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

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ABSTRACT

The objective of the study was to determine the influence of investment management 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 investment management has a positive significant effect on financal performance. Investment management has a positive relationship with the Return on Investment (ROA)of the firms under study. The study recommended that agricultural firms listed on NSE should adopt prudent investment management.

KeyWords: *Investment Management, Financial Performance*

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INTRODUCTION

As the financial sector at the Nairobi Securities Exchange, which includes banking, investments and insurance firms, continues to record growth, some firms in the non-financial sector which includes agricultural firms in Kenya have been characterized by a decline in performance and as a result market prices of their shares at the Nairobi Securities Exchange has recorded a decline (NSE, 2014). Some agricultural firms listed at the NSE have been performing poorly, delisted, suspended or even put under receivership due to poor performance. According to NSE report (2006), Kakuzi limited, Rea vipingo, Willamson tea among other agricultural firms listed at the NSE have been performing poorly because of poor financial disclosure, pricing their shares the highest, non splitting of shares making them unavailable and expensive and non progressive dividend policy hence poor performance of this firms.

According to NSE investors handbook (2017-2018), financial review report showed that out of all the seven listed agricultural firms, three of them indicated poor performance within the period 2014 to 2018. Eaagads Ltd. Net profit of the year 2018 dropped by 15.71%; Limuru Tea company reported a net loss of Kshs.22,134,000 for the year of income 2017 indicating a drop by Kshs.39%. Sasinis profit for the year 2017 dropped by Kshs.21%. According to NSE report (2018), Rea Vipingo was delisted in September 2017 after the UK Rainbow brothers acquired it and owned 94.26% of the issued share capital after majority of shareholders accepted the buyout because of poor performance of the firm. From the NSE data centre report (2018),Karuturi Ltd was placed into receivership back in the year 2014 due to liquidity problem. The company continued to sink further which lead to its closure in 2018.

Different authors and researchers globally approach the particular areas of financal 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 financal 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 financal 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.

In Africa, Falope and Ajilore (2009) carried a study in Ghana on the relationship between financal management and profitability on manufacturing firms showed negative relationship between financal management and firms profitability. Cash conversion process, average collection time, inventory turnover days and average payment period are used to define working capital. The study proposed that trading firms handle their work more effectively so as to maintain a balance. Deresse and Prabhakara (2012), used independent variables such as accounting, reporting, and analysis, working capital management, fixed asset management and financial planning to represent financal management practices in the study on the effect of financal management practices and characteristics on profitability in Ethiopia. Other variables which they considered were Liquidity, Leverage and asset turnover. Nosa andOse (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.

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.

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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 financal management practices exclusively. For instance, Nyamao, Ojera, Lumumba, Odondo, and Otieno,(2012) considered financal management practice in terms of efficiency of cash, inventory and receivables management, while Mathuva (2009) considered financal 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.

Objectives of the Study

The objective of this study was to examine the influence of investment management on financal performance of agricultural firms listed in Nairobi Securities Exchange. The study was guided by the following research hypothesis

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

LITERATURE REVIEW

Pecking Order Theory

The pecking order theory recommends that organizations have a specific inclination request for capital used to back their organizations (Myers, 2016). Inferable from the data asymmetries between the firm and possible speculators, the firm will lean toward held income to obligation, transient obligation over long haul obligation and obligation over value. Myers (2014) contended that if firms issue no new security yet just utilize its held income to help the venture openings, the data topsy-turvy can be settled. That infers that responsible value turns out to be more costly as deviated data insiders and untouchables increment. Firms whose data asymmetry is enormous should give obligation to abstain from selling undervalued protections. The capital structure decreasing events such as new stock offering leads to a firms stock price decline.

A declaration of expanding capital structure occasions is gotten by the market as uplifting news in light of the fact that money related middle people like speculation bank can become insiders to screen the organizations execution. Supervisors may have inside data that isn't known to the market. Insider financial specialists have more data about the genuine circulation of firm returns than untouchables. Insider financial specialists will in general cutoff the utilization of value so as to hold control of the firm Maksimovic,, V. (2011). Moreover, the risk of the firms return is unknown to investors. They are forced to rely on noisy signals such as the firms level of capital structure to determine the risk of their investment and firms value may be underpriced by the market (Myers 2014).

An associations need to design and think about how to stand up to future possible dangers and openings by building up a productive arrangement of control, an indicator of fluctuations between authoritative

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destinations and execution (Anthony and Govindarajan, 2007). Spending plans are viewed as the center component of a proficient control-process and subsequently imperative part to the umbrella idea of a viable MCS (Nimalathasan, & Valeriu, 2010). As a forward looking set of numbers, budgets project future financal management practice on performance which enables evaluating the financial viability of a chosen strategy (King, Clarkson & Wallace, 2010).

