THE EFFECT OF FINANCIAL PLANNING ON THE FINANCIAL PERFORMANCE OF AUTOMOBILE FIRMS IN KENYA

BY

JOSEPH MWAURA

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DECLARATION

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

Signed………………………. Date:……………………….

Joseph.W.Mwaura

This Research project has been presented for examination with my approval as the Supervisor.

Signed……………………… Date………………………..

Dr. J.Aduda

DEDICATION

I dedicate this research project to my late parents Wilson Mwaura and Rose Mwaura who have inspired me to undertake my project. I would also like to dedicate my project to my siblings and close friends who have provided me with moral support and encouragement while working on my project.

ACKNOWLEDGEMENT

I would like to take this opportunity to thank Almighty God for His guidance, care and providence which enabled me to undertake this project.

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ABSTRACT

Financial planning is an integral part of financial management which deals with the management of a firm's funds with a view to maximizing profit and the wealth of shareholders. The purpose of financial planning is to determine where the firm has been, where it is now, and where it is going. It also determines deviations from the most likely outcome. Finance is concerned with the study of the problems involved in acquisition and use of funds by a business enterprise. Financial planning involves analyzing financial flows of a firm as a whole, forecasting the consequences of various investment, financing and dividend decisions and weighting the effects of various alternatives. Financial planning is the core of financial management. It helps management to avoid waste by furnishing policies and procedures which make possible a closer coordination between the various functions of the business.

The design of the study is descriptive research method. In addition both qualitative and quantitative methods were applied in data collection and analysis. The descriptive design is found to be suitable because it addresses major objectives and research questions proposed in the study adequately. The study gathered primary data. Primary data was obtained through questionnaires to randomly selected employees from the selected companies. The use of questionnaires was recommended since it guaranteed confidentiality to the respondents thus they acted without any fear or embarrassment.

The aim of this study was to find out whether financial planning has an impact on the financial performance of the firms in the automobile industry in Kenya. The results of the study indicated that the financial planning measures such as earnings before interest and tax and the capital employed which comprises of fixed assets and working capital had an impact on the financial performance of the firm measured by return on capital employed(ROCE). This implies that a percentage change in the financial planning measures will have an effect on the financial performance of a firm. This study showed that there is strong relationship between financial planning and financial performance of a firm. The success of any business depends on the manner the financial plans are formulated. Therefore, it can be concluded that financial planning has an effect on the financial performance of automobile companies in Kenya.

LIST OF ABBREVIATIONS

CEO	-	Chief Executive Officer
CFO	-	Chief Finance Officer
EPS	-	Earnings per Share
KMI	-	Kenya Motor Industry Association
ROCE	-	Return on Capital Employed

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Financial planning involves analyzing financial flows of a firm as a whole, forecasting the consequences of various investments, financing and dividend decisions and weighting the effects of various alternatives. Financial planning is the core of financial management. The complex nature of business demands that management should place greater emphasis upon financial planning to secure and employ capital resources in the amount and proportion necessary to increase the efficiency of remaining factors of production. Financial planning is needed both in dynamic and perfect economic conditions. It helps management to avoid waste by furnishing policies and procedures which make possible a closer co-ordination between the various functions of business (Oye, 2006).

Financial planning must however be complemented by control in order to achieve the basic aim of planning. The actual results must be measured concurrently against projections. Control is the financial management function which must be exercised by executive personnel of the business enterprise to achieve the goals established by the planning function. It deals with testing the degree of management performance in the attainment of the set objectives. It is also a check to deviations from the planning function, and once the causes for the difference between the actual and expected performance have been identified, a corrective action should be initiated. Financial planning can be defined as the process which assures that financial resources are obtained economically and used efficiently and effectively in the accomplishment of desired goals. It covers the entire process of monitoring actions emanating from the decisions. Seen as an integral part of financial management, it also forms part of budgeting, accounting, reporting and review. The budget is then put in practice and results expected. Budgetary control system forms a good basis of controlling plans. Definitely, actual activities are monitored and their results measured and then compared with plan. Then significant deviations from plan are identified and reported upon. The last step is to investigate the deviations accordingly and take corrective measures (Samuel, 1980).

The success of any business depends on the manner the production and distribution functions are coordinated. An important function of financial planning is the coordination of the various decisions taken within a company so that they are mutually consistent, having regard for financial aims and constraints. The exercise of this function is perhaps most clearly seen in formulating financial plans which involves merging of estimates of each department into a budget for the whole firm. In this process the financial manager holds a strategic position. Without coordination, individuals and departments would lose sight of their roles within the organization. They would begin to pursue their own specialized interests, often at the expense of the large organizational goals. Also, the point to be emphasized is that the activities of all departments must mesh. It is through budgeting that the activities of various departments are coordinated and unnecessary wastage of resources and efforts is stopped. Budgeting requires each manager to establish a proper rapport between the activities of his department and that of other departments. Any imbalance in the relationship between the departmental activities should be identified and corrective measure taken (Brockinton, 1987).

Many organizations adopt various strategies among which is the financial planning and control. Financial planning and control is an integral part of financial management which deals with the management of a firm's funds with a view to maximizing profit and the wealth of shareholders. The purpose of financial planning is to determine where the firm has been, where it is now, and where it is going. It also determines deviations from the most likely outcome. Financial planning is concerned with the study of the problems involved in the acquisition and use of funds by a business as well as the function of profit planning for the business organization. Planning can be defined as a managerial tool through which objectives and goals are determined and the future course of action to attain them, while control is a management action to ensure conformity with a plan or budget. Many will produce detailed plans for one year and more general financial plans for three to five years (Koontz, 1988).

Financial Planning is a continuous process that flows with strategic decision making. The Operating Plan and the Financial Plan will both support the Strategic Plan. The best place to start in preparing a budget is with sales since this is a driving force behind much of our financial activity. However, we have to take into account numerous factors before we can finalize our budgets. The Budgets include

sales forecasts, production forecasts, and other estimates in support of the Financial Plan. Collectively, all of these budgets are referred to as the Master Budget that will act as a basis of carrying out a comprehensive financial plan in the firm. Budgeting should be flexible, allowing modification when something changes (Matt, 2000).

Financial performance refers to the act of performing financial activity. In broader sense, financial performance refers to the degree to which financial objectives being or has been accomplished. It is the process of measuring the results of a firm's policies and operations in monetary terms. It is used to measure firm's overall financial health over a given period of time and can also be used to compare similar firms across the same industry or to compare industries or sectors in aggregation (Metcalf and Titard, 1976).

Financial Performance in a firm is mainly measured by financial statements. A financial statement is an organized collection of data according to logical and consistent accounting procedures. Its purpose is to convey an understanding of some financial aspects of a business firm. It may show a position at a moment of time as in the case of a Balance Sheet, or may reveal a series of activities over a given period of time, as in the case of an Income Statement. Financial analysts often assess firm's production and productivity performance, profitability performance, liquidity performance, working capital performance, fixed assets performance, fund flow performance and social performance. However in the present study financial health of a firm is measured from the following perspectives; Working capital Analysis, Financial structure Analysis, Activity Analysis and Profitability Analysis (Lundberg, 1982).

One of the biggest challenges within financial planning and budgeting is how do we make it value-added. Budgeting requires clear channels of communication, support from upper-level management, participation from various personnel, and predictive characteristics. Budgeting should not strive for accuracy, but should strive to support the decision making process. If we focus too much on accuracy, we will end-up with a budgeting process that incurs time and costs in excess of the benefits derived. The challenge is to make financial planning a value-added activity that helps the organization achieve its strategic goals and objectives. Budgeting should be both top down and bottom up; i.e. upper level management and middle level management will both work to finalize a budget. We can streamline the budgeting process by developing a financial model. Financial models can facilitate "what if" analysis

so we can assess decisions before they are made. This can dramatically improve the financial planning process (Matt, 2000).

A company will carry out an intensive financial plan if the financial condition is poor so as to try and improve the financial performance of the firm in the future. Without carrying out a financial plan a firm will risk been a going concern. A company will have to adjust to the prevailing economic conditions that exist. It will come up with a high level financial planning and forecasting model that will ensure that the company safe guards its financial assets and achieve high financial performance (Koontz, 1988).

The competitive situation varies from one industry to another. Some industries have a high competitive situation than others. A firm that operates in a highly competitive situation will have to come up with a detailed financial plan that will address the competitive situation so as to ensure high financial performance of a firm at any given point in time. The current technological trend has enable firms to easily come up with a detailed and complex financial plan and budgets that will provide a guide on how the company will increase its financial performance in the future. This has enabled many firms and also industry to develop a master financial plan to boost financial performance in the industry such as the banking industry (White, 1997).

The Automotive industry in Kenya is primarily involved in the retail and distribution of motor vehicles. There are a number of motor vehicle dealers operating in the country, with the most established being Toyota (East Africa), Cooper Motor Corporation, General Motors, Simba Colt and DT Dobie Kenya. There are also three vehicle assembly plants in the country, which concentrate on the assembly of pick-ups and heavy commercial vehicles like the automobile vehicle assemblers. The established dealers face intense competition from imported second-hand vehicles, mainly from Japan and United Arab Emirates. These imports now account for about 70% of the market. The last decade witnessed a significant decline in the number of new vehicles sold in the country. There has been a steady recovery in the last four years, but the numbers achieved still fall far short of the numbers recorded a decade ago. In 2004, the leading motor vehicle companies recorded sales of 9,979 units. Although 27% better than the previous year, this is still well below the levels achieved in the early 1990's.The slump in the volume of new cars sold is attributable the increased competition from second hand vehicles and the depressed

economic environment**.** The Kenya Motor Industry Association (KMI), the representative body of the corporate participants in the motor industry, has been lobbying hard to reverse this trend. Some of these measures have helped the industry recover from its lowest point in 2000, when only 5,869 units were sold. On their part, the companies themselves have become more innovative in responding to customer needs. Some of the measures that KMI has been advocating include, Implementation of strict criteria on importation of second hand vehicles, Incentives to promote local assembling of commercial vehicles and Export incentives aimed at encouraging car manufacturers to expand operations in the region**.**

(http://www.pwc.com/ke/en/industries/automobile.jhtml)

1.2 Research Problem

Managing business performance in today's complex and rapidly changing business climate is crucial for any organization's short-term and long-term success. In order to maintain investor confidence and provide insight to top management, there is an increased demand for organizations to provide prospective insights on business trends and drivers of performance. Financial planning, a key component of managing and driving business performance, continues to be of limited value and mired with conservatism for many organizations. Extended financial planning and forecasting cycle times that delay decision making, financial drivers and metrics that don't align with strategies and the ownership of planning projections that often gets attached to finance adds to the frustration with many planning and forecasting functions (Brigham,1992).

