FINANCIAL PLANNING PRACTICES ANDFINANCIAL PERFORMANCE OF MANUFACTURING COMPANIES LISTED IN NAIROBI SECURITY EXCHANGE, KENYA

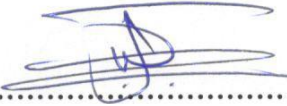**JOB NYAKUNDI**

A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION (FINANCE), SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI

NOVEMBER, 2021

DECLARATION

This research project is my original work and it has not been submitted for the award of a degree in any other university. No part of this research can be reproduced without my consent or that of the University of Nairobi.

Signature…….....................................Date....29/11/2021...

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This research project has been submitted for examination with my approval as the university supervisor

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DEDICATION

It is with genuine gratitude and warm regard that I dedicate this work to My dearest and loving wife Millicent Cherotich for her unwavering support, my children Jayden and Ria, your love for me has become an encouragement each day.

ACKNOWLEDGEMENT

ABSTRACT

The study sought to assess the influence of financial planning practices on the financial performance of manufacturing companies listed in the Nairobi security exchange, Kenya. The study's specific objectives will be to assess the influence of financial planning. The study was guided by pecking order theory and adopted a causal research design with a target population comprised of nine (9) manufacturing companies operational during the study period. Thus the study used a census-sampling technique where all the manufacturing companies listed in the Nairobi security exchange were used. The study used data extraction form to collect data from the published financial statement from the firms. Annual panel data for 2015 to 2019 sourced from the Nairobi Stock Exchange was applied. Data were analyzed using descriptive statistics and inferential statistics, where the research hypotheses were tested at a 95% significance level. The study findings could be important to the management of manufacturing firms, other stakeholders, the government, scholars, and academicians. The results established that debt management had a weak negative insignificant relationship with financial performance. At the same time, net worth and long-term investment had a significant positive relationship with financial performance. The study concluded that long-term investment and net worth had a significant positive effect on financial performance. The study recommended that the firms reduce debt financing to a specific celling to reduce the negative impact on financial performance. Debt finance should also be converted to equity, and firms should invest more in high returns with low-risk investments to improve financial performance.

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ABBREVIATIONS AND ACRONYMS

AGM   Annual General Meeting

MSMEs   Micro Small and Medium Enterprises

NACOSTI   National Commission for Science, Technology and Innovation

NSE   Nairobi Securities Exchange

PFM   Public Finance Management

SME   Small and Medium Enterprises

SPSS   Statistical Package for Social Sciences

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

An organizations success is grounded on sound and proper financial planning practices. The growth and sustainability of firms require that management embraces proper financial planning practices (FPP) for efficiency and effective service delivery and enhanced overall firm performance (Bulle, 2017). According to Banafa, Muturi and Ngugi (2015), organizations with sound financial planning practices increase a firm's market value and contribute to the development and growth of the entire industry. Further, these firms also contribute positively to the country's economic development. Determining the critical factors of manufacturing companies' financial performance has greatly raised importance in the literature of corporate monetary due to the importance of industry in the economy.

Different scholars have advanced several theories that are associated with financial planning practices. These theories help in explaining the impact of organizational performance and financial planning practices. The study will be underpinned on the pecking order theory developed by Donaldson (1961) and later altered by Stewart Myers and Nicolas Majluf in 1984. This theory is premised on the assumption that administrators follow a specific hierarchy considering the financing sources. The approach generally asserts that firm finances, cost of funding, and information asymmetry go hand in hand. Further, the theory indicates that since companies prefer

more on internal financing than external funding, they should carefully select the best type of debt considered an external debt. (Trigeorgis & Reuer, 2017).

The manufacturing sector carries out a crucial obligation in developing the country's economy and its growth. The manufacturing industry contributed close to about £ 6.8 trillion to the global economy by the end of the 2019 financial year (Suleiman 2019). In terms of job opportunities, the sector created roughly 14 million employees by the end of 2020 in the United States of America (USA). In Kenya, the sector employees about 7.4% of the workforce and contributed to about 7.5 per cent of economic GDP in 2019 (Kenya Association of Manufacturers, 2020).

1.1.2 Financial Planning Practices

Financial planning is considered a broad plan, objective and strategy of a company converted into financial terms (Nyamai, 2018). Matar and Eneizan (2018) assert that financial planning is a process that involves management in giving direction and allocation of financial resources to attain their strategic objectives and goals. The final result, which is obtained through financial planning, depends on the budget. Financial planning is a set of financial statements which forecast the implications of resources in making organizational decisions. For instance, an organization seeking to expand will develop financial planning practices to enhance its financial performance (Broyles, 2020). Financial planning is used to investigate the choice, speculation and evaluation of reserves prerequisite by selecting the best assets and Sreedhara (2020). According to Lakew and Rao (2017), financial planning practice is a framework adopted by organizational management in giving the direction of financial resources, which relates to the administrator picking the suitable alternative of monetary and venture choices.

