

Policy Incentives and the Factors Affecting the Growth of Contract Poultry Farming in Kenya: An Empirical Analysis

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Abstract Kenya's poultry sector contributes materially to agricultural output and food security, yet its registered firms have struggled to grow, held back by costly feed, import competition, disease risk and loose links between processors and the producers who supply them. Contract farming, a standing agreement under which an integrating firm provides inputs, technical support and a guaranteed market while a producer commits to agreed volumes and standards, is widely proposed as a remedy, but the factors that shape the growth of poultry businesses in Kenya have attracted little quantitative study. This study treats contract farming as the contractual, most structured form of value-chain networking and asks whether such networking is among the factors affecting business growth in Kenya, drawing on the nineteen registered firms of Nairobi City County. Anchored on the Upper Echelon Theory, Strategic Leadership Theory and the Resource-Based View, and adopting a descriptive and explanatory cross-sectional survey design, it draws on a proportionate stratified random sample of 209 top echelon and business unit managers, 200 of whom responded, and measures networking through communication, negotiation, shared resources and trust. The firms engaged in networking at a high level ($M=3.98$; $SD=1.007$), and multiple regression placed networking as the strongest leadership-driven contributor to firm performance ($\beta=0.282$; $p<0.05$) within a model explaining 72.5% of the variation in performance (Adjusted $R^2=.725$). The correlational evidence pointed the same way ($r=.665$; $p<0.01$), and managers' own accounts described growth flowing from supply-chain coordination, negotiated agreements and trusted partnerships with suppliers, research institutions and government bodies, precisely the relationships contract farming formalizes. The study concludes that coordinated, contract-based relationships are among the genuine drivers of poultry business growth, and it advances policy measures, a supportive contractual and dispute-resolution framework, incentives for integrator-producer schemes, and multi-stakeholder platforms linking government, the Food and Agriculture Organization and firms, to help the sector convert coordination into sustained expansion.

Keywords: contract farming, value-chain networking, vertical coordination, poultry business growth, strategic leadership, agribusiness policy, Kenya

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1. Introduction

Poultry is among the more dynamic segments of Kenyan agriculture, prized for affordable protein and for the livelihoods it sustains, and demand for its products keeps climbing as population and incomes rise [1,2]. Supply, however, has not kept pace. Domestic meat output has repeatedly fallen short of the market, opening the door to imports from Brazil, the United States and the region, while feed, which swallows more than seventy percent of production cost, keeps margins thin and expansion hard [1,3]. Registered firms watched output contract in successive years, and production edged up by only a fraction in 2024 [4,5]. What would let these businesses grow, rather than merely hold on, is therefore a pressing

question for the sector and for the policymakers who lean on it for food security.

One answer that recurs in agricultural policy is contract farming. Under such an arrangement an integrating firm, typically one that hatches chicks, mills feed or processes birds, enters a standing agreement with producers: it supplies day-old chicks, feed, veterinary support and a guaranteed offtake, and the producer commits to agreed volumes, timelines and quality. The arrangement formalizes relationships that already thread through the poultry value chain, which links primary producers, feed manufacturers, equipment suppliers, veterinary services, processors and distributors [6,7]. Contract farming turns those loose links into binding, resource-sharing partnerships, and it is on that reading, contract farming as the most structured expression of value-chain networking, that this study weighs the factors bearing on growth.

Whether coordinated relationships of this kind truly lift business performance is an empirical matter, and the Kenyan poultry evidence has been thin. Studies of business networks and firm outcomes exist, but they cluster in SMEs, handicrafts and rural enterprises across Asia and Europe, seldom in agribusiness value chains of the sort poultry represents [8,9,10,11]. This study closes that gap. Surveying the managers who run the registered poultry firms of Nairobi City County, it measures networking, the communication, negotiation, resource sharing and trust that contract farming institutionalizes, and tests its effect on firm performance, read here as business growth. The aim is twofold: to establish whether coordinated relationships are among the factors affecting growth in this sector, and to distill the policy steps that would let contract farming deliver that growth at scale.