Most firms seem to be applying financial planning but not generating high financial performance as compared to other firms like the banking and insurance industry which heavily apply financial planning strategies. Financial planning provides a solution where by firms come up with financial objectives for both short and long term goals. The company in turn formulate policies relating to cash flows, borrowing of funds, investment and expansion strategies. Financial planning is important to plan for coming up with value adding budgets and raising finance from different sources so that the requisite amounts of finance are made available to compensate the requirement of business processes. These requirements may be in the nature of short-term (temporary overdraft, etc.), medium-term (acquisition of assets, etc.) and long-term (term loans,

etc.).Financial planning in turn ensures that a firm aligns its financial objectives with its vision and objectives (Adeniyi, 2004).

Financial planning involves a strategic plan which includes the plan that supports the mission, vision and values of the organization. Operating plans which includes a detailed guidance to help organizations realize its strategic vision. Financial Plan which involve the forecasting of financial statements, the amount of money that supports the plan, forecasting of funds, performance-based management system, and the monitoring of operations after executing the plan to check any nonconformities and take actions towards it (Ehrhardt and Brigham, 2011).

1.3 Objective of the study

To determine the effect of financial planning on financial performance of automobile firms in Kenya.

1.4 Significance of the Study

There are two factors related to the process of financial planning that in themselves already are of great importance for the organizations, first the fact that planning imposes the agents to project the conjugated effects of all the decisions of investments and financings of the companies and according to the necessity of pondering on the possible events that could directly or indirectly affect the company as well as the formulation of alternative strategies to combat possible difficulties or of taking advantage of new opportunities (Brealy and Myers, 1998).

This study benefits business firms as they are able to appreciate how financial planning can enhance a firm's competitive advantage in managing costs and risks. This study also enables firms to appreciate the importance of financial planning and how it enables a firm to come up with both short term and long term goals of managing and increasing its resources. Financial planning serves as a blue print of a firm's future financial plan in terms of cash flow management, investments and expansion plans.

This study enables researchers to have an insight of financial planning and appreciate its magnitude within the business sector in Kenya. A researcher can be able to analyze the study and identify any possible research gaps that would enable a further research on the field of financial planning that would help improve its application in the business sector such as the automobile industry.

This study enables investors to normally look at areas to pin point on before making a decision to invest in any corporate institution. An investor needs to be certain on the future financial plans of a firm they are intending to provide their capital. An investor will invest only in those firms that have a financial plans which provides a comprehensive forecast on areas like sales, production, investments and any expansion plans that will maximize shareholders wealth

This study enables the government to consider enhancing its laws to encourage financial planning so that a firm would be able to pay its taxes on time. It's through financial planning that a firm may be able to determine its current and future taxation plans. Such information would be useful to the government through the treasury department to determine its estimated future revenues and thus enable the government to determine its taxation plans and policies for the future.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Financial planning is the task of determining how a business will afford to achieve its strategic goals and objectives. Usually, a company creates a financial plan immediately after the vision and objectives have been set. The Financial Plan describes each of the activities, resources, equipment and materials that are needed to achieve these objectives, as well as the timeframes involved. 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 (Warschauer, 2002).

Financial planning should include some guidelines such as the identification of the company's financial goals and an analysis of the differences between those goals and the company's current financial situation, and a declaration of the necessary actions to be taken, so that the company achieves its financial goals. Thinking in this way one observes that initially an analysis of the financing options and investment that the company disposes of should be made as well as a performance evaluation related to the objectives established at the beginning of the financial plan. In the implementation of the plan an itinerary and adjustments of the projections is fundamental in function of the variations of the internal and external atmosphere of the organization (Pandey, 1985).

The long term financial plans (strategic) serve as script in the preparation of the short term financial plans (operational).The short term financial plans are visualized in one period from one to two years, the long term plans already go from two to ten years. Naturally these periods change according to the activity and the interests of the organization. This will help in reducing the uncertainties or risks which can be a hindrance to growth of the company. This helps in ensuring stability and profitability in concern. Therefore the financial plan can be very helpful for business owners to withstand the bad times and excel during the good times (Gitman, 1997).

2.2 Review of Theories

2.2.1 Agency Theory

Agency theory is directed at the ubiquitous agency relationship, in which one party (the principal) delegates work to another (the agent), who performs that work. Agency theory is concerned with resolving two problems that can occur in agency relationships. The first is the agency problem that arises when (a) the desires or goals of the principal and agent conflict and (b) it is difficult or expensive for the principle to verify what the agent is actually doing. The problem here is that the principal cannot verify that the agent has behaved appropriately. The second is the problem of risk sharing that arises when the principal and agent have different attitudes towards risk. The problem here is that the principle and the agent may prefer different actions because of the different risk preferences (Eisenhardt, 1989).

2.2.2 Modern Portfolio Theory

Modern portfolio theory is a theory of finance that attempts to maximize portfolio expected return for a given amount of portfolio risk, or equivalently minimize risk for a given level of expected return, by carefully choosing the proportions of various assets.

Modern portfolio theory asserts that firms choose investments based on discounted future expected returns and that for maximum risk adjusted returns firms should diversify across industries and asset classes. It was basically a methodology for producing balanced portfolios. On the business front it has assisted financial managers to come up with a balance portfolio of investments through the financial planning process of securing and employing capital resources on assets that will generate optimal returns (Markowitz, 1952).

2.2.3 Trade-off Theory

The trade-off theory of capital structure refers to the idea that a company chooses how much debt finance and how much equity finance to use by balancing the costs and benefits. The classical version of the hypothesis goes back to (Kraus and Litzenberger, 1973) who considered a balance between the dead-weight costs of bankruptcy and the tax saving benefits of debt. Often agency costs are also included in the balance. An important purpose of the theory is to explain the fact that corporations usually are financed partly with debt and partly with equity. It states that there is an advantage to financing with debt, the tax benefits of debt and there is a cost of financing

with debt, the costs of financial distress including bankruptcy costs of debt and non-bankruptcy costs (e.g. staff leaving, suppliers demanding disadvantageous payment terms, bondholder/stockholder infighting, etc.). The marginal benefit of further increases in debt declines as debt increases, while the marginal cost increases, so that a firm that is optimizing its overall value will focus on this trade-off when choosing how much debt and equity to use for financing (Miller,1977).

2.3 Empirical Studies

Financial planning is a means of assembling the funds necessary to initiate a new activity. It provides the basis for continued operation and furnishing additional capital, covering the costs of operation and generally synchronizing the various factors of a going business. Underlying these two functions is the formulation of policy, which provides a sense of direction and actual plan of operation. Organization of these functions is important for all types of business units, especially in private undertakings where small and medium scale investments are much higher. It is necessary to organize the financial planning function in such a manner that should help the business in achieving its basic objectives with minimum costs (Pandey, 1985).

Comprehensive financial planning is required to monitor financial capability over time in order to most profitably operate the organization. Owners seek to maximize profits regardless of the tax status of the organization not for profit or investor owned. While organizations that do not generate a return on assets in excess of their cost of capital are in danger of financial failure numerous areas of financial performance are often used to monitor asset productivity One predominant monitor of financial performance is return on capital employed (ROCE) which is also widely used in other industries (Beith and Goldreich, 2000).

Many large companies are using the new or contemporary financial planning and control systems. Some small business managers are also looking for information on the latest management systems because they realize that they need to develop their skills and educate themselves. Small businesses that operate in uncertain and competitive environments need to plan and control their operations because this will help owners/managers to run their businesses successfully (Hogsett, 1981).

Capital intensity, the amount of capital required for operations was inversely related to financial performance as most organizations in early stages of development required greater capital before becoming established, and less once they became a mature entity. The Monte Carlo risk Simulation was seen as a means of describing uncertainty projecting a better view of potential outcomes. It showed that simulation analysis has application in budgeting, forecasting, and other areas of financial modeling, and should be part of a comprehensive process of financial planning (Langabeer, 1998).

One area that has received little attention in the establishment of strategies, especially in the study of micro, small and medium-sized enterprises, is that of financial decisions, even though it is a determinant of business competitiveness. Financial analysis and planning, which represent basic features that support organizational strategy, are nonetheless virtually non-existent in micro and small enterprises, which impose a constraint on the kind of financial decisions businesspeople can take. Financial strategy represents a path to achieve and maintain business competitiveness and position a company as a world class organization. Financial strategies are goals, patterns or alternatives designed to improve and optimize financial management in order to achieve corporate results (Lopez, 2006).

A study on the configuration theory and firm's resource based view to understand the relationship between strategic financial planning and the firm's performance. Their findings also provide partial support for a positive relationship between strategic financial planning and performance. However, they concluded that this relationship is moderated by organizational stage of development and that it is beneficial to early stage firms. The underlying premise for these conclusions are based on the development competitive advantages provided by the structure and the future thinking incorporated into the strategic process and the non-sustainability and erosion of these advantages in late stage firms, whose processes are more prone to imitation (Sarason and Tegarden, 2003).

