Journal of Business and Economics, ISSN 2155-7950, USA
September 2014, Volume 5, No. 9, pp. 1667-1680
DOI: 10.15341/jbe(2155-7950)/09.05.2014/020

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Effect of Lending Strategies on Organizational Performance: A Case of Agricultural Finance Corporation, Kapsabet Branch, Kenya

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Abstract: The purpose of this study was to assess the impact of Agricultural Finance Corporation (AFC) lending strategies on organizational performance. The need for this study arose due to existing competition between agricultural finance institutions as well as mainstream banks to attract customers. The objectives were; to establish the effect of cost strategies on organizational performance, to determine the impact of product diversity on organizational performance, to determine the effects of flexible repayment terms on organizational performance and to establish the effect of non-collateral based lending strategy on organizational performance. The study utilized a causal design using the explanatory survey method to obtain in depth information from the respondents. The target population comprised of 700 customers sampled through regional stratification. The sample size of the customers is 38% of the targeted customer population thus the study sample population had (264) respondents. The research instruments that were used in data collection were a questionnaire, document analysis and an interview schedule. Descriptive statistics was used to analyze the demographic data. Correlation was used to test hypothesis. Most clients are loyal to the company. Cost strategies accounted for 27% ($\beta = 0.268$) positive influence on organizational performance. The influence however, was not statistically ($p = 0.140$) significant, hence failure to reject the null hypothesis at $p =\geq 0.05$. Product diversification strategies accounted for 13% ($\beta = -0.131$) negative influence on organizational performance. The influence however, was not statistically ($p = 0.463$) significant, hence failure to reject the null hypothesis at $p =\geq 0.05$. Non collateral based lending strategies accounted for 20% ($\beta = -0.196$) negative influence on organizational performance. The influence however, was not statistically ($p = 0.253$) significant, hence failure to reject the null hypothesis at $p =\geq 0.05$. Flexible repayment terms as strategies accounted for 4% ($\beta = -0.043$) negative influence on organizational performance. The influence however, was statistically ($p = 0.030$) significant, hence the null hypothesis was rejected at $p =\geq 0.05$. There is need for the company to enforce relevant customer satisfaction strategies so as to cushion itself against client migration. Generally, the lending strategies, owing to the below par influence on performance, ought to be tailored to suit the contemporary demands of clients, strengthened and rebranded so as to realize optimal organizational performance as per its performance target.

Key words: lending strategies; cost and performance
JEL codes: M2

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1. Introduction

1.1 Background to the Study

Traditional banking theory argues that agricultural financers should diversify their credit portfolio, given that through the expansion of their credit lines to new sectors, the Agri-finance's probability of default will be reduced (Diamond, 1984). The idea is that due to asymmetric information, diversification reduces financial intermediation costs. Moreover, less diversified Agri-finances would be more vulnerable to economic downturns, since they are exposed to few sectors. Many Agri-financing crises in the last 25 years were caused by, among other reasons, concentration in Agri-finance's loan portfolios, which supports the view that risk is highly associated with this strategy (BIS, 1991). This view is also empirically supported by Argentinean micro finances on the Argentinean financial crisis of 2001 and 2002 (Bebczuk & Galindo, 2008) and by Austrian micro finances over the years 1997-2003 (Rossi et al., 2009).

Conversely, when the probabilities of insolvency are high, diversification may even worsen the situation, since the Agri-finance will be exposed to many sectors, and the downturn of one may be enough to lead this Agri-finance to bankruptcy. Therefore, the overall conclusion is that the relationship between Agri-finance's focus and return is expected to be U-shaped in risk. Furthermore, there is also empirical evidence that diversification increases the risk in the Italian micro financing sector (Acharya et al., 2006) and reduces the performances of the micro finances in the Chinese micro financing sector (Berger et al., 2010) and in the German micro finance sector (Norden & Szerencses, 2005; Hayden et al., 2007).

Kamp et al. (2007) shows that neither of the theories mentioned above are completely right for the entire German Agri-finance sector in the period from 1993 to 2003. They find that the main benefit of diversifying credit portfolios is the achievement of relative lower levels of risk compared to concentrated portfolios. The returns of concentrated portfolios, however, seem to be higher than those of diversified micro finances. The typical risk-return tradeoff appears to be the solution of this analysis, leaving micro finances to choose their own strategy in order to maximize their performance. The goal of this study is to identify the influence of lending strategies on the performance of AFC.

