EFFECT OF CORPORATE GOVERNANCE ON GROWTH OF GOVERNMENT-OWNED AGRICULTURAL LENDING INSTITUTIONS: A CASE STUDY OF AGRICULTURAL FINANCE CORPORATION, KENYA

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ABSTRACT

In Kenya, agriculture plays a significant role in economic development; this is confirmed by the fact that 75% of Kenyan populace rely on it, as it contributes to 35% of the GDP and constitutes 40% of the export earnings. Due to its importance the Government of Kenya established AFC as a strategic parastatal to provide financial services to this sector. This study therefore purposed to assess the effect of corporate governance on growth of government owned agricultural lending institutions with reference to Agricultural Finance Corporation. The study was guided by four theories; Resource Based View theory, Agency theory, Value Chain theory and Contingency theory. The study used descriptive design, with a target population of 218 respondents and a sample size of 30% across all management levels from head office, regional and branch offices. Stratified random sampling was used since the population is heterogeneous. Data was collected through questionnaires. The questions were both open and close ended questions, and were analyzed using both quantitative and qualitative methods by SPSS tool (Statistical Program for Social Scientists) and presented through tables, bar graphs, pie charts and mathematical models. Recommendations on the best integrated approaches on strategic issues affecting the growth of AFC and other government owned agricultural lending institutions was based on the outcomes of the study. The study established that the findings indicated that, the value of adjusted R squared was 0.543 which was an indication that there was variation of 54.6% growth in the organization due to a change in corporate governance, at 95% confidence interval. This shows that 54.3% changes in growth within the organization could be accounted for in the adjustments in corporate governance.

Key Words: *corporate governance, growth, government-owned agricultural lending institutions, Agricultural Finance Corporation, Kenya*

INTRODUCTION

Agriculture has been identified is a significant sector in the development of any country (OECD, 2013).Most of the developed countries at their early years of Agrarian revolution were dependent on agriculture. Economic growth depends finally on the impact of productive resources and the efficiency with which they are used (Todaro & Smith, 2012). Economic growth is mostly accompanied by an economic transformation from agriculture into other activities; this therefore means that agricultural sector is important in attaining economic development (FAO, 2012).

McManners, (2014), defines strategy with a variety of views; as a strategy, plot, pattern, position and finally as a perception. Strategy as plan, it's some kind of deliberately intended course of action, a recommendation to deal with a situation. It deals with how leaders attempt to create direction for organizations, on the other hand, as ploy it takes us to the jurisdiction of direct competition; maneuver intended to outwit an opponent or competitor to gain competitive advantage. As a pattern, strategy focuses on a stream action that is consistent in behavior and is a key to achieving organizational goals. Strategy can be defined as a careful plan or method, or art of devising plans to attain a goal (Cole, 2003). Growth is defined as an act or process of increase in physical size (Nadler, 1970). In agricultural lending where it's not deposit taking, or a NBFI, growth is measured in terms of loan book/portfolio and client base (Kharel & Pokhrel, 2012). Therefore a growth strategy in lending institutions can be described as a plan of gradual increasing the loan portfolio and client base to attain the mandate of the institutions. There are some exceptional industries risks related relate to lending to the agricultural sector, that's the reason most commercial banks shy away from financing the sector. It's therefore important for financial institutions whether government owned or private to consider some key issues that may affect their growth strategy in the sector (Risk, 2014). Among the issues to be considered are; best practices to access credit risks of farmers and agribusinesses, delivery channels that are more effective to the agricultural/rural areas, type of farmers and activities to be financed, players in the value chain and how to relate with them, biggest risks associated with different agricultural zones and the best strategy to offer affordable, sustainable and competitive services in rural areas.

In Kenya, agriculture plays a vital role in economic development; there is evidence that 75% of Kenyan people rely on this sector, and that it contributes about 35% of the GDP and accounts for 40% of the export revenues (Leliveld et al., 2013). It creates the industrial development structure by; being chief source of raw materials for industries, such as timber used in the paper manufacturing industry and also skin and hides in the leather tanning industry. It brings in foreign revenue through the export process of the products from this sector. It also generates an opportunity for work to the populace through farming, business and research activities thus improving the standard of living of people. Due to the key role the sector plays in the economy, the Kenyan government has invested heavily and continued improving the sector, hence making it among the sector in the economic pillar of Vision 2030.