It is suggested that a sensibility analysis should be made in the most outstanding and susceptible aspects, in which the agents analyze the consequences of the plan with the base on the most probable circumstances group, to continue they do the pretexts variation, one in turn, analyzing its influence in the results of the plan. There are even, methods based on software which calculate the variation possibility for each plan component, with base on the possibility that each one of them could take place (Brealey and Myers, 1998).

Financial strategy consists of three interrelated kinds of decisions: investment, funding and working capital decisions. Investment decisions relate to the allocation of capital to carry out investment opportunities that are valuable (bring value) to the company, taking into account the magnitude, opportunity and risk of the future cash flows of investment. Funding decisions concern the specific mix of long-term debt and capital that the company uses to finance its operations, i.e., optimal capital structure. Working-capital decisions include the management of short-term assets and liabilities in a way that ensures the adequacy of resources for company operations. Assuming the corporate aim is to maximize profits, it is important for businesses to seek the optimum combination of the three kinds of financial decisions (Ross et al., 2000).

During the 1990s the financial planning industry grew due to the favorable economy and the entrance of many traditional banks and brokerages houses. The banks and other financial service companies began to see the value in hiring financial advisors to promote their products and services. This shift blurred the lines between the financial planning and the much large financial services industries. During this time the financial planning industry grew to include a broad variety of insurance, estate planning, investment and tax planning experts. This helped financial planning evolve into a comprehensive personal finance solution. Financial planning in the future will be driven by both individual people who develop a love and affection for planning as well as a trend toward larger firms to the extent that they don't lose their trusted relationship ties with their clients. One area that has completely changed financial planning is technology as technology continues to evolve, it will enable planners to be efficient, able to serve more clients, in a more timely and thoughtful way, even as the margins of the business may decline (Mccrillis,2011).

2.4 Local Studies

Oduor (2003).He carried out a study on the effect of financial planning strategies on the financial performance of the local commercial banks in Kenya analyzing the manner in which financial strategies have impacted the high financial performance of the local commercial banks in Kenya. He carried out a survey study on the commercial banks in Kenya where he wanted to identify which strategies were the banks applying that were bringing about the high financial performance they were achieving. He collected data from the commercial banks which showed that the banks had indeed applied financial planning techniques and strategies in its operations that led to the high financial performance of the banks.

Kalimalwendo (2005).He carried out a study on the weak application of financial planning and budgeting in the development of the co-operative sector analyzing how financial planning was not been applied. He wanted to investigate as to the reasons why financial planning was not been applied in the co-operative sector in East Africa. He carried out his study in Tanzania and Kenya where he wanted to know why the cooperative societies were not keen on applying financial planning in managing its financial resources. He observed that many cooperative societies in East Africa were mismanaging its finances to the extent that some were either dissolved or shut down altogether. He collected data from the cooperative societies in Kenya and Tanzania which showed that they applied very little financial planning in managing its finances and as a result deduced that a weak application of financial planning resulted in poor management of the cooperative finances and poor financial performance of the cooperative sector.

Mohammed (2008).He carried out a study to determine the importance of financial planning in micro finance firms. The study was addressing the need for such firms to apply financial planning in the management of its resources to enhance efficiency and minimize costs in the micro finance firms in Kenya. He carried out his study on micro finance firms among them been Kenya women finance trust which is one of the fastest growing micro finance firms specializing on providing finances to women intending to start or expand their business ventures. He wanted to identify which financial planning techniques the firms were applying in managing and allocating its financial resources so as to enhance efficiency, expand and minimize its costs. He collected data from the micro finance firms which showed that firms which had adopted financial

planning techniques in managing and allocating resources achieved high efficiency, growth and minimized their costs. The firms which had applied little or no financial planning techniques had lower efficiency and slower financial growth.

2.5 Financial Planning

Financial planning and forecasting represents a blueprint of what a firm proposes to do in the future. So, naturally planning over such horizon tends to be fairly in aggregative terms. While there are considerable variations in the scope, degree of formality and level of sophistication in financial planning across firms, we need to focus on common elements which include Economic assumptions, Sales forecast, Pro forma statements, Asset requirements and the mode of financing the investments (Chandra, 2007).

In general usage, a financial plan can be a budget, a plan for spending and saving future income. This plan allocates future income to various types of expenses, such as rent or utilities, and also reserves some income for short-term and long-term savings. A financial plan can also be an investment plan, which allocates savings to various assets or projects expected to produce future income, such as a new business or product line, shares in an existing business, or real estate (Khan, 1984).

2.5.1 Short-term Financial Plan

This is prepared for maximum one year. This plan looks after the working capital needs of the company. Short-term financial decisions ensure the firm's liquidity and are critical to the short-term survival of the business. A company will also make decisions on short term sources of financing its activities which mainly are loans from commercial banks and direct market borrowing through commercial paper issues (Mudit, 2011).

Companies develop short-term financial plans to meet budget and investment goals within one fiscal year. These plans have a higher degree of certainty compared to long-term plans. Short-term plans often are amended as financial and investment goals change. Businesses and individuals alike use short-term plans to manage short-term cash deficits. When it becomes evident that severe cash shortages will occur, a cash-flow forecast becomes necessary. The

forecast should estimate total cash collections and total cash payments during each quarter in at least three various scenarios: worst case, most likely and best case. You'll need to know the difference between the total collections and total payments to ascertain whether there is a deficit in any quarter of the year. For each cash-inflow and outflow item, you must account for all relevant increases and decreases. This includes early payment discounts from creditors, deferred expense payments and cash sales (Davoren, 2009).

2.5.2 Medium-term Financial Plan

This is prepared for a period of between two to five years. This plan looks after replacement and maintenance of assets, research and development and so on. It mainly provides an intermediary between long term financial plans and the short term financial plans. The main objective is to ensure companies existing assets are bringing value for money where by the benefits of the assets exceed the costs of the same assets. It is through medium term financial planning that the firm will be able to identify assets that are no longer bringing value and make a decision to replace such assets depending on the positive cash flow position of the firm. Medium term financial planning also enables a firm to carry out research and development where it plans the costs of the research and development. Many firms do not actually carry out medium term financial planning as it's mostly categorized on long term financial planning (Mudit, 2011).

2.5.3 Long-term Financial Plan

This is prepared for a period of more than five years. It looks after the long-term financial objectives of the company, its capital structure, expansion activities and so on. Long-term financial planning provides a strategy for the future financial growth and expansion of a company. These types of decisions have extended lead times and require a long-term view of how to implement the strategy. The strategy makes certain assumptions, based on such factors as the future economic outlook, interest and inflation rates, product sales and revenue projections, and business environment assessments based on specific regulatory and tax structures. The purpose of establishing the plan is to set financial milestones that, once achieved, result in successfully realizing long-term financial objectives. Both cash budgeting and long-term financial planning are focused on the financial health of a company. In both cases the objective is

to maximize the efficient use of capital in order to create shareholder value and expand operations. Long-term plans are created for major strategic decisions made by a business such as take over and merger activity, expansion of capacity, development of new products and overseas expansion (Houston, 2000).

Corporations use forecasting to do financial planning, which includes an assessment of their future financial needs. Forecasting is also used by outsiders to value companies and their securities. This is the aggregative perspective of the whole firm rather than looking at individual projects. Growth is a key theme behind financial forecasting, so growth should not be the underlying goal of corporation creating shareholder value is enabled through corporate growth (Chandra, 2007).

2.6 Financial Performance

Financial planning of a firm normally originates from the financial position and structure of the firm. Such information is derived from the financial statement which is the yard stick to evaluate and monitor performance. Business executives use financial statements to draft a comprehensive financial plan that will maximize share holders wealth and minimize possible risks that may pre exist. Financial Statements generally evaluate the financial position and performance of a business. They are produced for external stakeholders like shareholders, government agencies, lenders etc. These statements are produced to meet the requirements of local government and its authorities for financial reporting (Tufano, 1995).

Profitability is the main factor which needs to be measured. The objective of every business is to increase the wealth of its owners. Usually, the performance of a business is measured by evaluating the Economy, Efficiency and Effectiveness of a business .A lot of information can be obtained from the management accounts to evaluate performance of a company, however limited information is available in the financial statements of a business. From the information provided in financial statements, one can evaluate liquidity, profitability and the capital structure of a company. Return on Capital Employed (ROCE) shows the efficiency of a business. A high ROCE shows that resources of a business are used efficiently. Investors can evaluate performance of a business by the use of Earning per Share (EPS) and Price Earning Ratio (P/E Ratio). EPS shows how much profits are earned by the equity holders. P/E ratio is also known as

the stock market ratio. A higher P/E ratio indicates that high growth is expected in company's market value (Overton, 2007).

In short term liquidity is more important than profitability for a business. One of the primary measures used to find liquidity of a business is the Current Ratio. Current ratio depends on the nature of business, therefore current ratio must be compared with the industry average. Another measure of liquidity is Quick Current Ratio or Acid Test Ratio. It also measures the Liquidity but excludes inventory from the current assets. It gives a more reliable figure of liquidity as compared to current ratio. Inventory Turnover, Receivables Collection Period and Payables Payment Period are also used to measure liquidity of a business. Increase in inventory turnover is not a good sign. Similarly, an increase in Receivable Collection is a bad signal to stakeholders. Payables payment period indicates how long a company is taking to pay its debts. A longer payable period indicates that a company is facing cash shortage problems. Longer payable periods also affect the credit rating of a company negatively (Ansar, 2009).

The percent of sales method is a fairly simple method used to analyze financial performance. Basically this method assumes that the future relationship between various elements of costs to sales will be similar to their historical relationship. When using this method, a decision has to be taken about which historical cost ratios to be used. The percent of sales method, though simple, is too rigid and mechanistic as it assumes that all elements of costs and expenses bore a strictly proportional relationship to sales. The budgeted expense method, on the other hand calls for estimating the value of each item on the basis of expected developments in the future period for which the financial performance reports are prepared. This method requires greater effort on the part of management because it calls for defining likely developments (Khan, 2005).