Acharya et al. (2006) list three reasons in order to explain why an increase in diversification might also raise the risk of Agri-finance loan portfolios. First, Agri-finances may suffer from lower monitoring efficiency, due to the lack of expertise, if they expand their loans to new sectors. Second, these sectors may be already supplied by credit of other competitors. Therefore, the entrant Agri-finance might suffer from the winner's curse and face adverse selection, derived from competition. Third, diversification can increase an Agri-finance's size, subjecting it to scale inefficiencies.

1.2 Research Gap

The question of whether it is preferable for agricultural finance institutions to concentrate or diversify their loan portfolio across economic sectors has become of uttermost importance for the study of financial stability. AFC has embarked on comprehensive programmes of diversification, cost minimization; flexible repayment terms and non-collateral based lending in agriculture so as to cater for farming practices in the country as well as improving its organizational performance. Currently, customers not only demand the good products but also promptness and efficiency. The effect of lending strategies adopted on agricultural finance performance, however, has not been widely analyzed for Agri-finance institutions of emerging economies. This study therefore aimed at assessing the ways in which lending strategies affect the performance of Agricultural Finance Corporation, Kapsabet branch.

1.3 Objectives of the Study

(1) To establish the effect of AFC's cost strategies on performance.

(2) To determine the effects of product diversification on AFC's performance.

(3) To determine the effect of non-collateral based lending strategies on AFC's performance.

(4) To establish the effect of flexible repayment terms on AFC's performance.

1.4 Research Hypothesis

The study was guided by the following research hypothesis:

Ho_1: cost strategies do not affect the performance of an organization.

Ho_2: product diversification does not affect the performance of an organization.

Ho_3: non collateral based lending does not affect the performance of an organization.

Ho_4: flexible repayment terms do not affect the performance of an organization.

2. Literature Review

2.1 Lender-client Relationships

Long-term ties between lenders and their client firms generate value and increase economic efficiency. Little is known, though, on how this value is divided among the stakeholders involved in such relationships. In the course of building the relationship, the lender accumulates borrower-specific information which gives him significant benefits to the extent that the lender passes these benefits to the borrower. Lenders invest in generating information from their client firms and borrowers are more inclined to disclose information (Boot, 2000). Consequently, the information asymmetries between the bank and the firm are lessened as time goes by.

This process enhances economic efficiency through many channels. First, having a long-term horizon facilitates the design of implicit credit contracts over the duration of the relationships that may increase value. This is achieved, for instance, through reduction in welfare dissipating collateral requirements (Berger & Udell, 1995), through the deployment of welfare-enhancing inter temporal tax subsidy schemes in loan pricing (Petersen & Rajan, 1995), as well as through more flexible contracting terms (Boot, Greenbaum & Thakor, 1993). Secondly, the reliability of the information generated by the lender over repeated transactions and over time is also beneficial in terms of savings on the fixed cost of screening and monitoring (Boot, Greenbaum & Thakor, 1993). Third, it avoids the free-rider problem of monitoring since the lender internalizes the benefits of such investments. Higher monitoring levels increase value since, for instance, they help solve principal-agent problems of managerial behavior. Additionally, relationship lenders develop sector-specific expertise that enhances the value of financed projects (Boot & Thakor, 2000). Furthermore, relationship lending contributes greatly to economic growth by promoting the efficient allocation of capital as long as better informed lenders provide credit to the most productive projects first (Northcott, 2004).

Existing empirical research on relationship lending stresses that benefits outweigh the costs, that is, relationships generate value. Only to the extent that such value created is passed on to or shared with the borrower, through lower cost of borrowing, more flexible contract terms, and so on, a relationship will also be valuable for a firm that borrows from its relationship lender. That is to say, a firm will benefit from relationship lending as long as the bank shares the value with the borrower. In consequence, if lending relationships are valuable, it should be reflected in the overall firm performance.

Agarwal and Elston (2001) use a sample of large listed and unlisted German firms in 1970-86 and found that lender- influenced firms do not have higher profitability or growth. Chirinco and Elston (2006) use data on 91 listed firms in Germany and found that lender-influence is not associated with a reduction of finance costs nor a change in profitability. Degryse and Ongena (2001) use a panel dataset of 235 publicly listed Norwegian firms between 1979 and 1995 and found that firms with a bilateral relationship are more profitable. Fok, Chang and Lee (2004) examine 178 firms traded on the Taiwan Stock Exchange between 1994 and 1998. They found that the number of foreign-bank relationships is positively related to firm performance; however, the number of domestic-bank relationships is negatively related to firm performance. Since domestic-bank loans are more likely to be relationship loans, the results are interpreted as evidence that bilateral relationships are profitable.