2. Literature Review

2.1. Contract Farming in the Poultry Value Chain

The poultry value chain is a sequence of specialized actors, primary producers, feed manufacturers, equipment suppliers, veterinary services, processing plants and distributors, whose combined effort turns inputs into products on retail and food-service shelves [6,12]. In Kenya the registered firms fall into three groups that mirror the chain: integrators that run the whole process from hatchery through feed mill to slaughterhouse; specialists that hatch and sell day-old chicks; and dedicated feed millers. Contract farming is the institutional device that binds these firms to the many dispersed producers who rear the birds. An integrator holding chicks, feed and processing capacity contracts with producers who supply grow-out space and labor, trading inputs, technical guidance and a guaranteed market for reliable volumes and consistent standards. For the producer it lowers price and market risk; for the integrator it secures supply and quality; for both it replaces an arm's-length transaction with a coordinated relationship. Agribusiness scholarship treats such vertical coordination as a route to efficiency, quality assurance and market access, especially where markets are volatile and producers are small [6,7].

2.2. Theoretical Anchorage

Three theories explain why coordinated, contract-based relationships should support growth, and one locates the behavior in management. The Upper Echelon Theory holds that a firm's trajectory mirrors the choices of its top managers, whose experiences and cognitive frames shape which partners they seek, whom they trust and how they negotiate [13,14]. Strategic Leadership Theory specifies the behavior: senior managers cultivate external relationships, open lines of communication, build trust and organize resource sharing, aligning partners with the firm's objectives [15,16]. Mintzberg [17] and Katz [18] sharpen the account, casting networking not as socializing but as a strategic instrument through which managers mobilize resources and information; effective managers,

Mintzberg observed, spend much of their time tending a web of relationships within and beyond the firm. The Resource-Based View then explains the payoff: a web of trusted, contractually secured partners is a valuable, socially complex and hard-to-imitate resource rivals cannot quickly assemble [19,20,21]. Taken together, the theories cast contract farming as a managerially driven, relationship-based resource whose deployment should register in firm growth.

2.3. Networking, Vertical Coordination and Business Growth

Empirical work broadly bears this out. Networking structures have been tied to sustainable competitive performance among SMEs, to the viability of small rural businesses, and to innovative performance in strategic networks, at times reinforced by institutional support [8,9,11,22]. Kazungu [10] reports that network linkages raise the performance of exporting enterprises, and Korir and Kilika [23] find comparable effects in Kenyan horticulture. What this body of work lacks is a test in the poultry value chain, where the coordination at issue, integrator-producer contracting, is central rather than incidental. The present study fills that space by measuring networking through its four working elements, communication, negotiation, shared resources and trust, the very elements a contract-farming agreement is built to secure, and estimating its effect on the growth of poultry businesses. The study therefore proposed:

H1: Value-chain networking has a significant effect on the growth of registered poultry businesses in Nairobi City County, Kenya.

3. Research Methodology

3.1. Context and Population

The study covered the nineteen poultry firms registered as value-chain participants in Nairobi City County, the hub of Kenya's commercial poultry production and home to most of the country's registered firms. These fall into three strata, integrated firms, hatcheries and feed manufacturers, and all nineteen were studied as a census, since the growth question is a firm-level one. Because contracting and networking decisions rest with managers, the units of observation were the 437 managers holding top echelon and business unit positions across the firms. The Yamane [24] formula placed the respondent target at 209, apportioned across the three strata by their managerial headcounts and drawn within each stratum at random.

3.2. Design and Instrumentation

The study adopted a descriptive and explanatory research design within a cross-sectional survey approach. The descriptive component gauged how much networking and growth the firms display, while the explanatory component tested the networking-growth relationship, both working within a positivist frame [25]. A structured questionnaire supplied the data. Networking items asked

how far each firm engaged in communication, negotiation, resource sharing and trust-building with its partners, the building blocks of a contract-farming relationship, while growth was captured through firm performance on financial measures, such as profitability and revenue, and market-based measures, such as customer retention, market share, market reach and brand recognition, all rated on five-point scales. Experts reviewed the instrument for content validity, factor analysis confirmed construct validity, and pilot testing returned Cronbach's alpha of 0.764 for networking and 0.761 for firm performance, both above the 0.7 mark, against an overall figure of 0.827. Table 1 sets out the measurement.

Table 1. Variable Measurement

Construct	Source	Indicators	Reliability
Value-chain networking	Mintzberg [17]; Katz [18]; Abbas et al. [22]	Communication; Negotiation; Shared resources; Trust	0.764
Business growth (firm performance)	Kori, Muathe & Maina [26]	Profitability; Revenue; Customer retention; Market share; Market reach; Brand recognition	0.761

Source: Research Data (2026)

With a research permit from the National Commission on Science, Technology and Innovation (NACOSTI) in hand and the firms' consent secured, questionnaires were administered online and by drop-off between September and November 2025, telephone and email reminders and site visits sustaining follow-up.