Variation method on the other hand, calls for estimating the items on the basis of percentage increase or decrease of comparing with the same item of base year. It is quite flexible throughout the future period. This method is not like budgeted method, the value estimating for an item under this method is entirely dependent on the historical data. It appears that a combination of above explained three methods works best. For certain items, which have a fairly stable relationship with sales, the percent of sales method is quite adequate. For other items, where future is likely to be very different from the past, the budgeted expense method or variation

method is eminently suitable. A combination method of this kind is neither overly simplistic as the percent of sales method nor unduly onerous as the budgeted expense method or variation method (Khan, 2005).

2.7 Conclusion

The speed of the changes in the business world does not allow the automobile firms to be empirically administered in adapting to rapid changes as in the recent 2008 global recession which apart from the banks greatly affected the automobile industry raising serious concerns for business executives to seek financial planner experts. The Financial planners will help to produce information that evidences the financial health of these firms, projecting the future, so that their directors can then, identify critical points and detect needs of amplification or retraction, to revise expenses, to re-evaluate the necessary recipe levels, finally, to bring about the necessary questions for the continuity of the business at healthy levels (Financial times, 2010).

Historical weaknesses in the budgeting and forecasting process persist, limiting the perceived value of the financial planning process within the organization. The process continues to be time consuming, iterative, and inaccurate. The call for action to fundamentally improve the financial planning process is now coming directly from CEOs, CFOs, and business-unit leadership and taking priority over other competing finance and business initiatives. Business changes and uncertainty are leading factors cited as causes for planning variability from actual performance. A key trend that surfaced was that organizations where the financial planning process leverages external indicators and business drivers are demonstrating a higher level of success in harnessing uncertainty and delivering prospective insights with higher confidence and accuracy. Business driver planning provides better insight to understand, analyze, and proactively impact business performance (Price Water House Coopers, 2011).

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The research consisted of conducting a survey on a sample of respondents in the Automobile firms in Kenya and the methodology entails collecting data using questionnaires which was useful in analysis and coming up with relevant recommendations and conclusions. The researcher personally distributed the questionnaires so as to ensure that the data is valid and reliable.

3.2 Research Design

The use of questionnaires was issued to a sample of employees working in each of the sampled automobile firms in my population especially those in the finance department and employees also linked in strategic management activities. The use of a semi structured questionnaire was chosen as the research method because of the likelihood of a fairly high response rate, a high degree of accuracy and minimal non-response, and the need to discover underlying motivations, feelings, values, attitudes and perceptions about financial planning.

3.3 The Population

The population of interest was six automobile firms within the Kenya region with more emphasis of those who work within the finance and strategic management department in the automobile firms. The use of a qualitative approach to support a quantitative survey served to understand fully the question of financial planning.

3.4 The Sample

The sample selected was 50% of the population of the automobile firms. In the sample design the researcher used purposive sampling where there were defined characteristics of the persons to be included in the sample. These were those dealing in financial and strategic management areas and how financial planning can help in improving financial performance. For this purpose the population had predetermined characteristics. For the sample the researcher assumed that all the

respondents have knowledge of finance planning, its effects, and recommendation on managing financial planning. Much emphasis was placed on quality rather than quantity.

3.5 Data collection tools

In the research the researcher used primary data. The primary data is of essence in that it measures variables and ensures current and correct information. The primary data was collected through use of questionnaires.

3.6 Data Analysis

Descriptive statistics was used for quantitative data analysis and content analysis was used for qualitative data analysis. The data analysis attempted to show that an increase in financial planning activities resulted in an increase on financial performance of the firm.

3.6.1 Conceptual Model

The variables for this study are financial planning which is the independent variable while financial performance is the dependent variable. The relationship between the dependent variable and the independent variables has been expressed using the function below.

Y = f (x1)……………………………………………………………………………1

Where

Y = financial performance

f = the resultant effect of financial planning on the financial performance

X1= financial planning

Therefore the model takes the following format by replacing the variables

Financial performance = f (Financial Planning)

Financial performance in the automobile firms was mainly measured through profitability and Return on Capital Employed (ROCE) which shows the efficiency of a business. A high ROCE shows that resources of a business are used efficiently. Financial planning in the automobile firms was mainly measured by earnings before interest and tax and the capital employed which comprises of fixed assets plus working capital in a particular period. The percentage change of earnings before interest and tax and the capital employed affected the percentage change on return of capital employed (ROCE) in the firm.

Oduor (2003).He carried out a study on the effect of financial planning strategies on the financial performance of the local commercial banks in Kenya analyzing the manner in which financial planning strategies have impacted the high financial performance of the local commercial banks in Kenya. The variables for this study were financial planning strategies which is the independent variable while financial performance was the dependent variable. The relationship between the dependent variable and the independent variables was expressed using the function below.

Y = f (x1)

Where

Y = financial performance

f = the resultant effect of financial planning strategies on the financial performance

X1= financial planning strategies

Therefore the model took the following format by replacing the variables

Financial performance = f (Financial Planning strategies)

This study showed that financial performance in the commercial banks was mainly measured through percentage change in profits, revenue growth and growth in market share. Financial planning strategies was mainly measured by earnings before interest and tax,cost levels and capital employed.Financial planning strategies adopted by the commercial banks depended on the manner in which the management supported the strategies and the existing policy recommendations on financial planning.

3.6.2 Analytical Model

The algebraic expression of the regression model takes the following form

$$Y = \alpha + \beta_1 X1 + \varepsilon_t$$

Where

Y = financial performance

α = a constant

β_1 =the coefficient of the independent variable

X_1 = financial planning

$£_t$ = Model error

Financial planning is the independent variable in the model which is mainly measured by earnings before interest and tax and the capital employed which comprises of fixed assets plus working capital in a particular period. Financial performance for this study was the dependent variable mainly measured through Return on Capital Employed (ROCE) which shows the efficiency of a business. A high ROCE shows that resources of a business are used efficiently. The percentage change of earnings before interest and tax and the capital employed affects the percentage change on return of capital employed (ROCE) in the firm.

The constant in the model basically consists of factors such as the fixed costs that are not dependent on the level of goods or services produced by the business. They tend to be time-related, such as salaries or rents being paid per month, and are often referred to as overhead costs.The co efficient of the independent variable for this study basically indicates how the dependent variable (i.e. ROCE) changes with an additional one unit or percentage of each independent variable (i.e. earnings before interest and tax) with all other variables held constant (i.e. fixed assets and working capital) in the equation. The model error represents other factors other than financial planning which may affect the financial performance of the firm when comparing the observed outcome with the predicted values in the model.

The study showed the statistical significance of the relationships between the dependent and the independent variables which was measured at a confidence interval of 95%. Analysis of variance between the independent variables and dependent variables was measured at a significant level of 0.05. If the P value of the model was less than the level of significance (0.05) then the independent variables would be taken as having an effect on the dependent variable. If the effectiveness of financial planning increases, then financial performance would increase. The study showed that financial planning had a significant effect on financial performance.

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The algebraic expression of the regression model for this study took the following form where financial performance was the dependent variable and financial planning strategies was the independent variable.

$$Y = \alpha + \beta_1 X1 + \varepsilon_t$$

Where

Y = financial performance

α = a constant

β_1 =the coefficient of the independent variable

X_1 = financial planning strategies

$£_t$ = model error

This study showed that financial performance in the commercial banks was mainly measured through percentage change in profits, revenue growth and growth in the market share. Financial planning strategies was mainly measured by percentage change in earnings before interest and tax, cost levels and the capital employed by the banks.

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3.7 Data Validity and Reliability

3.7.1 Data Validity

All questionnaires were distributed to the respective respondents by the researcher personally. The questions were formulated in simple language for clarity and ease of understanding. Clear instructions were given to the respondents and the researcher assisted the respondents in areas they needed clarification in the questionnaires.

3.7.2 Data Reliability

The researcher personally distributed and provided any clarification on the questionnaire to the respondents so as to minimize any sort of data collection biasness. The researcher before carrying out the actual data collection distributed the questionnaire to a sample of respondents so as to identify if there is any consistency in the manner in which questions were answered in the questionnaire. This helped the researcher to identify any possible errors in data collection and make necessary adjustments in the questionnaire before the actual distribution of the questionnaires.

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION OF FINDINGS

4.1 Introduction

This chapter consists of data presentation, interpretation and discussion of the findings. Data is analyzed using frequencies and percentages and presented in tables. The first section presents the background information of the respondents. Other sections are presented according to the research questions. Questionnaires were administered to 51 respondents and 46 respondents returned the questionnaires. This translated to a response rate of 90.2%. The high response rate was attributed to the fact that most of the questions were semi-structured making it easy for the respondents to fill in the questionnaires. Furthermore, the questionnaires were delivered and collected by hand and hence there was a close contact and follow-up with the respondents. The high response rate was an indication that the results of this study were reliable.

4.2 Data Presentation

4.2.1 Name of the firm

The researcher sought information on the respondents company in order to find out whether there were deviations from the sample. There were no significant deviations noted. This enhances the reliability of the research findings. The information on the name of the firm is summarized in Table 4.1.

Table 4.1 Name of the firm

Name of the firm	Frequency	Percent
Bavaria Auto Ltd	13	28.2
Simba Colt Motors Ltd	16	34.8
Xylon Motors Ltd	17	37.0
Total	**46**	**100.0**

4.2.2 Number of years worked

Table 4.2 below shows that 19.6% of the respondents have worked for their company for more than 15 years while 17.3% of the respondents have worked for their company for a period between 11 and 15 years. The table further shows that 30.4% of the respondents have worked for their company for a period between 6 and 10 years. However, 32.7% of the respondents have worked for their company for a period not exceeding 5 years. An employee who has worked for a company for more than five years has a good understanding of the company. This implies that most of the respondents have a thorough understanding of their company. Therefore, any information obtained from them would be reliable.