Financial planning practices ensure efficient and effective financial and non-financial resources to accomplish organizational objectives (Rao, 2017). According to Folajinmi and Peter (2020), there are several financial planning practices that an organization can adopt, such as financial planning, budgeting, working capital and inventory planning. Serrasqueiro and Caetano (2015) regard working capital management and budgetary control as major financial planning practices. Financial management scholars affirm that prudent financial planning practices involve debt management, budgeting practices and long-term investments plans which aids in improving organizational financial performance (Nderitu & Koori, 2018).

1.1.2 Financial Performance

Financial performance indicates the organizational capacity to fully utilize assets realized from its main primary business to raise and generate profits. According to Tarigan, Listijabudhi, Elsye and Widjaja, (2019), financial performance is used to determine the firm's profit level over a given time. Various monetary indicators are used to evaluate the overall profitability of the financial performance of a firm. Investors and stakeholders examine an organization's financial records to assess the overall performance before making investment decisions (Curtis, Hanias, Kourtis & Kourtis, 2020).

Altmeppen, Holifield and Loon (2017) view financial performance as the capability and ability of a company's management to toughen the firm's economy at the current and future time as determined by parameters that include return on equity, return on asset, net bonus payout, among other parameters. Similarly, Alam, Raza and Akram (2018) observed that organizational monetary performance involves the combination of financial ratio analysis, margin rate's growth contrary to the set budget of other firms.

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According to Sandada (2014), financial performance indicators entail financial records involving return on investment, actual profit, inventory turnover, and capital employed. There are different methods used to measure a firm's financial performance. For instance, cash flow, total sales and operating revenue can draw financial statements (Soboleva, Matveev, Ilminskaya, Efimenko, Rezvyakova & Mazur, 2018). According to Boyd and Kannan (2018), financial performance is at the core of excelling strategy. Further, Fwamba (2017) asserts that financial planning practices must be effective and efficient for an organization's excellent monetary performance. According to Omondi and Muturi (2013), organizational monetary performance focuses on items that directly affect an organization's financial statement. Nyamita (2014) asserts that stakeholders and investors are usually interested in a firm's financial performance concerning profitability and sustainability.

In assessing the impact of financial planning practices of manufacturing companies recorded in the Nairobi Security Exchange, the research used return on assets to evaluate the financial performance of the selected factories.

1.1.3 Manufacturing Companies Listed in Nairobi Security Exchange, Kenya

Nairobi Security Exchange (NSE) listed manufacturing companies that engage in the physical, mechanical conversion of materials, components or substances into newer and innovative goods. The sector is one of the sectors identified to realize vision 2030 in Kenya (Audax, 2018). The industry has a vision of providing robust development, competitive and diversified manufacturing processes. In general, the sector's primary goal is to increase the contributions of Kenyan Gross Domestic Product by 10 per cent in a financial year.

Manufacturing companies in Kenya carries out a vital obligation in the expansion of the economy of Kenya. This is because the sector creates employment opportunities, wealth, resource utilization, and it plays a role in poverty reduction (KAM, 2020). The manufacturing industry experiences various challenges such as startup capital, difficulty accessing markets, and high operations costs. According to the Kenya Association of Manufactures report (2020), the manufacturing sector contributed approximately 7.5 % to Kenyan gross domestic product (GDP) in 2019. However, from the previous year, the contribution was a drop of 0.3%.

Manufacturing companies both listed in NSE and those not listed are experiencing difficulties in posing great challenges to their financial performance. According to Njoroge (2015), Kenyan manufacturing firms' capital productivity is low compared to global and regional productivity levels. For the last 8years, manufacturing companies in Kenya have closed businesses due to financial constraints while other firms have relocated to other countries. Gitau and Gathiaga (2017) established that some manufacturing firms had reduced their manufacturing capacity because of poor financial performance.

1.2 Research Problem

The projections and valuation of growth and development of the country are determined by increased economic impact from the manufacturing sector to the country's gross domestic product. However, there has been a problem in achieving this objective despite the government's prominence through developing various blueprints such as vision 2030. According to a report by NSE (2020), all public and private entities recently put under statutory receivership had problems with liquidity to the extent that they could not pay their bills when they were due. Many efforts to bring back the affected companies to

solvency have mainly concentrated on financial realignment practices. From an economic Survey (2020), KNBS indicated that the manufacturing sector's contribution to Kenya's economy is worrying. It has remained at 10% from 2009 to 2019, while the vision 2030 blueprint estimated it to be at 20%. According to Mukoma (2020), Eveready East Africa Ltd moved out of the country, citing financial challenges. Pan African Paper Mills Ltd wound up insolvent due to massive debts (Kang'aru, 2010). Finally, Mumias Sugar Company is facing financial distress due to unpaid bills. Previous studies examine the association between monetary management practices; however, that finding has not been consistent. A survey by Mutunga and Owino (2017) found an association that is vital and positive between the financial planning activities and the financial performance of the service sector. A study conducted by Saah (2015) established an insignificant association between financial performance and practices of financial planning. None of these researchers found a valuable and constant association between practices of financial performance and financial planning. Therefore, on this basis, the research sought to assess whether there is any relationship between financial planning practices and the performance of manufacturing firms in Kenya.

