

**THE RELATIONSHIP BETWEEN FINANCIAL PLANNING AND
THE FINANCIAL PERFORMANCE OF PUBLIC SERVICE
ORGANIZATIONS IN KENYA**

BY

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DECLARATION

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

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This research project has been submitted for examination with my consent as University of Nairobi, School of Business Supervisor.

Dr. Josiah Aduda Sign _____ Date _____
Supervisor

DEDICATION

This research project is dedicated to my family and in particular my wife who encouraged me to start on this noble course and for her unconditional support through the research period. Dedication also to my friends and all those who provided the much needed financial and moral support.

ACKNOWLEDGEMENT

I wish to thank the almighty God for bringing me this far, and for granting me the energy and good health to complete this project. I would to give special acknowledgements to my family for their effort, moral support and encouragement throughout the entire research period. I also take this opportunity to acknowledge the professional efforts of my supervisor Dr. Josiah Aduda who guided me in writing this project.

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God bless you all.

ABSTRACT

The purpose of the research study was to examine the relationship between financial planning and financial performance of public service organizations with particular reference to commercial oriented public service organizations in Kenya. The specific objectives of the study included determining the effect of focus on organization goals, allocation of resources as well as risk management on the financial performance of public service organizations.

The Researcher used descriptive survey research design in collecting data from the respondents. The census-sampling procedure was used which involved the use of the entire target population of forty seven (47) finance managers drawn from commercial oriented parastatal organizations. The researcher used questionnaires in collecting data that was analysed quantitatively and qualitatively.

The Research study established existence of a relationship between focusing on organization objectives, allocation of resources, risk management and financial performance. The research study recommended that there is need for management to focus the whole organization operation towards organizational objectives by defining the line of action to complete the work, setting the blue print of the organization course of action, eliminating the unnecessary activities and focusing on priorities and facilitating the taking of the right decision at the right time.

There is need for management to focus the whole organization operation towards organizational objectives by defining the line of action to complete the work, setting the blue print of the organization course of action, eliminating the unnecessary activities and focusing on priorities and facilitating the taking of the right decision at the right time.

Lastly, there is need for management to undertake effective risk management through active process of regular risk reviews and the commitment to: anticipate and influence events before they happen by taking a proactive approach; provide knowledge and information about predicted events; inform and, where possible, improve the quality of decision making, keep track of the identified financial risks, monitoring the residual financial risks and identifying new financial risks.

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ABBREVIATIONS

ROI	Return on Investment
ROE	Return on Equity
ROA	Return on Asset
ROS	Return on Sale
CEO	Chief Operating Officer
SAGA	Semi-Autonomous Government Agencies
SAP	Structural Adjustments Programme
GOK	Government of Kenya
MPT	Modern portfolio theory
PMPT	Post-modern portfolio theory
MAR	Minimal Acceptable Return
DR	Downside Risk
FPSC	Financial Planning Standards Council

CHAPTER ONE

INTRODUCTION

1.1 Background

This chapter discusses the background of the study, statement of the problem, objectives of the study, research questions, and justification of the study.

1.1.1 Financial Planning

Planning is a process which is concerned with deciding in advance what, when, why, how, and who shall do the work (Donald, Thomas & Rebecca, 2001). Generally, planning involves establishment of organizational objectives and policies; identification of alternative courses of action and programs and selecting the best course of action and programme. Financial planning is the task of determining how a business will afford to achieve its strategic goals and objectives (Awino, Muturia & Oeba, 2011). The financial planning activity involves assessing the business environment; confirming the business vision and objectives; identifying the types of resources needed to achieve these objectives; quantifying the amount of resource (labor, equipment, materials); calculating the total cost of each type of resource; summarizing the costs to create a budget; and identify any risks and issues with the budget set (Abdul-Jalil, Dzuljastri & Ferdous- Azam 2013).

Public sector organizations are facing more challenging times, thus Government executives are tasked with more strategic responsibilities of financial planning in the face of increasing costs of offering public services and falling tax revenues thus increasing the difficulty and importance of financial planning (Denhardt & Denhardt, 2006). Meanwhile, changing budget priorities at all government levels require the realignment of funding for public sector programs. When public organizations are in the business of utilizing other people's money to provide for the community's wellbeing, public administrators have a responsibility to best utilize the scarce resources available in serving the unending needs of society. Scarcity in public service necessitates proper financial planning for public organizations (Finkler, 2005).

Comprehensive financial planning process is essentially vertical as it is developed from a given base year and so estimates of revenue and costs are to be based on the base year financial decisions already taken (Hendrick, 2000). It would mean that alternative expenditure packages for a program are to be considered based on previously decided financial options. Financial Planning and Management in Public Organizations synthesizes the wide range of issues in public finance into three broad categories: cash management, financial planning, and management control (Kenneth, 2010). As public-sector organizations seek to become more responsive and dynamic, their systems are evolving from tools of organizational control into systems that also incorporate a strong planning perspective (Finkler, 2005).

1.1.2 Financial Performance

Performance is the competency of an organization to transform the resources within the firm in an efficient and effective manner to achieve organizational goals (Daft, 1997). Organizational goals vary depending on the purpose for which they are established. Business organizations have profit, growth and survival as the main goals. According to Dyer and Reeves' (1995) definition, financial performance consists of financial outcomes (return on invested capital or return on asset and stock value or shareholder return).

Drago (1990) avers that the common financial indicators include: sales growth, return on investment (ROI), return on sales, return on equity (ROE), and earnings per share. However, the popular ratios that measure organizational performance can be summarized as profitability and growth: return on asset (ROA), return on investment (ROI), return on equity (ROE), return on sale (ROS), revenue growth, market shares, stock price, sales growth, liquidity and operational efficiency. In another research by Thomas and Ramaswamy, 1996) return on average assets (ROA) and return on equity (ROE) were used as financial measures in the banking industry. According to Dyer and Reeve (1995), outcome measurements included productivity, quality and service. Instead of productivity indicators, Delany & Huselid (1996) chose perceptual measures of the financial performance such as product quality, customer satisfaction and new product development.

Financial planning helps to anticipate problems and information needs; helps to identify solutions without trial-and-error learning; manage resource supply and demand; identify when to focus effort and attention in different areas, facilitating the identification of appropriate sequences; helps to make people's expectations for the timing of activities more concrete (Willoughby & Julia, 2001). Planning helps to turn broad goals into action steps and helps to create timetables for how long tasks should take, to transfer founder's vision to those acting on it, to avoid sidetracking of efforts and helps to correct deviation from objectives (Kenneth, 2010).

1.1.3 Relationship between Financial Planning and Financial Performance

Financial planning offers important tools that help public organizations determine their current conditions and plan for its future. Accounting and financial analysis aid in making sure that an organization has what it needs to operate successfully. Budgeting allows a public administrator to plan, make proper choices, and decide on the mission and direction of an organization (Rosilyn, 2007). However, while plans and strategies are often stated in a number of elements, resource allocation has always remained the principal means of implementing them. Consequently, an organization's budget, which embodies its resource allocation decisions, has become the only visible manifestation of its strategic planning process (Willoughby & Julia, 2001). Performing Financial Planning is critical to the success of any organization. It provides the business plan with rigor, by confirming that the objectives set are achievable from a financial point of view. It also helps the CEO to set financial targets for the organization, and reward staff for meeting objectives within the budget set (Rubin, 2000).

An essential purpose of financial planning is to assess the financial resources that will be required to implement the programmes and activities to achieve the goals and targets of the plan, to ensure that funding is available as and when needed, and to monitor the efficient use of resources and of progress towards reaching the goals and targets (Rosilyn, 2007). Financial Planning helps to focus the attention of the managers and subordinates towards organizational objectives. It predetermines the objectives and defines line of action to complete the work. Thus, good management is the management by objectives. Financial Planning serves as the blue print of the

course of action and eliminates the unnecessary and useless activities. It focuses to priorities and facilitates to take right decision at the right time (Kathryn, Jennings & Allen 2002).

The processes employed in the allocation of resources serve as a means for dealing with complex, competing objectives in a manner that ensures organizational success and growth (Finkler, 2005). Of all the procedures used to make organizational decisions, those employed in the allocation of resources are perhaps the most powerful ; whether in the private or the Public sectors, the processes used for the allocation of resources deal comprehensively with the organization as a whole, its component units, and the Organizations and people it services. plans and strategies are often stated in a number of elements, resource allocation has always remained the principal means of implementing them (Ellingson & Jaco, 2001). Consequently, an organization's budget, which embodies its resource allocation decisions, has become the only visible manifestation of its strategic planning process (Hendrick, 2000).

The budget embodies a plan articulated in financial terms or allocation of funds for execution of projects and programs of government within a given time frame in order to achieve pre-determined program objective(s) (Willoughby & Julia, 2001). Budgets establish the amount of resources that are available for a specific activity (Rubin, 2000). As managers manipulate monies to accomplish specific goals, they are declaring where the values of the organization lie. Denhardt (2006) argues that in public organizations, "The budget is, essentially, a measure of support (or lack of support) for specific programs. "Budgets reflect choices about what government will and will not do. They reflect general public consensus about what kinds of services governments should provide and what citizens are entitled to as members of society" (Stillman, 2000).

Effective financial planning encourages managers to think about new knowledge, idea, procedures, technique and strategy for the completion of work. It also helps to create new modified course of action. This is essential for the growth and expansion of working areas of the business (Kenneth, 2010). Financial Planning is the basis of control and defines the minimum standard of work to be achieved and time to complete the job. It is helpful to compare the actual performance achieved with that of

predetermined or standard fixed. The manager evaluates the actual achievement of work interval of time. This is helpful to identify the deviation, if any, between actual and planned performances (Awino, Muturia and Oeba, 2011). Risk monitoring and control is the processes of keeping track of the identified risks, monitoring the residual risks and identifying new risks. This process should also ensure the execution of the risk plan and continually evaluate the plan's effectiveness in reducing risk (Finkler, S.A. (2005). Resource allocations can also be monitored as these too will have been pre-planned and, where appropriate, allocated to the agreed actions (Hendrick, 2000).

1.1.4 Overview of the Public Sector in Kenya

Kenya's public sector is divided into ministries that offer sector-specific services, Semi-Autonomous Government Agencies (SAGAs), semi commercialized and privatized public organization or state corporations .This is aimed at improving service delivery to its citizens. Public service efficiency in delivery of results/services has been a challenge in the public sector. Most of the public service structure was inherited from colonial masters and was meant for control and exerting authority. It has had weaknesses, which apparently are largely conservative. Today governments are putting in considerable effort in making the public service effective.

The government realised that high performance stated, as one of the ultimate aims of civil service, cannot be achieved without a conscious policy and program to instill appropriate attitudes and ethical standards and through the sessional Paper No. 1 of 1986 on Economic Management for Renewed Growth which later paved the way for wider public service reforms to improve service delivery. Notable among these was the Structural Adjustments Programme (SAP), which was aimed at lessening Government control on the economy, recognizing and harnessing the potential of the private sector as the engine for growth, and staff retrenchment as a way of reducing the civil service wage bill (GoK, 2009).

Noting that Public Service efficiency sets standards for other sectors, the government launched the Civil Service Reform Programme in 1993 to enhance Public Service efficiency and productivity. The reforms were expected to facilitate equitable wealth

distribution necessary for poverty alleviation and create an enabling environment for investment and enhanced private sector growth. The Civil Service Programme was designed to proceed in three phases: Phase 1 – Cost containment; Phase 2 – Performance Improvement, and Phase 3 – Consolidation and sustenance of gains made by reform initiatives.

1.2 Research Problem

The government in order to enhance the practice of financial planning introduced result-oriented budgetary system in its attempt to finance ‘outputs’ instead of inputs and process. The aim was not only to control public expenditure but to link public resource allocation (Budget) to public service outcomes and to improve public sector efficiency including the use of public resources (GOK, 2007). However, most public service organizations do not place premium on the aspect of financial planning and this has led to overruns on budgets, non achievement of set objectives and eventually poor financial performance hence continued dependence on the exchequer for even their current expenditure. With the increasing scarcity of financial resources in public organizations, the ability to develop new resources and generate competitive products has become a necessity for some public organizations if they have to continue to operate otherwise they are faced with eminent bankruptcy and collapse (GoK. 2009)

According to Kathryn, Jennings and Allen, (2002) proper financial planning gives organizations the tools to analyze areas of deficit and growth. Hendrick (2000) notes that proper financial management offers the tools to critically analyze the organization’s status and potential resources, allowing them to pursue the growth of the organization. Denhardt and Denhardt, (2006) argues that financial planning helps to anticipate problems and information needs; helps to identify solutions without trial-and-error learning; manage resource supply and demand; identify when to focus effort and attention in different areas.