Table 4.2 Number of years worked

Name of the firm		Number of years worked				Total
		Up to 5 Years	6 - 10 Years	11 - 15 Years	Over 15 Years	
Bavaria Auto Ltd	Count	4	6	2	1	13
	% of Total	8.7%	13.0%	4.3%	2.2%	28.2%
Simba Colt Motors Ltd	Count	2	6	3	5	16
	% of Total	4.4%	13.0%	6.5%	10.9%	34.8%
Xylon Motors Ltd	Count	9	2	3	3	17
	% of Total	19.6%	4.4%	6.5%	6.5%	37.0%
Total	**Count**	**15**	**14**	**8**	**9**	**46**
	% of Total	**32.7%**	**30.4%**	**17.3%**	**19.6%**	**100.0%**

4.2.3 Number of staff employed

All the respondents from Xylon Motors Ltd and Simba Colt Motors Ltd indicated that their companies have employed between 500 and 1000 employees. However, all the respondents from

Bavaria Auto Ltd indicated that their company has employed less than 500 employees. The researcher ought to seek the size of the company measured by the number of staff employed. It can therefore be noted that Bavaria Auto is a small company while Xylon Motors Ltd and Simba Colt Motors Ltd are big companies. The information on the number of staff employed is summarized in Table 4.3.

Table 4.3 Number of staff employed

Name of the firm		Number of staff employed		Total
		Below 500	500 - 1000	
Bavaria Auto Ltd	Count	13	0	13
	% of Total	28.2%	0.0%	28.2%
Simba Colt Motors Ltd	Count	0	16	16
	% of Total	0.0%	34.8%	34.8%
Xylon Motors Ltd	Count	0	17	17
	% of Total	0.0%	37.0%	37.0%
Total	**Count**	**13**	**33**	**46**
	% of Total	**28.2%**	**71.8%**	**100.0%**

4.2.4 The owners of the firm's controlling share

All the respondents from Bavaria Auto Ltd and Xylon Motors Ltd indicated that the controlling shares of their companies are owned by foreigners. However, all the respondents from Simba Colt Motors Ltd indicated that controlling shares of their company are owned by Kenyans. The researcher sought whether the companies in the automobile companies are local companies or foreign based companies. It can therefore be noted that most of the companies in the automobile industry are foreign based companies. The information on the owners of the firm's controlling share is summarized in Table 4.4.

Table 4.4 The owners of the firm's controlling share

Name of the firm		Who are the owners of your firm's controlling share?		Total
		Kenyan Citizen	Foreigner	
Bavaria Auto Ltd	Count	0	13	13
	% of Total	.0%	28.2%	28.2%
Simba Colt Motors Ltd	Count	16	0	16
	% of Total	34.8%	.0%	34.8%
Xylon Motors Ltd	Count	0	17	17
	% of Total	.0%	37.0%	37.0%
Total	**Count**	**16**	**30**	**46**
	% of Total	**34.8%**	**65.2%**	**100.0%**

4.2.5 The Nationality of the CEO

Table 4.5 The Nationality of the CEO

Name of the firm		The nationality of the CEO		Total
		Kenyan	Foreigner	
Bavaria Auto Ltd	Count	13	0	13
	% of Total	28.2%	.0%	28.2%
Simba Colt Motors Ltd	Count	16	0	16
	% of Total	34.8%	.0%	34.8%
Xylon Motors Ltd	Count	0	17	17
	% of Total	.0%	37.0%	37.0%
Total	**Count**	**29**	**17**	**46**
	% of Total	**63.0%**	**37.0%**	**100.0%**

All the respondents from Bavaria Auto Ltd and Simba Colt Motors Ltd indicated that the CEOs of their companies are Kenyans. However, all the respondents from Xylon Motors Ltd indicated that the CEO of their company is a foreigner. It can therefore be noted that most of the companies in the automobile industry are headed by Kenyan CEOs. The information on the nationality of the firm's CEO is summarized in Table 4.5.

4.2.6 ROCE of the firm

All the respondents from Bavaria Auto Ltd indicated that their firm's ROCE was above 20% while all the respondents from Simba Colt Motors Ltd indicated that their firm's ROCE was between 10% and 20%. However, all the respondents from Xylon Motors Ltd indicated that their firm's ROCE was below 10%. The researcher sought to measure the performance of the firms in the automobile industry using Return on Capital Employed (ROCE). The information on the firm's ROCE is summarized in Table 4.6.

Table 4.6 ROCE of the Firm

Name of the firm		What is your firm's ROCE			Total
		Below 10%	10 - 20%	Over 20%	
Bavaria Auto Ltd	Count	0	0	13	13
	% of Total	.0%	.0%	28.2%	28.2%
Simba Colt Motors Ltd	Count	0	16	0	16
	% of Total	.0%	34.8%	.0%	34.8%
Xylon Motors Ltd	Count	17	0	0	17
	% of Total	37.0%	.0%	.0%	37.0%
Total	**Count**	**17**	**16**	**13**	**46**
	% of Total	**37.0%**	**34.8%**	**28.2%**	**100.0%**

4.2.7 The importance of market share to the firm's profitability

47.8% of the respondents indicated that market share is moderately important to their firm's profitability while from 30.3% of the respondents indicated that market share is highly important to their firm's profitability. However, 17.5% of the respondents indicated that market share is lowly important to their firm's profitability and 4.4% of the respondents indicated that market share is not important to their firm's profitability. This implies that market share is a very important factor in determining the profitability of firms in the automobile industry in Kenya. The information on the importance of market share to the firm's profitability is summarized in Table 4.7.

Table 4.7 The importance of market share to the firm's profitability

Name of the firm		The importance of market share to the firm's profitability				Total
		High	Moderate	Low	Not Important	
Bavaria Auto Ltd	Count	9	4	0	0	13
	% of Total	19.5%	8.7%	.0%	.0%	28.2%
Simba Colt Motors Ltd	Count	3	11	2	0	16
	% of Total	6.5%	23.9%	4.4%	.0%	34.8%
Xylon Motors Ltd	Count	2	7	6	2	17
	% of Total	4.3%	15.2%	13.1%	4.4%	37.0%
Total	**Count**	**14**	**22**	**8**	**2**	**46**
	% of Total	**30.3%**	**47.8%**	**17.5%**	**4.4%**	**100.0%**

4.2.8 The importance of liquidity to the firm's profitability

41.3% of the respondents indicated that liquidity is moderately important to their firm's profitability while from 19.5% of the respondents indicated that liquidity is highly important to

their firm's profitability. However, 26.1% of the respondents indicated that liquidity is lowly important to their firm's profitability and 13.1% of the respondents indicated that liquidity is not important to their firm's profitability. This implies that liquidity is an important factor in determining the profitability of firms in the automobile industry in Kenya. The information on the importance of liquidity to the firm's profitability is summarized in Table 4.8.

Table 4.8 The importance of liquidity to the firm's profitability

Name of the firm		The importance of liquidity to the firm's profitability				Total
		High	**Moderate**	**Low**	**Not Important**	
Bavaria Auto Ltd	Count	7	4	2	0	13
	% of Total	15.2%	8.7%	4.3%	.0%	28.2%
Simba Colt Motors Ltd	Count	2	9	4	1	16
	% of Total	4.3%	19.6%	8.7%	2.2%	34.8%
Xylon Motors Ltd	Count	0	6	6	5	17
	% of Total	.0%	13.0%	13.1%	10.9%	37.0%
Total	**Count**	**9**	**19**	**12**	**6**	**46**
	% of Total	**19.5%**	**41.3%**	**26.1%**	**13.1%**	**100.0%**

4.2.9 The importance of financial planning strategies to the firm's profitability

41.3% of the respondents indicated that financial planning strategies are moderately important to their firm's profitability while from 15.2% of the respondents indicated that financial planning strategies are highly important to their firm's profitability. However, 28.3% of the respondents indicated that financial planning strategies are lowly important to their firm's profitability and 15.2% of the respondents indicated that financial planning strategies are not important to their firm's profitability. This implies that financial planning strategies are an important factor in

determining the profitability of firms in the automobile industry in Kenya. The information on the importance of financial planning strategies to the firm's profitability is summarized in Table 4.9.

Table 4.9 The importance of financial planning strategies to the firm's profitability

Name of the firm		The importance of financial planning strategies to the firm's profitability				Total
		High	Moderate	Low	Not Important	
Bavaria Auto Ltd	Count	6	7	0	0	13
	% of Total	13.0%	15.2%	.0%	.0%	28.2%
Simba Colt Motors Ltd	Count	1	10	5	0	16
	% of Total	2.2%	21.7%	10.9%	.0%	34.8%
Xylon Motors Ltd	Count	0	2	8	7	17
	% of Total	.0%	4.3%	17.4%	15.2%	37.0%
Total	**Count**	**7**	**19**	**13**	**7**	**46**
	% of Total	**15.2%**	**41.3%**	**28.3%**	**15.2%**	**100.0%**

4.2.10 The developments in the external environment the firms were operating in within the last 5 years concerning financial planning

39.1% of the respondents indicated that the external environment they were operating in within the last 5 years concerning financial planning was continuously changing while 19.6% of the respondents indicated that the external environment they were operating in within the last 5 years concerning financial planning was always surprising with new issues. However, 41.3% of the respondents indicated that the external environment they were operating in within the last 5 years concerning financial planning was relatively stable. This is an indication that firms in the automobile industry in Kenya were operating in a dynamic external environment within the last 5

years concerning financial planning. Dynamic external environment would require high level of expertise in the field of financial planning for a firm to formulate successful financial strategies. The information on the developments in the external environment the firms were operating in within the last 5 years concerning financial planning is summarized in Table 4.10.