1.3 Objective of the Study

The research aim was to evaluate the influence of financial planning practices on the performance of manufacturing firms in Kenya.

1.4 Value of the Study

The findings of this research will be vital in filling any knowledge gap regarding the effect of financial planning practices on the financial performance of listed Nairobi

security exchange's manufacturing companies. The findings will help outline strategies required to improve financial planning practices at those manufacturing companies.

The outcome of this survey could serve as a tool for modifying corporate strategies and policies to enhance management efficiency. The findings will benefit the top management of the specific manufacturing firm and the government in making policies aimed to better the financial performance of the less performing firms.

Additionally, other stakeholders such as the public could benefit from the study findings as to all aspects that negatively impact the financial performance of the manufacturing companies will be addressed. More earnings from exports will increase if financial planning is enhanced, leading to economic growth and improved living standards for the stakeholders. Improved financial performance of the firms describes an economy with robust financial planning systems and governance.

Finally, the study could benefit other scholars interested in investigating practices of management of finance. The research will also act as an additional literature material of reference by finance practitioners.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The empirical and theoretical literature on public financial planning practices and financial performance are highlighted in this chapter. This chapter also examines theories that the study was anchored on. Finally, the section reviews literature from past studies on the study variables to identify a research gap bridged by the study and a conceptual framework detailing a diagrammatic relationship between the research variables.

2.2 Theoretical Review

This section examines how various theories explain the variables under study. The study will use pecking order theory to describe the impact of financial planning practices on the financial performance of manufacturing corporations recorded at the NSE.

2.2.1 Pecking Order Theory

The theory was initially advanced by Donaldson (1961) and later improved by Stewart Myers and Nicolas Majluf in 1984. The assumption postulates that administrators follow a specific hierarchy taking into consideration the financing sources. The approach generally asserts that firm finances, cost of funding, and information asymmetry go hand in hand. Further, the theory indicates that since companies prefer more on internal financing than external funding, they should carefully select the best type of debt considered an external debt.

Pecking Order Theory, Schulze et al. (2015) indicate that organizations choose internal financing over external financing. Alternatively, Alli*ant al,* (2017) suggest that when

organizations are compelled to use external sources of capital, debt, securities that can be converted quickly, preferred stocks and common stock in that order is the preferred external financial decision. The fundamental reason for adopting order in choosing the source of financing is to aid management in effectively controlling the firm's finances and the entire firm. The theory asserts that internal funding doesn't incur costs of flotation. On the other hand, it doesn't require further financial information, leading to severe discipline in the market and loss of competitive business benefit. Further, the practice of external financing leads to the motivation of financial managers to retain and control the firm, lower the costs of agency of equity and avoid inevitable negative responses from the market (Echekoba&Ananwude, 2016).

According to Serrasqueiro and Caetano (2015), management works for the best interest of the shareholders and the firm at large. Therefore, this theory helps in giving accurate information about the changes made to the organization's capital structure, which is the study's main objective.

2.3 Empirical Review

An empirical review on the dependent (financial performance) and independent variables (financial planning and working capital management) are discussed to establish knowledge gaps worth filling.

2.3.1 Financial Performance

This is the most crucial objective of financial planning practices because financial management's primary goal is to maximize the business owner's wealth (Echekoba & Ananwude 2016). Therefore, financial performance is the critical factor of the business

failure or success. At the commencement period of the company, profits may be limited because of investments and other expenses incurred. But at the late stage, when the business matures, profits start being realized and should be managed well for further organizational growth.

Broyles (2020), in the empirical study findings, indicated an association between the financial planning practices and the manufacturing firms ' financial performance. The study revealed that financial performance, as shown in the yearly financial reports of companies that disclosed their financial statements, was better than those that did not. This may be assigned to poor practices of monetary management or poor internal control practices in the organization. A study by Matare and Sreedhara (2020) that sought to inspect the management practices of finance and the growth of small-scale manufacturing firms recognized that several management practices of organizational finances had a positive impact on the financial performance of the businesses under research.

Jordaan and Fourie (2013) pursued to evaluate the impact of monetary management practice on the performance of finance of the manufacturing sector in Malaysia. The research was conducted using a descriptive investigation design where the population target was composed of 100 manufacturing firms in Batu and Kluang districts in Malaysia. Both raw and recorded data were used to collect data for analysis. Inferential statistics and descriptive statistics were used in facts analysis, and the conclusions were illustrated in the form of tables, figures, and percentages. The research findings showed that financial planning practices increased firm returns.