2.2 The Concept of Organizational Performance

According to Richard et al. (2009), organizational performance encompasses three specific areas of firm outcomes: (a) financial performance (profits, return on assets, return on investment, etc.); (b) product market performance (sales, market share, etc.); and (c) shareholder return (total shareholder return, economic value added, etc.). Richard notes that many organizations have attempted to manage organizational performance using the balanced scorecard methodology where performance is tracked and measured in multiple dimensions such as: financial performance (e.g., shareholder return), customer service, social responsibility (e.g., corporate citizenship, community outreach) and employee stewardship.

2.3 Strategic Model

Michael Porter (2008) has described a category scheme consisting of three general types of strategies that are commonly used by businesses to achieve and maintain competitive advantage. These three generic strategies are defined along two dimensions: strategic scope and strategic strength. *Strategic scope* is a demand-side dimension. In particular he identified two competencies that he felt were most important: product differentiation and product cost (efficiency).

From the three generic business strategies Porter stress the idea that only one strategy should be adopted by a firm and failure to do so will result in “stuck in the middle” scenario (Porter 1980 cited by Allen et al., 2006; Torgovicky et al., 2005).

He argues that practicing more than one strategy will lose the entire focus of the organization hence clear direction of the future trajectory could not be established. The argument is based on the fundamental that differentiation will incur costs to the firm which clearly contradicts with the basis of low cost strategy and in the other hand relatively standardized products with features acceptable to many customers will not carry any differentiation (Panayides, 2003, p. 126) hence, cost leadership and differentiation strategy will be mutually exclusive (Porter 1980 cited by Trogovicky et al., 2005, p. 20). Two focal objectives of low cost leadership and differentiation clash with each other resulting in no proper direction for a firm.

Competitive advantage can be divided into two basic types: lower costs than rivals, or the ability to differentiate and command a premium price that exceeds the extra costs of doing so. Any superior performing firm has achieved one type of advantage, the other or both. Though Porter had a fundamental rationalization in his concept about the invalidity of hybrid business strategy, the highly volatile and turbulent market conditions will not permit survival of rigid business strategies since long term establishment will depend on the agility and the quick responsiveness towards market and environmental conditions. Market and environmental turbulence will make drastic implications on the root establishment of a firm. If a firm’s business strategy could not cope with the environmental and market contingencies, long term survival becomes unrealistic. Diverging the strategy into different avenues with the view to exploit opportunities and avoid threats created by market conditions will be a pragmatic approach for a firm.

2.4 Customer Satisfaction as a Performance Indicator

Within organizations, customer satisfaction ratings can have powerful effects. They focus employees on the importance of fulfilling customers' expectations. Furthermore, when these ratings dip, they warn of problems that can affect sales and profitability. These metrics quantify an important dynamic. When a brand has loyal customers, it gains positive word-of-mouth marketing, which is both free and highly effective (Reibstein et al., 2010). Therefore, it is essential for businesses to effectively manage customer satisfaction. To be able do this, firms need reliable and representative measures of satisfaction. In researching satisfaction, firms generally ask customers whether their product or service has met or exceeded expectations. Thus, expectations are a key factor behind satisfaction. When customers have high expectations and the reality falls short, they will be disappointed and will likely rate their experience as less than satisfying. For this reason, a luxury resort, for example, might receive a lower satisfaction rating than a budget motel—even though its facilities and service would be deemed superior in "absolute" terms (Reibstein et al., 2010).

The importance of customer satisfaction diminishes when a firm has increased bargaining power. For example, cell phone plan providers, such as AT&T and Verizon, participate in an industry that is an oligopoly, where only a few suppliers of a certain product or service exist. As such, many cell phone plan contracts have a lot of fine print with provisions that they would never get away if there were, say, a hundred cell phone plan providers, because customer satisfaction would be way too low, and customers would easily have the option of leaving for a better contract offer. There is a substantial body of empirical literature that establishes the benefits of customer satisfaction for firms. A business ideally is continually seeking feedback to improve customer satisfaction (Sheila, 2003).