Abdul Jalil, . Dzuljastri and Ferdous Azam (2013) examined the factors Influencing Financial Planning: Rahaman (2010) Public Sector Accounting and Financial Management; while Rosilyn (2007) focused on the value of Financial Planning and Kenneth Baile (2010), examined strategic Financial Planning for Water Supply and Sanitation.

In Kenya Awino, Muturia and Oeba (2011) examined strategic Planning and Organizational Performance in Commercial Banks, Mwangi (2009) focused on financial management of public service organization with a bias towards financial planning. Despite the growing importance of financial planning in the public sector organizations there is limited information on this aspect especially information that focuses on public service organizations in Kenya. Hence, this study sought to determine the relationship between financial planning and financial performance of public service organizations by answering the following research question: how does focus on organization goals, allocation of resources and risk management influence financial performance of public service organization?

1.3 Research Objectives

The general objective of the study was to investigate the relationship between financial planning and financial performance of public service organizations in Kenya. A case of selected commercial oriented public service organizations in Kenya.

The following specific objectives guided the study

- i) To determine the effect of focus on organization goals on the financial performance of public service organizations,
- ii) To examine the effect of allocation of resources on the financial performance of public service organizations,
- iii) To investigate the effect of risk management on the financial performance of public service organizations.

1.4 Value of the Study

In practice the study will be significant to public service organizations as they will be able to understand and appreciate the impact of financial planning on the performance of their organization and seek to enhance the effectiveness of financial planning while removing the factors that impede financial planning. The study will also be significant to the government as it will be able to understand the effect of financial planning on the public sector organizations and how they promote performance. Accounting professionals within both the public and private sector will be able to benefit from the study as it will be able to raise awareness among them on the importance of financial

planning in the growth of organizations and be able to acquire the necessary skills and interest in this aspect.

Theoretically, the study will be significant to academician as it will be able to add new knowledge in the field of financial planning. The study will provide the background information to research organizations and scholars who may want to carry out further research in this area.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

In this chapter, literature, which is related to and consistent with the objectives of this study, is reviewed. Important theoretical and practical problems are brought out, relevant literature on the aspects pertaining to the impact of financial planning on the financial performance of public service organizations.

2.2. Review of Theories

2.2.1 Pecking-Order Theory

The pecking-order theory posit that firms prefer internal finance, adapt their target dividend payout ratios to their investment opportunities, while trying to avoid sudden changes in dividends and that sticky dividend policies, plus unpredictable fluctuations in profitability and investment opportunities, mean that internally generated cash flow is sometimes more than capital expenditures and other times less. If it is more, the firm pays off debt or invests in marketable securities. If it is less, the firm first draws down its cash balance or sells its marketable securities. If external finance is required, firms issue the safest security first. That is, they start with debt, then possibly hybrid securities such as convertible bonds, then perhaps equity as a last resort. In this theory, there is no well- defined target debt–equity mix, because there are two kinds of equity, internal and external, one at the top of the pecking order and one at the bottom. Each firm's observed debt ratio reflects its cumulative requirements for external finance.

Myers and Majluf (1984) show that because adverse selection costs are always larger for equity issues than for debt issues, issuing equity is never optimal. Viswanath (1993) extends the single period framework of Myers and Majluf to a multi-period setting in which adverse selection costs vary over time. In this setting, equity issuance can be optimal, even if cash or debt capacity is available.

The pecking order explains why the most profitable firms generally borrow less—not because they have low target debt ratios but because they don't need outside money. Less profitable firms issue debt because they do not have internal funds sufficient for their capital investment programs and because debt financing is first on the pecking order of external financing. In the pecking-order theory, the attraction of interest tax shields is assumed to be second-order. Debt ratios change when there is an imbalance of internal cash flow, net of dividends, and real investment opportunities. Highly profitable firms with limited investment opportunities work down to low debt ratios. Firms whose investment opportunities outrun internally generated funds are driven to borrow more and more. This theory explains the inverse intra-industry relationship between profitability and financial leverage. Suppose firms generally invest to keep up with the growth of their industries. Then rates of investment will be similar within an industry. Given sticky dividend payouts, the least profitable firms will have less internal funds and will end up borrowing more.

2.2.2 Portfolio Theory

In 1959, Harry Markowitz, published *Portfolio Selection*, in which he proposed that investors expect to be compensated for taking additional risk, and that an infinite number of "efficient" portfolios exist along a curve defined by three variables: standard deviation, correlation coefficient, and return. The efficient-frontier curve consists of portfolios with the maximum return for a given level of risk or the minimum risk for a given level of return.

A portfolio is a collection of investments held by an individual or a company. A company may make external financial investments when it has surplus funds available and will also have a portfolio of projects. To manage this portfolio effectively and to understand investor behaviour in the management of the firm's own share price, the financial manager needs to have a good working knowledge both of financial markets and sources of finance. Portfolio theory provides investors with insights into the required rates of return on investments in relation to their risks. Portfolio theory is based on a range of assumptions, which may not all hold true in the real world, portfolio theory helps investment managers to construct portfolios that best meet the requirements of investors in terms of risk and return.

When determining the composition of the portfolio, the investor or company will consider the following points: the return received from the investment – obviously higher returns are more desirable than low or negative returns; in general the better the growth prospects of the firm the better the expected returns; risk and security – investors will wish to minimise their risk in relation to the level of returns obtained; the liquidity of the investments may be important if they are only to be held for a short term.

Modern portfolio theory (MPT) is unreliable for the primary task to which the financial services industry applies them—building through allocation of assets portfolios. Post-modern portfolio theory (PMPT) presents a new method of asset allocation that optimizes a portfolio based on returns versus downside risk. The core innovation of PMPT is its recognition that standard deviation is a poor proxy for how humans experience risk. Risk is an emotional condition—fear of a bad outcome such as fear of loss, fear of underperformance, or fear of failing to achieve a financial goal. Risk is thus more complex than simple variance but can nonetheless be modeled and described mathematically. Downside risk (DR) is a definition of risk derived from three sub-measures: downside frequency, mean downside deviation, and downside magnitude. Each of these measures is defined with reference to an investor-specific minimal acceptable return (MAR).

2.2.3 Theory of Finance

The theory of finance in a modern sense starts with the Modigliani and Miller (1958) capital structure irrelevance proposition. Before Modigliani and Miller, there was no generally accepted theory of capital structure. They start by assuming that the firm has a particular set of expected cash flows. When the firm chooses a certain proportion of debt and equity to finance its assets, all that it does is to divide up the cash flows among investors. Investors and firms are assumed to have equal access to financial markets, which allows for homemade leverage. The investor can create any leverage that was wanted but not offered, or the investor can get rid of any leverage that the firm took on but was not wanted. As a result, the leverage of the firm has no effect on the market value of the firm (Hirshleifer 1966).

As a matter of theory, capital structure irrelevance can be proved under a range of circumstances. There are two fundamentally different types of capital structure irrelevance propositions. The classic arbitrage-based irrelevance propositions provide settings in which arbitrage by investors keeps the value of the firm independent of its leverage (Stiglitz, 1969). Finance theory stresses cash flow and the expected return on competing assets. The firm's investment opportunities compete with securities stockholders can buy. Investors willingly invest, or reinvest, cash in the firm only if it can do better, risk considered, than the investors can do on their own. Finance theory thus stresses fundamentals. It should not be deflected by accounting allocations, except as they affect cash taxes (Hirshleifer 1966)

2.2.4 Stewardship theory

The executive manager, far from being an opportunistic shirker, essentially wants to do a good job, to be a good steward of the corporate assets (Donaldson 1990). Thus, stewardship theory holds that performance variations arise from whether the structural situation in which the executive is located facilitates effective action by the executive. The issue becomes whether or not the organisation structure helps the executive to formulate and implement plans for high corporate performance (Donaldson 1985). Structures will be facilitative of this goal to the extent that they provide clear, consistent role expectations, authorize and empower senior management. What motivates individual calculative action by managers is their personal perception (Silverman 1970). To the degree that an executive feels their future fortunes are bound to their current corporate employers through an expectation of future employment or pension rights, then the individual executive may perceive their interest as aligned with that of the corporation and its owners, even in the absence of any shareholding by that executive (Barney, 1990).

2.3 Empirical Review

In exploring factors influencing financial planning, Abdul Jalil, Dzuljastri and Ferdous Azam (2013) used a quantitative method to survey a sample of 170 Malaysian citizens, from various places in the Klang Valley area. Exploratory factor analysis, confirmatory factor analysis and structural equation modeling were used to analyze the data. The results suggest that the paths are interrelated to the casual

processes significantly. Furthermore, individual's income or monthly salary is found to be the most important factor influencing financial planning, followed by attitude and culture. The results are mainly favourable to academics and practitioners in Malaysia by contributing an understanding into critical factors that influence people to make financial plan before their retirement. The study provides implications of the findings in the concluding section.

In their study, Arasa and K'Obonyo (2012) examined the relationship between strategic planning and firm performance giving attention to the strategic planning steps. They observed that organizations from both the private and public sector are increasingly embracing the practice of strategic planning in anticipation that this will translate to improved performance and that past studies have mainly focused on the direct relationship between strategic planning and performance and did not give attention to the specific steps that make up the strategic planning process. Correlation analysis results indicate the existence of a strong relationship between strategic planning and firm performance. Further, all the strategic planning steps (defining firm's corporate purpose, scanning of business environment, identification of firm's strategic issues, strategy choice and setting up of implementation, evaluation and control systems) were found to be positively related to company performance.

Awino, Muturia and Oeba (2011) investigated the influence of strategic planning and planning outcomes; planning outcomes and firm performance. Measures of strategic planning were seven dimensions namely internal orientation, external orientation, functional integration, key personnel involvement in planning, use of planning techniques, creativity in planning, focus on control. Measures of planning outcomes comprised direction and focus, sustainable competitive advantage, firm-environment fit, efficiency in allocation of resources, improved innovation, greater organizational commitment, improved co-ordination and control of organization activities, improved organizational analysis. Measures of firm performance were both financial and non-financial. Financial items composed of Gross Profit Margin, Return on Investment and Return on Asset. Non-financial items comprised of ability to evaluate alternatives, ability to avoid mistakes and improved budget process. Commercial banks in Kenya were studied using both primary and secondary data. In this study, a census of 44 commercial banks in Nairobi Kenya was done. Majority (80 per cent) of

the respondents were managers in charge of planning and 20 per cent were either heads of human resource departments or business and marketing department.

Various data analysis procedures were applied including descriptive analysis, Pearson Moment Correlation Coefficient; F statistics were used in order to accomplish the objectives of the study. Hypotheses H1, H2, H3 were tested for correlation. The study found that there are a positive and significant relationship between strategic planning (seven dimensions of planning) and firm performance; strategic planning and planning outcomes and finally planning outcomes and firm performance. Thus, the study suggests that effective and focused strategic planning lead to positive change in firm performance. This study therefore is significant since it has contributed immensely to the body of knowledge more specifically in strategic planning where key variables of the study have been linked individually to organizational performance. The study also impacts positively to the readers and scholars where they are able to relate strategic planning, planning outcomes and performance in a real working environment and interrogate the existing theories and concepts in the area of strategic management in the African context.

Kinya (2011) in his study whose main objective was to determine financial management in public libraries interviewed financial executive in public libraries and analyzed the data using correlation model. The study established that the concept and activities involved in library budgeting once were narrowly defined, and for the most part were thought of in terms of working with figures to produce a financial statement report. In recent years, however, there has been increased interest in extending the concept of budgeting not only to Public and university libraries but also research libraries to include activities related to planning, coordination, monitoring and evaluating the entire operation of a library or information systems. There is increased recognition that financial management is fundamental to public library system management because it provides the administrators /management council with a common language for communicating, planning, and one very basis for evaluating proposed plans of action and implementation.