During independence years, the GoK established Agricultural Finance Corporation by way of being a part of the Land and Agricultural Bank. Later in 1969, AFC was a full – fledged financial institution under the AFC Act, Cap 323 of the laws of Kenya with wider mandate of providing financial services mainly to the agricultural division in Kenya. For government owned agricultural lending institutions sometimes these strategies were limited to the mandate or ACT under which the institution was established hence not necessarily on the prevailing market conditions and level of competition (Abukutsa-Onyango, 2007). They face the challenges of strict budget lines, providing best quality low cost products/services, remain competitive in the market and ensure sustainable growth. This therefore puts the government owned lending institutions in a fix position while venturing into agricultural lending since cost of lending is based on the market forces and is one of the vital areas for competition since businesses decide on where to place their business or shift lending institutions. When the lending institution overprice their products they lose business and they are going outside their mandate of providing affordable credit facilities to the agricultural sector, while if they underprice they will not be in a position to endure their processes.

There are three significant factors which guide how institutions price lending/cost of loans (Akanji, 2010): these include Cost of funds- before lending money to businesses, banks must get funds from depositors by giving them interest. They too must aim at holding deposits for related periods of time same as the term of loans financed. Because of this reason many organizations must pay higher interest rates for deposits, however government owned lending institutions are not deposit taking and they mainly depend on the exchequer, internal generated income or from development partners.

Price of capital and risk - For each loan an organization makes, it needs to set capital aside to warrant that it remains solvent whether loan is repaid or not. To attract the confidence of shareholders and other stakeholders, most lending institutions world over are at the moment holding relatively increased levels of capital than in the past. There is a price to holding this capital and since banks have increased the amount set aside, this cost has gone up along with it (Bryant & Allen, 2009). The challenge of holding capital in the government owned lending institutions is that in the preceding fiscal year, the government will reduce its budget to the institution. The capital which a bank requires to hold mirrors the likelihood that borrowers will not be able to repay and the loss that the bank would experience. This assessment is a common practice in lending and credit management. If a borrower's likelihood of not paying increases or the value of the security goes down (for example if commercial property values goes down), the bank should hold more capital. The cost of that increased capital will be reflected in the price of the borrowing, yet interest rates of government owned institutions aren’t determined by market forces but are fixed as set by law with minimum leverage of adjusting subject to approval the board of directors/trustees and authorization by the parent ministry and ministry of treasury.

Risk-reflective costing contributes to higher-risk but still sustainable businesses to gain access finance while lower-risk and well-managed businesses gain the benefit of lower-cost funding. Pricing to risk is in businesses' interest: even more marginal businesses can still acquire access to finance. However, in lending by government owned institutions, to create fairness and equity to all its citizens most of the interests cut across irrespective of the risks in the business. Price label of administration - Meeting a business client, appraising an application for finance, creating a facility, providing the documentation, then monitoring and regulating that facility as well as offering regular information and reviewing facilities as necessary has a cost. While lending institutions may use credit and performance-scoring tools, most will also need some opinion to be given by a qualified relationship manager. Smaller facilities tend to have a comparatively higher administrative expense for every amount lent as compared to bigger facilities, and not all of that cost can be gained back through fees. So small facilities tend to bear greater margins, even though the risk is comparable with larger lending (Bryant & Allen, 2009). The challenge here is that most government interventions target the small-sector holders who have limited access to commercial bank services, while doing this the institutions end up incurring high cots which cannot be transferred to clients hence end up incurring high administrative costs.

There are other external factors that also affect strategic issues on growth of the government owned agricultural lending institutions, key among them in political interference. During default, when the institutions are trying to recover the loans through the legal means, most of the politicians intervene to stop or frustrate the efforts (King'ola, 2011).Frequent loan write offs by the government has also created a bad culture in the agricultural sector whereby farmers each year or electioneering period expect write offs.

It is therefore evident that the Government of Kenya had set up Agricultural Finance Corporation with a clear mandate to provide financial services to the agricultural sector. Agricultural Finance Corporation has evolved since inceptions through different strategic plans to position itself well in the market. Despite all this effort the growth of the institution has been hindered in one way or the other (Rutto, 2014). This study has therefore put emphasis on assessment of strategic issues affecting government owned agricultural lending institutions; with a focus on Agricultural finance Corporation. It strived to identify strategic issues affecting the growth of Agricultural Finance Corporation and recommended how well such can be well addressed to ensure beneficial growth strategies.

