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*Financial Management for Organic Agribusiness of SMEs  
in ChiangMai, Thailand*

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# **Financial Management for Organic Agribusiness of SMEs in ChiangMai, Thailand**

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## **Abstract**

This paper examines financial management in financial planning, financing decision, and investment management of small and medium enterprises (SMEs) in Thai organic agribusiness. The objectives of this paper are to seek the relationships among financial planning, financing decision, investment decision and financial management of organic agribusiness SMEs. The primary data is collected using a questionnaire. The populations are 68 samples of organic agribusiness SMEs in ChiangMai, Thailand. A Multiple regression is used to find out the relationship between dependent and Independent variables. Dependent variable is financial management and independent variables are financial planning, financing decision, and investment management financing. The results indicated that financing decision is negative significant with financial management. Investment decision is positive significant with financial management, and the results shows no relationships between financial planning and financial management. The last, the authors present efficiencies of financial management by solving financial problems by reducing financing risk, increasing working capital, managing capital budgeting, and learning more about financial management in order to reflect good performance and the value of SMEs in organic agribusiness.

**Keywords:** Financial Management, Organic Agribusiness, Financial Decision, Investment Decision, Financial Planning

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## **1. Introduction**

The incomes of Thailand come from agricultural exporting, and most of populations are doing agricultures also such as rice, fruit, and meat which are exporting to other country in the world.(Thai organic trade association, 2011). Efficient agricultural markets can be a support to developing organic agribusiness by Small and Medium Enterprises (SMEs) which are distribution products to customers. Moreover, SMEs can drive forces of economic growth in any country especially in developing country. Thailand is the one which needs to create more new organic agricultural SMEs. In addition, SMEs for organic agribusiness should establish higher performance in their organization by continue to make more income and profit. Therefore, organic agribusiness SMEs should have to develop more about financial management systems, and owners or financial managers have to make decisions about financial planning, financing decisions, and investing decision in order to match source of fund and use of fund create, invest current assets and fix assets, and access external and internal of funds in their organic agribusiness. To make higher financial performances in Organic agribusiness SMEs, owners or financial managers should have learn more financial planning, financing decision, and investment decision, and also the owners and financial managers can solve financial problems such as insufficient working capital, lack of raw material or inventory, fund raising problems, and investing assets problems. Moreover, Ang (1991) stated that financial management problems depended on size of business, so owners of SMEs had to make financial decision cautiously. Therefore, this paper analyzes the relationships between financial planning and financial management, the relationships between financial decision and financial management, and the relationships between investment decision and financial management in order to solve the financial problems of financial manage such as reducing the financing risks, lack of working capital, lack of doing capital budgeting, and learning more about financial management for SMEs of organic agribusiness..