Customer satisfaction provides a leading indicator of consumer purchase intentions and loyalty. Customer satisfaction data are among the most frequently collected indicators of market perceptions. Their principal use is twofold: Within organizations, the collection, analysis and dissemination of these data send a message about the importance of tending to customers and ensuring that they have a positive experience with the company's goods and services. Although sales or market share can indicate how well a firm is performing currently, satisfaction is an indicator of how likely it is that the firm's customers will make further purchases in the future. Much research has focused on the relationship between customer satisfaction and retention (Joby, 2003).

Studies indicate that the ramifications of satisfaction are most strongly realized at the extremes. On a five-point scale, individuals who rate their satisfaction level as "5" are likely to become return customers and might even evangelize for the firm. A second important metric related to satisfaction is willingness to recommend. This metric is defined as "The percentage of surveyed customers who indicate that they would recommend a brand to friends." When a customer is satisfied with a product, he or she might recommend it to friends, relatives and colleagues. This can be a powerful marketing advantage. Individuals who rate their satisfaction level as "1," by contrast, are unlikely to return. Further, they can hurt the firm by making negative comments about it to prospective customers. Willingness to recommend is a key metric relating to customer satisfaction (Reibstein et al., 2010).

2.5 Cost Strategy and Organizational Performance

A *cost leadership strategy* aims to exploit scale of production, well defined scope and other economies (e.g., a good purchasing approach), producing highly standardized products, using high technology (Reid, 1993). In the last years more and more companies choose a strategic mix to achieve market leadership. These patterns consist in simultaneous cost leadership, superior customer service and product leadership (Davidson, 2003). Cost leadership is different from price leadership. A company could be the lowest cost producer, yet not offer the lowest-priced products or services. If so, that company would have a higher than average profitability. However, cost leader companies do compete on price and are very effective at such a form of competition, having a low cost structure and management (Grigsby, 1997).

2.6 Diversification Strategy and Organizational Performance

Diversification is a form of growth strategy. Growth strategies involve a significant increase in performance objectives (usually sales or market share) beyond past levels of performance. Many organizations pursue one or more types of growth strategies. One of the primary reasons is the view held by many investors and executives that bigger is better. Growth in sales is often used as a measure of performance. Even if profits remain stable or decline, an increase in sales satisfies many people. The assumption is often made that if sales increase, profits will eventually follow (Workman, 2002).

Rewards for managers are usually greater when a firm is pursuing a growth strategy. Managers are often paid a commission based on sales. The higher the sales level, the larger the compensation received. Recognition and power also accrue to managers of growing companies. They are more frequently invited to speak to professional groups and are more often interviewed and written about by the press than are managers of companies with greater rates of return but slower rates of growth. Thus, growth companies also become better known and may be better able, to attract quality managers Geiger, 2004).

Growth may also improve the effectiveness of the organization. According to Ferrier (2004), larger companies have a number of advantages over smaller firms operating in more limited markets. These include:

Large size or large market share can lead to economies of scale. Marketing or production synergies may result from more efficient use of sales calls, reduced travel time, reduced changeover time, and longer production runs. Learning and experience curve effects may produce lower costs as the firm gains experience in producing and distributing its product or service. Experience and large size may also lead to improved layout, gains in labor efficiency, redesign of products or production processes, or larger and more qualified staff departments (e.g., marketing research or research and development). Lower average unit costs may result from a firm's ability to spread administrative expenses and other overhead costs over a larger unit volume. The more capital intensive a business is, the more important its ability to spread costs across a large volume becomes.

Improved linkages with other stages of production can also result from large size. Better links with suppliers may be attained through large orders, which may produce lower costs (quantity discounts), improved delivery, or custom-made products that would be unaffordable for smaller operations. Links with distribution channels may lower costs by better location of warehouses, more efficient advertising, and shipping efficiencies. The size of the organization relative to its customers or suppliers influences its bargaining power and its ability to influence price and services provided. Sharing of information between units of a large firm allows knowledge gained in one business unit to be applied to problems being experienced in another unit. Especially for companies relying heavily on technology, the reduction of R&D costs and the time needed to develop new technology may give larger firms an advantage over smaller, more specialized firms. The more similar the activities are among units, the easier the transfer of information becomes.