Lakew and Rao (2017) studied the impact of practising monetary management on profitability in Jimma town's business enterprise in Ethiopia. The survey established that

SMEs ' financial performance in terms of profits generated by the organizations was highly influenced by monetary management practices such as monetary control practices, financial planning practices, and accounting reporting. The study indicated that businesses could expand and open new units and develop new markets due to enhanced performance.

2.3.2 Financial Planning Practices and Financial Performance

As evidenced from Jordan, Matar and Eneizan (2018) researched to establish financial performance factors in industrial companies. The study relied on secondary facts collected from published financial reports obtained from Amman Stock Exchange between 2005-2015. The dependent variable was calculated using return on assets, while financial planning, leverage, liquidity, and financial control practices formed the independent variable. The study established that validity, planning, and revenues positively correlated with return on assets while company leverage and scope had a negative relationship. Further, the research revealed that the entire variables had an association that was positive with the financial performance of the firms.

Osoro (2018) sought to evaluate the determinants of monetary distress on the financial performance of manufacturing companies listed at the Nairobi securities stock exchange. The survey's main focus was to examine the impact of solvency, monetary planning, and liquidity on the financial performance of the companies listed at the NSE between the years 2011 -2015. The study used the NSE handbook containing published financial reports for the companies. Descriptive statistics such as average, equity ratios, and means were used while return on equity and return on assets was calculated to determine the

companies' financial performance. The findings revealed that independent variables under study caused 98.3% of the financial distress in listed manufacturing companies.

A study conducted in Kenya by Nyamai (2018) pursued to develop the effect of practising financial planning on the financial performance of manufacturing companies in the county of Nairobi. Based on a design in descriptive research, 41 employees were targeted. The use of questionnaires collected raw data and secondary facts was gathered through yearly financial statements. Inferential and Descriptive statistics were used to examine the information. The conclusions illustrated that dividend policies had a strong effect on return on assets. Resource mobilization revealed a positive and meaningful relationship with performance. It was further found that all management involvement in a budget process influenced the firm's performance. It was concluded that all manufacturing firms need to practice financial planning practice to improve their performance.

2.4 Conceptual Framework

This is a diagrammatic illustration of the expected association between the research variables (Kothari, 2008). The framework is often developed through literature review from existing findings and other theories on which the study is anchored. This study's independent variable is financial planning practices. In contrast, financial performance is the dependent variable, and it was measured by the return on assets of the Manufacturing firms.

Independent Variables

Dependent Variable

Financial Planning Practices

- Debt management

- Long-term investment plans

Financial Performance

- ROA
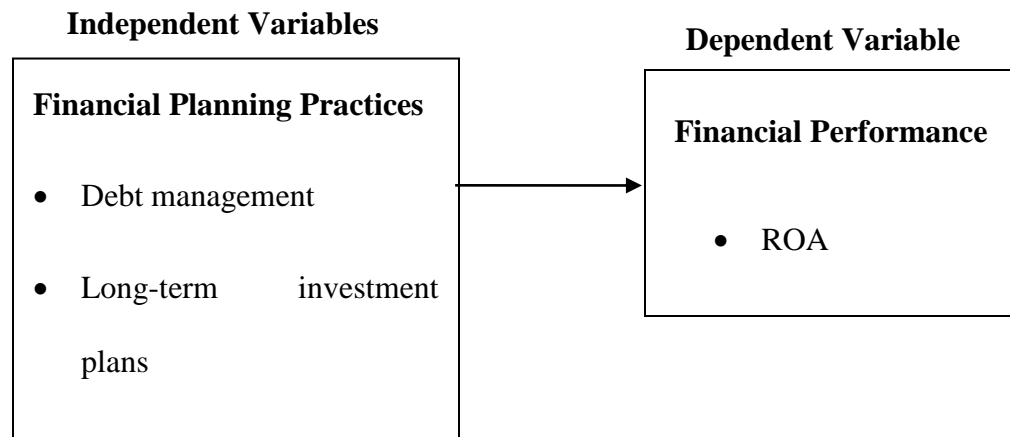
Figure: 2.1 Conceptual Model

Source: Researcher, (2021)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This section presents a research methodology that was adopted while conducting the research. It highlights the research design adopted by the study, sample size, the target population, sampling procedure, instrument used in data collection, the process of collecting data, data analysis and presentation, and lastly, the ethical factors that were upheld while conducting the study.

3.2 Research Design

As illustrated by Saunders, Lewis, and Thornhill (2012), the research design is a set of plans that make up a master plan stipulating the means and methods used to collect, analyze, and present data efficiently. The study adopted a causal research design. The design was considered ideal for this study since it was quantitative, structured, and pre-planned. Burns and Bush (2010) support the research design since it involves an inquiry into the source and effect associated between the dependent variables and independent variables.

3.3 Target Population

Mugenda and Mugenda (2003) express a target population as a collection of objects, items, or people from which a sample is chosen for measurement. The population target of this finding was comprised of all the nine (9) Nairobi Security Stock exchange-listed manufacturing companies within the period 2015-2019, while the unit of observation was

the published annual financial records obtained from the NSE handbook covering the period between 2015-2019.