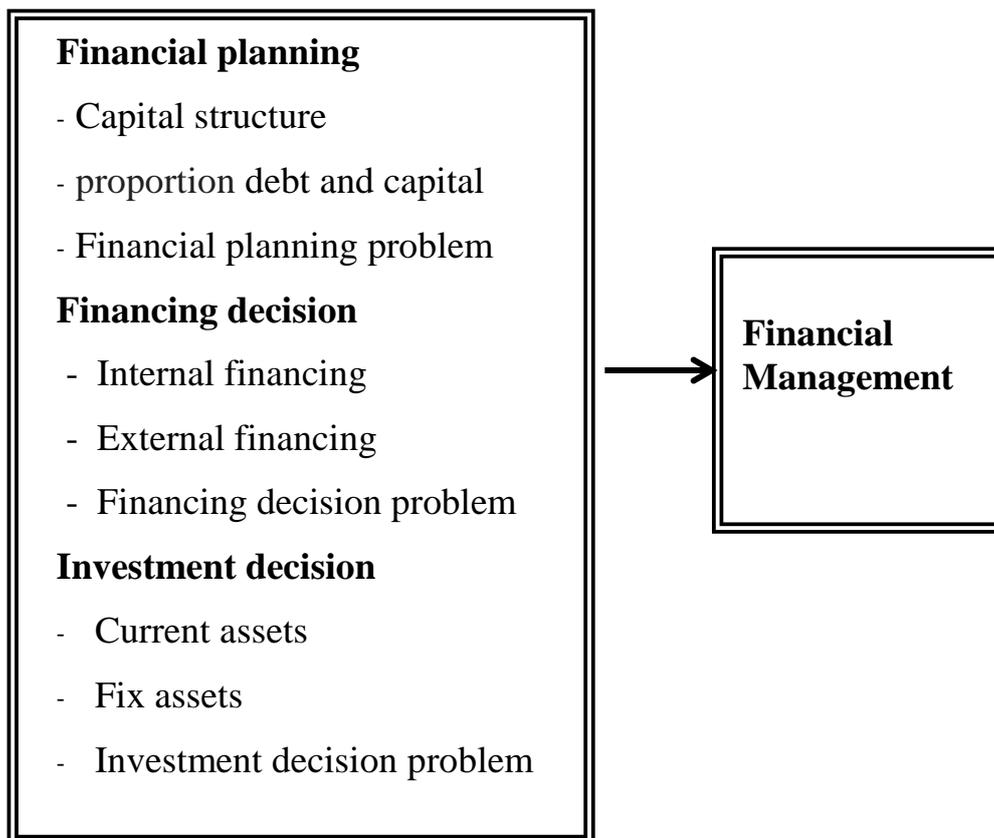
## **2. Literature Review**

Rigby & Caaceres (2001) reviewed organic agriculture about meaning, developing, standard, regulation, and scale of productions. Ilias (2010) mentioned about financial management which had to make decision about 1) investment decision which showed the total assets of firms, 2) financing decision which included sources of fund form borrowing and capital, and 3) assets management decision which must be managed both current assets and fix assets to increase return on assets efficiently and decrease liquidity risk. Gitman (2003) studied a firm do financing by using capital structure which was related to debt and equity.

The theory of capital structure and financing decision were not related to the value of the firm (Modigliani and Miller, 1958). Caneghem & Campenhout (2010) found that the high quality of information could have more external capital, so the firms would have low cost of liabilities, however, the low quality of information could not external capital, so the firms would have the high cost of liabilities which also made more risky. They found that the positive relationship between leverages and asset structures, and the negative relationship between age of firm and profitability. Romano, Tanewski, & Smyrnios (2001) indicated that financing decisions were depend on experience in capital structure of owners, debt to equity ratios, term of liabilities, sources of funding, understanding and attitudes of risk. Moreover, they found the negative relationship between debt and family loans and capital and retained earnings. Frelinghaus, Mostert & Firer (2005) showed that the main sources of financing were debts or loans for SMEs.

Gill, Biger, & Mathur (2010) found that the cash conversion cycle was significant related to profitability of the firm. Fatoki & Asah (2011) investigated that owner characteristics impacted on external financing for SMEs in South Africa, and also commended that owners should prepare collateral for financing and develop more management knowledge by attending seminars and training programs. Ang (1991) stated that financial management problems depended on size of business, so owners of SMEs had to make financial decision cautiously. And also the characteristics of small businesses were affected to financial management. Smit & Watkins (2012) explained about obstruction of SMEs owner was inadequate risk management in the South African.

### 3. Conceptual framework



**Figure 1 Conceptual framework**

### 4. Research Methodology

This paper was empirical study focused on organic agribusiness SMEs in ChiangMai Thailand. The study was qualitative designed research using multiple regressions. Data was collected by questionnaire which comprised two parts, the first part was the open questions, and the second part was the close questions. The study focused on organic agribusiness SMEs which had the name list and telephone number and e-mail address, so the authors contracted SMEs in organic agribusiness by telephones and Emails. The population of organic agribusiness SMEs was 86 samples who are owners or financial staffs. This study used multiple regressions to find the relationship between financial planning, financial decision, investment decision and financial management by using the function as follows:

$$y = a + bx$$

a = the slop of the line

b = the intercept

where

y = Financial management

x = Financial planning, Financial decision,  
and Investment decision

## 5. Results

The results showed the relationships between financial planning, financial decision, investment decision, and financial management for SMEs in organic agribusiness on table 1. The results indicated significant variables of financing decision and investment decision but not significant variable of financial planning on table 2.

**Table 1 : The relationships between financial planning, financial decision, investment decision, and financial management**

Model	R	R <sup>2</sup>	Adjusted R <sup>2</sup>	Std. Error of the Estimate	Change Statistics	
					R <sup>2</sup> Change	F Change
1	.846	.716	.688	.405	.716	25.664

Table 1 was presented the relationships between financial planning, financial decision, investment decision, and financial management. There were three independent variables which were financial planning, financing decision, and investment decision, while financial management was taken as a dependent variable. The results showed the correlation coefficient R was 0.846, R<sup>2</sup> was 0.716, and adjusted R<sup>2</sup> was 0.688. The result for R<sup>2</sup> meant that 71.6 percent of the variation in financial management could be explained by the variability in financial planning, financing decision, and investment decision.