Taking advantage of geographic differences is possible for large firms. Especially for multinational firms, differences in wage rates, taxes, energy costs, shipping and freight charges, and trade restrictions influence the costs of business. A large firm can sometimes lower its cost of business by placing multiple plants in locations providing the lowest cost. Smaller firms with only one location must operate within the strengths and weaknesses of its single location. Concentric diversification occurs when a firm adds related products or markets. The goal of such diversification is to achieve strategic fit. Strategic fit allows an organization to achieve synergy. In essence, synergy is the ability of two or more parts of an organization to achieve greater total effectiveness together than would be experienced if the efforts of the independent parts were summed. Synergy may be achieved by combining firms with complementary marketing, financial, operating, or management efforts. Financial synergy may be obtained by combining a firm with strong financial resources but limited growth opportunities with a company having great market potential but weak financial resources. For example, debt-ridden companies may seek to acquire firms that are relatively debt-free to increase the lever-aged firm's borrowing capacity. Management synergy can be achieved when management experience and expertise is applied to different situations (Stan, 2004).

2.7 Loan Repayment Terms and Organizational Performance

Long-term loans can be repaid in a series of annual, semi-annual or monthly payments. Payments can be equal total payments, equal principal payments or equal payments with a balloon payment. The Farmer's Home Administration usually requires equal total payments for intermediate and long-term loans. Use an amortization table to determine the annual payment when the amount of money borrowed, the interest rate and the length of the loan are known. Money borrowed for long-term capital investments usually is repaid in a series of annual, semi-annual or monthly payments. There are several ways to calculate the amount of these payments: equal total payments per time period (amortization); equal principal payments per time period; or equal payments over a specified time period with a balloon payment due at the end to repay the balance. When the equal total payment method is used, each payment includes the accrued interest on the unpaid balance, plus some principal. The amount applied toward the principal increases with each payment. The equal principal payment plan also provides for payment of accrued interest on the unpaid balance, plus an equal amount of the principal. The total payment declines over time. As the remaining principal balance declines, the amount of interest accrued also declines (Gutierrez, 2008). At AFC, the repayment periods range from monthly, quarterly, semi-annual, annual and bi-annual. The repayment at AFC is flexible and money can be repaid by installments or by a bullet payment.

2.8 Non Collateral Based Lending

Non-collateral loans are unsecured loans that can be used for multiple purposes. Non-collateral loans are available from banks, credit unions and cash advance lenders. Unlike other types of loans that require collateral, people who apply for non-collateral loans do not have to provide a vehicle title or other security. They can walk into a lender's office, complete and submit an application, and based on the information provided, lenders determine whether the individual is a candidate for non-collateral. There are two types of non-collateral loans. The first type of loan is available from traditional lenders such as a bank or credit union. Borrowers don't need collateral, but lenders do require an excellent credit history and acceptable income. Persons who can't qualify for a traditional non-collateral loan can contact a payday or cash advance loan company loan (Valencia, 2010).

These non-collateral loans offer easy approvals. However, they also feature high finance fees and short loan terms. Non-collateral loans offered by a bank or credit union feature adjustable or fixed rates. Adjustable rates are risky because the interest on the loan can fluctuate on a monthly or annual basis. Hence, loan payments tend to rise and fall. On the other hand, a fixed rate non-collateral loan features non-changing monthly payments, which is better suited for borrowers who prefer predictable payments. If applying for a non-collateral payday loan, borrowers have to repay the money within two weeks, and these loans typically feature finance fees that range from $15 to $30 per every $100 (Saunders, 2001).

2.9 Conceptual Framework

The study conceptualizes that the performance of the company is based on its relationship with the lender, quality of its lending strategies and the level of customer satisfaction.

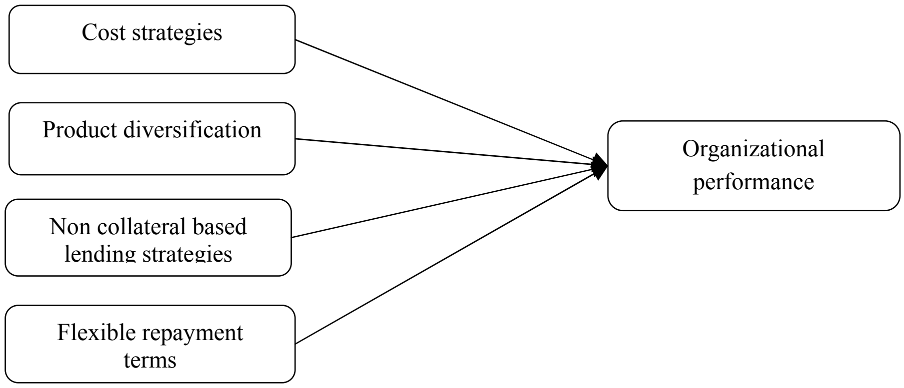

Figure 1 Conceptual Framework of the Relationship between the Research Variables

Source: (Researcher, 2011)

3. Research Methodology

3.1 Research Design

This study used an interpretive case study. According to Merriam (1988) quoted in Cohen L. et al. (2002), an interpretive case study can be used in studies that focus on developing conceptual categories inductively in order to examine initial assumptions. In addition, case studies enable the researcher to generate hypothesis that can be tested. It is a popular form of qualitative analysis which involves careful and complete observation of a social unit; it will lay emphasis on the full analysis of a limited number of events or conditions and their interrelations (Kothari, 2004). Quantitative analysis was used to strengthen the qualitative aspect.