Table 4.10 The developments in the external environment the firms were operating in within the last 5 years concerning financial planning

Name of the firm		How can you explain the developments in the external environment you are operating in within the last 5 years concerning financial planning			Total
		Relatively Stable	Continuously Changing	Always Surprising With New Issues	
Bavaria Auto Ltd	Count	10	3	0	13
	% of Total	21.7%	6.5%	.0%	28.2%
Simba Colt Motors Ltd	Count	9	7	0	16
	% of Total	19.6%	15.2%	.0%	34.8%
Xylon Motors Ltd	Count	0	8	9	17
	% of Total	.0%	17.4%	19.6%	37.0%
Total	**Count**	**19**	**18**	**9**	**46**
	% of Total	**41.3%**	**39.1%**	**19.6%**	**100.0%**

4.2.11 Do you normally study issues which may affect your financial plans from external environmental trend

Table 4.11 Do you normally study issues which may affect your financial plans from external environmental trend

Name of the firm		Do you normally study issues which may affect your financial plans from external environmental trend?		Total
		Yes	No	
Bavaria Auto Ltd	Count	13	0	13
	% of Total	28.2%	.0%	28.2%
Simba Colt Motors Ltd	Count	16	0	16
	% of Total	34.8%	.0%	34.8%
Xylon Motors Ltd	Count	7	10	17
	% of Total	15.3%	21.7%	37.0%
Total	**Count**	**36**	**10**	**46**
	% of Total	**78.3%**	**21.7%**	**100.0%**

Majority of the respondents indicated that they normally study issues which may affect their financial plans from external environmental trend. Financial planning and forecasting represents a blueprint of what a firm proposes to do in the future. A trend in the external environment would enable the management to predict the future with a high precision. This would in turn enable managers to formulate effective financial plans and strategies that would enable the firms to overcome future threats to their performance and utilize future opportunities available in order to maximize their performances. Therefore, it can be noted that there exist some trends in the automobile industry in Kenya and managers of these firms normally study those trends when

preparing their financial plans. The information on whether firms normally study issues which may affect their financial plans from external environmental trend is summarized in Table 4.11.

4.2.12 Do you normally study issues which may affect your financial plans from internal business and capability

Table 4.12 Do you normally study issues which may affect your financial plans from internal business and capability

Name of the firm		Do you normally study issues which may affect your financial plans from internal business and capability?		Total
		Yes	No	
Bavaria Auto Ltd	Count	13	0	13
	% of Total	28.2%	.0%	28.2%
Simba Colt Motors Ltd	Count	16	0	16
	% of Total	34.8%	.0%	34.8%
Xylon Motors Ltd	Count	7	10	17
	% of Total	15.3%	21.7%	37.0%
Total	**Count**	**36**	**10**	**46**
	% of Total	**78.3%**	**21.7%**	**100.0%**

Majority of the respondents indicated that they normally study issues which may affect their financial plans from internal business and capability. Financial planning and forecasting represents a blueprint of what a firm proposes to do in the future. A study of the firm's internal environment would enable the managers to formulate effective financial plans and strategies that would enable the firms to overcome their internal weaknesses and capitalize on their internal strengths in order to maximize their performances. The information on whether firms normally

study issues which may affect their financial plans from internal business and capability is summarized in Table 4.12.

4.2.13 Do you normally study issues which may affect your financial plans from performance trends

Table 4.13 Do you normally study issues which may affect your financial plans from performance trends

Name of the firm		Do you normally study issues which may affect your financial plans from performance trends?		Total
		Yes	No	
Bavaria Auto Ltd	Count	13	0	13
	% of Total	28.2%	.0%	28.2%
Simba Colt Motors Ltd	Count	16	0	16
	% of Total	34.8%	.0%	34.8%
Xylon Motors Ltd	Count	4	13	17
	% of Total	8.7%	28.3%	37.0%
Total	**Count**	**33**	**13**	**46**
	% of Total	**71.7%**	**28.3%**	**100.0%**

Majority of the respondents indicated that they normally study issues which may affect their financial plans from performance trends. Financial planning and forecasting represents a blueprint of what a firm proposes to do in the future. A trend in performance would enable the management to predict the future with a high precision. This would in turn enable managers to formulate effective financial plans and strategies that will enable the firms to overcome poor performance trends and to maximize their good performances trends. The information on

whether firms normally study issues which may affect their financial plans from performance trend is summarized in Table 4.13.

4.2.14 Other issues which may affect the financial plans

Some of the respondents indicated that they also study such issues as risk tolerance which may affect their financial plans. They indicated that the level of risk they are willing to accept affects the level of returns they can achieve. This in turn affects their financial plans. Other mentioned issues that are studied during financial planning included the financial goal, time horizon, liquidity, tax consequences, and top management efforts. The respondents argued that that they have a task of selling their financial plans to the top management. This implies that adoption of their financial plans is largely determined by the acceptance from the top management.

4.2.15 Impact of defensive strategies on the firm's financial planning

60.9% of the respondents indicated that defensive strategies have a minor impact on their firm's financial planning while 21.7% of the respondents indicated that defensive strategies have a major impact on their firm's financial planning. However, 17.4% of the respondents indicated that defensive strategies have no impact on their firm's financial planning. Defensive strategies are formulated by market leaders. The goal of these strategies is to hold onto your position as the market leader, fighting off competitors who try to take away your market share. This is not an easy task because firms tend to target market leaders. The results show that firms in the automobile industry in Kenya were hesitant to formulate defensive strategies and only few firms that formulate these strategies. The information on the impact of defensive strategies on the firm's financial planning is summarized in Table 4.14.

Table 4.14 Impact of defensive strategies on the firm's financial planning

Name of the firm		What impact do defensive strategies have on your firm's financial planning?			Total
		Major Impact	Minor Impact	No Impact	
Bavaria Auto Ltd	Count	0	10	3	13
	% of Total	.0%	21.7%	6.5%	28.2%
Simba Colt Motors Ltd	Count	0	11	5	16
	% of Total	.0%	23.9%	10.9%	34.8%
Xylon Motors Ltd	Count	10	7	0	17
	% of Total	21.7%	15.2%	.0%	37.0%
Total	**Count**	**10**	**28**	**8**	**46**
	% of Total	**21.7%**	**60.9%**	**17.4%**	**100.0%**

4.2.16 Impact of aggressive strategies on the firm's financial planning

50.0% of the respondents indicated that aggressive strategies have a minor impact on their firm's financial planning while 43.5% of the respondents indicated that aggressive strategies have a major impact on their firm's financial planning. However, 6.5% of the respondents indicated that defensive strategies have no impact on their firm's financial planning. Firms formulate aggressive strategies to grow and expand their business to new heights. This is achieved by carrying out investments in areas that would achieve maximum benefits. An aggressive strategy attempts to grow an investment at an above-average rate compared to its industry or the overall market, but usually take on additional risk. Therefore, this is an indication that firms in the automobile industry in Kenya formulate aggressive strategies and are willing to take additional risk. The information on the impact of aggressive strategies on the firm's financial planning is summarized in Table 4.15.

Table 4.15 Impact of aggressive strategies on the firm's financial planning

Name of the firm		What impact do aggressive strategies have on your firm's financial planning?			Total
		Major Impact	Minor Impact	No Impact	
Bavaria Auto Ltd	Count	8	5	0	13
	% of Total	17.3%	10.9%	.0%	28.2%
Simba Colt Motors Ltd	Count	10	6	0	16
	% of Total	21.8%	13.0%	.0%	34.8%
Xylon Motors Ltd	Count	2	12	3	17
	% of Total	4.4%	26.1%	6.5%	37.0%
Total	**Count**	**20**	**23**	**3**	**46**
	% of Total	**43.5%**	**50.0%**	**6.5%**	**100.0%**

4.2.17 Impact of response based strategies on the firm's financial planning

58.7% of the respondents indicated that response based strategies have a minor impact on their firm's financial planning while 23.9% of the respondents indicated that response based strategies have a major impact on their firm's financial planning. However, 17.4% of the respondents indicated that response based strategies have no impact on their firm's financial planning. Firms formulate responsive based strategies to react to developmental changes in the macro environment or industry changes. This enables a business to maintain stability and be competitive. A business may invest in new technology or diversify its existing products in a bid to spread its risks so as to remain competitive in the industry. Therefore, this is an indication that firms in the automobile industry in Kenya formulate responsive based strategies and are willing to diversify their products. The information on the impact of response based strategies on the firm's financial planning is summarized in Table 4.16.

Table 4.16 Impact of response based strategies on the firm's financial planning

Name of the firm		What impact do response based strategies have on your firm's financial planning?			Total
		Major Impact	Minor Impact	No Impact	
Bavaria Auto Ltd	Count	0	9	4	13
	% of Total	.0%	19.5%	8.7%	28.2%
Simba Colt Motors Ltd	Count	0	12	4	16
	% of Total	.0%	26.1%	8.7%	34.8%
Xylon Motors Ltd	Count	11	6	0	17
	% of Total	23.9%	13.1%	.0%	37.0%
Total	**Count**	**11**	**27**	**8**	**46**
	% of Total	**23.9%**	**58.7%**	**17.4%**	**100.0%**

4.2.18 Impact of protective strategies on the firm's financial planning

45.6% of the respondents indicated that protective strategies have a major impact on their firm's financial planning while 43.5% of the respondents indicated that protective strategies have a minor impact on their firm's financial planning. However, 10.9% of the respondents indicated that protective strategies have no impact on their firm's financial planning. Firms formulate protective strategies to minimize its risks and safeguard its assets. A firm would invest in low risk investments like government bonds. In their attempt to secure this stable market they either keep prices low, keep advertising and other promotional costs low, engage in vertical integration, offer a limited range of products, or offer better quality products or customer service. Therefore, this is an indication that firms in the automobile industry in Kenya formulate protective strategies thereby offering a range of quality products and customer service. The information on the impact of protective strategies on the firm's financial planning is summarized in Table 4.17.