3.3. Data Analysis

Descriptive statistics summarized networking practice and business growth. Diagnostic checks then confirmed that the data met the assumptions of ordinary least squares regression, covering normality, linearity, multicollinearity, equal variance and sampling adequacy. Networking was next entered, alongside the other dimensions of strategic leadership, as a predictor of firm performance in a multiple regression run at a 95% confidence level, and its direct correlation with performance was examined. The decision rule rejected the null hypothesis wherever the networking coefficient reached significance at $p \leq 0.05$.

4. Research Findings

4.1. Response Rate

Two hundred of the 209 questionnaires came back complete, a response rate of 95.69 percent, comfortably above the level survey research ordinarily asks for [27]. Those who responded spanned managing directors together with finance, marketing, operations, ICT and strategy managers at senior and middle levels, so the findings draw on people who deal with partners and agreements directly.

4.2. Networking Practices among Poultry Firms

Table 2 records how far the firms apply the four elements of networking. The construct averaged 3.98 (SD = 1.007), firmly in the high band, and the items scoring highest, involvement in negotiations, resource sharing, a communicated method for managing risk and open communication, are exactly the mechanisms a contract-farming agreement puts in writing. The lowest-scoring items, relationships with government bodies and formal external-stakeholder involvement, mark the parts of the coordination web that remain least developed and, as the policy discussion notes, most open to strengthening.

Table 2. Descriptive Statistics on Value-Chain Networking

Networking Practice	Mean	Std. Deviation
Involvement in negotiations on poultry welfare	4.19	.984
Encouraging the sharing of resources	4.18	1.050
Well-communicated method for managing future risk	4.17	.984
Platforms for employees to connect and build relationships	4.08	1.012
Open communication among personnel	4.07	1.014
Leveraging networking opportunities	4.06	.989
Readiness to change by enhancing networking	4.06	1.014
Team-building to strengthen internal networks	3.98	.983
External stakeholder involvement	3.82	1.129
Collaboration with other organizations	3.77	.899
Implementing policies guiding poultry welfare	3.77	1.079
Good relationships with government and supporting bodies	3.62	.948
Aggregate	3.98	1.007

Source: Research Data (2026)

Managers' own accounts filled in the picture. They described industry conferences and trade fairs as venues for building ties with suppliers and customers, regular meetings with supply-chain partners that tightened coordination and quality control, and collaborations with research institutions and universities that kept firms abreast of new practice. Partnerships with local businesses and community outreach widened the network and lifted reputation. Read against the growth question, these are portraits of firms expanding through coordinated relationships, the informal counterpart of the contracts this study examines.

4.3. Networking and Business Growth

The regression confirmed the pattern. Entered with the other strategic leadership dimensions in a model that explained 72.5 percent of the variation in firm performance (Adjusted $R^2 = .725$; significant at $p = 0.000$),

networking carried the largest coefficient of the four ($\beta = 0.282$; $p < 0.05$), so a unit gain in networking delivered the biggest single lift in performance. The bivariate evidence agreed, networking correlating with performance at $r = .665$ ($p < 0.01$), among the strongest associations in the study. The null hypothesis was rejected. Coordinated, resource-sharing relationships, of which contract farming is the formal case, stand out among the leading factors driving growth in these firms. Table 3 summarizes the result.

Table 3. Value-Chain Networking and Business Growth

Statistic	Value
Pearson correlation, networking with performance	.665**
Model R	.857
Model R Square	.734
Adjusted R Square	.725
Model significance (F)	.000
Networking coefficient (β)	.282
Networking t-value	4.209
Networking significance (p)	.001
Decision on H1	Rejected null; effect significant

Source: Research Data (2026). ** Correlation significant at the 0.01 level (2-tailed).

5. Discussion

That networking is the strongest of the leadership-driven contributors to performance carries a plain message for a sector debating how to grow. In a value chain where feed, chicks, veterinary care and market access are the binding constraints, the firms that coordinate most closely with the partners supplying those things grow fastest. Contract farming is the mechanism that makes such coordination durable: it converts the communication, negotiation, resource sharing and trust measured here from ad hoc practice into standing obligation. The result aligns with evidence that network linkages lift enterprise performance elsewhere [10,11,22] and with Kenyan horticulture findings [23], while carrying them into poultry, where integrator-producer contracting is the natural form the coordination takes.