STATEMENT OF THE PROBLEM

There are a number of strategic issues which government owned institution grapple with regularly. To adjust to providing financial services to the agricultural sector which is a complex and challenging endeavor, AFC has struggled for it to understand the agricultural sector; features and financing needs of target clients (Rutto, 2014). They have also tried extremely hard to adjust their systems, human resources, and institutional culture to ensure that their growth strategies are realized. Despite adopting different growth strategies in re-engineering the agricultural lending sector, the government owned agricultural lending institutions still face serious challenges/shortfall or gaps in meeting their mandates of providing accessible, sustainable and affordable credit facilities while maintaining a high quality loan book and growing their client base in a sustainable manner. As part of their strategies these government owned agricultural lending institutions have moved from rational agricultural lending models whereby their core business was only to avail credit facilities to the sector to new and more robust strategies that incorporate all levels of the agricultural value chain (Laderman, Schmidt, & Zimmerman, 2007). Apart from traditional lending they have tried to offer technical expertise, adopt diverse collaterals e.g. crop hypothecations, micro-lending, creating awareness on business mindset and adopt best corporate management principles in running the institutions. Studies have been done to determine challenges faced by these institutions (Ruttoh, 2014) and determinants of lending to farmers by commercial banks (Langat, 2012), however none of the studies have co-related them to understand the strategic issues affecting government owned institution in attaining their growth strategies. Ruttoh, I. (2014) identified challenges faced by AFC as climatic changes, political influence, poor communication but doesn't assess to what extent does these challenges affect growth strategies of AFC. Mutegi, (2013), in a study on competitive approaches used by supermarkets operating within Nairobi, Kenya identified high cost of capital, demand variability, and market dynamics affect the competitive strategies of supermarkets. Most of the supermarkets are privately owned and hence their strategic issues are not necessarily similar to government owned institutions. This study keenly sought to assess corporate governance issues affecting growth strategies of government owned agricultural lending institutions in reference to AFC. The findings will help to provide an integrated approach to understanding and managing pieces and processes of these issues in the government owned agricultural sector and recommend measures of how these gaps could be handled to make the institutions more efficient and effective.

GENERAL OBJECTIVE

The general objective of this research was to assess the effect of corporate governance on growth of AFC.

REVIEW OF THEORETICAL LITERATURE

A theory is regarded as a scientifically suitable general principle or body of philosophies offered to explain why issues happen the way they do (phenomena). Theories offer a general clarification to an occurrence and that a researcher needs to be familiar with theories that are appropriate to an area of study (Ngumi, 2013). It is worth noting that a theoretical framework offers valuable guide to the researcher in determining what statistical variables to be measured. Therefore the theoretical literature supports the researcher to identify evidently the variables of the study. This means that it offers a general framework for data analysis, as well as helping in the selection of applicable research design (Ngumi, 2013). The current study was in itself anchored on the Agency theory, Resource Based theory, Value Chain theory and Contingency theory.

The Agency Theory

This theory explains the relationship between principals, such as shareholders, and agents (Mitnick, 2013). The Principal-Agent model was earlier applied to sharecropping, where the landowner was the Principal and the tenant farmer was the Agent. This helps in ensuring that the organization achieves its goal of being successful in the field it is operating from (Ologbo & Sofian, 2012). This theory tries to address mainly two specific problems. It confirms that the goals of the principal and agent are not in conflict (agency problem), and, that the principal and agent settle different tolerances for risk. The idea behind this model is that the principal is too busy to run the day to day business and, therefore, ends up delegating some of their responsibilities to somebody else and look for ways of rewarding them or sharing some incentives with them. Incentives were therefore used to refer to the link between rewards and efforts. This model concerns itself with not only managing the incentives of individuals but also managing the incentives of the organizational units. A CEO or Agent's contribution to the organization is the creation of wealth for the shareholders through appreciation of the organization's stock price (Jensen & Meckling, 1976). For the agent to be productive, he must take actions that increase shareholder's value by paying attention to their interests. This can be done by cutting down on production costs or by increasing sales (Jensen & Meckling, 1976). Once this is achieved, the shareholders have no choice but to offer incentives to the agents for the job well done. An organization is run to meet the pertinent marginal circumstances with in line with inputs and outputs, in so doing maximizing profits or present value (Jensen & Meckling, 1976).