Investment Management
- Total assets
- Current liabilities

→

Financial Perfomance
- Return on Assets (ROA)

Independent Variable **Dependent Variables**

Figure 1: Conceptual Framework

Empirical Review

Concept of Financal perfomance

Amidu and Abor (2012) summarized significant variables that assess financial success by companies as productivity, cash flow, growth in revenue and market-to - book valuation. Brealy, Myers (2014) describes income as revenue, minus all the sales related expenses. Weisbach, (2013) describes cash flow as the company's cash created and paid out to creditors and shareholders. This can be categorized as from sales, investment cash flow, and funding activities. Sale growth is a function of sales volume increased over a period of time.

As per Bagchi and Khamrui (2012) the book estimation of the companys value is equivalent to the aggregate sum that the organization has raised from its investors or held and reinvested for their sake. In the event that the organization has been fruitful in including esteem, the market estimation of value will be higher than the book esteem. The distinction between the market estimation of the organizations value and its book esteem is alluded to as the market esteem included. As per Bashir, Abbas, Manzoorand Akram (2013), there are eight variables influencing firms financal execution to be specific influence, leverage, size, growth, risk, tax, tangibility, liquidity and non-debt tax shield.

Investment Management and Financal perfomance

Behavior in investment is important to a potential individual; investment decisions can be dependent on several factors. According to Alleyne (2010) it has been argued that the investment decision process that the investor undertakes can be predicted by individual attitudes among other variables.Financial literacy is also vital in enhancing prudent decision making capabilities to an individual, this is supported by the fact that prior research has suggested that that improvement of education in financal management positively correlates with decision making on critical investment activities (Chen & Liang, 2015). Despite the importance of financal management literacy in prudent investment decision making ability there is still less knowledge on financal management matters by the SME sector players.

Cohen and Klepper (2012) tried to set up the cross-sectional nature of the venture choice capacities and firm execution connections. The experimental outcomes depended on information from three sequential Swedish advancement reviews. A typical multi-step estimation approach which represents both concurrence and choice inclinations was applied. True to form, the outcomes demonstrated proof of a solid and exceptionally huge connection between parts of venture like interest in innovative work just as expanding interest in efficiency through advancement creation, estimated as portion of deals related with new item and procedures at the firm level. Alleyne (2010) examined the persistency of the relationship and its disparities across firm sizes. Results dependent on the SME test indicated proof of various connection between the speculation and financal execution factors. Current estimations of all pointers were seen as identified with their own slacks. A similar perception had been made by Cohen and Klepper (2012) where they found that on account of innovative work, business and benefit the sign changed between the two slacks. For example; deals is unequivocally related to those investment decisions that highly relate to profit optimization and labor efficiency for instance employment expenditures but not to research and development expenditures and gross physical investment. They also found that there are differences among the two sizes concerning the feedback from profit to gross physical investment.

Kogi (2003) led an investigation on the eventual fate of aggregate investment plans in Kenya and reasoned that aggregate venture had encountered moderate development after some time. Kogi (2003) mentioned likewise objective facts; first the moderate development was maybe because of the kind of speculations and venture techniques that are embraced, low open mindfulness and instruction o financial specialists, absence of open trust and low returns. Mulindu (2007) dissected the effect of investment techniques on the exhibition of oversaw assets in Kenya. She took a contextual investigation of Fedha Management Limited and inferred that the terrible showing of oversaw assets could be ascribed to the conflicting utilization of procedures by chiefs and enthusiastic way to deal with venture. Weight from enthusiastic customers made ventures directors change their speculation procedures every now and again prompting misfortunes.

Nyale (2010) considered the connection among leverage and venture choices for organizations cited at the Nairobi Securities Exchange (NSE) and reasoned that influence impacted the speculation choices of cited organizations with high utilized organizations requiring a higher pace of return for their ventures. Anyway prohibitive pledges were additionally figured while settling on speculation choices. Rudolph (2011) led an examination on the United States Company Investment Strategies in an Economic downturn. He saw that almost in all the insurance agencies, 97% revealed had very much characterized speculation strategy proclamations (IPS), affirmed by their loads up, which are adaptable and developed after some time. Just 3% detailed having no IPS. The strategy archive guided the administration and staff through the emergency towards dependability and better execution during the period. In addition, the creator found that most protection firms utilized moderate venture system, had restricted influence, concentrated on center contribution and relied upon repeating premiums.

Sehhat and Rad (2011) directed an examination on coordinating investments techniques for insurance firms and inferred that one of the challenges of insurance agencies venture is choosing and picking legitimate speculation procedures for paying future liabilities. The creators noticed that what concerned protection chief most was limit of paying liabilities more than productivity and rate of profitability. Wambui (2010) examined the presence of land speculation trust (REITS) needs by institutional speculators at Nairobi Securities Exchange (NSE) and presumed that financial specialists required a road of putting resources into land without bringing about the difficulties related with getting land.