In his study Public Sector Accounting and Financial Management in a Developing Country; Rahaman (2010) explored the conventional view about the widespread

deficiency of public sector accounting and financial management in developing countries. The concept of deficiency is reviewed and then examined through a case study of the Volta River Authority in Ghana. The study pursued this objective by analysing the empirical evidence in a three-dimensional fashion i.e. from a technical rational perspective, socio-historical perspective and socio-economic development perspective. It is found that although the accounting systems at the VRA are technically sound and well operated, they mask deeper 'deficiencies' which become apparent through an appreciation of the socio-political context in which the VRA operates. Also, they hinder the achievement of the original objective of the VRA, the socio-economic development of the country. This may reflect a general 'deficiency of accounting systems based on the entity concept.

In a Study of Strategic Planning in Federal Organizations Kenneth (2010) explores strategic planning in federal agencies. The research sought to uncover difficulties federal agencies experience when making strategic plans, to explore the relationship between these difficulties and the degree of publicness of the agencies, and to uncover and describe techniques used by federal agencies to overcome difficulties. The results present the difficulties and techniques reported by planners in eighteen separate federal agencies and show a relationship between the degree of publicness of the agency and the difficulties encountered in strategic planning. The grand promise of strategic planning has been to increase the efficiency and effectiveness of organizations by improving both current and future operations. Strategic planning provides a framework for management's vision of the future. The process determines how the organization will change to take advantage of new opportunities that help meet the needs of customers and clients. The strategic planning process is used by management to establish objectives, set goals, and schedule activities for achieving those goals and includes a method for measuring progress.

Rosilyn (2007) on behalf of Financial Planning Standards Council (FPSC) conducted a comprehensive evaluation of financial planning activities undertaken by Canadians measuring the impact of financial planning on Canadian's emotional and financial wellbeing. The study sets out to discover whether financial planning really makes a meaningful difference to Canadians; whether Canadians who receive comprehensive planning are better off than those who have not. A total of 8,546 Canadians

participated in this year's study and were segmented into three groups: Those that have comprehensive/integrated financial plans Those with limited planning and those with no planning the study revealed that those Canadians who have engaged in comprehensive financial planning report significantly higher levels of financial wellbeing compared to their limited planning counterparts (an 18% difference); overall contentment (a 28% difference) and peace of mind (a 17% difference). Equally salient – those with comprehensive plans are far more likely to report confidence that they would be able to deal with an economic downturn than those who do only limited planning (a 31% difference). Those who received comprehensive/integrated financial planning believe they are significantly better off than those who have not engaged in any financial planning. Those doing no planning, including Canadians from all net worth levels, are being left behind in significant ways.

2.4 Financial Planning

The purpose of financial planning is, as Eadie (2000) suggests, maintaining a favorable financial balance in the organization. It provides a systematic process for gathering information about the big picture and using it to establish a long-term direction and then translate that direction into specific goals, objectives, and actions. It blends futuristic thinking, objective analysis, and subjective evaluation of goals and priorities to chart a future course of action that will ensure the organization's vitality and effectiveness in the long run.

Over the years a conventional planning process has evolved, based on approaches developed by Bryson (1995), Nutt and Backoff (1992), and others (Koteen 1989), which typically involves clarifying mission and values, developing a vision of the future, analyzing external challenges and opportunities, assessing internal strengths and weaknesses, developing strategic goals and objectives, identifying strategic issues, developing and evaluating alternative strategies, and developing action plans. Yet, a lively debate continues regarding how to go about planning in government in terms of scope (Kaplan and Norton, 1996; Ellingson and Wambsganss 2001), content (Hatry 2002), involvement and participation (Gabris 1989; Geletkanycz and Hambrick 1997; Franklin 2001; Markoczy 2001), and approach (Toft 1989; Roberts 2000).

Most often public managers may fail to link their financial planning efforts to other critical decision-making processes. Mintzberg (1994) is one of the most vocal critics of strategic planning precisely because organizations' planning activities are too often completely divorced from performance measurement and resource allocation.

Thus, effective planning that is all-encompassing process of developing and managing a strategic agenda, is of the utmost importance. Nutt and Backoff (1992), Bryson (1995), and others have discussed the importance of implementing strategic plans by anchoring lower-level planning processes in the strategic plans themselves. Thus, some organizations attempt to ensure their strategic plans drive decisions at all levels by requiring major divisions and subunits to develop their own strategic plans, annual plans, business plans, or action plans that support enterprise-level strategic goals and objectives (Hendrick 2000; Poister and Van Slyke 2002).

Financial planning is concerned with deciding in advance what an organization will do in the future (planning), determining who will do it and how it will be done (resource management), and monitoring and enhancing ongoing activities and operations (control and evaluation). In a seminal piece published a decade later, Vinzant and Vinzant (1996) identified performance measures derived directly from financial goals and objectives, and links between financial plans and budgets, as critical elements of the strategic management process. More recently, Poister and Streib (1999) added financial planning—providing direction and control over the work of managers and employees to ensure their efforts focused on achieving strategic goals and objectives—to the list.

Most of the authors above have discussed the role of financial planning in public service organizations; however, there is no focused study that has been done on financial planning contribution to cost-efficient and effective delivery of public services through improved financial management and operational delivery, supported by better information provision and accountability in decision-making. However, there is need to also re-examine the challenges public organizations face with their financial such as poor and unmanageable integration between planning processes and subsequent performance management of outputs/outcomes; unclear, poorly defined

financial planning processes; poor integration between financial planning, budgeting and forecasting processes, leading to a lack of control and manageability; cumbersome financial planning processes that lack the agility to respond to both internal and external factors; disconnect between financial and operational plans leading to inconsistent target regimes, that are not synchronized with appropriate resource allocation plans. Therefore, the research study sought to fill this research gap by investigating the impact of Financial Planning on the financial performance of public service organization.

2.5 Financial Performance

Performance is the competency of an organization to transform the resources within the firm in an efficient and effective manner to achieve organizational goals (Daft, 1997). Organizational goals vary depending on the purpose for which they are established. Business organizations have profit, growth and survival as the main goals. According to Dyer and Reeves' (1995) definition, organizational performance consists of human resource outcomes (i.e. absenteeism; turnover; individual and group performance), organizational outcomes (productivity, quality and service), and financial outcomes (return on invested capital or return on asset and stock value or shareholder return). Organizational performance can also be defined in terms of the financial, organizational and people management performance measurements.

According to Drago (1990) common financial indicators include: sales growth, return on investment (ROI), return on sales, return on equity (ROE), and earnings per share. However, the popular ratios that measure organizational performance can be summarized as profitability and growth: return on asset (ROA), return on investment (ROI), return on equity (ROE), return on sale (ROS), revenue growth, market shares, stock price, sales growth, liquidity and operational efficiency (Thomas & Ramaswamy, 1996). In more recent research by Delery and Doty (1996), return on average assets (ROA) and return on equity (ROE) were used as financial measures in the banking industry.

According to Dyer and Reeve (1995) organizational outcome measurements included productivity, quality and service. Huselid et al. (1997) defined employee productivity

as the net sales (revenue) per employee. This definition was consistent with prior empirical work and tends to reflect employees' efforts (Delery & Doty, 1996; Huselid et al., 1997). However Huselid et al. (1997) considered the productivity indicator as an incomplete measure of a firm's overall profitability and therefore needed to be considered with other financial measurements. Instead of productivity indicators, Delany & Huselid (1996) chose perceptual measures of the organisations' performance in their study. They selected perceived organisational performance such as product quality, customer satisfaction and new product development. Although perceptual data introduces limitations through increased measurement error and the potential for mono-method bias, it was not unprecedented to use such measures (Delany & Huselid, 1995). For the purpose of this study organizational outcomes consisted of service and product quality, customer satisfaction and new product development.

Fiscal measures embodied in financial planning enable government by means of its aggregate expenditures and taxation to influence and shape incomes, production and employment in desired directions (Rahaman, 2010). The financial plan can in deed have far reaching economic and development implications and so has come to be used as a tool for economic planning, regulating aggregate expenditure and taxation levels, volume of production, income levels, and consequently savings and investment levels and employment. Governments can, and often do use a well coordinated revenue, expenditure and debt programs to influence not only the national economy but also to stimulate development (Rubin, 2000).

Financial planning helps to anticipate problems and information needs; helps to identify solutions without trial-and-error learning; manage resource supply and demand; identify when to focus effort and attention in different areas, facilitating the identification of appropriate sequences; helps to make people's expectations for the timing of activities more concrete (Willoughby & Julia, 2001). Planning helps to turn broad goals into action steps and helps to create timetables for how long tasks should take, to transfer founder's vision to those acting on it, to avoid side-tracking of efforts and helps to correct deviation from objectives (Kenneth, 2010).

2.6 Summary

Financial Planning helps to focus the attention of the managers and subordinates towards organizational objectives. It predetermines the objectives and defines line of action to complete the work. Management of any organization is formed to attain defined objectives. Thus, good management is the management by objectives. Financial Planning serves as the blue print of the course of action and eliminates the unnecessary and useless activities. It focuses to priorities and facilitates to take right decision at the right time. Financial Strategies are specific allocations of time, money and effort, and are designed to achieve the various goals and objectives. The strategies selected must reflect the priorities of the utility as expressed by the mission, goals and objectives.

An essential purpose of financial planning is to assess the financial resources that will be required to implement the programmes and activities to achieve the goals and targets of the plan, to ensure that funding is available as and when needed, and to monitor the efficient use of resources and of progress towards reaching the goals and targets. The processes employed in the allocation of resources serve as a means for dealing with complex, competing objectives in a manner that ensures organizational success and growth.

Financial Planning encourages innovative thought and creative action among the managers. An effective financial planning encourages managers to think about new knowledge, idea, procedures, technique and strategy for the completion of work. It also helps to create new modified course of action. This is essential for the growth and expansion of working areas of the business. It contributes to motivate and develop morals among the employees. It is also helpful to maintain up-to-date position in business operation and face business complexity. The managers innovate and create new strategy to complete the predetermined work in this ever-changing environment.

Financial Planning is the basis of control. It defines the minimum standard of work to be achieved and time to complete the job. It is helpful to compare the actual performance achieved with that of predetermined or standard fixed. The manager evaluates the actual achievement of work interval of time. This is helpful to identify the deviation, if any, between actual and planned performances. In case any deviation

is there, the management can take necessary steps so that defined work can be completed in given time. Thus, planning makes control meaningful and effective. Risk monitoring and control is the processes of keeping track of the identified risks, monitoring the residual risks and identifying new risks. This process should also ensure the execution of the risk plan and continually evaluate the plan's effectiveness in reducing risk. Resource allocations can also be monitored as these too will have been pre-planned and, where appropriate, allocated to the agreed actions. Immediate risk actions should be built in with the other project activities as an integral part of the overall project management plan.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design

The research study used a descriptive survey research design in collecting data from the respondents. Descriptive design portrays an accurate profile of persons, events, or account of the characteristics, for example behaviour, opinions, abilities, beliefs, and knowledge of a particular individual, situation or group (Burns and Grove 2003). The descriptive survey research design is preferred because it ensures complete description of the situation, making sure that there is minimum bias in the collection of data (Kothari, 2003).

3.2 Population

Population is a group of people or objects from which the sample for statistical measurement is taken (Mugenda & Mugenda, 2003). The target population consists of finance managers drawn from each of the forty seven (47) commercial oriented parastatals organizations in Kenya as shown on the appendix 1 obtained from the office of secretary of communication.

3.3 Sample Design

Sampling technique is the procedure a researcher uses to gather people, places or things to study (Orodho & Kombo, 2002). In this case, it refers to the procedure the researcher uses to select the final sample to study. A sample is part of the target (or accessible) population that has been procedurally selected to represent it and whose properties are studied to gain information about the whole.

The study used census-sampling procedure, which involves the use of the entire target population of forty seven (47) finance managers drawn from commercial oriented parastatal organizations as a sample. A census is attractive for small populations. Census eliminates sampling error and provides data on all the individuals in the population (Kothari, 2003).

3.4 Data collection

3.4.1 Data collection Instruments

Data is anything given or admitted as a fact on which a research inference is based, (Mugenda & Mugenda, 2008). Both primary and secondary data was collected. The primary data for this study was collected using the questionnaires and complemented by desk research hence ensuring that detailed and relevant information on the subject of study is collected. The questionnaires that were used in collecting data consisted of a mixture of open ended and close-ended questions.

3.4.2 Data Collection Procedure

The questionnaires were self-administered and each respondent received the same set of questions in exactly the same way. Self-administered method is preferred because the potential anonymity of the respondent can lead to more truthful or valid responses, it is inexpensive and allows the respondents to complete the questionnaires at a convenient time. A cover letter explaining the purpose of the study was attached to the questionnaires. The researcher also looked out for planning trends from written literature in the libraries and other relevant sources.

