya. High competition and cost of production ranked second followed by stringent operation requirements and poorly focused boards.

The biggest challenge for production companies was high cost of production. Low supply of inputs for processing remained the greatest challenge for processing companies. Companies involved in marketing of agricultural produce faced low supply of produce for marketing as the main challenge. The companies involved in both production and processing were challenged by high competition; high cost of production and stringent operation guidelines uniformly. 25% of the managers were certificate holders while 25% were diploma holders and 50% degree holders. Processing companies had over 50% of their managers with degree and above. Production companies had the least learned managers with 50% being certificate holders

The Pearson correlation coefficient between the age of the company and the total number of board members it had was 0.08 with a p value of 0.63 therefore at $p<0.05$ the correlation is positive but not significant.

The Pearson correlation coefficient between the age of the company and the total number of male board members it has is 0.26 with a p value of 0.11 therefore at $p<0.05$ the correlation is positive but not significant.

The Pearson correlation coefficient between the age of the company and the total number of female board members it has is -0.1 with a p value of 0.38 therefore at $p<0.05$ the correlation is negative but not significant.

The Pearson correlation coefficient between the age of the company and the total number of meetings held per year is -0.1 with a p value of 0.6 therefore at $p<0.05$ the correlation is negative but not significant.

The Pearson correlation coefficient between the age of the company and the total sales by the company per year is 0.409 with a p value of 0.03 therefore at $p<0.05$ the correlation is positive and significant. The more experienced the company in terms of years in the business the higher the performance.

The Pearson correlation coefficient between the age of the company and the Rate of expansion by company per year is 0.412 with a p value of 0.03 therefore at $p<0.05$ the correlation is positive and significant. The chances of a company expanding as it grows are higher than a new company.

The Pearson correlation coefficient between the age of the company and the employees retention rate by company is 0.368 with a p value of 0.05 therefore at $p<0.05$ the correlation is positive but not significant. The chances of employees remaining in an old company are higher than in a new company.

The Pearson correlation coefficient between the age of the company and the education level of the manager is -0.1 with a p value of 0.44 therefore at $p<0.05$ the correlation is negative but not significant. The chances that as a company grows would necessarily employ a highly educated manager are slim, however not significant. That indicates, probably the level of managers in the organizations are relatively of the same level.

The Pearson correlation coefficient between the age of the company and performance targeting is -0.1 with a p value of 0.74 therefore at $p<0.05$ the correlation is negative but not significant. The chances that as an organization grew would embrace performance targeting are slim though not significant.

4.3 Boards and Organizational Performance

The Pearson correlation coefficient between the number of board members and performance targeting is -0.376 with a p value of 0.02 therefore at $p<0.05$ the correlation is negative and significant. As the board members increase chances of performance targeting being instituted in the organization are low.

The Pearson correlation coefficient between the number of board members and company sales per year. is -0.1 with a p value of 0.62 therefore at $p<0.05$ the correlation is negative but not significant. The higher the board members the lower the sales made by the organization, though not significant.

The Pearson correlation coefficient between the number of board members and Rate of expansion by company per year is -0.1 with a p value of 0.65 therefore at $p<0.05$ the correlation is negative but not significant. The higher the number of board members the lower the chances of expansion, though not significant.

The Pearson correlation coefficient between the number of board members and employees retention rate per year is 0.406 with a p value of 0.03 therefore at $p<0.05$ the correlation is positive and significant. Where the board members were many chances that the staff would be retained are higher.

The Pearson correlation coefficient between the number of board meetings and company sales is 0.02 with a p value of 0.94 therefore at $p<0.05$ the correlation is positive but not significant. The number of board meetings is positively related to company sales but not significant.

The Pearson correlation coefficient between the number of board meetings and rate of expansion is -0.1 with a p value of 0.76 therefore at $p<0.05$ the correlation is negative but not significant.

The Pearson correlation coefficient between the number of board meetings and employees retention rate is -0.3 with a p value of 0.1 therefore at $p<0.05$ the correlation is negative but not significant.

4.4 Performance targeting and organizational performance

The Pearson correlation coefficient between performance targeting and company sales per year is -0.48 with a p value of 0.01 therefore at $p<0.01$ the correlation is negative but not significant

The Pearson correlation coefficient between performance targeting and Rate of expansion by company per year is -0.504 with a p value of 0.01 therefore at $p<0.01$ the correlation is negative but not significant

The Pearson correlation coefficient between performance targeting and employees retention rate per year is 0.35 with a p value of 0.07 therefore at $p<0.05$ the correlation is positive but not significant

5. Summary of Findings, Conclusions and Recommendations.

5.1: Summary of Findings.

The study aimed at determining the factors influencing performance of agricultural companies in Kenya with a focus on Coast province. The rationale of the study was based on the various challenges facing the companies in the region. With focus worldwide being on performance management, the study looked at the role of management boards and performance targeting in organizational performance. The various challenges to organizational performance were also tabulated.

Two research questions as indicated below guided the study.