According to Nurein, Saheed, and Adebowale (2014) in their study on financal management, the research was to determine the effects of financal management on performance of listed firms in Malaysian. The study findings were that firms financial constraint is significant and positively related to financal management practices and corporate performance. Muguchia (2018) study on the influence of financal management practices of firms listed on NSE. Chung and Chuang (2010) studied five particular areas of financal management practices: capital structure management, working capital management, financial reporting and analysis, capital budgeting and accounting information system. From the study variables, Financing, Investing and asset management decisions played out.

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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

Inferential Statistics

Effect of Investment Management on Financal perfomance in Agricultural Firms listed at NSE

The objective of the study was to establish the influence of investment management on financal performance in agricultural firms listed at NSE. The objective sought to answer hypothesis which stated that there is no significant relationships between investment management and financal performance. The inferential results were as follows;

Correlation between investment management and financal perfomance

The Pearson correlation analysis was used to determine the relationship between investment management and financal performance. The results were as shown in Table 1 below:

Table 1: Correlation of Investment Management and Financal perfomance

		Investment Management	Financal performance
Investment Management	Correlation Coefficient	1.000	
	Sig. (2-tailed)	.	
	N	317	
Financal performance	Correlation Coefficient	.585**	1.000
	Sig. (2-tailed)	.000	.
	N	317	317

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

In establishing the effect of investment management on financal performance in agricultural firms listed at NSE, the study established a coefficient of correlation (r) as 0.585**. This revealed that the relationship between investment management and financal performance is positive and significant. This postulated that better investment management would foster financal performance of agricultural firms. The results were supported by Mulindu (2007) who dissected the effect of speculation systems on the presentation of oversaw assets in Kenya. She took a contextual investigation of Fedha Management Limited and inferred that the horrible showing of oversaw assets could be credited to the conflicting utilization of procedures by supervisors and passionate way to deal with venture. Weight from enthusiastic customers made ventures chiefs change their speculation methodologies habitually prompting misfortunes..

Regression Results of Investment Management and Financal perfomance

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

Table 2: Regression Results of Investment Management and Financal perfomance

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.585[a]	.343	.341	.4887746

a. Predictors: (Constant), Investment Management

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
	Regression	39.223	1	39.223	164.181	.000[b]
1	Residual	75.254	315	.103		
	Total	114.477	316			

a. Dependent Variable: Financal performance

b. Predictors: (Constant), Investment Management

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.422	.152		9.377	.000
	Investment Management	.532	.042	.585	12.813	.000

a. Dependent Variable: Financal performance

From the table 2 above the value of R square was 0.343which implied that up to 34.3% change in financal performance in agricultural firms listed at NSE is significantly accounted for by investment management. From the ANOVA result, the significance of the model had a value F (1,316) =164.181, P<0.01 which showed that the model is significant 99.0% confidence level. This postulated that investment management is a useful predictor of financal performance in agricultural firms listed at NSE. The unstandardized regression coefficient value of investment management was 0.532 and significance level of p<.001. This implied that a unit change in investment management would result to significant change in financal performance by 0.532 in the same direction.

Hypotheses Testing

H_0: There is no significant relationship between Investment management and financal performance of agricultural firms listed in NSE.

From the Multiple Regression results it showed that investment management influences positively financal performance among agricultural firms listed on NSE, since the p < 0.01 r=.585 and B= (.532). Thus the null hypothesis was rejected. Therefore investment management is crucial if agricultural firms listed on NSE are to realize full capabilities. This results tallied with that of Cohen and Klepper (2012) which sought to establish the cross-sectional nature of investment decision functions and firms performance relationships of which the empirical results were based on data from three Swedish innovation surveys. The results indicated the evidence of a strong and highly significant relationship between aspects of investment and development as well as increasing investment in productivity through innovation production.

CONCLUSION AND RECOMMENDATIONS

The objective was to establish the influence of investment management on financal performance of agricultural firms listed in Nairobi Securities Exchange. Investment management also had a significant effect on financal performance with since the probability is less than the expected significance level. The regression square showed that liquidity management explains 39.4% of variance in financal management in agricultural

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firms listed in Nairobi Securities Exchange. The coefficient of correlation revealed that the relationship between investment management and financal performance is positive and significant. This showed that if investment management is enhanced, the performance of the respective agricultural firms will improve in the same direction. This showed that investment management is a useful predictor of financal performance in listed agricultural firms. Hence the null hypothesis was rejected. Investment management had a positive insignificant effect on financal performance of agricultural firms listed at the Nairobi securities exchange.

Relying on the findings of this particular study, the study puts forth that the management team of agricultural firms listed at the NSE should put more emphasis on investment management so as to improve the financal performance of agricultural firms listed on NSE. Corporate governance should also incorporate best practice in terms of investment management where the Board is tasked on continuous monitoring and improvement on key aspects of investment management management.

Suggestions for further study

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

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

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