The government of Kenya (principals) and AFC (agents), Board of Directors of Agricultural Finance Corporation (principals) and Management of Agricultural Finance Corporation (agents). Under AFC Act (Cap 323), the board members of the corporation shall be appointed by the Cabinet Secretary in charge of Agriculture, Livestock and fisheries for period of 3 years renewable once. While appointing the Board of Directors, the Cabinet Secretary will follow the corporate governance principles to ensure the board is properly constituted and also people of high academic qualifications, leadership skills and integrity become members. From the findings of this study it was established that corporate governance had a higher influence or effect in the growth of AFC thus a critical variable to be looked at.

Agricultural Finance Corporation in its endeavor to serve the agricultural sector countrywide, it has countrywide regional and branch network. AFC has six (6) regional offices distributed in the regions of; Mt.Kenya, Central Rift, North Rift, Eastern, Coast and Nyanza/Western. AFC has forty five (45) branches countrywide. These regional (agents) and branch offices (agents) undertake delegated duties and responsibilities on behalf of the head office (principal). AFC has partnered with other strategic partners like CoDF, NIB and KSB to access funds from these partners and thereon take advantage of its countrywide network to on lent the funds to their target clients. In this scenario AFC acts as an agent of the strategic partners i.e. CoDF, KSB and NIB (principals).

The Resource Based View (RBV) Theory

Resource based view states that for firm to achieve competitive advantage, which could contribute to its growth, it depends mainly on the application of a package of valuable tangible or intangible resources at the firm's disposal (Wernerfelt, 1984).This means that organizations should look inside the company to discover the sources of competitive advantage rather than looking at competitive environment for it. To fine-tune a short-run competitive benefit into a sustained one necessitates that these resources are diverse in nature and not perfectly mobile as confirmed by Peteraf, (1993). Successfully, this transforms into valuable resources that are neither seamlessly copied nor interchangeable without great effort (Barney, 1991). From the findings of the study it was noted that the organizational culture (Vision, values and practices) have a great impact on the growth of AFC. These helps AFC to have a competitive advantage, if the organization at any time ensures that its employees relate with vision and values of the organization and at any given time they own them then this will give them a competitive advantage and hence a positive growth on the organization.

This theory therefore suggests that it is much more practicable to exploit external opportunities using existing resources in a new way rather than trying to acquire new skills for each different opportunity. In resource based value model, resources are given the major role in helping companies to achieve higher organizational performance, leading to growth.The resource-based view argues that any organization which possesses certain key and unique resources has the potential to unlock competitive advantage. In order for an organization to gain from the human capital at its disposal, it has to invest in training the employees and retaining them to gain experience, judgement, and intelligence. From the study, organisational culture has an impact on the growth of AFC, therefore if it ensures it rewards its employees well and trains them well, from this theory they will not need to incur additional cost in hiring new employees rather than equipping the existing ones and use their skills as resource of exploiting external opportunities.

The resources could either be tangible or intangible and they may include; human capital, financial resources, physical resources and organizational resources which are at the organization's disposal while capabilities describe the organization's ability to manage people to gain competitive advantage (Makasi, Govender, & Tapfuma, 2014).Tangible assets are physical items; land, buildings, machinery, equipment and capital – all these assets are tangible. Physical resources can much more effortlessly be accepted in the market so they confer little advantage to the companies in the long run because rivals can soon acquire the identical assets. From the findings it was established that funding has a positive impact on the growth of AFC with a co-efficient of 0.512. Main source of funds/capital for AFC is from the exchequer and the funds are given at no interest rate, unlike in banks and commercial institutions whereby most of their capital is from deposits from shareholders who want interest from it or loans. AFC therefore has a competitive advantage thus if they well manage the funds, it will have positive growth on the organization.

Agricultural Finance Corporation has 45 branches countrywide and all branches are in the Corporation's buildings, they are tangible assets. AFC has rented some of the offices in the branches that they do not use. This therefore gives them an advantage in that they have covered almost all the areas of the country thus can easily reach clients. It receives its budget allocation from the exchequer that means that their cost of funds is zero unlike banks which need to mobilize funds from its shareholders or borrow at a fee. This gives AFC an advantage since their loans become cheaper and thus can attract more customers who are interested in obtaining affordable loans. Intangible possessions include all the property that has no physical existence but can still be possessed by the organization. Brand reputation, trademarks, intellectual property are all intangible assets. As opposed to physical possessions, brand name is developed over a long period of time and is something that other companies are not in a position to buy from the market. Intangible resources customarily stay inside a company and are the chief source of sustainable competitive advantage. AFC has been in the market since its inception in1969, and they have created a brand all over those years. It is so far the largest government owned agricultural lending institution that has been financing the agricultural sector. AFC scored an 'A' rating in the 2015 annual evaluations by the AADFI. The association carries out evaluation in the three sectors of good governance, financial and operations standards that conform to conventional global best practices. This rating bolsters the Corporation, as it embarks on the journey of transforming Agricultural Finance Corporation into a full-fledged Agro bank. This therefore means that AFC has a competitive advantage from its resources that they can use to strengthen their growth and outperform other financial players in agriculture.