3.4 Data Collection Instrument

This is a procedure of bringing together pieces of empirical evidence for a survey to acquire new insights about a phenomenon under study or help test a research hypothesis and provide answers to a research question (Kothari, 2011). The analysis was quantitative, and it relied on secondary data, which was of panel type. Secondary data was obtained from the annual published financial reports of all manufacturing companies listed in the NSE between 2015-2019, where debt management, long-term investment plans, Net worth and ROA was extracted using a data extraction tool. According to Mugenda and Mugenda (2003), the use of secondary data is more advantageous because it saves time and is easy to access. Secondary data is also convenient to collect as it is readily available, and reference can be made to it at any point in time. Secondary data extraction form (Appendix I) was used for data collection.

3.5 Data Analysis and Presentation

This is a method of examining, cleaning, converting and modelling data to extract meaningful information leading to the conclusion and recommendation of the study (Greene, 2012). The study was done with the aid of STATA software version 12. Data were first coded into an Excel sheet and then exported to STATA version 11 for further analysis. The study used a panel regression model that adapted a t-test to analyze data obtained from different manufacturing companies throughout the study. The study

findings were presented using frequency tables and charts. The empirical model to be adopted is illustrated in 3.5.1.

3.5.1 Empirical Model

In the research, financial performance is a dependent variable, while financial planning is the independent variable. The empirical model is presented in 3.1

$$FP_{it} = \beta_0 + \beta_1 FPP_{it} + \varepsilon\text{-----------------------------------}3.1$$

Where;

FP_{it} =indicates the financial performance of manufacturing firm i at the period $_t$

FPP = Financial Planning Practices i at the time $_t$

β_0= constant

β_1 = Beta Coefficients

ε = error term

This model will assess whether financial performance variation across different companies at time *t* is due to the changes in financial planning practice in these companies at given time *t.*

3.6 Ethical Consideration

The researcher upheld all ethical principles while carrying out the study. Before the data collection exercise commencement, the investigator will obtain all the required approvals and permits. A clearance letter was received from the University of Nairobi, which was used to apply for a study permit from the National Commission for Science, Technology, and Innovation (NACOSTI). Likewise, approval from the ministry of education, the

county government, and the county commissioner was obtained. Finally, the researcher

observed and upheld the principle of data integrity.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

The section provides information on data analysis as well as interpretation. The results were obtained from the financial statement where debt management, long-term investment, and net worth of the business were used to examine financial planning on financial performance.

The data was collected from the financial report for the 9 companies between 2015 - 2019, which was extracted to provide 45-panel data. The data were tested for a fixed and random effect, homoscedasticity and autocorrelation before being adopted. The results were descriptive statistics, diagnostics, and panel regression analysis.

4.2 Descriptive Statistics Analysis

Descriptive statistics were examined using mean and standard deviation. Financial planning was reviewed based on debts management, long-term investment, and the firm's net worth.

4.2.1 Debts management descriptive analysis

The data for debts management was obtained as the ratio of total debt (long-term debt and short-term debt) to total assets. This indicates how the firm can manage the debt finance through summing long-term and short-term debt to total assets. The long-term, short-term debt and total assets were obtained from the 9 companies within the five years.

Table 4.1: Debt Management

COMPANIES	2015	2016	2017	2018	2019	Mean	STD
B.O.C Kenya Ltd	35.40%	31.13%	38.33%	29.05%	27.76%	32.33%	0.04
British American Tobacco Kenya Ltd.	81.35%	79.83%	88.66%	71.97%	105.48%	85.5%	0.11
Carbacid Investments Ltd	18.07%	13.99%	12.12%	10.04%	11.27%	13.10%	0.03
East African Breweries Ltd.	127.58%	134.9%	122.3%	156.7%	163.03%	140.9%	0.16
Eveready East Africa Ltd.	182.09%	218.5%	138.3%	30.48%	116.56%	137.2%	0.64
Flame Tree Group Holdings Ltd.	119.91%	122.6%	124.2%	119.9%	115.80%	120.5%	0.03
Kenya Orchards Ltd.	22.73%	23.20%	21.92%	21.11%	19.96%	21.78%	0.01
Mumias Sugar Co. Ltd	85.79%	86.02%	83.98%	82.53%	81.29%	83.92%	0.02
Unga Group Ltd.	52.37%	52.54%	76.72%	43.12%	43.53%	53.66%	0.12
Average	80.59%	84.76%	78.52%	62.77%	76.08%	76.54%	0.52

Source: Research data (2021)

According to table 4.1, results indicated that the debt level of three companies out of nine was over 100%, while three companies had debt levels below 50%. The average debt in the firm was 76.5% of the total assets, with a standard deviation of 52.3%.