3.4.3 Reliability and Validity

The questionnaires were pre-tested to discover any possible problems related to the design of the questionnaires in terms of the degree of reliability and validity. In statistical terms, reliability is the ability of an instrument to measure something consistently and repeatedly while validity can generally be described as “the extent to which the research findings accurately reflect the phenomena under study (Munro, 2005). First, the questionnaires design was critiqued by peers, who offered suggestions; secondly, a random sample of fifteen (15) respondents was drawn from the target population who were not be part of the final sample to fill the pilot version of the questionnaires. The results of the pilot test were analyzed using cronbach alpha with a set lower limit of acceptability of cronbach alpha of 0.6.

3.5 Data Analysis

The variables for the analysis include the focus on organization goals, allocation of resources and risk management (independent variables) and financial performance (dependent variable). Focus on organization objectives was measured by: defined

organization objectives; line of action and allocation of resources to each objective; Allocation of resources was measured by: organization objectives, priorities and constraints; Risk management was measured by: identified risks, residual risks and ongoing identification of new risks; risk plan execution; while financial performance was measured by return on sales (ROS), revenue growth, market shares.

Quantitative data, which was collected using closed ended questions in the questionnaires, was chronologically arranged with respect to the questionnaire outline to ensure that the correct code is entered for the correct variable. Data cleaning was then done and tabulated. The study used regression models to analyze the relationship between financial planning and organization financial performance with the aid of SPSS 21. The model is therefore presented in the equation below:

$$Y = \alpha + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + \varepsilon$$

Y = Financial Performance of Public Service Organizations

α = constant

b_{1-4} = Régression Coefficient

X_1 = Focus on Organization Goals

X_2 = Allocation of Resources

X_3 = Risk Management

ε = error term

Qualitative analysis involves coding and organizing collected data into themes and concepts that address the research questions and then analysed using content analysis. Presentation of data is in form of Tables, Pie-charts and Bar graphs only where it provide successful interpretation of the findings. Summary data from a study is presented in the form of a figure, so that it is easy to observe general trends. Descriptive data is provided in form of explanatory notes.

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION OF FINDINGS

4.1 Introduction

After collecting data from the respondents, the data was edited, classified, coded and tabulated. The data analysis was based on the main objective of the study which was to examine the relationship between financial planning and financial performance in public service organizations based on the specific objectives of the study which included focus on organizational objectives, allocation of resources and risk management which were analyzed using statistical tools like pie charts, frequency distribution tables and graphs and the results of the analysis presented.

4.2 Data Presentation

4.2.1 Response Rate

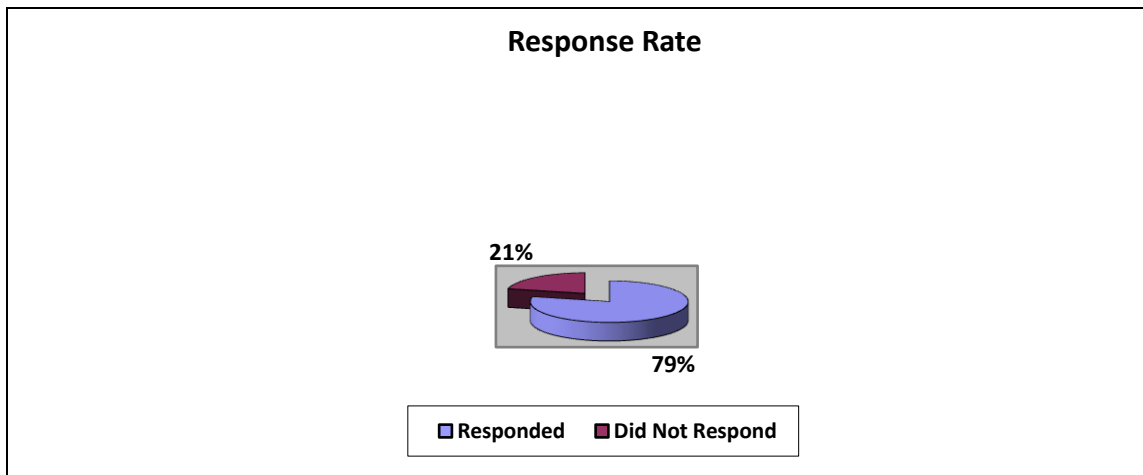
The study below shows the total number of the people who responded and those who did not respond. The total number of questionnaires that were distributed to the field was 47 but 37 questionnaires which represent 79% were returned fully answered while 10 questionnaires, which represent 21%, were not returned. From table 4.1 and figure 4.1, it can be inferred that there was good response rate.

Table 4.1 Response rate

Response rate	Frequency	Percentage
Responded	37	79
Did not respond	10	21
Total	47	100

Source; Author, (2013)

Fig 4.1 Response Rate



Source, Author (2013)

4.2. 2 Respondent Demographics

4.2.2.1 Respondent Position

The study below shows the response the respondent’s positions in the organization. 37.8% indicated they were planners, while 62.2% indicated they were finance managers. From table 4.2 it can be inferred that majority of the respondents were finance managers.

Table 4.2 Respondents Positions in the Organization

	Frequency	Percent	Cumulative Percent
Financial Planner	14	37.8	37.8
Finance manager	23	62.2	100.0
Total	37	100.0	

Source; Author, (2013)

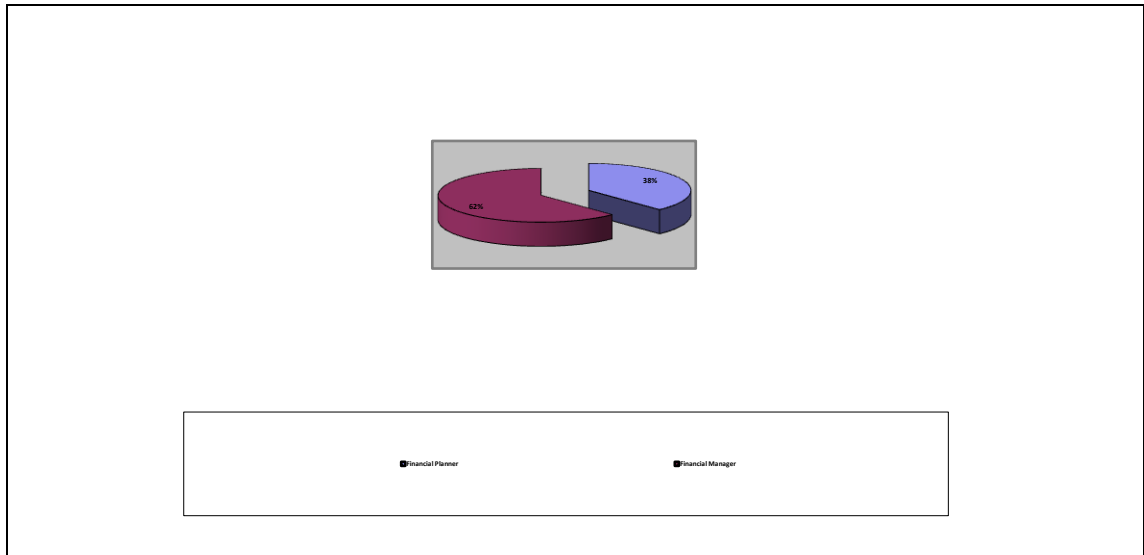


Figure 4.2 Respondents Positions in the Organization

4.2. 3 Financial Planning

4.2.3.1 Undertaking of financial planning

The study below shows the views of the respondents on whether their organization undertakes financial planning. Based on the study 91.9% of the total respondents indicated that their organization undertakes financial planning, while 8.1% of the respondents indicated their organization does not undertake financial planning. From Table 4.3 it can be deduced that the respondent's organizations do not undertake financial planning.

Table 4.3 Organization Undertakes Financial Planning

	Frequency	Percent	Cumulative Percent
Yes	34	91.9	91.9
No	3	8.1	100.0
Total	37	100.0	

Source; Author, (2013)

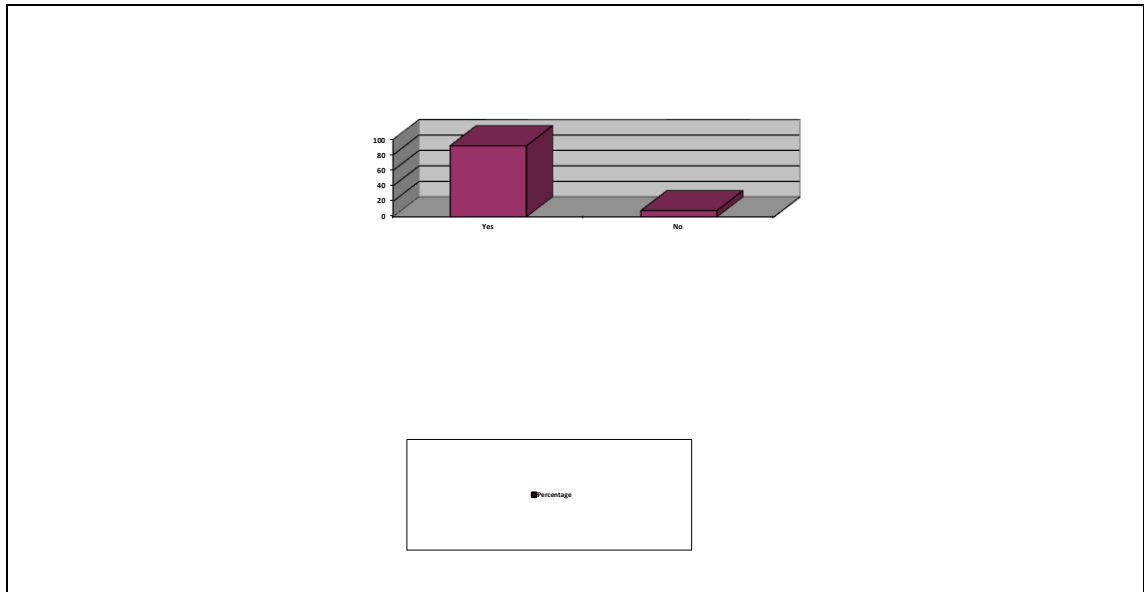


Figure 4.3 Organization Undertakes Financial Planning

4.2.3.2 Frequency of financial planning

The study below shows the views of the respondents on how frequently financial planning is undertaken in the respondent's organization. Based on the study there 24.3% indicated that financial planning is undertaken bi-annually , 64.8% indicated annually, while 10.8% stated that financial planning is undertaken quarterly. From table 4.4, it can be deduced that their organizations undertake financial planning annually.

Table 4.4 How Frequently Financial Planning Is Undertaken

	Frequency	Percent	Cumulative Percent
Quarterly	4	10.8	10.8
Bi-annually	9	24.3	35.1
annually	24	64.8	100.0
Total	37	100.0	

Source; Author, (2013)

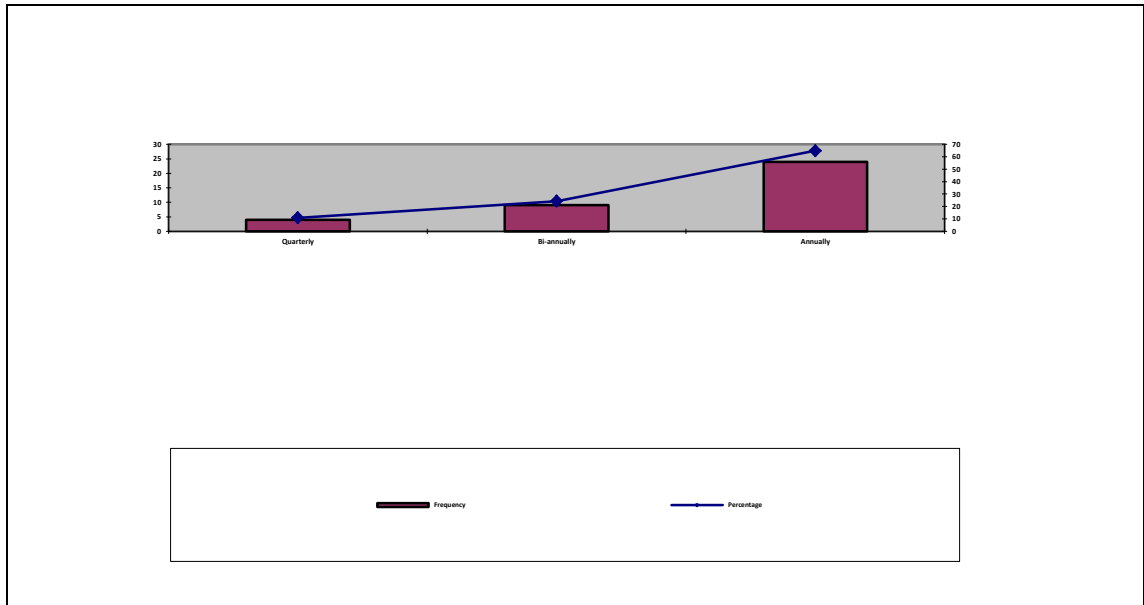


Figure 4.4 How Frequently Financial Planning Is Undertaken

4.2.3.3 Influence of Financial Planning on Financial Performance

Table 4.5 and Figure 4.5 below show the views of the respondents on whether financial planning facilitates financial performance of the organization. Based on the study 78.4% indicated that financial planning does facilitate financial performance of the organization, while 21.6% indicated that financial planning does not facilitate financial performance of the organization. From the study it can be deduced that financial planning facilitates financial performance of the organization.