The Value Chain Theory

This theory classifies each firm's activities into two broad categories; primary activities and support activities (Porter, 2008). Primary activities are activities that relate directly to the actual creation, movement and sale of the product or service to the firm's customers. The activities represent the key tasks a firm performs to produce and deliver a product or service to a customer. The sequences of activities through which raw materials are transformed into benefits enjoyed by customers are called primary activities. Support activities assist the primary functions. Support, or secondary, activities play roles in primary activities. For example, procurement supports operations with particular activities, but it also supports marketing and sales with other activities. From the findings of this study; corporate governance, organizational culture and funding have more effect on the growth of the organization. These variables improve on the final value of service and/or product a customer gets. Corporate governance ensures there's transparency and accountability hence a customer will get value on their money, it ensures that the customer also knows what's provided for them. When employees are well rewarded and trained it shows the culture of the organization and the employees will be more skillful and more innovative. When the employees are innovative they will strive to provide value added services and/or products to their clients.

The flows of funds to and among the various links within a value chain comprise what is known as value chain finance (Quirós Rodríguez, 2007). According to (Makasi et al., 2014) Value chain finance is any or all of the financial services, products and support services flowing to and/or through a value chain to cater for the needs and limitations of those involved in that chain, be it a need to access finance, secure sales, procure products, reduce risk and/or improve efficiency within the chain. The inclusive nature of value chain finance, therefore, makes it essential to analyze and fully understand the value chain in all aspects. AFC being the main government institution in agriculture lending, it's important to look at value chains of the agriculture product it finances so that they can meet their mandate well.

The Contingency Theory

This theory is based on the fact that organizations cannot be managed by one-size-fit-all approach but should work out unique managerial strategies depending on the particular condition or situation that they are facing (Donaldson, 2006). According to (Donaldson, 2006). The effective organizational structural design is where the structure fits the contingencies. The core elements of structural contingency theory are; environment, organizational structure, and organizational performance. Burns & Stalker, (1961) put forward the statement which indicated that "organic organizational structures are more productive in vibrant environments whereas mechanic structures are to be used in an solid environment". The main component of structural contingency theory is that organizational performance results from a fit between characteristics of the structural organization and environmental aspects (Donaldson, 2006). There is no "one best way" for organizational structure.

Even though contingency theory can be useful to quite a number of organizational features (Fiedler, 1978), structural contingency theory focuses on the study of organizational structure which is a key strategic issue in growth strategies of AFC. The interaction between reduction style and situation predicts the effectiveness of reduction behaviour. In other words, both types of reduction behaviour can be effective, but the situation in which the leader operates determines whether one type of behaviour will be more effective than the other. Fiedler further introduced the dichotomy 'task oriented' vs. 'relationship-oriented' to explain the different situations of reduction. The leader's personality and the environment or situations he/she operates from are important in effective strategies. It allows the leader to analyze a situation and be able to determine the variables that affect decision making.

The goal of an organization will greatly depend on the employee's ability to achieve it, the level of technology in the organization, the structure and the task at hand (Mutegi, 2013). The goal of most private organization is to make profits but goals of government owned institutions is to be sustainable and this can be achieved by a keen consideration of both internal and external contingencies. Internal contingencies involve the task to be achieved, whether it is structured or not, the kind of resources to be used and the reduction styles. The external contingencies include the political forces, technological effect, government regulations and the general public. All these contingencies have an effect on organizations growth strategies and this is why government owned agricultural lending institutions should come up with a formula that will work best for it given the situation at hand. From the analysis all the independent variables analysed have a significance levels of less than 0.05, which basically means they all to some extent have some effect of growth although to different extents as show by their different levels of co-efficient a shown in the inferential statistics section of this paper. This therefore means that AFC will apply contingency theory in coming up with different strategies of improving their growth since there's no fit it all strategy.