A descriptive research design was adopted in answering the study objectives. A descriptive study seeks to portray accurate profile of persons, events or situations; however, there is no control over the variables (Cohen et. al., 2002). This method will be applicable when there is some prior knowledge on the area of study (Polonsky & Weller, 2009).

3.2 Target Population

Agricultural Finance Corporation (AFC) Kapsabet branch has a population of 10 employees, one branch manager and about 700 customers. Only the branch manager and sampled customers participated in the study. The sample size represents 38% of the population. Therefore 264 customers form the sample size of the study. One branch manager will be interviewed so as to give the vital information of the company that may not be within customer’s knowledge.

3.3 Sample Size and Sampling Procedures

According to Kothari (2009), sampling involves selecting same elements of a population having similar features to the underlying population as a representative of the total population so as to make certain observation of the elements and make conclusions regarding the entire population. Kothari (2009), further states that sample design is a definite plan for obtaining a sample from a given population. It refers to the technique or procedure the researcher would adopt in selecting items for the sample. The sample design is determined before data is collected as well as lay down the number of items to be included in the sample. Mugenda & Mugenda (1999) argue that the main factor that the researchers should consider in determining a sample size is homogeneity of the population from which the sample size is drawn as well as sample homogeneity together with the need to keep it manageable enough.

The sampling techniques used were stratified random sampling for customers (700) and purposive sampling for the branch manager (1). The sample size of the customers is 38% of the targeted customer population thus the study sample population had 264 respondents.

3.4 Data Collection Instruments

Questionnaires, interview schedule and document analysis were used to obtain the required data for this study. In developing the questionnaire items, the likert scale was used. The researcher developed the questionnaires and undertook a pilot study to determine the effectiveness before actual administration in the field. To ensure maximum return rate, the researcher personally administered the questionnaire. The researcher prepared interview questions in connection with the topic of study. The researcher personally carried out face to face interview sessions with the manager. Documents were analyzed to compliment the use of questionnaires and interviews.

3.4.1 Validity and Reliability of Research Instruments

Validity is a term describing a measure that accurately reflects the concept it is intended to measure (Babbie, 2004). A preliminary survey of questions was conducted so as to enhance construction of relevant and appropriate items. The researcher also ensured that all objectives were adequately covered by cross checking the objectives and the corresponding items. Well-developed questionnaires and the interview guide therefore generated valid data.

Triangulation is the practice of comparing results from data designed to measure the same construct but that are collected from different sources and/or by different methods to increase certainty about the validity of the construct (Cohen et al., 1997) the researcher triangulated findings. In the study, data collected from various sources are expected to increase validity. Lecturers and peers in the post graduates studies reviewed the content. Taking into account recommendations, the researcher then conducted a pilot study. A pilot study is a small scale trial of the proposed procedures. Its purpose is to detect any problems in the instruments so that they can be remedied before the actual study is conducted (Fraenkel & Wallen, 2000).

Reliability refers to the quality of measurement method that suggests that the same data would have been collected each time in a repeated observation of the same phenomena (Babbie, 2004). It is concerned with consistency, dependability and stability of instruments. In order to test the reliability of the instrument to be used in the study, test-retest method was used. The questionnaire was administered twice within an interval of two weeks to the respective respondents at AFC. The results obtained from the pilot study assisted the researcher in revising the questionnaire to make sure that it covered the objectives of the study

3.5 Data Collection Procedures

The researcher conducted an interview with the manager whereas the customers were given questionnaires to fill. The researchers also perused relevant documents and took necessary notes.

3.6 Data Analysis and Presentation

The data collected was analyzed using descriptive and inferential statistics. The researcher examined the completed questionnaire and the interview output, and then data was coded into themes and patterns. The analysis was based on the computation of descriptive statistic. Inferences on the nature of relationship were drawn from the Pearson correlation analysis.