1. What is the relationship between the boards characteristics and the performance of agricultural companies in Kenya?

2. Does performance targeting influence performance of agricultural companies in Kenya?

Literature reviewed observed that, the size of the management board was critical in organizational management. Similarly gender diversity enhanced performance of boards towards achievement of organizational objectives. The frequency of meetings held by the board has been observed as having a positive relationship with organizational performance.

On performance targeting various studies have identified that performance management measures positively relate with enhanced organizational performance. However various measures of performance existed and organizations chose the once best suited to their circumstances. Other areas of influence included the experiences of the board members in the task at hand

The study observed that number of board members had a negative relationship with performance of agricultural companies. Number of board meetings had a positive relationship with organizational performance though not significant.

5.2: Discussions of the Study Findings

The study found a negative relationship between the number of board members and performance of organizations. The findings differ from findings by Pearce,(1989) who observed that Board size increased the independence of the board and reduced the effect of managerial entrenchment and thus enhanced performance. However, the study never indicated the exact level of relationship. Smith et al., (2006).similarly found out that the higher the number of women in a board the higher the organizational performance. The study findings could also have been influenced by the fact that most of the board members were either all men or with only one woman There was a positive correlation between the number of board members and employees retention rate per year Probable that was an indication the employees were related with the board members or the companies were largely family owned and run, thus employees retained in the organizations regardless of the circumstances. Hanoku (2008) found that board size was significantly and positively associated with firm performance. Similarly (Zahra and Pearce,1989)observed that Board size increased the independence of the board and reduced the effect of managerial entrenchment

The findings of the study also observed a positive correlation between number of board meetings and the organizational performance reflected in sales. However board meetings had a negative correlation with organization expansion and employees retention. The findings differ from those by Vafeas (1999) who observed that the number of board meetings by an organization was related to the organization performance. Jensen (1993) however cautioned that boards were required to be active when there was an issue at hand to be addressed otherwise could waste both time and resources of the organization. The findings of the study could have been influenced by the caliber of membership and composition since where there was little diversity output from number of meetings held might not be significant. The other studies similarly did not disaggregate performance as did the current study.

The study observed a negative correlation between performance targeting and organizational Performance in terms of sales and expansion. However there was a positive correlation between performance targeting and employees retention in an organization. Bouckaert and De-Corte (1999) noted that performance contracting in addition to cost saving, can allow for considerable autonomy in financial, human resources and internal organization management. Triveldi (2000) similarly observed a positive relationship between performance targeting and organization performance. The findings from the study could have been occasioned by other factors like management and efficiency in the targeting. The positive correlation between performance targeting and employees retention concurs with the other findings as the human resource prefers where there are clear targets of job to be done.

The management of most agricultural companies was composed of certificate and diploma holders who could possibly be lacking other management skills. The positive relationship between age of company and performance indicated that despite challenges companies were able to come up with ways of achieving their goals and remain relevant in the market.

5.3: Conclusions

The expected benefits from boards and performance targeting were yet to be realized going by the negative correlation between the various board characteristics and performance. However employees retention in organizations was a pointer that performance targeting was getting underway. Gender consideration in boards is still a challenge since most organizations were having male dominated boards. Board meetings continue being relevant going by the observation that they had a positive correlation with organizational sales. Organizational performance was pegged on experience as most companies enhanced their performance with age. Employees are embracing performance targeting going by the high correlation between performance targeting and employees retention. However, agricultural companies are embracing performance targeting at a slow pace going by the negative correlation between age of companies and performance targeting. Education level of managers in agricultural companies is seemingly low at certificate and diploma level considering the fact that as managers advanced in education it enhanced their capacities to network and manage their organizations..

5.4: Recommendations of the Study.

There is need for the agricultural company's management and workers to be exposed to performance management practices and how they could be applied in their organizations.

It is also necessary for organizations to evaluate their current performance management systems to enhance their efficiency and effectiveness.

Organizations need to evaluate the roles and effectiveness of their management boards and how they could be made more effective.

Gender diversity of the boards need to be considered so as to enhance their performance.

Board members need to be sensitized on their roles in line with the objectives of the organization.

There is need for other studies on factors affecting the effectiveness of boards in agricultural companies.

Similarly, other studies need to be conducted on the relevance of the performance management systems employed by the various companies.

Longitudinal studies to map out changes over time in the agricultural companies need to be undertaken.

Other factors affecting supplies for production and processing in agricultural companies need to be addressed.

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Appendices

Tables of Study Findings

Table 2. Challenges faced by agricultural companies

Category of company	Low supply of inputs	High competition	Poor focus by the board	High cost of production	Stringent operation requirement
Production(10)	1	2	1	5	1
Processing(16)	6	4	1	3	2
Production/Processing(8)	1	2	1	2	2
Marketing(6)	3	2	0	0	1
Total(40)	11	10	3	10	6

Table 3.Education level of managers of agricultural companies

Category of company	Certificate	Diploma	Degree and above
Production(10)	5	3	2
Processing(16)	2	3	11
Production/Processing(8)	3	2	3
Marketing(6)	0	2	4
Total(40)	10	10	20

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Abbreviations

KDB Kenya Dairy Board

PDA Provincial Director of Agriculture

ASDS Agricultural Sector Development Strategy