Table 4.5 Financial Planning Facilitates Financial Performance of Organization

	Frequency	Percent	Cumulative Percent
Yes	29	78.4	78.4
No	8	21.6	100.0
Total	37	100.0	

Source; Author, (2013)

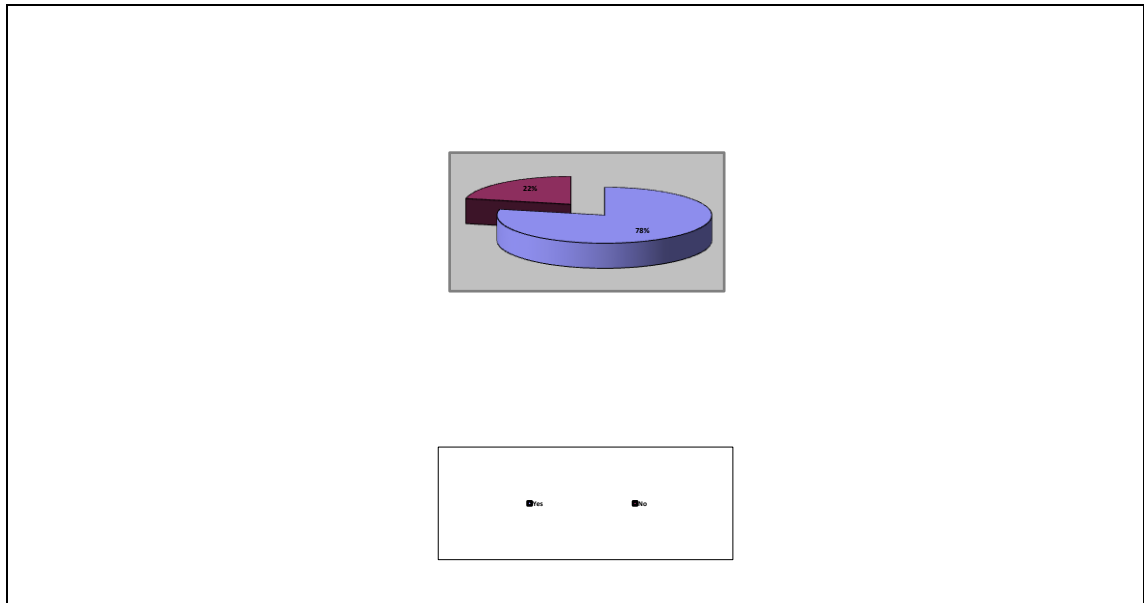


Figure 4.5 Financial Planning Facilitates Financial Performance of Organization

4.2.3.4 Measures of Financial Performance

Results on Table 4.6 and Figure 4.6 below show the views of the respondents on financial performance. Based on the study majority (43.2%),(45.9%),(48.6%)and(40.5%) greed and strongly agreed, that financial planning: facilitates sales growth in the organization; ensures that the organization gets a return on its investment; facilitates the organization to realize revenue growth; and enables the organization to increase its market share as shown in the table 4.6 below.

Table 4.6 Financial Performance

Statement	SA %	A %	(n=37)		
			N %	D %	SD %
sales growth	43.2	29.7	13.5	13.5	
return on investment	45.4	24.3	24.3	5.9	
revenue growth	35.1	48.6	5.4	10.8	
increase its market share	40.5	35.1	10.8	13.5	

Source; Author, (2013)

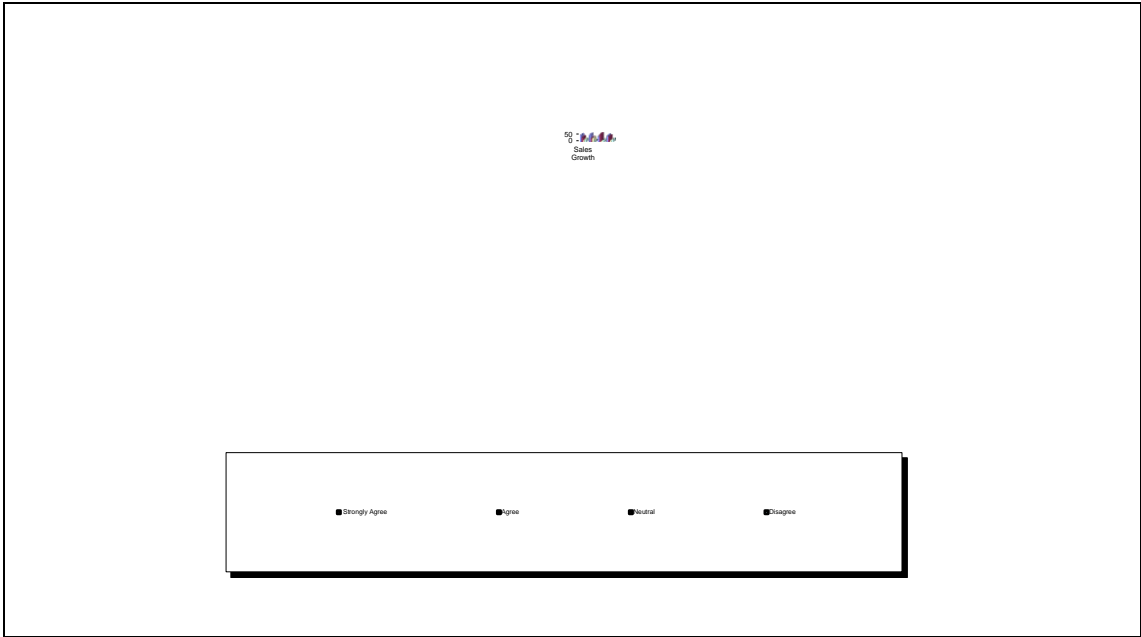


Figure 4.6 Financial Performance

4.2.3.5 Measures of Performance and Financial Performance

Table 4.7 below shows correlations between financial planning and sales growth, return on investment, revenue growth and increase in market share, while holding the correlation coefficient (r) value at between plus and minus one (-1.00 and +1.0), significance level of alpha = .05. (95%), Degrees of freedom (df) of 7, and two-tailed test.

The results of the analysis indicated: correlation coefficient (r) = .833; coefficient of determination (r²) = .693 indicating that 69% of the sales growth, return on investment, revenue growth and increase its market share can be related to financial Planning. Since the correlation of .693 is positive it can be concluded that the correlation is statistically significant, hence, there is a positive relationship between sales growth, return on investment, revenue growth and increase its market share and financial planning.

Table 4.7 Relationship between sales growth, return on investment, revenue growth and increase in market share and Financial Performance

	R	R Square	df	Sig
	.833 ^a	.693	7	.028

b. Dependent Variable: Financial Performance

4.2. 4 Focus on organization objectives

4.2. 4.1 Influence of focus on organization objectives

According to the study 81.1% of the respondents indicated that focusing on organization objectives during financial planning does influence financial performance of the organization, while 18.9% indicated that focusing on organization objectives during financial planning does not influences financial performance of the organization. Based on Table 4.8 and figure 4.7 below it can be inferred that focusing on organization objectives during financial planning influences financial performance of the organization.

Table 4.8 Focusing on Organization Objectives during Financial Planning Influences Financial Performance of The Organization

	Frequency	Percent	Percent	Cumulative Percent
Yes	30	81.1	81.1	81.1
No	7	18.9	18.9	100.0
Total	37	100.0	100.0	

Source; Author, (2013)

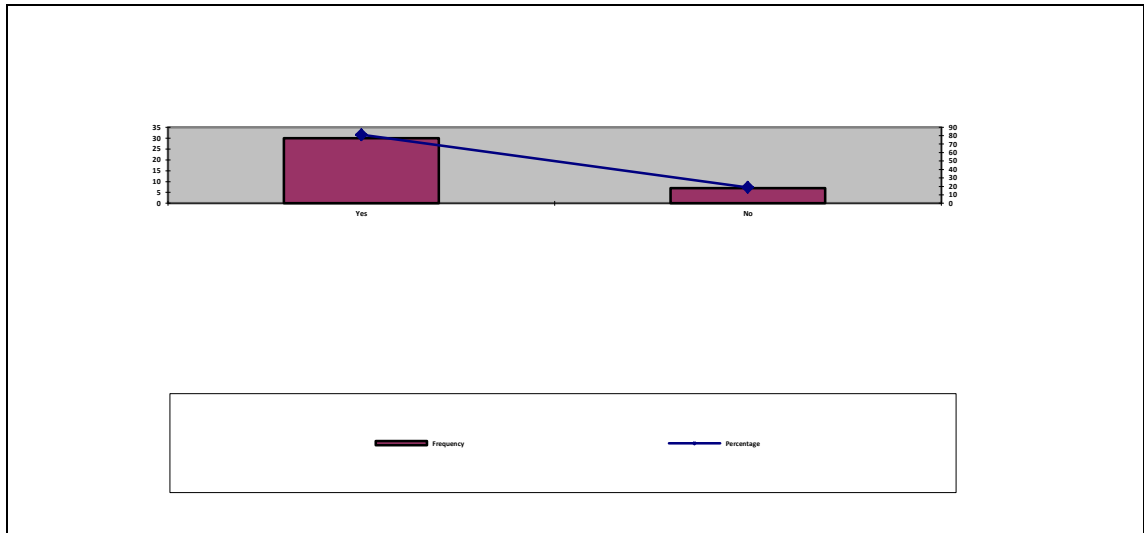


Figure 4.7 Focusing on Organization Objectives During Financial Planning Influences Financial Performance of The Organization

4.2.4.2. Importance of Focusing on Organization objectives

According to the study, majority, (56.8%, 43.2%, 45.9 %, 40.5% and 54.1%) agree and strongly agree respectively on whether financial planning clearly defines organization objectives; helps to turn broad goals into action steps; helps to create schedules of how long objective tasks should take and resultant cost; facilitate identification of appropriate sequence of performance of objectives; and helps to avoid side-tracking of efforts and facilitate monitoring and review to correct deviation from objectives as indicated in the table 4.9 and figure 4.8 below.