The processed data was then presented in form of frequency distribution tables, graphs and pie charts. Regression coefficient analysis was used for inferential statistics. Processed data was to facilitate description and explanation of the study findings, draw generalizations and conclusions. The following formula was used in presenting the linear regression model: $y = \alpha + X_1B_1 + X_2B_2 + X_3B_3 + X_3B_3 + X_4B_4 + \varepsilon$

Thus y = organizational performance

α = constant

ε = standard error

X_1 = consolidated mean of the cost strategies

X_2 = consolidated mean of the product diversification strategies

X_3 = consolidated mean of the non collateral based lending strategies

X_4 = consolidated mean of flexible repayment terms as strategies

B = beta coefficients consolidated mean

3.7 Ethical Consideration

Ethical considerations are the principles that a researcher should abide by when conducting research, every organization has rules governing their policy and practice that may require prior permission before undertaking research. The University gave clearance and authority for me to carry out research, However, I sought permission from the management of the company to carry out this research. The confidentiality of the respondents was assured by requesting that they do not indicate their names on the questionnaire.

4. Data Analysis, Interpretation and Presentation

4.1 Demographic Characteristics of the Respondents

4.1.1 Gender of the Respondents

From the tabulation below, 83% of the respondents were male whereas 17% were female. It is evident that most customers of AFC are male. This could be due to the patriarchal land ownership.

4.1.2 Occupation of the Respondents

The study found that 48% of the respondents were livestock farmers, 21% practices mixed farming, 19% were crop farmers and 12% were horticulture farmers. From the distribution, it is clear that most AFC customers are livestock farmers followed by those who practice mixed farming: a few practice crop farming and horticulture respectively.

4.1.3 Loyalty of the Respondents

The table below indicates that 36% of the respondents have been clients of AFC for 16-20 years, 31% have been clients for between 11-15 years, 22% of the respondents have been with the corporation for 5-10 years and 11% have been clients for less than five years. From the distribution, it is evident that 67% of the respondents have been clients for more than a decade whereas 33.4% of the respondents have been clients for less than a decade. This implies that customer retention and attraction at the company is quite high.

4.2 Descriptive Representation of the Lending Strategies

The study sought to establish the effect of cost strategies on organizational performance. The table below presents a descriptive summary of the respondents' views regarding the AFC lending strategies. The scores of the cost strategies indicate great variability in the responses implying that respondents views were varied ranging from those in agreement to those who disagreed. Great variability in scores is seen in cost strategies and product diversification strategies. On the other hand non collateral based lending and flexible repayment terms project minimal variability.

Table 1 Descriptive of the Lending Strategies

Independent variables	Mean	Std. Deviation
Cost strategies	2.68	1.318
Product diversification	2.05	1.666
Non collateral based lending	2.18	1.260
Flexible repayment terms	2.23	1.233
N = 264		

Source: Survey Data (2011)

4.3 Correlation Coefficients of the Lending Strategies

The study sought to establish the nature of the relationship between lending strategies and organizational performance. Findings pointed out weak positive association between the variables. Non collateral based lending and cost strategies had the weakest correlation of the lending strategies whereas product diversification and flexible repayment terms showed weak correlations.

Table 2 Descriptive of the Lending Strategies

Independent variables	Correlation Coefficients
Cost strategies	0.095
Product diversification	0.163
Non collateral based lending	0.093
Flexible repayment terms	0.212
N = 264	

Source: Survey Data (2011)

4.4 Regressional Coefficients Matrix of the Lending Strategies

The study sought to establish the effect of the lending strategies on organizational performance. Findings indicated that cost strategies had a significant ($r = 268$) positive forecast on organizational performance. The influence however, is not statistically ($p = 0.140$) significant, hence failure to reject the null hypothesis at $p =\geq 0.05$. Product diversification strategies had a significant ($r = -0.113$) negative influence on organizational performance. The influence however, is not statistically ($p = 0.463$) significant, hence failure to reject the null hypothesis at $p =\geq 0.05$. Consequently, non-collateral based lending strategies had a significant ($r = -0.196$) negative influence on organizational performance. The influence however, is not statistically ($p = 0.253$) significant, hence failure to reject the null hypothesis at $p =\geq 0.05$. Lastly, flexible repayment terms had a considerable ($r = -0.043$) negative influence on organizational performance. The influence however, is statistically ($p = 0.030$) significant, hence the null hypothesis is rejected at $p =\geq 0.05$.