The mechanism deserves to be spelled out, because it is what turns a statistical association into a policy case. Each of the four networking elements maps onto a specific constraint that has held poultry businesses back. Communication and shared information shorten the lag between a disease outbreak or a price movement and the firm's response, a decisive advantage in a sector repeatedly disrupted by avian disease and feed-price shocks. Negotiation fixes prices and offtake in advance, insulating both integrator and producer from the volatility that makes bank credit costly and expansion risky. Resource sharing moves day-old chicks, feed, veterinary support and technical knowledge down the chain to producers who could not finance them alone, directly easing the feed-cost constraint that consumes more than seventy percent of production expense. Trust lowers the monitoring and enforcement costs that would otherwise

make such exchanges uneconomic. Contract farming bundles these four mechanisms into a single enforceable arrangement, which is why it should register more strongly in growth than any of the elements acting alone.

Read through the study's theoretical anchors, the finding is coherent rather than surprising. From the Resource-Based View, a stable web of contracted partners is precisely the kind of valuable, socially complex and hard-to-imitate resource that yields returns competitors cannot quickly copy; a rival can buy feed or chicks, but not a decade of trusted relationships. From the upper-echelon perspective, the firms that score highest are those whose managers have chosen to invest in these relationships, confirming that the growth is leadership-driven rather than incidental. This reading also explains why networking outperformed the other leadership dimensions in the model: direction-setting, competence-building and culture operate largely inside the firm, whereas networking reaches across the value chain to mobilize resources the firm does not itself own, which is exactly where a resource-constrained poultry business gains the most.

The evidence should nonetheless be read against the well-documented risks of contract farming, since a policy that promotes it must also guard against them. The literature records recurring hazards: power asymmetry, in which integrators dictate terms to weaker producers; side-selling and default, in which either party abandons the agreement when spot prices move; and the exclusion of the smallest producers, whom integrators screen out as too risky to contract. The high trust and negotiation scores observed here suggest the surveyed firms have managed these hazards well, but that success is not automatic, and it is the part of the arrangement most dependent on external safeguards. This is where the descriptive pattern becomes telling. The firms scored high on the private mechanics of coordination yet comparatively low on relationships with government bodies and formal external-stakeholder involvement. The engine of growth, in other words, is already running on the private-coordination side; what lags is the public and institutional scaffolding, contract enforcement, dispute resolution and smallholder protection, that keeps contract schemes fair and stable as they scale. That gap is not a weakness in the growth argument but a precise indication of where policy has the most to add.

6. Conclusion and Policy Implication

This study set out to establish whether coordinated, contract-based relationships are among the factors affecting the growth of poultry businesses in Kenya, and to draw out what policy should do about it. The evidence is affirmative: networking is the leading driver of firm performance among the registered poultry firms of Nairobi City County, and contract farming is the institutional form that renders such networking durable and scalable. Growth in this sector, the results suggest, is less a matter of firms acting alone than of firms coordinating well.

Four policy implications follow. First, a supportive legal and contractual framework, model contracts, clear

terms on inputs, pricing and offtake, and accessible dispute resolution, would lower the risk that deters producers and integrators from committing to formal schemes. Second, targeted incentives such as credit guarantees or tax relief for verified integrator-producer arrangements would reward the coordination the evidence shows to be productive. Third, the weak scores on government and external-stakeholder links point to a role for the state and the Food and Agriculture Organization in convening multi-stakeholder platforms that pool knowledge, technical support and market intelligence, an extension of the collaboration these firms already value. Fourth, because feed cost and disease risk are the constraints contract schemes most directly address, policy that ties contracting to input quality and biosecurity standards would compound its growth effect.

Three limitations qualify these conclusions. Networking was measured as a general construct rather than through contract-specific instruments, so future work should record contract-farming participation directly and compare contracted with non-contracted producers. The design was cross-sectional, and because growth is best judged over time, panel data tracking firms and their schemes across periods would measure the scale and direction of growth more firmly and turn the present descriptive account into a comparative one. Finally, because the study covered a single county and a single sector, its findings apply most directly to that setting; replication across other counties and agricultural value chains would show how widely the argument holds.

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