Table 4.9 Importance of Focusing On Organization Objectives

Statement	SA %	A %	(n=37)		
			N %	D %	SD %
Financial Planning defines organization objectives	27.0	56.8	10.8	5.4	
Financial planning turn broad goals into action steps	27.0	43.2	16.2	13.5	

Financial Planning create schedules of tasks and resultant cost	45.9	27.0	8.1	18.9
Financial planning facilitate a sequence of performance	27.0	40.5	10.8	21.6
Financial Planning helps to avoid side-tracking of efforts	24.3	54.1	8.1	13.5

Source; Author, (2013)

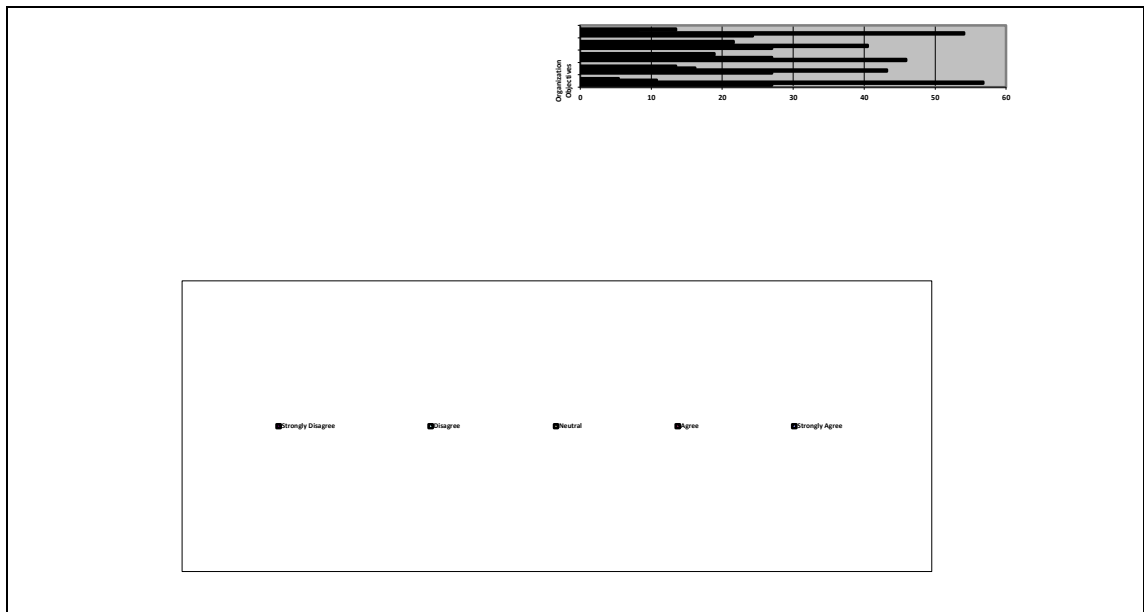


Figure 4.8 Importance of Focusing On Organization Objectives

Findings from qualitative study indicated that most of the respondents acknowledged that risk management influence financial performance as management is facilitated to factor various risks associated with organization operation into the planning process; determines the strategies and resources that need to be assigned to the organization operation process so as to effectively manage the identified risk.

4.2.4.3 Relationship between financial performance and focus on organization objectives

Holding the correlation coefficient (r) value at between plus and minus one (-1.00 and +1.0); significance level of alpha = .05. (95%), Degrees of freedom (df) of 6, and using two-tailed test. The results of the correlation analysis indicated: (r) = .684; (r²) = .467 (indicating that .47% of the financial performance can be related to focus on

organization objectives). Since the correlation of .467 is positive it can be concluded that there is a positive relationship between financial performance and focus on organization objectives.

Table 4.10 Relationship between financial performance and focus on organization objectives

	R	R Square	df	sig
1	.684 ^a	.467	6	.041

b. Dependent Variable: Financial Performance

Qualitatively most employees indicated that financial planning focuses management and staff effort towards the achievement of organizational goal; set the responsibility and accountability of managers, facilitates employees to convert individual goals to organizational objectives, while defining authority and responsibility of each and every manager and employee.

4.2.5 Allocation of Resources

4.2.5.1 Influence of allocation of Resources on Financial Performance

Findings on Table 4.11 and Figure 4.9 below indicate the views of the respondents on whether allocation of resources affects the financial performance of the organization. Based on the study 86.5 % of the total respondents indicated allocation of resources does affect the financial performance of the organization, while 13.5% of the respondents indicated allocation of resources does not affect the financial performance of the organization. From the study it can be deduced that allocation of resources affects the financial performance of the organization.

Table 4.11 Allocation of Resources Affects the Financial Performance of The Organization

	Frequency	Percent	Cumulative Percent
Yes	32	86.5	86.5
No	5	13.5	100.0
Total	37	100.0	

Source; Author, (2013)

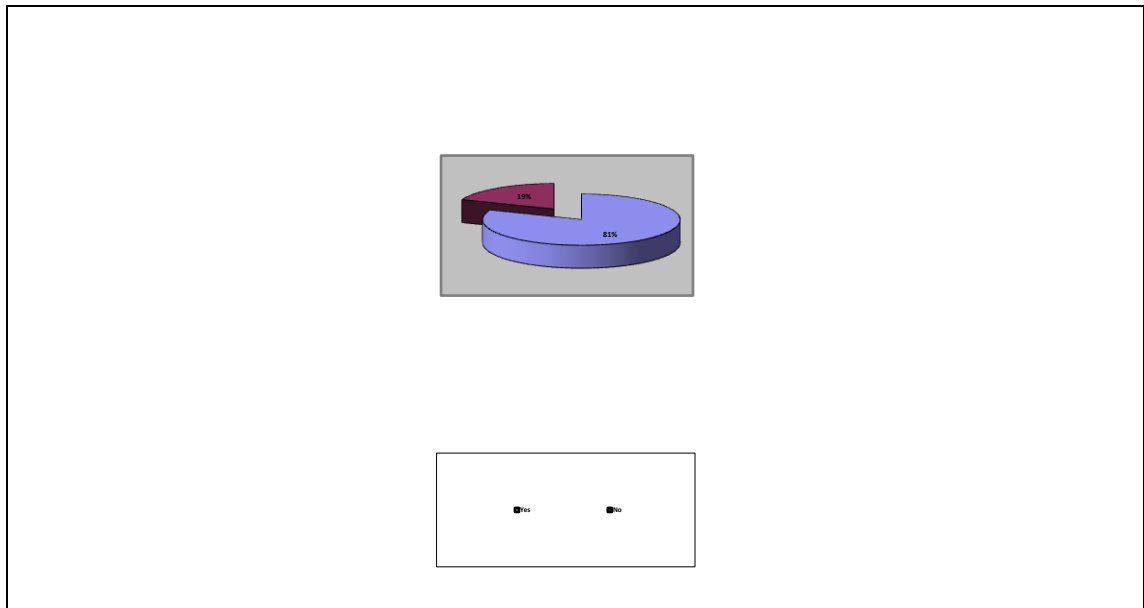


Figure 4.9 Allocation of Resources Affects The Financial Performance

4.2.5.2 Importance of Allocation of resources

Based on the below study, majority (54.1%, 37.8%, 33.3%, 37.8%, 35.1% and 32.4%) of the respondents, agreed and strongly agreed respectively that financial planning facilitates the assessment of the financial resources that will be required to implement activities to achieve performance goals; allocates resources in accordance with organization objectives; in allocating resources base it on organization priorities and constraints; manage resource supply and demand in the organization; ensures that funding is available as and when needed; and facilitates the monitoring of efficient use of resources and of progress towards reaching the set performance goals as shown in the table 4.12 and figure 4.10 below.

Table 4.12 Importance of Allocation of resources

Statement	SA %	A %	(n=37)		
			N %	D %	SD %
Review Requires financial resources	13.5	54.1	10.8	11.1	10.5
Allocation of resources	24.3	37.8	16.2	13.1	8.5
Allocation based on organization priorities	25.0	33.3	8.3	19.0	14.4

Management of supply and demand of resources	29.7	37.8	5.4	16.0	11.0
Ensure availability of funding	29.7	35.1	10.8	15.2	9.1
Facilitate monitoring of use of resources	32.4	27.0	18.9	14.2	7.4

Source; Author, (2013)

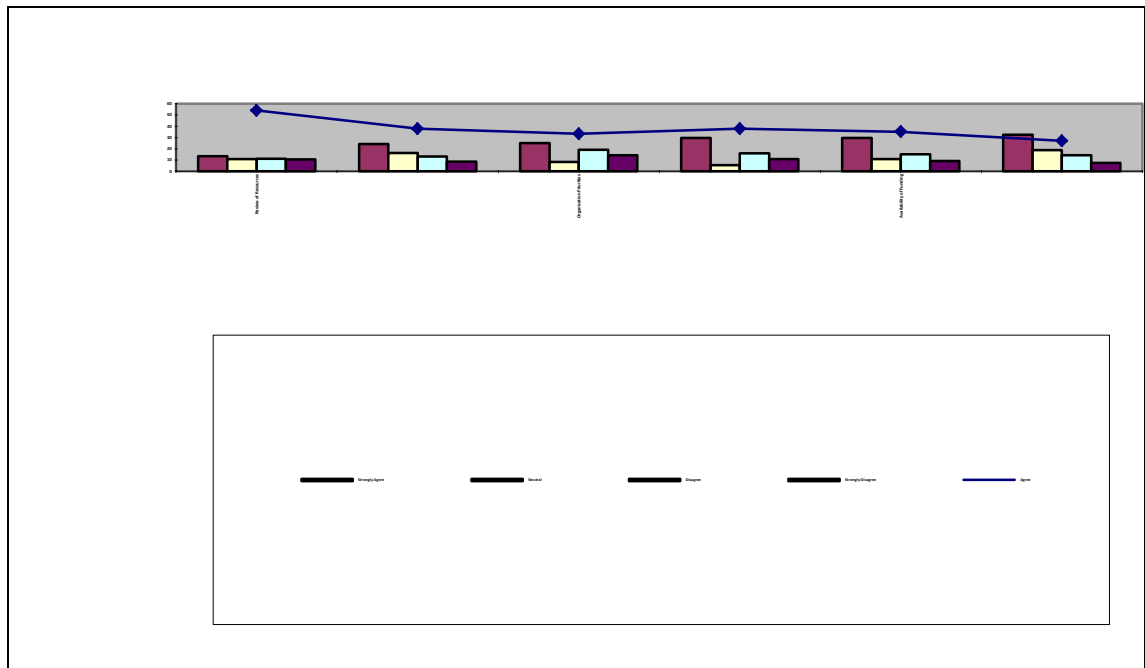


Figure 4.10 Importance of Allocation of resources

4. 2 .5 .2 Relationship between allocation of resources and Financial Performance

The correlations between allocation of resources and financial performance, initially held the correlation coefficient (r) value at between plus and minus one (-1.00 and +1.0), significance level (alpha) = .05. (95%), (df) = 6 and two-tailed test.

The study results indicated: (r) = .683; (r²) = .466 (indicating that 47% of the financial performance can be related to allocation of resources. Since the correlation of .466 is positive it can be concluded that the correlation is statistically significant, hence there is a positive relationship between allocation of resources and financial performance.

Table 4.13 Relationship between allocation of resources and Financial Performance

R	R Square	Df	Sig
.683 ^a	.466 ^a	6	.031

b. Dependent Variable: Financial Performance

Qualitatively, majority of respondents acknowledged that allocation of resources such as employees; financial resources and time in hours needed to carry out actual work is necessary for the operation of the organization and in the achievement of the set financial performance..The allocation process also includes when these resources are to be assigned; how such resources are to be managed, directed, and supervised and who will be accountable.

4.2.6 Risk Management

4.2.6.1 Influence of Risk Management on Financial Performance

The study below shows the views of the respondents on whether risk management influences the financial performance of public service organizations. Based on the study 64.9% of the total respondents indicated that risk management does influence the financial performance of public service organizations, while 35.1% of the respondents indicated risk management does not influence the financial performance of public service organizations. From Table 4.14 and figure 4.11 it can be deduced that risk management influences the financial performance of public service organizations.

Table 4.14 Risk Management Influences the Financial Performance

	Frequency	Percent	Cumulative Percent
Yes	24	64.9	64.9
No	13	35.1	100.0
Total	37	100.0	

Source; Author, (2013)

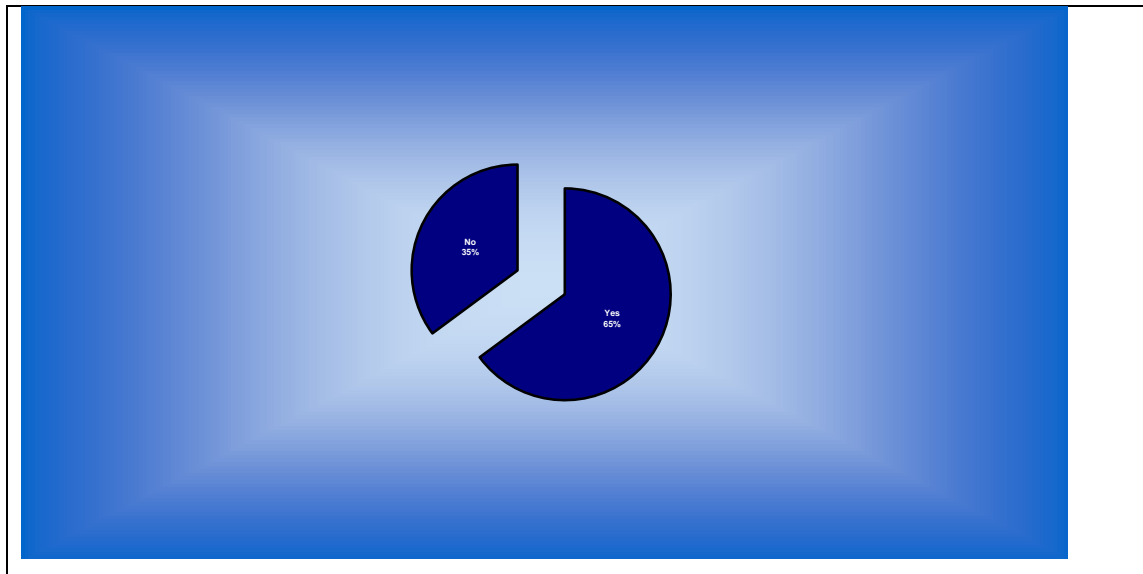


Figure 4.11. Risk Management Influences the Financial Performance

4.2.6. 2 Importance of Risk Management

Based on the study below, majority (45.9%),(43.2%),(40.5%), (35.1%), (35.1%) and(37.8%), agreed and strongly agreed that risk management: involve establishing specific action plans to manage the risks; facilitates keeping track of the identified risks monitoring the residual risks and identifying new risks; facilitates the execution of the risk plan and the evaluation of the plan's effectiveness in reducing risk; enables management to choose alternative strategies and to implement a contingency plan; enables the identification of fall-back plans to drive, inform and support risk response planning; facilitate regular risk reviews and taking corrective action to improve performance; in the organization enables the monitoring of risks to ensure that they remain within the agreed business limits as shown in the table 4.15 and figure 12 below.