**Table 2 : The results of relationships between financial planning, financial decision, investment decision, and financial management**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
Constant	.085	.409		.208	.836
Financial Planning	.254	.130	.233	1.948	.056
Financing Decision	-.283	.121	-.288	-2.332	.023
Investment Decision	.835	.112	.798	7.446	.000

The results explained the relationships between financial planning, financial decision, investment decision, and financial management by using multiple regression analysis. The dependent variable was financial management, and independent variables were independent variables were financial planning, financial decision, and investment decision. The independent variables compositions were: (1) Financial planning were capital structure, proportion debt and capital, and financial planning problem. (2) Financing decisions were internal financing, external financing, and financing decision problem. (3) Investment decisions were investing in current assets, fix assets and investment decision problem. The results on table 2 indicated significances relationships that were the negative relationships between financing decision and financial management, and the positive relationships between investment decision and financial management, but the result was not significance which indicated no relationships between financial planning and financial management. In addition, the regression model was applied of the variable at individual and collective levels as shown on Table 2. The regression equation of the analysis was as follows:

$$Y = a + b_1(x_1) + b_2(x_2) + b_3(x_3)$$

$Y$  = Financial management  
 $X_1$  = Financial planning  
 $X_2$  = Financing decisions  
 $X_3$  = Investment decision

The regression equations of the analysis were:

$$Y = 0.831 + 0.254X_1 - 0.283X_2 + 0.835X_3$$

The results indicated the significance of the variables which were financing decisions and investment decision as shown on Table 2. Therefore, the regression equations of the analysis should be:

$$Y = 0.831 - 0.283X_2 + 0.835X_3$$

The intercept of 0.831 meant the average value of the dependent value (financial management) given that there was no change in any of the independent variables (financing decisions and investment decision). From the regression financing decision was negative significant with the dependent variable that meant a 1 unit decrease in financing decisions would affect to a 0.283 increase in financial management. And investment decision was positive significant with the dependent variable, this means that a 1 unit increase in investment decisions would affect to a 0.835 increase in financial management.

## 6. Discussion & Conclusion

The results explained that the relationship between financial planning, financial decision, investment decision, and financial management which the author agreed with Ilias (2010) mentioned about financial management which had to make decision about 1) investment decision which showed the total assets of firms, 2) financing decision which included sources of fund form borrowing and capital, and 3) assets management decision which must be managed both current assets and fix assets to increase return on assets efficiently and decrease liquidity risk. The independent variables compositions were: (1) financial planning were capital structure, proportion debt and capital, and financial planning problem which the authors agreed with Gitman (2003) studied a firm do financing by using capital structure which was related to debt and equity. (2) Financing decisions were internal financing, external financing, and financing decision problem which had the same concept as Romano, Tanewski, & Smyrnios (2001) indicated that financing decisions were depend on experience in capital structure of owners, debt to equity ratios, term of liabilities, sources of funding, understanding and attitudes of risk, and also author agreed with Frelinghaus, Mostert & Firer (2005) indicated that the main sources of financing were debts or loans for SMEs.(3) Investment decisions were investing in current assets, fix assets and investment decision problem. For the financial problems, the authors agreed with Ang (1991) stated that financial management problems depended on size of business, so owners of SMEs had to make financial decision cautiously. And also the characteristics of small businesses were affected to financial management.

The first result indicated significances relationships that were the negative relationships between financing decision and financial management which the authors agreed with Romano, Tanewski, & Smyrnios (2001) found that the negative relationship between debt and family loans and capital and retained earnings. The second result showed the positive relationships between investment decision and financial management, authors agreed with Gill, Biger, & Mathur

(2010) found that the cash conversion cycle was significant related to profitability of the firm. However, authors disagreed with Modigliani and Miller (1958) mentioned that capital structure and financing decision were not related to the value of the firm. The last result found no significant relationship between financial planning and financial management, because organic agricultural SMEs did not play attention on financial planning which caused the financial problem. The authors agreed with Fatoki & Asah (2011) commended that owners should prepare collateral for financing and develop more management knowledge by attending seminars and training programs, and agreed with Smit & Watkins (2012) explained about obstruction of SMEs owner was inadequate risk management. Thus, the finding of this paper suggested that making efficiencies of financial management by solving financial problems such as reducing financing risk, increasing working capital, managing capital budgeting, and learning more about financial management in order to create more high performance for agricultural business SMEs.

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