Table 4.17 Impact of protective strategies on the firm's financial planning

Name of the firm		What impact do protective strategies have on your firm's financial planning?			Total
		Major Impact	Minor Impact	No Impact	
Bavaria Auto Ltd	Count	0	11	2	13
	% of Total	.0%	23.9%	4.3%	28.2%
Simba Colt Motors Ltd	Count	10	4	2	16
	% of Total	21.7%	8.7%	4.3%	34.8%
Xylon Motors Ltd	Count	11	5	1	17
	% of Total	23.9%	10.9%	2.2%	37.0%
Total	**Count**	**21**	**20**	**5**	**46**
	% of Total	**45.6%**	**43.5%**	**10.9%**	**100.0%**

4.2.19 Frequency of doing review of financial plans

Table 4.18 Frequency of doing review of financial plans

Name of the firm		How frequent do you do a review of financial plans?		Total
		Annually	2 - 5 Years	
Bavaria Auto Ltd	Count	13	0	13
	% of Total	28.2%	.0%	28.2%
Simba Colt Motors Ltd	Count	16	0	16
	% of Total	34.8%	.0%	34.8%
Xylon Motors Ltd	Count	0	17	17
	% of Total	.0%	37.0%	37.0%
Total	**Count**	**29**	**17**	**46**
	% of Total	**63.0%**	**37.0%**	**100.0%**

All the respondents from Bavaria Auto Ltd and Simba Colt Motors Ltd indicated that their companies review financial plans annually. However, all the respondents from Xylon Motors Ltd indicated that their company review financial plans after a period of 2 to 5 years. When the external environment is turbulent, financial plans ought to be reviewed regularly. The review of the plans would enable the management to incorporate any significant environmental changes in order to maximize on the performance of their companies. The respondents earlier on indicated that they are operating on unstable external environment. Therefore, the plans in the automobile industry in Kenya should be reviewed frequently and regularly. The information on the frequency of doing review of financial plans is summarized in Table 4.18.

4.2.20 Existence of a procedure for ensuring that immediate attention is taken on urgent and critical issues

Table 4.19 Existence of a procedure for ensuring that immediate attention is taken on urgent and critical issues

		Do you have a procedure for ensuring that immediate attention is taken on urgent and critical issues?		
Name of the firm		**Yes**	**No**	**Total**
Bavaria Auto Ltd	Count	12	1	13
	% of Total	26.1%	2.1%	28.2%
Simba Colt Motors Ltd	Count	15	1	16
	% of Total	32.6%	2.2%	34.8%
Xylon Motors Ltd	Count	9	8	17
	% of Total	19.6%	17.4%	37.0%
Total	**Count**	**36**	**10**	**46**
	% of Total	**78.3%**	**21.7%**	**100.0%**

Majority of the respondents indicated that they have a procedure for ensuring that immediate attention is taken on urgent and critical issues. The critical issues would affect the financial plans and therefore they require immediate attention. This would ensure that effective strategies are formulated to address these critical issues in order to enhance the performance of the firms. The information on existence of a procedure for ensuring that immediate attention is taken on urgent and critical issues is summarized in Table 4.19.

4.2.21 Recording of objectives for the current year from the financial plans

Majority of the respondents indicated that their firms have recorded objectives for the current year from the financial plans. The plans indicate the overall goal of the firm while the objectives indicate specific goals. Therefore, it is important when a company develops a financial plan to go ahead and formulate the financial objectives. The information on whether the firms have recorded objectives for the current year from the financial is summarized in Table 4.20.

Table 4.20 Recording of objectives for the current year from the financial plans

Name of the firm		Has your firm recorded objectives for the current year from your financial plans?		Total
		Yes	**No**	
Bavaria Auto Ltd	Count	13	0	13
	% of Total	28.2%	.0%	28.2%
Simba Colt Motors Ltd	Count	16	0	16
	% of Total	34.8%	.0%	34.8%
Xylon Motors Ltd	Count	8	9	17
	% of Total	17.4%	19.6%	37.0%
Total	**Count**	**37**	**9**	**46**
	% of Total	**80.4%**	**19.6%**	**100.0%**

4.2.22 Change of firm's objectives for the last five years

Majority of the respondents indicated that their firms have changed the objectives for the last five years. This is an indication that the financial plans and objectives are changed frequently and regularly. This would enable the management address any critical changes in both the internal and external environment. The information on whether the firms have changed the objectives for the last five years is summarized in Table 4.21.

Table 4.21 Change of firm's objectives for the last five years

Name of the firm		Has your firm changed these objectives for the last 5 years?		
		Yes	No	Total
Bavaria Auto Ltd	Count	13	0	13
	% of Total	28.2%	.0%	28.2%
Simba Colt Motors Ltd	Count	16	0	16
	% of Total	34.8%	.0%	34.8%
Xylon Motors Ltd	Count	0	17	17
	% of Total	.0%	37.0%	37.0%
Total	**Count**	**29**	**17**	**46**
	% of Total	**63.0%**	**37.0%**	**100.0%**

4.2.23 Action taken when targets are not met

69.5% of the respondents indicated that they report to the top management and investigate cause of failure when targets are not met. However, 30.5% of the respondents indicated that they only report to the top management. Analyzing the variance and investigating the cause of failure would help the management make timely and effective decisions. This would enhance the

performance of the firm. The information on the action taken when targets are not met is summarized in Table 4.22.

Table 4.22 Action taken when targets are not met

Name of the firm		What do you do when the targets are not met		Total
		Report the variance to top management only	Report to top management and investigate causes of failure	
Bavaria Auto Ltd	Count	0	13	13
	% of Total	.0%	28.2%	28.2%
Simba Colt Motors Ltd	Count	0	16	16
	% of Total	.0%	34.8%	34.8%
Xylon Motors Ltd	Count	14	3	17
	% of Total	30.5%	6.5%	37.0%
Total	**Count**	**14**	**32**	**46**
	% of Total	**30.5%**	**69.5%**	**100.0%**

4.2.24 Action taken on urgent issues requiring immediate action

54.3% of the respondents indicated that when urgent issues that require immediate action arise, they report them to the top management for further analysis while 34.8% of the respondents indicated that they immediately alter financial plans to accommodate the issues. However, 10.9% of the respondents indicated that when urgent issues that require immediate action arise, they always wait until the next planning period and incorporate it then. Delay in incorporating the urgent issue into the financial plan would derail the firms in achieving the financial goals and

objectives. The information on the action taken on urgent issues requiring immediate action is summarized in Table 4.23.

Table 4.23 Action taken on urgent issues requiring immediate action

Name of the firm		What action do you take on urgent issues requiring immediate action?			
		Immediately alter financial plans to accommodate the issues	Refer it to top management for further analysis	Always wait until the next planning period and incorporate it then	Total
Bavaria Auto Ltd	Count	7	6	0	13
	% of Total	15.2%	13.0%	.0%	28.2%
Simba Colt Motors Ltd	Count	9	7	0	16
	% of Total	19.6%	15.2%	.0%	34.8%
Xylon Motors Ltd	Count	0	12	5	17
	% of Total	.0%	26.1%	10.9%	37.0%
Total	**Count**	**16**	**25**	**5**	**46**
	% of Total	**34.8%**	**54.3%**	**10.9%**	**100.0%**

The information on the association between the company's performance (measured by the firm's ROCE) and the financial planning (measured by the importance of financial planning strategies to the firm's profitability) is summarized in Table 4.24.

Table 4.24 What is your firm's ROCE * Importance of financial planning strategies to your firm's profitability

What is your firm's ROCE		Importance of financial planning strategies to your firm's profitability				Total
		High	Moderate	Low	Not Important	
Below 10%	Count	0	2	8	7	17
	% of Total	.0%	4.3%	17.4%	15.2%	37.0%
10 - 20%	Count	1	10	5	0	16
	% of Total	2.2%	21.7%	10.9%	.0%	34.8%
Over 20%	Count	6	7	0	0	13
	% of Total	13.0%	15.2%	.0%	.0%	28.2%
Total	**Count**	**7**	**19**	**13**	**7**	**46**
	% of Total	**15.2%**	**41.3%**	**28.3%**	**15.2%**	**100.0%**

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	35.227	6	.000
Likelihood Ratio	41.608	6	.000
Linear-by-Linear Association	26.628	1	.000
N of Valid Cases	46		

4.3 Summary and Interpretation of the Findings

The p-value of 0.000 is less than the significance value of 0.05. Therefore, the independent variables have an impact on the dependent variable. This implies that financial planning has an impact on the financial performance of a firm. The financial performance of the firms in the automobile industry in Kenya was measured using the return on capital employed. It was noted that some of the firms in the automobile industry were having a return on capital employed of over 20% while other firms in the same industry have a return on capital employed of less than 10%.

It was clear that the firms performing poorly indicated that they did not have financial planning strategies in place and they thought that financial planning strategies are not important to their firm's performance. However, firms recording good performance indicated that they had financial planning strategies in place and they thought that financial planning strategies are highly important to their firm's performance. Therefore, there is statistical evidence that financial planning affects the financial performance of automobile firms in Kenya.

Oduor (2003).He carried out a study on the effect of financial planning strategies on the financial performance of local commercial banks in Kenya. The researcher used net profit to measure the financial performance of the commercial banks in Kenya. The researcher from his findings found out that banks which had applied sound financial planning strategies recorded a higher net profit growth as compared to those banks that had applied little or no financial planning strategies. The researcher noted that commercial banks which were applying financial planning in their operations were attaining between 10% to 20% net profit growth annually whereas banks which were applying little or no financial planning were attaining below 10% net profit growth

annually. The researcher from his findings noted that financial planning affected the financial performance of the commercial banks in Kenya.

Mohammed (2008).He carried out a study on the impact of financial planning on the financial performance of micro finance firms in Kenya. The researcher used net profit to measure the financial performance of the micro finance firms in Kenya. The researcher from his findings found out that micro finance firms that applied financial planning in its financial management control system had a higher net profit as compared to firms which applied little or no financial planning in its operations. The researcher noted that micro finance firms which were applying financial planning were attaining between 10% to 25% net profit growth annually whereas micro finance firms which were applying little or no financial planning were attaining below 10% net profit growth annually. The researcher noted that financial planning affected the financial performance of micro finance firms in Kenya.