According to the results, the debt covers over half of the total assets, affecting firm solvency. The firm should reduce the total debts, so they remain liquid and gain leverage in investment. The results also reveal that high variation with a standard deviation of 52.3% shows poor debt management performance among the firms. These results concur with the findings of Lakew and Rao (2017), who found out that practices of financial management highly influenced profits generated by the organizations.

4.2.2 Long term investment descriptive analysis

The long-term investment was obtained from the logarithm of assets invested. Hence, by obtaining the logarithm of the investment of the assets, the firm was examined if the level of investment planning affected firm performance. Investment asset amounts were similarly obtained from the financial reports of the companies with the five-year duration.

Table 4.2: Long term investment

COMPANIES	2015	2016	2017	2018	2019	Mean	STD
B.O.C Kenya Ltd	6.23	6.23	6.21	6.33	6.30	6.26	0.05
British American Tobacco Kenya Ltd.	7.08	7.08	7.05	7.10	7.06	7.07	0.02
Carbacid Investments Ltd	6.43	6.46	6.50	6.51	6.52	6.48	0.03
East African Breweries Ltd.	7.62	7.58	7.65	7.66	7.73	7.56	0.05
Eveready East Africa Ltd.	5.86	5.69	5.75	5.65	5.07	5.60	0.28
Flame Tree Group Holdings Ltd.	8.94	8.98	9.00	9.05	9.17	9.03	0.08
Kenya Orchards Ltd.	6.62	6.67	6.71	6.74	6.79	6.71	0.06
Mumias Sugar Co. Ltd	7.23	7.20	7.23	7.20	7.32	7.24	0.04
Unga Group Ltd.	6.80	6.82	6.80	7.03	7.00	6.89	0.10
Average	6.98	6.97	6.99	7.03	7.00	6.99	0.92

Source: Research data (2021)

Table 4.2 indicated that most firms range from millions to billions, with the lowest of Ksh. 398,107 million (antilog of 5.6) and the highest of 1.07 billion (antilog of 9.03). Long-term investment management represents an average of 9.8 million shilling across the firms (Antilog 6.993) and a standard deviation of 0.936. This indicated that the firm had healthy financial leverage for investing. However, the investment does not separate the debt and equity finance. These results contradict the findings of Matar and Eneizan (2018), who established that revenues had a negative relationship with company leverage.

4.2.3 Net worth descriptive analysis

Net worth was obtained by dividing equity (Asset-liabilities) by total assets, revealing how it managed its net worth. Panel data was obtained from 9 companies within the five years. Finally, return on assets was obtained by dividing net income by total assets. This represents the financial performance of the firm.

Table 4.3: Networth

COMPANIES	2015	2016	2017	2018	2019	Mean	STD
B.O.C Kenya Ltd	100.00%	100.00%	99.98%	70.95%	72.24%	88.63%	0.14
British American Tobacco Kenya Ltd.	73.28%	72.38%	69.76%	74.20%	83.85%	74.69%	0.05
Carbacid Investments Ltd	92.09%	92.48%	79.43%	93.43%	93.76%	90.24%	0.05
East African Breweries Ltd.	43.71%	29.92%	27.72%	25.63%	30.25%	31.45%	0.06
Eveready East Africa Ltd.	2.11%	98.21%	98.38%	9.78%	92.56%	60.21%	0.44
Flame Tree Group Holdings Ltd.	85.95%	92.67%	91.86%	0.00%	0.00%	54.10%	0.44
Kenya Orchards Ltd.	52.57%	48.64%	48.56%	48.53%	45.95%	48.85%	0.02
Mumias Sugar Co. Ltd	41.84%	47.32%	34.90%	-27.58%	-29.31%	13.43%	0.34
Unga Group Ltd.	53.52%	54.46%	87.78%	35.58%	40.67%	54.40%	0.18
Average	60.56%	70.68%	70.93%	36.75%	47.77%	57.33%	0.35

Source: Research data (2021)

Table 4.3 the highest net worth was 88.63% and the lowest 13.43% across the companies. There was also a high variation in net worth across the years, where 2018 the net worth of 36.75% but had 70.93%. The results further indicate that the network of the firm is 57.3% of the total asset. This reveals that the equity finance represents slightly above the total asset with a variation of 35%. High variation indicated that there is variation inequity of the firms across the companies.

4.2.4 Return on assets descriptive analysis

Return on assets was obtained by dividing net income by assets. These were collected from a five-year time of 9 companies. The summary results are presented in Table 4.4.