Table 3 Regressional Coefficients Matrix of the Flexible Repayment Terms

Variables	Coefficient	Standard Error	t- value	p- value
Constant	0.105			0.000
Cost strategies	0.268	0.113	2.403	0.140
Product diversification	-0.131	0.060	2.707	0.463
Non collateral based lending	-0.196	0.071	1.889	0.253
Flexible repayment terms	-0.043	0.058	2.327	0.030

Source: Survey Data (2011)

5. Summary, Conclusion and Recommendations

5.1 Summary of Findings

Important findings emerged from this study. The demographic information obtained indicated that most of the company clientele were male and had been loyal to the company for more than five years implying that employee retention is quite high.

Ho_1: *There is no significant relationship between cost strategies and organizational performance*

The objective of the study was to establish the effect of cost strategies on organizational performance. It was established that cost strategies quantity of variance suggests that the variable is fit for the model. The variable accounted for 27% ($\beta = 0.268$) positive influence on organizational performance. The influence however, was not statistically ($p = 0.140$) significant, hence failure to reject the null hypothesis at $p =\geq 0.05$. This outcome could be due to increase in default rate due to crop failure or loss of animals.

Ho_2: *There is no significant relationship between product diversification strategies and organizational performance*

The objective of the study was to establish the effect of product diversification strategies on organizational performance. It was established that product diversification strategiesquantity of variance suggests that the variable is fit for the model. The variable accounted for 13% ($\beta = -0.131$) negative influence on organizational performance. The influence however, was not statistically ($p = 0.463$) significant, hence failure to reject the null hypothesis at $p =\geq 0.05$. The lack of linkage could be as a result of competition from earlier entrants such as the mainstream banks.

Ho_3: *There is no significant relationship between non collateral based lending strategies and organizational performance*

The objective of the study was to establish the effect of non collateral based lending strategies on organizational performance. It was established that non collateral based lending strategies quantity of variance suggests that the variable is fit for the model. The variable accounted for 20% ($\beta = -0.196$) negative influence on organizational performance. The influence however, was not statistically ($p = 0.253$) significant, hence failure to reject the null hypothesis at $p =\geq 0.05$. This can be explained by the influence of other variables such as the subsistence nature of most farming communities.

Ho_4: *There is no significant relationship between flexible repayment terms as strategies and organizational performance*

The objective of the study was to establish the effect of flexible repayment terms as strategies on organizational performance. It was established that flexible repayment terms as strategies quantity of variance suggests that the variable is fit for the model. The variable accounted for 4% ($\beta = -0.043$) negative influence on organizational performance. The influence however, was not statistically ($p = 0.304$) significant, hence failure to reject the null hypothesis at $p =\geq 0.05$.

5.2 Conclusions

Most clients are loyal to the company. Cost strategies quantity of variance suggests that the variable is fit for the model. The variable accounted for 27% ($\beta = 0.268$) positive influence on organizational performance. The influence however, was not statistically ($p = 0.140$) significant, hence failure to reject the null hypothesis at $p =\geq 0.05$. Product diversification strategies quantity of variance suggests that the variable is fit for the model. The variable accounted for 13% ($\beta = -0.131$) negative influence on organizational performance. The influence however, was not statistically ($p = 0.463$) significant, hence failure to reject the null hypothesis at $p =\geq 0.05$. Non collateral based lending strategies on organizational performance. It was established that non collateral based lending strategies quantity of variance suggests that the variable is fit for the model. The variable accounted for 20% ($\beta = -0.196$) negative influence on organizational performance. The influence however, was not statistically ($p = 0.253$) significant, hence failure to reject the null hypothesis at $p =\geq .05$. Flexible repayment terms as strategies quantity of variance suggests that the variable is fit for the model. The variable accounted for 4% ($\beta = -0.043$) negative influence on organizational performance. The influence however, was not statistically ($p = 0.304$) significant, hence failure to reject the null hypothesis at $p =\geq 0.05$.

5.3 Recommendations

There is need for the company to enforce relevant customer satisfaction strategies so as to cushion itself against client migration. It is imperative for the corporation to reinforce its lending strategies so that it can provide advantageous influence on organizational performance so as to attain optimal competitive advantage. Generally, the lending strategies, owing to the below par influence on performance, ought to be tailored to suit the contemporary demands of clients, strengthened and rebranded so as to realize optimal organizational performance as per its performance target.

5.4 Suggestions for Further Research

Future research undertakings could focus on the effect of lending strategies on the socio-economic well-being of farmers.

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