Table 4.15 Risk Management

Statement	SA	A	(n=37)		
			N	D	SD
	%	%	%	%	%
Financial Planning involves establishing specific action plans to manage risks	13.5	45.9	10.8	18.4	11.3
Financial planning facilitates keeping track of the identified risks	32.4	43.2	8.1	9.1	7.2
Financial Planning facilitates the execution of the risk plan	43.2	48.2	5.1	17.5	12.2
Financial Planning enables management to implement risk management strategies and contingency plan	24.3	40.5	10.8	16.2	8.1
Financial Planning enables the identification of fall-back plans to drive, inform and support risk response planning	24.3	35.1	16.2	17.3	7.0
Financial Management facilitate regular risk reviews and taking corrective action	35.1	32.4	10.8	7.4	5.2
Financial planning enables the monitoring of risks to ensure that they remain within the acceptable limits	37.8	35.5	8.1	10.4	8.5

Source; Author, (2013)

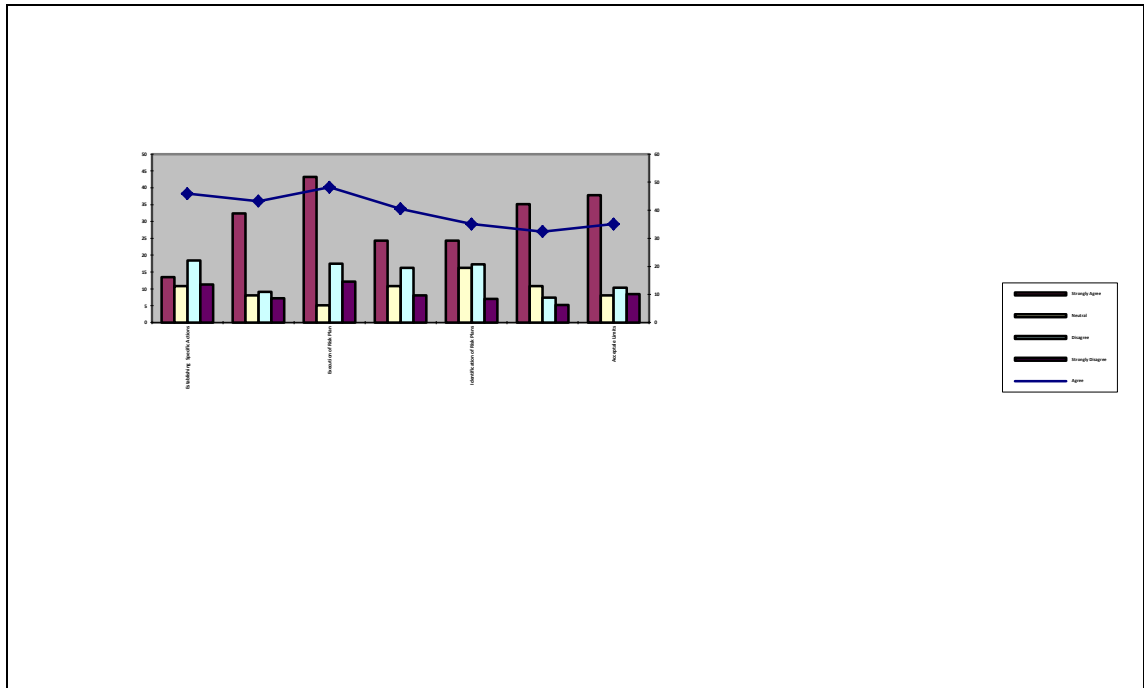


Figure 4.12 Risk Management

4.2.6.3 Relationship between Risk Management and Financial Performance

The study held the correlation coefficient (r) value at between plus and minus one (-1.00 and +1.0), significance level (alpha) at .05. (95%), Degrees of freedom (df) at 6 and based on two-tailed test. The results of the correlation analysis showed, (r) = .833 and (r²) = .693 (indicating that 69% of the financial can be related to risk management). Since the correlation of .693 is positive it can be concluded that the correlation is statistically significant, hence there is a positive relationship between risk management and financial Performance.

Table 4.16 Relationship between Financial Performance and Risk Management

R	R Square	df	Sig
.833 ^a	.693	6	.026

b. Dependent Variable: Financial Performance

4.2.7 Relationship between independent and dependent Variables

The study examines whether the coefficients on focus on organization objectives, allocation of resources and risk management is different from 0 so that these measures have a relationship with financial performance or if alternatively any apparent differences from 0 is just due to random chance. The study used a significance level (alpha) of 0.05 (95%), Degrees of freedom (df) of 5, and two-tailed test.

The degree to which focusing on organization objectives, allocation of resources and risk management is related to financial performance is expressed in the positive (r) = 0.789, (r^2) = 0.622 (indicating 62% probability of organization objectives, allocation of resources and risk management being related to financial performance; computed t-value ($t=2.001$) (is smaller than the critical t-value ($t=2.015$) and p-value = 0.227 (larger than the significance level of 0.05). The results of the study indicate that there is a significant relationship between focusing on organization objectives, allocation of resources, risk management and financial performance.

Table: 4.17: Regression Model

Model	R	R Square	df	P-Value	Sig.
1	0.789 ^a	0.622	5	0.227 ^a	0.039 ^a

a. Dependent Variable: Financial Performance

Table 4.18 Coefficients^a

	B	Std. Error	Beta	t	Sig.
(Constant)	1.419	0.230		6.169	0.000
Focus on Organization Objectives	1.146	0.097	0.089	2.554	0.037
Allocation of Resources	0.809	0.085	-0.159	2.736	0.054
Risk Management	0.738	0.084	-0.021	2.068	0.048

a. Dependent Variable: Financial Performance

4.3 Summary & interpretation of findings

4.3.1 Financial Measures and Financial Performance

Results of the study indicated that majority (78.4%) of the respondents acknowledged that financial planning facilitate financial performance of the organization, while most (43.2%),(45.9%),(48.6%)and(40.5%) of the respondents agreed and strongly agreed, that financial planning: facilitates sales growth in the organization; ensures that the organization gets a return on its investment; facilitates the organization to realize revenue growth; and enables the organization to increase its market share. The results of the correlation analysis indicated: correlation coefficient (r) = .833; coefficient of determination (r^2) = .693 indicating that 69% of the sales growth, return on investment, revenue growth and increase its market share can be related to financial Planning. Since the correlation of .693 is positive it can be concluded that the correlation is statistically significant, hence there is a positive relationship between sales growth, return on investment, revenue growth and increase its market share and financial planning. These study findings are in line with the findings of Vinzant and Vinzant (1996) identified performance measures derived directly from financial planning and links critical elements of organization objectives or goals, resource allocation and risk management with return on investment, asset and a significant growth in sales and market share.

4.3.2 Focus on Organization Objectives

The findings of the study indicated that most (86.5%) of the respondents indicated that focusing on organization objectives during financial planning does influence financial performance of the organization, majority of the respondents, (54.1%, 37.8%, 33.3%, 37.8%, 35.1% and 32.4%) agreed and strongly agreed respectively as to whether financial planning: assesses the financial resources that will be required to implement activities to achieve performance goals; allocates resources in accordance with organization objectives; in allocating resources base it on organization priorities and constraints; manage resource supply and demand in the organization; ensures that funding is available as and when needed; and facilitates the monitoring of efficient use of resources and of progress towards reaching the set performance goals. while the results of the relationship between financial performance and focus on organization objectives showed a positive correlation of : (r) = .684; (r^2) = 467

(indicating that 47% of the financial performance can be related to focus on organization objectives). since the correlation of .467 is positive it can be concluded that there is a positive relationship between financial performance and focus on organization objectives.

The findings reflect those of Kathryn, Jennings and Allen (2002) who established that financial Planning helps to focus the attention of the managers and subordinates towards organizational objectives, predetermines the objectives and defines line of action to complete the work; serves as the blue print of the course of action and eliminates unnecessary activities and focuses the organization effort on priorities to achieve organization financial performance. These findings are in line with the observations of Rubin (2000) who indicated that undertaking financial planning is critical to the success of any organization as it provides the organization with rigor, by confirming that the objectives set are achievable from a financial point of view. These is also in concurrence with the observations of Finkler (2005) who indicated that the processes employed in the financial planning serve as a means for dealing with complex, competing objectives in a manner that ensures organizational financial performance and growth.

4.3.3 Allocation of Resources

Most (81.1 %) of the total respondents indicated allocation of resources does affect the financial performance of the organization, while, majority (54.1%, 37.8%, 33.3%, 37.8%, 35.1% and 32.4%) of the respondents, agreed and strongly agreed respectively that financial planning facilitates the assessment of the financial resources that will be required to implement activities to achieve performance goals; allocates resources in accordance with organization objectives; in allocating resources base it on organization priorities and constraints; manage resource supply and demand in the organization; ensures that funding is available as and when needed; and facilitates the monitoring of efficient use of resources and of progress towards reaching the set performance goals. On the relationship between allocation of resources and financial performance, the study results indicated: $(r) = .683$; $(r^2) = .466$ (indicating that 47% of the financial performance can be related to allocation of resources. Since the correlation of .466 is positive it can be concluded that the correlation is

statistically significant, hence there is a positive relationship between allocation of resources and financial performance.

The findings confirm Willoughby and Julia, (2001) sentiments that an essential purpose of financial planning is to assess the financial resources that will be required to implement organization activities, to ensure that funding is available as and when needed, and to monitor the efficient use of resources to achieve organization profitability. The finding also confirm the views of Rosilyn (2007) who pointed out that an essential purpose of financial planning is to assess the financial resources that will be required to implement the programmes and activities to achieve the goals and targets of the plan, to ensure that funding is available as and when needed, and to monitor the efficient use of resources and of progress towards reaching the goals and targets.

4.3.4 Risk Management

Results of the study showed that majority (64.9%) of the total respondents indicated that risk management does influence the financial performance of organizations, majority (45.9%),(43.2%),(40.5%), (35.1%), (35.1%) and(37.8%), agreed and strongly agreed that risk management: involve establishing specific action plans to manage the risks; facilitates keeping track of the identified risks monitoring the residual risks and identifying new risks; facilitates the execution of the risk plan and the evaluation of the plan's effectiveness in reducing risk; enables management to choose alternative strategies and to implement a contingency plan; enables the identification of fall-back plans to drive, inform and support risk response planning; facilitate regular risk reviews and taking corrective action to improve performance; in the organization enables the monitoring of risks to ensure that they remain within the agreed business limits the results on the relationship between risk management and financial Performance indicated: $(r) = .833$ and $(r^2) = .693$ (indicating that 69% of the financial can be related to risk management). Since the correlation of .693 is positive it can be concluded that the correlation is statistically significant, hence there is a positive relationship between risk management and financial Performance.