Table 4.4: Return on Assets

COMPANIES	2015	2016	2017	2018	2019	Mean	STD
B.O.C Kenya Ltd	17.20%	15.10%	7.93%	0.00%	0.00%	8.05%	0.07
British American Tobacco Kenya Ltd.	41.19%	34.84%	29.68%	32.56%	33.71%	34.40%	0.04
Carbacid Investments Ltd	14.47%	12.89%	11.15%	9.16%	10.93%	11.72%	0.02
East African Breweries Ltd.	22.70%	21.27%	19.06%	14.06%	22.71%	19.96%	0.03
Eveready East Africa Ltd.	-24.86%	-34.68%	47.65%	-26.07%	-255.41%	-58.67%	1.03
Flame Tree Group Holdings Ltd.	27.23%	25.12%	30.11%	29.15%	23.02%	26.93%	0.03
Kenya Orchards Ltd.	47.95%	37.72%	39.78%	40.94%	40.05%	41.29%	0.03
Mumias Sugar Co. Ltd	-21.56%	-29.78%	-27.97%	-32.34%	-32.71%	-28.87%	0.04
Unga Group Ltd.	6.79%	7.67%	1.39%	7.36%	5.49%	5.74%	0.02
Average	14.57%	10.02%	17.64%	8.31%	-16.91%	6.73%	0.46

Source: Research data (2021)

The results from table 4.4 represented a return on an asset where the maximum returns to assets were 41.29% and a minimum of -58.67%. However, firms registered the lowest profitability with a loss of 16.91% of the total asset in 2019. The average Return on assets was 6.73%, with a standard deviation of 46%. The results also indicated that two out of nine companies are making losses over the five years. The findings were in line with Osoro (2018) findings, who concluded that independent variables such as Return on equity caused 98.3% of the financial distress in listed manufacturing companies.

4.3 Correlation Analysis

Correlation analyses were conducted to determine the existence of an interrelationship between financial planning and financial performance. Pearson correlation analysis was used to examine the relationship between variables. The results are summarized in Table 4.5.

Table 4.5: Correlation Coefficients

	Debt Management	Long-term Investment	Net worth	ROA
Debt Management	1.000			
Long-term Investment	0.320**	1.000		
Net worth	-0.203*	-0.297*	1.000	
ROA	-0.172*	0.689**	0.540**	1.000

*Key: * P<0.05, **P<0.01, ROA- Return on Assets*

Source: Research Data (2021).

According to table 4.5, long-term investment and net worth had a strong positive significant relationship with Return on assets (R=0.689 and R=0.540, respectively). However, there was a weak negative relationship between debt management and Return

on assets (R=-0.172). However, debt finance had a positive relationship with long-term investment but a negative relationship with new worth (R=0.320 and R=-0.203).

4.4 Diagnostic Test

Fixed and random effects, autocorrelation, and homoscedastic were diagnosed.

4.4.1 Fixed and Random Effect Test

Hausman test was used to test between fixed and random data. The findings revealed that it was fixed data since the probability of difference between the fixed and random is less than 5% significant level.

Table 4.6: Comparison between fixed data and random data

	(b)	(B)	(b-B)	Sqrt (diag(V_b-V_B)
	Fixed	Random	Difference	Std. Error
Debt Management	-0.268	-0.109	-0.160	-
Long-term Investment	3.177	0.392	2.784	0.329
Net-worth	0.546	0.056	0.490	-
Model Summary				
Chi-Square	68.80			
Prob>Chi-Square	0.0000			

a Dependent Variable: Financial Performance (ROA)

According to the Hausman test, the probability was less than 5%; hence the fixed effect was adopted (P=0.000<0.05). The fixed effect was therefore used to analyze the study.

This implies that there was variation in financial planning and performance across the 9 companies.

4.4.2 Autocorrelation Test

The Wooldridge test was used for testing autocorrelation. The null hypothesis indicated that there was no first-order autocorrelation. The results obtained were summarized that $F (1, 8) = 45.457$, Prob $> F = 0.0000$. This revealed that the null hypothesis was adopted, which implied no first-order autocorrelation or serial correlation.

4.4.3 Homoscedasticity Test

Modified Wald test was used to test heteroscedasticity in the fixed effect regression model. The null hypothesis indicated that sigma (i) ^{2} = sigma^2 for all i which resulted to Chi2 (41) = 2.3e+03 with Prob>chi^2 = 0.0000. Hence, the financial planning was homoscedasticity (or constant variance) on financial performance. The study concluded that the data was homoscedastic.

4.5 Panel Regression Findings

Panel regression analysis adopted a fixed effect in obtaining the relationship between financial planning and financial performance. Financial planning was presented using debt management, long-term investment, and the company's net worth, while Return on assets measured financial performance. The model summary comprised the coefficient of determination, beta coefficient, and the significance of 5% of the variables. The summary results are presented in Table 4.7.

Table 4.7: Panel Regression Model

	Coefficient	Std. Error	t	Sig.
(Constant)	-22.254	2.551	-8.72	0.000
Debt Management	-0.269	0.159	-1.69	0.101
Long-term Investment	3.177	0.364	8.73	0.000
Net worth	0.546	0.159	3.44	0.002
Model Summary				
R Square (Within)	0.708			
R Square (Between)	0.283			
R Square (Overall)	0.170			
Corr(u_I,Xb)	-0.990			
rho	0.994			
ANOVA				
F (3, 33)	26.68			
Sig.	0.0000			

a Dependent Variable: Financial Performance (ROA)

Panel regression analysis was done in equation1 model, where fixed data was used to investigate the hypotheses based on the Hausman Test. R^2 was obtained from the model summary, and the regression coefficients were used for interpretation.