EMPIRICAL REVIEW

Governments institute a number of rules and regulations that guide business operations. Businesses will ordinarily change the way they function when government adjusts these rules and regulations. These economic policy and market regulations of the Government usually create an effect on the competitiveness (resource based view theory) and profitability of businesses and as a result giving a bearing to their (businesses') growth. Business owners must conform to regulations established by different of the day governments. Such regulations also apply to the government owned entities in every sector (McManners, 2014).AFC which operates as agent of the government(Agency Theory),must at all times ensure they abide with these regulations and also protect the interests of the principals (GoK).

Government policy will constantly be guided by the political culture of the moment. Any Policy made when a country is politically stable, will not be the same as that one formed in an unstable country. A stable political system can generate business-friendly decisions that encourage local businesses and entice foreign investors and this is a recipe for positive growth (Daft, 2012). Unbalanced systems create challenges that jeopardize the ability of government to keep law and order. This has a negative outcome on the business environment leading stunted growth in various sectors of the economy.

It is evident that Government policy is capable of swaying interest rates, an increase in which upsurges the cost of borrowing in the business community. Higher rates similarly contribute to reduced consumer spending. On the other hand, lower interest rates entice investment as businesses increase production. It is evident that the government is capable of swaying interest rates in the short run by printing more money, which could in the long run lead to inflation. More so businesses hardly flourish in the presence of a high level of inflation. Such circumstances contribute to negative growth.

Globally, a number of studies have been carried out from various angles to establish the connection which exists between corporate governance and the performance of organizations has revealed various results. A study by Adebayo, Ibrahim, Yusuf, & Omah, (2014) which examined the connection between corporate governance and the growth of organizations from various angles: better decision making, effective asset management, better competitive advantage, and progress in level of confidence, among others, revealed that the embracing good corporate governance practices improves transparency of company's operations, guarantees accountability and increases firm's profitability. It also aids to protect the interest of the shareholders by aligning their interest with that of the managers. The results show that generally corporate governance has positive impact on all the growth pointers of an organization.

Another study by Cheema & Din, (2013) confirmed that the factors such as board size, board and management proficiency, CEO tenure, size and freedom of audit committee, external and institutional ownership, dividend policy and annual general meeting, all have positive relationship with the growth of organizations. The annual reports and the financial statements of the corporations are the main means of communication between the company and the stakeholders.

Therefore the delicate role of the audit committee by ensuring that the financial statements show the true state of the company's performance cannot be over stressed. The audit committee must be well instituted to upsurge its independence and with the right size (Cheema & Din, 2013). Besides, the result is a sign that the companies are well positioned to aid the economic and development of the country. With good corporate governance record, the organizations would be able to produce more resources to create more employment openings, support businesses through prompt payment of claims, pay dividend to shareholders and create more tax income to government.

Kimosop (2011) did a study on the relationship between corporate governance and of insurance companies in Kenya. In his final thought he indicated that there is a significant relationship between board size, non-executive directorships, insider shareholding and board meeting frequency with both Return on Asset and Return on Equity. Makhokha (2014) did a study on the effect of corporate governance on growth of insurance companies in Kenya. In his conclusion, he indicates that corporate governance has mixed results on its influence on the growth of insurance companies in Kenya. Lishenga (2012) says that boards normally increases the frequency of their meetings following poor performance and as a consequence of such an increase, the growth of firms improves as captured by the increase in the firms' value. Frequent meetings allow for better communication between management and directors.

RESEARCH METHODOLOGY

Research Design

According to Naoum & Egbu, (2015), research design refers to the pattern, outline or plan that is adopted to obtain answers to research problems. This study therefore adopted a descriptive research design. Descriptive research design is suitable in describing the characteristics of a population or phenomenon being studied,(Gay, Mills, & Airasian, 2011).The method was chosen since it was discovered to be more precise and accurate as it involved description of events in a carefully planned way as noted by Babbie, (2004). Furthermore, (Borg & Gall, 2007) note that descriptive research produced statistical information about aspects of a study that interest policy makers. Descriptive research design determines and reports the way things are. It portrays the facts as it really is; if another researcher goes to the field now, he or she will find the situation as described. Descriptive research design allows for collection of data on many variables at a time. The approach is suitable for it allows for generalization of findings in the study, (Cooper & Schnidler, 2008). The design was preferred by the researcher because of its reliability and accuracy of varied accounts of a group or individual characteristics in data collection. Further advantage of descriptive research design considered was that allowed selected group or individuals to be asked and answer questions in the questionnaires hence deeper understanding is achieved which can be used for generalization. There are two government owned agricultural owned lending institutions; AFC and CoDF, the researcher opted to concentrate on AFC. This is because CoDF was established in 2014 under the Crops ACT 2013, and they are currently setting the organizational structures since the board of trustees was appointed in December 2016 (Kenya Gazette Notice). This design will therefore focus on a subset of the population, which is, management and support staff of AFC at headquarters, regional and some branch offices at a particular point in time. The research was conducted through a case study of AFC as the government owned agricultural lending institution. The data was collected with the help of questionnaires made up of both open and close ended questions. This gave the respondents a chance to give both direct responses as well as expressing themselves anonymously and exhaustively while addressing the open ended questions. Stratified random sampling was also used because the group was heterogeneous and the researcher wanted every member of the target population to have an equal opportunity for participating in the study. This therefore offered an equal opportunity for every member of the target population.