The results of the study concurs with sentiments expressed by Ellingson and Jaco (2001) that management must consider critical risk areas that can affect the financial performance of the organization; nature of specific controls; effective in

preventing or detecting and correcting such risks. These findings are also in agreement with the observations of Denhardt (2006) who noted that assessment of risk is an essential part of financial planning because it determines the quantity and quality of resource allocation necessary to guarantee the projected performance level. On the same issue Hendrick, (2000) contend that it is the system of internal control that management need to evaluate when determining the levels of risk and overall financial statement risk in existence so as to determine the level of work needed and the resources to be allocated.

4.3.5 Relationship between Planning and Financial Performance

Results of the findings on the relationship between organization objectives, allocation of resources risk management and financial performance was expressed in the positive coefficient of determination (r^2) = 0.622 (indicating 62% probability of organization objectives, allocation of resources and risk management being related to financial performance); computed t-value ($t=2.001$) and p-value = 0.227 indicating that there is a significant relationship between focusing on organization objectives, allocation of resources, risk management and financial performance of public organizations. This is in line with while, Poister and Streib (1999) who indicated that financial planning provides direction and control over the work of managers and the utilization and management of organization resources to ensure their efforts focused is aligned to the achievement of organizations strategic goals and objectives.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

The study established that financial planning ensures commitment of management and staff towards organizational goal. It set the responsibility and accountability of managers to facilitate employees to convert individual goals to organizational objectives, while defining authority and responsibility of every manager and employee. The study also established that financial planning is characterized by identification of basic goals and objectives of the organization, directing as well as harmonizing all activities in all functional areas in line with these objectives.

The research study established that financial planning facilitates the allocation of resources necessary to the production and sales of company products, marketing effort and maintenance of company production facilities and workforce. The study also found out that financial planning helps management to determine the resources necessary to achieve the set organization objectives. Resources that are allocated include experienced employees or experts, financial resources and time in hours needed to work. The allocation process also includes when these resources are to be assigned; how such resources are to be managed, directed, and supervised and who will be accountable.

The study established that identifying and prioritising risk and instituting management measures during financial planning influence financial performance as this facilitates management to factor various risks associated with operations of the organization because it determines the quantity and quality of products that will need to be produced and sold, the operation levels of the both the facilities and the staff and consequently the resources that need to be assigned. This risk may include, inaccurate or incomplete record of sales movements resulting in lack of awareness of the actual sales position and difficulties in meeting customer needs; lack of security over sales and company products resulting in loss, theft or misappropriation of resources held, products incorrectly supplied to customers, resulting in financial loss. The study established without prioritising risk areas the outcome of financial performance is likely to be affected.

5.2 Conclusions

Financial planning ensures commitment of management and staff towards organizational goal. It sets the responsibility and accountability of managers to facilitate employees to convert individual goals to organizational objectives, while defining authority and responsibility of every manager and employee. Financial planning helps the management to determine the resources necessary to achieve the level of productivity, sales performance and human resource skill levels to achieve financial performance set by the organization. In order to achieve the requisite financial performance, financial planning enables management to assign resources to specific production areas, such as the use of appropriately experienced employees to high-risk areas. Others are, time hours to be allocated, the amount of resources to assign to specific areas, such as the number of staff assigned to undertake production, sales and marketing, inventory management, human resources review and, how these resources are to be directed, supervised and who will be accountable.

An essential purpose of financial planning is to assess the financial resources that will be required to implement the programmes and activities to achieve the goals and targets of the plan, to ensure that funding is available as and when needed, and to monitor the efficient use of resources and of progress towards reaching the goals and targets. The processes employed in the allocation of resources serve as a means for dealing with complex, competing objectives in a manner that ensures organizational success and growth.

Financial planning facilitate management to factor various risks associated with organization operation into the planning process because it determines the quantity and quality of evidence that will need to be gathered and the resources that need to be assigned to the financial planning process. These risks may include: inadequate or inappropriate inventory held hence become unable to meet the demands of sales and production, poor distribution network resulting in poor cash flow and financial loss, among others. Financial Planning is the basis of control as it defines the minimum standard of work to be achieved and time to complete the job, compare the actual performance achieved with that of predetermined or standard fixed, identify the deviation, if any, between actual and planned performances facilitating management to take necessary steps to correct the deviations.

5.3 Policy Recommendations

There is need for finance managers and employees to focus the whole organization operation towards organizational objectives by defining the line of action to complete the work, setting the blue print of the organization course of action, eliminating the unnecessary activities and focusing on priorities and facilitating the taking of the right decision at the right time.

In the allocation of resources there is need for management to consider the complexity of the entity's systems and controls and the manner in which they are used, the extent to which data is shared among systems; the organization use of technologies; staffing and timing requirements of the specific financial resources, the experience of staff, organization objectives and procedures, other issues that may affect the nature, timing, and extent of organization profitability.

Prior to financial planning and even during implementation there is need for management to acquire appropriate information on the risk area and their nature so as to reliably assess levels of risk with full understanding of the organization and its internal and external environment.

There is need for management to undertake effective risk management through active process of regular risk reviews and the commitment to anticipate and influence events before they happen by taking a proactive approach. It is also important to provide knowledge and information about predicted events, inform and, where possible, improve the quality of decision making, keep track of the identified financial risks, monitoring the residual financial risks and identifying new financial risks.

There is also need for the organization to facilitate critical examination of costs and outcomes, which includes consideration of all types of costs-direct, indirect, capital, and non- capital costs as well as support costs, while considering all plausible alternatives, strategies for achieving them, and the probable consequences of each alternative activities in terms of costs-benefits ratio relative to identified objectives. The clear and accurate examination of these costs will lead to organization success through financial performance.

5.4 Limitations of the study

Some respondents did not provide authentic information but instead provided general information making it difficult to obtain the required information. However, the researcher alternated closed and open-ended questions in order to get direct answers.

In order to assure manageability of the collected data, the study used questionnaire that rely on self report responses, however the problem with using a questionnaire is that it is based on the assumption that participants would respond to the questions in an honest and accurate manner. Nevertheless, it is not always the case that participants answer in an honest manner. This is because participants often give answers that they believe to be desirable. However, the researcher used qualitative data to complement the information obtained through the questionnaire.

Owing to the nature of the subject respondents, some reluctance was experienced from some respondents in terms of disclosing information with regards to the financial planning arising from fear of being reprimanded by the managers in the organization who are responsible for handling issues related to the matter under study. However, the researcher assured the respondents of the confidentiality of the information that they provided and sought authority from management to undertake research in the organization. The researcher also attached the letter of authority from the university to the questionnaire so as give further assurance on the purpose of the study.

There were some respondents who did not provide authentic information but instead provided general information making it difficult to obtain the required information. However, the researcher alternated closed and open-ended questions in order to get direct answers.

5.5 Suggestions for further Research

This study only examined specific effects of financial planning on financial performance such as focus on organization objectives, allocation of resources and risk management, however, there are other effects of financial planning which equally contribute to financial performance, hence it is recommended that further research on subject be done to identify and examine other additional variables.

Due to the limiting factors mentioned earlier in this study, it was not possible to carry out a comprehensive research on each of the variables and determine in detail how each of these variables contribute to financial performance. Therefore, it is strongly recommended that further research on each of these variables be carried out.

Although this research establishes a base set of principles of financial planning, it is suggested that research is done to test and incorporate other principles, which may be appropriate. The research of principles remains theoretical in nature. It is strongly recommended that research is done which examines how effective Financial Planners are at applying the principles of practice management. It is felt that this will link the theory and actual experience together and provide insight into how effective the theory is.

This study suggests that the application of these financial planning principles leads to improved financial success for the Financial Planner. It is strongly recommended that further empirical research on this subject be conducted, as it would help develop the subject matter further. In closing, this research has presented principles, which it is hoped will deepen the understanding of the organization financial planning process and the role of practice management and in so doing further the body of knowledge related to this field.

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APPENDICES

Appendix I

LIST OF GOVERNMENT PARASTATALS IN KENYA,

1. Agricultural Development Corporation
2. Agricultural Finance Corporation
3. Agro-Chemical & Food Company Ltd
4. Athi Water Services Board
5. Bomas of Kenya Ltd
6. Brand Kenya
7. Catering Tourism and Training Development Levy Trustees
8. Central Water Services Board
9. Chemilil Sugar Company Limited
10. Coast Water Services Board
11. Communication Commission of Kenya
12. Consolidated Bank of Kenya
13. Cooperative College of Kenya
14. East African Portland Cement Co.
15. Gilgil Telecommunications industries
16. Industrial and Commercial Development Corporation
17. Industrial Development Bank
18. Kenya Literature Bureau
19. Kenya Meat Commission
20. Kenya National Assurance Company
21. Kenya National Trading Corporation Limited
22. Kenya Ordinance Factories Corporation
23. Kenya Pipeline Company Ltd
24. Kenya Ports Authority
25. Kenya Post Office Savings Bank
26. Kenya Re-insurance Corporation
27. Kenya Safari Lodges & Hotels

28. Kenya Seed Company Ltd
29. Kenya Utalii College
30. Kenya Wildlife Service
31. Kenya Wine Agencies Limited
32. Kenyatta International Conference Centre
33. Lake Victoria South Water Service Board
34. National Bank of Kenya
35. National Oil Corporation of Kenya Ltd
36. New K.C.C
37. Numerical Machining Complex
38. Nyayo Tea Zones Development Corporation
39. Nzoia Sugar Company
40. Postal Corporation of Kenya
41. Rift Valley Water Services Board
42. School Equipment Production Unit
43. South Nyanza Sugar Company
44. Telkom (k) Ltd
45. University of Nairobi
46. Water Resources Management Authority
47. Water Services Regulatory Board

Appendix II

RESEARCH QUESTIONNAIRE

Please answer all the questions as best as you can.

Please Tick as appropriate

PART 1: Demographic Factors

1. Name : ____Optional

2 Positions in the Organization

Planner Finance Manager

PART 2: Financial Performance

3.Does your organization undertake financial planning?

Yes No

4. How frequently does your organization undertake financial planning?

Quarterly Bi-annually annually

5. Does financial planning facilitate financial performance of the organization?

Yes No

Please explain your answer above

.....

6. Please tick the statement corresponding to the situation for each statement

	Strongly agree	Agree	Neutral	disagree	Strongly disagree
Financial planning facilitates sales growth in the organization					

Financial planning ensures that the organization gets a return on its investment					
Financial planning facilitates the organization to realize revenue growth					
Financial Planning enables the organization to increase its market share					

PART 3: Focus on Organization objectives

8. Does focusing on organization objectives during financial planning influence financial performance of the organization?

Yes [] No []

9 Please explain your answer above

.....
.....
.....

10. Please tick the statement corresponding to your organization situation

	Strongly agree	Agree	Neutral	disagree	Strongly disagree
Financial planning clearly defines organization objectives					
Financial Planning helps to turn broad goals into action steps					
Financial planning helps to create schedules of how long objective tasks should take and resultant cost					
Financial planning facilitate identification of appropriate sequence of performance of objectives					

Financial planning helps to avoid side-tracking of efforts and facilitate monitoring and review to correct deviation from objectives					
--	--	--	--	--	--

PART 4: Allocation of Resources

11. Does allocation of resources affect the financial performance of the organization?

Yes [] No []

12 Please explain your answer above

.....

.....

.....

13. Please tick the statement corresponding to your organization situation

	Strongly agree	Agree	Neutral	disagree	Strongly disagree
Financial planning assesses the financial resources that will be required to implement activities to achieve performance goals					
Financial planning allocates resources in accordance with organization objectives					
Financial planning in allocating resources base it on organization priorities and constraints					
Financial planning manage resource supply and demand in the organization					
Financial planning ensures that funding is available as and when needed					
Financial planning facilitate the monitoring of efficient use of resources and of progress towards reaching the set performance goals					

PART 5: Risk Management

14. Does risk management influence the financial performance of public service organizations?

Yes [] No []

15. Explain your answer above

.....

.....

.....

16. Please tick the statement corresponding to your organization situation

	Strongly agree	Agree	Neutral	disagree	Strongly disagree
Risk management involve establishing specific action plans to manage the risks					
Risk management facilitates keeping track of the identified risks monitoring the residual risks and identifying new risks.					
Risk management facilitates the execution of the risk plan and the evaluation of the plan’s effectiveness in reducing risk.					
Risk management enables management to choose alternative strategies and to implement a contingency plan					
Risk management enables the identification of fall-back plans to drive, inform and support risk response planning.					
Effective risk management facilitate regular risk reviews and taking corrective action to improve performance					
Risk management in the organization enables the monitoring of risks to ensure that they remain within the agreed business limits					

Thank You for Your Co-Operation