The model was given by;

$$Y_{it} = -22.254 - 0.269\, x_{1it} + 3.177\, x_{2it} + 0.546 x_{3it}$$

Where;

Y_{it} = Financial performance (Return on Assets) of firm i at time t

x_{1it} = Total debt/Assets of firm i at time t

x_{2it} = Log (Asset) of firm i at time t

x_{3it} = Equity/ Asset of firm i at time t

According to the results, the long-term investment had the highest effect on financial performance (Beta =3.177, P<0.05). Similarly, net worth had a significant positive effect on financial performance (Beta =0.546, P<0.05). At the same time, debt management had no significant effect on financial performance (Beta =-0.269, P<0.05).

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.1 Overview

This chapter provides a summary of findings that were used in concluding the study. It, therefore, provides both the descriptive summary and discussion. This section also gives the study's recommendations, which were arrived at from theoretical implications and the study findings. Finally, it recommends further areas of study.

5.2 Summary of Findings

The findings indicated that debt management was more than half of the total assets in the organization, which varied in different companies. The results also revealed that their debt management had an insignificant negative effect on financial performance. Hence, the firm has managed debt finance to be at management despite having a negative impact on financial performance. Debt management also affects the net worth of the firm negatively.

Long term investment had a significant positive effect on financial performance. Where most of the firms have substantial long term investments, which are in millions of shillings. Similarly, net worth also had a significant positive effect on performance. Hence long term investment as well as net worth affected financial performance. This implies that the organization should also concentrate on ensuring that there is healthy financial planning on long-term plans and a net worth of the firm.

5.3 Conclusions

The study concluded that debt finance had an insignificant negative effect on financial performance. Hence there is a need for the firm to reduce or manage high debt to minimize the burden. This will eliminate the negative impact as well as act as leverage to the organization. However, the challenge is a high level of debt finance in comparison to the total assets of the firm.

The study concluded that long term investment had a significant positive effect on financial performance. This implies that the firm should conduct more long term investment planning to improve return on investment. The firm is sustainable in the management of long term investment.

The study also concluded net worth had a significant positive effect on financial performance. The firm should also enhance net worth by improving the size of equity in the organization. The firm also found that it had more than half of the total assets as its net worth, indicating healthy financial planning in net worth.

5.4 Recommendations of the Study

The study recommended that firms improve debt planning to reduce the negative effect of debt finance on financial performance. This can be enhanced through reducing borrowing, where it's done need-based for investment purposes. Despite debt finance not having a significant influence on financial performance, the firm should ensure debt to asset celling to reduce insolvency. This reduces the high borrowing above 50% of total assets, ensuring healthy financial planning. Firms with high debt can manage through converting debt to equity, reducing losses and serving high debts.

Firms should also ensure that there is sufficient long-term investment that would improve the firm's financial performance. Hence, financial planning should entail creative investment that has high cash flow and low risk.

Finally, the firms should manage their net worth to be more than half of the total asset. Through this, the firm would be able to improve in financial performance. Several strategies can be adopted, including reducing debt, a convention of debt, and an increase of investment.

5.5 Limitation of the Study

The study was limited to Nairobi Security Exchange financial report results between the periods 2015 to 2019. The results were sufficient since the report was an audited financial report of the respective firm. The study was limited to secondary data obtained through financial reports; this is because secondary data collected were sufficient for data analysis.

5.6 Suggestions for Further Research

The study suggests investigation to be conducted on financial investment on financial performance. The will reveal which investments were more profitable to the firms to ensure high returns for the firms.

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APPENDIX I: DATA EXTRACTION FORM

Information contained in the data matrix will be obtained from annual financial reports of the factories for the period 2015 to 2019. This information will aid in computing ROA, ROE and Net Interest Margin

a) Financial Planning Practices

S/ no	List of Factors		2015	2016	2017	2018	2019
A	**Financial Planning Practices**						
1)	Debt management	Short term debt					
		Long term debt					
		Total asset					
2)	Long-term investment	Asset invested					
3)	Net worth	Equity					
		Total Asset					

b) Financial performance

S/no		List of Items	2015	2016	2017	2018	2019
1)	ROA	Profit before tax					
		Total Assets					

APPENDIX II: MANUFACTURING COMPANIES LISTED IN NAIROBI

SECURITY EXCHANGE

1. B.O.C Kenya Ltd

2. British American Tobacco Kenya Ltd

3. Carbacid Investments Ltd

4. East African Breweries Ltd

5. Mumias Sugar Co. Ltd

6. Unga Group Ltd

7. Eveready East Africa Ltd

8. Kenya Orchards Ltd

9. Flame Tree Group Holdings Ltd