Study Population

A population represents entire group of entities, events or objects with common characteristics that follow particular specification. The population is the full set of cases from which a sample is taken (Mugenda & Mugenda, 2003). In this research the researcher picked and used a population of 218 employees who were involved in the strategic formulation in AFC at headquarters, regional and selected branch offices in Kenya. All the six departments in the organization therefore formed the sampling frame; human resource and administration, operations, information technology, finance, audit, and legal because organizational strategies affect every department. A target population of 30% of the whole population which was settled on enabled the researcher to get precise valuable information from all cadres such as top management, middle management as well as support staff of the organization.

Sampling Design, Procedure and Technique

Sampling is basically the procedure of choosing a representative number of respondents for a given study in such a manner that the individual picked represents the large group from which they are selected (Mugenda & Mugenda, 2003). A sample denotes a smaller group / sub-group acquired from the accessible population (Mugenda & Mugenda, 2003). This subgroup is usually cautiously picked to represent the whole population with the related characteristics. Sampling is important because most times it is not possible to access the whole population thus the findings from the sample are used to generalise the results as representing the whole population. Stratified random sampling was used for the reason that the group was heterogeneous and that the researcher needed every member of the target population to have an equal opportunity of participating in the study since the population was not uniformly distributed across all the strata. Cooper and Schindler (2003) argue that a sample size of between 10-30% of the target population can be adequate for generalization of the research findings to the study provided the sample is scientifically determined.

Sample Size

For the purpose of this study, a sample size proportion of 30% of target management and support staffs of AFC were used to determine the number of employees to be accessed. The employees were clustered according to the category of management level then a sample of 30% from every cluster was selected to form the target population of the employees. Sample sizes of (30%) of AFC staff were selected forming a total of 65 target employees. From the target employees, the respondents targeted are the people in the strategic formulation processes thus a sample size of 65 respondents.

Data Collection and Procedure

The study adopted the use of both primary and secondary data. Primary data required for the study was collected using interview guides and questionnaires. Saunders, Lewis, & Thornhill, (2015) who are authorities in research argue that questionnaires are the best for collecting factual data and that they enable timely collection of data over a large area. The questionnaire used for this study used both open and closed ended questions. These were administered as scheduled to collect both quantitative as well as qualitative data. Quantitative data is used to describe a type of information that can be counted or expressed numerically (Shields et al, 2013). Questionnaires are commonly used to obtain important information about the study population and they best suit this study due to the fact that the researcher can get responses immediately based on the objectives of the research, and to address the research questions (Kothari, 2004). The questionnaires were found to be ideal as they were not only cheap (less expensive) but also allowed the respondents to complete them at their own convenience. This enabled the researcher to collect exhaustive data. The data collection procedure adopted was ‘drop-and-pick-later’ method for the questionnaire. This was considered convenient and time saving, both to the researcher as well as the respondents. The researcher was assisted by two assistants and registered mail services that distribute the questionnaires to the offices and then collected them later after they are answered. The approach was suitable as it allowed the respondent's time to answer the questions and to seek clarification where necessary. The questionnaires were made up of both open and close ended questions. Open ended questions helped in enabling the respondents to give more adequate presentation of answers to questions while close ended questions at the same time helped to keep the questionnaire at a reasonable length in order to encourage responses and validity in terms of representation. This made it possible for the researcher to collect both precise as well us exhaustive data which was needed for the study.