Kalimalwendo (2005).He carried out a study on the effect of financial planning on the financial performance of the co operative sector in East Africa. The researcher used return on capital employed to determine the financial performance of the co operative sector in East Africa. From his findings the researcher found out that most of the co operatives in East Africa applied weak financial planning strategies in their operations and that the few that had applied financial planning strategies were achieving a higher return on capital employed and those which applied little or no financial planning in their operations had a low return on capital employed. The researcher noted that co operatives in East Africa which were applying financial planning were attaining between 10% to 20% return on capital employed annually whereas co operatives which were applying little or no financial planning were attaining below 10% return on capital

employed annually. The researcher noted that financial planning affected the financial performance of the co operatives operating in East Africa.

Generally firms that were recording good performances indicated that they had financial planning strategies in place and they thought that financial planning strategies are highly important to their firm's financial performance. Therefore, there is statistical evidence that financial planning affects the financial performance of firms operating in various industries.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The results of the study indicated that firms in the automobile industry faced challenges when formulating their financial plans. Some of the challenges noted include lack of top management support, financial constraints, high inflation, high interest rates and lack of external financiers.

The results of the study indicated that different companies in the automobile industry in Kenya reported different performances. The performance of the firms was measured using return on capital employed. Some firms reported a high ROCE of above 20% while others firms reported a low ROCE of below 10%. The difference in performance can be attributed to differences in financial planning strategies.

The findings indicated that performance measures such as market share, liquidity and financial planning strategies are important to the financial performance of the firms in the automobile industry in Kenya. However, the importance of these factors in determining the financial performance of firms in the automobile industry in Kenya varied significantly. Financial planning strategies were rated as the most important factor while liquidity was rated as the least important factor in determining the financial performance of firms in the automobile industry in Kenya.

The findings further indicated that firms in the automobile industry in Kenya were operating in a dynamic external environment. Dynamic external environment would necessitate the firms in this industry to study issues which may affect their financial plans from external environmental trend, internal business and capability, and performance trends. This would enable managers to formulate effective financial plans and strategies that will enable the firms to overcome poor performance trends and to maximize their good performances trends.

The aim of this study was to find out whether financial planning has an impact on the financial performance of the firms in the automobile industry in Kenya. The results of the study showed that the independent variable had an impact on the dependent variable. This implied that financial planning had an impact on the financial performance of a firm.

5.2 Conclusion

Financial planning is an integral part of financial management which deals with the management of a firm's funds with a view to maximizing profit and the wealth of shareholders. The purpose of financial planning is to determine where the firm has been, where it is now, and where it is going. It also determines deviations from the most likely outcome. Finance is concerned with the study of the problems involved in acquisition and use of funds by a business enterprise.

Financial planning involves analyzing financial flows of a firm as a whole, forecasting the consequences of various investment, financing and dividend decisions and weighting the effects of various alternatives. Financial planning is the core of financial management. It helps management to avoid waste by furnishing policies and procedures which make possible a closer coordination between the various functions of the business.

Weaknesses in integrating financial planning and control into financial management limited the perceived value of the financial planning process within the organization. The process continues to be time consuming, iterative, and inaccurate. Business changes and uncertainty are leading factors cited as causes for planning variability from actual performance. A key trend that surfaced was that firms where the financial planning process leverages external indicators and business drivers demonstrated a higher level of performance.

This study showed that there is strong relationship between financial planning and financial performance of a firm. Greater emphasis should be placed on financial planning to secure and employ capital resources in the amount and proportion necessary to increase the efficiency of the remaining factors of production. The success of any business depends on the manner the financial plans are formulated. An important function of financial management is the coordination of the various decisions taken within a company so that they are mutually consistent, having regard for financial aims and constraints. Therefore, it can be concluded that financial planning has an effect on the financial performance of automobile companies in Kenya.

5.3 Policy Recommendations

The findings of the research showed that financial planning strategies were rated as the most important factor since it integrates financial management and control of financial resources while liquidity was rated as the least important factor in determining the financial performance of firms in the automobile industry in Kenya.

From the findings a policy is recommended to come up with sound financial planning measures which can be integrated into the financial management system as financial planning is an integral part of financial management which deals with the management of a firm's funds with a view to maximizing profit and the wealth of shareholders. Financial planning is the core of financial management where it helps management to avoid waste by furnishing policies and procedures which make possible a closer coordination between the various functions of the business.

From the study historical weaknesses in the financial planning process persist, limiting the perceived value of the financial planning within the organization. The process continues to be time consuming, iterative, and inaccurate. Business changes and uncertainty are leading factors cited as causes for planning variability from actual performance. Organizations where the financial planning process leverages external indicators and business drivers are demonstrating a higher level of success in harnessing uncertainty and delivering prospective insights with higher confidence and accuracy.

The call for action to fundamentally improve the financial planning process should come directly from CEOs, CFOs, and business-unit leadership and take priority over other competing finance and business initiatives so as to improve financial performance in the automobile industry.

5.4 Limitations of the Study

It was difficult to measure the level of the financial performance of the firms in the automobile industry in Kenya with limited subjectivity. The researcher relied on questionnaire responses to measure the financial performance of the firms under study.

Time was also limited and perhaps other data collection methods such as secondary data analysis and interviews or face-to-face communication would have been employed and the target population would have been expanded to include more companies.

It was difficult to convince the participants to actively participate in the research as many claimed they were either too busy to find time to attend to the questionnaire and some but few did not answer the questionnaires.

Lack of adequate support from experts to edit, proof read and offer additional guidance while conducting and concluding the research project. The researcher had to personally edit and proof read the research project.

5.5 Recommendations for Further Study

Similar studies to be done in more companies in order to compare the findings with the findings of this study. A survey would shed more light than just a case of selected companies in the industry.

Data to be collected from different sources. This would include further case studies, interviews or face-to-face communication, and secondary data analysis. This would enrich and improve the study currently been carried out.

A study could be carried out focusing on the effectiveness of financial planning in enhancing the financial performance of firms in the automobile industry in Kenya. This would bring out the actual impact that financial planning has had to an organization which has already integrated financial planning.

Finally a study could also be carried out focusing on factors influencing formulation of financial plans or even challenges faced during formulation of financial plans in the automobile industry in Kenya.

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APPENDIX I: QUESTIONNAIRE

Dear Respondent: My name is Joseph. I am a finalist Master of Business Administration (MBA) degree student at University of Nairobi. In partial fulfillment of the requirement of this course, I am conducting my academic research entitled 'The Effect of Financial Planning on the Financial Performance of Automobile Firms in Kenya'. The University has permitted me to carry out this research and I will treat your opinions confidentially. Your honesty is both critical and paramount when you respond to the questionnaire. Please tick (√) as appropriate.

PART A: Demographic information

1. What is the name of your firm?

   Simba Colt Motors Ltd ( )
   Xylon Motors Ltd ( )
   Bavaria Auto Ltd ( )

2. How many years have you worked for your firm?

   Upto 5 years ( )
   6 – 10 years ( )
   11 – 15 years ( )
   Over 15 years ( )

3. How many staff are employed by your firm?

   Below 500 ( )
   500 – 1000 ( )
   Over 1000 ( )

4. Who are the owners of your firm's controlling share?

Kenyan citizens	( )
Foreigner	( )
Government	( )

5. What is the nationality of your Chief Executive officer?

Kenyan	( )
Foreigner	( )

PART B: Specific information

6. What is your firm's Return on Capital Employed (ROCE)?

Below 10%	( )
10 – 20%	( )
Over 20%	( )

7. Please rate the importance of the following performance measures to your firm's profitability (profit before tax)

	High	*Moderate*	*Low*	*Not Important*
Market share	( )	( )	( )	( )
Liquidity	( )	( )	( )	( )
Financial Planning strategies	( )	( )	( )	( )

Others (please specify)……………………………………………………………………

8. How can you explain the developments in the external environment you are operating in within the last 5 years as concerning financial planning?

Relatively stable	( )
Continuously changing	( )
Always surprising us with new issues	( )

Any other (please specify) …………………………………………………………..

9. Do you normally study issues which may affect your financial plans (both short and long term) coming from the following areas?

a) External environmental trend	Yes	( )	No	( )
b) Internal business and capability	Yes	( )	No	( )
c) Performance trends	Yes	( )	No	( )

Others (please specify)……………………………………………………………

10. What impact do the following strategies have on your firm regarding financial planning? (tick each according to the estimated impact)

	Major Impact	*Minor Impact*	*No Impact*
a) Defensive strategies	( )	( )	( )
b) Aggressive strategies	( )	( )	( )
c) Response based strategies	( )	( )	( )
d) Protective	( )	( )	( )

Others (please specify)…………………………………………………………...

11. How frequent do you do a review of financial plans adopted?

Annually ( )
2-5 years ( )

Any other period (please specify) ……………………………………….

12. Do you have a procedure for ensuring that "immediate attention" is taken on urgent and critical issues?

Yes ( ) No ( )

13. Have your firm recorded objectives (goals) for the current year from your financial plans?

Yes ( ) No ( )

14. Have you changed these objectives for the last 5 years?

Yes ( ) No ( )

15. What do you do when the targets/objectives are not met? Tick one as appropriate.

Report the variance to the top management only ( )
Report to management and investigate causes of failure in financial planning ( )

Any other (please specify) ……………………………………………

16. What action do you take on urgent issues requiring immediate action? Tick one as appropriate.

Immediately alter financial plans to accommodate the issues	( )
Refer it to top management/special "task execution staff" for further analysis	( )
Always wait until the next planning period and incorporate it then	( )

Any other action (please specify) ………………………………………………

Thank you for responding to the questions.

APPENDIX II: POPULATION LIST

1. Bavaria Auto Limited
2. DT Dobie Kenya Limited
3. General Motors Kenya Limited
4. Simba Colt Motors Limited
5. Toyota Kenya Limited
6. Xylon Motors Limited