Data Analysis Method

Data analysis denotes to examining what has been collected in a study and making inferences, (Kombo & Tromp, 2006).When the questionnaires were received from the respondents, they were finally checked to ensure that they were duly filled in. Complete questionnaires were then coded and arranged serially to make it extremely easy to be analyzed. The data collected was therefore coded and checked for errors and omissions before analysis as advised by Cooper & Schindler, (2014). Responses from the questionnaires were then tabulated, coded and processed by use of a computer Statistical Package for Social Science (SPSS) program version 24.0. Multiple regression analysis (standard) and descriptive statistics (Means and standard deviation) were then used to analyse the data. In cases where there may be multiple regressions, the statistical significance of variations between the specific components of independent variable and the dependent variable were of great importance to the researcher as this helped in guiding the conclusions and recommendations. Descriptive data was then presented using tables, percentages and pie-charts. Tables were considered to be helpful to a user who would look up for specific numbers while pie-charts would bridge the gap in helping in explaining the quantitative messages contained in the data. This presentation was hence in line with research objectives, research questions, and the literature review. The multiple regression function (mathematical model)/inferential statistic for the study was:

$$Y = \beta_0 + \beta_1 X_1 + \varepsilon$$

Where: Y = Growth of AFC; β_0 = Constant Term; β_1 = Beta Co-efficient of the independent variable; X_1= corporate governance; ε = Error term

The study will be analyzed both quantitative and qualitatively, by SPSS tool. The data will be presented using tables, pie charts and graphs.

RESEARCH RESULTS

The study established that through corporate governance, improved growth has been realized at Agricultural Finance Corporation. It also established that there is some level of internal controls and systems to ensure a sustainable growth of AFC. More so, there's commitment to corporate governance principles on all levels of AFC

This was established from the relatively higher number of the respondents, about 40% who indicated that the leadership structure and style has an influence on the growth of AFC.The study further established that the leadership structure and style also influenced heavily the growth of Agricultural Finance Corporation. This was established from the relatively higher number of the respondents, about 40% who indicated that the leadership structure and style has an influence on the growth of AFC.

According to the findings the value of adjusted R squared was 0.543, which was a clear confirmation of a variation of 54.3% growth of the organization based on the effects of corporate governance. This is a clear indication that 54.3% changes in organizational growth could be accounted for in improved governance. The findings indicated that there was a positive relationship between governance and organizational growth as shown by R value of 0.633. Further still, the analysis of variance (ANOVA) confirmed that the effect of governance on growth of organization is statistically significant as indicated by the low P value of .028 which is lower than 0.05 and a high F value of 2.424. The findings clearly confirmed a positive effect on the growth of organizations.

Further still, the analysis of variance (ANOVA) confirmed that the effect of governance on growth of organization is statistically significant as indicated by the low P value of .028 which is lower than 0.05 and a high F value of 5.759. The findings clearly confirmed a positive effect on the growth of organizations. Therefore, from these findings:

$$Y = 1.108 + 0.306X \text{ where } X \text{ is Corporate governance}$$

CONCLUSIONS

The findings of the study confirmed that on the issues relating to corporate governance on growth of organization, quite a majority of the respondents indicated that they were conscious of statements relating to corporate governance. A number of the respondents confirmed that through corporate governance, improved growth has been achieved at Agricultural Finance Corporation.

RECOMMENDATIONS

1. There needs to be prompt disbursement of funds from the government to Agricultural Finance Corporation enable the organization to be effective in addressing a number of issues, thereby contributing to its growth. Communication lines also need to be open so that the employees remain aware of any developments within the organization. This could also help in monitoring irregularities which could arise.
2. In order to realize good organizational growth, it is important to include all workers in implemented changes. This is because, when an organization shares its ideas and goals with workers, the workers get a sense of rights and loyalty to the organization, as well as feel included in something important that is larger than their respective job descriptions as stressed by Todaro & Smith, (2012). AFC should embrace this measure because the findings indicated that some employs appeared to be left out.

3. There is need to observe the economic policy of the Government together with market regulations since they have an effect on the competitiveness (resource based view theory) and profitability of businesses and as a result giving a bearing to their (businesses') growth. Business owners must conform to regulations established by different of the day governments. Such regulations also apply to the government owned entities such as AFC.
4. There is need to observe leadership structure and style because this has an influence on the growth of organizations as confirmed by the respondents about Agricultural Finance Corporation. Gender balance also can be considered so that more female also are brought on board. This is for the reason that from the respondents who participated in the study, there were more males than female.

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